G5 ENTERTAINMENT AB

REG.NR: 556680-8878

ANNUAL REPORT 2017

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.

CONTENT

G5 2017 – THE YEAR IN BRIEF

1,135,491
Revenue for the period (KSEK)

101,718
Operating profit for the period (KSEK)

120 %
Increase in revenue

- Consolidated revenue was SEK 1,135 M (517), an increase of 120 per cent compared to 2016
- EBIT for the year was SEK 101.7 M (38.1), an increase with 167 per cent compared to 2016
- Net result was SEK 89.3 M (33.2)
- Earnings per share before dilution was SEK 10.15 (3.77) and after dilution SEK 9.73 (3.76)
- Cash flow before financing activities was SEK 27.2 M (36.1), cash flow was negatively impacted with SEK 23.1 M from the purchase of The Secret Society.
- Revenue from free-to-play-games increased by 131 per cent and accounted for 99 per cent (94) of the total revenue

G5 IN NUMBERS

FINANCIAL KEY RATIOS, KSEK	2017	2016	Change %
Revenue	1,135,491	516,931	120%
Commission to distributors	-342,895	-154,632	122%
Royalty to external developers	-234,814	-116,438	102%
Gross profit	**557,782**	**245,861**	**127%**
Gross margin	49%	48%	
Operating costs excluding costs for user acquisition	-141,194	-101,888	39%
EBIT excluding costs for user aquisition	**416,588**	**143,973**	**189%**
EBIT margin before costs for user acquisition	37%	28%	
Costs for user acquisition	-314,870	-105,865	197%
Costs for user acquisition as a percentage of revenue	-28%	-20%	
EBIT	**101,718**	**38,108**	**167%**
EBIT margin (%)	9.0%	7.4%	
Cash flow before financing activities	27,172	36,058	
Cash and cash equivalents	91,194	70,584	

	2017				2016			
F2P	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
DAU (mn)[1]	2.0	1.7	1.7	1.5	1.1	0.9	0.8	0.8
MAU (mn)[1]	8.9	7.3	7.4	6.5	5.1	3.8	3.4	3.1
MUP (thousands)[1]	331.4	273.1	273	236.4	175.4	120.7	113.8	109
MAGRPPU (USD)[1]	42.7	40.1	38.1	35.9	37.5	39.9	34	32.6

[1]For more information regarding the operational metrics, see the glossary on page 65.

THIS IS G5 ENTERTAINMENT

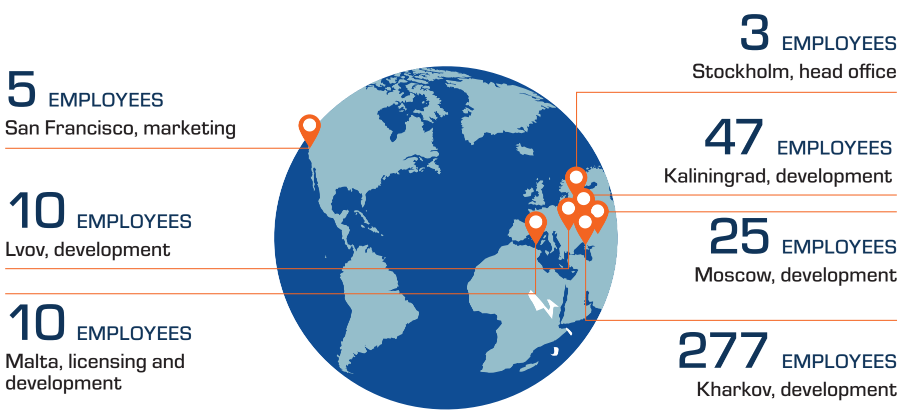
G5 Entertainment AB ("G5") is a developer and publisher of free-to-play games that are played on smartphones and tablets.

The company, which is listed on Nasdaq OMX since June 2014, is headquartered in Stockholm but operates internationally with a total of 346 employees as of 31 Dec 2017, 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 and Lvov in Ukraine. G5 also has a marketing office in San Francisco, USA. In 2017, G5 generated revenues of SEK 1,135 million and EBIT of SEK 102 million corresponding to an EBIT-margin of 9 percent.

There are 18 mobile free-to-play games in G5's portfolio. Free-to-play games are dominant in the mobile market and the proportion of G5's revenues generated from these games has increased very rapidly. In 2017, free-to-play games accounted for 99 per cent of revenues.

The company's games are available for iOS, Android, Kindle Fire and Windows powered 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 primarily offers proprietary games but also publishes games licensed from other developers. The most geographically important markets for the company are USA and Asia that combined account for more than 77 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 13 per cent annually from USD 50.4 bn in 2017 to USD 72.3 bn in 2020.



WORD FROM THE CEO:

GREAT GAMES, LIVE OPS, AND USER ACQUISITION CONTINUE TO DRIVE GROWTH

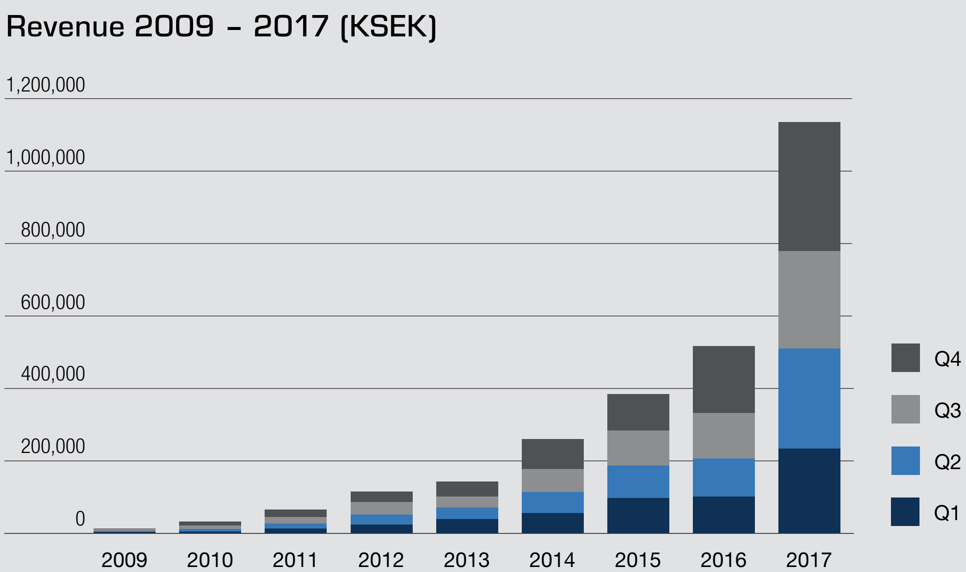
"Among game app publishers, in 2017 G5 was 65th largest by recenue on iOS and Google Play, up 22 positions compared to 2016. "

REVENUE DEVELOPMENT IN 2017

G5 and its partner studios have developed some of the best games in the world in the group's core genres of hidden object and mahjong solitaire. The quality and the level of engagement that our games provide to the players, enforced by special events (live ops in industry jargon), and combined with effective user acquisition and marketing, have taken the company's revenue to the next level. While our revenues have more than doubled, our earnings have almost tripled and our profit margins expanded compared to previous years because of inherent leverage of our business model.

In 2017 Hidden City, our licensed game, was #1 in the world by revenue in its genre and #1 by revenue among our games and grew strongly. The portfolio of G5's proprietary games has grown even faster during the year. There was a notable change in the composition of the group's revenue by geographic region. While sales in North America have grown by 75% year over year, the share of total revenue went down from 64% in 2016 to 50% in 2017. It was Asia, more specifically Japan, that grew very fast during 2017 and the share of revenue from Asia in the group's results went up from 12% in 2016 to 25% in 2017. We owe this spectacular growth in revenue from Asia to our improved ability to identify and attract the players in these markets that we have mastered during 2017.

G5 only released two new games in 2017 and they did not contribute in any substantial way to the results of the year. Our games typically take a while to show full potential, for a number of reasons, so it is normal for the company. But it is worth noting that the growth in 2017 was achieved with the portfolio which already existed in previous years, and three largest games by revenue of 2017 were released respectively in 2014, 2014, and 2012, and are still going strong and growing. We now



have two games in our portfolio that have grossed over $100M in their lifetimes. This underlines the fact that our games tend to have very long lifecycles and can be improved over time to remain competitive in the marketplace.

We remained the largest publicly listed game developer of Sweden during 2017. Our growth dynamic varies from quarter to quarter but over the years we are consistently one of the fastest-growing companies in Sweden, even though we do not engage in M&A activity. In fact, we are the only company in Sweden that made it to "Deloitte's Fast 50 Tech companies" rank every year in the last 5 years. This outstanding growth over the last 5 years was achieved organically, with zero dilution for shareholders, and in 2017 it paid out – G5 had the highest-appreciated share among publicly-listed video game companies worldwide.

According to App Annie, in 2017 G5 was the 78th largest app publisher in the world by revenue on iOS and Google Play, up 22 positions compared to 2016. Among game app publishers, in 2017 G5 was 65th largest by revenue on iOS and Google Play, up also 22 positions compared to 2016. In the last year, we have achieved dominance in our key market of free-to-play hidden object games: according to our own data sourced from App Annie Intelligence, we are now the largest mobile publisher in the world of this genre of games, with over 50% market share. The non-dilutive cash only acquisition of The Secret Society game and franchise that happened in Q4 further strengthens our position. According to our interpretation of the data we see in App Annie Intelligence, our game Mahjong Journey has been steadily gaining market share and has consistently been #3 by revenue in the world among all mahjong solitaire games, compared to the #4 position it held in 2016.

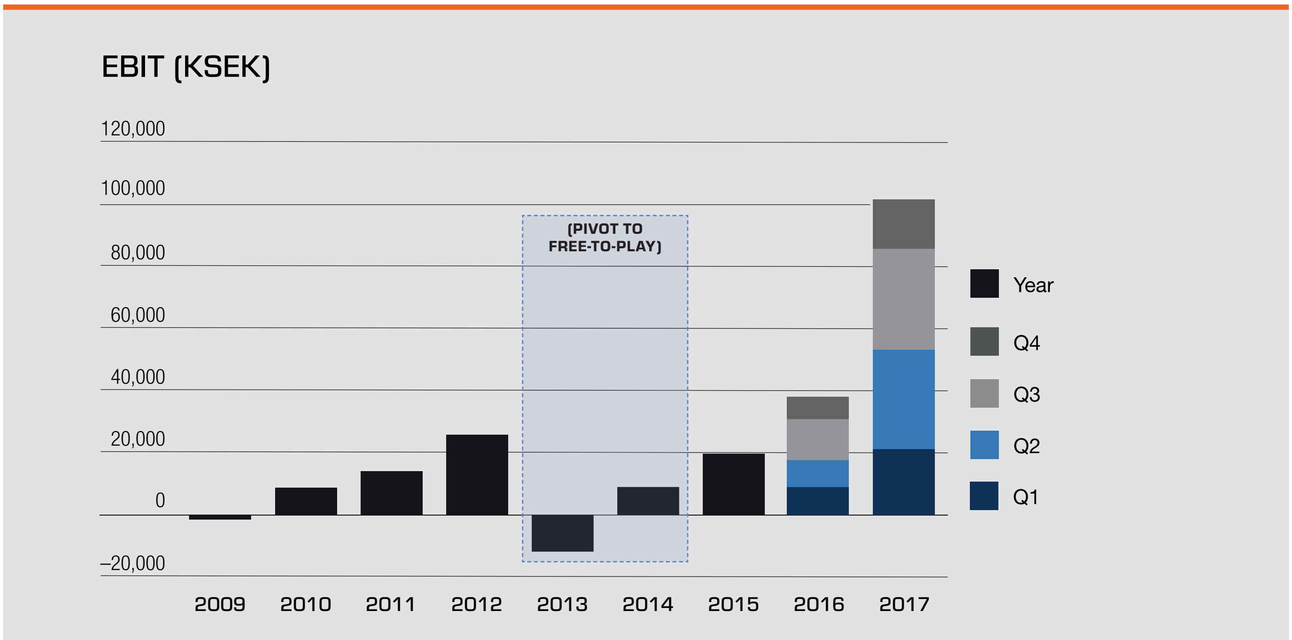
EXPANDING MARGINS AND INCREASING PROFITS

Our business model has inherent leverage, in other words our profitability improves as the scale of our operations improves, and therefore outstanding revenue growth in 2017 has translated to even higher results in terms of earnings per share and proposed dividend per share:

- Revenue during the period went up 120%
- EBIT before UA went up 189%
- EBIT went up 167%
- EPS went up 169%
- Proposed dividend per share went up 233%

It is to be noted that this result was achieved with zero debt, lack of any M&A activity and no dilution for shareholders. It is no surprise that with the increase of the scale of our operations our share became the highest appreciated share among all publicly listed videogame companies in the world for the period of 2017. We have also improved our key return ratios significantly, return on equity in 2017 was 46% (23%), return on total assets was 30% (17%).

