G5 ENTERTAINMENT AB

Reg.nr: 556680-8878

ANNUAL REPORT & CONSOLIDATED ACCOUNTS
JANUARY-DECEMBER 2011

Contents

G5 Group

At 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 Aktietorget exchange in Stockholm since November 19th 2008. Before that, G5 Entertainment AB was listed on NGM Nordic MTF since 2nd October 2006.

Board of Directors

Vlad Suglobov (CEO, Co-Founder) was born in 1977. Vlad Suglobov possesses over 16 years of game industry experience. Before co-founding G5 in 2001 and serving for 10 years as CEO of the group, Vlad graduated from Lomonosov Moscow State University with degree 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 Chairman of the Board at Guld Invest and 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 on Board of Directors of investment company SPB Investments, trade financing provider Nibur Trade Financing, and financial infrastructure developer Russian Chinese Financial Center.

Peter Benson - After graduating from the Stockholm School of Economics in 1999 Peter was a journalist with the financial daily Dagens Industri to 2003. Between 2004 and 2008 Peter worked with the stock market magazine Börsveckan as an owner, editor and manager. From 2008 Peter has primarily worked with investment management, since 2011 with AB Traction. Peter is a board member of Sveab Holding, GMV Holding and SwitchCore.

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 also serves 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.

Alik Tabunov (COO, Co-Founder), born in 1974, is an experienced IT manager with background in software engineering. During his 18+ years career Alexander participated in numerous IT and game projects in Russian and US companies, before co-founding G5 in 2001. Alexander is responsible for 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. Sergey started his career as software engineer and project manager and participated in numerous projects in Russian and US game development and IT companies before co-founding G5 in 2001 and becoming group's CFO. Sergey possesses deep understanding of software development which helps him in his CFO position. He received MS degree in Physics from Moscow State Institute of Engineering and Physics. Sergey also has ACCA Diploma in International Financial Reporting.

CEO Word

Dear Shareholders!

In 2011, G5 continued to grow as publisher and developer of games for smartphones and tablets. Global smartphone and tablet shipments already overtook PC and laptop shipments in 2011, and analysts forecast that by 2013 the difference in shipments will be two-fold, and by 2020, there will be over 10 billion mobile connected devices on the planet, while the market of apps for these devices will reach $25 billion in 2015 from $6.8 billion in 2010. The growth is worldwide, with US leading the market since 2009, while Europe and Asia are quickly catching up.

G5 debuted on this expanding market in 2009, starting with the Supermarket Mania game for iPhone and subsequently releasing well over 100 games for Apple's iPhone and iPad, Google Android phones and tablets, Amazon Kindle, Barnes&Noble Nook, and other devices of the "post-PC era", as present time is now called in the technology world. The number of downloads of G5's games increased five-fold from 2010 to 2011, and recently surpassed 50 million.

In 2011, G5 successfully debuted in free-to-play games with Virtual City Playground. This city simulation game can be downloaded for free, but provides the ability to purchase certain virtual goods, and many players choose to do so. This business model originally came from Asia and provides advantages in monetization compared to downloadable games. G5 plans to extend its offering in free-to-play games during 2012 and further.

In the market of games for smartphones and tablets, monetization through in-app purchases is prevalent now. By some estimates, in-app purchases accounted for over 70% of the App Store revenue in 2011. G5 is riding this trend. Already over 40% of the group's revenue in 2011 came from in-app purchases, and the ratio is expected to rise further in 2012.

G5's customer base and the ability to market games attracted tens of development studios from around the world that now work with G5 as a publisher on revenue share terms. During 2011, G5 further strengthened its developer network and has over 50 games in the pipeline for release during 2012. Still, the group's own games like *Virtual City*, *Special Enquiry Detail*, *Supermarket Mania*, *Stand O'Food*, and others continue generating the major part of the group's revenue.

The market of games for smartphones and tablets is forecasted to grow by leaps and bounds for at least several more years. This is why as G5 continues profitable growth in 2012, the management chooses to reinvest the profits in the licensing and development of new products, exploring new monetization models, and conquering new geographical markets and new technology platforms, with the goal to secure and improve the group's position in the market and maintain high pace of growth. The journey is only beginning.

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

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 1 January 2011 - 31 December 2011. 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 games on smartphones and tablets. G5's games are available on Apple's iPhone and iPad, Mac, devices powered by Google Android, and popular e-readers like Kindle Fire from Amazon and Nook from Barnes & Noble. G5's portfolio includes popular casual 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.

Before 2009, G5 Entertainment was known as one of the world's leading mobile game development studios, developing feature phone games based on popular licenses for Electronic Arts, Disney, and other publishers.

