NEXT GAMES CORPORATION

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DEC 2019 | FOR THE FINANCIAL YEAR ENDED

CONTENTS

BOARD OF DIRECTOR'S REPORT

Next Games is a Finnish developer and publisher of license-based, free-to-play mobile games founded in 2013. The company became the first listed game company in Finland on the Nasdaq First North Finland marketplace in 2017. The group's business operations are run by it's parent company, Next Games, which operates the full game development and publishing life-cycle from game development to publishing, marketing and sales. The games are available to consumers on Apple's and Google's app stores and are based on third-party brands or global entertainment franchises, such as movies, TV-series or books.

Thanks to the critically acclaimed The Walking Dead games, Next Games is a pioneer in its own category. The company's first The Walking Dead game was published in 2015 and in summer 2018 the company published The Walking Dead: Our World, which utilizes the latest AR (Augmented Reality) and location-based technology and is powered by Google Maps. Next Games is currently working on multiple new games based on popular entertainment franchises including Blade Runner Nexus, for the popular Blade Runner franchise and a mobile game based on the Netflix series Stranger Things.

Year 2019 in brief

Next Games' operating profit (EBIT) improved by EUR 9.5 million from 2018, while revenues declined by 1.6%. Revenues amounted to EUR 34.7 million (35.2) in 2019 and the group has succeeded in consistently achieving over EUR 30 million euros in revenue for four consecutive years. Revenues are derived from two live products: The Walking Dead: Our World and The Walking Dead: No Man's Land. During 2019, Next Games did not publish new games to the market as the testing and development of Blade Runner Nexus continued into 2020.

The group's publishing operations – i.e. revenues from published games adjusted by all expenses related to the further development of the games, marketing and customer service – turned profitable during 2019. The EBITDA of the publishing operations was EUR 3.8 million (-4.5). Due to the level of research and development costs, the returns from the company's published games did not cover alla costs of product development and group wide EBITDA was EUR -3.5 (-14.8) million.

The group carried out a turnaround project focusing on improving operational efficiency and successfully cutting costs to a new, lower level during 2019, which resulted in improved operating profit. According to the group's assessment, it has a good opportunity to further improve its operational efficiency through better alignment of its operations and enhanced utilization of shared infrastructure. In September, Next Games strengthened its equity, and cash balance sheet with a successful EUR 8 million rights issue.

External factors related to the group's operating environment also influenced the group's financial position in 2019. The growth of the US market into the largest gaming market measured by revenue, overtaking China in 2019, was a positive development from Next Games' perspective. However, growing user acquisition costs have slowed down the growth of the market, which is an important factor as the group investigates opportunities to grow the daily active user numbers in its games. Due to the rising prices, payback times for marketing investments are longer, which sets pressure towards the games' performance and requires capital and risk tolerance from the group.

Important Events in 2019

» Three-phased turnaround project successfully completed
» Successful rights offering resulted in gross proceeds of EUR 8 million
» Business Finland awarded a EUR 2 million grant for a project to develop Next Games' machine learning and AI (Artificial Intelligence) capabilities
» Next Games and Netflix announced their collaboration to develop a mobile game based on the Stranger Things hit series
» The Walking Dead: Our World won three international Webby Awards for technical and Augmented Reality execution
» Next Games' Game Developer Academy started. The academy is a program for students and for more experienced programmers looking to get into the games industry.

Key Financial Figures

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Revenue	34,701	35,245
Gross Profit	19,688	21,294
EBITDA	-3,468	- 14,750
Operating Result (EBIT)	-7,436	-16,914
Adjusted Operating Profit	-3,965	-13,778
Non-Diluted earnings per share, EUR	-0.41	-0.99
Diluted earnings per share, EUR	-0.41	-0.99

%	Jan–Dec 2019	Jan–Dec 2018
Gross Profit %	57%	60%
EBITDA %	-10%	-42%
Operating Result Margin %	-21%	-48%
Adjusted Operating Profit %	-11%	-39%

Game Development

During 2019, Next Games had two games that generated revenue: The Walking Dead: No Man's Land and The Walking Dead: Our World. In addition, the game based on Netflix's Stranger Things series entered production phase, and Blade Runner Nexus was moved back into production during the fourth quarter of 2019. At the end of 2019, 13% of employees worked on The Walking Dead: No Man's Land (14% in 2018), 23% on The Walking Dead: Our World (24% in 2018) and 51% worked on generic Product Development (49% in 2018). About 12% of the employees worked in general administration (13% in 2018).

Over half of the company's staff worked on new products and technology development in 2019. The research and development costs exceeded the operating profit from the publishing operations, and thus the group's operating result was negative in 2019.

As part of its usual business operations, Next Games has continued to research third party licenses with a focus on future projects in collaboration with several international license holders. In order to achieve revenue growth, the group has also actively developed its advertising revenue model. Additionally, the group has piloted an innovative location-based ad solution in The Walking Dead: Our World in collaboration with a substantial, international partner with promising preliminary results.

PUBLISHING OPERATIONS' PROFITABILITY

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Revenue	34,701	35,245
Gross Profit	19,668	21,294
Marketing & Sales	-17,594	-26,776
Depreciations, Publishing Operations	1,693	1,030
Publishing Operations EBITDA	3,767	-4,452

COMBINED KEY OPERATIONAL METRICS

	10–12/2019	07–09/2019	04–06/2019	01–03/2019	10–12/2018
Gross Bookings, EUR thousand	8,178	7,864	8,971	9,536	11,552
DAU	303,847	295,509	349,993	441,735	482,814
MAU	1,267,688	1,013,796	1,161,302	1,670,936	1,505,995
ARPDAU (USD)	0.33	0.29	0.30	0.27	0.30
ARPDAU (EUR)	0.29	0.27	0.29	0.24	0.27

Re-allocation of gross bookings in periods due to recognition of ad revenues and currency exchange differences. Changes do not affect revenues.

The group's publishing operations – i.e. revenues from published games adjusted by all expenses related to the further development of the games, marketing and customer service – turned profitable during 2019. The EBITDA of the publishing operations was EUR 3.8 million (-4.5). The combined number of daily active users for both games decreased 23.5% from 2018, whereas the average revenue per daily active user grew by 24%.

Game Development Pipeline

31 Dec 2019

Live Games

THE WALKING DEAD: NO MAN'S LAND

The game's average revenue per daily active user (ARPDAU) grew by 6% and averaged EUR 0.22 during 2019. The number of daily active users decreased from 2018. The team succeeded in their goal to maintain the game's revenue on a stable level and maintain the game's profitability as an independent project.

TWD: No Man's Land	Q4/2019	Q3/2019	Q2/2019	Q1/2019	Q4/2018
Gross Bookings, EUR thousand	4,244	3,366	3,753	4,547	5,727
DAU	183,087	162,940	189,852	225,048	253,339
MAU	651,104	479,144	539,948	669,181	728,296
ARPDAU (USD)	0.27	0.23	0.24	0.25	0.28
ARPDAU (EUR)	0.25	0.21	0.22	0.22	0.25

THE WALKING DEAD: OUR WORLD

Our World set a new ARPDAU record of EUR 0.41 in December 2019. Despite the improved ARPDAU metric, the company was unable to grow the game's user base as the game's retention was not on an optimal level. As a result, the game's marketing investments were on a higher level than the company's target relative to the game's revenue. This affected operational profitability for both the game and the company. The user cohorts acquired with the game's launch investments had generated back their acquisition investment by August 2019, and the game has remained profitable as a stand-alone project throughout 2019. Standard video ads already implemented in No Man's Land were added to Our World in mid-June 2019.

TWD: Our World	Q4/2019	Q3/2019	Q2/2019	Q1/2019	Q4/2018
Gross Bookings, EUR thousand	3,906	4,473	4,849	4,961	5,793
DAU	114,367	127,078	154,936	210,693	222,943
MAU	591,469	528,751	602,486	982,345	758,542
ARPDAU (USD)	0.40	0.40	0.37	0.29	0.31
ARPDAU (EUR)	0.38	0.36	0.35	0.26	0.28

Our World video ads added in Q2 2019.
Re-allocation of gross bookings in periods due to recognition of ad revenues and currency exchange differences.
Changes do not affect revenues.

Games in Development

BLADE RUNNER NEXUS

Blade Runner Nexus was developed throughout 2019. The company aimed to launch the game in 2019, but the release was postponed due to results from the game's testing. During the fourth quarter, a decision was made to return the game to the production phase as the game did not achieve the required targets to continue soft launch at this stage. Since then, the development has focused on improving the game's features and quality with continuous testing. New test results have signaled significant improvements in the game's key metrics and the development continues.

STRANGER THINGS

The game based on Netflix's Stranger Things series moved to production phase in 2019. During 2019, the game team has grown to an optimal size to complete the game's development. Development and testing of the game are proceeding as planned and the goal is to release the game according to its original schedule in 2020.

Renewal of Product Development Operations

During 2019, Next Games invested in renewing its game development process as part of the company's turnaround plan. The goal for the new operating model is to decrease time to market for the company's products and reduce the risk involved in different stages of the development. One of the key goals for the new model was to increase code reusability and reutilization of various game functionality components as well as augment the shared infrastructure between the company's games. As a result from the investments made in the company's proprietary technology platform, large-scale and efficient reutilization is possible.

Using shared components in between games is an efficient way to affect not only product development times, but also production costs through a smaller development team, for example. Teams will be able to nearly fully focus on building game-specific functionality as the most common basic functionality, such as various technical integrations and communication methods needed in all games being provided out-of-the box.

Shared components include among others:

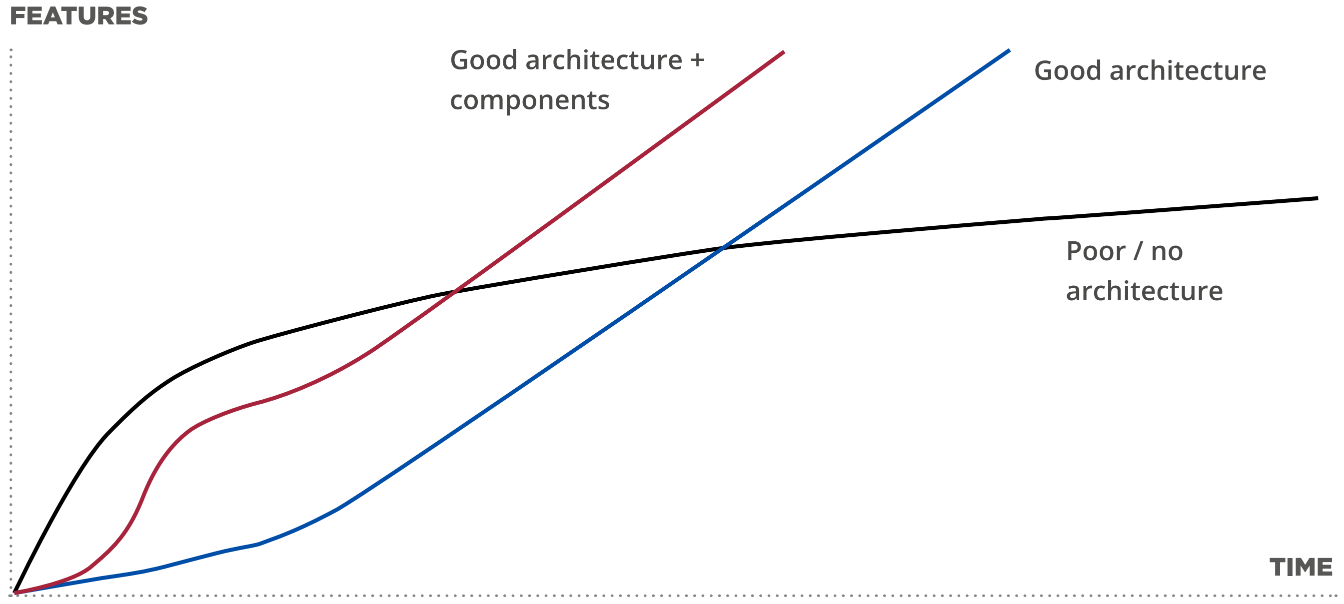
» **Technical integrations:** server, analytics or app store connections, for example
» **Transactions:** purchase events or player progression in the game, for example
» **Communications methods:** chat functionality or display of the players' leaderboard ranking, for example
» **Storage:** player levels or reporting the amount on virtual goods or in-game currency balance, for example
» **Live operations tools:** tools for operating in-game sales or events, for example

During 2019, a total of 14 shared components have been produced, of which all have been used across projects. These components have primarily been utilized in newer projects, but some of them also in the live products:

» No Man's Land – 1 component
» Our World – 5 components
» Blade Runner – 5 components
» Stranger Things – 12 components
» Prototypes – 8–12 components on average

During the next two-three years, the group aims to continue producing shared components and up to doubling their amount. Over a longer time-period, it is possible to achieve considerable benefits and savings for example in development times. The way the shared components are used is game-specific, and not all games will have the opportunity to use the maximum number of components.

The effect of technical architecture and shared components on game development times



Outlook 2020

In 2020, Next Games expects to achieve moderate revenue growth. The potential growth will be weighed towards the end of 2020. The company believes its publishing operations EBITDA will continue to be profitable. The company expects the revenues from already published games to continue on a flat or declining trend.

BASIS FOR OUTLOOK

The outlook is based on an estimate that the company publishes one or two games during 2020. The revenue growth forecast is based on the company's estimate on the success of its new products.

Dividend Policy

Next Games does not have a defined dividend policy. All shares carry equal rights to dividends and other distributions of the company after the shares have been registered in the Trade Register.

Dividend Proposal

The table below shows the parent company's distributable funds on December 31, 2019 and December 31, 2018. On December 31, 2019, distributable funds totaled EUR 13.8 million, of which EUR -9.5 million consisted of a loss for the financial year ended December 31, 2019. The Board of Directors proposes to the Annual General Meeting that the loss for the financial year ended December 31, 2019 be recognized as retained earnings and that no dividend be paid for the financial year ended December 31, 2019. The Board of Directors Report will be signed before it is presented to the Annual General Meeting and a proposal will be made at the AGM.

PARENT COMPANY DISTRIBUTABLE EQUITY

EUR thousand	2019	2018
Reserve for invested unrestricted equity	61,410	53,335
Retained earnings (loss)	-38,116	-16,477
Profit (loss) for the financial year	-9,457	-21,638
Retained earnings, total	13,837	15,220
Total	**13,830**	**15,213**

FINANCIAL REVIEW

Revenue and Earnings Development

In 2019, Next Games' revenue was EUR 34.7 million (35.2), a decline of 1.6% to 2018. The largest countries in terms of revenue were the United States (45%), Germany (10%), and Japan (8%). Revenue grew by 12% in the North American region and declined by 7% in the EU region. In other ares, such as Asia, revenue declined by 18%.The company did not publish games to the Chinese market in 2019. The majority of revenue 94% (94%) was generated from in-app purchases and 6% (6%) from advertising sales. Platform-specific revenue remained similar to the previous year, with Apple's App Store and Google Play Store each contributing 50% of the company's revenue.

REVENUE 2019 AND 2018

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Revenue	**34,701**	**35,245**
Change in prepayments	-503	544
Gross bookings	34,198	35,789

REVENUE BY MARKET 2019 AND 2018

EUR thousand	Jan–Dec 2019	Percentage of revenue %	Jan–Dec 2018	Percentage of revenue %
By geographical markets	**34,701**	**100%**	**35,245**	**100%**
North America	16,657	48%	16,918	48%
EU	9,716	28%	10,221	29%
Finland	347	1%	352	1%
Other	7,981	23%	7,754	22%

REVENUE BY CATEGORY 2019 AND 2018

EUR thousand	Jan–Dec 2019	Percentage of revenue %	Jan–Dec 2018	Percentage of revenue %
Revenue	**34,701**	**100%**	**35,245**	**100%**
By category of activity				
In App Purchases (IAP)	32,675	94%	32,994	94%
Advertising (ADS)	2,026	6%	2,251	6%

REVENUE BY PLATFORM 2019 AND 2018

EUR thousand	Jan–Dec 2019	Percentage of revenue %	Jan–Dec 2018	Percentage of revenue %
Revenue by platform	**34,701**	**100%**	**35,245**	**100%**
iOS	17,351	50%	17,954	51%
Android	17,351	50%	17,291	49%

Apple's App Store and Google Play Store each contributed 50% of the company's revenue

The group's operating result in 2019 was EUR -7.4 million (-16.9). Operating result in the comparative period was significantly affected by the worldwide release of The Walking Dead: Our World in July 2018, which resulted in significant investment in the marketing of the game. The company carried out a turnaround project focusing on improving operational efficiency and succesfully cutting costs to a new, lower level during 2019, which resulted in improved operating result. The loss for the financial year was EUR -8.3 million (-18.0). Financial income and expenses were EUR -0.2 million (0.1) and the share of losses of associated companies was EUR -0.2 million (-0.1). Taxes for the period were EUR -0.5 million (-1.2), mainly due to a change in deferred taxes. Basic earnings per share were EUR -0.41 (-0.99).