In 2017 we remained focused on mobile platforms with virtually all of our revenues coming from the application stores, and we did not earn any significant revenue from advertising. Earning additional revenues from advertising in our games remains an opportunity for the future.



FOCUS ON INTERNAL DEVELOPMENT TEAMS, QUALITY, AND PROPRIETARY GAMES

During 2017 we continued to invest in our most important assets – our development studios which host the teams which develop our games. With larger scale of revenues and operations, and the leading positions of our top games in their respective genres, the focus is now very clearly on quality and producing the best casual game experiences for our players. In other words, we want less games of even higher quality and we want the best talent we can get, and in 2017 we continued building our studios with this in mind.

We are looking for the best talent to join our teams, and we are motivating them with the revenue sharing programs where their bonuses depend on the sales and profits of their games, and also with long-term incentives such as warrants programs, that align their interests with the interests of the shareholders in the best possible way.

During 2017 we have added 62 staff and we had 346 full-time employees compared to 284 a year before that. Most of the employees added are engineers, artists, and game designers, who directly contribute to the development of the company's own games. We are able to hire world-class talent at this speed thanks to the location of our development studios in Ukraine (Kharkov and Lvov) and Russia (Moscow and Kaliningrad), and our ability to tap into the vast pool of game development talent of these countries, where nowadays a large part of the content of any "western" game is made as well as some top games that are known worldwide. Although no official figures I could quote are available, we see indications that the region has the fastest-growing game development ecosystem in the world and is especially strong in mobile.

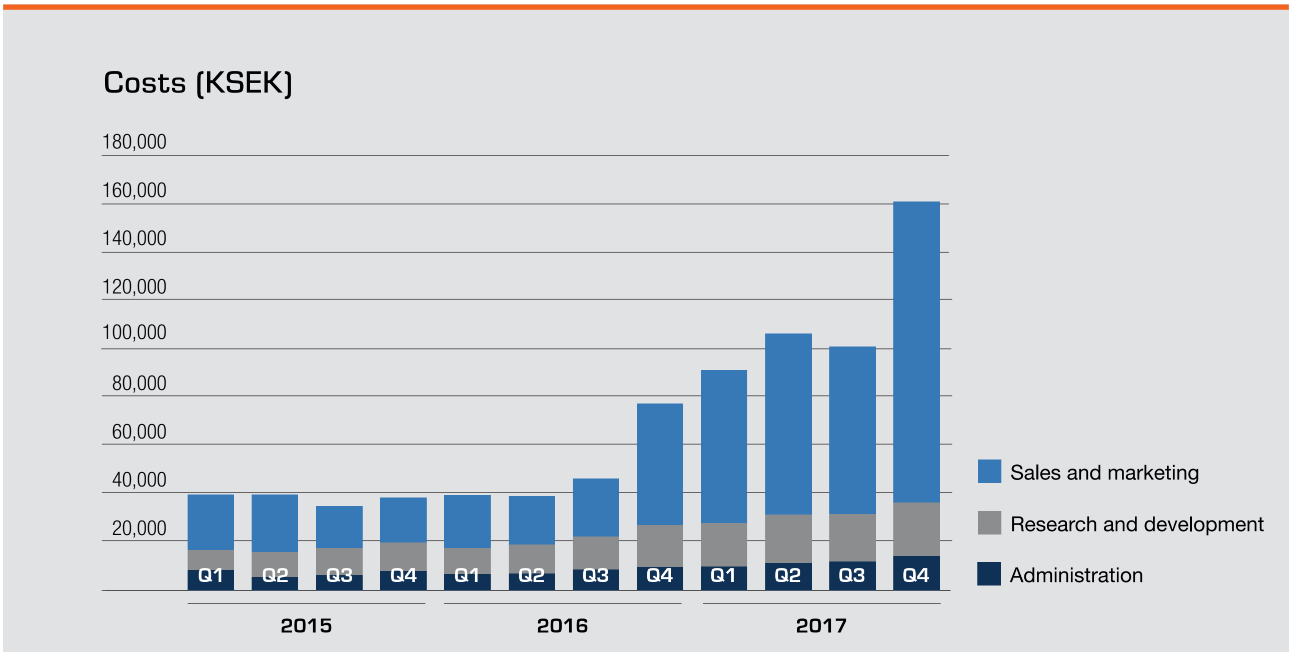
We also continue to collaborate with best 3rd party development studios from the Eastern and Central Europe that depending on the arrangement can benefit from our platform, analytics and marketing experience.

OUTLOOK FOR 2018

The opportunities this year 2018 are exciting and to maintain our growth we need to essentially do the same things we did in 2017, while continuing to improve our execution. Below are the things that can happen in 2018 depending on how well we perform as a team, along with the reflection on how well we did in 2017:

- **Continued investment in updates and marketing of games that are growth points in our portfolio can lead to further growth in monthly and quarterly revenue and earnings.** This has happened in 2017 as we grew our revenue by 120% year-on-year to 1.14 BSEK and our earnings by 167% year-on-year to 102 MSEK. This remains a big opportunity for 2018 if we do it right. We have strengthened our studios this year to be able to maintain more games and make better and more frequent updates and we are now at 346 staff world-wide, up from 289 at the end of 2016.

- **Achieving another success, this time with G5's own game, can have profound effect on profit margins as well as top-line growth.** We had substantial increase in the revenue from wholly owned games, and the non-dilutive cash-only acquisition of The Secret Society has further increased the share



of revenue coming from wholly owned games as we enter 2018. It continues to be a substantial opportunity for margin expansion going forward. We have also announced that we now have two games that have grossed over $100M to date, also important given the inherent leverage in our business model.

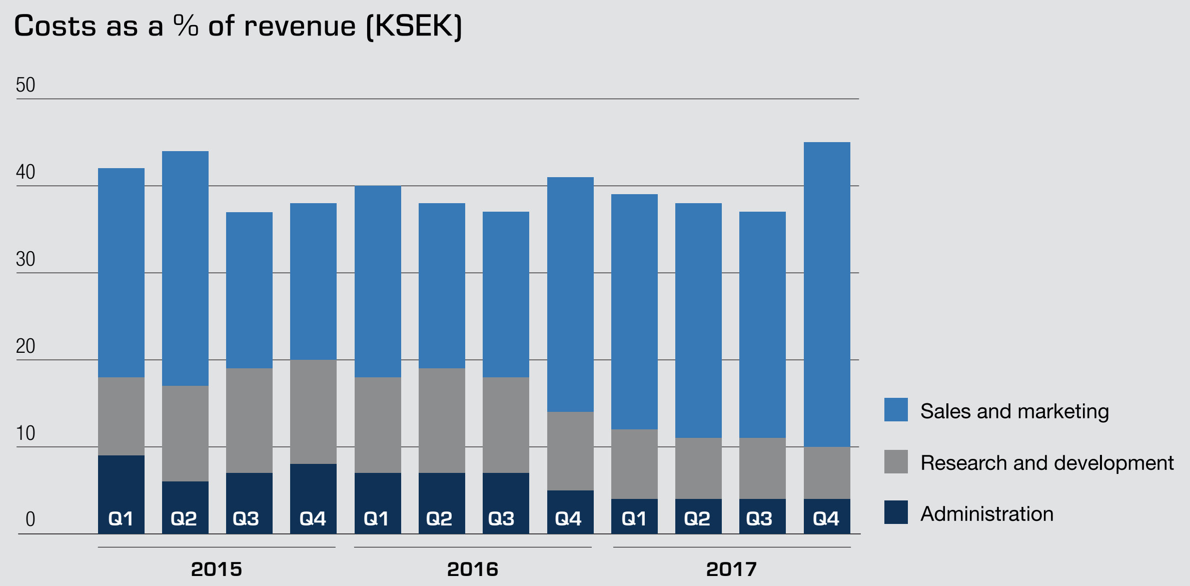
- **Entering new game genre niches can open the doors for further expansion over time.** We had an early success entering a new genre with our Match-3 game Pirates and Pearls. While the soft launch was good and the game is growing its audience and revenue every month, it is a very competitive market and we need more work on the game and continued improvement of our user acquisition strategy to realize its potential. We also have more games in Match-3 and other genres coming to the market in 2018.

- **Further improving our positions in Asia can contribute to growth and earnings and create more balanced revenue structure.** We have increased our revenue share coming from Asia from 15% in 2016 to 28% in Q4'17, and most of it comes from Japan, where we are one of the very few western mobile game developers that are successful on this scale. Further improving our position in Asia remains an opportunity for growth in 2018. Of special interest are China and South Korea where we are only starting to get some traction and which remain a very small % of our overall revenue.

- **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.** In 2017, G5 had the highest-appreciated share among publicly-listed video game companies worldwide. Our commitment to growing organically, financing our activities from revenue and minimizing dilution can continue to provide great returns to shareholders.

We remain committed to gradually improving our profit margins and delivering higher earnings year over year, even if we choose to grow fast and spend high amounts on user acquisition. We are looking forward to see what we can achieve in 2018 with our 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 valuable experience and insights.
- Achieving growth that exceeds market growth through the above means.

GAME TYPES

G5 currently only produces and publishes free-to-play games. Free-to-play games have significantly greater earning capacity than other game types because of their ability to retain and apply monetization pressure to players over long periods of time. Continuous expansion of the game content through updates also helps extend the lifetime and earnings of free-to-play games.

GENRES AND TARGET GROUPS

G5 Entertainment has a clear focus in relation to game genres and its target groups. The games offered can generally be referred to as puzzle games. More specifically, the company's games are in the Hidden Object, Match-3 and Mahjong Solitaire genres, in other words, adventure games where you progress by solving puzzles and finding clues. Match-3 is the latest addition to the genres the company is active in. In Match-3 genre, the player matches 3 objects in a row to complete the puzzle. This genre is one of the biggest genres within mobile gaming.

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

GEOGRAPHICAL MARKETS

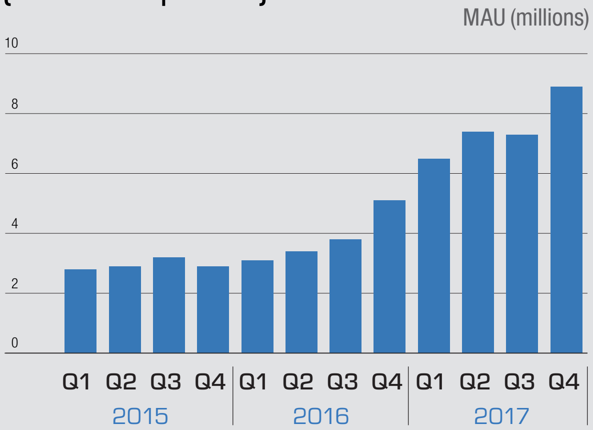
Through G5's distribution channels, makes the games available in the global market immediately after the release of a new game. G5's main markets are North America and Asia where Asia has grown very rapidly during 2017. During 2017, North America accounted for 51 percent of revenues and Asia for 25 percent, an increase from 12 percent in 2016.

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.

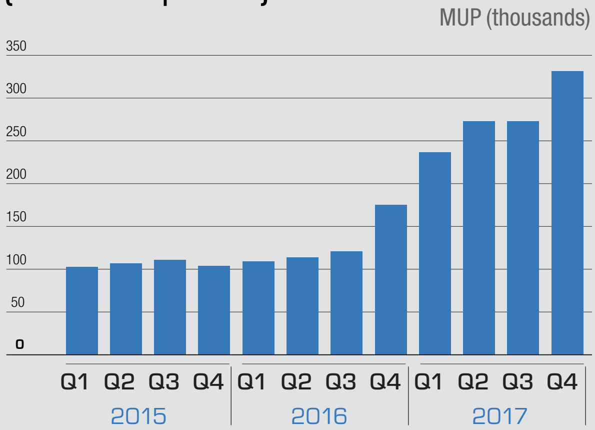
USER ACQUISITION

In the normal course of business, G5 is actively acquiring new players through advertising spending ("user acquisition", or UA for short) which is an important part of the business model

Monthly active users (AVG over quarter)[1]



Monthly unique payers (AVG over quarter)[1]



[1] For more information regarding the operational metrics, see the glossary on page 65.

for free-to-play games. The players that are acquired stay in the games for months, sometimes even years, and as they play and monetize, they gradually repay the money spent on marketing. After break even, these players then make a profit. Through analytical tools the company can track the spending of the players with good precision so that the right kind of players are attracted, and that over time they provide healthy returns on the marketing investment. Because players stay in the games for a long time and monetize gradually, whenever the company decides to substantially increase the UA spend and hold it there, the profit margin suffers in the short term while revenue increases. As the revenue grows, the profitability returns on a larger revenue base in the following quarters.

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 the younger male audience of ages 13-34. G5 therefore does not compete, for example, with the makers of popular "war" games, although it operates in the same market space.

RETENTION AND EARNINGS POTENTIAL

Within its specific niche, G5 has one of the largest offerings for the company's main target group on mobile. There are only a 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.