G5's games are targeted at the growing audience of casual game players on "post-PC" era devices: smartphones, tablets, e-readers, the install base of which is quickly growing. In Q4 2011 alone, Apple sold 62 million iOS devices (iPhones and iPads), and Google recently announced that they see over 850 000 Android device activations every day. Through the 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 2011, G5's revenue was almost equally distributed between Americas, Europe, and Asia. G5 is constantly working on increasing its distribution reach to new countries and channels. The group's audience is going to expand further as the group brings its established franchises and 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.

Offices

G5's development offices are located in Moscow, Russia and Kharkov, Ukraine. The group has 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 2011, the number of G5's aggregate employees and contract workers was 107.

2011 Financial Results

Consolidated revenue for the period January-December 2011 is 46 611 KSEK (9 548 KSEK in Q1, 9 594 in Q2, 12 065 KSEK in Q3, 15 404 KSEK in Q4), up 104% compared to 22 822 KSEK for the same period of 2010.

Operating result after financial items for the period January-December 2011 is 17 666 KSEK (3 921 KSEK in Q1, 3 841 KSEK in Q2, 3 706 KSEK in Q3, 6 198 KSEK in Q4), up 102% compared to 8 758 KSEK for 2010.

Earnings per share for the period is 1.86 SEK.

Liquidity

Current assets of the group as of December 31st 2011 were 32 599 KSEK. Current liabilities: 9 552 KSEK. Working capital (CA-CL): 23 047 KSEK. Current ratio (CA divided by CL): 3.41.

G5's Stock

Share

As of 31 December 2011, G5 Entertainment's share capital was SEK 800 000 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 7 613 049 shares. Each share confers equal rights to participation in G5's assets and earnings and confers the holder with one vote. There were no outstanding warrants regarding the shares.

The G5 share has been quoted on the NGM Nordic MTF exchange in Stockholm since 2nd October 2006 under symbol G5EN. The introduction rate was 3 SEK per share. Since November 19th 2008 G5's share is quoted on Aktietorget exchange in Stockholm. At year-end 2011, the share price was SEK 21.50 and total market capitalization was 172 MSEK.

Share Capital History

The trading of G5's shares on NGM Nordic MTF exchange in Stockholm started on 2nd October, 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% 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 Stockholders as of 31 Dec 2011

Stockholder	No. of Shares	Holding / Votes
AVANZA PENSION	1 220 111	15.25%
NORDNET PENSION	1 033 874	12.92%
WIDE DEVELOPMENT LTD*	720 000	9.00%
SHULTS, SERGEY	673 000	8.41%
PURPLE WOLF LTD**	660 000	8.25%
AB TRACTION	580 426	7.26%
SVENSK, TOMMY	387 000	4.84%
ABN AMRO BANK NV	339 000	4.24%
LILJEDAL, TORBJORN	125 572	1.57%
ALTAPLAN BERMUDA LTD	103 000	1.29%
Total	5 841 983	73.02%

Source: Euroclear Sweden AB

*Company controlled by Vlad Suglobov

**Company controlled by Alex Tabunov

Activities during 2011

By the end of 2011, G5's portfolio consisted of 115 game apps across several platforms, compared to 44 apps at the end of 2010 and 7 apps at the end of 2009. The management plans to release over 50 games (each game released as a separate app for each of the platforms that G5 supports) in 2012.

In July 2011, G5 started releasing its games on Google Play (formerly known as Android Market). In November, when Amazon Kindle Fire was launched in US, G5 started releasing its games for Amazon Appstore.

In the second half of 2011, G5 gradually released its first free-to-play game *Virtual City Playground* across iOS, Android, and then Mac, to the great success. On iPad, *Virtual City Playground* has been Top Grossing Game in 29 countries, Top 5 Grossing Game in 74 countries, and Top 10 Grossing Game in 87 countries all over the world.

The number of downloads of G5's games increased five-fold from 2010 to 2011, and recently surpassed 50 million. Multiple games have achieved top download and top grossing rankings all over the world.

During 2011, G5 has strengthened its developer partnerships with some of the world's best casual game development studios, and the group was actively filling its pipeline with projects to be published during 2012. The number of the group's development partners is now 50+.

In July, G5 Entertainment AB announced the closing of the share subscription agreement with the investment company AB Traction. G5 Entertainment AB issued 580 426 new shares, and Traction purchased these shares from the company at the price of 21.5 Kr per share, for a total amount of 12.5 MKr. The total number of shares in G5 Entertainment AB after issue are 8 000 000, of which AB Traction holds 7.26%.

