G5 ENTERTAINMENT AB

Reg.nr: 556680-8878

ANNUAL REPORT & CONSOLIDATED ACCOUNTS
JANUARY-DECEMBER 2012

Contents

G5 Group

At the balance date G5 Entertainment AB (publ) unites a group of the active companies G5 Holdings Limited (Malta), G5 Holding RUS LLC (Russia), G5 Entertainment Inc (USA), G5 Holding UKR LLC (Ukraine), and the inactive companies G5 Holdings Limited (Hong Kong), G5 UA Holdings Limited (Hong Kong), G5 UA Holdings Limited (Malta) and G5 Entertainment SA (Luxeumburg). G5 Entertainment AB (publ) is listed on the Aktietorget exchange in Stockholm since November 19, 2008. Before that, G5 Entertainment AB was listed on NGM Nordic MTF since October 2, 2006. The Board of Directors has decided to apply for the listing of the company's shares on NASDAQ OMX Stockholm in the second half of 2013.

Board of directors

Vlad Suglobov (CEO, Co-Founder) was born in 1977, and has over 18 years of industry experience. Before co-founding G5 in 2001 and serving for over 12 years as CEO of the group, Vlad graduated from Lomonosov Moscow State University with M.Sc. in Computer Science, and worked in a number of Russian and US companies in games and IT industry. Growing with G5, Vlad was active in many essential roles, establishing company's strategy, client relations, product development and sales. Today, Vlad is concentrating on expanding G5's business internationally.

Johan Wrang (Chairman) - After graduating from Stockholm University with the degree in Business and the Royal Institute of Technology with the degree in Industrial Management, Johan joined a Stockholm based management consulting firm. During the two and a half years as a strategy consultant Johan served as an advisor to top management and board of directors for companies in different sectors. Johan has been the CEO and Member of the Board of an online gambling company and is currently an IT- and Management consultant at Connecta.

Ein Stadalninkas - After graduating Stockholm School of Economics in 1998 with B.Sc. of Finance, Ein has started and managed a number of international investment vehicles with cross border transactions focused on Russia & CIS. Ein has corporate finance and management experience from financial, natural resource and technology sectors. Ein is partner at Fides Services and Director of Russian Chinese Financial Center.

Pär Sundberg - After graduating from Lulea University of Technology with a Masters Degree in Industrial Engineering and Management, Par co-founded OTW, Sweden's leading provider of Content Marketing Services. Par served as Group President and CEO of OTW from inception in 1996 until 2009. Following that Par has also served as President and CEO of Metronome Film & Television, the Nordic region's pre-eminent production group. Par is currently a co-owner and Board member in Buzzador AB, the Nordics leading Social Media Integrator and a Board member in AB Traction, a listed Investment Company in Stockholm.

Jeffrey W. Rose - 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.

Auditor

Tomas Ahlgren, Authorized Public Accountant, Mazars SET Revisionsbyrå.

Management

Vlad Suglobov (CEO, Co-Founder), see above.

Alexander Tabunov (COO, Co-Founder), 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.

Sergey Shults (CFO, Co-Founder), Sergey Shults was born in 1976. Since co-founding G5 in 2001, Sergey has been the group's CFO before and after the group's public listing in Stockholm in 2006. Sergey has ACCA Diploma in International Financial Reporting, and received MS degree in Physics from Moscow State Institute of Engineering and Physics. Before co-founding G5, Sergey was software engineer and project manager and has deep understanding of software development, which helps him in CFO position.

CEO Word

Dear Shareholders,

2012 became the third consecutive year of high organic growth for G5 as publisher and developer of games for smartphones and tablets. 98 percent of G5's revenue came from apps for smartphones and tablets, as shipments of these devices continued to grow. Smartphones are replacing previous generation phones and tablets may be replacing many personal computers soon, as worldwide PC shipments have fallen in 2012 for the first time in 11 years, effectively launching much talked about "post-PC" era. Everything points to 2013 becoming yet another year of growth for the underlying hardware market for G5 games, and global shipments of smartphones and tablets are expected to exceed one billion in 2013. On top of it, the usage of apps grows fast, and games are the most frequently used apps among all categories. The global app market is forecasted to grow by 60 percent to 18.6 billion US dollars in 2013. The segment of games for smartphones and tablets remains the fastest growing segment of the video games industry.

In 2012, G5's output mostly consisted of "unlockable" freemium games, where players get to play several levels for free and then need to pay one-time fee to play through the rest of the game. G5 released numerous such games on iOS and Android app stores in 2012. However, substantial part of the company's revenue has already been generated by a few free-to-play (F2P) games, which can be played for free and offer optional virtual goods for real money. G5 has a number of new F2P games in the product pipeline, licensed from other development studios and developed internally. These games will be released in 2013 and 2014. G5's extensive developer network and experience in building and managing large portfolio of game apps will be applied towards expanding the portfolio of F2P games.

Going forward, the company's focus will be less on quantity and more on quality. Growth in 2013 will still be driven by a larger number of games released compared to 2012, but also by higher quality of games and more F2P game launches.

As the company previously announced, the next milestone for G5 is achieving 300 MSEK in annual revenue while maintaining 30 percent operating margin and growth rates close to historic. It becomes more challenging to deliver high rate of growth every year as the company continues to grow, but the market growth and the opportunity is definitely there, and so the result depends on how well the management is going to execute the strategy. As we move forward into 2013, we have the capital to realize our plans, and an extensive product pipeline with over 50 games on the way to the market.

G5 Entertainment is one of the few publicly listed game companies focused entirely on smartphones and tablets. Our audience is global. In 2012, 31 percent of G5's revenue came from North America, 47 percent from EU, and 22 percent from Asia and the rest of the world. In effort to increase the opportunity for international and institutional investors to invest in G5, the Board of Directors has decided to apply for the listing of the company's shares on NASDAQ OMX Stockholm in the second half of 2013.

Vlad Suglobov
Co-Founder, CEO, Member of the Board of Directors

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, 2012 – December 31, 2012. G5 Entertainment AB (publ) with registered office in Stockholm, Sweden, is the parent company of the G5 group. The company was incorporated in May 2005 as Startskottet P 40 AB (publ) and carried no operations until the formation of G5 group.

Since 2009, G5 Entertainment is a developer and publisher of high quality downloadable casual and free-to play games for smartphones and tablets. G5's games are available on Apple's iPhone and iPad, Android phones and tablets, popular tablets and e-readers like Kindle Fire from Amazon and Nook from Barnes & Noble, and Mac. G5's portfolio includes popular games like *Supermarket Mania*, *Virtual City, Special Enquiry Detail, Stand O'Food*, and *Mahjongg Artifacts.* G5 also publishes games developed by other developers, on certain revenue share terms.

G5's games are targeted at the growing audience of casual game players on "post-PC" era devices: smartphones, tablets, e-readers, the installed base of which is quickly growing. The shipments of smartphones and tablets are expected to exceed 1 billion in 2013. Through electronic download stores like iTunes App Store, Google Play, and Amazon Appstore, G5's games are available to hundreds of millions of players worldwide. In 2012, 31 percent of G5's revenue came from North America, 47 percent from EU, and 22 percent from Asia and the rest of the world. G5 is constantly working on increasing its distribution reach to new countries and channels. The group's audience is going to expand further as G5 brings its established franchises as well as new products to new platforms and markets.