Management believes that, among direct competitors, G5 has one of the largest audiences in its narrow target segment of women 35+. 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 market share, and possibly widen its target audience over time.

VALUE CHAIN

G5'S VALUE CHAIN

DEVELOPMENT

G5 strives to produce the best games in the genres where it is active. G5 develops and renews its portfolio of games in two different ways: mostly through internal game development and in some instances through licensing of games from independent game developers. For its internal development, the company seeks to employ the most talented individuals in the geographies where it is active and pays a lot of attention to the quality and detail in the games. The company is continuously improving its processes, and as the company is getting larger it is able to spend more time and money on getting the best possible results.

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 the Apple App Store, Google Play, Amazon Appstore and Microsoft Windows Store. Through these stores the company makes the games available in the global market immediately. 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 the majority of screen dimenstions and sizes. The company has benefitted from the trend of increased screen size for smartphones as the gaming experience in G5's core genres benefits from larger screens. This trend has helped contribute to the company's success in the last years as this trend has correlated with higher spending in the company's games.

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 improve the games, 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, e-mail, social media and also through its own community -G5 Friends, that is available within the company's games.

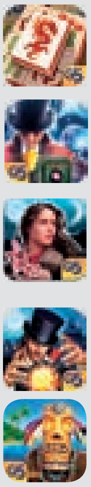
VALUE CHAIN

GAME DEVELOPMENT

Development of own games

Outsourced development

3rd party licensing



DISTRIBUTION

RE-ENGAGEMENT & MARKETING

End users

UA | Organic traffic
Social | Etc.

- G5 develops proprietary games based on its own technology
- Development is made in talented studios with a mix of in-house and 3rd party contractors
- G5 sometimes licenses games from independent game studios which reduces financial risk and increases the company's offering to various target audiences and experimental genres

- G5 uses strong distributors; Apple, Google, Microsoft and Amazon
- They charge approx. 30 per cent of revenue for which G5 gains access into a global market without its own distribution and payment systems

- The users are regularly offered new updates for existing games and new games to try
- Own analysis secures the most efficient marketing efforts
- The users are tied to G5 through e-mail, social media and G5's own community, G5 Friends

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 significantly in recent years. The largest driver of this growth has been the proliferation of smartphones and tablets and a shift of playing habits from older phones and PCs 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 higher in 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 fastest-growing segment in the overall games market.

TIME FOR GAMES

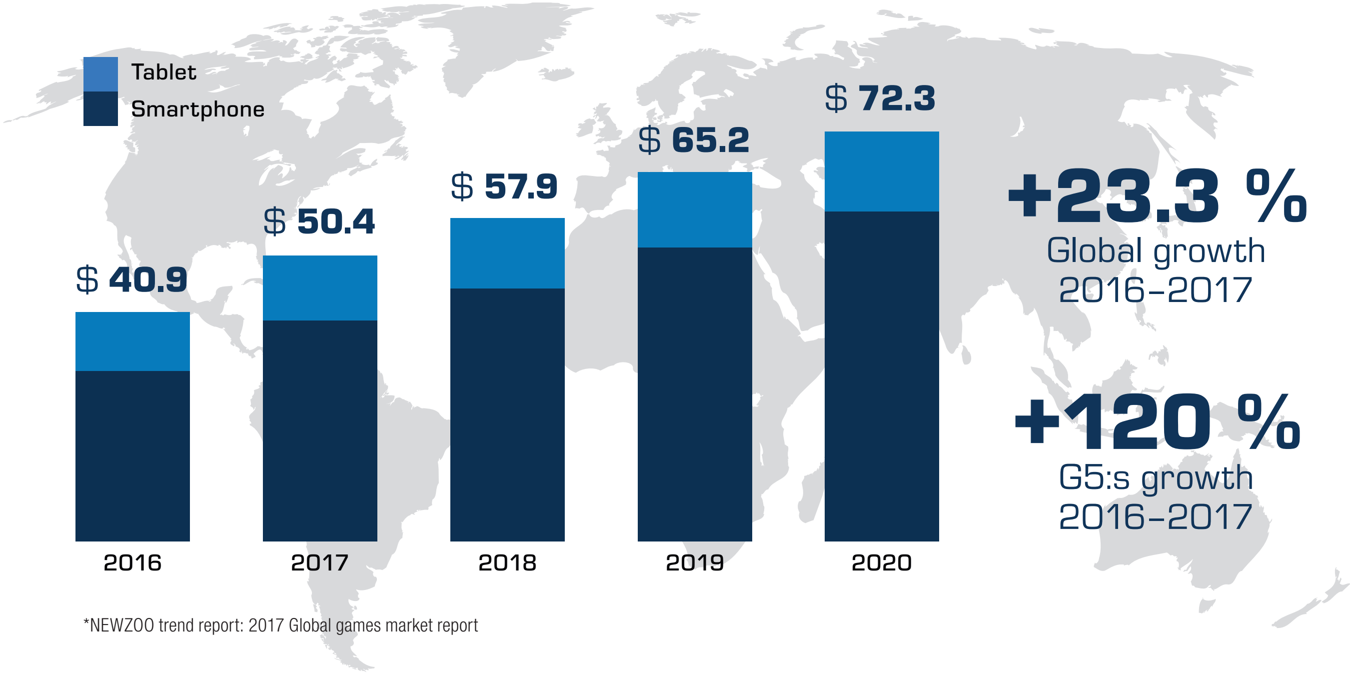
The widespread adoption of smartphones and tablets, the quality of the mobile experience and the convenience of playing anywhere is what makes people more and more likely to play only on smartphones and tablets, or in addition to other traditional game platforms. "Casual games," the game type G5 offers, also helps to increase the user base as these games are easy to start playing and suit a broader target group both in terms of age and gender.

The average time that mobile players devote to playing games is constantly increasing. According to comScore more than 40% 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 50.4 billion in 2017 to USD 72.3 billion in 2020.

ATTRACTIVE TARGET GROUP

G5's games are addressed towards a broad spectrum of players, but aligns best with gaming interests and tastes of 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 not typical 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 or smartphones with larger screens 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



*NEWZOO trend report: 2017 Global games market report

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

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.

USER ACQUISITION

G5 has built up a deep knowledge of user acquisition and the company invests a significant portion of the revenue into "UA." The intention is to quickly create a larger userbase that will provide higher earnings in the long-term, if not immediately in the next quarter, then within a couple of quarters when the generated revenue has surpassed the initial investment. G5 has deep knowledge of its game types, its target audience and how to reach them, using advanced analytics to ensure that the time to recoup the investment as well as the return on marketing are attractive. The broad user base is also an asset that the company can benefit from in future game launches to attract existing players to test new games.

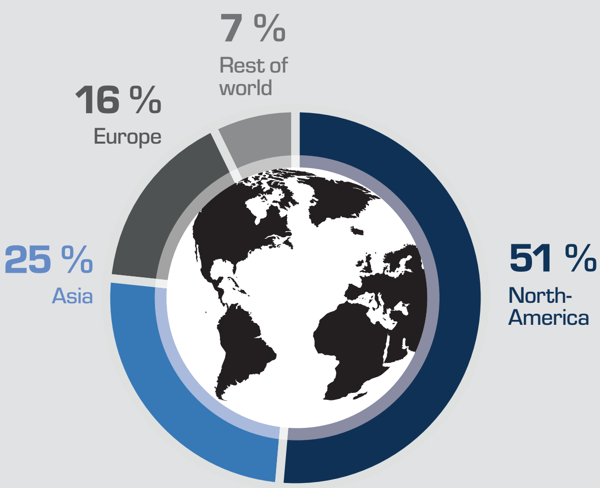
G5'S DEVELOPMENT

G5 has displayed strong growth in recent years, 68 percent per year on average over the past five years. This means that the company has grown faster than the overall market. In 2017, growth was 120 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 almost nine million unique users that play one of the company's games each month, 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

G5's Revenue share by region



SUCCESS FACTORS

IMPROVED AND FOCUSED OPERATIONS

An attractive games portfolio

Today the mobile game market around the world 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. G5 has chosen to focus on hidden object puzzle adventure games, and it also has "Match-3" games and “solitaire” games – the types of games that work well with the company’s audience. Of the eighteen free-to-play games in G5’s portfolio today, twelve are proprietary and six are licensed from other developers. Since the start, G5 has released a total of 21 free-to-play games in the market.

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. Although the profit margins are lower on the licensed games, 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 an 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. Licensing efforts are led from the office in Malta where the company’s Director of Licensing is based.

Over the years, G5 has built its internal development studios strategically positioned in Russia and Ukraine, hotbeds of sprawling game development and game outsourcing industries. These studios develop the company's proprietary games, provide platform solutions and advice on licensed game projects that G5 sometimes engages in. Over the years the company has built project teams with talented individuals passionate about games. The cost aspect of having game development operations in Russia and Ukraine is an additional advantage.

The internal game development is led by G5’s Malta office where, amongst others, the COO is based, and the development studios in Moscow and Kaliningrad. The company’s largest development office is located in Kharkov, Ukraine, where most of the programming and testing of the company’s games occur. G5 has also opened an office in Lvov in Ukraine. When necessary G5 also uses a large number of third partner studios to outsource parts of game development.

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®”, “The Secret Society®”, "Homicide Squad®", "Paranormal Society", “Twin Moons Society” and the newly released Match-3 game "Pirates and Pearls". Examples of licensed games are “Hidden City®”.

Top Games on iPad

Hidden City®: Hidden Object Adventure	#1 Hidden City	Licensed	Released: February 2014
The Secret Society® - Hidden Mystery	#2 The Secret Society	Wholly Owned	Released: November 2012
Mahjong Journey®	#3 Mahjong Journey	Wholly Owned	Released: January 2015
Survivors: the Quest®	#4 Survivors: The Quest	Wholly Owned	Released: January 2015
Pirates and Pearls™ A Treasure Matching Puzzle	#5 Pirates & Pearls	Wholly Owned	Released: August 2017
Twin Moons® Object Finding Game	#6 Twin Moons	Wholly Owned	Released: October 2016
Mystery of the Opera® The Phantom Secret	#7 Mystery of the Opera	Wholly Owned	Released: October 2017
Homicide Squad: Hidden Crimes	#8 Homicide Squad	Wholly Owned	Released: January 2017
Supermarket Mania® Journey	#9 Supermarket Mania	Wholly Owned	Released: January 2016

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. The company 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.

Own UA-team

An important success factor in the mobile gaming world is the ability to work with user acquisition, UA. G5 has built up its own user-acquisition organization that works focused, and very successful, with different types of campaigns to increase the number of users, and thus in the long term also the earnings of the various games.

2018

G5 operates in a rapidly growing market, where revenues of mobile games are expected to show strong growth in 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 2018, all of them proprietary including an additional Match-3 game. 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, 2017 – December 31, 2017. All amounts are reported in SEK thousands (KSEK), unless otherwise specified. Information in parentheses refers to the previous accounting year, that is to say 2016. 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.

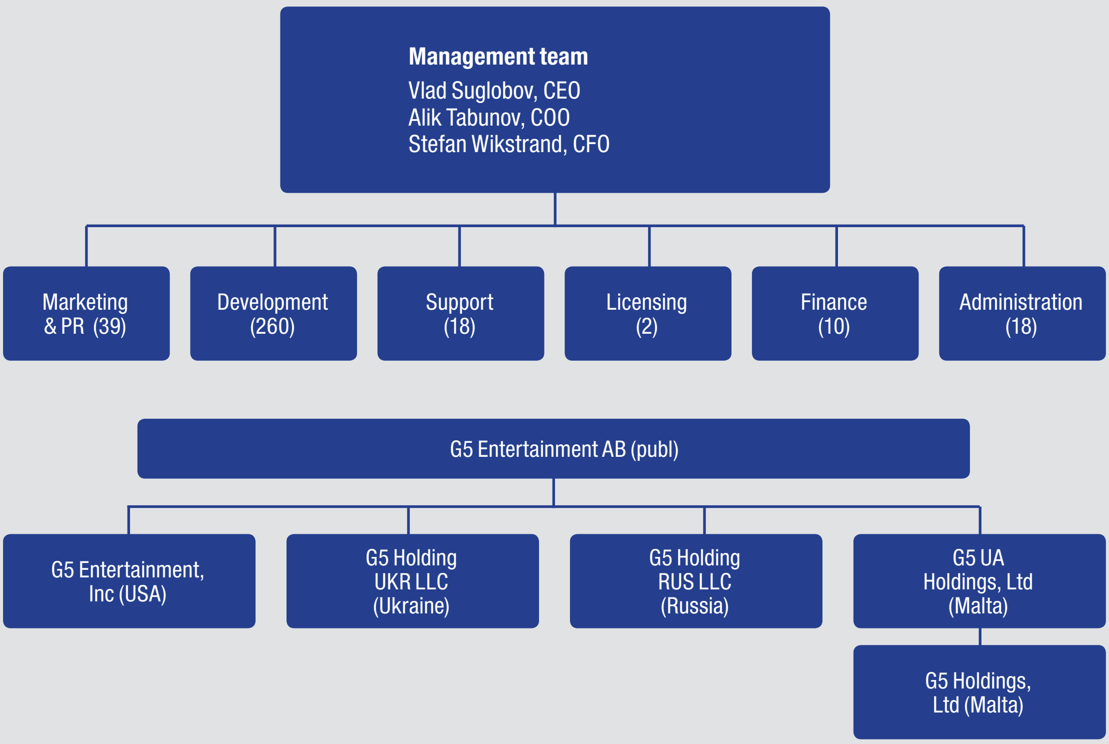
OPERATIONS

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

Today, games are the most popular activity linked to smart phones, and mobile games is the fastest-growing segment of the entire games market. According to comScore more than 40% of the time users of iOS and Android devices spend on their mobile phone or tablet is devoted to games. The revenue from various types of mobile games is expected, according to the analytics company Newzoo, to increase from $ 50.4 billion 2017 to 72.3 billion by 2020.