Significant Events after Year End

G5 released a number of games on iOS, Mac, and Android, including *Royal Trouble: Hidden Adventures* for iPad, which achieved notable success, becoming Top 10 most downloaded game in 74 countries, and achieving Top 10 grossing game status in 45 counties and Top 100 grossing game status in 95 countries. G5 also started releasing its games for Barnes & Noble Nook devices in USA. The total number of downloads of G5 games (not counting update downloads) up to May 2012 exceeds 50 million mark.

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. Talisman™ technology is being continuously improved to be adapted in accordance with rapid technological progress.

In 2011, Research and development cost amounted to 1 751 (1 349 in 2010) KSEK.

Environment

G5 group does not work in an area where the environment will be affected in any material way. G5 is affecting global environment in the positive way by promoting digital distribution of games as instead of packaged distribution on a physical media. Digital distribution of games eliminates negative environmental impact associated with the production of game's disk or cartridge, packaging and accompanying printed materials. Digital distribution eliminates negative environmental impact of logistics and transporting packaged games from the factories to the shops. Customers can download G5's games directly to their iPhone, iPad, Android phone, e-reader or other gaming device from anywhere – on the go, at home or in the office, if they have suitable 3G/4G or Wi-Fi connection available.

Operational Risks

Dependency on Strategic Partners

G5 distributes its games through the companies that own and maintain electronic stores like Apple's App Store, Google Play (previously known as Android Market), Amazon Appstore, Barnes & Noble Nook Apps, and other distribution channels. G5's success depends on its relations with these companies. These companies partially control consumers and retain 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 overall trend during the past years was to slightly reduce this share and 30% became more or less industry standard, there is a risk that these companies in the future 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 as many distribution channels as possible, and expands to new game platforms.

Risk of Delay in Release of Games

Delays 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 like electronic 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 relatively young and unstable market, limiting the possibility to accurately evaluate the future progress of operations. Inaccurate assessment of market progress may adversely affect 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 hit in negative ways, which can weaken 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.

Financial Risks

Currency Translation and Exposure Risk

The board considers G5 Entertainment is exposed to currency risk i.e. the risk of the value of the 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, 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.

Tax Risk

The Company's operating activities are within Europe, Ukraine, Russian Federation (RF), United States (USA) and Asia. 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.

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 in the future may turn to financial markets to attract such capital. Since some shareholders would not take part in a share capital increase of this type, this could result in stock dilution.

Group Financial State

The group's revenue covers expenses, while excessive cash flow during 2011 was used to invest for future growth: funding new licensing deals, product development, and expansion to new platforms including Android. The group additionally attracted capital of 12.5 MSEK from AB Traction in July 2011 in order to be able to further increase its investments in new products and increase company's cash reserves. 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 paying no dividend in 2012. The following non-restricted equity in the Parent Company is at the disposal of the Annual General Meeting:

Share premium reserve	19 830
Profit\Loss carried forward	5 929
Net result for the year	12 603
Total	**38 362**

The Board propose no dividend shall be distributed to shareholders	0
To be carried forward as:	
Share premium reserve	19 830
Profit\Loss to be carried forward	18 532
Total	**38 362**

Group Financial Results

Income Statement

GROUP INCOME STATEMENT	NOTE	2011	2010
Net turnover (revenue)	4	46 611	22 822
Production cost	5, 6, 12	-19 199	-8 538
Gross Profit		**27 412**	**14 284**
General and administrative expenses	5, 6, 13	-9 911	-4 034
Other operating gains		496	-
Other operating losses	16	-275	-1 457
Operating Result before financial items		**17 722**	**8 793**
Financial income	17	37	-
Financial expenses	18	-93	-35
Operating Result after financial items		**17 666**	**8 758**
Taxes	8	-3 524	-1 302
NET RESULT FOR THE PERIOD		**14 142**	**7 456**
Attributed to:			
Parent Company's shareholders		14 142	7 403
Non-controlling interest		-	53
Weighted average number of shares	10	7 613 049	7 419 574
Earnings per share (SEK) before and after dilution	10	1.86	1.00

STATEMENT OF COMPREHENSIVE INCOME	NOTE	2011	2010
Income for the period		**14 142**	**7 456**
Recalculation Difference		2	-281
Total other comprehensive income for the period		**2**	**-281**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**14 144**	**7 175**
Attributed to:			
Parent Companys Shareholders		14 144	7 132
Non-controlling interest		-	43