Cash Flow, Financing and Balance Sheet

The balance sheet total in 2019 was EUR 34.6 (36.5) million. The equity ratio improved and was 65% (63%).

BALANCE SHEET KEY FIGURES 2019 AND 2018

EUR thousand	31 Dec 2019	31 Dec 2018
Non-current assets	21,734	22,829
Current assets	12,907	13,646
Total assets	**34,641**	**36,475**
Equity	22,837	22,876
Long-term liabilities	3,669	4,663
Short-term liabilities	8,135	8,936
Total liabilities	**11,804**	**13,599**
Total equity and liabilities	**34,641**	**36,475**

EUR thousand	2019	2018
Equity ratio %	65%	63%

At the end of the financial year 2019, cash and cash equivalents increased by EUR 0.4 million to EUR 7.7 million (7.3) compared to end of financial year 2018. The company also has a fully unused credit facility of EUR 3 million. The company mainly finances its operations through equity financing and operating income. The company has also received government support and loan from Business Finland.

Total net cash flow from operating activities in 2019 amounted to EUR -3.6 (-12.0) million. In addition to significant improvements in the financial result, cash flow from operating activities was positively influenced by overall improved working capital and extended payment periods.

The cash flow from financing activities was EUR 6.6 million (-0.6). Compared to the comparison period, the cash flow from financing was mostly influenced by October 2019 rights issue of EUR 8 million and the IFRS 16 leasing payments of EUR -1.2 million (-0.6).

In 2019, Business Finland awarded Next Games a EUR 2 million grant for a project to develop its machine learning and AI (Artificial Intelligence) capabilities. The project started in December 2019 and is expected to end latest on September 30, 2021. The project has four phases and Business Finland will issue the grant in four stages based on submitted and approved reports on costs incurred and progression of the project.

Research and Development Activities

The group's direct research and development expenses consist of salaries and outsourced product development costs. R&D expenses in 2019 were EUR 6.6 (7.5) million in total, related to both game development and technology development. In 2019, Next Games capitalized EUR 2.4 million (5.0) development costs according to IAS 38. The company's game development and other research and development activities are located in Helsinki, Finland.

RESEARCH AND DEVELOPMENT COSTS 2019 AND 2018

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Personnel expenses	-4,331	-4,499
Outsourcing	-467	-4,163
Depreciations	-1,341	-725
Share-based payments	-285	-718
General cost allocation	-2,522	-2,400
Capitalization	2,377	4,965
Total	**-6,570**	**-7,541**
Percentage of revenue	-19%	-21%

For more information, see section 2.3 in the notes to the financial statements.

NON-FINANCIAL INFORMATION

Personnel

At the end of 2019, Next Games had 107 (140) employees who represented 24 (20) different nationalities. Of Next Games employees, 75% (79%) were men, and 25% (21%) were women. On average in 2019, the company employed 106 people (135 people in 2018).

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Salaries and wages	5,036	5,088
Other social expenses	136	137
Share-based payment expense	527	1,483
Pension expenses	836	929
Total	**6,535**	**7,636**

For more information, see section 5.7 in the notes to the financial statements

Annual General Meetings

Both, the Annual General Meeting and the Extraordinary General Meeting, authorized the Board of Directors to decide on the repurchase of the company's own shares, on the issuance of new shares and on the issuance of option rights entitling to shares. For more information, see Authorizations.

EXTRAORDINARY GENERAL MEETING

Next Games Corporation's Extraordinary General Meeting, held on September 25, 2019, elected Nicholas Seibert to the Board of Next Games Corporation to replace Joakim Achrén.

ANNUAL GENERAL MEETING

The Annual General Meeting of Next Games Corporation on May 21, 2019 approved the financial statements for 2018. The Annual General Meeting released the Board of Directors and the CEO from liability for the financial period January 1-December 31, 2018. The Annual General Meeting elected the members of the Board of Directors and the auditor. It approved the monthly remuneration of the Chairman of the Board of Directors to be EUR 4,500 and other members of the Board to be EUR 2,500. In addition, each Audit Committee and Remuneration Committee member will be paid EUR 1,000 for each committee meeting. The Annual General Meeting resolved, as proposed by the Board of Directors, that no dividend be paid for 2018.

Authorizations

On February 23, 2017, the company's shareholders resolved unanimously to authorize the Board of Directors to decide on one or more directed share issues against consideration. By virtue of this authorization, the number of new shares issued based on the authorization shall not exceed 1,900,000 shares. Under the authorization, the Board of Directors may decide on a directed share issue in deviation from the shareholders' preemptive rights, provided that there is a weighty financial reason from the company's perspective, including the issue of shares for executing potential acquisitions or other corporate transactions, or for acquiring new licenses against the share consideration. Under the authorization, the Board of Directors has the right to decide on the other terms and conditions of a share issue. The authorization is valid for five years from the date it was granted, i.e. until February 23, 2022. As at December 31, 2019, the authorization remains fully unused.

On May 21, 2019, the Annual General Meeting authorized the Board of Directors to decide on the purchase of a maximum of 1,800,000 the company's own shares in one or several instalments. Shares can be purchased for the purpose of improving the company's capital structure, carrying out corporate or financing transactions, implementing the company's incentive schemes, or to be otherwise transferred or cancelled. The authorization is valid until November 21, 2020. As at December 31, 2019, the authorization remains fully unused.

On May 21, 2019, the Annual General Meeting authorized the Board of Directors to decide on the issuance of shares and/or option rights to entitling to shares for example for carrying out corporate or financing transactions, in consideration for new licenses, for creating strategic partnerships, for implementing the company's incentive schemes, or for other purposes decided by the Board of Directors. Pursuant to the authorization, the Board of Directors may decide to issue a maximum of 1,800,000 shares in one or several tranches. However, a maximum of 925,000 shares may be issued for the purpose of implementing the company's incentive schemes. The authorization includes the right to decide on issues of shares and/or option rights in deviation from the shareholders' pre-emptive rights (directed issue). The Board of Directors may decide to issue either new shares or treasury shares. The authorization is valid until 21 November 2020. As at December 31, 2019, 835,376 shares have been issued and 964,624 shares remain unused.

On September 25, 2019, the Extraordinary General Meeting resolved to authorize the Board of Directors to decide on the issuance of shares in accordance with the Board of Directors' proposal. Pursuant to the authorization, a maximum of 10,000,000 shares may be issued in one or more tranches, corresponding to approximately 53.7% of all registered shares in the company. Under the authorization, the Board of Directors may issue either new shares or treasury shares. The share issue would be carried out in accordance with the shareholders' pre-emptive subscription right, i.e. new shares would be offered for subscription by the company's shareholders pro rata to their existing shareholding in the company. The Board of Directors would be authorized to decide on all other conditions of the issuance of shares. The authorization is valid at most until the end of the next Annual General Meeting. The authorization does not revoke prior authorizations of the Board of Directors to decide on the issuance of shares and/or option rights entitling to shares. As at December 31, 2019, 9,298,430 shares have been issued and 701,570 shares remain unused.

On September 25, 2019, the Extraordinary General Meeting resolved to authorize the Board of Directors to decide on a share issue and/or issue of option rights entitling to shares in accordance with the Board of Director's proposal. Pursuant to the authorization, a maximum of 1,500,000 shares may be issued in one or more tranches, corresponding to approximately 8.1% of all registered shares in the company on the date of the notice convening the General Meeting. The share issue and/or issue of option rights can be carried out in deviation from the shareholders' pre-emptive subscription right (directed issue). Under the authorization, shares and/or option rights can be issued for the implementation of the Company's incentive schemes. Under the authorization, the Board of Directors may issue either new shares or treasury shares. The Board of Directors would be authorised to decide on all other conditions of the issuance of shares and/or option rights. The authorization would be valid until 25 September 2024. The authorization does not revoke prior authorizations of the Board of Directors to decide on the issuance of shares and/or option rights entitling to shares. As at December 31, 2019, the authorization remains fully unused.

Composition of the Board and its Committees

The Annual General Meeting appointed the members of the Board of Directors. In the Extraordinary Annual General Meeting Nicholas Seibert was elected to the Board to replace Joakim Achrén.

Members of the Board of Directors:

» Petri Niemi, Chairman of the Board
» Jari Ovaskainen, Member of the Board
» Peter Levin, Member of the Board
» Xenophin Lategan, Member of the Board
» Elina Anckar, Member of the Board
» Nicholas Seibert, Member of the Board

The Board of Directors has evaluated the independence of its members. All Board members are independent of the company. Jari Ovaskainen owns 23.56% of the company, the other members of the Board are independent of the company's shareholders.

The Board of Directors has two committees, the Audit Committee and the Remuneration Committee. The members of the Audit Committee are Elina Anckar (Chairman) and Petri Niemi. The members of the Remuneration Committee are Petri Niemi (Chairman) and Jari Ovaskainen.

Audit

PricewaterhouseCoopers Oy continued as auditor of Next Games Corporation, with Jukka Karinen (APA) as the principal auditor.

Group Composition

There were no changes in the group structure in 2019. Further information on the structure of Next Games Group can be found in the notes to the financial statements, section 1.4.

CEO and Group Executive Management

The Group's executive management consisted of the following members in 2019

- Teemu Huuhtanen, Chief Executive Officer
- Annina Salvén, Chief Financial Officer
- Joonas Viitala, Chief Operating Officer
- Saara Bergström, Chief Marketing Officer
- Kalle Hiitola, Chief Technology Officer

Chief Product Officer, Emmi Kuusikko, moved on to other duties in February 2019.

Corporate Governance

A separate Corporate Governance Statement has been published in connection with the Board of Directors' Report. The statement is available on the Next Games website at **www.nextgames.com**

Share Capital and Shareholders

The shares of Next Games Corporation (NXTGMS), ISIN FI4000233267 are listed on Nasdaq First North marketplace maintained by Nasdaq Helsinki Ltd. The company's shares are included in the book-entry system operated by Euroclear Finland Ltd. As at December 31, 2019, Next Games' registered share capital amounted to EUR 80,000 and the number of registered shares was 27,916,224 (18,503,314 at the end of 2018). The weighted average of shares in 2019 was 20,346,171 (18,363,428 shares in 2018). The Company has one class of shares. Each share entitles its shareholder to one (1) vote in the general meeting.

The rights issue of Next Games Corporation was completed in October 2019. A total of 9,298,430 new Next Games shares were offered in connection with the issue. The subscription price was EUR 0.86 per share. As a result of the subscription of the 2019 stock options, a total of 114,480 new company shares were registered in the Trade Register. The subscription price of the shares was determined in accordance with the individually applicable equity plan and option agreement.

As at December 2019, the company had 5,165 registered shareholders. Twenty-seven percent of all shares are nominee registered. In 2019, the highest share price was EUR 2.02 and the lowest price was EUR 0.79 per share. At the end of 2019 the share closing price was EUR 0.89 and the market value was approximately EUR 25 million. The number of shares traded on Nasdaq First North was 7.9 million.

SECTORS

Sector	Shareholders Number	Shareholders %	Shares Number	Shares %
Private companies	143	2.77	1,862,033	9.15
Financial and insurance institutions	13	0.25	570,704	2.80
Public sector organizations	2	0.04	1,389,336	6.82
Households	4,989	96.59	15,325,736	75.27
Non-profit instit serving households	2	0.04	340	0.00
Foreigners	16	0.31	1,212,769	5.96
Nominee registered	0	0.00	6,653,294	
In the joint book-entry account	0	0.00	902 012	
Total	**5,165**	**100.00**	**27,916,224**	**100.00**

SHARE DISTRIBUTION

Number of Shares	Shareholders	%	Shares	%
1–100	1,701	32.93	83,263	0.3
101–1,000	2,704	52.35	912,365	3.27
1,001–10,000	666	12.89	1,874,106	6.71
10,001–100,000	70	1.36	2,341,526	8.39
100,001–1,000,000	21	0.41	8,764,642	31.4
> 1,000,000	3	0.06	13,038,310	46.71
Total	**5,165**	**100**	**27,014,212**	**96.77**
Nominee registered	8		6,653,294	23.83
In the joint book-entry account			902,012	3.23
Number of shares issued			**27,916,224**	**100**

MAJOR SHAREHOLDERS 31 DEC 2019

		Shares	% of Shares
1	Ovaskainen Jari Juhani Rainer	6,578,068	23.56
2	IDG Ventures USA III, L.P.	1,188,306	4.26
3	Hiitola Kalle Johannes	971,675	3.48
4	Achrén Joakim Tomas Johan	941,698	3.37
5	Jumisko Jaakko	830,246	2.97
6	Ilmarinen Mutual Pension Insurance Company	819,336	2.94
7	Achrén Mikael Jan Kennet	811,367	2.91
8	Varma Mutual Pension Insurance Company	570,000	2.04
9	Nuard Ventures Oy	364,000	1.30
10	Danske Invest Finnish Small Cap Fund	306,465	1.10
11	Säästöpankki Small Cap Mutual Fund	274,438	0.98
12	Vaah Holdings Oy	266,720	0.96
13	OP-Finland Micro Cap	222,784	0.80
14	Odesangel Ab	197,488	0.71
15	Huuhtanen Teemu Mikael	172,919	0.62
16	Pardon Christophe	157,916	0.57
17	Hollming Toni Kristian	144,574	0.52
18	Vartia Arvo Arnar Antero	126,829	0.45
19	Big Blue Games Oy	121,212	0.43
20	Cunzi Sylvain	110,024	0.39

	31 Dec 2019	31 Dec 2018
20 largest shareholders total	15,176,065	11,408,561
Nominee registered	6,653,294	3,210,319
Other shares	6,086,865	3,884,434
In the joint book-entry account	902,012	902,012
Total	**27,916,224**	**18,503,314**

Treasury Shares

During 2019, the company did not redeem any treasury shares. During 2018, the company redeemed 13,410 treasury shares at a price of EUR 0.4925 per share. At the end of 2019, the company held as many treasury shares as in the comparison period: 13,410 (0.007%) of its own shares. For more information, see section 5.3 of the notes to the financial statements

Share Based Compensation

Next Games issues a yearly share-based incentive (option) program, which includes all of its staff. The company had five (5) share-based incentive programs in use during 2019. More details on the programs can be found in the Remuneration Report and from section 5.3 of the notes to the financial statements.

Assessment of Most Significant Risks

Next Games is exposed to risks that may arise from the company's operations or changes in the business environment. The risks described below may have an adverse effect on the business or financial condition, and thus on the company value. The below risks are the most important, but the list does not cover all possible risks. In the future, other significant risks than those described below may occur.

RISKS RELATED TO BUSINESS OPERATIONS OR THE INDUSTRY

Next Games is dependent on the sales generated by two live games, which generated approximately 100 percent of the revenue for the company in 2019. Revenue growth and the success of the company is dependent on future game releases. Next Games might fail to develop and publish new games on time or at all, as well as further developing its existing games, which would have a material negative effect on the business of Next Games. Delays in the development of games could lead to, among other things, the delay of expected revenue or termination of the license agreement related to the games.

Next Games may experience fluctuations in its profit over time due to a number of factors, such as the popularity of games, ability to maintain and increase the number of its players who purchase a large amount of virtual products inside the game and the revenue generated by all players, which make Next Games' future results difficult to predict. Next Games spends a significant portion of its cash flow from operations on player acquisition and marketing relating to its games which will not necessarily result in revenue, so that if such marketing and player acquisition efforts are not effective, Next Games' business could be harmed.

Next Games' business is subject to a variety of regulations worldwide, such as laws and regulations concerning data protection and data security, which may be unclear and still developing. As a result, the failure of Next Games or its platform distributors to follow regulations or the increase of regulations could harm Next Games' business.