Organizational chart



G5 2018 and onwards

G5 operates in a fast growing market, where revenues from smartphone and tablet games is expected to continue to grow significantly in the coming years. The company has a broad portfolio of games with a growing number of proprietary free-to-play games, has focused on an economically strong and loyal audience, and has a large experience in developing attractive games in different genres, 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. G5 strives to achieve excellence in its games and push the boundaries of quality within their genres. With larger scale and more resources, the company is dedicated to producing some of the best games in the world within their genres. The company has a number of new free-to-play games for release during 2018 and in-line with the company´s focus on own games, all of them will be proprietary. The company will balance user acquisition spending with the goals to achieve higher profitability, while sharpening its focus on retaining customers, and acquiring customers organically through the application stores and internal tools.

ORGANIZATIONAL STRUCTURE

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

The group comprises six different functions, of which development and quality assurance is the largest by the number of employees. The CEO is based in San Francisco since 2011, where the group has a marketing office, but spends several months per year in Moscow, where the group has a development studio with a large part of the senior developers employed by the group, which has recently been expanding substantially to take advantage of local talent pool and reduced ruble exchange rate. Game licensing and management of the group's IPRs (Intellectual Property Rights) is done from Malta, where the COO is stationed together with the second part of the senior development team and the licensing team. The CFO is stationed in Stockholm. The Ukrainian office in Kharkov is the largest in terms of the number of employees, and houses most of the company's quality assurance staff, about 100 people. The group's Kaliningrad development office has been growing and taking over some of the company's important games and has become an important creative component of the group's structure. The group also has a small studio in Lvov.

ACTIVITIES DURING 2017

During 2017 the company has continued to show strong growth with a total growth of 120%, beating its goal to grow faster than the market.

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 20% in 2016 to 28% during 2017.

Three new propriatary games were launched during the year, Homocide Squad®, Pirates & Pearls® and Mystery of the Opera®, in addition to the licensed game Kate Malone® that was also released. Work is ongoing to improve the games through regular updates. Such updates contain optimizations to improve the profitability of the games as well as increased and enhanced content for the players.

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

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.

SETTLEMENT WITH MYTONA

On the 21st of December G5 Entertainment and MyTona resolved their disputes that were pending in Orange County Superior Court. The parties have dismissed their claims pursuant to the terms of the settlement. G5 is acquiring all rights to the "The Secret Society", on all platforms in exchange for a cash consideration, as well as additional contingent revenue share payments, to be paid over the course of 2018 and first part of 2019. G5 shall be taking over all support and development of the game going forward. The total consideration to be paid to the MyTona parties is around US $6.5M or more, depending on the performance of the game.

ACQUISITION OF THE SECRET SOCIETY

Payments made with regard to The Secret Society prior to the year end, almost half the anticipated total, are recorded as prepaid expenses in the closing balance 2017. Going forward, the assets related to the game, now wholly owned by G5 rather than licensed from a third party, will be recorded as intangible assets and amortized over 24 months. The amortization has started in the middle of the first quarter 2018. From that date, G5 Entertainment will no longer have any royalty costs related to The Secret Society in its income statement.

SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

No significant events have occured after the balance sheet date.

REVENUE AND EARNINGS

Revenue and gross profit

Revenue grew by 120 per cent during the year, and revenue amounted to SEK 1,135.5 M (516.9).

The group's cost of revenue was SEK 577.7 M (271.1). Gross profit amounted to SEK 557.8 M (245.9), an increase of 127 per cent compared to 2017. Gross margin was 49 per cent (48).

OPERATING COSTS

Research and development

Costs for research and development increased by 41 per cent compared to 2016. Research and development costs are impacted by amortization and write-downs which amounted to SEK 49.0 M (38.7) and SEK 4.2 M (5.7) respectively. Adjusted for amortization and write-downs of the company's game portfolio the costs were SEK 30.4 M (14.8) , an increase of 105 per cent. The increase in costs, excluding amortization and write-downs, is in large explained by increased capacity in the development department, increased costs for IT-infrastructure. Also a lower capitalization factor which is a function of development resources being allocated to development of internal platforms and projects.

Sales and marketing

Costs for sales and marketing are primarily affected by the costs for user acquisition. In line with the increase in costs for user acquisition, the sales and marketing costs have increased by 197 per cent. User acquisition in relation to revenue has increased to 28 per cent (20). Excluding costs for user acquisition sales and marketing has increased with 64% due to a larger team and enhanced technical tools for user acquisition.

Administration

Costs for administration has increase to SEK 49.8 M (32.0), an increase of 56 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.

Operating profit

Operating profit was SEK 101.7 (38.1) and the operating margin was 9 per cent (7). The increase in operating profit was 167% year over year, faster then the growth of the top-line revenues, due to the inherent leverage of the business model and despite the growth in marketing costs which also grew faster than the top-line.

Net profit

Net profit was marginally affected by financial items. Tax affected the result with SEK -12.6 (-4.8) corresponding to a tax rate of 12 per cent (13).

Net profit amounted to SEK 89.3 M (33.2) which is corresponding to earnings per share before dilution of SEK 10.15 (3.77).

FINANCIAL POSITION

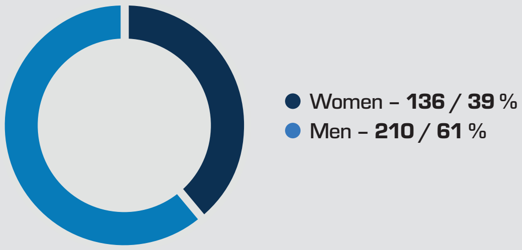
During the year the company has capitalized development expenses amounting to SEK 70.3 M (50.2). The company amortizes its games over 24 months. The company separates released and not released games where not released games include games that have been active in the app stores for less than 6 months 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 49.0 M (38.7). Write-downs, which is a part of the ongoing business with a games portfolio, amounted to SEK 4.2 M (5.7). Capitalized development expenses are also impacted by currency exchange differences of SEK -10.8 M (9.0), 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 115.4 M (109.1).

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

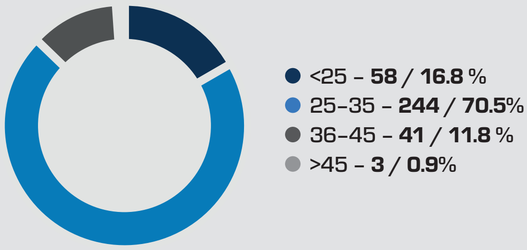
Accrued expenses and accounts payable are primarily constituted of royalty related to licensed games and debts to external developers.

Equity amounted to SEK 230.5 (161.2) M corresponding to a equity/asset-ratio of 54 per cent (62).

Employee gender distribution



Employee age distribution



FINANCIAL RATIOS	2017	2016	2015
Equity/asset-ratio	54%	62%	70%
Return on equity	46%	23%	12%
Return on total assets	30%	17%	11%
Current ratio	1.5	1.4	1.4

CASH FLOW

During the year the group had an operating cash flow before changes in working capital of SEK 134.7 M (85.2). Cash flow before investing activities amounted to SEK 125.2 M (89.6).

Investments have impacted the cash flow with SEK -98.4 M (-53.5). Investments are primarily constituted of capitalized development expenses that amounted to SEK -70.3 M (-50.2). During the fourth quarter the company also paid the first payments of the acquisition of The Secret Society which impacted the cash flow with SEK -23.1 M (0.0).

Cash flow amounted to SEK 22.2 M (36.2) M.

Available cash on December 31, 2017 amounted to SEK 91.2 M (70.6).

SEASONAL VARIATIONS

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

EMPLOYEES

As of December 31, 2017, G5 had 346 employees across seven locations, Stockholm (3), San Francisco (5), Malta (10), Moscow (23), Kharkov (249), Kaliningrad (46) and Lvov (10). G5 constantly strives to attract employees that are essential for the company to maintain a strong market position. The company's HR department cooperates with local universities to scout for candidates. G5 is working proactively with the recruitment process, approaching students with challenging tests and case studies, in order to attract them. G5 has a training program, where new engineers and designers initially start as associates and increasingly get involved in the company's projects under supervision and coaching of more senior colleagues. The same applies for corporate functions within its operations department. With the increasing profitability, G5 is actively searching for, and aims to employ the best talent in the field in order to be able to keep the quality standards high and push the boundaries of the genres G5 is active in. The company is providing a competitive compensation package for its employees, which is in line with, or above the local standards.

RESEARCH AND DEVELOPMENT

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

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

SHARE INFORMATION

As of December 31, 2017, 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 2017 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 2017.

For more information regarding the share, see page 64.

Sustainability report

As a fast-growing company with around 350 employees in Russia, Ukraine, Sweden, the US and Malta, G5 has a responsibility to contribute to sustainable economic, environmental and social development in the countries where it operates. G5 is focused on developing appropriate policies and governance models to further develop the work in these areas. In the current process, the company is focusing mainly on issues relating to its employees, in addition to environmental and ethical issues.

G5'S BUSINESS MODEL

G5 operates in a market where revenues from games played on tablets and smartphones is growing fast. In recent years, the company has focused its activities on so-called free-to-play games (F2P). The F2P-games are free to download and play but during the user journey the players can buy goods and tools that enhance the gameplay experience and/or make it easier to advance in the game. These payments make up 100% of G5's revenue stream. A fundamental advantage of F2P games is that they can be continuously developed and updated and thus have an unlimited life cycle, with higher earnings as a result. Unlike other companies in the industry, G5 does not sell in-game advertising to external parties and thus has no advertising revenue.

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

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

G5's main markets are North America and Asia. To increase the number of users, G5 systematically works with User Acquisition, commonly known as UA. The company has a dedicated UA team that continuously works with a large number of campaigns to increase the number of users and thus the earnings in each game. In practice, this means investing a significant portion of earnings into UA, resulting in an increased number of users and higher earnings. With this approach, G5 gradually increases both the number of users and revenue over time. G5's business model is simple and scalable. The combination of proprietary and licensed games allows G5 to let the game portfolio grow with new games, without simultaneously bearing the full development cost. At the same time, the number of users can increase significantly, without simultaneously requiring a larger and more complex organization, as G5 does not need to invest in its own operations, distribution and payment channels.

ECONOMIC SUSTAINABILITY

G5 contributes to local, regional and national economic growth by directly and indirectly creating jobs, as well as paying taxes and duties where the business is conducted. The group also hosts 2 corporate events each year, which also contributes to local economic growth. Long-term growth and profitability for G5 is good for both society and employees. At the same time, G5 will be a responsible company that always acts in accordance with existing legislation at national, regional and local levels.

ENVIRONMENTAL CONCERNS

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

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

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

SOCIAL RESPONSIBILITY

Equality

For the office in the United States, G5 has issued a special policy, "Personnel Management Rules for the United States Office", which complies with US rules and practices regarding, for example, gender equality, equal treatment and integrity. For the businesses in Russia and Ukraine, the countries where G5 has the majority of its employees, G5 strictly adheres to the respective labour laws of these countries. The laws govern all issues such as diversity, gender equality and employee rights and obligations. The labour law thus constitutes an important regulator for both companies and employees.

Code of conduct

G5 has no common code of conduct for the company as a whole. However each office has its own policies that do not constitute rules, but are clear recommendations for how employees interact, facilitate effective communication, and work to develop a good culture at the workplace. The basic principles for each employee's conduct towards colleagues and companies, as well as the company's responsibility and conduct, are included as part of each employment contract.

Working environment

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

GOALS AND GOAL FOLLOW-UP

For the part of the business that does not work with game development, each employee is evaluated annually in terms of achieved results, skills development and possible changes in responsibilities. The evaluation is carried out by the respective departmental management, which also decides on tasks for the coming period, and takes any decisions on promotion or other changes. As of December 2017, the departmental management will, by decision, give each employee regular feedback to be taken into account in the evaluation.

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

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

EMPLOYEE SURVEY

G5 conducted an employee survey in 2017 and plans to conduct one every year. The results from the first survey were satisfactory. The Satisfaction Index, which shows the percentage of employees who would recommend G5 to others, amounted to 94 percent. 91 percent of employees considered themselves satisfied with their own duties and 79 percent were satisfied with their working conditions at large.

