



**NEXT GAMES**™

**H1**

Next Games Corporation

HALF-YEAR REVIEW

January-June 2019



**N** NEXT GAMES **NETFLIX**

**STRANGER  
THINGS**

## Next Games Corp. Half-year Review 2019

### Revenue grew 83%, profitability improved significantly

#### April-June 2019 in short

- Revenue was EUR 9.4 million, an increase of 65% compared to Q2 2018 (EUR 5.7 million)
- Gross profit % increased by 3 percentage points and was EUR 5.7 million, 60% of revenue (EUR 3.3 million, 58% of revenue)
- Adjusted operating profit improved 75% and was EUR -0.5 million (EUR -2.0 million)
- EBITDA improved 96% and was EUR -0.1 million (EUR -2.4 million)
- EBIT improved 55% and was EUR -1.1 million (EUR -2.4 million)
- Product development costs were EUR 2.0 million euros (EUR 1.8 million).
- Number of employees was 108 at the end of the quarter (132)
- At the end of the review period, the company's cash balance was EUR 4.7 million. The company's longer term goal to consistently remain cash flow neutral has proceeded according to plan as the cash balance was EUR 4.8 million at the end of Q1
- The company successfully renewed its credit limit guarantee during the review period. As a part of the full assessment of additional financing, the company is negotiating with credit providers about new terms for the credit limit.
- The company announced a collaboration agreement with Netflix to develop a mobile game based on Stranger Things series for 2020

#### January-June 2019 in short

- Revenue was EUR 19.2 million, an increase of 83% compared to H1 2018 (EUR 10.5 million)
- Gross profit % increased by 1 percentage point and was EUR 11.2 million, 59% of revenue (EUR 6.0 million, 58% of revenue)
- Adjusted operating profit improved 56% and was EUR -1.8 million (EUR -4.1 million)
- EBITDA improved 69% and was EUR -1.5 million (EUR -4.8 million)
- EBIT improved 29% and was EUR -3.5 million (EUR -5.0 million)
- Product development costs were EUR 4.7 million (EUR 3.6M).

(Numbers in brackets refer to the corresponding year-on-year period unless otherwise mentioned)

## Key Figures

EUR thousand	2019			2018			Full year
	04-06/2019	04-06/2018	Change	01-06/2019	01-06/2018	Change	
Revenue	9,395	5,689	65%	19,224	10,477	83%	35,245
Gross Profit	5,670	3,273	73%	11,250	6,034	86%	21,294
Gross profit margin %	60%	58%	3ppt	59%	58%	1ppt	60%
Operating Result (EBIT)	-1,100	-2,448	n/a	-3,495	-4,954	n/a	-16,915
Operating result margin %	-12%	-43%	31ppt	-18%	-47%	29ppt	-48%
Adjusted Operating Result*	-497	-2,007	n/a	-1,809	-4,072	n/a	-13,777
Adjusted operating result margin %	-5%	-35%	30ppt	-9%	-39%	29ppt	-39%
Depreciations and Amortizations total	993	70		1,985	140		2,165
IFRS 16	256	-		512	-		512
Amortizations of R&D & Licenses	579	30		1,157	60		1,248
Other	159	40		316	80		405
Earnings per share, EUR	-0.08	-0.12		-0.22	-0.30		-0.99
Earnings per share, diluted EUR	-0.08	-0.12		-0.22	-0.30		-0.99
Current Ratio	1.15	3.92		1.15	3.92		1.53
Employees (end of period)	108	132		108	132		143

\*Adjusted operating result is a non-GAAP measure and differs from EBITDA as it excludes IFRS 16 depreciations and include IFRS 2 adjustments for share based payments. Management uses this Non-GAAP measure as an alternative to EBITDA to analyze the profitability of the business. Please see reconciliation of Non-GAAP measurements

Current ratio is an alternative measure which is calculated by dividing current assets such as cash and short-term receivables to current liabilities. Current ratio measures the liquidity of the company.

## Reconciliation of Non-GAAP Measurements

### Adjusted Operating Result and EBITDA

EUR thousand	2019		2018		Full year
	04-06/2019	04-06/2018	01-06/2019	01-06/2018	
Operating Result (EBIT)	-1,100	-2,448	-3,495	-4,954	-16,915
Depreciations total	993	70	1,985	140	2,165
EBITDA	-107	-2,378	-1,510	-4,814	-14,749
IFRS 16	-256	-	-512	-	-512
IFRS 2 share based payments	-134	371	213	742	1,483
Adjusted Operating Result	-497	-2,007	-1,809	-4,072	-13,777

### Current Ratio

EUR thousand	30.6.2019	30.6.2018
Current assets	10,598	23,300
Current liabilities	9,247	5,937
<b>Current Ratio</b>	<b>1.15</b>	<b>3.92</b>

## Chief Executive Officer Teemu Huuhtanen

Next Games continued to strongly focus on renewing its operations during the first half. We successfully completed the first step of the three-step turnaround project; balancing and stabilizing the company's cost structure to a new level.

