Hugo Games A/S

Gammel Kongevej 120, 1. th.
CVR no. DK 33 59 71 42

Annual report 2016

Our Vision

To become a Nordic tier-one mobile game company by end 2018

HUGO GAMES AT-A-GLANCE

- A Nordic, publicly-traded mobile game company founded in 2011.
- A company that creates, develops and publishes mobile games globally.
- Strong portfolio of games globally available across a wide range of platforms including iOS, Android, Windows, Amazon and Facebook.
- Truly passionate about games and committed to making titles that will engage and bring genuine joy to people for years.
- Enters into strategic partnerships with high profile celebrities for increased visibility, awareness and product performance.

CEO LETTER

Positive expectations, but at a lower level

For Hugo Games, 2016 was both a year of great achievements, with the signing of some of the world's greatest footballs clubs and yet also a challenging year, as our highly-anticipated game with Cristiano Ronaldo, Kick'n'Run did not perform as expected. The user reviews bring the game in a very unique position as one of the best-rated games in its category but unfortunately the game has not been able to show the expected monetization. The cooperation with Cristiano Ronaldo and his team has been outstanding and based on both parties' experience from this initial project, we are now exploring the potential for finding a common ground for continuing the business relationship.

Based on the results and our learnings throughout 2016, we revised our three-fold-product strategy with a view to focusing on games within categories with higher earnings per user. Our upcoming football game is a great example of a game concept within a semi-casual game category and with expected higher earnings. We will explore other opportunities for new game concepts in 2017.

We are extremely excited about our signings with some of the world's greatest football clubs; Real Madrid, FC Barcelona and Arsenal. We are both proud and of course very excited about the new game, which is scheduled for release in Q3 of this year.

We have established an exceptional and, not least, mutually beneficial cooperation with Lima Sky (IP-holder of Doodle Jump), we have had our prototype of Doodle Jump 2 (working title) approved by Lima Sky and, based on the ongoing development of the game and cooperation with Lima Sky, we expect the new Doodle Jump game will get a final approval for release this year.

We are also very excited about the launch of our upcoming skateboard game with the world's best skateboarder, the young American Nyjah Huston with soundtrack by the world famous US rapper, Lil Wayne. We expect the game to be released in Q2 this year.

Lastly, we are also working to find the right game concept for future releases with our IP; Hugo the troll, an IP that we can tell from the download numbers has a strong fan base. We plan to use this IP to strengthen our relationships with 3rd parties within specific segmented games categories such as the cooperation with PlayNGo.

Another big and very important milestone finalised in 2017 was the acquisition of the UK game studio Fuzzy Frog, the developers behind the Kick'n'Run game. The company has 27 employees with a very strong games industry experience. In addition, it has also generated positive acsh flows over the last couple of years. By bringing Fuzzy Frog on-board, we believe Hugo Games has moved to a higher and stronger league, and the move will not least make our organisation more streamlined and cost-effective following our decision to close down our Copenhagen office. The deal with Fuzzy Frog is expected to close mid-April 2017.

With 1) the recent organisational changes; 2) the revised product strategy; and 3) our product line-up, we believe we have found a platform that will meet the expectations of our shareholders, and will propel our company to the level of success we all expect and hope to see materialize going forward.

We appreciate the dedication of our shareholders, and our hard-working team is committed to a focused effort to bringing strong success to Hugo Games!

Henrik Kølle

CEO, Hugo Games A/S

MARKET SITUATION

MOBILE GAMES TRENDS 2017

Strong increase in number of app downloads, accelerated app maturity and growing marketing costs drive a steady stream of excellent mobile game concepts across a rich array of continuously better mobile devices and faster networks. Utilising our strong relationships with leading platform owners is key to getting our titles featured.

Looking back at 2016, we believe that many of the most relevant and impactful game concepts will define and redefine what the mobile gaming market will look like in 2017. From iOS's amazing success in China to Google Play's driving force across many emerging markets, we see how these two platforms are shaping categories, monetization and new device platforms. At the same time, the games category continues to drive huge volumes of downloads and store revenue, yet we are seeing new trends emerge as smaller developers similar to Hugo Games, are able to challenge top publishers.
The overall news in 2016 was the launch of "Pokemon Go", which was so immensely successful that it had an impact on most mobile games, taking both time spend per user and users from other mobile games. "Pokemon Go" generated revenue of USD 1 billion in its first seven months, breaking all previous records. Another big and surprising success was the match-3 game "Gardenscapes", which is now competing with the king of the match-3 category; "Candy crush".

STRATEGY & GOALS

OUR THREE-FOLD STRATEGY

When planning for the future, we always utilize our learnings from the past before executing our strategy with consistency and focus. We believe this is our key to success.

Our long-term goals in becoming a tier-one mobile company implies having positive cash flows and more than five million active users (DAU's) with an average revenue per active daily user (ARPDAU) of at least 0.15 DKK.

On the path to becoming a Nordic tier-one mobile company

The company's long-term strategy and goal is to become a Nordic tier-one mobile company within the next two to three years.

Forecast to grow from USD 35 billion in 2016 to USD 48 billion by 2020, mobile gaming is expected to become the biggest segment in the digital games industry. Those growth numbers would propel the segment from 39 percent of the market in 2016 to 42 percent by 2020, equal to a CAGR (Compound Annual Growth Rate) of 8 percent (source: Digi-Capital) in the mobile games category, in which we believe that we have the skills and strategy to become a Nordic tier one mobile company.

Our own tier-one definition/target is as follows:

- To have at least five million daily active users (DAU's) by the end of 2018.
- To have an average net revenue per daily active user of at least 0.15 DKK.
- To achieve positive cash flows.
- To achieve as much predictability in our product performance and financial results as possible.

The above definition is maintained under the new structure and the revised product strategy, which builds on our previous "three-fold strategy" of maintaining a stronger focus on fewer but more profitable games within three main pillars:

- Focus on core skills:
    - Identifying and creating new and viable game concepts.
    - Further develop the best concepts into content based on market demand.
    - Secure product visibility through marketing activities, such as PR, user acquisition, cross-promotion and app store features.

- Turn product strategy into successful products:
    - Minimizing the market risk by developing and/or acquiring games at different levels:
        1. Hugo branded games utilizing Hugo's DNA within a conceptual safe concept environment.
        2. Utilizing celebrity brands by entering into agreements with socially strong celebrities when game concept and IP make for a natural fit.

- Build a profitable and successful business:
    - Retain ownership of successful products.
    - Maximize relationships with partners.
    - Maintain a flexible and capital-efficient model.

Through execution of the above strategy, we aim to secure a strong product portfolio that will minimize our market risk and ensure the strategic strength and flexibility needed in the dynamic gaming industry.

OUTLOOK

Reorganisation development resources.

Hugo games has per 31/3 2017 announced that it hast acquired 52,4% of games studio Fuzzy Frog Ltd, Nottingham, UK.

With the acquirement, Hugo Games will restructure its current operation to secure a more streamlined and cost-effective organization going forward. The restructuring includes i.e. closure of Hugo Games' development office in Copenhagen which is expected to reduce operational expenses by approximately DKK 0.4-0.6 million per month (before any restructuring costs) from October 2017.

Some of the planned projects in Copenhagen will be rolled over to Fuzzy Frog though the pipeline priority is:
a) our soccer game with Real Madrid, FC Barcelona, FC Arsenal and perhaps some more clubs to join
b) Doodle Jump 2 (working title)
c) Pro Street skater with Nyjah Huston and
d) a Hugo games end of the year.

Financial expectations:
With the changes we expect, without any assurance, that Hugo Games on a consolidated basis will see positive EBITDA (before restructuring) figures in Q4 2017.

FINANCIAL REVIEW

Investment and product launches were the main themes in 2016. Our products were given very good reviews from users but unfortunately, they did not attract enough users and income per user. As a result, Hugo Games did not generate satisfactory financial results for 2016.

Disappointing performance

Hugo Games launched five new game titles and one online casino game in 2016. Neither of the game titles reached the expected revenue, resulting in an impairment loss of DKK 29.6m for 2016. The online casino game performed as expected.
Revenue in 2016 was DKK 5.3m, up from DKK 3.2m in 2015. Revenue was primarily generated from the casino game and Ronaldo Kick´n´Run.

Cost base affected by large investments

The operational cost base increased in 2016 due to strategic marketing decisions.

Operating costs (DKK ´000)	2016	2015
Cost of sales	465	501
Research and development expenses	2,968	794
Marketing expenses	8,493	10,895
Other expenses	9,496	7,635
Total	21,422	19,825

Research and development costs covering internal and external costs related to the development of new games are not capitalized. The DKK 2.2m y-o-y increase was due to fewer costs being capitalized.

Marketing expenses covering online marketing and royalty payments were down DKK 2.4m primarily due to less online marketing as to cost per user being been too high relative to the expected revenue value.

Other external expenses covering administrative salaries, administrative expenses, listing-related costs, etc. accounted for DKK 9.6m in 2016 compared with DKK 7.6m in 2015. The DKK 1.9m y-o-y increase was due to a larger organisation and a full year on the Oslo Stock Exchange.

In 2015, the Hugo Games organization was strengthened considerably by appointments made to key positions as a part of the professionalization of the company. Staff costs excluding capitalised development costs increased in 2016. Due to the disappointing results, the administrative staff was reduced in late 2016 and the effect will be visible in 2017.

The average number of employees headcount in 2016 was 15 (2015: 15). At 31 December 2016, the number of employees was 13 (2015: 16).

Financial performance not satisfactory

EBITDA before special items was a loss of DKK 16.1m in 2016 (2015: DKK -16.6m).

Depreciation and amortisation for 2016 was DKK 12.4m (2015: DKK 7.9m). The increase was related to the amortisation of released games in 2015 and 2016.

Special items covered impairment losses of DKK 29.8m (2015: DKK 3.5.) and onerous contract losses of DKK 5.6 m. (2015: DKK 0.0m). Changes in both items were due to the disappointing performance of games launched and to our strategic focus.

EBIT for 2016 was a loss of DKK 64.0m (2015: loss of DKK 33.9m).

Net financials were an expense of DKK 0.4m (2015: DKK -3.2m of which DKK -2.6m in 2015 was related to an exchange loss of NOK).

In 2016, Hugo Games incurred a loss before tax of DKK 64.3m (2015: loss of DKK 37.1m). Tax on the loss for the year was an income of DKK 5.4m of which DKK 4.0m will be returned by the Danish tax authorities under the tax credit scheme.