EMPLOYEE TURNOVER

G5 regularly monitors the development of the company's staff turnover, as this is an important indicator of the mood of the company and how well the work processes work.
In 2017, staff turnover was 16.3 percent, compared with 22.3 for 2016 and 15.9 percent for 2015. In recent years, G5 has increased the staff at a fast pace. A large part of the company's employees are young and it is not uncommon that it is their first job. These factors have a negative impact on staff turnover. G5 evaluates and compares its staff turnover with the overall market as well as IT companies specifically, and in those comparisons G5 is very well-placed.

ANTICORRUPTION

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

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

Risks and risk management

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

Market and operational risks

Market conditions

The company operates in a new and rapidly changing industry, which makes it difficult to evaluate the business and prospects. The mobile gaming market, from which G5 derives substantially all of its revenue, is 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 249 people as of December, 2017. 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 get 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 proposes that the 2018 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. The CEO's variable compensation for the year may not exceed 80 percent of the annual salary, divided so that 60 percent of the annual salary shall be based on the company's financial performance and 20 percent linked to criteria as defined by the Board. For other senior management the variable compensation shall be based on the financial performance, it may not exceed 60 percent of each person's annual salary. Variable compensation based on the company's financial results shall be calculated quarterly and be based on revenue growth and EBIT margin. For both parameters a target range is defined and a sum of normalized performance scores in both defines the outcome. Variable compensation 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 2017, see Note C7.

DIVIDEND POLICY, FINANCIAL TARGETS

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

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

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

CORPORATE GOVERNANCE REPORT

The corporate governance report is published with a separate auditors statement on page 58 in this document.

PARENT COMPANY

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

At the end of the year the parent company had 3 (2) employees. The average number of employees during the year was 3 (2).

- Sales amounted to SEK 1,135.4 M (519.2)
- Operating result amounted to SEK 12.4 M (2.1)
- Result after net financial items amounted to SEK 31.0 M (12.4)
- The parent company's cash and cash equivalents as of December 31, 2017 was SEK 64.7 M (56.7)

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	55,916
Profit carried forward	57,151
Net result for the year	29,422
Total	**143,369**

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

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

To be distributed to the shareholders	22,224
To be carried forward to new account	121,145
Total	**143,369**

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

The board of directors of G5 Entertainment AB (publ.), org. nr 556680-8878 has proposed that the annual general meeting to be held on May 7, 2018 shall decide on share dividend in an amount of SEK 2.50 for each share. The proposed record day for the share dividend is Wednesday May 9,2018.

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

The profits and the financial position of the company are good, as indicated by the balance sheet and the profit and loss account in respect of the financial year 2017. The board of directors has assessed that the proposed payment of dividends would be sufficiently covered by the unrestricted shareholders' equity. The equity ratio and the liquidity will be sufficient, also subsequent to the proposed payment of dividends, and it is believed that the company will be in a position to perform its short term and long term obligations.

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

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

The Board of director was given an authorization to issue ordinary shares at the annual general meeting on May 12, 2017. If the board of directors exercises the authorization prior to the annual general meeting 2017, the above statement shall be equivalent to the potential additional dividend.

FINANCIAL STATEMENTS CONTENTS

GROUP FINANCIAL RESULTS

INCOME STATEMENT – GROUP

KSEK	Note	2017	2016
Net turnover	C3	1,135,491	516,931
Cost of revenuer		-577,709	-271,070
Gross profit		**557,782**	**245,861**
Research and Development expenses		-83,619	-59,232
Sales and Marketing expenses		-332,364	-116,501
General and administrative expenses		-49,798	-31,996
Other operating income		14,319	320
Other operating expenses		-4,602	-344
Operating result	C4, C5, C6, C7, C8, C17	**101,718**	**38,108**
Financial income		143	39
Financial expenses		-7	-109
Operating result after financial items	C9	**101,853**	**38,038**
Taxes	C10	-12,553	-4,833
NET RESULT FOR THE YEAR		**89,300**	**33,205**
Attributed to:			
Parent company's shareholders		89,300	33,205
Earnings per share	C14		
Weighted average number of shares (thousands)		8,800	8,800
Weighted average number of shares after dilution, (thousands)		9,183	8,825
Earnings per share (SEK) before dilution		10.15	3.77
Earnings per share (SEK) after dilution		9.73	3.76

STATEMENT OF COMPREHENSIVE INCOME – GROUP

KSEK	2017	2016
Net result for the year	**89,300**	**33,205**
Items that later can be reversed in profit		
Hedging of net investments, net after tax	-3,108	5,854
Foreign currency translation differences (net after tax)	-11,926	-1,348
Total other comprehensive income for the year	**-15,034**	**4,506**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**74,266**	**37,711**
Attributed to:		
Parent company's shareholders	74,266	37,711

BALANCE SHEET – GROUP

KSEK	Note	Dec 31, 2017	Dec 31, 2016
Fixed assets			
Intangible assets			
Capitalized development costs	C11	115,432	109,104
Goodwill		0	2,292
		115,432	**111,396**
Tangible fixed assets			
Equipment	C12	8,176	6,275
		8,176	**6,275**
Deferred tax assets	C10	22,430	8,565
Total fixed assets		**146,038**	**126,236**
Current assets	C15, C21		
Accounts receivable		39,970	0
Tax receivable		9,439	474
Other receivable		10,654	5,909
Prepaid expenses and accrued income	C17	122,911	57,030
Cash and cash equivalents		91,194	70,584
Total current assets		**274,169**	**133,997**
TOTAL ASSETS		**420,207**	**260,234**
Equity	C13		
Share capital		880	880
Other capital contribution		55,959	54,316
Other reserves		1,532	16,566
Profit brought forward		172,107	89,407
Total shareholders' equity		**230,478**	**161,169**
Non-current liabilities			
Deferred tax liabilities	C10	4,079	2,465
Total non-current liabilities		**4,079**	**2,465**
Current liabilities	C21		
Accounts payable	C19	9,289	30,828
Other liabilities		9,221	2,843
Tax liabilities		32,818	13,276
Accrued expenses	C17	134,322	49,653
Total current liabilities		**185,650**	**96,600**
TOTAL EQUITY AND LIABILITIES		**420,207**	**260,234**

CHANGES IN SHAREHOLDERS' EQUITY – GROUP

KSEK	Share capital	Other capital	Other reserves	Retained earnings	Sharehold-ers' equity
Shareholders' equity as of 2016-01-01	**880**	**54,203**	**12,060**	**56,202**	**123,345**
Net result for the year				33,205	33,205
Total other comprehensive income			4,506		4,506
Total comprehensive income for the year			**4,506**	**33,205**	**37,711**
Premium for warrant program		113			113
Total transactions with the owners recognized directly in equity		**113**			**113**
Shareholders' equity as of 2016-12-31	**880**	**54,316**	**16,566**	**89,407**	**161,169**
Eget kapital 2017-01-01	**880**	**54,316**	**16,566**	**89,407**	**161,169**
Net result for the year				89,300	89,300
Total other comprehensive income			-15,034		-15,034
Total comprehensive income for the year			**-15,034**	**89,300**	**74,266**
Dividend				-6,600	-6,600
Premium for warrant program		1,643			1,643
Total transactions with the owners recognized directly in equity		**1,643**		**-6,600**	**-4,957**
Shareholders' equity as of 2017-12-31	**880**	**55,959**	**1,532**	**172,107**	**230,478**

CASH FLOW – GROUP

KSEK	Note	2017	2016
Cash flow from operating activities			
Operating result after financial items		101,853	38,038
Adjusting items not included in cash flow	C22	44,272	50,879
Taxes paid		-11,447	-3,724
Cash flow before changes in working capital		**134,678**	**85,193**
Cash flow from changes in working capital			
Decrease in operating receivables		-89,110	-28,728
Increase in operating liabilities		79,954	33,137
Cash flow from operating activities		**125,522**	**89,602**
Investing activities			
Investing in equipment	C12	-4,921	-3,331
Investment in intangible assets		-23,100	0
Investing in capitalized development costs	C11	-70,329	-50,212
Cash flow from investing activities		**-98,350**	**-53,544**
Financial activities			
Dividend		-6,600	
Premium for warrant program		1,643	113
Cash flow from financial activities		**-4,957**	**113**
Cash Flow		**22,215**	**36,171**
Cash at the beginning of the year		**70,584**	**33,870**
Cash flow		22,215	36,171
Exchange rate difference		-1,605	543
Cash at the end of the year		**91,194**	**70,584**

GROUP NOTES

Note C1 – Accounting principles

General information

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

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

The Annual Report and consolidated financial statements were approved for publication by the Board of Directors on April 15, 2018. The group and parent company balance sheets and income statements are subject to approval by the Annual General Meeting of shareholders.

Basis for preparation

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

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

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

Accounting policy for the parent company, see Note P1.

Fiscal year info

Fiscal year 2017 is from January 1, 2017 up to December 31, 2017.

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, 2017. None of these are expected to have any significant financial impact on the financial statements of the group, except the following:

- 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 has evaluated its financial assets and liabilities and estimates that it will not have any material impact on the financial statements. The Group applies the new rules retrospectively from 1 January 2018.
- 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 new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard shall be applied from January 1, 2018 or later, with early adoption permitted. The Group has made a thorough reciew of the contracts that are signed with each application store, the potential impact on the revenue recognition through the new standard and assessed further performance obligations deriving from the in-app purchases made in the Groups free-to-play games. The Group has come to the conclusion that the virtual goods purchased in the games are consumables and that no further performance obligation is present after the good as been delivered to the customer. This as the company is selling a "right to use" a game (as opposed to a service) and the games are downloadable. The virtual goods that the customer buys in the game is therefore possible to use independently of the G5. The Group is making the assessment that the implementation wont impact the Groups revenue recognition.
- IFRS 16 Leases. The standard will replace IAS 17 Leases, and related interpretations. The standard shall be applied from January 1, 2019 or later, with early adoption permitted however, the Group does not intend to adopt the standard before its effective date. 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 exclusively related to the premises used by the Group. At this stage, the Group is not able to quantify the impact of the new rules on the Group's financial stat ments or to decide on the method of first-time application.

Classification

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

Consolidated principles

Subsidiaries

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

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

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

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

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

Transactions eliminated in consolidation

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

Foreign currency translation

Transaction and balances

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

Group companies

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

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

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

Revenue recognition

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

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

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

Cost of revenue

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

Research and Development expenses

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

Sales and Marketing expenses

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

General and administrative expenses

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

Leasing

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

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

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

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

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

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

Subject of amortization	Amortization period,
Capitalized development costs	2 years

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

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

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

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

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

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

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

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

Employee benefits

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

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

Financial instruments

Recognition and measurement

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

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

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

Offsetting financial instruments

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

Classification

The G5 group classifies its financial assets and liabilities for the financial year 2016 and 2017 in the following categories:

Loans and receivables and financial liabilities measured at amortized costs.

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

Loans and receivables

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

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

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

Trade and other payables

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

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

Financial liabilities measured at amortized costs

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

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

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

Impairment of financial assets

Loans and receivables

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

Earnings per share

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

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

Contingent liabilities

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

Cash flow statement

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

Cash and cash equivalents

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

Segment reporting

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

Note C2 – Critical estimates and judgments

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

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

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

Capitalized development expenditure

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

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

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 C21.

Deferred tax assets

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

Note C3 – Classification of revenue and fixed assets

Revenue split by countries	2017	2016
Sweden	1,135,491	516,931
Other countries	0	0
Total	**1,135,491**	**516,931**

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	2017	2016
Malta	117,518	113,394
Other countries	6,090	4,278
Total	**123,608**	**117,671**

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

Note C4 – Expenses by nature

	2017	2016
Fees to distributors	342,895	154,632
Royalty to developers and license fees	234,814	116,438
Research and development	34,787	28,674
Sales and marketing	321,975	109,573
Staff costs	88,956	57,879
Amortization and write-downs of capitalized development costs	53,179	44,403
Capitalized costs	-70,329	-50,212
Other costs	32,448	15,442
Total	**1,038,725**	**476,830**

Note C5 – Audit fees

	2016	2015
Auditing within the audit assignment		
PwC	850	-
Mazars	113	770
Other auditing firms	-	26
Other auditing tasks		
PwC	315	-
Mazars	-	253
Total	**1,278**	**1,049**

"Audit assignment" refers to the auditing of the annual report and accounting, including the Board's and CEO's administration, as well as other duties that the company's auditor are required to perform and advice on, or other support brought about by observations from auditing or conducting similar task. Everything else is considered to be audit business beyond the audit assignment. Of the total fee for audit assignments of 850 KSEK, 690 KSEK is invoiced by PricewaterhouseCoopers (PwC) in Sweden for the statutory audit. The entire remaining fee of SEK 315,000 is invoiced by PwC in Sweden and relates to accounting-related advice and auditing in addition to the regular audit.

Note C6 – Employees

The staff consists of employees in the active subsidiaries.