Balance Sheet

GROUP BALANCE SHEET	NOTE	2011-12-31	2010-12-31
Fixed Assets			
Intangible fixed assets			
Capitalized development costs	7	17 386	8 728
Goodwill	7, 24	2 322	2 272
		19 708	**11 000**
Tangible fixed assets			
Equipment	7	1 539	837
		1 539	**837**
Total fixed assets		**21 247**	**11 837**
Current assets			
Account receivables	25	4 459	4 236
Other receivables		7 651	774
Prepaid expenses and accrued income		2 948	998
Cash and bank		17 541	4 892
Total Current assets		**32 599**	**10 900**
TOTAL ASSETS		**53 846**	**22 737**
Equity			
Share capital	9	800	742
Other capital contribution		19 872	7 451
Other reserves		80	78
Profit\Loss Brought Forward		23 542	9 400
Total shareholders' equity		**44 294**	**17 671**
Current liabilities			
Account payable		2 267	678
Other liabilities		99	1 311
Tax liabilities		6 457	2 120
Accrued expenses		729	957
Total current liabilities		**9 552**	**5 066**
TOTAL EQUITY AND LIABILITIES		**53 846**	**22 737**
Memorandum items			
Pledged assets	26	750	750
Contingent liability	27	None	None

Cash Flow Statement

GROUP CASH FLOW	NOTE	2011-01-01 2011-12-31	2010-01-01 2010-12-31
Operating activities			
Profit after financial items		17 666	8 758
Adjusting items not included in cash flow	21	6 587	4 574
		24 253	**13 332**
Taxes paid		-721	-28
Cash flow before changes in working capital		**23 532**	**13 304**
Cash flow from changes in working capital			
Decrease in operating receivables		-8 088	-3 502
Increase in operating liabilities		981	808
Cash flow from operating activities		**16 425**	**10 610**
Investing activities			
Purchase of property and equipment	7	-1 347	-546
Capitalized development costs	7	-14 624	-7 115
Sale of subsidiary	22	589	-
Cash flow from investing activities		**-15 382**	**-7 661**
Financial activities			
New share issue		12 479	-
Purchase from non-controlling interest	22	-863	-
Cash flow from financial activities		**11 616**	**-**
CASH FLOW		**12 659**	**2 949**
Cash at the beginning of the year		**4 892**	**1 962**
Cash flow		12 659	2 949
Exchange Rate diff		-10	-19
CASH AT THE END OF THE PERIOD		**17 541**	**4 892**

Changes in Equity

GROUP CHANGES IN EQUITY	Share Capital	Other Capital Contribution	Other Reserves	Profit/loss brought forward	Shareholders' equity	Non-controlling interest	Total Equity
Shareholder's Equity as of 2010-01-01	**742**	**7 451**	**349**	**2 634**	**11 176**	**188**	**11 364**
Acquisition of shares from non-controlling interest				-637	**-637**	-231	**-868**
Total comprehensive income			-271	7 403	**7 132**	43	**7 175**
Shareholder's Equity as of 2011-01-01	**742**	**7 451**	**78**	**9 400**	**17 671**	**-**	**17 671**
Total comprehensive income			2	14 142	14 144		14 144
New issue	58	12 421			12 479		12 479
Shareholder's Equity as of 2011-12-31	**800**	**19 872**	**80**	**23 542**	**44 294**	**-**	**44 294**

Business and Financial Ratios

Ratios	2011	2010
Financial Strength	82%	78%
Return on Equity	46%	51%
Return on Total Assets	46%	50%
Current Ratio	3.41	2.15

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

Parent company Financial Results

Income Statement

PARENT COMPANY INCOME STATEMENT	NOTE	2011	2010
Net Sales	4	46 150	22 054
Production costs	12	-30 085	-15 440
Gross profit		**16 065**	**6 614**
General and administrative expenses	13	-4 708	-2 317
Other operating gains	15	148	-
Other operating losses	16	-229	-251
Operating profit		**11 276**	**4 046**
Result from participation in Group Companies	20	4 295	3 244
Financial income		32	-
Financial expenses		-35	-2
Profit after financial items		**15 568**	**7 288**
Taxes	8	-2 965	-1 064
NET RESULT FOR THE YEAR		**12 603**	**6 224**

STATEMENT OF COMPREHENSIVE INCOME	NOTE	2011	2010
Net result for the year		12 603	6 224
Other comprehensive income		-	-
Total other comprehensive income for the period		**-**	**-**
Total comprehensive income for the period		**12 603**	**6 224**