FINANCIAL RISKS

Next Games has incurred significant losses in the past, and it may not be able to turn its business profitable or cash flow positive. According to Next Games, the risks associated with funding its operations and cash position are essential to implement its strategy and continuity of business.

Next Games has activated game development costs to its balance sheet, which have uncertain profits in the future. In addition, Next Games has made in its balance sheet, in accordance with International Financial Reporting Standards (the IFRS), estimates related to goodwill and other assets, which carry a depreciation risk in case future profits of Next Games do not actualize as expected.

New licensing agreements may include advance payments, which are deductible from future royalty payments, but if a project related to the new licensing agreements is canceled Next Games must record write-downs with respect to the advance payments.

Additional Financial risks are further described in section 5 of the Notes to the Financial Statement.

UNCERTAINTIES AND RISK RELATED TO UNEXPECTED EVENTS

The termination of significant license agreements or other unfavorable decisions made by licensors may materially negatively affect the business of Next Games.

If Next Games is unable to maintain good relationships with third-party distribution platforms, such as Apple App Store and Google Play; if the contractual terms concerning them are altered; or if Next Games violates or it is alleged that Next Games violates the platform provider's terms and conditions, such factors, if materialized, may have an adverse effect on Next Games' business.

Any failure or significant interruption in Next Games' technological infrastructure, possible coding errors or flaws, or problems with third party technologies the company uses, could negatively impact the popularity of its games, harm their operations, diminish the scalability of technology and harm Next Games' business.

Events After the Reporting Period

After the reporting period, Next Games applied a change in Accounting Policy Related to Publishing and Product Development Functions which affected Financial Statements 2018 and interim reports 2019. Full disclosure on changes issued in a separate release: "Next Games Corp.: Change in Accounting Policy Related to Publishing and Product Development Functions".

Annual General Meeting 2020

Next Games' Annual General Meeting is scheduled for Wednesday, May 20, 2020.

Financial Calendar 2020

Next Games publishes financial reports twice a year. Next Games' Half-year review for January–June 2019 will be released on Friday, August 28, 2020

Definitions of Key Financial Figures and their Calculations

KEY OPERATIONAL METRICS DEFINED

DAU (Daily Active Users). A user is counted as a daily active user if they sign into the game at least once during a 24-hour period in UTC. Average DAU is calculated by adding the total number of active players as of the end of each day in a given period and dividing by the number of days in the period. DAU is a key measure for player network engagement.

MAU (Monthly Active Users). A user is counted as a monthly active user if they sign into the game at least once during a 30-day period. Average MAU is calculated by adding the total number of active players as of the end of each month in a given period and dividing by the number of months in the period. MAU is a key measure of the overall size of the player network.

ARPDAU (Average Revenue Per Daily Active User). ARPDAU is calculated by dividing daily gross bookings by daily active users (DAU). ARPDAU is an important measure of monetization as it places sales in relation to player volume.

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASUREMENTS

GROSS BOOKINGS

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Revenue	34,701	35,245
Changes in Deferred Revenue	-503	544
Gross Bookings	**34,198**	**35,789**

EBITDA

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Operating Result (EBIT)	-7,436	-16,915
Depreciations	3,968	2,165
EBITDA	**-3,468**	**-14,750**

ADJUSTED OPERATING RESULT

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Operating Result (EBIT)	-7,436	-16,915
IFRS 16 Depreciations	-1,024	-512
Other Depreciations	3,968	2,166
IFRS 2 Adjustment	527	1,483
Adjusted Operating Result	**-3,965**	**-13,778**

PUBLISHING OPERATIONS EBITDA

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Revenue	34,701	35,245
Gross Profit	19,668	21,294
Marketing and Sales	-17,594	-26,776
Depreciations, Publishing Operations	1,693	1,030
Publishing Operations EBITDA	**3,767**	**-4,452**

PUBLISHING OPERATIONS EBIT

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Revenue	34,701	35,245
Gross Profit	19,668	21,294
Marketing and Sales	-17,594	-26,776
Publishing Operations EBIT	**2,074**	**-5,482**

CALCULATION OF KEY FINANCIAL RATIOS

Gross Bookings = A non-IFRS Financial Measure, defined as the total amount paid by our users for virtual items in a given reporting period. It does not include deferrals, and thus it is revenue-adjusted with the change (+/-) in deferred revenue.

Gross Profit = Revenue adjusted for (+/-) server expenses, expenses and depreciations related to royalties and license fees, as well as platform cut.

EBITDA = EBIT adjusted with deprectiations and amortization.

Adjusted Operating Profit = Operating profit (EBIT) is adjusted for depreciations for capitalized items relating to product developments and licenses according to IAS 38. However, depreciations of premises, falling under IFRS 16 standard, are not adjusted from EBIT.

Publishing Operation's EBITDA = Revenues generated by the company's published games, adjusted by the costs and investments related to game's maintenance, further development, marketing, customer support, adding back depreciation.

Publishing Operation's EBIT = Revenues generated by the company's published games, adjusted by the costs and investments related to game's maintenance, further development, marketing and customer support.

Equity Ratio = $\dfrac{\text{Capital and reserves total}}{\text{Total Assets - Advances Received}} \times 100$

Earnings per share (EPS), undiluted
Profit (loss) for the financial year divided by the average number of outstanding shares during the financial year. The indicator has been calculated using the adjusted number of shares after the share issue without consideration to the company's shareholders. The Board of Directors of the company decided on the share issue on February 23, 2017 in connection with the arrangements relating to the listing

Earnings per share (EPS), diluted
Profit (loss) for the financial year divided by the average number of outstanding shares during the financial year after adding the number of shares with potential dilution effect. The indicator has been calculated using the adjusted number of shares after the share issue without consideration to the Company's shareholders. The Board of Directors of the Company decided on the share issue on February 23, 2017 in connection with the arrangements relating to the listing.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Note	Jan–Dec 2019	Jan–Dec 2018
Revenue	2.1	**34,701**	**35,245**
Cost of revenue	2.3	-15,033	-13,952
Gross profit		**19,668**	**21,293**
Other operating income	2.2	11	71
Research and development	2.3	-6,570	-7,541
Sales and Marketing	2.3	-17,594	-26,776
Administrative	2.3	-2,952	-3,963
Operating result (EBIT)		**-7,436**	**-16,915**
Finance income	5.6	128	757
Finance costs	5.6	-302	-608
Finance costs, net		**-174**	**149**
Share of associates' result	1.4	-163	-122

EUR thousand	Note	Jan–Dec 2019	Jan–Dec 2018
Profit before taxes		**-7,773**	**-16,887**
Current income taxes	6.3	-129	-143
Change in deferred tax	6.3	-392	-1,008
Total income tax expense		**-521**	**-1,150**
Result for the period		**-8,294**	**-18,037**
Total comprehensive result for the period		**-8,294**	**-18,037**
Result attributable to the owners of the parent		**-8,294**	**-18,037**

Shares	Note	Jan–Dec 2019	Jan–Dec 2018
Result per share for profit attributable to the owners of the parent			
Non-Diluted earnings per share, EUR	5.3	-0.41	-0.99
Diluted earnings per share, EUR	5.3	-0.41	-0.99
Average number of shares during the accounting period	5.3	20,346,171	18,363,428
Number of shares at the end of accounting period	5.3	27,916,224	18,503,314

The notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR thousand	Note	31 Dec 2019	31 Dec 2018
Assets			
Non-current assets			
Goodwill	4.1	3,344	3,344
Intangible assets	4.2	10,563	10,347
Property, plant and equipment	4.3	5,285	6,734
Shares of associates	1.4	225	388
Other long term receivables	3.2	1,088	395
Deferred tax assets	3.4	1,229	1,621
Total non-current assets		**21,734**	**22,829**
Current assets			
Trade receivables and other receivables	3.2	5,240	6,340
Cash and cash equivalents	5.8	7,667	7,306
Total current assets		**12,907**	**13,646**
Total assets		**34,641**	**36,475**

EUR thousand	Note	31 Dec 2019	31 Dec 2018
Equity and liabilities			
Equity			
Share capital		80	80
Reserve for invested unrestricted equity		61,651	53,925
Retained earnings		-30,601	-13,091
Profit (loss) for the period		-8,294	-18,037
Total equity		**22,837**	**22,876**
Liabilities			
Long-term liabilities			
Loan from public administration	5.4	517	518
Lease liabilities	5.5	3,152	4,145
Total non-current liabilities		**3,669**	**4,663**
Short-term liabilities			
Governmental agency loan	5.4	177	222
Lease liabilities	5.5	992	992
Deferred income	3.1	955	1,458
Trade payables	3.3	3,667	2,731
Other liabilities	3.3	144	204
Accrued liabilities	3.3	2,201	3,329
Total current liabilities		**8,135**	**8,936**
Total liabilities		**11,804**	**13,599**
Total equity and liabilities		**34,641**	**36,475**

The notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR thousand	Note	Share capital	Reserve for invested unrestricted equity	Retained earnings	Total
Equity at Jan 1, 2018		**80**	**53,866**	**-14,574**	**39,372**
Result for the period				**-18,037**	**-18,037**
Total comprehensive result for the period				**-18,037**	**-18,037**
Transactions with owners:					
Share issues based on stock options	5.3	-	65	-	**65**
Purchase of treasury shares	5.3	-	-7	-	**-7**
Share-based payments	5.3	-	-	1,483	**1,483**
Dividends paid	5.3	-	-	-	**-**
Equity at Dec 31, 2018		**80**	**53,925**	**-31,128**	**22,876**

EUR thousand	Note	Share capital	Reserve for invested unrestricted equity	Retained earnings	Total
Equity at Jan 1, 2019		**80**	**53,925**	**-31,128**	**22,876**
Result for the period		-	-	**-8,294**	**-8,294**
Total comprehensive result for the period		-	-	**-8,294**	**-8,294**
Transactions with owners:					
Share issues based on stock options	5.3	-	78	-	**78**
Purchase of treasury shares	5.3	-	-	-	**0**
Share-based payments	5.3	-	-	527	**527**
Dividends paid	5.3	-	-	-	**0**
Offering of shares	5.3	-	7,997	-	**7,997**
Costs of offering of shares	5.3	-	-348	-	**-348**
Equity at Dec 31, 2019		**80**	**61,651**	**-38,894**	**22,837**

The notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Cash flows from operating activities		
Profit before taxes:	-7,773	-16,887
Adjustments for:		
Depreciation, amortization and impairments	3,968	2,164
Other non-cash adjustments		
Change in deferred revenue	-326	348
Share-based payments	527	1,483
Other adjustments	-66	-2
Finance costs, net	262	-142
Share of loss/(profit) from associates	163	122
Changes in working capital		
Change in trade and other receivables	204	-761
Change in trade and other payables	-301	1,784
Interests paid	-97	-
Interests received	0	-
Other finance costs, net	-	14
Income taxes paid	-126	-127
Net cash flows from operating activities	**-3,565**	**-12,004**

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Cash flows from investing activities		
Purchases of property, plant and equipment	-21	-1,771
Payments of intangible assets	-2,712	-4,965
Net cash flows from investing activities	**-2,734**	**-6,736**
Cash flows from financing activities		
Proceeds from issuance of shares, less costs	7,775	63
Repayment of long-term loans	-45	-
Acquisition of treasury shares	-	-7
Dividends paid	-	-
Lease payments	-1,158	-612
Net cash used in financing activities	**6,572**	**-555**
Net decrease/increase in cash and cash equivalents	**361**	**-19,295**
Translation differences	88	224
Cash and cash equivalents as of January 1	7,306	26,377
Cash and cash equivalents as of December 31	**7,667**	**7,306**

The notes are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1. Accounting Principles

IN THIS SECTION

1.1 BASIS FOR PREPARATION

These are the consolidated financial statements of Next Games Corporation ("the Company") and its subsidiaries (together "the Group" or "Next Games"). Next Games is a developer and publisher of mobile games focusing on licensed games. The Company's games are developed for mobile devices and are available to download for free, while players make actual cash purchases of in-game virtual items. The Company develops the games in close cooperation with the owners of immaterial property rights (the "IP") to ensure a close tie between the games and the underlying IP. The most significant geographic markets for Next Games are North America and Europe, and the games of the Company are distributed through the Apple App Store and the Google Play platforms. The Company is domiciled in Helsinki at the registered address Aleksanterinkatu 9A, Helsinki, Finland.

These Consolidated Financial Statements by Next Games have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS as adopted by the European Union. The notes to the Consolidated Financial Statements also comply with the Finnish accounting and corporate legislation complementing the IFRS standards, observing the standards and interpretations effective as of December 31st 2019.

Next Games adopts as required standards which have taken effect during the fiscal year 2019. During 2019 the Group did not adopt new standards and the IFRS standards that took effect in 2019 had no material impact on the result or the financial position of the Group, or on the presentation of the financial statements.

The consolidated financial statements have been prepared for the accounting period of 12 months from January 1 to December 31, 2019. The financial statements have been authorized for issue by the Board of Directors on March 12, 2020. Under the Finnish Limited Liability Companies Act, shareholders can approve or disapprove the Consolidated Financial Statements in the Annual General Meeting held after the release. The Annual General Meeting is also entitled to amend the Consolidated Financial Statements.

The Group's Consolidated Financial Statements are presented in thousands of euros and are based on the actual cost of the transactions, unless otherwise stated in the accounting principles, and the figures have been rounded to the nearest thousand. Therefore, the sum of individual figures may deviate from the total presented. Key figures have been calculated using exact figures. Finance costs are recorded at the point of transaction. Assets and liabilities are measured at cost, except for certain financial assets and liabilities, which are measured at fair value.

The Company's functional currency is euro, which is also the presentation currency of the Company and the Group. Items included in the financial statements of each group subsidiary are measured using the currency of the primary economic environment in which the subsidiary operates. Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in income statements. Next Games records foreign exchange differences relating to ordinary business operations within the appropriate line item above operating profit and those relating to financial items are presented separately as a net amount in finance costs.

1.2 CHANGES IN ACCOUNTING STANDARDS

The International Accounting Standards Board published a new standard IFRS 16 "Leases", which is relevant and applicable to the Group as of January 1st, 2019. In addition, IFRS 15 "Revenue from Contracts with Customers", and IFRS 9 "Financial Instruments" are effective as of January 1st 2018.

Next Games published its first Consolidated Financial Statements prepared under IFRS standards for the year ending December 31, 2018. In conjunction with the first-time adoption of IFRS, Next Games early adopted the new IFRS 15 Revenue from Contracts with Customers standard, new IFRS 9 Financial Instruments standard and a new applicable as of 2019 IFRS 16 Leases standard for the financial years 2018, 2017 and 2016. As adaptation of standards occurred at the date of transition January 1st, 2016. There are no material changes in the Consolidated Financial Statements for 2019.

1.3 NEW STANDARDS AND INTERPRETATIONS

There are no standards that are not yet in effect that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions. IFRIC 23 interpretation takes effect in 2019. After review, The Group concluded it does not have uncertain tax items that would result in changes in the consolidated financial statements under IFRIC 23.

The Group changed the accounting policy relating to the classification of development costs for published products. Previously all game development costs, both for published and unpublished games, were reported under the Research and Development function. In the future development activities relating to published games are reported as part of the Group's Marketing and Sales function, and only costs related to unpublished games will be reported under the Research and Development function. The accounting policy change does not affect Group-level revenues, EBIT, or balance sheet reporting. The changes and effects have been published in a separate bulletin and can be found from the company's website.

Key impact from the accounting policy change for 2018

- Research and development costs decreased EUR 2.9 million in 2018
- Sales and marketing costs increased EUR 3.1 million in 2018
- Administration costs decreased EUR 0.3 million in 2018
- Net effect on the result for the financial year 2018 was EUR 0

EUR thousand	Adjusted 1.1.–31.12.2018	1.1.–31.12.2018	Change
Revenue	35,245	35,245	-
Cost of Revenue	-13,952	-13,952	-
Gross Profit	**21,293**	**21,293**	-
Other Operating Income	71	71	-
Research and Development	-7,541	-10,418	2,877
Sales and Marketing	-26,776	-23,643	-3,133
Administrative	-3,963	-4,218	255
Operating Result	**-16,914**	**-16,914**	-
Finance Income	757	757	-
Finance Cost	-608	-608	-
Finance Cost, net	**149**	**149**	-
Share of associate's result	-122	-122	-
Result before taxes	**-16,887**	**-16,887**	-
Current income taxes	-143	-143	-
Change in deferred tax	-1,008	-1,008	-
Total income tax expense	**-1,150**	**-1,150**	-
Result for the period	**-18,037**	**-18,037**	-
Total comprehensive result for the period	**-18,037**	**-18,037**	-
Result attributable to the owners of the parent	**-18,037**	**-18,037**	-

Financial Statements 2019 have been prepared in accordance with the new accounting policy.