G5's world-class development team has extensive experience of development for smartphones and tablets, as the group has been accumulating mobile/portable know-how ever since 2003, when it shipped its first mobile game to the market. G5's own team is also responsible for the group's major hit games like *Virtual City*, *Virtual City Playground*, *Supermarket Mania*, and *Stand O'Food*. One of the group's competitive advantages is its proprietary Talisman™ cross-platform technology that is also available to select G5 partner studios. The technology allows effective development and deployment of games across numerous platforms and devices.

G5's portfolio of games consists of two types of games: "unlockable" and free-to play. Unlockable games are free to try for a certain trial period, but then users have to pay a one-time fee to continue playing. Free-to-play (F2P) games can be enjoyed free of charge, while offering users the option to make in-game purchases of certain virtual goods.

Offices

G5's development offices are located in Moscow, Russia and Kharkov, Ukraine. The group has a small marketing office in San Francisco, California. In addition to employees, the group uses contract workers located in Russia, Europe, and USA, contracted through each contract worker's individual private firm. As of December 2012, the number of G5's aggregate employees and contract workers was 136.

2012 financial results

Consolidated revenue for the period January-December 2012 is 80 928 kSEK, up 74 percent compared to 46 611 kSEK for the same period of 2011.

Operating result after financial items for the period January-December 2012 is 25 804 kSEK, up 46 percent compared to 17 666 kSEK for 2011.

Earnings per share for the period are 2.77 SEK.

Liquidity

Current assets of the group as of December 31, 2012 were 44 211 kSEK. Current liabilities:

22 638 kSEK. Working capital (CA-CL): 21 573 kSEK. Current ratio (CA divided by CL): 2.01.

G5's share

Share

As of December 31, 2012, G5 Entertainment's share capital was 800 000 SEK divided between 8 000 000 shares, at quoted value of 0.10 SEK per share. The average number of outstanding shares during the period is 8 000 000 shares. Each share confers equal rights to participation in G5's assets and earnings and confers the holder with one vote.

At an Extraordinary General Meeting held on October 31, 2012, it was decided to implement a share warrant program comprising of no more than 160 000 warrants, as part of a long-term incentive program. The program was fully subscribed by managers and senior executives of G5. Members of the board, with the exception of the CEO, were not allowed to take part in the program. Accordingly, G5 has issued 160 000 warrants in November 2012. The warrants were however not paid until January 2013. Each warrant entitles the holder to subscribe to one share in the company at an issue price of 106.48 Kr. The warrants were acquired at market price, 0.62 Kr, calculated using the Black-Scholes model. The period for the warrants is 3 years and 3 months, and it will be possible to exercise warrants after 3 years. Upon full exercise of the warrants, up to 160 000 shares, representing two percent of the total number of outstanding shares at the time of issue of the warrants, will be issued.

The G5 share has been quoted on the NGM Nordic MTF exchange in Stockholm since October 2, 2006 under symbol G5EN. The introduction rate was 3 SEK per share. Since November 19, 2008 G5's share is quoted on Aktietorget exchange in Stockholm. At year-end 2012, the share price was 49.10 SEK and total market capitalization was 392.8 MSEK.

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 percent 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 2011, G5 completed direct issue of 580 426 shares at the price of 21.5 SEK per share to investment company AB Traction in order to raise funds to finance the expansion of the group's product development.

Largest shareholders as of Dec 31, 2012

Shareholder	No. of Shares	Holding / Votes
Avanza Pension	1 124 339	14.05%
Nordnet Pensionsförsäkring	861 125	10.76%
Wide Development Ltd*	720 000	9.00%
Proxima Ltd**	675 000	8.44%
Purple Wolf Ltd***	660 000	8.25%
Tommy Svensk	387 000	4.84%
AB Traction	369 673	4.62%
ABN Amro Bank NV	340 054	4.25%
Länsförsäkringar Småbolagsfond	146 296	1.83%
Torbjorn, Liljedal	126 330	1.58%
Total	4 285 478	67.62%

Source: Euroclear Sweden AB

*Vlad Suglobov is a board member of the company

**Company controlled by Sergey Shults

***Company controlled by Alexander Tabunov

Activities during 2012

2012 became the third consecutive year of G5's fast-paced organic growth in smartphone and tablet games publishing business, and the group invested record amounts into the development of new games for release in 2013 and 2014. G5 has contractual relationships with over 80 game development studios from around the world. These studios are supplying unlockable and free-to-play games that G5 is publishing, in addition to games developed internally by G5. As the market of smartphones and tablets goes from strength to strength, the management aims to eventually achieve 300 MSEK in revenue with an operating result of 100 MSEK, while keeping the growth at historic rates.

During 2012, the group released multiple new games for popular smartphones and tablets: iPhones, iPads, Android smartphones and tablets, Amazon Kindle Fire, Nook e-readers, and also Mac. At the end of 2012, the number of apps across all platforms in G5's portfolio exceeded 360. The majority of the company's portfolio consisted of unlockable casual games, while only three games (a total of 7 apps) were free-to-play games. Despite this difference in the numbers of apps, free-to-play games have generated substantial and growing amount of revenue for the group in 2012.

Virtual City Playground, the group's first and best-selling free-to-play game became the highlight of the year 2012. The game has been Top 10 Grossing Game on iPad in over 100 countries, and achieved record monthly revenue in July 2012, 11 months after its initial release, accounting for over 30 percent of the group's revenue in some months of Q3. In the first year of sales, VCP has generated more revenue than any other game in G5's portfolio has generated over its lifetime. Accordingly, the management believes that going forward, free-to-play games can become major growth driver for the group's business.

In November, G5 released two new free-to-play games on iOS: *The Secret Society*, hidden object free-to-play game, and *Doomsday Preppers*, a free-to-play game based on popular TV show of National Geographic Channel. Both games show encouraging results and have been gradually gaining audience and increasing daily revenue since launch. *The Secret Society* is displaying monetization and engagement parameters similar or higher than *Virtual City Playground*. All free-to-play games will receive multiple regular updates during 2013 to ensure continuous engagement of the audience and growth of revenue. As part of the updates, the management plans to roll out social features across the free-to-play portfolio. The group is also working on a number of new free-to-play games to be released during 2013 and 2014 in order to further expand the group's free-to-play portfolio.

Significant events after year end

The Board of Directors of G5 Entertainment has decided to apply for a listing of the company's shares on NASDAQ OMX Stockholm in the second half of 2013. A listing on NASDAQ OMX Stockholm will increase opportunities for institutional investors to invest in G5 Entertainment and create better liquidity in the share. It is also a further seal of approval for the company in terms of its operations and information disclosures. G5 Entertainment has appointed Carnegie Investment Bank as its financial advisor and Delphi as legal advisor in connection with the listing process.

The share warrant program decided on at an Extraordinary General Meeting held on October 31, 2012, was fully subscribed by managers and senior executives. The warrants were issued in November 2012 and paid for in January 2013.