A net loss for the year of DKK 59.0m was recorded (2015: net loss of DKK 29.4m).

Total assets fell in 2016

Total assets amounted to DKK 29.8m at 31 December 2016, a DKK 33.4m or 53% decrease compared to 2015. Investments in non-current assets amounted to a total of DKK 13.8m in 2016 (2015: DKK 41.7m), the reductions being due to recognised impairment losses at 31 December 2016.

Cash flow hit by large investments and sales shortfall

In 2016, the cash flow from operating activities totalled a loss of DKK 11.2m (2015: loss of DKK 22.3m) and cash flows from investing activities (mainly game development) had a negative cash impact of DKK 14.3m (2015: negative impact of DKK 17.5m). Cash flows from financing activities totalled DKK 20.0m (2015: DKK 43.7m) primarily due to proceeds from a capital increase. The cash position at 31 December 2016 amounted to DKK 9.2m (2015: DKK 14.6m).

Equity

The group's equity at 31 December 2016 was DKK 15.0m (2015: DKK 52.1m). The decrease in equity was mainly attributable to the loss for the year including impairment losses of 29.8m. The equity ratio at year-end was 50% (2015: 82%).

Capital increase in the summer 2016

The rights issue of 20,000,000 new shares with pre-emptive rights for existing shareholders was a great success and was oversubscribed by about 15,000,000 shares.

Due to the considerable demand, Aula Holding ApS (CEO Henrik Kølle) did not exercise its subscription rights, allowing many new investors to acquire shares in the company and leaving open the option for investing through a later issue if necessary.

The gross proceeds from the right issue were NOK 30 million.

Management´s investments in shares in right issue summer 2016:	Amount underwritten NOK	Amount invested NOK
Paw Capital ApS	5,000,000	2,962,919
(Bertel Maigaard, chairman of the board)		
Maigaard og Molbech ApS	250,000	250,000
(Bertel Maigaard, chairman of the board)		
Caspar Rose, vice chairman of the board	0	8,309
Rasmus Lund, board member		24,750
Christian Sand Kirk, board member		194,913
Aula Holding ApS	12,500,000	0
(Henrik Kølle, CEO)		
Ekman Holding ApS	250,000	197,985
(Peter Ekman, CFO)		

Company developments in 2nd half year 2016.

Developments in the second half of 2016 were characterized by games development and following up on games launched in the first half of the year. The performance of the second half of the year was strongly affected by special items.

H2 2016 revenue amounted to DKK 3.2m (2015: DKK 2.1m), gross profit was DKK 3.0m (2015: DKK 1.1m) and EBITDA before special items was a loss of DKK 9.8m (2015: loss of DKK 7.6)

Events after the balance sheet date

On 31 March 2017, the Group entered into a Share Sale and Purchase Agreement for the acquisition of 52.6 percent of all the issued shares in Fuzzy Frog Ltd., a company based in UK and specialising in game development. Acquisition date is expected to be 15 April 2017. The purchase price is DKK 4.5 million and shall be paid by issuing new shares in Hugo Games A/S

Other than as set out above, no important events have occurred after the end of the financial year.

FINANCIAL HIGHLIGHTS

DKK ´000	IFRS 2016	IFRS 2015	IFRS 2014	ÅRL 2013
Revenue	5,331	3,198	6,344	4,549
Gross profit	4,866	2,697	4,798	3,185
Loss before special items (EBITDA)	-16,091	-16,627	-1,215	474
Operating profit/loss (EBIT)	-63,959	-33,909	-4,711	-1,153
Net Financials	-383	-3,213	-317	-156
Net loss for the year	-58,970	-29,431	-3,629	-849
Total assets	29,811	63,240	51,143	31,241
Investments other equipment	24	64	16	-
Capitalized costs and expenses development	17,231	18,053	12,678	12,778
Equity	14,983	52,055	36,874	13,394

RISK MANAGEMENT IN PRACTICE

Risk management is a high priority at Hugo Games. The Board of Directors and the management monitor the company's risk factors closely to minimize risk exposure. This ensures quick reaction time if conditions change. A risk assessment is made prior to every major decision.

RISKS AND UNCERTAINTIES

The most important risks facing Hugo Games are related to market/commercial risk and development risk. However, where the conventional game development is associated with large risks due to long development periods with substantial associated costs and a high risk of failure, Hugo Games' code engines reduce the development time and risk of failure significantly.

- ***Financial risk***
  Hugo Games is in a development stage and does not yet generate positive cash flows. Therefore, the company relies on having credit facilities and/or on fresh capital from its owners.

- ***Market/commercial risk***
  For every launch of a new game there is a risk that it will not generate satisfactory downloads and revenue, which can lead to a decision to discontinue the game or stop updating it. In such case, the amount spent on development costs and other costs will be written down with a negative impact on the financial results for the period. To reduce that risk, all new games run a soft launch period in a limited market to test user response and use it to optimize the game.

- ***Product development risk***
  When developing new products there is a risk that the product will not be finished because of changes in market sentiment, for example. In such case, the amount spent on the project will be lost.
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- ***Disputes***
  The company may from time to time be involved in disputes, including disputes regarding intellectual property rights, all with ensuing risks and costs, which could have a material adverse effect on Hugo Games' business, financial condition and results of operations.

- ***Partnership risk***
  Hugo Games enters into various agreements with celebrities about developing and launching games. If such celebrities lose popularity with the general public, revenue may fall dramatically. To minimize that risk, we carefully evaluate the celebrity persons involved before entering into any agreement.

For further information on risk, see the section "Risk factors" on pp. 20, 25 – 30 of the prospectus dated 22 June 2016.

CORPORATE GOVERNANCE

GOOD CORPORATE GOVERNANCE IS ESSENTIAL FOR LONG TERM VALUE CREATION

The Board of Directors serves as a qualified dialogue partner for the daily management. The Board of Directors combines key industry insights, important business and financial skills as well as many years of management experience.

Hugo Games' Board of Directors and Management continually work with corporate governance principles to ensure that the management structure and control systems are appropriate and satisfactory. Hugo Games 2016 statutory report on corporate governance, cf. section 107b of the Danish Financial Statements Act, is available on Hugo games website at http://hugogames.com/wp-content/uploads/2017/04/CG-rapport-2016.pdf

The Company complies with 37 of the 47 Danish recommendations on corporate governance (www.corporate-governance.dk). The Company complies partially with five recommendations and does not comply with:

2.2.1. The Committee recommends that the board of directors adopt policies on corporate social responsibility.

- The Company aims for a sustainable development based on combining financial performance with socially responsible behaviour. The Company has not yet adopted official policies with respect to human rights, environmental impact or other aspects of corporate social responsibility, due to the current business size and activity level. However, it is the Company's aim to adopt such official policies on Corporate Social Responsibilities in line with the growth of the business activities, as the Company is aware of the importance of social responsibility. This is also currently reflected in the Company's individual employment contracts, underlining the importance of integrity and ethics – e.g. that the employees have an obligation to ensure that they follow the norms within the area of business they're operating in.

3.4.6. The Committee recommends that the board of directors establish a nomination committee chaired by the chairman of the board of directors.

- Due to the structure and size of the Company's business, a nomination committee is not established. At least once a year the Board of Directors will conduct an assessment of the executive management and a self-assessment in order to evaluate the company's management competencies and performance in regards to its responsibilities. This is part of the tasks to be overseen by the chairman of the board.

3.4.7. The Committee recommends that the board of directors establish a remuneration committee.

- Due to the structure and size of the Company and its business, a remuneration committee is not established, but it is part of the tasks to be overseen by the chairman of the board to ensure adequate remuneration. However, the Company has a positive interest in establishing a remuneration committee once the Company's business grows.

4.1. Form and content of the remuneration policy

- It is the intention of the Company and the Board to adopt policies for the Company's remuneration of the Board and the Management, but for now the responsibility to propose such remuneration lies with the Chairman. The chairman of the Board of Directors shall regularly asses and propose principles for the remuneration of the Board and the Executive Management, including guidelines for incentive-based remuneration. The Company has adopted a set of guidelines for incentive

  remuneration of the executive board, which allows for the executive board to receive both a short term based cash bonus (maximum of 100 % of the annual salary) as well as a long term based warrant program (maximum of 100 % of the annual salary)

5.2.1. The Committee recommends that the board of directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.

- Due to the structure and size of the Company and its business, a whistleblower scheme has not been established. However, the Company intends to establish a whistleblower scheme once the Company's business growths.

Gender diversity

Currently the Board of Directors has no female members. The Board of Directors has decided to set a target for female representation on the Board to be achieved not later than by the 2018 Annual General Meeting.

Internal control systems

Hugo Games' risk management and internal control systems for financial reporting are designed to ensure that financial reporting meets current legislation and standards.

The CEO of Hugo Games is responsible for maintaining efficient internal controls. A management team consisting of three functional managers and specialists, who are responsible for internal controls within their respective areas of responsibility, such as development, sales and finance, reports to the CEO.

The group's control measures comprise general as well as detailed controls to prevent, identify and correct errors and irregularities. Documentation of procedures is part of the internal control system and consists of flow charts of procedures and descriptions of control measures.

These procedures/reports comprise i.a.:

- A review of strategic and business objectives to be performed at least once a year.
- A formalised annual budget with forecasts and estimation procedures. Furthermore, management reporting is prepared, comprising:
- Financial results and financial position, including analysis of cash flows and the group's financial structure.
- Comparison of budgeted financial results, results from previous years and actual results.
- Project management and cost control as well as current project reporting, project follow-up and review of accounting policies and estimates.

Also, the independent auditors report to the Executive Management and the Audit Committee, which assess the results of current examinations performed to determine the extent to which the Executive Management and the Audit Committee can rely on the reports/processes which are mainly prepared and performed by the finance department.

MANAGEMENT

BOARD OF DIRECTORS

Bertel David Maigaard (1983)
Chairman of the Board

Position:
Manager

Educational background:
Bachelor of Economics from the University of Copenhagen

Competencies:
Strategy, Finance, Mergers & Acquisitions and Business Development

Member of the boards of:
- Claire Group A/S
- Aula Holding IV ApS

Shares in Hugo Games A/S:
2,141,946 shares

Board member since:
September 9, 2014

Caspar Rose (1971)
Vice Chairman of the Board

Position:
Professor, CBS

Educational background:
LL.M. from the University of Copenhagen, M.Sc. (Finance and accounting), CBS. Ph.D. from Department of Finance, CBS.