1.4 PRINCIPLES OF CONSOLIDATION

These consolidated accounts include the parent company and those companies in which the parent company held, directly or indirectly, more than 50 percent of the voting power control at the end of the accounting period. In addition to these holdings, the consolidated accounts include possible holdings that are of a controlling-right nature. Subsidiaries are fully consolidated from the date of acquisition, being the date on which Next Games obtains control, and continue to be consolidated until the date such control ceases. Next Games controls an entity when Next Games is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The acquisition method of accounting is used to account for business combinations by Next Games. Intra-corporate shareholdings are eliminated using the acquisition method. The acquisition consideration, including deferred and contingent consideration, as well as the identifiable assets acquired and liabilities assumed, is measured at the acquisition date fair values. Acquisition-related costs are accounted for as expenses in the period which they are incurred. All intercompany transactions, balances and unrealized gains and losses on transactions between group companies are eliminated.

Investments in associates in which Next Games has a significant influence but not control are accounted for using the equity method. Significant influence usually exists when the group holds over 20% of the voting power of the entity or when the group otherwise has significant influence but not control. Business operations of the group are operated by the parent company and subsidiaries did not have material impact on reporting periods' financials.

GROUP STRUCTURE

Subsidiaries belonging to the Group as at December 31st, 2019 are the following:

- Next Games GmbH, 100% owned
- Lume Games Oy was merged with Next Games Corporation January 1st, 2018.

In addition, the Group has investments in an associate:

- Armada Interactive Oy, 11.79% owned

INVESTMENTS IN ASSOCIATES:

Next Games has classified Armada Interactive Oy to be the associated company of Next Games Group. Next Games' ownership of Armada Interactive Oy was 11.79% in December 31, 2019. In addition, Next Games holds membership in Armada's board, which is the trigger, when determining that Next Games has significant influence on decision making of Armada Interactive.

The financial result of the investment in associates is based on preliminary information and therefore deviates from the financial statement. The difference is immaterial.

1.5 SEGMENTS

Next Games has determined that it has a single operating segment 'Mobile Gaming' and as such its profitability is presented as one single entity. Next Games CEO is responsible for allocating resources of the Group and continuous evaluation of the Group's results and therefore its operations as a whole. Next Games' CEO is regularly reviewing discrete financial information of the Group. Financial information includes group level revenue development, profitability analysis and review of monthly cash flow changes.

Due to its business model, the nature of its operations and its governance structure, the Group as a whole is the relevant operating segment to be reported.

1.6 ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of Consolidated Financial Statements requires management to make estimates and assumptions that affect the application of accounting policies and the recognized amounts of assets, liabilities, income and expenses. The areas involving significant estimates or judgements are:

- Timing of revenue recognition (2.1)
- Deferred taxes (3.4)
- Measurement of intangible assets identified and recognized in business combinations (4.1)
- Impairment testing of goodwill (4.3)
- Capitalization of development costs (4.2)
- Share-based payment arrangements (5.3)
- Continuation of lease contracts (5.5)

Each of the above areas, in which management has exercised judgement, are explained in more detail in each individual note. Estimates and judgements are continually evaluated, they are based on historical experience and other factors, including expectations on future events that may have a financial impact on the entity and that are believed to be reasonable under given circumstances.

2. Operating Result

IN THIS SECTION

- Revenue Recognition
- Other Operating Income
- Cost and Expenses
    - Cost of Revenue
    - Development expenses
    - Marketing and Sales
    - Administrative Expenses

Due to its business model, the nature of its operations and its governance structure, the Group has a single operating segment 'Mobile Gaming', including development and publishing of mobile games, and as such its profitability is presented as one single entity.

2.1 REVENUE RECOGNITION

Next Games generates revenue primarily through the sale of virtual items to users. Next Games also generates revenue from in-game advertising. Next Games derives most of its revenue from customers located in North America and Europe.

DISAGGREGATION OF REVENUE

REVENUE BY CATEGORY 2019 AND 2018

EUR thousand	Jan–Dec 2019	Percentage of revenue %	Jan–Dec 2018	Percentage of revenue %
Revenue	**34,701**	**100%**	**35,245**	**100%**
By category of activity				
In App Purchases (IAP)	32,675	94%	32,994	94%
Advertising (ADS)	2,026	6%	2,251	6%

REVENUE BY PLATFORM 2019 AND 2018

EUR thousand	Jan–Dec 2019	Percentage of revenue %	Jan–Dec 2018	Percentage of revenue %
Revenue by platform	**34,701**	**100%**	**35,245**	**100%**
iOS	17,351	50%	17,954	51%
Android	17,351	50%	17,291	49%

REVENUE BY MARKET 2019 AND 2018

EUR thousand	Jan–Dec 2019	Percentage of revenue %	Jan–Dec 2018	Percentage of revenue %
By geographical markets	**34,701**	**100%**	**35,245**	**100%**
North America	16,657	48%	16,918	48%
EU	9,716	28%	10,221	29%
Finland	347	1%	352	1%
Other	7,981	23%	7,754	22%

The customer base of Next Games consists of several customer from different market areas and no single customer represents any signification portion of Next Games' revenue.

ACCOUNTING PRINCIPLES

REVENUE RECOGNITION

In accordance with IFRS 15, Next Games utilizes a five-step model framework in revenue recognition.

Identification of Contract. Next Games does not recognize the initial download of its free to play game from a digital storefront as a creation of contract in accordance with IFRS 15, because of the lack of commercial substance. As the initial downloading of the game is free of charge, a contract between Next Games and the customer occurs as the separate election by the player to make an in-application purchase. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Next Games does not have significant financing components in its contracts with customers or sale with a right of return.

Identification of performance obligation. Games-as-a-service business model encompasses a single combined performance obligation which is to make the game and the ongoing game related services available to the players. This is further defined as the provision of ongoing game related services such as hosting of game play, storage of customer content, maintaining of virtual currency, continue displaying and providing access to purchased virtual goods, and reasonable service or content updates.

Determination of transaction price. The transaction price is the amount of consideration to which Next Games expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, sales taxes). An alternative transaction price is the price an advertiser is willing to pay per 1000 shown impressions (eCPM).

Allocation of transaction price. In the games-as-a-service business model, the transaction price is allocated entirely to the single combined performance obligation. Service obligation to a customer is fulfilled at different points in time for different products, and Next Games uses in accordance with industry standards player lifetime estimates in recognizing the point at which the service obligation has been fulfilled.

Recognition of Revenue. Next Games recognizes revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. When (or as) a performance obligation is satisfied, Next Games recognizes as revenue the amount of the transaction price that is allocated to that performance obligation. Unrecognized revenue (gross bookings where the performance obligation is not fulfilled) is booked on the balance sheet as an advance received.

For the fiscal year 2019, effects on the consolidated financial statement of deferred revenue was EUR -0.5 million (2018: EUR 0.5 million). Details on revenue deferrals can be found in notes to the financial statement Deferred Revenue 3.1.

DEFERRED REVENUE 2019 AND 2018

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Revenue	**34,701**	**35,245**
Change in prepayments	-503	544
Gross bookings	34,198	35,789

INCOME FROM MAIN REVENUE STREAMS

1. Games: In-Application Purchases from digital storefronts

Next Game's customers (users) can purchase virtual items to enhance and expand their game experience. Following industry practice, Next Games presents in-application purchases on gross basis and accounts for the variable consideration by deducting possible discounts and refunds from the revenue. Revenue share from digital storefronts "Platform Cut" is presented as cost of revenue (2.3). Next Games sells its products through digital storefronts: Apple Appstore and Google play store. There are two different kinds of in-application purchases in Next Games' games: consumables and durables. Consumables benefit the user immediately, while benefits from durables last across user lifetime and are usually more expensive than consumables. Next Games also offers virtual currency in its games. Virtual currency can only be redeemed for virtual items and cannot be withdrawn. Virtual currency purchased in one of the games cannot be used in another game. When calculating revenue for the period, the Company defers gross bookings generated from virtual durable items to future periods based on the estimated lifetime of the player, item or item group in each game ("Deferred Revenue"). Consumable in-application purchases satisfy the performance obligation "at a point in time" and are recognized at the point of purchase. Revenue from the sale of virtual currency is deferred and recognized when the player uses the virtual currency to purchase a virtual item. Consumables represented 11% of total in-app purchases.

2. Games: Advertising

Advertisement agencies pay a fee for displaying advertisements during gameplay. This generates the advertising revenues. Revenue recognition is based on delivery of the advertisement product, which is a viewed impression. Advertising networks pay CPM based (cost per one thousand shown impressions). There is no performance obligation after the advertisement has been shown. Revenue is recognized as net in the month of purchase "at a point in time", based on revenue reports from the ad network indicating the number of products sold and payables due to Next Games. Simultaneously to sending the revenue report, the advertisement network also commits to paying the money to Next Games, and collection can be reasonably assured.

3. Games: Other

Next Games classifies revenues from other than in-application-purchases and advertising as "Other".

Revenues falling into this category is for example sales from generating prototypes or income from the production of other game related assets.

2.2 OTHER OPERATING INCOME AND GRANTS

Other operating income includes income other than that associated with the sale of goods or services, such as gain on disposal or sale of fixed assets, rental income and other similar income not classified to revenue. Grants, which are directed for some specific project or cause are recognized when expenses occur.

OTHER OPERATING INCOME 2019 AND 2018

EUR thousand	**Jan–Dec 2019**	Jan–Dec 2018
Profit on sale Intagible assets and of property, plant and equipment	9	42
Subsidies and government grants	0	0
Other	2	29
Total	**11**	**71**

Next Games' majority of other operating income is related to gains received on disposals and on intangible rights. In 2019 and 2018 the Group did not have any significant other operating income.

2.3 COSTS AND EXPENSES

Next Games utilizes a function-based profit and loss statement, and divides costs in two different categories: Cost of revenue, and Fixed costs which are allocated to functions. The company identifies three functions: Research & Development, Sales and Marketing as well as Administration. To each function their related personnel expenses, outsourcing, purchases and services, depreciations and share-based payments (IFRS 2) are allocated. In addition, a general cost allocation is applied to each function in proportion to its personnel.

ACCOUNTING PRINCIPLES

COSTS AND EXPENSES

Next Games applies general cost allocation by calculating all general costs (voluntary staff expenses, office, IT, representation expenses and general depreciations) and allocating them to functions based on each function's headcount. Share-based payments (IFRS 2) are allocated to functions on the same basis as personnel expenses.

Due to the nature of Next Game's business, a significant part of the Group's Research and Development costs and investments are directly or indirectly related to the development of new products, and business models. Depending on the nature and phase of the development, relevant costs are either treated as operational expenses or capital expenditure. Research and Development costs treated as expenses are those incurred from early stage game development (games not yet in production) with future financial benefit that is difficult to determine. In addition, all expenses related to continuous development of published games are treated as expenses. Separating significant long-term performance enhancing updates from general maintenance updates is difficult to determine beforehand. Expenses allocated to Next Game's R&D function include all those generated directly by game, technology and analytics development. These costs include employee expenses (wages, pensions, social security), outsourcing expenses, amortization, in addition to a general cost allocation.

Next Games' Sales and marketing expenses includes user acquisition and marketing purchases, employee expenses of the function, costs related to the continued development of running published games as a service as maintenance, as well as general cost allocation and other marketing related costs.

Administrative costs are recorded as expenses as they occur. Costs include employee expenses, general cost allocation, as well as outsourced services directly related to any administrative department such as legal, finance and human resources.

Costs of Revenue are recorded by using the accrual method. Next Games records costs that are derived directly from sales transactions (platform cut and revenue share) to follow the same recognition time as revenues that are deferred.

COST OF REVENUE 2019 AND 2018

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Platform commissions, royalties and other	-13,875	-13,282
Amortizations of intangible assets	-1,159	-670
Total	**-15,033**	**-13,952**

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Cost of Revenue	-15,033	-13,952
Change in deferred cost of revenue	177	-182
Total	**-14,856**	**-14,133**

Cost of Revenue includes platform cuts (revenue shares paid to digital storefronts), license fees (revenue share that is paid to license owners), server and hosting expenses (revenue shares paid to technology providers) and amortization of license acquisitions.

RESEARCH AND DEVELOPMENT COSTS 2019 AND 2018

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Personnel expenses	-4,331	-4,499
Outsourcing	-467	-4,163
Depreciations	-1,341	-725
Share-based payments	-285	-718
General cost allocation	-2,522	-2,400
Capitalization	2,377	4,965
Total	**-6,570**	**-7,541**
Percentage of revenue	-19%	-21%

Expenses allocated to Next Game's R&D function include all those generated directly by unpublished games (games in development stage), technology and analytics development. These costs include employee expenses (wages, pensions, social security), outsourcing expenses, amortization, in addition to a general cost allocation.

SALES AND MARKETING COSTS 2019 AND 2018

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Personnel expenses	-2,467	-3,180
Marketing and User Acquisition	-12,401	-20,840
Share-based payments	-159	-476
General cost allocation	-1,784	-1,467
External services	-782	-813
Total	**-17,594**	**-26,776**
Percentage of revenue	-51%	-76%

Next Games' Sales and marketing expenses includes all expenses related to the running of published games, including game development, maintenance, all marketing and player acquisition, customer service, employee expenses for marketing and game teams and additionally an allocated general cost allocation.

ADMINISTRATIVE COSTS 2019 AND 2019

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Personnel expenses	-1,281	-1,903
Share-based payments	-83	-289
General cost allocation	-595	-548
Other admin expenses	-992	-1,222
Total	**-2,952**	**-3,963**
Percentage of revenue	-9%	-11%

The administrative function includes the Finance Department, Legal Department, General Administration, Human Resources and Management. In addition, all the expenses related to the finance services and audit fees are deemed to be administrative expenses.

AUDIT FEES 2019 AND 2018

EUR	Jan–Dec 2019	Jan–Dec 2018
Audit of financial statements	80,000	15,000
Auditing Act 1:1.2 § related assignments		
Auditors' statements	5,000	
Other services	31,000	125,000
Total	**116,000**	**140,000**

Other administrative expenses also include audit fees.

3. Operating Assets and Liabilities

IN THIS SECTION

3.1 DEFERRED REVENUE

ACCOUNTING PRINCIPLES

DEFERRED REVENUE

Deferral of revenue relates to the in-application purchases of durable items, which have a usefulness over the lifetime of a player. Durable goods are items that remain in the game for as long as the player continues to play. For additional detail on classification of revenue see note 2.1 Revenue Recognition.

In accordance with IFRS 15 revenue is recognized when a customer obtains control of promised services e.g. the service requirement has been fulfilled. The amount of revenue recognized reflects the consideration expected to be received in exchange for these services. Next Games applies industry standard practices by computing expected lifetime of a paying player on a cohort basis and deferring revenue accordingly over that expected lifetime.

In addition to deferring revenue of durable items, Next Games also defer direct cost of revenue that are derived when selling the durable item in question. Deferred Cost of Revenue includes platform cuts (revenue shares paid to digital storefronts), license fees (revenue share that is paid to license owners), and server and hosting expenses (revenue shares paid to technology providers).

KEY JUDGEMENT AND ESTIMATES

DEFERRED REVENUE

In preparation of the Consolidated Financial Statements, management is required to make key judgements and estimates both related to what to defer in addition to over what period of time revenue is to be deferred. In order to determine what to defer, each individual in game economy and players pattern and use of currency on durable items is analyzed and estimated based on data. This creates the basis for how much is eligible for deferral.

When determining deferral periods Next Games follows industry standards by applying Kaplan-Meier survival model to estimate the average playing period “lifetime” for paying users. This statistical model analyzes time duration until one or more events happens and is commonly used in various industries for estimating lifespans. The lifetime of each title is determined by analyzing the historical behavior patterns of paying users. The model requires classification of user data into active and inactive monetizing users on a per title basis. Active users are those who are active in the game for the past rolling 14 days as of the evaluation date. The remaining users are considered inactive and deemed to have churned from the game. These users are treated mathematically differently in the model than those who are still active. A distribution curve is then fit to the user data to estimate the average playing period of paying users on a per title basis.