Balance Sheet

PARENT COMPANY BALANCE SHEET	NOTE	2011-12-31	2010-12-31
Fixed assets			
Financial assets			
Shares in Group Companies	7, 23	865	1 395
		865	**1 395**
Intangible assets			
Capitalized development costs	7	16 453	8 422
		16 453	**8 422**
Current assets			
Account receivables	25	3 712	3 091
Receivables from Group Companies	11	1 123	725
Other receivables		6 568	1 703
Prepaid expenses and accrued income		2 948	998
Cash and bank		16 446	4 494
		30 797	**11 011**
TOTAL ASSETS		**48 115**	**20 828**
EQUITY AND LIABILITIES			
Restricted equity			
Share capital	9	800	742
Non-restricted equity			
Share premium reserve		19 830	7 409
Profit\Loss carried forward		5 929	-295
Net result for the year		12 603	6 224
		38 362	**13 338**
Total equity		**39 162**	**14 080**
Liabilities			
Accounts payable		1 290	263
Income tax liability		3 222	976
Liability to group companies	11	3 713	3 249
Other liability		61	1 303
Accrued expenses	19	667	957
Total Liabilities		**8 953**	**6 748**
TOTAL EQUITY AND LIABILITIES		**48 115**	**20 828**
Memorandum items			
Pledged assets	26	750	750
Contingent liabilities	27	None	None

Cash Flow Statement

PARENT COMPANY CASH FLOW	NOTE	2011	2010
Operating activities			
Profit after financial items		15 568	7 288
Adjusting items not included in cash flow	21	1 560	2 313
Taxes paid		-720	-28
Cash flow before changes in working capital		**16 408**	**9 573**
Cash flow from changes in working capital			
Increase/decrease in operating receivables		-3 262	-3 630
Increase/decrease in operating liabilities		772	4 161
Cash flow from operating activities		**13 918**	**10 104**
Investing activities			
Capitalized development costs	7	-13 886	-7 115
Purchase of shares in subsidiaries	22	-285	-
Sale of shares in subsidiaries	22	589	-
Cash Flow from investing activities		**-13 582**	**-7 115**
Financial activities			
Purchase from non-controlling interest	22	-863	-
New share issue		12 479	-
Cash flow from financial activities		**11 616**	**-**
CASH FLOW		**11 952**	**2 989**
Cash and bank at the beginning of year		**4 494**	**1 505**
Cash flow		11 952	2 989
CASH AND BANK AT THE END OF YEAR		**16 446**	**4 494**

Changes in Equity

PARENT COMPANY CHANGES IN EQUITY	Share Capital	Share Premium Reserve	Profit\Loss carried forward	Net Result of the year	Total Shareholder's Equity
Shareholder's Equity as of 01 January 2010	**742**	**7 409**	**1 911**	**-2 206**	**7 856**
Allocation of profit			-2 206	2 206	
Total comprehensive income				6 224	**6 224**
Shareholder's Equity as of 31 December 2010	**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 31 December 2011	**800**	**19 830**	**5 929**	**12 603**	**39 162**

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. G5 Entertainment AB was listed on Aktietorget exchange in Stockholm since November 19th 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. General Information and Accounting Principles

General Information

G5 Entertainment AB (publ) unites a group of 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 Aktietorget exchange in Stockholm since November 19th 2008.

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Accounting Principles

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 31 December 2011, the Swedish Annual Accountant Act and the Swedish Financial Reporting Board, RFR 1 for Group has been applied.

New amended standards effective as of 2011 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.

Accounting policy for the Parent Company, see Note 2.

Fiscal Year Info

Fiscal year 2011 is from 1st January, 2011 up to 31st December, 2011.

Conditions for Preparing the Parent Company and Consolidated Financial Statements

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.

Preparing the financial statements pursuant to IFRS necessitates the corporate management making evaluations, estimates and assumptions that influence the application of the accounting principles and the stated amounts for revenues, expenses, assets and liabilities.

Classification, etc.

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 and business combination

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% 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

Revenues are license payments, advances and royalties paid by customers. Advances payments are accounted as revenue at the date when corresponding work was actually complete and approved by customer. License payments are accounted as revenue at the date when license rights are actually transferred to customer. Royalties are accounted as revenue at the date when royalty report was received from customer. 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.

Other Intangible Assets

Acquired intangible assets are accounted at acquisition value less accumulated depreciation and write-downs. 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 depreciation. 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 investment, or when no future financial benefits are expected from the use or disposal/divestment 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

Intangible Fixed Assets

After first-time accounting, intangible fixed assets are accounted in the Balance Sheet at acquisition value less deductions for potential accumulated depreciation and write-downs. For intangible fixed assets with finite useful lives, depreciation 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 depreciated. 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 depreciation methods and useful lives are conducted annually.

Subject of Depreciation	Depreciation 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 reduced. 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 Employee

The group accounts employee benefits according to local regularity rules 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 regularity rules of subsidiary company.

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 losses 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.

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

Loans and receivables

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.

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 estimated and judgment

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.