Gender distribution	2017	2016
Men	190	149
Women	125	100
Total	**315**	**249**

Average number of employees by country (of which women)	2017	2016
Sweden	3 (1)	2 (1)
Malta	8 (3)	6 (2)
Russia	54 (13)	26 (9)
Ukraine	245 (106)	212 (87)
USA	5 (2)	3 (1)
Total	**315 (125)**	**249 (100)**

Executive management team	2017	2016
Men	3	3
Women	-	-
Total	3	3

Board of directors	2017	2016
Men	5	4
Women	1	1
Total	6	5

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

Total staff remuneration	2017	2016
Salaries and variable remuneration	76,271	49,103
- of which CEO and senior executives	9,331	6,135
Social security*	12,685	8,097
- of which CEO and senior executives	887	741
Total	**88,956**	**57,199**

*of which pension costs 928 (294) KSEK. of which to CEO and executive management 501 (435) 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 varible 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. In addition to the Annual General Meeting's resolution on variable remuneration, the Board has resolved and paid out a discretionary bonus to the CEO and senior executives. This resulted in a deviation from the guidelines and that the variable remuneration exceeds 60 percent of the fixed salary for the CEO and COO, which can be seen in the table below.

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 2017 resolved that the remuneration to the chairman of the Board should amount to SEK 400,000 and SEK 230,000 each to the other members. In addition an annual fee is paid to the members of the audit committe, SEK 80,000 to the chairman and SEK 50,000 to the other members and an annual fee is paid to the members of the remuneration committe, SEK 50,000 to the chairman and SEK 30,000 to the other members.

The tables below summarizes remuneration to the board and managers:

Remuneration to the board and managers 2017	Salary/board fee	Pension	Variable compensation	Other benefits/ compensation
Petter Nylander (chairman)	435	-	-	-
Christopher Carvalho (director)	225			423
Johanna Fagrell Köhler (director)	163			
Stefan Lundborg (director)	152			
Jeffrey Rose (director)	197	-	-	1,266
Pär Sundberg (director)	62	-	-	-
Annika Andersson (director)	69	-	-	-
Vlad Suglobov (CEO, director)	2,940	381	2,083	34
Executive management team (2 persons)	2,550	120	1,758	40
Total	**6,823**	**501**	**3,841**	**1,763**

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
Total	**5,600**	**435**	**1,409**	**1,247**

Note C8 – Other operating gains and losses

	2017	2016
Currency exchange gains	14,319	320
Other operating gains	**14,319**	**320**
Currency exchange losses	-4,602	-344
Other operating losses	**-4,602**	**-344**
Total other operating gains and losses	**9,717**	**-24**

Note C9 – Financial income and expenses

	2017	2016
Interest	143	39
Financial income	**143**	**39**
Other	-7	-109
Financial expenses	**-7**	**-109**
Financial income and expenses	**136**	**-70**

Note C10 – Taxes

Income tax expenses	2017	2016
Current tax	-26,155	-9,150
Deferred tax	13,602	4,317
Total tax expenses	**-12,553**	**-4,833**

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	2017	2016
Profit / loss before tax	101,853	38,038
Tax according to current tax rate 22%	-22,408	-8,368
Tax effect from income exempted from tax	4	-12
Tax effect from non-deductible expenses	-2,030	-791
Taxes recoverable*	21,670	7,136
Adjustment for tax rates in foreign subsidiaries	-10,752	-2,838
Tax effect of deferred tax asset not accounted for	-	-
Tax effect of previous deferred tax assets not accounted for	-	-
Other	963	40
Tax charge	**-12,553**	**-4,833**

*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:

	2017		2016	
Deferred tax reconciliation	Deferred tax assets	Deferred tax liability	Deferred tax assets	Deferred tax liability
Intangible assets	-	-987		-379
Taxes recoverable	22,215	-	8,387	
Accrued expenses	-	-		
Other	215	-3,092	178	-2,086
Total	**22,430**	**-4,079**	**8,565**	**-2,465**
Offsetting	-	-	-	-
Net deferred tax asset	**22,430**	**-4,079**	**8,565**	**-2,465**

	Amount at the beginning of the year	Income statement	Other comprehensive income	Recalculation differences	Amount at the end of the year
Intangible assets	-379	-294	-	-314	-987
Taxes recoverable	8,387	13,828	-	-	22,215
Other	-1,908	69	-900	-137	-2,877
Total	**6,100**	**13,602**	**-900**	**-451**	**18,351**

Note C11 – Intangible fixed assets

Change of intangible fixed assets	2017	2016
Beginning of the year	**109,104**	**94,269**
Investments	70,329	50,212
Write-downs	-4,181	-5,700
Amortization	-48,998	-38,702
Currency exchange difference	-10,822	9,026
End of the year	**115,432**	**109,104**

Accumulated capitalized development costs	2017	2016
Accumulated costs	330,063	270,556
Accumulated amortization	-180,262	-131,264
Accumulated write-downs	-34,368	-30,187
Net amount	**115,432**	**109,104**

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.

	2017	2016
Released games, free-to-play	87,885	87,387
Released games, unlockable	258	1,993
Not released games, free-to-play	27,243	19,573
Not released games, unlockable	46	151
Net value of games portfolio	**115,432**	**109,104**

Impairment testing of capitalized development costs

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

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

Note C12 – Tangible fixed assets

Change of tangible fixed assets	2017	2016
Beginning of the year	**6,275**	**4,634**
Investments	4,921	3,331
Depreciation	-2,476	-1,970
Currency exchange difference	-544	280
End of the year	**8,176**	**6,275**

Accumulated equipment	2017	2016
Accumulated costs	18,314	13,937
Accumulated depreciation / write-downs	-10,137	-7,661
Net amount	**8,176**	**6,275**

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 2017 there were 8,800,000 ordinary shares, each with a par value of 0.1 SEK.

Outstanding shares	2017	2016
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 2017 decided in accordance with this framework to issue 300,000 warrants for 2017. Managers and senior executives was offered to participate in the program and 294,750 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 648.00 kronor. The warrants were purchased at fair value calculated with the Black-Scholes formula, the price was 5.56 SEK per warrant calculated with weighted-average share price of SEK 216, expected volatility of 41%, expected dividends of SEK 7.5 and an risk-free interest rate of -0,45%. A price reduction of 15% is applied due to illiquidity. The warrants may be exercised after 3 years.In case all warrants are exercised 294,750 shares are issued, which corresponds to approximately 3.3 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
9 juni, 2017	294,750	5.56	648.00	Juni 10, 2020 – september 10, 2020

Dividend
The Board of Directors has decided to propose to the Annual General Meeting a dividend of SEK 2.50 (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 – Earnings per share

	2017	2016
Net profit for the year (SEK M)	**89,300**	**33,205**
Weighted average number of share used as denominator		
Issued shares	8,800,000	8,800,000
Adjustment for calculation of diluted earnings per share		
Warrants	382,500	24,664
Weighted average number of shares after dilution	9,182,500	8,824,664
Earnings per share before dilution	10.15	3.77
Earnings per share after dilution	9.73	3.76

Note C15 – 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	2017	2016
0-3 months	39,970	0
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, 2017, the total advances to external developers amounted to SEK 946,000 (3,145,000).

Maturity of other receivables	2017	2016
0-3 months	2,493	4,306
More than 3 months	8,161	1,600

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 2017 there was no write-downs (0 KSEK) advances to external developers.

Note C16 – Related parties

Transactions with related parties consist of transactions between group companies, fees to the board, CEO and other managers, the 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). CEO Vlad Suglobovs wife has been employed in the Group during the year and received remuneration amounting to 317 (325) KSEK, all remuneration is approved by the Board.

Note C17 – Accrued receivables and expenses

	2017	2016
Accrued income	97,679	56,997
Other	25,232	34
Prepaid expenses and accrued income	**122,911**	**57,030**
Royalty	-84,515	-45,541
Marketing expense	-45,560	-
Other	-4,247	-4,113
Accrued expenses	**-134,322**	**-49,654**
Total	**-11,411**	**7,376**

Note C18 – 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, Lvov and Sliema.

Office rent	2017	2016
Rent	4,609	3,043
Minimum lease payments under non-cancellable operating leases not recognised in the financial statements are receivable as follows:		
Within one year	5,865	4,939
Between 1 and 5 years	9,333	4,922
More than 5 years	-	-
Total	15,189	9,861

Note C19 – Accounts payable

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

Note C20 – Pledged assets

The company has no pledged assets (3,000 KSEK).

Note C21 – Financial instruments and risk management

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

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

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

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

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

Currency risk

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

The company does not hedge these risks at present.

Foreign currency sensitivity analysis

The Group's currency risk is primarily related to USD and EUR. If the USD had strengthened with 10% at closing date, all other variables constant, the annual earnings per December 31, 2017 would be positively affected by SEK 4.3 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, 2017 would be positively affected by 2.1 M.

Amounts recognized in profit and loss	2017	2016
Net foreign exchange profit/loss included in other income/expense	9,717	-24
Net foreign exchange recognised in other comprehenive income		
Hedging of net investments	-3,108	5,854

	2017-12-31		2016-12-31	
The group's exposure to foreign currency risk	**USD**	**EUR**	**USD**	**EUR**
Trade receivables	4,836,984	15,327	-	-
Other current assets	5,320,552	525,412	3,459,331	540,822
Cash and cash equivalents	2,098,123	1,614,611	3,320,867	1,126,326
Accounts payable	74,177	2,281	-	-
Other current liabilities	7,957,464	-	8,852,464	-

Credit risk

Accounts receivable

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

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

Banks

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

Advances to external developers

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

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

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

Liquidity risk

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

Concentration of risk

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

Fair value

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

Financial instruments split into categories

Financial assets	2017	2016
Accrued income	97,679	56,997
Account receivable	39,970	-
Other receivables	10,654	5,906
Cash and cash equivalents	91,194	70,584
Loan and receivables	**239,497**	**133,521**

Financial liabilities	2017	2016
Account payable	9,289	30,828
Other liabilities	9,221	2,840
Accrued expenses	134,322	49,653
Financial liabilities measured at amortized costs	**152,832**	**83,321**

Maturity of financial liabilities	2017	2016
0-3 months	152,832	83,321
More than 3 months	-	-

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

Capital risk management

The group´s objectives when managing capital are to safeguard the Groups 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 26 in the Directors report. G5 does not have any loan financing.

Note C22 – Adjustments for items not included in cash flow

	2017	2016
Depreciation/amortization	57,945	46,373
Write-down of fixed assets	-	4,506
Other	-13,673	-
Total	**44,272**	**50,879**

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

Note C23 – Significant events after the balance sheet date

There has been no significant events after the balance sheet date.

PARENT COMPANY FINANCIAL RESULTS

INCOME STATEMENT – PARENT COMPANY

KSEK	Note	2017	2016
Net turnover		1,135,445	519,241
Cost of revenuer		-781,082	-383,712
Gross profit		**354,363**	**135,528**
Research and development expenses		-143	-66
Sales and marketing expenses		-75,066	-6,352
General and administrative expenses		-276,743	-122,199
Other operating income		9,948	2,304
Other operating expenses		0	-2,094
Operating result	P2, P3, P4, P5, P14	**12,358**	**7,122**
Interest income and similar items	P6	18,661	5,399
Interest expense and similar items		-7	-109
Operating result after financial items		**31,012**	**12,412**
Taxes	P7	-1,589	-2,729
Net result for the year		**29,422**	**9,682**

STATEMENT OF COMPREHENSIVE INCOME – PARENT COMPANY

KSEK	2017	2016
Net result for the year	**29,422**	**9,682**
Items that later can be reversed in profit		
Foreign currency translation differences (net after tax)	-	-
Total other comprehensive income for the year	**-**	**-**
Total comprehensive income for the year	**29,422**	**9,682**

BALANCE SHEET – PARENT COMPANY

KSEK	Note	Dec 31, 2017	Dec 31, 2016
Fixed assets			
Financial fixed assets			
Shares in group companies	P9	70	70
Receivable from group companies	P10	0	79,211
		70	**79,281**
Current assets	P11		
Account receivables		39,970	0
Receivables from group companies		8,428	186
		1,477	
Other receivables		8,572	2,341
Prepaid expenses and accrued income	P13	98,540	56,208
Cash and cash equivalents		64,650	56,665
		221,637	**115,399**
TOTAL ASSETS		**221,707**	**194,680**
Restricted equity			
Share capital		880	880
Non-restricted equity			
Share premium reserve		55,916	54,273
Profit carried forward		57,151	54,081
Net result for the year		29,422	9,682
Total equity	P12	**143,369**	**118,916**
Liabilities			
Accounts payable		1,336	573
Liability to group companies		50,491	71,956
Other liability		10,471	392
Accrued expenses and prepaid income	P13	16,039	2,842
Total liabilities		**78,338**	**75,763**
TOTAL EQUITY AND LIABILITIES		**221,707**	**194,680**