A threshold of 120 days from the commercial launch of a title is deemed as the minimum number of days of data required for this model. For new titles with less than 120 days of data that share similar attributes with an existing title and/or prequel titles, the average playing period is determined based on the average playing period of that existing title or prequel title, as applicable.

While management believes estimates to be reasonable based on available game player information, they contain risk and uncertainties. Estimates are continuously and have historically been revised when performance or user characteristics change. Changes in estimates of the player lifetime, or classification of what to defer in a certain title may result in revenue being recognized on a basis different from prior periods’ and may cause operating results to fluctuate.

DEFERRED REVENUES 2019 AND 2018

EUR thousand	2019	2018
Short-term liabilities 1.1.	**1,458**	**914**
Deferred during the year	-11,609	-12,972
Released to the statement of profit or loss	11,106	13,515
Short-term liabilities 31.12.	**955**	**1,458**

Deferred revenue is related to in-game durables.

DEFERRED COST OF REVENUES 2019 AND 2018

EUR thousand	2019	2018
Short-term assets 1.1.	**601**	**419**
Deferred during the year	4,798	5,849
Released to the statement of profit or loss	-4,975	-5,667
Short-term assets 31.12.	**424**	**601**

3.2 TRADE AND OTHER RECEIVABLES

Receivables represent amounts the Group expects to collect from other parties in the ordinary course of business. Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. Accrued income and other receivables are payments related to license contract costs that are made in the current financial year or during earlier periods that will be realized on an accrual basis in the future financial years.

ACCOUNTING PRINCIPLES

TRADE AND OTHER RECEIVABLES

Accounts receivable are recognized when the right to consideration becomes unconditional and are recognized initially at fair value and subsequently according to the business model at amortized costs. The Group initially recognizes trade receivables on the date on which they are originated. The Group's policy is to recognize a provision for trade receivables which have been found to involve credit loss risk. Major counterparts, such as Apple, Google, and Unity have not been found to be associated with significant credit loss risk, based on the counterparty's credit rating, historical payment behavior and the short term of payment (approximately 30 days) of the receivables. Credit loss risk and corresponding need for credit loss provision is continuously assessed also with regard to these counterparts. On December 31st, 2019, it was deemed that outstanding balances associated with these parties do not constitute a material risk of credit losses.

NON-CURRENT ASSETS 2019 AND 2018

EUR thousand	31 Dec 2019	31 Dec 2018
Rent guarantees	395	395
Receivables from licensing agreements	692	-
Total	**1,088**	**395**

Long-term debtors balance consists mainly of the Company's security deposits, executed based on leasing agreements.

CURRENT ASSETS 2019 AND 2018

EUR thousand	31 Dec 2019	31 Dec 2018
Trade and other receivables		
Trade receivables	2,887	2,801
Prepayments and accrued income	2,195	3,305
Other current receivables	159	233
Total	**5,240**	**6,340**
Material items under prepaid expenses		
Receivables from licensing agreements	1,308	2,694
Items relating to purchases (including revenue deferral receivables)	424	601
Marketing campaign accruals	356	-
Other	106	10
Total	**2,195**	**3,305**
Material items under other current receivables		
VAT receivables	153	230
Other current receivables	6	3
Total	**159**	**233**

Next Games has not had any past due trade or other receivables at each period reported.

These items include costs that are directly related to IAP revenue, which is deferred, such as platform cut and revenue share expenses.

3.3 TRADE AND OTHER PAYABLES

Trade and other payables represent liabilities for goods and services provided to Next Games prior to the end of financial year which are unpaid. Trade payables are non-interest bearing and generally have a 30–90-day payment term.

ACCOUNTING PRINCIPLES

TRADE AND OTHER PAYABLES

Trade and other payables are presented as current liabilities unless payment is extended beyond 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

TRADE AND OTHER PAYABLES 2019 AND 2018

EUR thousand	31 Dec 2019	31 Dec 2018
Trade and other payables		
Trade payables	3,667	2,731
Accurals and deferred income	2,201	3,329
Other current liabilites	144	204
Deferred revenue	955	1,458
Total	**6,967**	**7,722**
Material items under accurals		
Accured personnel expenseses	962	1,424
Accrued interests	3	4
Other liabilities	1,235	1,901
Total	**2,201**	**3,329**
Material items under current liabilities		
Other liabilities	144	202
Other current liabilites	0	1
Total	**144**	**204**

3.4 DEFERRED TAX ASSETS AND LIABILITIES

Next Games has evaluated the nature and classification of deferred tax assets. Based on the evaluation, deferred tax assets and liabilities levied by the same taxing authority are netted. The deferred tax assets and liabilities are shown net on the balance sheet.

ACCOUNTING PRINCIPLES

DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is calculated based on temporary differences between carrying amounts and taxable value of assets and liabilities and for tax loss carryforwards to the extent that it is probable that these can be utilized against future taxable profits. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realized, or the deferred tax liability is settled. Deferred tax is not recognized for temporary differences relating to initial recognition of goodwill.

Deferred tax assets and liabilities are netted when there is a legally enforceable right to net current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are netted where the entity has a legally enforceable right to net and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

KEY JUDGEMENTS AND ESTIMATES

DEFERRED TAX ASSETS AND LIABILITIES

Management judgement is required in assessing whether certain deferred tax assets and deferred tax liabilities are recognized on the balance sheet. Deferred tax assets are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Estimates of these future cash flows are dependent on the management's estimates that relate among others to the amount of future net sales, operating costs, finance costs and taxes. The Group's ability to generate taxable income depends also on factors related to general economy, finance, competitiveness and regulations that the Group is unable to control. These estimates and assumptions are subject to risk and uncertainty; hence it is possible that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of temporary differences.

The Management has concluded not to recognize deferred tax assets for tax losses incurred after September 2017, but at the same time management assesses that deferred tax assets recognized for earlier tax losses are recoverable.

RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES 2019 AND 2018

EUR thousand	Jan 1	Recognized in income statement	Recognized in equity	Dec 31
2019				
Tax losses	2,850	-	-	2,850
IPO cost recognition	212	-180	-	31
Other items	39	10	-	49
Total	**3,101**	**-170**	**-**	**2,931**
Deferred tax liabilities				
Capitalized intangible assets	1,468	244		1,712
Accumulated depreciation differences	4	-	-	4
Other items	7	-22		-15
Total	**1,479**	**222**	**-**	**1,701**
Deferred tax assets, net	**1,621**	**-392**	**-**	**1,229**

EUR thousand	Jan 1	Recognized in income statement	Recognized in equity	Dec 31
2018				
Tax losses	2,850	-	-	2,850
IPO cost recognition	392	-180	-	212
Other items	45	-7	-	39
Total	**3,287**	**-188**	**-**	**3,101**
Deferred tax liabilities				
Capitalized intangible assets	600	868	-	1,468
Accumulated depreciation differences	4	-	-	4
Other items	55	-48	-	7
Total	659	820	-	1,479
Deferred tax assets, net	**2,628**	**-1,008**	**-**	**1,621**

EUR thousand	Recognized losses	Losses on the basis of which the tax asset is recognized	Recognized deferred tax asset
Previous years	18,248	14,305	2,850
2018	15,194	-	-
2019	6,645	-	-
Tax losses total	**40,087**		
Within 5 years	10,536		
Within 10 years	29,551		

4. Acquisitions and Capital Expenditure

IN THIS SECTION

- Goodwill and impairment
- Intangible assets
- Tangible assets

4.1 GOODWILL

ACCOUNTING PRINCIPLES

GOODWILL

Business combinations are recognized by cost. Goodwill represents the consideration Next Games has paid when acquiring a business in excess of the fair value of the assets and liabilities acquired. Goodwill is carried at cost less any accumulated impairment losses and is considered as having an indefinite useful life. At the time of acquisition, goodwill is allocated to its cash generating unit which is considered to benefit from the acquisition. Goodwill is not subject to annual amortization.

IMPAIRMENT OF ASSETS

GOODWILL

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that goodwill might be impaired. For the purpose of impairment testing, goodwill is allocated to the Group's cash generating unit (CGU). Next Games management has evaluated that the Group consists of one cash generating unit, and therefore, goodwill is tested for impairment at the Group level. In assessing the recoverable amount, estimated future cash flows are discounted to their present value. Cash flow estimates are based on operative managerial estimates for future growth in net sales and EBITDA over a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. Calculations are based on internal targets in addition to historical performance. Discount rate used is the weighted average cost of capital (WACC). The discount rates reflect current assessments of the time value of money with relevant market risk premiums reflecting risks and uncertainties specific in Next Games business and the industry as a whole for which the future cash flow estimates have not been adjusted. Any impairment loss of goodwill is recognized immediately as an expense and is not subsequently reversed.

KEY JUDGEMENTS AND ESTIMATES

IMPAIRMENT TESTING OF GOODWILL

Impairment testing of goodwill requires estimation and judgment in determining the components of the recoverable amount calculation, including the discount rate, the terminal growth rate and development of the net sales and EBITDA (which is for impairment testing purposes defined as earnings before interest, taxes and depreciation and amortization) as well as the general development of the industry.

TESTING

GOODWILL ALLOCATION AND IMPAIRMENT

Goodwill is tested for impairment at the Group level. Next Games management has prepared goodwill impairment tests at the CGU level as of December 31st, 2019 and December 31st, 2018. No goodwill impairment was recognized. In addition, management has assessed that no reasonably possible change in a key assumption of the impairment calculations would have resulted in a goodwill impairment. The impairment testing process includes a sensitivity analysis in which the CGU specific cash flow estimates were reduced by 60 – +60 percent and the discount interest rates were increased by 1–4 percentage points. Based on the sensitivity analysis, the probability for impairment losses was very low. In addition, management has assessed that no reasonably possible change in a key assumption of the impairment calculations would have resulted in a goodwill impairment. The summary of goodwill allocation (balance sheet) and used discount rates presented below.

GOODWILL AND IMPAIRMENT OF ASSETS 2019 AND 2018

EUR thousand	2019	2018
Carrying amount Jan 1	3,344	3,344
Acquisitions	-	-
Carrying amount Dec 31	**3,344**	**3,344**

UNDERLYING ASSUMPTIONS FOR WACC 2019 AND 2018

	2019	2018
Long term growth rate (%)	2.0	2.0
Pre-tax discount rate (%)	20.75	19.66

4.2 INTANGIBLE ASSETS

Next Games intangible assets comprises mainly of acquired game licenses, capitalized development costs, goodwill and acquisition costs of IT software. Intangible assets also include patents, trademarks and software licenses. The Group does not currently hold intangible assets with indefinite useful lives.

ACCOUNTING PRINCIPLES

INTANGIBLE ASSETS

Intangible assets acquired separately with a finite useful life are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period, or whenever there is an indication a change may have occurred. Changes in the expected useful life are considered to modify either the amortization period or method. The amortization of the intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets. The group amortized intangible assets with a finite useful life using the straight-line method. Estimated useful lives of intangible assets with finite lives are as follows:

- IT-software, 3 years
- Trademarks, 3–5 years
- Capitalized development costs, 3–5 years
- Other intangible assets, 3–5 years

Costs related to an intangible asset are capitalized only if it can be demonstrated that the asset will generate future economic benefit, the Group controls the asset in question, there are enough financial, technical and other resources available to complete the asset, and the cost of the asset can be measured reliably. All other expenditure is recognized as an expense incurred.

Expenditure on research activities is recognized as an expense in the period which it incurred. For development activities, the Group has generally identified the point in time when a project moves to the production phase as the moment when the criteria of IAS 38.57 is met, and therefore costs incurred after this moment are capitalized. Costs incurred before the production phase are treated as research expenditure and those are recognized in the income statement as an expense when incurred.

Directly attributable costs that are capitalized as part of the game project include employee costs and an appropriate portion of relevant overheads. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use and generates an economic benefit. Any gain or loss arising on dere-cognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

IMPAIRMENT OF ASSETS

OTHER INTANGIBLE ASSETS

Other intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. An impairment loss is recognized in the income statement if the asset's carrying amount is greater than its recoverable amount. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. An impairment loss previously recognized in the income statement is reversed if the estimates used to determine recoverable amount change materially. However, the value after reversal of the write-down shall not exceed the value that would have been deducted by the accumulated depreciation of the asset without the write-down of previous years. Impairment of assets relating to goodwill are disclosed in notes 4.1.

KEY JUDGEMENTS AND ESTIMATES

CAPITALIZATION OF DEVELOPMENT COSTS

The Group capitalizes development costs for a project in accordance with its accounting principles. Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits expected. This requires future estimate assessments.

INTANGIBLE ASSETS 2019 AND 2018

EUR thousand	Goodwill	Capitalized development costs	Other intangible assets	Total
2018				
Acquisition cost as of Jan 1	**3,344**	**2,540**	**4,622**	**10,506**
Transactions	-	-	-	-
Additions	-	4,965	-	4,965
Translation differences	-	-	-	-
Decreases	-	-	-	-
Acquisition cost as of Dec 31	**3,344**	**7,505**	**4,622**	**15,471**
Accumulated depreciation and impairment Jan 1			-385	-385
Depreciation	-	-578	-817	-1,395
Translation differences	-	-	-	-
Impairment losses	-	-	-	-
Transfers	-	-	-	-
Accumulated depreciation and impairment Dec 31	**0**	**-578**	**-1,202**	**-1,780**
Net book value as of Jan 1	**3,344**	**2,540**	**4,237**	**10,121**
Net book value as of Dec 31	**3,344**	**6,927**	**3,420**	**13,691**

EUR thousand	Goodwill	Capitalized development costs	Other intangible assets	Total
2019				
Acquisition cost as of Jan 1	**3,344**	**7,505**	**4,622**	**15,471**
Transactions	-	-	-	-
Additions	-	2,377	336	2,712
Translation differences	-	-	3	3
Decreases	-	-	-	-
Acquisition cost as of Dec 31	**3,344**	**9,882**	**4,961**	**18,186**
Accumulated depreciation and impairment Jan 1	-	-578	-1,202	-1,780
Depreciation	-	-1,156	-1,343	-2,500
Translation differences	-	-	-	-
Impairment losses	-	-	-	-
Transfers	-	-	-	-
Accumulated depreciation and impairment Dec 31	**-**	**-1,735**	**-2,545**	**-4,280**
Net book value as of Jan 1	**3,344**	**6,927**	**3,420**	**13,691**
Net book value as of Dec 31	**3,344**	**8,147**	**2,416**	**13,907**

(Other intangible assets consist of license agreements, IT software and Trademarks)

4.3 TANGIBLE ASSETS

Next Games property, plant and equipment mainly include leasehold improvements to the office facilities, Right-of-Use Asset from leased office facilities and investments for working equipment. Other tangible assets items are not significant.

ACCOUNTING PRINCIPLES

TANGIBLE ASSETS

Property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses, if applicable. Applicable borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Gains and losses on sales and disposals of items of property, plant, and equipment are presented under other operating income and other operating expenses respectively. The subsequent costs related to property, plant and equipment are capitalized only if the future economic benefits exceed originally assessed level of performance. All other expenditure on repairs and maintenance of property, plant and equipment is recognized as expense when incurred.

Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets. Residual values and expected useful lives are reassessed at least at each financial year-end and, if necessary, are adjusted to reflect changes in the expected future economic benefits. The estimated useful lives are as follows:

- Leasehold improvements of buildings, 2–5 years
- Machinery and Equipment, 3–5 years
- Right-of-Use Assets, 5 years

TANGIBLE ASSETS 2019 AND 2018

EUR thousand	Buildings	Machinery and equipment	Total
2018			
Acquisition cost as of Jan 1	**1,009**	**336**	**1,345**
Additions	7,378	248	7,626
Business combinations	-	2	2
Disposals and other changes	-396	-	-396
Acquisition cost as of Dec 31	**7,992**	**586**	**8,578**
Accumulated depreciation and impairment at Jan 1	**-891**	**-180**	**-1,071**
Depreciation	-674	-97	-771
Impairment	-	-	-
Accumulated depreciation and impairment at Dec 31	**-1,565**	**-277**	**-1,842**
Net book value as of Jan 1	**118**	**156**	**274**
Net book value as of Dec 31	**6,427**	**309**	**6,736**

EUR thousand	Buildings	Machinery and equipment	Total
2019			
Acquisition cost as of Jan 1	**7,992**	**586**	**8,578**
Additions	21	-	21
Business combinations	-	-	-
Disposals and other changes	-5	-	-5
Acquisition cost as of Dec 31	**8,008**	**586**	**8,594**
Accumulated depreciation and impairment at Jan 1	**-1,565**	**-277**	**-1,842**
Depreciation	-1,355	-113	-1,468
Impairment	-	-	-
Accumulated depreciation and impairment at Dec 31	**-2,920**	**-390**	**-3,310**
Net book value as of Jan 1	**6,426**	**307**	**6,733**
Net book value as of Dec 31	**5,088**	**196**	**5,285**

DEPRECIATIONS AND AMORTIZATIONS 2019 AND 2018

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Accumulated amortizations	-2,500	-1,395
Accumulated depreciations	-1,468	-769
Total	**-3,968**	**-2,164**

5. Group Capital and Risks

IN THIS SECTION

5.1 CAPITAL RISK MANAGEMENT

The purpose of capital management for the Group is to secure ongoing operations during varied market conditions and to support Next Games long term strategic development. This is achieved by guaranteeing access to internally generated funds, and the ability to when necessary transfer assets to value creating investments, in addition to guarantee access to external funds (debt or equity) timely and at a reasonable cost. In order to have access to capital markets, cash flow risk needs to be as low as possible. In order to secure access to necessary funding Next Games follows and monitors approved guidelines such as the external funding for the Group is controlled by the parent company within the limits of the Treasury policy, the balance of short and long term debt must be within approved guidelines, the aim is to keep the Group’s solidity at or above 50%, the Group should not be dependent on only one source of financing but have several counterparties. Next Games monitors its capital based on gearing (the ratio of interest-bearing net liabilities to equity). Interest bearing net liabilities consist of the loans less cash and cash equivalents. The current level of gearing is distinctly lower than the limit determined by the Board of Directors. During business cycles, net gearing is likely to fluctuate but the overall objective is to retain a sufficient strong capital structure to secure the Group’s financing needs. The Board of Directors monitor the Group’s capital structure regularly.

NET DEBT DECEMBER 31, 2019 AND DECEMBER 31, 2018

EUR thousand	31 Dec 2019	31 Dec 2018
Cash and cash equivalents	7,667	7,306
Loans - repayable within one year	-1,193	-1,214
Loans - repayable after one year	-3,727	-4,663
Net debt	**2,748**	**1,429**
Cash and cash equivalents	7,667	7,306
Gross debt - fixed interest rates	-4,920	-5,877
Net debt	**2,748**	**1,429**

CHANGE OF NET DEBT 2019 AND 2018

EUR thousand	Cash	Leases due within 1 year	Leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
Net debt as of Jan 1st, 2018	**26,377**	**-225**	**-**	**-84**	**-642**	**25,426**
Cash flows	-19,294	547	-	-	-	**-18,747**
Acquisitions - finance leases and lease incentives	-	-	-	-	-	**-**
Foreign exchange adjustments	222	-	-	-	-	**222**
Other changes		-1,314	-4,145	-138	124	**-5,473**
Net debt as of Dec 31st, 2018	**7,306**	**-992**	**-4,145**	**-222**	**-518**	**1,429**
Net debt as of Jan 1st, 2019	**7,306**	**-992**	**-4,145**	**-222**	**-518**	**1,429**
Cash flows	273	-	-	-	-	**-**
Acquisitions - finance leases and lease incentives	-	-	-	-	-	**-**
Foreign exchange adjustments	88	-	-	-	-	**-**
Other changes	-	-24	935	45	-1	**955**
Net debt as of Dec 31st, 2019	**7,667**	**-1,016**	**-3,210**	**-177**	**-517**	**2,748**

5.2 FINANCIAL RISK MANAGEMENT

The overall objective of Treasury policy is to protect equity and future profits to be affected from unpredictability in the financial markets. For the purpose of this policy only risk with both uncertainty of events and exposure, should be mitigated. Next Games Corporation's financial risk management has been carried out by the Management team. The Group Management team consists of the CEO and other C-level management (CFO, CMO, CTO, COO), and has been operating under guidelines provided by the Board of Directors. Internal control is done by the Finance Department, under supervision of the CFO.

Market uncertainty itself should not trigger hedging, unless it is in conjunction with a possible and material negative consequence for Next Games Corporation or its subsidiaries. Furthermore, the objective is to attempt to secure access to liquidity and financing at all times, to a reasonable cost.

MARKET RISK

Market risk is defined as risk related to a change in value of financial instruments or future cash flows due to market price fluctuations. Key market risks for the Group relates to foreign exchange risk, interest rates, and user acquisition.

1. Foreign exchange risk

Foreign exchange risk is defined as the risk that fluctuations in the foreign exchange markets will affect Next Games Corporation (and all subsidiaries) income statement and balance sheet negatively. The major currency to which Next Games Corporation is exposed is USD. When managing foreign exchange risk, consideration should be taken to how sensitive Next Games Corporation is to fluctuations in the currency market. The entity is exposed to two different kinds of foreign exchange risks: Translation exposure by converting net equity in foreign currencies into the base currency, and transaction exposure from sales, purchases, receivables and payables in other currencies than the base currency. The Group mitigates effects of FX risk by regular monitoring of risk positions and hedge material cash inflows or outflows. Next Games Corporation receives sales in USD and EUR and carries costs in both currencies. Costs affecting Next Games Corporation's profit (royalty payments and user acquisition costs) are mainly denominated in USD. For the purpose of securing Next Games profit, the corporation may utilize instruments to match month to month sales and related expenses.

According to the Treasury policy entity's hedging levels may vary from 0% to 100% in USD denominated sales. Currency entity does not have any outstanding hedging derivatives. In 2019, the Company had EUR 0.1 million (2018: EUR 0.2 million) foreign currency exchange profits in Profit and Loss.

2. Interest rate risk

Interest rate risk is defined as the uncertainty of Next Games Corporations value, profit and loss due to changes in interest rates. The objective of interest rate risk management is to minimize the impact of fluctuations arising from interest rate changes on the Group's profit. The Group is exposed to interest rate risk through its interest–bearing loans (excluding financial leases). During the reporting period market interest rate has been below 4%, in combination with low amounts of outstanding interest-bearing loans, interest rate risk is currently not significant. The Groups has not had any derivatives to hedge its interest rate risk at the reporting dates.

As at December 31st, 2019 the total nominal amount of loans was EUR 0.8 million (EUR 0.8 million 2018) and interest-bearing debt was divided as follows:

- EUR 0.8 million Business Finland, with 1% interest
- EUR 3.0 million Danske Bank Overdraft limit, with 1-month Euribor + 2.5% margin

3. Risk related to prices for User Acquisition

User acquisition costs have significantly increased during the past three years as the growth of the industry is no longer based on a rising number of players, and there is a growing number of games competing for the same audience segment.

Competition in digital marketing channels has toughened as there is an increasing number of advertisers buying media through the same channels. The advertising market is dominated by a handful of large companies, such as Facebook and Google, and it seems their position will only continue to strengthen. The lack of competition and the lack of transparency in the advertising functionality offered by these platforms affect user acquisition pricing. For example, advertising prices on Facebook in North America have risen 200 percent from 2016 to 2019. The cost is being paid by advertisers, such as mobile games companies.

This unpredictable price increase can affect Next Games profitability for current games, as well as influence requirements towards future game performance (ARPDAU, retention). Though Next Games cannot directly influence or control prices, the Company aims to tackle increasing user acquisition prices by its license strategy. The License strategy both enables use of alternative marketing methods and channels, in addition to increasing the probability of players to organically find a game. Both methods can decrease the total price of acquiring players.

CREDIT AND COUNTERPARTY RISK

The objective of the Group's credit risk management is to minimize losses in the event one of the Group's counterparties fail to meet its obligation. The Group's finance department is responsible for managing credit and counterparty risk. Next Games is exposed to counterparty risk through its accounts receivables: To ad networks in relation to advertising revenue, and to digital storefronts for revenues related to in application purchases. The Group has concentration risk in accounts receivables through two large counterparties. Apple and Google represent 87% of entities accounts receivables. Other receivables are divided amongst ad networks. In order to mitigate credit and counterparty risk the Group uses different measures to mitigate it such as clearance of all counterparts, thorough credit reviews for any new counterparts, through advance payments and regular monitoring of counterparts payment behavior. In turn, Next Games has exposure against these platforms in terms of payables from player acquisition activities. At year end any impairment of receivables from material counterparts is analyzed individually based on their probability of default and loss given default at the reporting date. In addition, minor receivables with similar credit characteristics are grouped and assessed together for impairment. Next Games' major counterparts, such as Apple, Google, and Unity have not been found to be associated with significant credit risk or significant increase in credit risk since issuance of the receivable, based on the counterparty's credit rating, historical payment behavior and the short-term nature of these receivables. Next Games continuously assesses credit and counterparty risk, as at December 31st, 2019 no significant credit risk has been associated with its partners.

MOVEMENTS ON THE ALLOWANCE ACCOUNT FOR IMPAIRMENT OF TRADE RECEIVABLES 2019 AND 2018

EUR thousand	2019	2018
At January 1	**-7**	**-9**
Provision for impairment recognized during the year	5	7
Receivable written off during the year as uncollectible	-	-
Unused amounts reversed	7	9
At December 31	**5**	**7**

LIQUIDITY RISK

The focus of liquidity management is to safeguard Next Games ability to meet short term obligations and to secure that the liquidity always is used in the most optimal manner. Furthermore, liquidity management should aim to achieve acceptable returns on surplus liquidity, and to safeguard against negative interest rates within the limits of the Group's risk policy. In order to achieve the most optimal cash management, entity monitors liquidity position and follows approved group guidelines to maintain a sufficient liquidity level.

As at December 31st, 2019 Next Games cash and cash equivalents totaled EUR 7.7 million. Furthermore, Group had at December 31st, 2018 committed credit facilities with total undrawn credit of EUR 3.0 million which expires on June 30th, 2020 unless renewed. The following tables present entity's financial liabilities classified into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

MATURITY OF FINANCIAL LOANS

EUR thousand	1–3 months	4–12 months	1–5 years	Over 5 years	Total
December 31st, 2018					
Non-current governmental agency loan	112	110	518	-	**740**
Trade payables	2,731	-	-	-	**2,731**
Lease liabilities	245	747	4,145	-	**5,136**
December 31st, 2019					
Non-current governmental agency loan	67	222	405	-	**693**
Trade payables	3,667	-	-	-	**3,667**
Lease liabilities	248	744	3,152	-	**4,144**

5.3 SHAREHOLDERS' EQUITY

Next Games Plc's share capital paid in its entirety and registered in the trade register was EUR 0.1 million 2019 (2018 EUR 0.1 million). The Company has one class of shares. Shares do not have nominal value. At the end of the financial period 2019 the company had 27,916,224, shares outstanding (18,503,314; 2018). The company holds 13,410 treasury shares.

RETAINED EARNINGS 2018 AND 2019

EUR thousand	2019	2018
At January 1	-31,128	-14,574
Profit (loss) for the year	-8,294	-18,037
Dividends paid	-	-
Share-based payments	527	1,483
At December 31	**-38,894**	**-31,128**

SHARE AND SHARE ISSUANCE

During 2019 Next Games Plc executed a rights offering. Per completion of the rights offering 9,298,430 shares ("Offer Shares") were issued. The Offer Shares were subscribed for in the Offering. The Offer Shares entitle their holders to full shareholder rights in the Company after registration with the Finnish Trade Register and their recording in the Company's shareholder register maintained by Euroclear Finland Oy.

114,480 shares were subscribed for with option-rights during 2019

As at December 31st, 2019, there were 61,524 shares subscribed for with option rights not yet recorded in the Finnish Trade Register.

OPTION SUBSCRIPTIONS 2019 AND 2018

	2019	2018
Option subscriptions	114,480	284,532
Rights offering	9,298,430	-
Number of shares	**27,916,224**	**18,503,314**

UNRESTRICTED EQUITY

All shares subscribed for with option-rights, rights offering, and payments have in its entirety been recorded to the Company's unrestricted equity.

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent company by the weighted average number of ordinary shares outstanding during the financial year and excluding treasury shares. Diluted earnings per share is calculated on the same basis as basic earnings per share except including the impact of any potential commitments the Group has to issue shares in the future.

Next Games has multiple option programs, and the effects of those programs are explained in the more details in the Share-based payments section.

EARNINGS PER SHARE 2019 AND 2018

	Jan–Dec 2019	Jan–Dec 2018
Profit operations attributable to the owners of the Company (EUR thousand)	-8,294	-18,037
Weighted average number of shares outstanding during the period	20,346,171	18,363,428
Diluted and non-diluted earnings per share (EUR)	-0.41	-0.99

* Dilution impact is not taken into account in 2018 and 2019, because the effect is anti-dilutive (.ie. It would decrease loss per share)

DIVIDENDS AND DISTRIBUTABLE EQUITY

At December 31, 2019, the parent company's distributable equity totaled EUR 13.8 million, of which EUR -9.5 million consisted of a loss for the financial year 2019. The Board of Directors proposes to the Annual General Meeting that no dividend be distributed for the financial year 2019. The Annual Report is signed before submission to the General Meeting and the dividend proposal is made at the General Meeting. The company did not distribute any dividend for financial year 2018.

PARENT COMPANY DISTRIBUTABLE EQUITY 2019 AND 2018

EUR thousand	2019	2018
Reserve for invested unrestricted equity	61,410	53,335
Retained earnings (loss)	-38,116	-16,477
Profit (loss) for the financial year	-9,457	-21,638
Retained earnings, total	**13,837**	**15,220**
Total	**13,837**	**15,220**

SHARE-BASED PAYMENTS

Next Games has five share-based incentive schemes: Equity Plan 2014, Equity Plan 2015, Equity Plan 2017, Equity Plan 2018 and Equity Plan 2019. During 2019 Next Games' board approved changes to Equity plans 2017 and 2018. Strike price of the options were decreased from 7,90€ (2017 option plan) and 6,17€ (2018 option plan) to 1,14€ per share. In addition, four-year vesting period of options restarted from modification date. Those modifications will be treated as adjustments to current equity plans. Option programs include multiple grants and the subscription prices of the options are determined on grant basis by the Board of Directors.

Programs 2017-2019 were issued post share split, and each option-right entitles its holder to one share (1:1). Programs before 2017, pre-split, entitle their holders to four shares for each option-right (4:1). Options can be issued to the Company's or its Subsidiaries current or future employees, consultants, executive management and members of the Board of Directors. Issuance of options requires approval by the Board of Directors. The Company intends to continue granting options to all employees at the end of probationary periods as a long-term incentive.

Next Games has used its own shares for business transactions, such as license acquisition deals and business acquisitions. Expenses for the post-combination compensation element of transactions have been recorded over a vesting period of two years.

ACCOUNTING PRINCIPLES

SHARE-BASED PAYMENTS

Employees and key staff employed by Next Games are entitled to receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, Black-Scholes. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (retained earnings) over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of comprehensive income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period. Service conditions are not considered when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for awards that do not ultimately vest because service conditions have not been met. When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through statement of comprehensive income.

KEY JUDGEMENTS AND ESTIMATES

SHARE-BASED PAYMENTS

Next Games calculates the cost impact of Share-based payments by using Black-Scholes -method. All the used parameters are presented on the table above. The fair value of Next Games shares before IPO was determined by independent valuation company.