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

The Group

Revenue split by countries	2011	2010
Sweden	46 150	22 054
Other Countries	461	768

The group is dependent on a few larger customers.

Fixed assets (tangible and intangible asset) split by countries	2011	2010
Sweden	16 453	10 694
Other Countries	2 472	1 143

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

Parent Company

Revenue Classification	2011	2010
Royalties	46 150	22 054

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 Quantity	2011	2010
Men	15	10
Women	8	4

Average Group Co-workers Through Contract Quantity	2011	2010
Men	56	41
Women	28	16

Board of Directors Quantity	2011	2010
Men	5	3
Women	0	0

Top Management Quantity	2011	2010
Men	2	2
Women	0	0

Total Staff Remuneration for the Group	2011	2010
Board of Directors	174	81
CEO	1 587	875
Top management, 2	1 892	1 398
Employees salary	2 369	208
Social tax	1 157	51
Other social costs	178	134
Co-workers through contract	4 991	5 503

CEO is elected by the Board for 3 years.

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 % of a basis, composed as operating result before financial items subtracted by an amount corresponding to 10% of revenue, of which CEO is entitled to 40 % and remaining 60 % is divided between top management. Possible operating loss before financial items in a quarter reduces basis for bonus calculation in next quarter. Top manager's total bonus for the year shall not exceed 50% of his fixed yearly salary.

The period of notice for the CEO 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. Employment conditions of CEO do not have any additional benefits such as stock options, or other remunerations.

NOTE 6. Board remuneration

Board of Directors Remuneration	2011	2010
Ein Stadalninkas	52	43
Johan Wrang	52	38
Peter Benson	35	-
Jeffrey Rose	35	-
Total	**174**	**81**

NOTE 7. Fixed Assets

The Group

Intangible Fixed Assets

Goodwill Changes	2011	2010
Intangible fixed assets at the beginning of year	2 272	2 272
Subsidiary purchase	50	-
Intangible fixed assets at the end of year	2 322	2 272

Capitalized development costs and IP Rights Changes	2011	2010
Intangible fixed assets at the beginning of year	8 728	5 462
Investment intangible fixed assets	14 624	7 115
Disposal	-229	-945
Depreciation	-5 728	-2 915
Currency exchange difference	-9	11
Intangible fixed assets at the end of year	17 386	8 728

Capitalized development cost	2011	2010
Accumulated costs	26 781	12 401
Accumulated depreciation / write-downs	-9 395	-3 673
Net amount	17 386	8 728

Tangible Fixed Assets

Tangible Fixed Assets Changes	2011	2010
Tangible fixed assets at the beginning of year	837	1 008
Disposal	-	-210
Investment tangible fixed assets	1 347	546
Depreciation	-630	-490
Currency exchange difference	-15	-17
Tangible fixed assets at the end of year	1 539	837

Tangible Fixed Assets	2011	2010
Accumulated costs	3 107	1 784
Accumulated depreciation / write-downs	-1 568	-947
Net amount	1 539	837

Parent Company

Financial Assets Changes	2011	2010
Financial assets at the beginning of year	1 395	924
Sale of financial assets	-	-412
Investment financial assets	335	883
Write-down shares in subsidiaries	-865	-
Financial assets at the end of year	865	1 395

Capitalized development costs

Intangible Fixed Assets Changes	2011	2010
Intangible fixed assets at the beginning of year	8 422	3 836
Investment intangible fixed assets	13 886	7 115
Disposal	-229	-
Depreciation	-5 626	-2 529
Intangible fixed assets at the end of year	16 453	8 422

NOTE 8. Taxes

The Group

Group Income Tax Expenses	2011	2010
Current tax	-5 080	-2 281
Deferred tax	-	-
Tax refund	1 556	979
Total tax expenses	**-3 524**	**-1 302**

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

	2011	2010
Profit / Loss before tax	17 666	8 758
Tax according to current tax rate 26.3 %	-4 646	-2 303
Non-taxable income	87	-
Refund tax in foreign subsidiaries	1 556	979
Adjustment for tax rates in foreign subsidiaries	-521	22
Tax charge	**-3 524**	**-1 302**

Parent Company

Parent Company Income Tax Expenses	2011	2010
Current tax	-2 965	-1 064
Total tax expenses	**-2 965**	**-1 064**

	2011	2010
Profit / Loss before tax	15 568	7 288
Tax according to current tax rate 26.3 %	-4 094	-1 917
Tax effect of income exempted from tax	1 357	853
Tax effect of expenses not deductible	-228	-
Tax charge	-2 965	-1 064

Income not subject for tax includes dividend from subsidiaries at the amount 5 160 (3 067) KSEK and result from sale of subsidiaries at the amount 0 (177) KSEK. Not deductable expenses includes write-down of subsidiaries 865 (0) 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.