On January 30, 2013, G5 Entertainment AB has completed a directed share issue of 800 000 shares, corresponding to 10 percent of the number of shares outstanding in the company before the directed share issue. The directed share issue provided the Company with approximately 37.6 MSEK before deductions for issue expenses. There was a strong interest for the transaction and the directed share issue was oversubscribed. The Company retained Carnegie Investment Bank as placing agent in relation to the directed share issue, which was primarily directed towards institutional investors in the Nordic region. The subscription price was 47 SEK per share, corresponding to a discount of 2.3 percent to the closing price on January 29, 2013. As a result of the directed share issue, the total number of outstanding shares increased from 8 000 000 shares to 8 800 000 shares and the share capital increased from 800 000 SEK to 880 000 SEK. The proceeds from the directed share issue will allow G5 to capitalize on a positive outlook of the mobile gaming app market and continue its strong historical growth, by increasing the number of external and internal development projects and focusing more on high-quality free-to-play games.

The total number of downloads of G5 games on iOS and Android (not counting update downloads) surpassed 100 million.

Research and development

G5 developed and owns unique Talisman™ cross-platform mobile technology and Development Tools to keep G5's games at the highest quality level and optimize development process. The Talisman™ technology is continuously being improved to be adapted in accordance with the rapid technological progress.

Environment

G5 group does not work in an area where the environment will be affected in any material way.

Operational risks

Dependency on strategic partners

G5 distributes its games through the companies that own and maintain electronic download stores such as Apple's App Store, Google Play, Amazon Appstore, and Barnes & Noble Nook Apps. G5's success depends on its relationships with these companies. They partially control consumers and retain a certain share of the price that each consumer pays to download a game. The share that distribution channels retain can be different depending on the platform, but usually is not negotiable or very difficult to negotiate. Although 30 percent has become more or less an industry standard fee that stores retain, there is a risk that these companies in the future may decide to increase this share because of changes in the market situation. To minimize the dependency on a particular distribution channel and reduce these risks, G5 works with multiple distribution channels, and expands to new game platforms within smartphone and tablet ecosystem.

Risk of delay in release of games

Delays and/or irregularities in the release of new games can negatively affect group's revenue and operating margins. Delays can result from a delay in the development, or from additional time needed to receive certifications and approvals from game rating agencies, platform owners, and distribution channels (electronic download stores).

Risk related to change of technology

Like all game publishers, the group is dependent on technological advances.

Risk related to employee termination

The group's success is closely linked to its ability to attract and retain its key employees and contractors. If, for whatever reason, they leave or become unavailable for an extended period of time, this could have an impact on the group. Losing one or more key employees or managers, or failing to attract new highly skilled staff could have a significant negative impact on group's revenue, earnings, and growth prospects.

Termination of licensing partnerships

G5 publishes not only its own games, but also games developed by other developers and publishers. Possible termination of certain partnerships for whatever reason could have a negative impact on the company's future revenue and operating result.

Forecasting reliability

G5 Entertainment is active on a relatively young and immature market, limiting the possibility to accurately evaluate the future progress of operations. Inaccurate assessment of market progress may adversely affect the group's aggregate earnings and liquidity.

Regional risks

Activities in Ukraine and Russia are exposed to various political, regional and legal risks. It cannot be guaranteed that G5 will not be affected in negative ways, which can weaken the group's ability to carry out its activities. However, G5's activities in Ukraine and Russia do not depend on extensive physical investments and can therefore be moved to other regions with certain advance planning.

Tax risk

The Company's operating activities are within Europe, Ukraine, Russian Federation (RF), and United States (USA). Laws and regulations affecting business operating in the Ukraine and RF are subject to rapid changes and the company's assets and operations could be at risk due to negative changes in the political and business environment.

While the Company believes it has complied with local tax legislation, there have been many new tax and foreign currency laws and related regulations introduced in Ukraine and Russian Federation in recent years, which are not always clearly written.

Insurance risk

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

Financial risks

Currency translation and exposure risk

G5 Entertainment is exposed to certain currency risks, i.e. the risk of the value of a financial instrument changing due to fluctuations in exchange rates. The company 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.

Interest and credit risks are considered marginal, because at present G5 does not have any external funding, while most of sales are generated through major companies, with consistently high credit ratings.

Risk related to the need for additional capital

For companies doing business in fast-growing markets, it is often impossible to make precise medium or long-term financial forecasts. Given the rapid changes brought by competition or strategic changes, the group may in the future need additional working capital, and the group may then turn to financial markets to attract such capital. Since some shareholders may not take part in a share capital increase of this type, this could result in share dilution.

Outlook

The group's revenue covers expenses, while excessive cash flow during 2012 was used to invest for future growth: funding new licensing deals, product development, and expansion to new platforms. Going forward, the management is going to maintain the balance between actively re-investing for future growth and maintaining strong cash position.

Proposed allocation of profits

The Board of Directors will suggest to the Annual General Meeting that no dividend is paid in 2013. The following non-restricted equity in the parent company is at the disposal of the Annual General Meeting:

Share premium reserve	19 929
Profit\Loss carried forward	18 532
Net result for the year	19 729
Total	**58 190**

The Board propose no dividend shall be distributed to shareholders	0
To be carried forward as:	
Share premium reserve	19 929
Profit\Loss to be carried forward	38 261
Total	**58 190**

Group Financial Results

Income statement

GROUP INCOME STATEMENT	NOTE	2012	2011
Net turnover (revenue)	4	80 928	46 611
Production cost	5, 6, 12	-37 638	-19 199
Gross Profit		**43 290**	**27 412**
General and administrative expenses	5, 6, 13	-15 713	-9 911
Other operating gains	15	33	496
Other operating losses	16	-1 749	-275
Operating Result before financial items		**25 861**	**17 722**
Interest income and similar items	17	53	37
Interest expense and similar items	18	-110	-93
Operating Result after financial items		**25 804**	**17 666**
Taxes	8	-3 624	-3 524
NET RESULT FOR THE PERIOD		**22 180**	**14 142**
Attributed to:			
Parent company's shareholders		22 180	14 142
Weighted average number of shares	10	8 000 000	7 613 049
Earnings per share (SEK) before and after dilution	10	2.77	1.86
Non-controlling interest		-	-

STATEMENT OF COMPREHENSIVE INCOME	NOTE	2012	2011
Income for the period		**22 180**	**14 142**
Recalculation Difference		-427	2
Total other comprehensive income for the period		**-427**	**2**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**21 753**	**14 144**
Attributed to:			
Parent company's shareholders		21 753	14 144
Non-controlling interest		-	-