OPTION PRICING MODEL 2019 AND 2018

	Issued during 2019		Issued during 2018	
Equity plan	**2019**	**2017&2018**	2018	2017
Valuation model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes
Fair value at 31.12.	0.58 €	0.78 €	1.92 €	1.43 €–2.72 €
Main assumptions:				
Expected volatility	42%	31%	31%	31%
Share price at the valuation date	1.47 €	1.78 €	6.58 €	6.58 €–8.70 €
Weighted average share price during the period	1.27 €	1.27 €	4.60 €	4.60 €
Exercise price	1.16 €	1.14 €	6.17 €	7.90 €
Expected dividend yield	- €	- €	- €	- €
Risk free interest rate	-0.22%	-0.17%	-0.23%	-0.23%
Forfeiture rate	12%	12%	12%	12%

CHANGE OF OUTSTANDING STOCK OPTIONS 2019 AND 2018

CHANGES DURING THE 2018 REPORTING PERIOD

Equity plan	**Jan 1, 2018 Outstanding number of options**	Granted	Redeemed	Exercised	Expired	Forfeited	**Dec 31, 2018 Outstanding number of options**
2014	96,782			-61,473		-2,876	32,433
2015	177,141			-9,854		-11,098	156,189
2017	103,697	232,242			-28,570		307,369
2018		355,500					355,500
2019							
Total	**377,620**	**587,742**	**-**	**-71,327**	**-28,570**	**-13,974**	**851,491**

CHANGES DURING THE 2019 REPORTING PERIOD

Equity plan	**Jan 1, 2019 Outstanding number of options**	Granted	Redeemed	Exercised	Expired	Forfeited	**Dec 31, 2019 Outstanding number of options**
2014	32,433			-22,856	-9,014	-563	
2015	156,189			-20,265		-43,430	92,494
2017	307,369	270,391				-369,327	208,433
2018	355,500	711,500	-562,094				504,906
2019		835,376					835,376
Total	**851,491**	**1,817,267**	**-562,094**	**-43,121**	**-9,014**	**-413,320**	**1,641,209**

CHANGE OF OUTSTANDING STOCK OPTIONS 2019

Equity plans	Exercisable December 31, 2019	Exercisable December 31, 2018
2014	0	29,269
2015	70,410	79,309
2017	13,472	51,269
2018	-	-
2019	-	-
Total	**83,882**	**159,847**

SUBSCRIPTION PRICE 2019 AND 2018

Equity Plans	Issue price per option	2019 Weighted average share price	2018 Weighted average share price
2014	0.01 € - 1.97 €	0.21 €	0.12 €
2015	2.66 € - 5.10 €	0.72 €	0.86 €
2017	1.14 € - 7.90 €	-	-
2018	1.14 € - 6.17 €	-	-
2019	0.85 € - 1.38 €	-	-
Total	**0.01 € - 7.90 €**	**0.45 €**	**0.22 €**

INCENTIVE PLAN COST IMPACT 2019 AND 2018

EUR thousand	2019	2018
Costs related to restricted equity plan - share-based payment	527	1,483
Costs related to restricted equity plan - cash-based payment	-	-
Costs related to the equity plan, total	**527**	**1,483**

SHARE-BASED INCENTIVE ALLOCATIONS 2019 AND 2018

EUR thousand	2019	2018
Functions:		
R&D	285	757
Sales and Marketing	159	135
Admin	83	591
Total	**527**	**1,483**

5.4 NET DEBT AND BORROWINGS

ACCOUNTING PRINCIPLES

NET DEBT AND BORROWINGS

The Group's interest-bearing debt is categorized in the valuation category of other financial liabilities. Interest-bearing debt from financial institutions are recorded at fair value net of transaction costs at the point of acquisition. In determining fair value future cash outflows are discounted using market rates adjusted for relevant risk premiums. Loans from governmental agencies with a below-market rate of interest generates a benefit between the de facto below market-rate and true market rate of interest which is treated as a government grant and recognized as deferred income under IFRS. Government grants are recognized in the income statement on a systematic basis over the periods in which related costs are recognized as expenses.

EUR thousand	Currency	Par value	Fair value	Final due date	Net book value 2019	2018
Borrowings						
Business Finland - Valtionkonttori 1	EUR	336	291	March 13th, 2023	282	325
Business Finland - Valtionkonttori 2	EUR	439	439	August 31, 2023	412	416
Total		**775**	**730**		**693**	**740**

NET DEBT AND BORROWINGS 2019 AND 2018

EUR thousand	31.12.2019	31.12.2018
Non-current liabilities		
Non-current governmental agency loan	517	518
Lease liabilities	3,117	4,145
Total non-current liabilities	**3,634**	**4,663**
Current liabilities		
Current governmental agency loan	177	222
Lease liabilities	1,027	992
Total current liabiliies	**1,204**	**1,214**
Total liabilities	**4,838**	**5,877**

5.5 LEASING

The Group has entered into various agreements concerning property, plant and equipment classified as financial leases. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

ACCOUNTING PRINCIPLES

LEASING

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Next Games has used short-term exemption to its interim head office lease, and low-value exemption to its IT-equipment. Leases are recognized as a right-of-use asset and corresponding liability at the date of which leased asset is available for use by the Group. Assets and liabilities arising from a lease are measured on a present value basis. Lease liabilities include fixed lease payments (including in-substance fixed payments) and also any implied expected amounts payable relating to residual value guarantee and exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The lease payments are discounted using interest rate implicit in the lease, if that rate can be determined, or using incremental borrowing rate.

Certain property lease payments are linked to an inflation index. Variable lease payments based on an index are part of the lease liability and are measured initially using the index at the commencement date. Future changes of the index are considered in measurement at the point in time in which lease payments change. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date, any initial direct costs, and restoration costs. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. IFRS 16 related lease payments and interest payments are presented as part of financing cash flow in the Company's cash flow statement.

KEY JUDGEMENTS AND ESTIMATES

LEASING

In determining the lease term, management assesses whether the Group has an economic incentive to exercise an extension option, or not to exercise a termination option. All facts and conditions creating economic incentive for the Group are considered. The validity of this assessment is reassessed upon the occurrence of either significant event or a significant change in circumstances which affect this estimation.

LEASE CONTRACTS 2019 AND 2018

EUR thousand	31 Dec 2019	31 Dec 2018
Right-of-use asset		
Buildings	3,924	4,947
Total Right-of-Use Asset	**3,924**	**4,947**
Lease liabilities		
Current	992	992
Non-current	3,152	4,145
Total lease liabilities	**4,144**	**5,136**

FINANCIAL STATEMENT INCLUDES THE FOLLOWING COSTS RELATED TO THE LEASING ACTIVITIES:

EUR thousand	2019	2018
Included in financial statement section amortization and impairment charges	1,024	512
Included in financial statement section financial expenses	167	63
Included in financial statement section other costs		
Costs from short-term leases	-	291
Costs from low value unterlying assets	786	446

5.6 FINANCE INCOME AND EXPENSES

Finance costs consist of interest expenses on Business Finland loans, bank overdrafts and foreign exchange losses on financing activities. Other finance expenses comprise deposit fees of bank savings and collateral fees. Other finance expense items are insignificant. Interest income mainly arise from the Company's USD based cash deposits.

INTEREST INCOME AND EXPENSES 2019 AND 2018

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Finance income and expenses		
Interest income	0	110
Exchange rate gain	128	647
Interest income and other finance income total	**128**	**757**
Interest expense and other finance cost		
Interest expense	-248	-177
Exchange rate loss	-54	-431
Interest expense and other finance cost total	**-302**	**-608**
Finance costs, net	**-174**	**149**

ACCOUNTING PRINCIPLES

FINANCE INCOME AND EXPENSES

Transaction costs related to loans are expensed in profit or loss using effective interest rate method. The effective interest rate is the rate that discounts the estimated future payments through the expected life of a loan to the net carrying amount of the financial liability. The calculation includes all fees paid by the contracting parties and transaction costs. Interest income is recognized using the effective interest rate, unless the receipt of interest is uncertain. In such cases the interest income is accounted for on a cash basis. Foreign exchange gains and losses on financing activities are recognized within finance income or costs.

5.7 EMPLOYEE BENEFITS

Employee benefits include short-term employee benefits, benefits paid upon termination and post employee benefits. Short-term employee benefits include salaries and fringe benefits, annual holidays and bonuses. Benefits paid upon termination refer to benefits arising from termination of employment, not performance of work. Post-employment benefits comprise benefits paid after employment, such as healthcare. Short-term employee benefits include e.g. salaries and fringe benefits, annual leave and bonuses. Next Games also has multiple Equity plans, which costs are recorded to employee expenses according to IFRS 2 principles. Benefits are classified into defined contribution and defined benefit plans. The Group has no defined benefit-based pension plans.

ACCOUNTING PRINCIPLES

EMPLOYEE BENEFITS

Short-term benefits are recognized in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. The Group utilizes defined contribution pension plans under which the Group pays fixed contributions into a separate entity with 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. Contributions to the defined contribution plans are charged directly to the statement of comprehensive income in the year to which these contributions relate.

EMPLOYEE EXPENSES 2019 AND 2018

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Salaries and wages	5,036	5,088
Other social expenses	136	137
Share-based payment expense	527	1,483
Pension expenses	836	929
Total	**6,535**	**7,636**

(Share-based payments can be found from note's section 5.3)

GENERAL INFORMATION OF EMPLOYEES 2019 AND 2018

Average personnel employed	Jan–Dec 2019	Jan–Dec 2018
Research and development	75	95
Sales and Marketing	18	22
Admin	13	15
Total	**106**	**132**
As of December 31	**107**	**140**

5.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at hand and deposits held at call with banks which all are non-restricted. Used overdraft are presented under other current liabilities. Foreign currency cash and cash equivalents are translated into EUR by using the currency rate of fiscal year end. The Group uses official currency rates of Bank of Finland for translation. Used bank overdrafts are included in other current liabilities. The bank overdraft was not in use at the end of the financial year 2019.

CASH AND CASH EQUIVALENTS 2019 AND 2018

EUR thousand	31 Dec 2019	31 Dec 2018
Cash in hand and at bank	7,667	7,306
Total	**7,667**	**7,306**

6. Other Disclosures

IN THIS SECTION

- Related party transactions
- Commitments and contingent liabilities
- Income tax
- Management Compensation
- Events after the reporting period

6.1 RELATED PARTY TRANSACTIONS

Next Games' related parties include its subsidiaries, associate and the members of the Board of Directors, CEO, the members of the Management Team, as well as shareholders having significant influence over the Company. Related parties also include the close family members of these individuals and entities that are controlled or jointly controlled by a person identified as a related party. Transactions with related parties were made on an arm's length basis.

RELATED PARTY TRANSACTIONS 2019 AND 2018

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Transactions with members of the Board of directors or parties they are representing:		
Licensing fees and marketing services	1,991	2,325
Repayment of loans	-	-
Transaction with associates:		
Other operating income from selling an IP license to its' associate Armada Interactive	-	-

BALANCES WITH RELATED PARTIES 2019 AND 2018

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Loans from board member	-	-
Loan to CEO	23	-
Other payables to related party entity	713	774

Next Games related party transactions includes normal business transactions with license partners (AMC). Transactions are normal in Next Games business model and are following arm's length principle. A related party loan was granted to the CEO as part of an equity compensation plan 2019. Annual loan repayments begin at December 1st, 2024. Loan's annual interest is 12-month Euribor added with 1,6%. Securing collateral has been received for the loan.

6.2 COMMITMENTS AND CONTINGENT LIABILITIES

Next Games has Finnish state-owned financing company Finnvera's guarantee of 70% on its overdraft limit of 3.0 million euros.

COMMITMENTS AND CONTINGENT LIABILITIES 2018 AND 2019

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Loans secured by mortgages		
Loans	-	-
Amount of mortgages given as collateral	1,000	1,000
Low value leasing asset commitment	**931**	**1,273**
Within a year	398	497
Over one year	533	776

6.3 INCOME TAX

Income tax expenses comprise of current and deferred tax.

ACCOUNTING PRINCIPLES

INCOME TAX

Income tax expense is recognized in income statement except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case it is recognized directly in equity or in other comprehensive income respectively. Next Games has not recognized any income taxes in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous year.

For principles related to deferred taxes, please review note's section 3.4.

KEY JUDGEMENTS AND ESTIMATES

INCOME TAX

Key estimates and judgements referring to tax deferrals can be found from note's section 3.4

INCOME TAX 2019 AND 2018

EUR thousand	2019	2018
Current tax on profit for the period	-	-
Other direct taxes	-129	-143
Income tax relating to previous financial years	-	-
Total	**-129**	**-143**
Deferred tax		
Change in deferred tax assets	-170	-188
Change in deferred tax liabilities	-222	-820
Total deferred tax expense	**-392**	**-1 008**
Income tax expense	**-521**	**-1 150**

RECONCILIATION OF INCOME TAX EXPENSE 2019 AND 2018

EUR thousand	2019	2018
Profit before taxes	-7,773	-16,887
Tax calculated at Finnish tax rate 20 %	1,555	3,377
IFRS 2 expenses, tax effect	-105	-297
Expenses not deductible for tax purposes	-61	-
Depreciations for capitalizations not deducted in taxation	-418	-25
Unrecognized deferred tax assets on tax losses	-1,329	-4,236
Other adjustments	-	197
Share of profits of associates, net of tax	-33	-24
Other direct taxes	-129	-143
Income tax expense	**-521**	**-1,150**

Reconciliation of the income tax expense recognized in consolidated income statement to the taxes calculated using the Finnish tax rate (20% for all periods). Other direct taxes include Japan WHT 10%.

6.4 MANAGEMENT COMPENSATION

The Board of Directors decides on the remuneration and criteria of the CEO and the members of the Management Team. Compensation consists of monthly salary and bonus. The Board of Directors decides the terms of bonuses annually based on individual and companywide performance criteria. Management is subject to the same Equity plans as other personnel.

MANAGEMENT COMPENSATION 2019 AND 2018

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
CEO remuneration		
Salary, other remuneration and benefits [1,2 & 4]	236	238
Pension costs - defined contribution plan [3]	43	43
Total	**280**	**282**
Management team remuneration (excluding CEO)		
Salary, other remuneration and benefits	590	675
Pension costs - defined contribution plans	108	123
Total	**698**	**798**
The Board of Directors remuneration	**177**	**131**
Management share-based payments [5]	**38**	**441**
Total of key management and the Board of Directors	**1,154**	**1,211**

1.) Salary is the monetary compensation paid by the Group to its Management, including any bonus payments
2.) Other benefits include customary benefits such as lunch and mobile phone
3.) Pension contribution is based on the statutory employee pension system, the Group has no voluntary or additional pension plans in place
4.) Option benefits are not monetary compensations from the Group to its Management. The benefit achieved is calculated as the difference between price paid per share and prevailing share price at the point of exercising. This amount is treated as a taxable benefit as per the Finnish tax code. True monetary benefits from programs are unknown and realized at the point of share liquidation. Benefits are based on programs issued between 2014 and 2019. Exercising of options does not impact the Group's cash position, or profit and loss statement.
5.) IFRS 2 share-based payments are expenses recorded to the Profit and Loss statement based on options granted and vested by management members. The share-based payment benefit is based on the option rights that are granted to the management. The amount is recognized as an expense and it is based on the Black and Scholes fair value valuation.

The CEO is entitled to the statutory pension and the age of retirement is determined in accordance with the statutory employee pension system. Termination period for the CEO's employment contract is 6 months, and he is entitled to the salary for the termination period as well as the performance bonus until the termination date. If the CEO decides to resign from the Company or his employment is terminated during the bonus period (the fiscal year) or before the payment of the possible bonus is made, the CEO will not be entitled to receive any payment for the period in question. In case of retirement, the bonus is paid for the period of active employment. In case the notice of termination is given to the CEO, a severance pay of 12 months' base salary will be paid in addition to the salary for six months' notice period. If the CEO gives a notice of termination to the Company, no severance pay will be paid in addition to the salary for the notice period.

6.5 EVENTS AFTER THE REPORTING DATE

After the reporting period, Next Games applied a change in Accounting Policy Related to Publishing and Product Development Functions which affected Financial Statements 2018 and interim reports 2019.