CHANGES IN SHAREHOLDERS' EQUITY – PARENT COMPANY

KSEK	Share capital	Share premium reserve	Profit/loss carried forward	Sharehold-ers' equity
Shareholders' equity as of 2016-01-01	**880**	**54,160**	**54,080**	**109,120**
Net result for the year			9,682	9,682
Total other comprehensive income				
Total comprehensive income for the year			**9,682**	**9,682**
Premium for warrant program		113		**113**
Total transaction with the owners recognized directly in equity		**113**		**113**
Shareholders' equity as of 2016-12-31	**880**	**54,273**	**63,763**	**118,916**
Shareholders' equity as of 2017-01-01	**880**	**54,273**	**63,763**	**118,916**
Net result for the year			29,422	29,422
Total other comprehensive income[1]			-12	-12
Total comprehensive income for the year			**29,410**	**29,410**
Dividend			**-6,600**	**-6,600**
Premium for warrant program		1,643		**1,643**
Total transaction with the owners recognized directly in equity		**1,643**	**-6,600**	**-4,957**
Shareholders' equity as of 2017-12-31	**880**	**55,916**	**86,573**	**143,369**

CASH FLOW – PARENT COMPANY

KSEK	Note	2017	2016
Operating activities	P17		
Operating result after financial items		38,322	12,412
Adjusting for items not included in cash flow		-5,912	598
Taxes paid		-3,001	-2,409
Cash before changes in working capital		**29,409**	**10,601**
Cash flow from changes in working capital			
Increase/decrease in operating receivables		-98,253	-23,346
Increase/decrease in operating liabilities		81,785	43,692
Cash flow from operating activities		**12,942**	**30,947**
Investing activities			
Investments/new loans to subsidiaries		-	-
Cash flow from investing activities		**-**	**-**
Financial activities			
Dividend		-6,600	-
Premium for warrant program		1,643	113
Cash flow from financial activities		**-4,957**	**113**
CASH FLOW		**7,985**	**31,060**
Cash and bank at the beginning of year		**56,665**	**25,605**
Cash flow		7,985	31,060
Cash and bank at the end of the year		**64,650**	**56,665**

PARENT COMPANY NOTES

Note P1 – Accounting principles

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

Participations in subsidiaries

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

Classification and presentation

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

Note P2 – Expenses by nature

	2017	2016
Fees to distributors	342,895	154,632
Royalty to developers and license fees	438,188	229,080
Marketing	75,066	6,352
Personnel costs	4,731	2,713
Other costs	272,156	119,552
Total	**1,133,035**	**512,329**

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

Note P3 – Employees

The parent company had 3 (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

	2017	2016
Revisionsuppdrag		
PWC	690	
Mazars	113	615
Revisionsverksamhet utöver revisionsuppdraget		
PWC	315	
Mazars		225
Totalt	**1,118**	**840**

Note P5 – Other operating gains and losses

	2017	2016
Currency exchange gains	13,673	2,304
Other operating gains	**13,673**	**2,304**
Currency exchange losses	-3,726	-7,124
Other operating losses	**-3,726**	**-7,124**
Total other operating gains and losses	**9,947**	**-4,820**

Note P6 – Financial income, expense and other similar items

	2017	2016
Interest income from group companies	107	
Currency exchange gains	2,037	3,906
Other	23,827	
	-7,310	6,523
Financial income	**18,661**	**10,429**
Interest costs	-7	-
Other	-	-109
Financial expense	**-7**	**-109**
Financial income and expense	**18,654**	**10,320**

Note P7 – Taxes

Income tax expenses	2017	2016
Current tax	-1,589	-2,729
Deferred tax	-	-
Total tax expenses	**-1,589**	**-2,729**

Actual tax charge	2017	2016
Profit / Loss before tax	31,012	12,412
Tax according to current tax rate 22%	-6,823	-2,731
Tax effect of income exempted from tax	5,242	2
Result from liquidation of subsidiary	-8	0
Other	-	-
Tax charge	**-1,589**	**-2,729**

Note P8 – Related parties

Transactions between group companies are conducted either as royalty, or at cost plus a certain margin. As of December 31, 2017, the parent company had 8,428 (79,211) KSEK in receivables from group companies and 50,491 (71,956) KSEK in liabilities to group companies. Parent company sales to subsidiaries amounted to 0 (17) KSEK. Parent company purchases from subsidiaries amounted to 698,868 (342,054) 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	2017	2016
Accumulated value, opening balance	**70**	**70**
Liquidation of subsidiary	-	-
Accumulated value, closing balance	**70**	**70**

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	Ukraina	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	2017	2016
Financial assets at the beginning of year	**79,211**	**100,084**
Repayment	-71,890	-27,425
Currency effect	-7,321	6,552
Financial assets at the end of year	**0**	**79,211**

Translation differences attributable to these assets are 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	2017	2016
0-3 months	39,970	0
More than 3 months	-	-

Maturity of other receivables	2017	2016
0-3 months	1,888	741
More than 3 months	8,161	1,600

Note P12 – Equity

Proposed distribution of earnings

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

	2017	2016
Share premium reserve	55,916	54,273
Profit carried forward	57,151	54,081
Net result for the year	29,422	9,682
Total	**143,369**	**118,036**

The Board of Directors proposes that dividends be paid in an amount of SEK 2.50 per share (0,75).

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

	2017	2016
To be distributed to the shareholders	22,224	6,600
To be carried forward to new account	121,145	111,436
Total	**143,369**	**118,036**

Note P13 – Accrued income and expenses

	2017	2016
Accrued income	97,676	56,208
Other	864	-
Accrued income	**98,540**	**56,208**
Royalty	91	100
Marketing expenses	13,467	648
Other	2,491	2,084
Accrued expenses	**16,039**	**2,832**
Total	**82,501**	**53,376**

Note P14 – Leasing

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

Office rent	2017	2016
Rent paid	245	192

The future aggregate minimum lease payment under non-cancelable operating lease are all due within one year (2018) at a total amount of 90 KSEK.

Note P15 – Pledged assets

G5 has no pledged assets (3,000 KSEK)

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 C21 Financial risks.

Financial instruments split into categories

Financial assets	2017	2016
Accrued income	98,540	56,208
Account receivable	39,970	-
Receivables group (long-term)	-	79,211
	8,428	
Other receivables	10,049	2,527
Cash and cash equivalents	64,650	56,665
Loan and receivables	**221,636**	**194,610**

Financial liabilities	2017	2016
Account payable	1,336	573
Liabilities group	50,491	71,956
Other liabilities	10,471	392
Accrued expenses	16,039	2,832
Financial liabilities measured at amortized costs	**78,337**	**75,753**

Maturity of financial liabilities	2017	2016
0-3 months	78,337	75,753
More than 3 months	-	-

Note P17 – Adjustments for items not included in cash flow

	2017	2016
Exchange difference on intercompany balances	5,562	634
Other	350	-36
Total	**5,912**	**598**

Note P18 – Events after the balance sheet date

Note C23 describes the most important events that have impacted the group after the balance sheet date. No events have occured 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, 2018-04-15

Petter Nylander
Chairman of the Board

Chris Carvalho
Board member

Johanna Fagrell Köhler
Board member

Stefan Lundborg
Board member

Jeffrey Rose
Board member

Vlad Suglobov
CEO, Board member

Our audit report was issued on 2018-04-15
PricewaterhouseCoopers AB

Aleksander Lyckow
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 2017, with the exception of the statutory sustainability report on pages 21-23 of the printed version of this document. The annual accounts and consolidated accounts of the company are included on pages 18-56 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 2017 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 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the statutory sustainability report on pages 21-23. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

BASIS FOR OPINIONS

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

OTHER INFORMATION

The audit of the annual report and consolidated accounts for the financial year 2016 was carried out by another auditor who submitted an audit report dated 20 April 2017 with unmodified audit opinion on the annual accounts and consolidated accounts.

OUR AUDIT APPROACH

Audit approach and scope

G5 Entertainment is a developer and publisher of free to play games for smartphones and tablets. Sales are global with USA and Asia as the main markets. The company reaches their customers through digital stores where apps are available. The ownership and creative processes relating to development reside on Malta, the technical development is primarily made in Ukraine and the marketing in USA. The parent company is in Sweden and also have the contractual relationships with the digital stores.

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

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account G5 Entertainment's structure, accounting processes and controls, and the industry in which the group operates.

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

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

MATERIALITY

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

KEY AUDIT MATTERS

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

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
VALUATION OF CAPITALIZED DEVELOPMENT COSTS As at 31 December 2017, the book value of capitalized development expenses was MSEK 115. About 85% of this amount relates to 10 free-to-play games, which the Group has continued to develop during 2017. Management performs a review of the carrying amount of the capitalized development expenses for impairment. The impairment review is performed on a quarterly basis. For the purpose of performing the impairment assessment, management identifies each game as a single Cash Generating Unit ("CGU"). The impairment analysis starts with a calculation of impairment indications estimating the total revenue from the game during the remainder of the amortization period (based on actual sales during the three most recent months). If this initial calculation signals a possible impairment for a particular game, a more detailed test is performed with different scenarios of expected game performance and the probabilities of outcome of each scenario. Recoverable amount represents sum of the weighted average net present value of discounted future cash flows in each scenario multiplied by probability of occurrence of this scenario. The assessment contains a number of significant assumptions, both quantitative and qualitative, including revenue projection, cost structure, lifetime of the game, discount rate, probability of occurrence of different scenarios. Changes in these assumptions may lead to potential impairment charges on the carrying value of the capitalized development expenses. The use of assumptions in the assessment also requires estimates and judgment, which may be affected by unexpected future market, economic or legal restrictions in different countries. We focused on this area as these assets are significant to the Group's operations and the assessment performed by management involved significant estimates and judgments.	We obtained the calculation of impairment indicators and impairment test for the games, which showed indicators of impairment. We tested the mathematical accuracy of the underlying calculations in the model We compared historical actual results to those budgeted to assess the quality of management's forecast. We assessed the key quantitative and qualitative assumptions made by management in the impairment model. Quantitative factors comprised forecasted revenue, user acquisition and other expenses, and the discount rate used. When assessing these key assumptions, we discussed with management to understand and evaluate their basis for selecting the assumptions. Were applicable, the assumptions were compared to various external sources including independent research reports. We have analyzed the historical performance of games and outcome of assumptions applied in prior period. We assessed the reasonableness of the discount rate used by checking its variables to independent research reports, economic growth forecasts and publicly available industry data. We obtained and tested management's sensitivity analysis around the quantitative key assumptions, to ascertain that the selected adverse changes to the key assumptions, both individually and in aggregate, would not cause the carrying amount of the game to exceed the recoverable amount. Based on the audit procedures performed, we found the Group's estimates and judgment used in the impairment test of the capitalized development cost to be within a reasonable range.

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 64-65. This other information does not include the annual report and our audit opinion relating to it. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

RESPONSIBILITIES OF THE BOARD OF 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.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of G5 Entertainment AB (publ) for the year 2017 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 fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

AUDITOR'S RESPONSIBILITY

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

THE AUDITOR'S OPINION REGARDING THE STATUTORY SUSTAINABILITY REPORT

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

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

A statutory sustainability report has been prepared.

PricewaterhouseCoopers AB was appointed auditor of G5 Entertainment AB (publ) by the general meeting of the shareholders on May 12, 2017 and has been the company's auditor since the general meeting of the shareholders in 2017.

Stockholm, April 15th, 2018
PricewaterhouseCoopers AB

Aleksander Lyckow
Authorized Public Accountant

CORPORATE GOVERNANCE REPORT

INTRODUCTION

G5 Entertainment AB (publ) was incorporated in 2005. G5 Entertainment AB is the parent company of the G5 Entertainment group ("G5 Entertainment"). G5 Entertainment is a public company whose shares were admitted to trading on Nasdaq Stockholm in 2014. The board of directors of G5 Entertainment hereby presents the corporate governance report for 2017 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 2018 and is an account of how corporate governance has been conducted at G5 Entertainment during the financial year 2017. 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). 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, 2017 the company had approximately 8,700 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

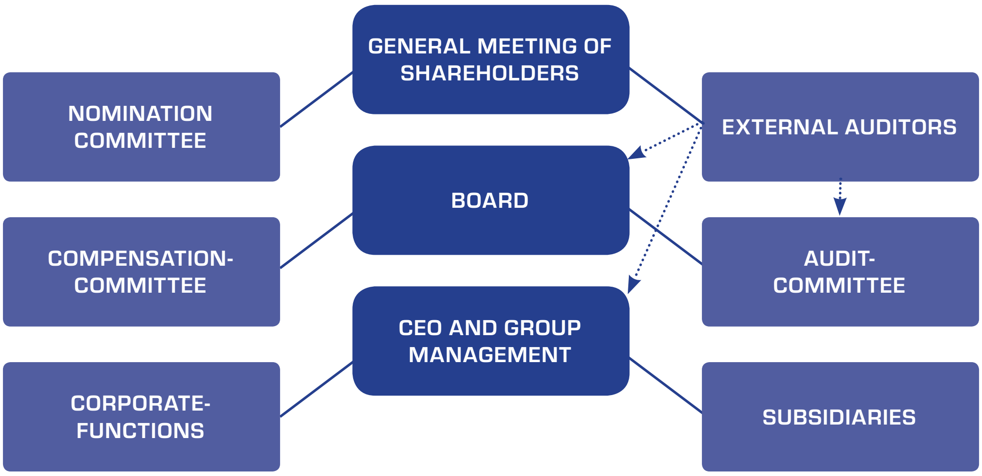
The current articles of association (see company's website www.g5e.com/corporate) were adopted at the annual general meeting of May 20, 2014. The articles of association do not contain any specific provisions on the appointment and dismissal of board members or on amendments to the articles.