Competencies:
Corporate Governance, Financial markets
Risk management

Member of the boards of:
- GF-Forsikring A/S
- GF-Storkøbenhavn

Shares in Hugo Games A/S:
12,539 shares

Board member since:
February 6, 2015

Christian Sand Kirk (1968)
Board member

Position:
Head of Private Banking, Greater Copenhagen Sydbank.

Educational background:
HD Diplomas (Finance), (Organisation and management), CBS, E-MBA from SIMI, CBS

Competencies:
Strategy, Business Development, Management

Shares in Hugo Games A/S:
294,156 shares

Board member since:
September 9, 2014

Rasmus Lund (1974)
Board member

Position:
Partner at Delacour Law Firm

Educational background:
LL.M from the University of Copenhagen, Attorney-at-law

Competencies:
Legal and commercial insight re. corporate law and commercial contracts, incl. IT and IP issues.

Member of the boards of:
- Persona A/S
- Ivanoff Interactive A/S

Shares in Hugo Games A/S:
84,528 shares

Board member since:
February 6, 2015

EXECUTIVE MANAGEMENT

Henrik Jørgen Skouboe Kølle (1965)
CEO

Employed since: 2011

Educational background:
M.Sc. Business, management and finance

Chairman of the board of:
- Dentalteamet Holding A/S

Member of the board of:
- Ivanoff Interactive A/S

Shares in Hugo Games A/S:
12,089,658 shares

Peter Ekman (1959)
CFO

Employed since: 2015

Educational background:
State authorized public accountant, M.Sc (Business, finance and accounting

Chairman of the board of:
- Intoy A/S

Member of the board of:
- Ingv. Michelsen A/S

Shares in Hugo Games A/S:
155,931 shares

SHAREHOLDER INFORMATION

An investment in Hugo Games is an investment in leisure and entertainment - a market in strong growth especially on digital platforms.

Hugo Games shares

The official share price at 31 December 2016 was NOK 1.59, for a market capitalization of NOK 70.6m (DKK 57.8m). Total turnover of shares in 2016 was 43.9 million for a total transaction value of NOK 95.4m.

Master Data:	
Stock Exchange:	Oslo Axess
Sector:	Technology
ISIN Code:	DK0060637999
Symbol:	HUGO
LEI Code:	213800MC2SGVSIBN7J53
Share capital DKK:	22,637,074
Denomination:	DKK 0.5
No. of Shares:	45,274,148
Negotiable instruments:	Yes
Voting restrictions:	No

Share Capital

The nominal share capital of Hugo Games at 31.12.2016 was DKK 22,637,074, consisting of 45,274,148 shares of DKK 0.50 each. Hugo Games has only one share class. The Board of Directors and the Executive Management Board regularly assess whether the share capital and share structures are consistent with the interests of the shareholders and the company. The company´s share capital was increased by DKK when 274,148 new shares were issued in January 2016 and by DKK 10,000,000 when 20,000,000 new shares were issued in August 2016. 4,452,543 new shares was issued 31 March 2017. Following the capital increases, Hugo Games has a nominal share capital of DKK 24,863,345.5, consisting of 49,726,691 shares of DKK 0.50 each.

Shareholding structure

Hugo Games shareholders are primary residents of Denmark and Norway. At 31 December 2016, the largest shareholder held 26.7% of the registered share capital. Below there is a list of shareholders holding more than 5% of the share capital or the votes at 3 April 2017.

Composition of shareholders at 3 April 2017	Shares	Capital DKK	Capital %
Aula Holding ApS*	12,089,658	6,044,829	24.3%
Richard Flower	2,226,271	1,113,136	4.5%
Jayne Flower	2,226,271	1,113,136	4.5%

Aula Holding ApS is controlled by CEO Henrik Kølle
Richard Flower is close associated to Jayne Flower

At 31 December 2016, members of the Board of Directors and their related parties held 2,533,169 shares (nominal value DKK 1,266,484), corresponding to 5.6% of the share capital and a market value of 3.2m DKK. Members of management held 12,245,589 shares (nominal value DKK 6,122,794), corresponding to 27.0% of the share capital and a market value of DKK 15.6m.

Annual general meeting

The Annual General Meeting will be held on 25 April 2017 at 14:00 at Norne Securities AS, Haakon VIls gate 9, 0161 Oslo, Norway.
At the next annual general meeting, the Board of Directors intends to propose election of the following board members to the company´s board of directors:
Bertel David Maigaard, re-election
Caspar Rose, re-election
Rasmus Lund, re-election
Henrik Nielsen, new
Richard Flower, new

At the next annual general meeting, the Board of Directors intends to propose re-election of the current company´s auditors, Grant Thornton.

Dividend and allocation of profit

The Board of Directors recommends to the Annual General Meeting that no dividend be declared in respect of the 2016 financial year. The Board of Directors recommends to the shareholders that the consolidated loss for the year of DKK 59.470m be transferred to retained earnings.

Other proposals from the Board of Directors or shareholders:

a. Amendment of the Board of Directors' authorization to issue warrants (clause 2.2 of the articles of association).
b. Amendment to the Company's policy on incentive pay.
c. Extension of the authorization to the Board of Directors to increase the share capital (clause 2.4 of the articles of association) from DKK 25,000,000 to DKK 45,000,000.
d. Extension of the authorization to the Board of Directors to increase the share capital (clause 2.5 of the articles of association) from DKK 25,000,000 to DKK 45,000,000.
e. Extension of the authorization to the Board of Directors to increase the share capital (clause 2.6 of the articles of association) from DKK 25,000,000 to DKK 45,000,000.
f. Extension of the total authorization to increase the share capital (clause 2.7 of the articles of association) from DKK 25,000,000 to DKK 45,000,000.

Investor Queries

Any questions or comments from shareholders, analysts and other stakeholders should be addressed to Peter Ekman via the investor e-mail ir@hugogames.com

Selected stock announcements:

2016:

06-01-2016	Financial Guidance
26-01-2016	Increase in share capital by Private Placement
26-02-2016	Hugo Games partners with American skateboard champion Nyjah Huston
26-02-2016	Hugo Games releases "Ace in Face 2" globally
10-03-2016	Hugo Games releases "Hugo Troll Race 2" globally
04-04-2016	Hugo Games Annual report 2015
25-04-2016	Hugo Games partners with iconic NFL Quarterback Cam Newton
24-05-2016	Hugo Games partners with Lima Sky Developing a new game.
25-05-2016	Worldwide fans of Hugo will soon be able to hit the real jackpot together with Hugo
27-05-2016	Interim report Q1 2016 - revenue in line with expectations
27-05-2016	Ace in Face2 gets pre-installed on Samsung
09-06-2016	Hugo Games releases "Christiano Ronaldo": Kick´n´Run globally on iOS and Android
22-06-2016	Hugo games releases ´Flower flush" globally on iOS and Android
23-06-2016	Approved prospectus and start of subscription period 27 June 2016
11-07-2016	Hugo Games teams with FC Barcelona
03-08-2016	Final result of Rights Issue in Hugo Games
12-08-2016	Shares allocated to primary insiders in the Rights Issue
15-08-2016	Allocation of shares to chairman in Hugo Games (correction)
19-08-2016	Hugo Games interim report Q2 2016
28-09-2016	Hugo Gams distribution agreement with Chinese publisher
12-10-2016	Hugo Games revises product strategy and modifies expectations for 2016
29-11-2016	Hugo Games releases "Ultimate Street Soccer" globally on iOS and Android
30-11-2016	Hugo Games teams with UEFA Champions League Champs Real Madrid on Mobile Soccer Game.
30-11-2016	Hugo Games starts production of Doodle Jumb 2 (working title) following conceptual approval by Doodle Jumb owner Lima Sky
02-12-2016	Correction regarding alleged private placement in Hugo Games A/S
06-12-2016	Global release of Nyjah Huston Skateboarding game will be postponed to Q1 2017

2017:

27-01-2017	Hugo Games signs agreement with Arsenal
21-03-2017	Global release Nyjah Huston postponed to Q2 2017- expire of agreement with Christiano Ronaldo
31-03-2017	Acquisition of game studio and restructuring organization

Financial calendar 2017

04-04-2017	Annual 2016 Financial report
25-04-2017	Annual General Meeting
26-09-2017	Half-yearly report

Information in accordance with the Danish financial statements act § 107 a

Adoption of amendments to the Articles of Association, dissolution of the company, merger or demerger requires a resolution adopted by at least a two-thirds majority of the votes cast as well as of the share capital represented at the general meeting.

The Board of Directors consists of from three to five members elected each year at the annual general meeting of the company for the period until the next annual general meeting. Board members are eligible for re-election.
The Board of Directors appoints its own chairman and vice chairman.

The Hugo Games' Board of Directors consists of four members headed by Bertel Maigaard as chairman. The members of the Board of Directors are presented on page 15.

The Board of Directors proposes that the members of the Board of Directors for the year 2017 shall receive a fixed remuneration of DKK 15.000, DKK 45.000 to the chairman of the audit committee and DKK 60.000 to the chairman of the board of directors. Pursuant to item 7 below, it is proposed, that the Board of Directors in the future may be granted warrants exercisable at market value in the Company in combination with the above mentioned fixed remuneration.

Until 6 February 2020, the Board of Directors is authorized to let the company obtain loans against the issue of convertible notes with the right to subscribe for shares in the company (convertible loans), and the Board of Directors is authorized to make the related capital increase.

Until 6 February 2020, the Board of Directors is authorized to increase the company's share capital in one or more issues with pre-emptive rights for the existing shareholders of the company by up to a total nominal amount of DKK 25,000,000 against cash consideration. The capital increase may take place at a discount to the market price.

Until 6 February 2020, the Board of Directors is authorized to increase the company's share capital in one or more issues without pre-emptive rights for the existing shareholders of the company by up to a total nominal amount of DKK 25,000,000 against cash or non-cash consideration or by conversion of debt. Such capital increase shall take place at market price.

The combined share capital increase, performed pursuant to the above-mentioned authorizations set out in articles 2.3, 2.4 and 2.5 of the Articles of Association, cannot exceed a nominal value of DKK 25,000,000.

In 2016, the Board used DKK 10,000,000 of its authorizations. Accordingly, the current authorization amount is DKK 15,000,000.