Balance sheet

GROUP BALANCE SHEET	NOTE	2012-12-31	2011-12-31
Fixed assets			
Intangible fixed assets			
Capitalized development costs	7	40 429	17 386
Goodwill	7, 24	2 319	2 322
		42 748	**19 708**
Tangible fixed assets			
Equipment	7	1 825	1 539
		1 825	**1 539**
Total fixed assets		**44 573**	**21 247**
Current assets			
Accounts receivable	25	9 537	4 459
Tax receivable		5 741	2 517
Other receivable	25	11 012	5 134
Prepaid expenses and accrued income		4 260	2 948
Cash at bank		13 661	17 541
Total current assets		**44 211**	**32 599**
TOTAL ASSETS		**88 784**	**53 846**
Equity			
Share capital	9	800	800
Other capital contribution		19 971	19 872
Other reserves		-347	80
Profit\Loss Brought Forward		45 722	23 542
Total shareholders' equity		**66 146**	**44 294**
Non-current liabilities			
Deferred tax	8	590	-
Total non-current liabilities		**590**	**-**
Current liabilities			
Accounts payable		5 402	2 267
Other liabilities		2 254	99
Tax liabilities		10 251	6 457
Accrued expenses		4 141	729
Total current liabilities		**22 048**	**9 552**
TOTAL EQUITY AND LIABILITIES		**88 784**	**53 846**

Cash flow statement

GROUP CASH FLOW	NOTE	2012-01-01 2012-12-31	2011-01-01 2011-12-31
Operating activities			
Profit after financial items		25 804	17 666
Adjusting items not included in cash flow	21	11 537	6 587
		37 341	**24 253**
Taxes paid		-2 384	-721
Cash flow before changes in working capital		**34 957**	**23 532**
Cash flow from changes in working capital			
Decrease in operating receivables		-12 170	-8 088
Increase in operating liabilities		8 677	981
Cash flow from operating activities		**31 464**	**16 425**
Investing activities			
Purchase of property and equipment	7	-1 273	-1 347
Capitalized development costs	7	-33 933	-14 624
Purchase \ sale of subsidiary	22	-	589
Cash flow from investing activities		**-35 206**	**-15 382**
Financial activities	9		
New share issue		-	12 479
Acquisition of subsidiary	22	-	-863
Cash flow from financial activities		**-**	**11 616**
CASH FLOW		**-3 742**	**12 659**
Cash at the beginning of the year		**17 541**	**4 892**
Cash flow		-3 742	12 659
Exchange rate diff		-138	-10
CASH AT THE END OF THE PERIOD		**13 661**	**17 541**

Changes in equity

GROUP CHANGES IN EQUITY	Share capital	Other capital contribution	Other reserves	Profit/loss brought forward	Shareholders' equity
Shareholder's equity as of 2011-01-01	**742**	**7 451**	**78**	**9 400**	**17 671**
Total comprehensive income			2	14 142	14 144
New issue	58	12 421			12 479
Shareholder's equity as of 2012-01-01	**800**	**19 872**	**80**	**23 542**	**44 294**
Total comprehensive income			-427	22 180	21 753
Incentive program		99			99
Shareholder's equity as of 2012-12-31	**800**	**19 971**	**-347**	**45 722**	**66 146**

Business and financial ratios

Ratios	2012	2011
Financial strength	75%	82%
Return on equity	40%	46%
Return on total assets	36%	46%
Current ratio	2.01	3.41

For definitions of business and financial ratios please refer to Note 3.

Parent Company Financial Results

Income statement

PARENT COMPANY INCOME STATEMENT	NOTE	2012	2011
Net sales	4	80 868	46 150
Production costs	12	-58 921	-30 085
Gross profit		**21 947**	**16 065**
General and administrative expenses	13	-9 515	-4 708
Other operating gains	15	-	148
Other operating losses	16	-1 726	-229
Operating profit		**10 706**	**11 276**
Result from participation in group companies	20	13 805	4 295
Interest income and similar items		53	32
Interest expense and similar items		-35	-35
Profit after financial items		**24 529**	**15 568**
Appropriations		-2 680	-
Taxes	8	-2 120	-2 965
NET RESULT FOR THE YEAR		**19 729**	**12 603**

STATEMENT OF COMPREHENSIVE INCOME	NOTE	2012	2011
Net result for the year		19 729	12 603
Other comprehensive income		-	-
Total other comprehensive income for the period		**-**	**-**
Total comprehensive income for the period		**19 729**	**12 603**

Balance sheet

PARENT COMPANY BALANCE SHEET	NOTE	2012-12-31	2011-12-31
Fixed assets			
Intangible fixed assets			
Capitalized development costs	7	20 833	16 453
		20 833	**16 453**
Financial fixed assets			
Shares in group companies	7, 23	865	865
		865	**865**
Current assets			
Account receivables	25	9 166	3 712
Receivables from group companies	11	16 845	1 123
Other receivables		12 614	6 568
Prepaid expenses and accrued income		4 260	2 948
Cash and bank		9 338	16 446
		52 223	**30 797**
TOTAL ASSETS		**73 921**	**48 115**
EQUITY AND LIABILITIES			
Restricted equity			
Share capital	9	800	800
Non-restricted equity			
Share premium reserve		19 929	19 830
Profit\loss carried forward		18 532	5 929
Net result for the year		19 729	12 603
		58 190	**38 362**
Total equity		**58 990**	**39 162**
Non-current liabilities			
Untaxed reserve		2 680	-
		2 680	**-**
Liabilities			
Accounts payable		2 406	1 290
Income tax liability		3 224	3 222
Liability to group companies	11	3 875	3 713
Other liability		28	61
Accrued expenses	19	2 718	667
Total liabilities		**12 251**	**8 953**
TOTAL EQUITY AND LIABILITIES		**73 921**	**48 115**
Memorandum items			
Pledged assets	26	750	750
Contingent liabilities	27	None	None

Cash flow statement

PARENT COMPANY CASH FLOW	NOTE	2012	2011
Operating activities			
Profit after financial items		24 529	15 568
Adjusting items not included in cash flow	21	-3 389	1 560
Taxes paid		-2 118	-720
Cash before changes in working capital		**19 022**	**16 408**
Cash flow from changes in working capital			
Increase/decrease in operating receivables		-14 630	-3 262
Increase/decrease in operating liabilities		3 296	772
Cash flow from operating activities		**7 688**	**13 918**
Investing activities			
Capitalized development costs	7	-14 796	-13 886
Purchase of shares in subsidiaries	22	-	-285
Sale of shares in subsidiaries	22	-	589
Cash flow from investing activities		**-14 796**	**-13 582**
Financial activities			
Purchase from non-controlling		-	-863
New share issue		-	12 479
Cash flow from financial activities		**-**	**11 616**
CASH FLOW		**-7 108**	**11 952**
Cash at bank at the beginning of year		**16 446**	**4 494**
Cash flow		-7 108	11 952
CASH AT BANK AT THE END OF YEAR		**9 338**	**16 446**

Changes in equity

PARENT COMPANY CHANGES IN EQUITY	Share capital	Share premium reserve	Profit\Loss carried forward	Net result for the year	Total shareholder's equity
Shareholder's equity as of 2011-01-01	**742**	**7 409**	**-295**	**6 224**	**14 080**
Allocation of profit			6 224	-6 224	
New issue	58	12 421			**12 479**
Total comprehensive income				12 603	**12 603**
Shareholder's equity as of 2012-01-01	**800**	**19 830**	**5 929**	**12 603**	**39 162**
Allocation of profit			12 603	-12 603	
Incentive program		99			99
Total comprehensive income				19 729	19 729
Shareholder's equity as of 2012-12-31	**800**	**19 929**	**18 532**	**19 729**	**58 990**

G5 Entertainment AB (publ) was incorporated in May 2005 as Startskottet P 40 AB (publ), and carried no business activity before the formation of G5 group in the beginning of Q3 2006. The share capital of the company was 500 000 SEK distributed among 5 000 000 shares before the new issue of 1 000 000 shares in Q3 2006 which was performed before the listing of the company on Nordic MTF exchange in October 2006. In 2008 G5 completed two new issues of 375 000 shares and of 1 044 574 shares, respectively. G5 Entertainment AB was listed on the Aktietorget exchange in Stockholm on November 19, 2008. In 2011 G5 completed a new issue of 580 426 shares. Since then, there are 8 000 000 shares in the company.