Dividend

The Board of Directors has decided to propose to the Meeting no dividend to be paid for the financial year 2011.

NOTE 10. Earnings per share

The Group has no outstanding option scheme or similar that may have any dilution effect

Weighted average shares and shares at the End of the year:

2011	Shares at the End of the period	Weighted average shares
Jan - Aug	7 419 574	4 946 383
Sep - Dec	8 000 000	2 666 667
Total		**7 613 049**

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 31 December 2011, the parent company had 1 123 (725) KSEK in receivables from group companies and 3 713 (3 249) KSEK in liabilities to group companies. This amount was eliminated from consolidated receivables and liabilities. Parent company has no sale to subsidiaries. Parent company purchases from subsidiaries amount to 29 415 (17 575) 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	2011	2010
Development expenses, royalty to developers and license fees	-28 095	-11 570
Capitalized development costs	14 624	7 115
Depreciation of Capitalized development costs	-5 728	-4 083
Total production cost	**-19 199**	**-8 538**

Parent Company	2011	2010
Development expenses, royalty to developers and license fees	-38 350	-20 026
Capitalized development costs	13 886	7 115
Depreciation of Capitalized development costs	-5 621	-2 529
Total production cost	**-30 085**	**-15 440**

NOTE 13. General and administrative expenses

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

Group	2011	2010
Travel expenses	834	415
Administrative & Marketing Personnel	4 829	510
Advertising and PR	517	482
Stock exchange fee	150	161
Bank fee	221	140
Office expenses	1 154	1 004
Audit fees	477	508
Accounting	299	289
Consulting fees	109	119
Legal fees	359	250
Bad debt losses	-	14
Other external services	963	160
Total	**9 911**	**4 034**

Parent Company's General and administrative expenses:

Parent Company	2011	2010
Travel expenses	612	396
Advertising and PR	2 512	475
Stock exchange fee	150	143
Bank fee	94	56
Audit fees	388	372
Accounting fees	221	197
Consulting fees	109	254
Legal fees	359	250
Bad debt losses	-	14
Other external services	263	160
Total	**4 708**	**2 317**

NOTE 14. Audit Fees

Group	2011	2010
Mazars SET Revisionsbyrå (Sweden)	388	372
PKF (Hong Kong)	28	21
Victor Schranz (Malta)	29	99
Limbus (Russia)	14	16
Global Audit (Ukraine)	18	
Total	**477**	**508**

Parent Company	2011	2010
Mazars SET Revisionsbyrå (Sweden)	388	372
Total	**388**	**372**

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 2011 and 2010 there has been no tax consultancy, no other audit assignment and no other services.

NOTE 15. Other operating gains

Parent Company	2011	2010
Currency exchange gains	148	-
Total	**148**	**0**

NOTE 16. Other operating losses

Group	2011	2010
Currency exchange loss	46	302
Disposal of tangible and intangible fixed assets	229	1 155
Total	**275**	**1 457**

Parent Company	2011	2010
Currency exchange losses	-	251
Disposal of tangible and intangible fixed assets	229	-
Total	**229**	**251**

NOTE 17. Financial income

Group	2011	2010
Interest bank	37	-
Total	**37**	**-**

NOTE 18. Financial expenses

Group	2011	2010
Bank fees	93	35
Total	**93**	**35**

NOTE 19. Accrued expenses

Parent company	2011	2010
Audit	150	150
Royalty	360	779
Other	157	28
Total	**667**	**957**

NOTE 20. Result from participation in group companies

Income	2011	2010
Write-down shares in subsidiaries	-865	-
Result from sale of subsidiaries	-	177
Dividend from subsidiaries	5 160	3 067
Total	**4 295**	**3 244**

NOTE 21. Adjustments for items not included in cash flow

Group

Adjustments	2011	2010
Depreciation	6 358	3 405
Gain and losses from selling and disposal of tangible and intangible	229	1 155
Write down of account receivable	-	14
Total	**6 587**	**4 574**

Parent company

Adjustments	2011	2010
Depreciation	5 626	2 529
Write-off receivables	-	14
Result from sale of subsidiaries	-	-177
Write-off shares in subsidiary	865	-
Disposal of intangible	229	-
Other	-	-53
Dividend	-5 160	-
Total	**1 560**	**2 313**

NOTE 22. Acquisition and sale of subsidiaries

2011

G5 Holding UKR (Ukraine) was incorporated in 2011 with 100% ownership. The purchase price was 50 KSEK, to be paid in 2012. G5 Entertainment SA (Luxembourg) was incorporated in 2011 with 100% 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.