The group has not entered into contracts with change of control clauses.

The Board of Directors and the Executive Management have today considered and approved the annual report of Hugo Games A/S for the financial year 1 January 2016 – 31 December 2016

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements of the parent company, Hugo Games A/S, are prepared in accordance with the Danish Financial Statements Act (*Årsregnskabsloven*). Furthermore, the annual report has been prepared in accordance with the additional Danish disclosure requirements for annual reports of listed companies.

In our opinion, the accounting policies applied are appropriate, thus ensuring that the consolidated financial statements and the financial statements provide a fair presentation of the group's and the parent company's assets, liabilities and financial position as at 31 December 2016 and of the results of the group's and the parent company's operations and the consolidated cash flows for the financial year 1 January 2016 - 31 December 2016.

We believe that the management review contains a true and fair review of the development and performance of the group's and the parent company's business activities and financial situation, the earnings for the year and the financial position of the parent company and the financial position as a whole of the entities comprised by the consolidated financial statements, together with a description of the principal risks and uncertainties that the group and the parent company face.

The annual report is submitted for adoption by the general meeting.

Copenhagen, 3 April 2017

Executive Management

Henrik Jørgen Skouboe Kølle

Peter Ekman

Board of Directors

Bertel David Maigaard
Chairman

Caspar Rose
Deputy Chairman

Rasmus Lund

Christian Sand Kirk

To the Shareholders of Hugo Games A/S

Our opinion
In our opinion, the Consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2016 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2016 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2016 in accordance with the Danish Financial Statements Act.

What we have audited
Hugo Games A/S' Consolidated financial statements for the financial year 1 January to 31 December 2016, pp 27-56, comprise the consolidated income statement and statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the financial statements, including summary of significant accounting policies.

Hugo Games A/S' Parent Company Financial Statements for the financial year 1 January to 31 December 2016, pp 57-62, comprise the income statement, the balance sheet, the statement of changes in equity and the notes to the financial statements, including summary of significant accounting policies. Collectively referred to as the 'financial statements'.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements 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 Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Going Concern Hugo Games A/S has a number of games under development. Until successful launch of new games and sufficient positive cash flow from operations is obtained, the Group is dependent on additional capital contributions.	We considered the period to which Management have assessed the Group's ability to continue as a going concern, and tested the assessment by reference to Management's budgets, the current cash position, and the possibilities for providing additional capital contributions.
According to the most recent budgets approved by The Board of Directors, the existing capital resources are not sufficient to continue the Group's operations as planned through 2017. We focused on this area, as the going concern presumption is a fundamental concept in the preparation of financial statements. Refer to note 3 in the consolidated financial statements.	We have obtained information that The Board of Directors contemplates to increase the capital during 2nd quarter 2017, and that the largest shareholder Aula Holding ApS in the meantime will provide the sufficient financing in order to continue the Group's operations as planned until a capital increase have been fully completed. Aula Holding ApS has issued a letter of support, which confirms the financing of the Group until a capital increase is fully completed. We have considered the financial position of Aula Holding ApS and Aula Holding ApS' ability to fulfill its financing obligations in accordance with the letter of support.
Impairment assessment The value of Hugo Games A/S' intangible assets, of which the majority relates to development projects, is supported by the value-in-use calculations, which are based on future cash flow forecasts (i.e. 'recoverable amount').	We considered the overall impairment assessments prepared by Management, and we tested the underlying calculations and reviewed the relevant internal procedures in place to check that the impairment assessments are prepared appropriately.
We focused on this area because the impairment assessments of these assets are dependent on complex and subjective judgments by Management. Refer to note 11 in the consolidated financial statements.	We considered the assumptions and estimates used by Management to determine the value-in-use of the intangible assets. This includes those relating to the Managements key assumptions such as operating cost forecasts, and expected number of daily users of the games and the average revenue per daily active user. We tested these assumptions by reference to third-party produced benchmark statistics on comparable games. We performed a sensitivity analysis around the key drivers and assumptions used by management.

Statement on Management's Review

Management is responsible for the Management's Review, pp 4-20. Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated financial statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Responsibilities for the financial statements and the audit

Management is responsible for the preparation of Consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines 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, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has 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 ISAs and the additional requirements applicable in Denmark 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 ISAs and additional requirements applicable in Denmark, 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 Group's and the company'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 Management'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 Group's and the Parent Company'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 Group or the Parent Company 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 in a manner that achieves fair presentation.

- 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.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 3 April 2017

GRANT THORNTON
Statsautoriseret revisionspartnerselskab
CVR-No 34 20 99 36

Ulrik Bloch-Sørensen	Martin Bomholtz
State-Authorised Public Accountant	State-Authorised Public Accountant

Note		2016 DKK '000	2015 DKK '000
4	**Revenue**	**5,331**	**3,198**
	Cost of sales	465	501
	Gross profit	**4,866**	**2,697**
5	Research and development costs	2,968	794
	Marketing expenses	8,493	10,895
5	Other expenses	9,496	7,635
	Loss before special items, depreciation and amortisation (EBITDA)	**-16,091**	**-16,627**
6	Special items	35,470	9,419
11,12	Depreciation and amortisation	12,398	7,863
	Operating loss (EBIT)	**-63,959**	**-33,909**
7	Financial income	122	12
8	Financial expenses	505	3,225
	Loss before tax	**-64,342**	**-37,122**
9	Tax on loss for the year	-5,372	-7,691
	Net loss for the year	**-58,970**	**-29,431**
	Other comprehensive income	0	0
	Comprehensive income	**-58,970**	**-29,431**
	Distribution of comprehensive income		
	Parent company's shareholders	-58,970	-29,431
	Non-controlling interests	0	0
	Total	**-58,970**	**-29,431**
	Earnings per share		
10	Earnings per share (in DKK)	-1.762	-1.302
10	Diluted earnings per share (in DKK)	-1.762	-1.302

ASSETS

Note		31/12/2016 DKK '000	31/12/2015 DKK '000
11	Completed development projects	12,011	25,563
11	Acquired rights	0	274
11	Goodwill	762	762
11	Development projects in progress	866	14,975
12	Other equipment	57	64
9	Deferred tax asset	0	0
	Other receivables	66	65
	Total non-current assets	**13,762**	**41,703**
13	Trade receivables	836	234
21	Receivables from related parties	500	0
9	Income tax receivable	3,977	4,233
	Other receivables	0	429
	Prepayments	1,503	2,047
	Cash	9,233	14,594
	Total current assets	**16,049**	**21,537**
	Total assets	**29,811**	**63,240**

EQUITY AND LIABILITIES

Note		31/12/2016 DKK '000	31/12/2015 DKK '000
	Share capital	22,637	12,500
	Share premium account	0	0
	Retained earnings	-7,654	39,555
14	**Total equity**	**14,983**	**52,055**
9	Provision for deferred tax	0	201
15	Payables to credit institutions	3,115	5,055
	Total non-current liabilities	**3,115**	**5,256**
15	Payables to credit institutions	1,966	1,836
16	Provisions	6,169	0
	Prepayments received from customers	0	94
	Trade payables	2,202	2,274
	Income tax payable	0	68
	Other payables	1,376	1,657
	Total current liabilities	**11,713**	**5,929**
	Total liabilities	**14,828**	**11,185**
	Total equity and liabilities	**29,811**	**63,240**

Amounts in DKK '000	Share capital	Share premium account	Retained earnings	Proposed dividend	Total equity
Equity as at 01/01/2016	**12,500**	**39,555**	**0**	**0**	**52,055**
Net loss for the year			-58,970		-58,970
Other comprehensive income			0		0
Comprehensive income			-58,970		-58,970
Cash capital increase	10,137	14,863			25,000
Costs of capital increase		-3,102			-3,102
Transfer of reserves		-11,761	11,761		0
Transactions with owners	10,137	0	11,761		21,898
Equity as at 31/12/2016	**22,637**	**0**	**-7,654**	**0**	**14,983**
Equity as at 01/01/2015	**10,000**	**4,986**	**21,888**	**0**	**36,874**
Net loss for the year			-29,431		-29,431
Other comprehensive income					0
Comprehensive income			-29,431		-29,431
Cash capital increase	2,500	44,349			46,849
Costs of capital increase		-7,986			-7,986
Transfer of reserves		-41,349	41,349		0
Sale of treasury shares			5,750		5,750
Group contribution in connection with purchase of treasury shares			749		749
Purchase of treasury shares			-750		-750
Transactions with owners	2,500	-4,986	47,098		44,612
Equity as at 31/12/2015	**12,500**	**0**	**39,555**	**0**	**52,055**

	2016 DKK '000	2015 DKK '000
Loss before tax	**-64,342**	**-37,122**
Adjustment of non-cash transactions:		
Depreciation, amortisation and impairment losses	42,228	11,404
Financial income, reversed	-122	-12
Financial expenses, reversed	505	3,225
Change in working capital:		
Trade receivables	-602	320
Trade payables	-72	-334
Other receivables	429	-222
Prepayments	544	-82
Receivables from related parties	-500	0
Provisions	6,169	0
Other payables	-281	549
Prepayments received from customers	-94	0
Cash flows from operating activities before net financials	**-16,138**	**-21,442**
Financial income received	4	0
Financial expenses paid	-395	-1,739
Income tax received	5,359	874
Cash flows from operating activities	**-11,170**	**-22,307**
Purchase of other equipment	-23	-64
Investment in intangible assets	-14,263	-17,459
Investments, net	0	12
Cash flows from investing activities	**-14,286**	**-17,511**
Proceeds from cash capital increase	21,898	38,863
Disposal of treasury shares	0	5,749
Credit institutions, loans	-1,862	-807
Group companies, loans	0	-119
Cash flows from financing activities	**20,036**	**43,686**
Total cash flows for the year	**-5,420**	**3,868**
Cash, beginning of year	14,594	11,958
Net foreign exchange difference	59	-1,232
Cash, end of year	**9,233**	**14,594**

1. Accounting policies
2. Significant accounting estimates and judgments
3. Capital resources
4. Revenue
5. Staff costs
6. Special items
7. Financial income
8. Financial expenses
9. Tax
10. Earnings per share
11. Intangible assets
12. Other equipment
13. Trade receivables
14. Equity
15. Payables to credit institutions
16. Provisions
17. Contingent liabilities
18. Security provided
19. Operating lease commitments
20. Financial risks and financial instruments
21. Related parties
22. Fee to parent company auditors appointed at the Annual General Meeting
23. Events occurring after the balance sheet date
24. Adoption of the annual report for publication

24\. New accounting regulations

1. Accounting policies

Hugo Games A/S is a limited liability company domiciled in Denmark. The consolidated financial statements for 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the EU and additional Danish disclosure requirements.