The company previously communicated that it aims to achieve a monthly fixed cost level of approximately 1.1 - 1.2 million euros. The cost savings program was successfully implemented and we achieved a 1.2 million euro fixed cost level during the second quarter. The company's profitability continued to improve during the second quarter. Adjusted EBITDA was -0.5 million euros during Q2 2019, whereas it was still -1.3 million euros in Q1 2019. The company's long term goal towards remaining consistently cash flow neutral has therefore proceeded as planned.

Next Games revenue grew 83% compared to January-June 2018 and 65% compared to April-June 2018 period. Our World achieved another record-breaking in-app purchase ARPDAU of 0.34 Euros in June. The game still experienced challenges with retention however, and thus the marketing investment level was on a higher level than the company's objectives. The team now focuses on improving the game's retention and further developing the product.

In order to achieve revenue growth, the company has actively developed its advertisement revenue model. The company implemented video ads, similar to No Man's Land, to Our World mid-June 2019. Additionally, the company has piloted an innovative location-based ad solution for Our World with a significant global partner with promising preliminary results during the first half of 2019.

The second step of the turnaround plan, rebuilding the company's product development pipeline according to its new focus, has started off well. Our new operating model focuses on reusing existing technology and code, which has the potential to significantly reduce product development times. The collaboration with Netflix on a mobile game based on the Stranger Things series, that received significant international media attention after its announcement in July, has been built utilizing the new practices. The company has continued active discussions over potential collaboration with other significant international license holders.

Thanks to the renewed game development process, the company has initiated multiple new projects in the prototyping and concepting phase. It's important to have a robust early development pipeline, as it's typical for the mobile games industry that only a portion of the games in development are published to the market. At the moment, 46% of the company's personnel works on live games and 42% on new projects.

Third, and the final step of our turnaround project, is to secure additional funding for future investments such as new product development and marketing. Thanks to the stabilized business operations, the company is in a good place to continue assessing alternatives to strengthen its financial position.

I would like to warmly thank our staff and our board of directors for the extraordinary contribution to achieve the turnaround this far. I am especially pleased about the enthusiasm surrounding the building of our new product portfolio.

**Teemu Huuhtanen**

CEO

Next Games



## Business Outlook 2019

The company seeks moderate revenue growth during 2019 compared to 2018 and, as a result from the changes in its cost structure as a first step, strives towards remaining cash flow neutral in the longer term. As part of cost restructuring, the company estimates it will achieve monthly savings of approximately € 550 thousand in salaries, administrative costs and product development costs, totalling approximately € 6.5M on a yearly basis as compared to the second half of 2018.

### Basis for Outlook 2019

The company's estimates are based on the assumption that The Walking Dead: No Man's Land and The Walking Dead: Our World maintain their current revenue levels. In addition, the outlook is based on game development staying on schedule and on target of launching one game per year.

### January-June 2019 Audiocast

Next Games holds an English audiocast and phone conference on July 26 2019 at 10.30 EEST. You can join the audiocast by using the following link: <https://nxtg.ms/2XVv9LU>. More information about the audiocast and phone conference: <https://nxtg.ms/2JFGXZU>.

### Next Games in short

Next Games is the first publicly listed mobile game developer and publisher in Finland, specializing in games based on entertainment franchises, such as movies, TV series or books. The developers of the critically acclaimed The Walking Dead games redefines the way franchise entertainment transforms into highly engaging service-based mobile games. In summer 2018, Next Games launched The Walking Dead: Our World, which utilizes cutting edge AR technology and is powered by Google Maps. Currently Next Games is working on multiple new games based on popular entertainment franchises including, Blade Runner Nexus, for the popular Blade Runner franchise and a mobile game based on Netflix's Stranger Things.

## Market Overview

According to June 2019 report published by market intelligence provider Newzoo, mobile games market continues to grow at a rate of approximately 10.2% year-on-year in 2019. According to a report, the global games market is forecasted to total around 151.1 billion US dollars in 2019, of which the share of mobile games market would be around 45%, 68.5 billion US dollars. The reasons for slowed growth in global mobile games market compared to previous years are mainly due to new regulations in Chinese games market and an absence of new global blockbuster games.