2010

30% shares of both G5 UA Holdings LTD (Hong Kong) and G5 UA Holdings LTD (Malta) were acquired during 2010 by G5 Entertainment AB, bringing total ownership to 100%. The purchase price KUSD 125 was paid during 2011.

All assets, licenses and trademarks of Shape Games Inc were acquired by G5 Entertainment AB and 100% shares in Shape Games Inc were sold during 2010 for 87 KUSD and paid during 2011.

NOTE 23. Shares in Subsidiaries

Change	2011	2010
Accumulated value, opening balance	1 395	924
Purchase of shares	335	883
Write-down shares / sales of shares	-865	-412
Accounted value at the periods end	865	1 395

Parent company's share holdings in group companies

Subsidiary	Corporate ID	Reg. office	No. of shares	Equity holding, %	Vote holding, %	Carrying amount, KSEK
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	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, %	Carrying amount, KSEK
G5 UA Holdings LTD (inactive)	1187456	Hong Kong	1 000	100%	100%	0
G5 Holding RUS LLC	5087746112658	Russia	100	100%	100%	3

NOTE 24. Impairment test of Goodwill

The most material part of goodwill, 2 272 KSEK, is related to transferred business in Shape Games Inc.

The gaming business in the former subsidiary Shape Games Inc was in all material aspects transferred to the parent company G5 Entertainment AB in 2009. The goodwill has therefore been reallocated from cash generating unit identified as the former subsidiary Shape Games Inc to a cash generating unit organized and analyses as part of the business in the parent company.

The recoverable amount of CGU is determined based on value-in-use calculations. This calculations use pre-tax cash flow projections based on financial budgets approved by management covering 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 in which CGU operates.

Goodwill from Shape Games Inc

The value for goodwill that has been reallocated from the former subsidiary in Shape Games Inc to a unit in the parent Company has been tested for impairment based on above assumptions.

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% or an increase in the discount rate with 2% there are no need of a write down.

NOTE 25. Write-down of Account Receivables

In 2011, the G5 group did a write-down of KSEK 0 (14) for account receivables.

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 1 384 (1 360) KSEK. At balance date no part of account receivables are pledged at bank for credit limit.

NOTE 27. Contingent Liabilities

G5 Group does not have any contingent liabilities at balance date.

NOTE 28. Financial Risks

The board considers G5 Entertainment is exposed to currency risk i.e. the risk of the value of the 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 and Euro.

At 31 December 2011, if the USD/EUR had weakened/strengthened by 5% against the SEK with all other variable held constant, the net result for the year would have been 103 (287) KSEK higher/lower.

Financial instruments split into categories (Group)

Financial Assets	2011	2010
Account receivables	4 459	4 288
Other receivables	10 599	1 720
Cash at bank	17 541	4 892
Loans and Receivables	32 599	10 900

Financial Liabilities	2011	2010
Account payable	2 267	678
Other liabilities	99	1 311
Accrued expenses	729	957
Financial liabilities measured at amortized costs	**3 095**	**2 946**

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.

To the best of their knowledge, the Board of Directors and Chief Executive Officer offer their assurances:

- that the Annual Report has been prepared in accordance with generally accepted accounting principles for listed companies;
- that the information submitted is consistent with actual circumstances;
- that no material omissions have been made that could affect the impression of G5 group created by the Annual Report

Johan Wrang /s
Chairman

Vlad Suglobov /s
CEO

Peter Benson /s

Jeffrey W. Rose /s

Ein Stadalninkas /s

Stockholm, Sweden, 2012-06-04

Our audit report was issued on 2012-06-04

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 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 5-31.

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 2011 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 2011 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 2011.

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 2012-06-04

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 Sergey Shults, Investor Relations by email at investors@g5e.se, or by phone at +7 495 978 54 79 or +7 916 652 36 73.

G5 Entertainment will be publishing its Q2 2012 report on August 15th 2012, Q3 2012 report on November 15th 2012, Q4 2012 report on February 25th 2013.

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

G5 Entertainment Group is a developer and publisher of high quality downloadable casual games for iPhone, iPad, Android and Mac.

G5 Entertainment started as one of the world's leading mobile game development studios, developing games based on popular licenses for the largest mobile game publishers. Since 2009, G5 is developing and publishing downloadable games for iPhone, iPad, Android, and Mac. G5's portfolio includes popular casual games like *Supermarket Mania, Special Enquiry Detail, Virtual City*, *Stand O'Food*, and *Mahjongg Artifacts.* G5 also develops games based on third party licenses, and publishes games developed by third party developers.

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