Danish kroner (DKK) is the group's presentation currency and the functional currency of the parent company. The consolidated financial statements are presented in Danish kroner (DKK) rounded off to the nearest DKK 1,000.

Implementation of new and revised standards and interpretations

The IASB has issued new standards and revisions to existing standards and new interpretations that are mandatory for accounting periods commencing on or after 1 January 2016. The implementation of these new or revised standards and interpretations has not had any significant impact on the net loss for the year or the financial statement.

The principal accounting policies set out below have been consistently applied in the preparation of the consolidated financial statements for all the years presented with the exception of certain reclassifications:
Net revenue has been reclassified to gross profit.

The presentation of expenses in the income statement has been changed compared to 2015 in order to better reflect the cost structure of the group.

Earnings per share
Basic earnings per share are calculated as the net result for the period that accrues to the parent company´s shares divided by the weighted average number of ordinary shares outstanding.
Diluted earnings per share are calculated as the net result for the period that accrues to the parent company´s shares divided by the weighted average number of ordinary shares outstanding adjusted by the dilutive effect of potential shares.

Segment reporting
No separate business areas or separate business units have been identified in connection with single games or geographical markets. As a consequence, no segment reporting is made concerning business areas or geographical areas.

Consolidated financial statements

The consolidated financial statements comprise Hugo Games A/S (parent company) and the companies (subsidiaries) controlled by the parent company. A company is regarded as controlled by the parent company when the parent company is exposed or entitled to variable returns on its involvement in the company, and has the ability to affect those returns through its power over the company.

The consolidated financial statements are prepared based on the financial statements of Hugo Games A/S and its subsidiaries. The consolidated financial statements are prepared by combining

1. Accounting policies – continued –

items of a uniform nature calculated in accordance with the group's accounting policies, eliminating intercompany income and expenditure, intercompany balances and dividends as well as gains and losses on transactions between the consolidated companies.

The principal accounting policies set out below have been consistently applied in the preparation of the consolidated financial statements for all the years presented with the exception of the reclassification of net revenue to gross profit. The reclassification has no influence on the net loss for the year or on equity.

Business combinations

Newly-acquired or newly-founded companies are recognised in the consolidated financial statements as from the time of acquisition and the time of foundation, respectively. The time of acquisition is the time at which control of the company is actually obtained. Divested or discontinued companies are recognised in the consolidated statement of comprehensive income up until the time when control ceases.

When new companies are acquired and the group obtains control of an acquired company, it is recognised in accordance with the acquisition method, according to which the newly acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value at the date of acquisition.

The acquisition price of a company is the fair value of the price paid for the acquired company. Costs relating to the acquisition are recognised in the income statement when paid.

Positive differences (goodwill) between the acquisition price of the acquired company on the one hand and the fair value of the assets, liabilities and contingent liabilities acquired on the other are recognised as goodwill and tested for impairment at least once a year.

Figures pertaining to business combinations carried out before 1 January 2013 have not been restated according to the above accounting policies in connection with the transition to presentation of the consolidated financial statements in accordance with IFRS. The carrying amount of goodwill as at 1 January 2013 in connection with business combinations carried out before 1 January 2013 is regarded as the cost of goodwill under IFRS.

Foreign currency translation

On initial recognition, transactions in currencies other than the functional currency of the individual company are recognised at the exchange rate applicable at the transaction date. Receivables, payables and other monetary items denominated in foreign currency not settled at the balance sheet date are translated using the exchange rate applicable at the balance sheet date.

Exchange rate differences between the exchange rate applicable at the transaction date and the exchange rate at the date of payment and the balance sheet date, respectively, are recognised in

1. Accounting policies – continued –

the income statement as financial income or financial expenses. Property, plant and equipment and intangible assets, inventories and other non-monetary assets purchased in foreign currency and measured based on historical cost are translated at the exchange rate applicable at the transaction date.

Tax

Tax for the year, consisting of current tax and changes in deferred tax, is recognised in the income statement at the portion attributable to tax on the profit or loss for the year, and directly in equity or in other comprehensive income at the portion attributable to amounts recognised directly in equity or in other comprehensive income, respectively.

Current tax payables and receivables are recognised in the balance sheet as tax computed on the basis of the taxable income for the year and taxes paid or refunded.

Current tax for the year is computed based on the tax rules and tax rates applicable at the balance sheet date.

Deferred tax is recognised using the balance sheet liability method on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities, except for deferred tax on temporary differences due to either initial recognition of goodwill or initial recognition of a transaction that is not a business combination, and where the temporary difference ascertained at the time of initial recognition does not affect either the tax result or the taxable income. The deferred tax is calculated based on the planned use of the individual asset or settlement of the individual liability.

Deferred tax is measured by applying the tax rules and tax rates expected to be applicable when the deferred tax is expected to crystallise as current tax. Any change in deferred tax as a result of changes in tax rules or rates is recognised in the income statement, unless the deferred tax is attributable to transactions that have previously been recognised directly in equity or in other comprehensive income. In the latter case, the change is recognised directly in equity or in other comprehensive income, respectively.

Deferred tax assets, including the tax base of tax losses allowed for carryforward, are recognised in the balance sheet at the expected realisable value, either through offsetting against deferred tax liabilities or as a net tax asset for offsetting against future positive taxable incomes to the extent that there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses can be utilised. An assessment is made at each balance sheet date of whether it is probable that sufficient taxable income will be generated in future to enable utilisation of the deferred tax asset.

The group is subject to joint taxation. The current Danish income tax is allocated between the jointly taxed companies in proportion to their taxable incomes.

1. Accounting policies – continued –

Statement of comprehensive income

Revenue

Revenue from the sale of games and in-app purchases is recognised in the income statement if delivery has taken place and the risk has passed to the purchaser before the balance sheet date, and if the revenue can be determined reliably and is expected to be received. For sales of games and in-app purchases where delivery takes place via third parties (platform distribution partners), Hugo Games A/S is the primary contractual party for the users and fixes the prices. Sales of games and in-app purchases are consequently measured as the fee paid by the user for the delivery, while costs for the third party are recognised under cost of sales.

Income from the provision of advertising services is recognised as revenue as the agreed services are provided. For sales of advertising services provided via third parties (platform distribution partners), Hugo Games A/S is the primary contractual party for the users and fixes the prices. Income from advertising services is consequently measured exclusive of costs for such third parties.

Revenue is measured at the fair value of the fee received or receivable and is stated exclusive of VAT and discounts.

Cost of sales

Cost of sales comprises commission paid to stores handling app sales, such as iTunes, Google Play, etc.

Gross profit

Gross profit comprises revenue deducted with commissions to stores, such as iTunes, Google Play, etc.

Research and development costs

Research and development costs comprise external research and development costs and internal staff costs related to research and development activities that are not capitalized in the balance sheet.

Marketing expenses

Marketing expenses comprise expenses relating to marketing expenses and royalty expenses.

Other expenses

Other external expenses comprise expenses relating to administrative staff and other administrative expenses, costs of premises, bad debts, operating leases, etc.

Special items

Special items comprise material non-recurring expenses. These items are presented separately because they are treated as one-off occurrences.

1. Accounting policies – continued –

Net financials

Net financials comprise interest income and interest expenses as well as realised and unrealised gains and losses on transactions in foreign currency.

Amortisation of capital losses and borrowing costs relating to financial liabilities is recognised on an ongoing basis as part of interest expenses.

Balance sheet

Fair value

Fair values are categorised into different levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Goodwill

On initial recognition, goodwill is recognised and measured as the difference between the cost of the company acquired and the fair value of the assets, liabilities and contingent liabilities acquired, see the description in the section on business combinations.

On initial recognition, goodwill is distributed on the group activities that generate independent cash flows (cash-generating units). The distribution on cash-generating units follows the management structure and the group's internal financial management. Goodwill is not amortised, but is tested for impairment at least once a year.

Development projects

Development costs comprise staff costs and fees for sub-suppliers directly attributable to the development of new games. Development projects which are clearly defined and whose technical feasibility and sufficiency of resources have been demonstrated and which the company intends to complete and market are recognised as development projects in the balance sheet if the costs can be determined reliably and there is sufficient certainty that future earnings will cover the development costs. Recognised development projects are measured at cost less accumulated amortisation and impairment losses.

Other development costs are recognised in the income statement under other external expenses or staff costs when paid.

1. Accounting policies – continued –

Once completed, development projects are amortised according to the straight-line method over their estimated useful lives from the time when the asset is ready for use. Development projects relating to a game are regarded as being ready for use at the time when the game is launched and made available to the users at the latest. The first launch may be either a soft launch whose main purpose is to gain experience about user preferences and behaviour in the game with a view to making improvements, or a hard launch where the main purpose is to generate commercial income. The amortisation period is usually five years from soft launch and three years from hard launch. Amortisation methods, useful lives and residual values are reviewed every year.

Property, plant and equipment

Property, plant and equipment is measured in the balance sheet at the lower of cost less accumulated depreciation and the recoverable amount.

Cost comprises the acquisition price, costs directly related to the acquisition and costs for preparation of the asset until such time as the asset is ready for use. The depreciation period is usually three to five years. Depreciation methods, useful lives and residual values are reviewed every year.

Non-current financial assets

Other receivables recognised under non-current assets comprise deposits and are measured at the lower of accumulated cost and the recoverable amount.

Impairment of assets (impairment test)

The carrying amount of property, plant and equipment and intangible assets with determinable useful lives is tested for impairment every year. If indications of impairment are identified, the recoverable amount of the asset is calculated to determine the amount of any impairment loss.

The recoverable amount of development projects in progress and goodwill are determined every year, regardless of whether any indications of impairment exists.

If an asset does not produce inflows independently of other assets, the recoverable amount is determined for the smallest cash-generating unit of which the asset forms part.

The higher of fair value less selling costs and value in use is used as the recoverable amount of the asset. The value in use is determined as the present value of the expected net cash flows from use of the asset. If the recoverable amount of the asset is lower than the carrying amount, the carrying amount is written down to the recoverable amount.