Notes

NOTE 1. Accounting principles

General information

G5 Entertainment AB (publ) unites a group of active companies: G5 Holdings Limited (Malta), G5 Holding RUS LLC (Russia), G5 Entertainment Inc (USA), G5 Holding UKR LLC (Ukraine). G5 Entertainment AB (publ) is listed on the Aktietorget exchange in Stockholm since November 19, 2008.

Contacts

MAIL:	BOX 5339, 102 47 STOCKHOLM SWEDEN
PHONE:	+7-495-210-97-94
FAX:	+46-8-545-075-49; +7-495-673-62-98
E-MAIL:	CONTACT@G5E.COM
WEB SITE:	HTTP://WWW.G5E.COM

Compliance with standards and laws

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 as per December 31, 2012, the Swedish Annual Accountant Act and the Swedish Financial Reporting Board, RFR 1 for Group has been applied.

Accounting policy for the parent company, see Note 2.

Fiscal year info

Fiscal year 2012 is from January 1, 2012 up to December 31, 2012.

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.

Judgements and estimates in the financial statements

Preparing the financial statements pursuant to IFRS necessitates that the corporate management make evaluations, estimates and assumptions that influence the application of the accounting principles and the stated amounts for revenues, expenses, assets and liabilities. New amended standards effective as of 2012 did not have any impact on the consolidated accounts.

Several new or amended standards will not go into effect until coming financial years. No one of those is assessed to have any material impact on G5 Entertainment Group´s financial statement for year 2012.

Classification

Essentially, fixed assets and non-current liabilities exclusively comprise amounts expected to be recovered or paid after more than 12 months from year-end. Essentially, the parent company's and group's current assets and current liabilities exclusively comprise amounts expected to be recovered or paid within 12 months of year-end.

Consolidated principles

Subsidiaries

Subsidiaries are companies over which G5 Entertainment AB has a controlling interest. Controlling interest means, directly or indirectly, the right to formulate a company's financial and operational strategies with the aim of receiving economic benefits. When judging whether there is a controlling interest, potential voting shares that can be used or converted immediately are taken into account.

Acquisitions

Subsidiaries are recognized using acquisition accounting. With this method, acquisition of a subsidiary is regarded as a transaction whereby the Group indirectly acquires the subsidiary's assets and assumes its liabilities. The acquisition analysis establishes the fair value of acquired identifiable assets and assumed liabilities on the acquisition date, as well as any non-controlling interest. Transaction expenses, except for transaction fees attributable to issued equity or debt instruments are recognized directly in profit/loss for the year. In business combinations in which the transferred payment, any non-controlling interest, and fair value of previously held interest (for incremental acquisitions) exceeds the fair value of acquired assets and assumed liabilities that are recognized separately, the difference is recognized as goodwill. When the difference is negative, it is recognized directly in profit/loss for the year. Contingent considerations are recognized at fair value on the date of acquisition. In cases where contingent considerations are presented as equity instruments, no revaluation is done and adjustments are made in equity. Other contingent considerations are revalued at each reporting date and the change is recognized in profit/loss for the year. Non-controlling interest arises in cases where the acquisition does not include 100 percent of the subsidiary. There are two options for recognizing non-controlling interest: (1) recognize the non-controlling interest's share of proportional net assets, or (2) recognize non-controlling interest at fair value, which means that non-controlling interest is part of goodwill. Choosing between the two options for recognizing non-controlling interest can be done individually for each acquisition. 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.

Acquisition of non-controlling interest

Acquisition from non-controlling interest is recognized as a transaction in equity, that is, between the parent company's owners (in retained profits) and the non-controlling interest. Therefore, no goodwill arises in these transactions. The change in non-controlling interest is based on its proportional share of net assets.

Sale of non-controlling interest

Sale of non-controlling interest, where some controlling interest is retained, is recognized as a transaction in equity; that is, between the parent company's owners and the non-controlling interest. The difference between retained liquidity and the non-controlling interest's proportional share of acquired net assets is recognized in retained profits.

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 in the G5 Group comes from royalty agreements (Note 4). These agreements are with electronic download stores such as iTunes App Store, Google Play, and Amazon Appstore.

Royalty income 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.

Interest income is reported continuously and dividends received are reported after the right to the dividend is deemed secure. In the consolidated accounts, intra-group sales are eliminated.

Financial revenue and expenses

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

Intangible assets

Goodwill

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

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

Capitalized development costs

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

Amortization of capitalized development cost starts when the asset is available for use. Ongoing capitalized development cost, where amortization not has started, is tested for impairment as described in section "write-downs" below.

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 to bring it to the place and condition for use in the manner the group intended. 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

After first-time accounting, intangible fixed assets are accounted in the balance sheet at acquisition value less deductions for potential accumulated amortization and write-downs. 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.

Subject of amortization	Amortization period, (Years)
Group	
Capitalized development costs	2
Parent company	
Capitalized development costs	2

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, (years)
Office furniture	10
Computer equipment	5

Write-downs

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. 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.

Tax

The group accounts income tax pursuant to IAS 12, Income Taxes. Tax is accounted in the income statement apart from when the underlying transaction is accounted directly against equity. Current tax is tax to be paid or received in the current year, including potential adjustments of current tax attributable to previous periods. Deferred tax is calculated pursuant to the balance sheet method, proceeding from temporary differences between the carrying amounts and taxable values of assets and liabilities. The amounts are calculated based on how the temporary differences are expected to even out, and by applying those tax rates and rules that are resolved or announced as of year-end.

Temporary differences are not considered in consolidated goodwill, nor in differences attributable to participations in subsidiaries that are not expected to become subject to tax in the foreseeable future. For legal entities, untaxed reserves are accounted including deferred tax liabilities. However, the Consolidated Financial Statements divide untaxed reserves between deferred tax liabilities and equity.

The deferred tax receivables in deductible temporary differences and loss carry-forwards are only accounted to the extent that it is likely that they will imply lower future tax payments.

Local taxes of subsidiaries such as value added and property taxes are accounted according to local tax rules.

Benefits for employees

The group accounts employee benefits according to local rules and regulations of subsidiary company. These benefits are accounted with salaries paid, contract fees and accrued remuneration using various assumptions such as vacations, social security contributions and pensions as required by local rules and regulations of subsidiary company.