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 2017

G5 Entertainment held its 2017 annual general meeting on May 12 at 7a conference center, Sveavägen 7a, Stockholm, Sweden. 34 shareholders, representing 35 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 2016, 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.

Annual general meeting 2018

The 2018 annual general meeting will be held at 7a conference center, Sveavägen 7a, Stockholm, Sweden on May 7.

Authorizations

The Annual General Meeting 2017 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. In its work, the Nomination Committee has applied Rule 4.1 of the Swedish Code of Corporate Governance as a policy of diversity for the Board. Diversity is an important factor in the nomination committee's nomination work. The Nomination Committee continuously strives for an even gender distribution and versatility in terms of competence, experience and background in the Board, which is also reflected in the current composition.

The nomination committee for the 2018 annual general meeting consists of representatives of G5 Entertainment's five largest shareholders:

- Marianne Flink (representing Swedbank Robur Fonder)
- Jeffrey Rose (representing Wide Development Limited)
- Sergey Shults (representing Proxima Limited)
- Petter Nylander (representing Purple Wolf Limited)
- Tommy Svensk (representing Tommy Svensk)

Board composition, independence, remuneration and presence 2017

Name	Elected	Independent	Position	Committees	Board attendance	Audit committee attendance	Compensation committee attendance	Fees kSEK	No. of shares/ warrants in G5 Entertainment[1]
Petter Nylander	2013	Yes	Chairman of the Board and the audit committee	Audit-, compensation-committee	9 (9)	9 (9)	9 (9)	435	20,000/0
Annika Andersson[3]	2015	Yes	Member of the Board		3 (3)	5 (5)	-	69	
Chris Carvalho[2]	2016	Yes	Chairman in the compensation committee	Audit-, compensation-committee	8 (9)	4 (4)	6 (6)	255	2,000/0
Johanna Fagrell Köhler[2]	2017	Yes	Member of the Board	Audit committee	6 (6)	4 (4)		163	250/0
Stefan Lundborg[2]	2017	Yes	Member of the Board	Compensation committee	6 (6)		6 (6)	152	8,250 (0)
Jeffrey Rose	2011	No	Member of the Board		9 (9)	-	3 (3)	197	2,000/0
Pär Sundberg[3]	2012	Yes	Member of the Board		3 (3)	5 (5)	3 (3)	62	
Vlad Suglobov	2006	No	Member of the Board, CEO		9 (9)	-	-	-	644,800/70,000[4]

[1] The information above is valid on March 31, 2018.

[2] Johanna Fagrell Köhler and Stefan Lundborg were elected to the Board of Directors at the AGM 2017.

[3] Annika Andersson and Per Sundberg declined re-electection at the AGM 2017.

[4] Holdings: 70,000 warrants and 20,000 shares. 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 2017 Chris Carvalho, Petter Nylander, Jeffrey Rose and Vladislav Suglobov were re-elected. Johanna Fagrell Köhler and Stefan Lundborg were also elected to the Board of Directors. The Board then consisted of Petter Nylander, chairman, Chris Carvalho, Johanna Fagrell Köhler, Stefan Lundborg, Jeffrey Rose, and Vladislav Suglobov.

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 2017 the board met on eight occasions in addition to the constituent meeting following the annual general meeting. During the year the board has focused primarily on the company's strategy, business plan and budget.

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

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

Board work

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

- February – Year-end report
- April – Corporate governance meeting – Agenda and notice of AGM, corporate governance report, annual report, review of insurance and pensions
- May – Interim report first quarter.
- May – Statutory board meeting, decisions on the board's work schedule, instructions to the CEO, and instructions for financial reporting, board's annual plan, and signatories
- July-August – Interim report second quarter
- August-September – Strategy meeting, financial targets, instructions for budgeting
- October – Interim report third quarter
- December – Budget meeting, business plan

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

Board work in committees

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

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

Audit committee

The audit committee comprised of Petter Nylander, chairman, Chris Carvalho and Johanna Fagrell Köhler.

In 2017, the audit committee held nine minuted meetings. Meetings are attended by the company's CFO, who also serves as the audit committee's secretary. The company's auditor attended three of the audit committee meetings.

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

Compensation committee

The compensation committee includes Chris Carvalho, chairman, Petter Nylander and Stefan Lundborg.

In 2017, the compensation committee held nine minuted meetings.

Attendance by board members and committee members during the year is shown in the table on page 57.

AUDITORS

The auditing firm appointed by the 2017 annual general meeting for a period of one year is PWC Sverige AB. Authorized public accountant Aleksander Lyckow is the head auditor.

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

WORK OF CEO AND SENIOR MANAGEMENT

The CEO has regular e-mail, Skype and telephone contacts with all members of the executive management team to have business reviews, receive reports, set goals, and make consultations. In addition to this, there are several in-person meetings with each member of the team every year for more in-depth discussions and planning. G5's core processes rely heavily on e-mail, and as a company G5 has well-developed e-mail communication culture and policies. E-mail is encouraged over other means of communication, as it allows automatic saving and tracking of everyday decision-making in the company's processes. Given prevalence of e-mail communication in the company, and taking into account the diverse locations of the executive team members and substantial difference in time zones, CEO has made the decision not to have regular physical meetings with all members of the team present, as they would not provide more operational value.

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

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

INTERNAL CONTROL OF FINANCIAL REPORTING

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

Control environment

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

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

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

Risk assessment

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

Control activity

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

Information

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

Monitoring

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

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, Ongame 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.

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. 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. In 2017, Kabam was sold in multiple transactions for almost $1 billion. 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 (StarWars.com). Chris is currently acting as an advisor to a number of companies and is a board member of ROBLOX, one of the world's largest kids and teens gaming destinations.
Holdings: 2,000 shares, 0 warrants

Johanna Fagrell Köhler (born 1966)

Johanna has a Master's Degree in Business Administration from the University of Lund. She started out as Business Unit Director at Icon Medialab, one of the leading digital agencies in Scandinavia around the millennial. In 2002 she founded and became CEO over her own design agency, Summer and further the CEO of the marketing group ONE Media, listed at the Swedish equities market place Aktietorget. As shareholder and former CEO of the Mobiento Group, the leading mobile marketing group in Scandinavia she has played a key role in the company's success and winning the Cannes Lions, MMA, Red Herring top 100 to name a few. Today, Johanna is the CEO of Creuna, the leading digital agency in Sweden with offices in Stockholm and Gothenburg. She also has board assignments in companies such as S-Group and FSport AB among others.
Holdings: 250 shares, 0 warrants

Stefan Lundborg (born 1972)

Stefan started as an entrepreneur and built an in-depth knowledge in running and managing companies which continued into his advisory roles. Stefan is currently Director of the Board of Kindred Group plc and LOX Container Technology AB. Stefan is also Chairman of the Board of HELSA vårdutveckling Sverige AB, Note Design Studio AB and Monomak AB.
Holdings: 8,250 shares, 0 warrants

Jeffrey W. Rose (born 1962)

Jeffrey is an attorney specializing in intellectual property licensing, development, publishing, and strategy. For the past twenty years, Jeffrey has served clients in the interactive entertainment, film, television, new media, and technology industries, providing counsel on a wide spectrum of successful projects. His practice is based in Southern California and serves clients worldwide. Jeffrey served from 2011 to 2013 on the board of Web Wise Kids, a non-profit organization that seeks to educate kids, parents and the community on how to make safe and wise choices in a technologically evolving world. He received an A.B., magna cum laude, from Duke University in 1984 and a J.D. from the UCLA School of Law in 1987.
Holdings: 2,000 shares, 0 warrants

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

Vlad is a games industry veteran of more than 23 years. In 1995 during his freshman year, he started his career as employee #14 at Nikita Ltd. (now Nikita Online), Russia's first game development company. In 2000, Vlad graduated from Moscow State University with the M.Sc. in Mathematics and Programming, and spent the next year working as a software engineer on the Moscow team of the US funded "Voxster". In 2001 Vlad and colleagues co-founded G5 to develop PC and mobile games. While being CEO from the company's inception, Vlad continued to write game engine code until 2003 after which he focused entirely on the business. In 2008 everything changed with the release of the iPhone. Finishing up large publisher contracts, G5 wanted to bring its own games to the promising platform and in February 2009, the company's first game "Supermarket Mania" was launched, quickly becoming the company's biggest financial success to date. Seeing the revolution that the iPhone was bringing to the industry Vlad started G5's publishing operation and set out to license popular PC hidden object games to bring them to the new generation of mobile applications stores on iOS, Android and Windows. In 2011 Vlad moved from Moscow to San Francisco to establish G5's marketing operations in the USA. Seeing the trend that free-to-play (F2P) games are quickly gaining prominence, since 2013 Vlad has steered G5 to focus on this field with an emphasis on quality internally developed games and a reduced number of new releases. Today, Vlad continues to be deeply involved in the company's strategy, marketing and product development.
Holdings: 20,000 shares and 70,000 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, 2018

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, 2017 the executive team consisted of the CEO, the group's CFO and the group's COO.

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

Vlad is a games industry veteran of more than 23 years. In 1995 during his freshman year, he started his career as employee #14 at Nikita Ltd. (now Nikita Online), Russia's first game development company. In 2000, Vlad graduated from Moscow State University with the M.Sc. in Mathematics and Programming, and spent the next year working as a software engineer on the Moscow team of the US funded "Voxster". In 2001 Vlad and colleagues co-founded G5 to develop PC and mobile games. While being CEO from the company's inception, Vlad continued to write game engine code until 2003 after which he focused entirely on the business. In 2008 everything changed with the release of the iPhone. Finishing up large publisher contracts, G5 wanted to bring its own games to the promising platform and in February 2009, the company's first game "Supermarket Mania" was launched, quickly becoming the company's biggest financial success to date. Seeing the revolution that the iPhone was bringing to the industry Vlad started G5's publishing operation and set out to license popular PC hidden object games to bring them to the new generation of mobile applications stores on iOS, Android and Windows. In 2011 Vlad moved from Moscow to San Francisco to establish G5's marketing operations in the USA. Seeing the trend that free-to-play (F2P) games are quickly gaining prominence, since 2013 Vlad has steered G5 to focus on this field with an emphasis on quality internally developed games and a reduced number of new releases. Today, Vlad continues to be deeply involved in the company's strategy, marketing and product development.
Holdings: 20,000 shares and 70,000 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, born in 1974, is an experienced IT manager with background in software engineering. Since co-founding G5 in 2001, Alexander is responsible for G5's day-to-day operations and processes in COO position, including building G5's development team on multiple platforms and technologies. Alexander received his MS degree in computer science from Moscow State Institute of Electronics and Mathematics.
Holdings: 530,000 shares through the company Purple Wolf Ltd, 90,000 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, 32,500 warrants.

Stockholm, April 15, 2018
The Board of G5 Entertainment AB

The information above is valid on March 31, 2018

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

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

Engagement and responsibility
It is the board of directors who is responsible for the corporate governance statement for the the financial year 2017-01-01—2018-12-31 on pages 56-61 and that it has been prepared in accordance with the Annual Accounts Act.

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

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

Stockholm 2018-04-15
PricewaterhouseCoopers AB

Aleksander Lyckow
Authorized Public Accountant

THE SHARE

As of December 31, 2017, 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 2017, the share price was 318 SEK and total market capitalization was 2,798 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 2017 annual general meeting it was resolved that the warrant program would continue and the board of G5 then decided to allocate a total of 300,000 warrants to existing employees. 294,500 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

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, 2017

Shareholder	No. of shares	Holding / votes
Swedbank Robur	779,000	8.85%
Försäkringsbolaget Avanza Pension	693,410	7.88%
Wide Development Limited*	624,800	7.10%
Purple Wolf Limited**	530,000	6.02%
Proxima LTD	525,000	5.97%
Tommy Svensk	403,000	4.58%
Nordnet Pensionsförsäkring AB	283,157	3.22%
Rite Internet Ventures Holding AB	269,606	3.06%
Daniel Eriksson	100,085	1.14%
Swedbank försäkring	91,130	1.04%
Totalt	**4,299,188**	**48.85%**

*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 2018	May 3, 2018
Annual general meeting 2018	May 07, 2018
Interim report, January-June 2018	July 27, 2018
Interim report, January-September 2018	November 6, 2018
Year-end report 2018	February 13, 2019

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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