Where cash-generating units are concerned, the impairment loss is distributed in such a way that goodwill is written down for impairment first, and subsequently any remaining impairment loss is distributed on the other assets in the unit. However, individual assets cannot be written down to a value lower than their fair value less expected selling costs. Impairment losses are recognised in the income statement.

1. Accounting policies – continued –

Receivables

Receivables comprise trade receivables and other receivables. Receivables are included in the category loans and receivables, which are financial assets with fixed or determinable payments that are not listed in an active market and are not derivative financial instruments.
On initial recognition, receivables are measured at fair value and subsequently at amortised cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Any write-downs for bad debts are determined on the basis of an individual assessment of the individual receivable.

Prepayments

Prepayments recognised under assets comprise costs incurred in respect of the subsequent financial year. Prepayments are measured at cost.

Dividend

Dividend is recognised as a liability at the time of adoption by the general meeting.

Treasury shares

Acquisition costs and consideration for treasury shares and dividend from such are recognised directly in equity under retained earnings.

Liabilities

Non-current liabilities comprise other credit institutions. Payables to credit institutions are measured at cost at the time of contracting such payables (raising of loans). Subsequently, the liabilities are measured at amortised cost, meaning that the difference between the proceeds from the loan and the repayable amount is recognised in the income statement over the period of the loan as a financial expense according to the effective interest method.

Other financial liabilities comprise bank debt, trade payables, other payables to public authorities and other liabilities. On initial recognition, other financial liabilities are measured at fair value less any transaction costs. Subsequently, the liabilities are measured at amortised cost according to the effective interest method, so that the difference between the proceeds and the nominal value is recognised in the income statement as a financial expense over the period of the loan.

Provisions

Provisions are recognised when the following criteria are fulfilled:

- we have a legal or constructive obligation as a result of an earlier event
- the settlement of the obligation is expected to result in an outflow of resources
- the obligation can be measured reliably

1. Accounting policies – continued –

For onerous contracts, a provision is made when the expected income to be derived from a contract is lower than the unavoidable cost of meeting our obligations under the contract.

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash at the beginning and end of the year.

Cash flows from operating activities are presented in accordance with the indirect method and are determined as the operating profit or loss adjusted for non-cash operating items, changes in working capital and paid financial income, financial expenses and income tax.

Cash flows from investing activities comprise payments in connection with the acquisition and sale of companies and financial assets as well as the purchase, development, improvement and sale of property, plant and equipment and intangible assets.

Cash flows from financing activities comprise changes in the parent company's share capital and associated costs as well as the raising and repayment of loans, the repayment of interest-bearing debt, the purchase and sale of treasury shares and the payment of dividends.

Cash flows in currencies other than the functional currency are recognised in the cash flow statement using average exchange rates, unless they deviate significantly from the actual exchange rates at the transaction dates.

Cash and cash equivalents comprise cash less overdraft facilities that are an integrated part of the cash management.

2. Significant accounting estimates and judgments

In connection with the preparation of the consolidated financial statements, management makes a number of accounting estimates and judgments that affect the recognised values of assets, liabilities, income, expenses and cash flows as well as their presentation.

Accounting estimates reflect management's best estimates in terms of amounts where the measurement is subject to uncertainty, typically because the estimate is based on assumptions concerning future events. The accounting estimates are based on historical experience and other assumptions deemed relevant, but the actual results may, naturally, deviate from the estimates made. The estimates are regularly reassessed, and the effect of changes is recognised in the consolidated financial statements.

Accounting judgments reflect decisions made by management as to how the accounting policies are applied in specific situations where the accounting treatment depends on qualitative assessments. Examples could be when the risk passes or how a certain transaction or item is best presented to provide reliable and relevant information.

2. Significant accounting estimates and judgments - continued

The following accounting estimates and judgments have had significant impact on the consolidated financial statements for 2016:

Amortisation of development projects

To reflect the use of the development projects in the form of amortisation, the time when the asset is ready for use and the expected useful life must be determined. Generally, development projects are amortised from the time when the game is first made available to the users. Reference is made to the presentation in the accounting policies.

Impairment test

For use in connection with the impairment test, management has distributed property, plant and equipment and intangible assets on cash-generating units or groups of cash-generating units generating inflows which are largely independent of other assets or groups of assets.

Development projects concerning various games are regarded as one cash-generating unit if the games are predominantly based on the same development work. Basic development projects on which all of the group's games are based are categorised in the group of cash-generating units that make up the entire group. The distribution of assets on cash-generating units is described in note 11.

Key assumptions for the determination of the recoverable amount of the cash-generating units are the expected number of daily users (Daily Active Users or DAU) and the degree of retention of such users in the individual game plus the revenue per daily active user (Average Revenue Per Daily Active User or ARPDAU). Key assumptions about DAU are stated in note 11.

3. Capital resources

Hugo Games have a number of games under development. Until successful launch of new games and sufficient positive cash flows from operations are obtained, the group is dependent on additional capital contributions.

According to the most recent budgets approved by management, the existing capital resources are not sufficient to continue the full operation of the group as planned for 2017.

The Board of Directors is authorized to increase the company's share capital in one or more share issues up to a total nominal amount of DKK 25,000,000 against cash or non-cash consideration or by conversion of debt. On the annual general meeting the Board of Directors propose the authorization increased to DKK 45,000,000. Of this DKK 35,000,000 remains after the capital increase in summer 2016.

The company's largest shareholder, Aula Holding ApS, has provided the company whit a letter of support, which obliges Aula Holding ApS to provide the company with the necessary funds, in order for the company to continue its full operations as planned until the approval of the company's annual report for the year 2017. The letter of support can be terminated if a capital increase carried through provides the company with the necessary funds, in order for the company to continue its full operations as planned until the approval of the company's annual report for the year 2017.

	2016 DKK '000	2015 DKK '000

4. Revenue

Revenue is distributed as follows:

	2016 DKK '000	2015 DKK '000
Sales of games and in-app purchases	1,550	1,671
Sales of services (advertising services)	2,640	1,340
Licence income	1,141	187
Total	5,331	3,198

5. Staff costs

	2016 DKK '000	2015 DKK '000
Wages and salaries	9,524	7,157
Pensions	540	455
Other social security costs	232	177
Total	10,296	7,789

Total staff costs are recognised as follows:

	2016 DKK '000	2015 DKK '000
Research and development costs	1,558	0
Research and development capitalized	4,443	3,621
Administrative expenses	4,294	4,168
Total	10,296	7,789
Average number of employees during the year	15	11
Number of employees, end of year	13	15

Remuneration for key management employees:

	2016 DKK '000	2015 DKK '000
Parent company's Board of Directors, fee	480	480
Parent company's Executive Management, short-term employee benefits	1,867	1,812
Parent company's Executive Management, pension	96	58
Parent company's Board of Directors, capital increase / IPO-related assistance *)	150	1,331
Parent company's Executive Management, IPO-related assistance *)	0	2,785
Total remuneration for key management employees	2,593	6,466

*) Capital increase / IPO-related assistance recognised directly in equity as "Cost of capital increase".

	2016	2015
	DKK '000	DKK '000

6. Special items

Impairment losses	29,830	3,541
Provisions for contractual losses	5,640	0
Costs related to the IPO process and listing on Oslo Stock Exchange	0	5,878
Total	35,470	9,419

7. Financial income

Interest income on assets measured at amortised cost	4	12
Foreign exchange gains, net	118	0
Total	122	12

8. Financial expenses

Interest expenses on liabilities measured at amortised cost	447	585
Exchange rate loss, net	58	2,640
Total	505	3,225

9. Tax

Tax on loss for the year:

Net result for the year before tax	-64,342	-37,122
Tax rate	22.0%	23.5%
Expected tax expenses	-14,155	-8,724
Adjustment for non-deductible expenses	4	1,073
Effect of change in corporate tax rate	0	-156
Prior-year adjustments	-116	116
Change in tax assets (not recognised)	8,895	0
Tax on loss for the year	-5,372	-7,691

	2016 DKK '000	2015 DKK '000
Specification of tax on loss for the year:		
Current tax	0	59
Change in deferred tax	-202	-3,517
Joint taxation contributions	-1,126	0
Tax credit scheme/joint taxation contributions	-3,977	4,233
Effect of change in Danish corporate tax rate	0	0
Tax base of non-deductible expenses	0	0
Other adjustments	-67	0
Tax on loss for the year	-5,372	-7,691

Breakdown of unrecognized deferred tax assets:

Tax losses carried forward (available indefinitely)	52,923	8,550
Research and development costs	-12,877	-8,797
Other	388	46
Tax on loss for the year	40,434	-201
Tax rate	22%	22%
Calculated potential deferred tax asset	8,895	0
Write-down of deferred tax asset	-8,895	0
Recognized deferred tax asset	0	0

10. Earnings per share

Net loss for the year (in DKK '000)	-58,970	-29,431
Average number of shares	33,474,549	22,666,667
Average number of treasury shares	0	-70,833
Average number of shares in circulation	33,474549	22,595,834
Diluted average number of shares in circulation	33,474,549	22,595,834
Earnings per share (in DKK)	-1.762	-1.302
Diluted earnings per share (in DKK)	-1.762	-1.302

11. Intangible assets

Amounts in DKK '000	Completed development projects	Acquired rights	Goodwill	Development projects in progress	Total
Financial year 2016					
Cost as at 01/01/2016	42,176	300	762	14,975	58,213
Additions during the year	3,230	0	0	11,033	14,263
Transferred during the year	21,488	0	0	-21,488	0
Disposals during the year	-5,805	0	0	0	-5,805
Cost as at 31/12/2016	61,089	300	762	4,520	66,671
Amortisation and impairment losses as at 01/01/2016	16,613	26	0	0	16,639
Impairment losses during the year	25,947	229	0	3,654	29,830
Amortisation during the year	12,323	45	0	0	12,323
Disposals during the year	-5,805				-5,805
Amortisation and impairment losses as at 31/12/2016	48,078	300	0	3,654	53,032
Carrying amount as at 31/12/2016	12,011	0	762	866	13,639
Financial year 2015					
Cost as at 01/01/2015	18,818	100	762	21,074	40,754
Additions during the year	4107	200	0	13,152	17,459
Disposals during the year	0	0	0	0	0
Cost as at 31/12/2015	42,176	300	762	14,975	58,213
Amortisation and impairment losses as at 01/01/2015	5,253	3	0	0	5,256
Impairment losses during the year	3,541	0	0	0	3,541
Amortisation during the year	7,819	23	0	0	7,842
Amortisation and impairment losses as at 31/12/2015	16,613	26	0	0	16,639
Carrying amount as at 31/12/2015	25,563	274	792	14,975	41,574

11. Intangible assets – continued –

Impairment test

Cash-generating units comprising goodwill and development projects in progress are tested for impairment at least once a year and more frequently in case of indications of impairment.