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

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

Financial instruments

A financial asset or financial liability is reported in the balance sheet when the company is party to the contractual conditions of the instrument. A financial asset is eliminated from the balance sheet when the rights contained in the contract are realized, mature or when the company loses control over them. A financial liability is eliminated from the balance sheet when the commitment in the agreement has been completed or has in any other manner been terminated. Acquisitions and sales of financial assets are reported on the trade date, which is the date on which the company commits itself to acquire or sell the assets, apart from cases in which the company acquires or sells listed securities when liquidity date reporting is applied. At the end of each accounting period, the company assesses whether there are objective indications that a financial asset or group of financial assets requires impairment.

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 or realize the asset and settle the liability simultaneously.

The group classifies its financial instruments in the following categories: Loans and receivables and financial liabilities measured at amortized costs.

<u>Loans and receivables</u>

Accounts receivable and other receivables are classified as “loans and receivables” and are measured at amortized cost using the effective interest method.

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

Financial liabilities measured at amortized costs

In the group account payable and other short-term liabilities are classified as "financial liabilities measured at amortized costs".

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

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

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 share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Provisions

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

Contingent liabilities

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

Cash flow statement

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

Liquid funds

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

Segment reporting

The income statement, assets and liabilities is not divided by segment in a reasonable and reliable manner. The Board is therefore analyzing the business as a whole group.

Leasing

G5 group does not have any leasing.

Critical accounting estimates and judgments

Management makes estimates and assumption concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Capitalized development costs

As noted in the accounting policy the capitalized development cost not yet available for use is tested annually for impairment. For capitalized development costs in use, the amortization methods and useful life´s are evaluated annually and if needed tested for impairment. For more details, see Note 7.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated at headline "Write-downs" and "Goodwill". For more details, please see Note 24.

NOTE 2. Parent company 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 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.

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 3. Definitions of business and financial ratios.

Financial strength

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.

NOTE 4. Classification of net sales and fixed assets

Revenue of the group and parent company consist of royalties from game sales.

Revenue split by countries	2012	2011
Sweden	75 722	46 150
Other Countries	5 206	461

The group is dependent on a few major customers, that each contributes more than 10 percent of total revenue.

Fixed assets (tangible and intangible asset) split by countries	2012	2011
Sweden	20 833	16 453
Malta	21 222	2 239
Other Countries	199	233

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

NOTE 5. Remuneration to staff including CEO, top management and board of directors

The staff consists of employees at the Russian, Ukrainian and USA subsidiaries and G5's co-workers contracted through each co-workers individual private firm in Russia, Ukraine, Czech Republic, UK and USA.

The parent company has no employees and subcontracts administrative work from subsidiaries.

Average group employees	2012	2011
Men	27	15
Women	15	8

Average group co-workers through contract	2012	2011
Men	71	56
Women	32	28

Board of directors	2012	2011
Men	5	5
Women	0	0

Top Management Quantity	2012	2011
Men	2	2
Women	0	0

Total staff remuneration	2012	2011
Board of directors	240	174
CEO	1 324	1 587
Top management, 2	1 836	1 892
Employees' salaries	6 216	2 369
Social tax	2 515	1 157
Other social costs	197	178
Co-workers through contract	6 887	4 991

CEO and top management are compensated by a fixed monthly salary and an earnings-related bonus beginning Q2 2010. Bonus is calculated quarterly as 10 percent of the operating profit above 10 percent operating margin. The CEO is entitled to 40 percent of the bonus and the remaining 60 percent is divided between top management. An operating loss before financial items in a quarter reduces in the potential bonus during the next quarter. Top manager's total bonus for the year shall not exceed 50 percent of his fixed yearly salary.

The period of notice for the CEO and top managers is three months. If termination of employment is on the part of the company then a severance pay corresponding to 3 month's salary will be awarded. If termination of employment is on the part of CEO, there will be no severance pay. The contract of CEO and top managers includes certain non-compete provisions for the period of employment and 6 months after the termination of employment. Employment conditions of CEO and top managers do not have any additional benefits or other remuneration.

NOTE 6. Board remuneration

Board of directors remuneration	2012	2011
Ein Stadalninkas	60	52
Johan Wrang	60	52
Peter Benson	25	35
Jeffrey Rose	60	35
Pär Sundberg	35	-
Total	**240**	**174**

NOTE 7. Fixed assets

The group

Intangible fixed assets

Capitalized development costs and IP rights	2012	2011
Intangible fixed assets at the beginning of year	17 386	8 728
Investment intangible fixed assets	33 933	14 624
Disposal	-	-229
Depreciation	-10 607	-5 728
Currency exchange difference	-283	-9
Intangible fixed assets at the end of year	40 429	17 386

Accumulated capitalized development costs	2012	2011
Accumulated costs	60 418	26 781
Accumulated depreciation / write-downs	-19 989	-9 395
Net amount	40 429	17 386

Out of the net amount of accumulated capitalized development costs at the end of December, 40 429 kSEK, 14 753 kSEK refers to capitalized development costs which not yet are available for use, i e not yet amortized. The development time is normally short, about 4-8 months, meaning that the amortization of these games will probably begin in 2013. The impairment tests carried out has not caused any need of write-downs.

Goodwill	2012	2011
Intangible fixed assets at the beginning of year	2 322	2 272
Subsidiary purchase	-	50
Currency exchange	-3	-
Intangible fixed assets at the end of year	2 319	2 322

Tangible fixed assets

Tangible fixed assets	2012	2011
Tangible fixed assets at the beginning of year	1 539	837
Disposal	-	-
Investment tangible fixed assets	1 273	1 347
Depreciation	-930	-630
Currency exchange difference	-57	-15
Tangible fixed assets at the end of year	1 825	1 539

Accumulated tangible fixed assets	2012	2011
Accumulated costs	4 380	3 107
Accumulated depreciation / write-downs	-2 555	-1 568
Net amount	1 825	1 539

Parent company

Intangible fixed assets

Capitalized development costs and IP rights	2012	2011
Intangible fixed assets at the beginning of year	16 453	8 422
Investment intangible fixed assets	14 796	13 886
Depreciation	-10 416	-5 855
Intangible fixed assets at the end of year	20 833	16 453

Financial fixed assets

Financial assets	2012	2011
Financial assets at the beginning of year	865	1 395
Investment financial assets	-	335
Write-down shares in subsidiaries	-	-865
Financial assets at the end of year	865	865

NOTE 8. Taxes

The group

Group income tax expenses	2012	2011
Current tax	-7 260	-5 080
Deferred tax	-590	-
Tax refund	4 226	1 556
Total tax expenses	**-3 624**	**-3 524**

The deferred tax liabilities is related to untaxed reserves and occurred 2012 through income statement.