PARENT COMPANY ANNUAL REPORT

PARENT COMPANY PROFIT AND LOSS STATEMENT

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
REVENUE	**34,701**	**35,245**
Other operating income	11	61
Raw materials and services		
External services	-26,499	-29,906
Raw materials and services total	-26,499	-29,906
Personnel expenses		
Wages and salaries	-6,768	-7,923
Social security expenses		
Pension expenses	-1,107	-1,446
Other social security expenses	-204	-213
Personnel expenses total	-8,079	-9,582
Depreciation, amortisation and write-offs		
Depreciation and amortisation according to plan	-2,842	-2,102
Depreciation, amortisation and write-offs total	-2,842	-2,102
Other operating expenses	-6,612	-14,429

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
OPERATING PROFIT (LOSS)	**-9,320**	**-20,713**
Financial income and expenses		
Other interest income and financial income		
From others	128	757
Reduction in value of investments held as non-current assets	-	-1,011
Other interest expenses and other financial expenses		
To others	-137	-528
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	**-9,329**	**-21,496**
Income taxes		
Income taxes for the financial year	-129	-143
PROFIT (LOSS) FOR THE FINANCIAL YEAR	**-9,457**	**-21,638**

PARENT COMPANY BALANCE SHEET

EUR thousand	31 Dec 2019	31 Dec 2018
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Intangible rights	1,959	2,740
Other intangible assets	2,506	3,812
Intangible assets total	**4,466**	**6,552**
Tangible assets		
Machinery and equipment	216	287
Tangible assets total	**216**	**287**
Investments		
Holdings in group undertakings	28	28
Other shares and similar rights of ownership	63	63
Investments total	**90**	**90**
NON-CURRENT ASSETS TOTAL	**4,771**	**6,930**

EUR thousand	31 Dec 2019	31 Dec 2018
CURRENT ASSETS		
Long-term debtors		
Loan receivables	23	-
Other debtors	395	395
Prepayments and accrued income	692	81
Deferred tax assets	2,850	2,850
Long-term debtors total	**3,961**	**3,326**
Short-term debtors		
Trade debtors	2,892	2,808
Loan receivables	2	-
Other debtors	157	233
Prepayments and accrued income	2,195	3,224
Short-term debtors total	**5,245**	**6,265**
Cash in hand and at banks	7,667	7,306
CURRENT ASSETS TOTAL	**16,873**	**16,897**
ASSETS TOTAL	**21,644**	**23,827**

PARENT COMPANY BALANCE SHEET

EUR thousand	31 Dec 2019	31 Dec 2018
EQUITY AND LIABILITIES		
EQUITY		
Share capital	80	80
Other reserves		
Invested unrestricted equity reserve	61,410	53,335
Other reserves total	61,410	53,335
Retained earnings (loss)	-38,116	-16,477
Profit (loss) for the financial year	-9,457	-21,638
EQUITY TOTAL	**13,917**	**15,300**
LIABILITIES		
Non-current liabilities		
Loans from credit institutions	553	553
Non-current liabilities total	**553**	**553**
Current liabilities		
Loans from credit institutions	177	222
Advances received	955	1,458
Trade creditors	3,673	2,734
Amounts owed to group undertakings	26	28
Other creditors	144	204
Accruals and deferred income	2,201	3,329
Current liabilities total	**7,174**	**7,974**
LIABILITIES TOTAL	**7,728**	**8,527**
EQUITY AND LIABILITIES TOTAL	**21,644**	**23,827**

PARENT COMPANY CASH FLOW STATEMENT

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Cash flow from operating activities		
Profit (loss) before appropriations and taxes	-9,329	-21,496
Adjustments:		
Depreciation according to plan	2,842	2,102
Impairment in non-current assets	-	1,011
Unrealised foreign exchange gains and losses	-71	-224
Other non-cash items	-326	348
Financial income and expenses	97	-6
Cash flow before working capital changes	**-6,787**	**-18,265**
Working capital changes:		
Increase/decrease in trade and other short-term interest free receivables (-)/(+)	190	-761
Increase/decrease in short-term interest-free liabilities (+)/(-)	-301	1,559
	-111	**798**
Operating cash flow before financing items and taxes	**-6,898**	**-17,467**
Paid interest and other financial expenses relating to operating activities	-97	-97
Interest received relating to operating activities	0	110
Income taxes paid	-126	-127
Cash flow from operating activities	**-7,121**	**-17,580**

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Cash flow from investments		
Purchase of tangible and intangible items	-336	-2 166
Proceeds from sale of tangible and intangible assets	-	396
Cash flow from investments	**-336**	**-1 771**
Cash flow from financing activities		
Proceeds from issuance of equity	8,072	63
Purchase of own shares	-	-7
Repayment of short-term borrowings	-45	-
Paid interest expenses and other financial expenses *	-297	-
Cash flows from financing activities	**7,730**	**56**
Effect of exchange rate differencies on cash and cash equivalents	88	224
Change in cash and cash equivalents	**361**	**-19,071**
Cash and cash equivalents at beginning of period	7,306	26,314
Cash and cash equivalents received in merger	-	64
Cash and cash equivalents at end of period	7,667	7,306

*) Includes share issue expenses: legal services, consulting services, and bank fees. Corresponding acquisition cost have been capitalized to other intangible assets in balance sheet.

Parent Company Notes to Financial Statements

NOTES TO THE PREPARATION OF THE FINANCIAL STATEMENTS

Valuation principles and methods

Company's intangible and tangible assets have been valued to the acquisition cost less planned, accumulated depreciation. The tangible assets that have an economic useful life of under three years or an acquisition cost less than 850 euros have been expensed during the financial year.

Trade receivables, loan receivables, other receivables, prepayments and accrued income booked as receivables have been valued to net value or a lower probable value.

Debts have been valued to net value or a higher value based on the comparison criterium.

Investments have been recognized to the acquisition cost or a lower probable value.

Depreciation principles and methods

Trademarks	5-year straight-line depreciation
Copyrights	3-year straight-line depreciation
Capital expenses from rented office spaces	5-year straight-line depreciation
IT softwares	3-year straight-line depreciation
Licenses	3-year straight-line depreciation
Merger loss	5-year straight-line depreciation
IPO related expenses	3-year straight-line depreciation
Share issue expenses	18 month straight-line depreciation
Machinery and equipment	Reducing balance method of 25% per year

Depreciations start when the asset is available for use.

Revenue recognition

Company generates revenue from two categories:

1. Games, in which services, virtual currencies and products are sold (IAP)
2. Advertising revenue

The company develops games for mobile devices, available to download for free but players can buy virtual items in the game with real currency. Next Games also receives revenue from ads placed in the game. Purchased virtual items can be divided in to durables and consumables. Durable items are deferred over the lifetime of a player, product, or group of products, whereas consumable items are recognized immediately as revenue.

Company defers revenue from the games based on an estimate on how the players use the services and virtual goods that they buy in the game. For the revenue recognition, the company calculates an estimated life-time for the players, individual products or product groups, and defers the payments received based on this estimate. The company's current games, as well as any future games, are different. Using the same principle, the life-time of the products and players may differ between the games, hence the deferred revenue differs for each game. Advertising revenue is recognised when the advertisement has been shown.

The direct expenses (commissions and license fees directly relating to sales) have been deferred based on the same principles as the revenue. Revenue deferral is shown under Advances received, and the corresponding commission- and license-expenses are shown under Prepayments and accrued income.

Social influencer marketing costs are accrued and expensed over their expected useful lives. TV and radio marketing costs are expensed on an accrual basis.

Description of purchased services

Purchased services includes hosting costs, user acquisition costs, platform commissions, other outsourced services, and license fees.

Accounting for pensions

The company's pension liabilities have been covered through a pension insurance company. All pension arrangements are defined contribution arrangements, and the related costs are entered in the income statement for the financial year in which they were incurred.

Recognition of deferred tax

Deferred taxes are calculated for temporary differences between tax bases and book values using the tax rate for future years that has been confirmed at the balance sheet date. Deferred tax assets are measured according to the conservatism principle.

IPO expenses

Company has capitalized IPO related expenses to other intangible assets. Capitalized amount includes legal and consulting services, bank fees, and insurance expenses. Management has estimated that the IPO has had a positive effect on the company's estimated future financial performance. Due to this IPO expenses have been capitalized and will be depreciated over the expected useful life.

NOTES TO THE PROFIT AND LOSS STATEMENT

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Revenue		
By category of activity		
Games	34,701	35,245
By geographical markets		
North America	16,657	15,642
EU	10,063	10,327
Other	7,981	9,277
Other operating income		
Gain from disposals, other intangible and tangible assets	9	18
Other	2	42

External services

Company has negotiated a refund related to the launch expenses of the game Walking Dead: Our World from its server supplier during the financial year 2018. This has had a significant impact on raw materials and services.

Company's licensing contracts have several terms that can have an effect, depending on the game's lifecycle, on the amount of licensing fees payable.

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Other operating expenses		
Marketing expenses	235	4,897
Outsourced development and testing services	869	3,770
IT software and hardware expenses	2,206	2,120
Legal and consulting expeness	790	892
Travel expenses	201	406
Office space expenses	1,582	993
Other expenses	728	1,351
Auditor's fees		
Audit of financial statements	80	15
Engagements referred to in the Auditing Act, 1.1,2 §	5	-
Tax consulting	-	-
Other fees	31	125

NOTES TO THE PERSONNEL AND MEMBERS OF THE BOARD OF DIRECTORS

EUR thousand	Jan–Dec 2019	Jan–Dec 2018
Average headcount during the financial year	106	135
Wages, salaries and other remuneration of directors and management		
CEO	236	238
Members of the Board of Directors	177	131

EUR thousand	Option rights 31 Dec 2019
Management options	
Petri Niemi, Chairman of the Board	1
Xenophin Lategan, Member of the Board	32
Teemu Huuhtanen, CEO	193
Saara Bergström, Management member	181
Annina Salvén, Management member	174
Kalle Hiitola, Management member	1
Joonas Viitala, Management member	165
Total	**748**

More information on option programs are presented in the Board of Directors' report.

NOTES TO THE BALANCE SHEET ASSETS

EUR thousand	31 Dec 2019	31 Dec 2018
Specification of the assets in the balance sheet		
Intangible rights		
Acquisition cost at Jan 1	3,341	3,341
Additions	316	-
Acquisition cost at Dec 31	3,657	3,341
Accumulated depreciation and impairment at Jan 1	601	41
Depreciation for the financial year	1,097	560
Accumulated depreciation and impairment at Dec 31	1,698	601
Carrying amount at Dec 31	1,959	2,740

NOTES TO THE BALANCE SHEET ASSETS

EUR thousand	31 Dec 2019	31 Dec 2018
Other intangible assets		
Acquisition cost at Jan 1	6,908	3,898
Additions	368	3,405
Disposals	-	-396
Acquisition cost at Dec 31	7,275	6,908
Accumulated depreciation and impairment at Jan 1	3,095	1,650
Accumulated amortisation relating to disposals and transfers	-	14
Depreciation for the financial year	1,673	1,431
Accumulated depreciation and impairment at Dec 31	4,769	3,095
Carrying amount at Dec 31	2,506	3,812

Acquisition cost for capitalized IPO costs have been 2,705,209.25 euros from which a depreciation of 901,736,40 (2018: 901,736.40) have been recognized during the financial year 2019.

EUR thousand	31 Dec 2019	31 Dec 2018
Machinery and equipment		
Acquisition cost at Jan 1	580	329
Additions	-	251
Acquisition cost at Dec 31	580	580
Accumulated depreciation and impairment at Jan 1	292	196
Depreciation for the financial year	72	96
Accumulated depreciation and impairment at Dec 31	364	292
Carrying amount at Dec 31	216	287
Holdings in group undertakings		
Acquisition cost at Jan 1	28	1,588
Disposal due to merger	-	-1,561
Acquisition cost at Dec 31	28	28
Accumulated impairment Jan 1	-	-
Accumulated impairment Dec 31	-	-
Carrying amount at Dec 31	28	28

EUR thousand	31 Dec 2019	31 Dec 2018
Other shares and similar rights of ownership		
Acquisition cost at Jan 1	1,074	1,074
Acquisition cost at Dec 31	1,074	1,074
Accumulated impairment Jan 1	1,011	-
Impairment	-	1,011
Accumulated impairment Dec 31	1,011	1,011
Carrying amount at Dec 31	63	63

Other shares and similar rights of ownership includes ownership in Armada Interactive Oy in which the company has recognized an impairment during the financial year 2018.

OWNERSHIP IN OTHER COMPANIES

	31 Dec 2019
Group companies	
Next Games GmbH	100% ownership
Lume Games Oy (mergered with the parent company as of Jan 1 2018)	100% ownership
All group companies have been consolidated in to the parent company's consolidated financial statements.	
Associate companies	
Armada Interactive Oy	11.79% ownership
Associate company has been consolidated in to the parent company's consolidated financial statements. Next Games corporation has a significant influence on the associate company's operational and financial decision making.	

EUR thousand	31 Dec 2019	31 Dec 2018
Prepayments and accrued income		
Long-term		
Prepayments	692	81
Other	0	-
Short-term		
Prepayments and marketing expense accruals	1,670	2,608
Accrued cost of sales	482	601
Other	43	15

Deferred taxes

Recognized deferred tax assets from the parent company's tax losses in the financial statements amounted to 2,849,791.40 euros. Recognition is based on management's assessment that the company is able to utilize the tax benefit generated by the tax losses.

Tax losses from which deferred tax assets are recognized expire during years 2023–2028.

NOTES TO BALANCE SHEET EQUITY AND LIABILITIES

EUR thousand	31 Dec 2019	31 Dec 2018
Equity		
Breakdown of equity		
Share capital Jan 1	80	80
Share capital Dec 31	80	80
Total restricted equity Dec 31	**80**	**80**
Invested unrestricted equity Jan 1	53,335	53,277
Share issue	7,997	-
Excercise of options	78	65
Purchase of treasury shares	-	-7
Invested unrestricted equity Dec 31	61,410	53,335
Retained earnings Jan 1	-38,116	-16,477
Retained earnings Dec 31	-38,116	-16,477
Loss for the year	-9,457	-21,638
Unrestricted equity Dec 31	**13,837**	**15,220**
Group liabilities		
Other liabilities	26	28
Accruals and deferred income		
Accrual for other direct cost of sales	514	477
Staff expenses	962	1,424
Other	724	1,429

COMMITMENTS AND CONTINGENT LIABILITIES

EUR thousand	31 Dec 2019	31 Dec 2018
Lease agreement liabilities		
During next financial year	398	497
Later	533	776
Total	**931**	**1 273**

Deposits and commitments from office spaces

Rental deposits from office spaces: 395,200 euros (other long-term receivables).

EUR thousand	2019	2018
Rent commitments (excluding 24 % VAT)		
During next financial year	1,389	1,304
Later	3,935	5,000
Total	**5,323**	**6,304**

Investments in real estate

Company is liable to remeasure its VAT deductions from the real estate investment completed during the financial year 2018 if the taxable usage of the real estate decreases during the revision period. Total remeasurement liability is 318,192.34 euros and the final remeasurement year is 2027.

Other commitments

The company has outstanding license agreements which may trigger further off balance sheet commitments during the following years including minimum guarantees, minimum development budgets and marketing spend. These possible commitments are off-balance sheet items.

Checking account credit limit

Total credit limit: 3,000,000 euros.
Credit limit in use as of Dec 31 2019: 0.00 euros.
The company has given a 1,000,000 euro business mortgage for the credit limit.

CALCULATION OF DISTRIBUTABLE FUNDS

EUR thousand	31 Dec 2019	31 Dec 2018
Distributable unrestricted equity	**13,837**	**15,220**
Invested unrestricted equity	61,410	53,335
Retained earnings (loss)	-38,116	-16,477
Profit (loss) for the financial year	-9,457	-21,638

RELATED PARTY DISCLOSURES

Company have had transactions with the related parties during the financial year: 1,991,161.10 euros (2018: 2,325,394.09 euros). Transactions with the related parties includes licensing fees and purchased marketing services.

Control over the entity or significant influence over the entity's financial and operating decision-making processes are requirements when deciding company's related parties. During year 2019, company has traded with one of its related party: AMC, license holder for The Walking Dead.

In addition, the company has given a loan of 46,259.88 euros to its CEO until the financial statements signature. Annual loan repayments begin at Dec 1 2024. Loan's annual interest is 12-month Euribor added with 1.6%. Securing collateral has been received for the loan.

Signatures of The Financial Statements and Board of Directors' Report

Helsinki, 12 March 2020

Huuhtanen Teemu
CEO

Niemi Petri
Chairman of the Board

Nicholas Seibert
Board member

Levin Peter
Board member

Ovaskainen Jari
Board member

Elina Anckar
Board member

Xenophin Lategan
Board member

Auditor’s Note

Our auditor’s report has been issued today.

Helsinki, 12 March 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Karinen
APA

Auditor's Report

(Translation of the Finnish Original)

To the Annual General Meeting of Next Games Oyj

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance and financial position and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

What we have audited

We have audited the financial statements of Next Games Oyj (business identity code 2536072-3) for the year ended 31 December, 2019. The financial statements comprise:

- the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER REPORTING REQUIREMENTS

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

Helsinki 12 March 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Karinen
Authorised Public Accountant (KHT)