The recoverable amount is determined as a calculated value in use based on budgets and forecasts for the coming three financial years as approved by the Board of Directors.

The group's budgets and forecasts for the coming three years and thus the determination of the recoverable amount of the cash-generating units are significantly impacted by management's expectations for growth in connection with the launch of new games.

Impairment losses during the year

The impairment test at year-end 2016 led to a total impairment loss of DKK 29,583k which was recognised in the income statement. All impairment losses were due to a disappointing performance and relate to the following cash-generating units: Endless runner DKK 12,755k (2015: DKK 0k), Match3 DKK 6,892k (2015: DKK 0k) and Tower defence DKK 9,935k (2015: DKK 0k).

Distribution of intangible assets on cash-generating units after recognition of impairment losses is as follows. No remaining amortisation period exceeds 36 months:

Amounts in DKK '000	Completed development projects	Acquired rights	Goodwill	Development projects in progress	Total
Cash-generating Units 31/12/2016					
Endless runner, shared development	4,723	0	0	866	5,589
Match3 games	0	0	0	0	0
Tower defence games	0	0	0	0	0
Hugo Games group	6,889	0	762	0	7,651
Other units	399	0	0	0	399
Total	12,011	0	762	866	13,639
Cash-generating Units 31/12/2015					
Endless runner, games	7,086	0	0	7,702	14,788
Match3 games	6,377	0	0	4.837	11,214
Tower defence games				2,436	2,436
Hugo Games group	11,757	0	762	0	12,519
Other units	343	274	0	0	617
Total	25,563	274	762	14,975	41,574

11. Intangible assets – continued –

Key assumptions for the determination of the recoverable amount of the cash-generating units are the expected number of daily users (Daily Active Users or DAU) of the games and the average revenue per daily active user (Average Revenue Per Daily Active User or ARPDAU).

The expected number of DAU in the budget period (36 months) is a key assumption. Budgets for impairment test purposes are based solely on existing resources and planned game development and do not include additional cash flows from new games during the budget period. Hence, key assumptions about DAU used in budgets for impairment test purposes are significantly lower than the group's long-term goals, which include cash flows from the development of future games.

As a consequence of the expectation that most of the revenue from new games is realised within three years of game launch, neither the discount rate nor growth during the terminal period represents significant assumptions in respect of the recoverable amount. The uncertainty associated with the determination of the recoverable amount is primarily related to DAU, as ARPDAU is based on historical experience. The average ARPDAU is DKK 0.04 – 0.15 per game for the significant games for all periods. Budgets approved by management express the following expectations for the cash-generating units:

DAU after year-end (in thousands)	6 months	12 months	24 months	36 months
Cash-generating Units 31/12/2016				
Endless runner	151	1,256	2,180	2,725
Others	22	21	14	17
Hugo Games group	173	1,277	2,194	2,742

DAU after year end (in thousands)	6 months	12 months	24 months	36 months
Cash-generating Units 31/12/2015				
Endless runner	425	627	988	1,473
Match3	109	218	264	325
Tower defence	44	61	99	147
Others	16	16	17	16
Hugo Games group	594	922	1,368	1,961

Management has assessed that reasonably probable changes in the key assumptions will not lead to further impairment.

12. Other equipment

Amounts in DKK '000	Other equipment
Cost as at 01/01/2016	148
Additions	24
Cost as at 31/12/2016	172
Depreciation and impairment losses as at 01/01/2016	85
Depreciation	30
Depreciation and impairment losses as at 31/12/2016	115
Carrying amount as at 31/12/2016	57
Cost as at 01/01/2015	84
Additions	64
Cost as at 31/12/2015	148
Depreciation and impairment losses as at 01/01/2015	63
Depreciation	21
Depreciation and impairment losses as at 31/12/2015	84
Carrying amount as at 31/12/2015	64

13. Trade receivables

	31/12/2016 DKK '000	31/12/2015 DKK '000
Gross receivable	836	234
Provision for losses	0	0
Total	836	554

Receivables due not written down:

Overdue, less than 30 days	0	0
Overdue, more than 30 days	0	0
Total	0	0

The fair value does not differ significantly from the carrying amount.

14. Equity

Share capital

The company's share capital consists of 45,274,148 shares of DKK 0.50 each. The shares are fully paid up. The shares are not divided into classes, and no shares enjoy special rights.

Treasury shares

The group held no treasury shares at the end of the 2016 or 2015 reporting periods.

Capital management

The group aims to ensure structural and financial flexibility as well as competitive strength. For that purpose, the group regularly assesses what the appropriate capital structure for the group is. Reference is made to the paragraph "Capital resources" in note 2 Significant accounting estimates and judgments.

Dividend

It is proposed that no dividend be paid.

15. Payables to credit institutions

Amounts in DKK '000	Currency	Term to maturity	Interest	Carrying amount	Fair value
31/12/2016					
The Danish Growth Fund (*Vækst-fonden*), floating-rate loan	DKK	2.5 years	CIBOR + 6.6%	5,081	5,954
Total as at 31/12/2016				5,081	5,954
31/12/2015					
The Danish Growth Fund (*Vækst-fonden*), floating-rate loan	DKK	3.5 years	CIBOR + 6.6%	6,891	8,622
Total as at 31/12/2015				6,891	8,622

In addition to interest, the Danish Growth Fund is entitled to a performance bonus, if the company realises a positive EBITDA. No performance bonus is recognised for 2016 or 2015.

Methods and assumptions for the determination of fair value

Floating-rate payables to credit institutions are measured at nominal value plus estimated performance bonus (level 3).

16. Provisions

	Onerous Contracts
Provisions as at 01/01/2016	0
Provisions made during the year	6,169
Provisions reversed during the year	0
Total	6,169
Non-current liabilities	0
Current liabilities	6,169
Total	6,169

17. Contingent liabilities

The group companies were taxed jointly with the other companies of the Aula Holding ApS group until 25 June 2015, and, as from the 2013 financial year, they have joint and several and unlimited liability together with the other jointly taxed companies for the total income tax and any obligations to withhold tax at source on interest, royalties and dividends for the jointly taxed companies.

The liability also includes any subsequent corrections to the calculated tax liability as a consequence of changes made to the jointly taxable income etc. Management considers the risk of significant adjustments related to income tax to be low.

Performance bonus to credit institutions (ref. note 15) is limited to DKK 5,734k.

18. Security provided

As security for payables to credit institutions of DKK 5,081k (2015: DKK 6,891k), the subsidiary has provided a company charge of DKK 7,500k (2014: DKK 7,500k) comprising goodwill, intellectual property rights, trade receivables, inventories, other plant, fixtures and fittings, tools and equipment. The total carrying amount of the comprised assets is DKK 14,532k (2015: DKK 41,872k).

19. Operating lease commitments

	31/12/2016 DKK '000	31/12/2015 DKK '000
The group has concluded operating leases in respect of office premises. The leases are based on fixed lease payments, which are index-adjusted once every year. The leases are non-terminable.		
The total, future minimum lease payments are distributed as follows:		
Within 1 year	105	98
1-5 year(s)	0	0
After 5 years	0	0
Total	105	98
Operating lease payments recognised in the income statement amount to	418	394

20. Financial risks and financial instruments

Risk management policy

The group's financial risks are managed by the Executive Management. The group has not prepared particular policies for the identification and handling of risks. Managing the group's risks forms part of the Executive Management's day-to-day monitoring of the group.

Interest rate risk

All other things being equal, a reasonably probable higher interest rate level compared with the interest rate level at the balance sheet date would have the following hypothetical effect on the loss for the year and the year-end equity:

	2016		2015	
Amounts in DKK '000	Income statement	Equity	Income statement	Equity
The Danish Growth Fund (*Vækstfonden*), floating-rate loan	-36	-36	-54	-54
Total	-36	-36	-54	-54

A reasonably probable lower interest rate level compared with the interest rate level at the balance sheet date would have a similar, opposite effect on the loss for the year and equity.

Assumptions for sensitivity analysis:

- Sensitivities are based on the recognised financial liabilities as at 31 December
- The sensitivity is based on a change of 1% point
- The above changes are regarded as reasonably probable based on the current market situation and expectations for the developments in the level of market interest rates.

Credit risk

The maximum credit risk relating to receivables corresponds to the carrying amount. Information about trade receivables due appears from note 13. The group is not subject to material credit risks.

20. Financial risk and financial instruments – continued –

Currency risk

The group's exposure to the risk of changes in foreign exchange rates relates primarily to the group's monetary assets and liabilities denominated in foreign currencies.

The following tables demonstrate the sensitivity to a reasonably possible change in NOK, GBP and USD exchange rates, with all other variables held constant. The group's exposure to foreign currency changes for all other currencies is not material.

Amounts in DKK '000		Effect on loss before tax	Effect on pre-tax equity
Year end 31/12/2016			
Change in NOK rate	+ 5%	297	297
Change in NOK rate	- 5%	-297	-297
Change in GBP rate	+ 5%	-22	-22
Change in GBP rate	- 5%	+22	+22
Change in USD rate	+5%	-283	-283
Change in USD rate	-5%	283	+283

Amounts in DKK '000		Effect on loss before tax	Effect on pre-tax equity
Year end 31/12/2015			
Change in NOK rate	+ 5%	644	644
Change in NOK rate	- 5%	-644	-644
Change in GBP rate	+ 5%	-34	-34
Change in GBP rate	- 5%	34	34

Foreign currency risks are managed as part of the Executive Management's day-to-day monitoring of the group.

20. Financial risks and financial instruments – continued –

Liquidity risk

The group's liquidity risk covers the risk that the group is not able to meet its liabilities as they fall due. The maturities of financial liabilities appear from the tables below. All amounts are contractual cash flows, i.e. inclusive of interest. Reference is made to the paragraph "Capital resources" in note 2 Significant accounting estimates and judgments.