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:

	2012	2011
Profit / Loss before tax	25 804	17 666
Tax according to current tax rate 26.3 %	-6 786	-4 646
Tax effect on income exempted from tax	-	87
Tax effect on expenses non deductible	-5	-
Refund of tax in foreign subsidiaries	4 226	1 556
Adjustment for tax rates in foreign subsidiaries	-1 250	-521
Tax effect of changed tax rate	115	-
Tax effect of deferred tax asset not accounted for	-98	-
Other	174	-
Tax charge	**-3 624**	**-3 524**

Refund of tax in foreign subsidiaries refers to refund of tax when dividend is transferred from the subsidiary in Malta to the parent company in Sweden. The tax for the subsidiary in Malta is

35%, but when there is a dividend transferred to the parent company in Sweden there will be a tax refund calculated as 6/7 of the paid local tax. In line “Adjustment for tax rates in foreign subsidiaries” the tax rate for Malta is 35 percent, compared to the Swedish tax of 26,3 percent, and the refund is entered at a separate row. The refund is based on a dividend that is accounted for as a liability in the legal annual reports of the subsidiary.

Parent company

Parent company income tax expenses	2012	2011
Current tax	-2 120	-2 965
Total tax expenses	**-2 710**	**-2 965**

	2012	2011
Profit / Loss before tax	21 849	15 568
Tax according to current tax rate 26.3 %	- 5 746	-4 094
Tax effect of income exempted from tax	3 631	1 357
Tax effect of expenses not deductible	-5	-228
Tax charge	- 2 120	-2 965

Income not subject for tax includes dividend from subsidiaries amounting to 13 805 (5 160) kSEK. Not deductible expenses includes write-down of subsidiaries 0 (865) kSEK.

NOTE 9. Share capital and dividends

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 2012 there were 8 000 000 ordinary shares.

At an Extraordinary General Meeting held on October 31, 2012, it was decided to implement a share warrant program comprising of no more than 160 000 warrants, as part of a long-term incentive program. The program was fully subscribed by managers and senior executives of G5. Members of the board, with the exception of the CEO, were not allowed to take part in the program. Accordingly, G5 has issued 160 000 warrants in November 2012. The warrants were however not paid until January 2013. Each warrant entitles the holder to subscribe to one share in the company at an issue price of 106.48 Kr. The warrants were acquired at market price, 0,62 Kr, calculated using the Black-Scholes model. The period for the warrants is 3 years and 3 months, and it will be possible to exercise warrants after 3 years. Upon full exercise of the warrants, up to 160 000 shares, representing two percent of the total number of outstanding shares at the time of issue of the warrants, will be issued.

Dividend

The Board of Directors has decided to propose to the Annual General Meeting that no dividend is to be paid for the financial year 2012.

NOTE 10. Earnings per share

Weighted average number of shares and shares at the end of the year:

2012	Shares at the end of the period	Weighted average number of shares
Jan - Dec	8 000 000	8 000 000
Total		**8 000 000**

At the end of 2012, there were a total of outstanding 160 000 share warrants, representing the same number of shares. The potential shares entailed in the issue of the share warrants are considered when calculating the number of shares and earnings per share after dilution, to the extent they affect dilution in accordance with IAS 33 Earnings per share. As the average share price during the part of 2012 when the share options were outstanding falls below the strike price of 106.48 SEK, the potential shares have no dilutive effect and as such are not included in the number of shares after dilution.

NOTE 11. Related parties

The parent company has close relations with its subsidiaries. Transactions between group companies are conducted at cost plus a certain margin. As of December 31, 2012, the parent company had 16 845 (1 123) kSEK in receivables from group companies and 3 875 (3 713) kSEK in liabilities to group companies. Parent company sales to subsidiaries amounted to 4 999 (0) kSEK. Parent company purchases from subsidiaries amounted to 47 590 (29 415) kSEK, of which some part is put on balance as intangible assets.

Except for transaction within the Group and remuneration to board of directors, CEO and top management, there are no transactions with other related parties.

NOTE 12. Production costs

Production cost of the group consists of the following items split by nature:

Group	2012	2011
Development expenses	-39 578	-18 840
Royalty to developers and license fees	-21 386	-9 333
Capitalized development costs	33 933	14 624
Depreciation and write-off of Capitalized development costs	-10 607	-5 650
Total production cost	**-37 638**	**-19 199**

Parent company	2012	2011
Development expenses, royalty to developers and license fees	-63 301	-38 350
Capitalized development costs	14 796	13 886
Depreciation and write-off of Capitalized development costs	-10 416	-5 621
Total production cost	**-58 921**	**-30 085**

NOTE 13. General and administrative expenses

General and administrative expenses of the group consist of the following items split by nature:

Group	2012	2011
Travel expenses	1 340	834
Personnel expenses	7 052	4 829
Marketing expenses	1 488	517
Office expenses	1 585	1 154
External services	2 688	1 615
Other general and administrative expenses	1 560	962
Total	**15 713**	**9 911**

Parent company's general and administrative expenses:

Parent company	2012	2011
Travel expenses	1 081	612
Marketing expenses	6 101	2 512
External services	1 546	1 321
Other general and administrative expenses	787	263
Total	**9 515**	**4 708**

NOTE 14. Audit fees

Group	2012	2011
Mazars SET Revisionsbyrå (Sweden)	428	388
PKF (Hong Kong)	20	28
Victor Schranz (Malta)	-	29
Mazars Malta	52	-
Limbus (Russia)	-	14
Mazars Russia	35	-
Global Audit (Ukraine)	-	18
Total	**535**	**477**

Parent company	2012	2011
Mazars SET Revisionsbyrå (Sweden)	428	388
Total	**428**	**388**

Auditing assignment refer to the auditing of the annual report and accounting, including the Board's and CEO's administration, other assignments that the company's auditor are required to perform and advice or other support brought about by observations from auditing or conducting similar task. During 2012 and 2011 there has been no tax consultancy, no other audit assignment and no other services.

NOTE 15. Other operating gains

Parent company	2012	2011
Currency exchange gains	-	148
Total	**0**	**148**

NOTE 16. Other operating losses

Group	2012	2011
Currency exchange loss	1 749	46
Disposal of tangible and intangible fixed assets	-	229
Total	**1 749**	**275**

Parent company	2012	2011
Currency exchange losses	1 726	-
Disposal of tangible and intangible fixed assets	-	229
Total	**1 726**	**229**

NOTE 17. Financial income

Group	2012	2011
Interest	53	37
Total	**53**	**37**

NOTE 18. Financial expenses

Group	2012	2011
Bank fees	110	93
Total	**110**	**93**

NOTE 19. Accrued expenses

Parent company	2012	2011
Royalty	2 432	360
Other	286	307
Total	**2 718**	**667**

NOTE 20. Result from participation in group companies

Income	2012	2011
Write-down shares in subsidiaries	-	-865
Result from sale of subsidiaries	-	-
Dividend from subsidiaries	13 805	5 160
Total	**13 805**	**4 295**

NOTE 21. Adjustments for items not included in cash flow

Group

Adjustments	2012	2011
Depreciation	11 537	6 358
Gain and losses from selling and disposal of tangible and intangible	-	229
Total	**11 537**	**6 587**

Parent company

Adjustments	2012	2011
Depreciation	10 416	5 626
Write-off shares in subsidiary	-	865
Disposal of intangible	-	229
Dividend	-13 805	-5 160
Total	**-3 389**	**1 560**

NOTE 22. Acquisition and sale of subsidiaries

2012

No acquisition or sale of subsidiary was performed in 2012.