Amounts in DKK '000	Within 1 year	1-2 year(s)	2-5 years	Over 5 years	Total
As at 31/12/2016					
Other credit institutions	2,272	2,749	1,755	0	6,776
Trade payables	2,202	0	0	0	2,202
Provisions	6,169				6,169
Other payables	1,376	0	0	0	1,376
Total	12,019	2,749	1,755	0	16,523
As at 31/12/2015					
Other credit institutions	2,375	2,949	4,836	0	10,160
Trade payables	2,274	0	0	0	2,274
Other payables	1,657	0	0	0	1,657
Total	6,306	2,949	4,836	0	14,091

21. Related parties

Ownership

The following shareholders are registered in Hugo Games´ register as being the owners of 5% or more of the voting rights or 5% or more of the share capital (1 share equals 1 vote):

Aula Holding ApS, Vitus Berings Alle 16, DK 2930 Klampenborg

Transactions with Aula Holding ApS

The Hugo Games group was taxed jointly with Aula Holding ApS during the period from 1 January to 27 June 2015. The group has received DKK 1.1m in tax refund from Aula Holding ApS in respect of this period.
The group had a loan from Aula Holding ApS of up to DKK 5m during the period from 9 June 2016to 17 August 2016.
The group has a receivable of DKK 0.5m at 31 December 2016 regarding joint taxation contribution for 2015. The amount has been recovered after the balance sheet date.
Interest on the above items is calculated at DKK 0.

21. Related parties – continued –

Equity investments in other companies

Name	Registered office	Ownership interest
Subsidiaries		
Hugo Games Development ApS	Frederiksberg	100%
Ivanoff Interactive A/S	Frederiksberg	100%

Transactions with key management employees

Remuneration for management is disclosed in note 5. The group has not entered into contracts with change of control clauses.

Transactions with other related parties

The group has acquired legal services for DKK 1.433m (2015: DKK 1.490) from law firm Delacour, in which board member Rasmus Lund is a partner. The legal services were acquired on arm's length terms.

22. Fee to parent company auditors appointed at the Annual General Meeting

	2016 DKK '000	2015 DKK '000
Grant Thornton		
Statutory audit	185	155
Other assurance engagements	123	0
Tax consultancy	24	0
Other services	94	16
Info:Revision		
Statutory audit	0	0
Other assurance engagements	0	75
Tax consultancy	0	15
Other services	0	517
Total	426	778

23. Events occurring after the balance sheet date

On 31 March 2017, the Group entered into a Share Sale and Purchase Agreement for the acquisition of 52.6 percent of all the issued shares in Fuzzy Frog Ltd., a company based in UK and specialising in game development. Acquisition date is expected to be 15 April 2017. The purchase price is DKK 4.5 million and shall be paid by issuing new shares in Hugo Games A/S

Other than as set out above, no important events have occurred after the end of the financial year.

24. Approval of the annual report for publication

At the board meeting on 3 April 2017, the Board of Directors approved this annual report for publication. The shareholders of Hugo Games A/S have the power to amend the Annual Report. The annual report will be presented to the shareholders for approval at the annual general meeting on 25 April 2017.

25. New accounting regulations

IASB has published a number of new and revised accounting standards and interpretations, which are not mandatory for the preparation of the consolidated financial statements for 2016. Management has begun to assess the impact of IFRS 9 on financial instruments (effective date 1 January 2018), IFRS 15 on revenue recognition (effective date 1 January 2018) and IFRS 16 on leases (effective date 1 January 2019, not yet adopted by the EU) on the future financial reporting. The other standards are not expected to have any substantial impact on the group.

The financial statements of the parent company Hugo Games A/S have been prepared in accordance with the provisions of the Danish Financial Statements Act on listed companies.

The financial statements are presented in Danish kroner (DKK).

The parent company's accounting policies have been applied consistently with last year.

Differences in relation to the group's accounting policies

The parent company applies the same accounting policies for recognition and measurement as the group with the exceptions and additions set out below. For a complete description of the parent company's accounting policies, see note 1 to the consolidated financial statements.

Income statement and balance sheet

Equity investments in subsidiaries

Equity investments in subsidiaries are recognised in the balance sheet at the proportionate share of the companies owned adjusted for any residual value of positive or negative goodwill as well as unrealised intercompany profits and losses.

Profits or losses in subsidiaries are recognised in the income statement in proportion to the shares equivalent to the equity investments. Newly acquired or newly founded enterprises are recognised in the financial statements as from the time of acquisition. Companies divested or discontinued are recognised until the date of divestment.

Newly-acquired companies are recognised in accordance with the acquisition method, according to which the identifiable assets and liabilities of newly-acquired companies are recognised at fair value at the date of acquisition.

The goodwill (positive difference) determined at the date of acquisition is recognised under equity investments in subsidiaries and amortised according to the straight-line method based on an individual assessment of the useful life of the asset, the maximum period, however, being 20 years.

Cash flow statement

No cash flow statement is prepared for the parent company, as the parent company is included in the consolidated cash flow statement in accordance with section 86(4) of the Danish Financial Statements Act.

Note		2016 DKK '000	2015 DKK '000
	Other external expenses	4,383	9,059
	Staff costs	0	0
	Loss before depreciation, amortisation and impairment losses	**-4,383**	**-9,059**
	Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	0	0
	Operating loss	**-4,383**	**-9,059**
3	Share of loss from equity investments in group companies	-56,452	-20,262
2	Other financial income	1,998	1,008
2	Other financial expenses	-6	2,665
	Total net financials	**-54,460**	**-21,919**
	Loss before tax	**-58,843**	**-30,978**
1	Tax on loss for the year	318	-1,356
	Net loss for the year	**-59,161**	**-29,622**

Proposed distribution of net loss

Dividend for the financial year	0
Retained earnings	-59,161
Total	**-59,161**

ASSETS

Note		31/12/2016 DKK '000	31/12/2015 DKK '000
	Equity investments in group companies	2,008	1,367
3	**Total investments**	**2,008**	**1,367**
	Total non-current assets	**2,008**	**1,367**
4	Receivables from group companies	4,147	36,665
	Receivables from related parties	1,126	0
	Tax receivable, group companies	259	0
	Deferred tax asset	0	1,366
	Other receivables	52	54
	Total receivables	**5,584**	**38,085**
	Cash	**7,284**	**12,965**
	Total current assets	**12,866**	**51,050**
	Total assets	**14,875**	**52,417**

EQUITY AND LIABILITIES

Note		31/12/2016 DKK '000	31/12/2015 DKK '000
	Share capital	22,637	12,500
	Share premium	0	0
	Retained earnings	-8,417	38,984
5	**Total equity**	**14,220**	**51,484**
	Trade payables	649	647
	Income tax payable	0	0
	Payables to group companies	6	277
	Total current liabilities	**655**	**933**
	Total liabilities	**655**	**933**
	Total equity and liabilities	**14,875**	**52,417**

6 Contingent liabilities
7 Security provided

	2016 DKK '000	2015 DKK '000

1. Tax

	2016	2015
Current tax for the year	0	0
Prior year adjustments	-9	0
Tax credit scheme/joint taxation contributions	-1,039	0
Change in deferred tax	1,366	-1,356
Total tax for the year	318	-1,356

Tax comprises:

	2016	2015
Tax on loss for the year	318	-1,356
Tax on changes in equity	0	0
Total	0	-1,356

2. Financial items

	2016	2015
Financial income includes interest from group enterprises	1,875	996
Financial expenses include interest to group enterprises	0	24

3. Investments in group companies

	31/12/2016 DKK '000
Cost as at 01/01/2016	24,402
Additions during the year	0
Disposals during the year	0
Cost as at 31/12/2016	24,402
Value adjustments as at 01/01/2016	-23,035
Share of loss before amortisation of goodwill during the year	-57,859
Amortisation of goodwill during the year	-190
Elimination of intercompany profit after tax	1,597
Value adjustments as at 31/12/2016	-79,487
Carrying amount as at 31/12/2016	-55,085
Group companies with negative equity	57,093
Group company with positive equity	2,008

The group companies are:

Amounts in DKK '000	Ownership	Municipality of registered office	Equity 31.12.2016	Result 2016
Hugo Games Development ApS	100%	Frederiksberg	-56,430	-58,196
Ivanoff Intreactive A/S	100%	Frederiksberg	2,008	337

4. Receivables from group companies

Amounts in DKK '000	Total
Receivables from group companies	61,242
Negative equity	-57,095
Receivables from group companies	4,147

5. Equity

Amounts in DKK '000	Share capital	Share premium account	Retained earnings	Total
Balance as at 01/01/2016	12,500	0	38,984	51,484
Purchase/sale of treasury shares				
Cash capital increase	10,137	14,863		25,000
Costs of capital increase		-3,103		-3,103
Transfer of reserves		-11,760	11,760	0
Proposed distribution of net loss			-59,161	-59,161
Balance as at 31/12/2016	22,637	0	-8,417	14,220
Balance as at 01/01/2015	10,000	4,986	21,508	36,494
Purchase/sale of treasury shares				
Cash capital increase	2,500	44,349		46,849
Costs of capital increase		-7,986		-7,986
Transfer of reserves		-41,349	41,349	0
Sale of treasury shares			5,750	5,750
Group contribution in connection with purchase of treasury shares			749	749
Purchase of treasury shares			-750	-750
Proposed distribution of net loss	0	0	-29,622	-29,622
Balance as at 31/12/2015	12,500	0	38,984	51,484

Share capital movements during the preceding five financial years:

	DKK '000
Foundation of company, 2011	80
Cash capital increase, 2014	29
Capital increase through transfer of reserves, 2014	9,891
Capital increase, 2015	2,500
Capital increase, 2016	10,137
Balance as at 31/12/2016	22,637

The share capital consists of 45,274,148 shares with a nominal value of DKK 0.50 each. Reference is made to note 14 to the consolidated financial statements.

6. Contingent liabilities

The parent company was taxed jointly with the other companies in the Aula Holding ApS group until 25 June 2015, and, as from the 2013 financial year, the parent company has joint and several and unlimited liability together with the other jointly-taxed companies for the total income tax and any obligations to withhold tax at source on interest, royalties and dividends for the jointly taxed companies. Effective from 26 June 2015, the parent company has been taxed jointly with the subsidiaries Hugo Games Development ApS and Ivanoff Interactive A/S.

The liability includes any subsequent corrections to the calculated tax liability as a consequence of changes made to the jointly taxable income etc.

At 31 December 2016, the parent company provided a guarantee to a credit institution for the loan to the subsidiary Hugo Development ApS of up to a maximum amount of DKK 5,141k.

7. Security provided

None.