2011

G5 Holding UKR (Ukraine) was incorporated in 2011 with 100 percent ownership. The purchase price was 50 kSEK, to be paid in 2012. G5 Entertainment SA (Luxembourg) was incorporated in 2011 with 100 percent ownership. The purchase price was 285 kSEK. At group level there was no cash effects due to the fact that the purchase price was similar to fair value of net assets, which mainly consisted of cash and bank.

NOTE 23. Shares in subsidiaries

Change	2012	2011
Accumulated value, opening balance	865	1 395
Purchase of shares	-	335
Write-down shares / sales of shares	-	-865
Accounted value at the periods end	865	865

Parent company's share holdings in group companies

Subsidiary	Corporate ID	Reg. office	No. of shares	Equity holding, %	Vote holding, %	Net amount
G5 Holdings LTD (inactive)	1005090	Hong Kong	1 000	100%	100%	500
G5 Holdings LTD	C 48516	Malta	1 200	100%	100%	12
G5 UA Holdings LTD (inactive)	C 49290	Malta	1 200	100%	100%	11
G5 Entertainment INC	3321541	USA	1 000	100%	100%	7
G5 Holding UKR	36374549	Ukraine	1 000	100%	100%	50
G5 Entertainment SA (inactive)	1392	Luxembourg	1 000	100%	100%	285

Subsidiaries share holdings in group companies

Subsidiary	Corporate ID	Reg. office	No. of shares	Equity holding, %	Vote holding, %
G5 UA Holdings LTD (inactive)	1187456	Hong Kong	1 000	100%	100%
G5 Holding RUS LLC	5087746112658	Russia	100	100%	100%

NOTE 24. Impairment test of goodwill

The most material part of the goodwill, 2 272 kSEK, is related to the former subsidiary Shape Games Inc.

The recoverable amount for the cash generating unit where the goodwill belongs is determined based on value-in-use calculations. This calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The growth rate does not exceed the long-term average growth rate for the business unit in which the cash generating unit belongs.

The key assumptions used for value-in-use calculations are as follow:

	CGU
Growth rate	15%
Discount rate	9%

No impairment write-down arose as Recoverable value (Value in use) exceeds the Carrying amount. Even with a decline in the growth rate with 2 percent or an increase in the discount rate with 2 percent there is no need for a write down.

NOTE 25. Account receivables and other receivables

In 2012, the group did a write-down of 0 (14) kSEK for account receivables. At the end of December, there were no significant account receivables of other receivables that were due for payment.

Other receivables

For development projects (development of the games), G5 partly use external development companies. 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. At the end of December 2012 the total advances to development companies amounted to 9 513 (4 187) kSEK. These advances are included in the balance sheet at line "Other receivables". Credit rating of these receivables is assessed continuously and no need of write down has been assessed.

NOTE 26. Pledged assets

Floating charge 700 (700) kSEK, pledged for cheque account with overdraft facility.

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

G5 Group has the possibility to use factoring service for improvement of its cash position, up to maximum 2 606 (1 384) kSEK. At balance date no part of account receivables are pledged at bank for credit limit.

NOTE 27. Contingent liabilities

The group does not have any contingent liabilities at balance date.

NOTE 28. Financial risks

G5 Entertainment is exposed to certain currency risks, i e the risk of the value of a financial instrument changing due to fluctuations in exchange rates. Interest and credit risks are considered marginal, because at present G5 does not have any external funding, while almost all sales are generated through major telecom and media companies, with consistently high credit ratings.

Currency translation and exposure risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The company 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.

At 31 December 2012, if the USD/EUR had weakened/strengthened by 5 percent against the SEK with all other variable held constant, the net result for the year would have been 1 380 (103) kSEK higher/lower.

Financial instruments split into categories (Group)

Financial assets	2012	2011
Account receivable	9 537	4 459
Other receivables	11 012	5 134
Cash at bank	13 661	17 541
Total	**34 210**	**27 134**

Financial liabilities	2012	2011
Account payable	5 402	2 267
Other liabilities	2 254	99
Accrued expenses	4 141	729
Financial liabilities measured at amortized costs	**11 797**	**3 095**

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.

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, 2013-05-24

Johan Wrang /s
Chairman

Vlad Suglobov /s
CEO

Pär Sundberg /s

Jeffrey W. Rose /s

Ein Stadalninkas /s

Our audit report was issued on 2013-05-24

Mazars SET Revisionsbyrå AB

Tomas Ahlgren /s
Authorized public accountant

AUDITOR'S REPORT

To the annual meeting of the shareholders of G5 Entertainment AB (publ)
Corporate identity number 556680-8878

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of G5 Entertainment AB (publ) for the year 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 5-331.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair representation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards as adopted by the EU and in accordance with the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director 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.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

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 the parent company as of December 31st 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and 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 December 31st 2012 and of their financial performance and cash flows in accordance with International Financial Reporting Standards as adopted by the EU and in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of G5 Entertainment AB (publ) for the year 2012.

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, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts, we and consolidated accounts examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Opinions

We recommend to the annual 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.

Stockholm 2013-05-24

Mazars SET Revisionsbyrå AB

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Tomas Ahlgren
Authorized Public Accountant

Glossary

Q1, Q2,…	Calendar quarters of the year starting 1st January.
kSEK	Thousands of Swedish krona
MSEK	Millions of Swedish krona
KUSD	Thousands of US dollars
RUR	Russian ruble
3G	Third generation wireless network
LLC	Limited liability company under Russian law
LTD	Limited liability company under Malta law
INC	Corporation under US law
PC	Personal computer platform
MAC	Apple's Macintosh computer
iOS	iPad, iPod, iPhone and Apple TV operating system

Contact Information

G5 Entertainment AB (publ)

With the questions regarding this report please contact Odd Bolin, Investor Relations by email at investors@g5e.se, or by phone at +46 70 428 31 73.

G5 Entertainment will be publishing its Q2 2013 report on August 15th 2013, Q3 2013 report on November 15th 2013, Q4 2013 report on February 25th 2014.

G5 Entertainment AB (publ) unites a group of active companies: G5 Holdings Limited (Malta), G5 Entertainment Inc (USA), G5 Holding RUS LLC (Russia), G5 Holding UKR (Ukraine).

The G5 Entertainment Group (G5) is a developer and publisher of high quality casual and free-to-play games for smartphones and tablets. The group distributes games through iOS, Google Play, Kindle Fire, Nook, and Mac application stores. G5 develops and publishes games that are family-friendly, easy to learn, and targeted at the widest audience of experienced and novice players. G5's portfolio includes popular games like *Virtual City, Supermarket Mania, Special Enquiry Detail, Stand O'Food*, and *Mahjongg Artifacts.* G5 also develops games based on third party licenses, and publishes games developed by third party developers.

G5 ENTERTAINMENT AB (publ)
BOX 5339, 102 47 STOCKHOLM SWEDEN
PHONE: +7 495 210 97 94
FAX: +46-8 545 075 49, +7 495 637 62 98
E-MAIL: CONTACT@G5E.COM
ORG.NR. 556680-8878
HTTP://WWW.G5E.COM