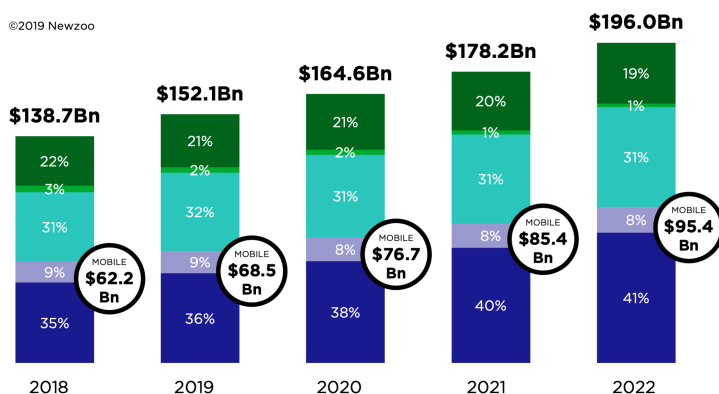
From Next Games’ perspective, it is positive that the United States is estimated to overtake China as the world’s largest gaming market by revenue in 2019. The United States generated 45% of Next Games’ revenue during the first half of 2019 and the company does not currently have any games available on the Chinese market.



## 2018-2022 GLOBAL GAMES MARKET

FORECAST PER SEGMENT TOWARD 2022

©2019 Newzoo



**+9.0%**

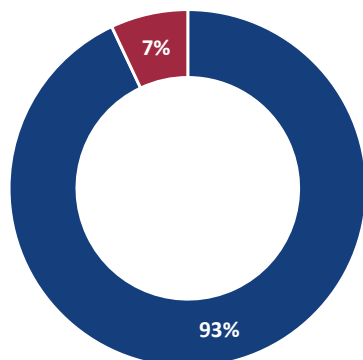
TOTAL MARKET CAGR 2018-2022

- Boxed/Downloaded PC
- Browser PC
- Console
- Tablet
- Smartphone

Source: ©Newzoo | 2019 Global Games Market Report  
newzoo.com/globalgamesreport

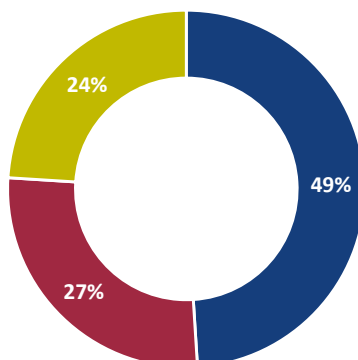
## Revenue and Earnings Development

GROSS BOOKINGS BY SOURCE



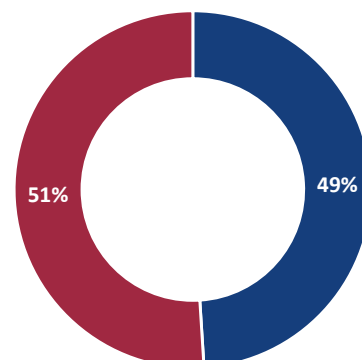
■ In App Purchases (IAP) ■ Ad Sales

GROSS BOOKINGS BY GEOGRAPHY



■ North America ■ EU Countries ■ Other

GROSS BOOKINGS BY PLATFORM



■ Android ■ iOS

### April-June 2019

In April-June, total revenue of the company was EUR 9.4 million (EUR 5.7 million). The increase resulted from the revenue from The Walking Dead: Our World game, as the game was not yet released during the corresponding period in the first half of 2018. Gross profit increased and was 60% from 58% in the April-June 2018 period.

EBIT was EUR -1.1 million (EUR -2.4 million), with depreciations and amortizations totaling EUR 1.0 million (EUR 0.1 million). Operating profit improved in comparison to Q2 2018 as well as to the Q1 2019, due to the successful implementation of the company’s cost savings program. Personnel costs decreased by 21% from the previous quarter as part of the cost savings program. In addition, the company successfully decreased costs related to research and development, as well as other fixed cost items. Decrease in costs was particularly visible towards the end of the second quarter.

k €	Costs on a monthly level				Savings		
	H2 2018	Q1 2019	Q2 2019	Q2* 2019	Realized Q2 monthly level	Monthly level target for whole year	Annualized target
Research & Development services	320	70	40	55	-280	-265	-3,180
Employee expenses	830	820	660	700	-170	-130	-1,560
Other fixed costs	550	500	480	400	-70	-150	-1,800
	1,700	1,390	1,180	1,155	-520	-545	-6,540

\*target

## January-June 2019

In January-June, total revenue of the company was EUR 19.2 million (EUR 10.5 million), of which the first quarter revenue was EUR 9.8 million (EUR 4.8 million ) and in the second quarter EUR 9.4 million (EUR 5.7 million). The increase resulted from the revenue from The Walking Dead: Our World game, as the game was not yet released during the corresponding period in the first half of 2018.

EBIT was EUR -3.5 million (EUR -5.0 million). Approximately two thirds of the operating loss incurred during the first quarter. Increase in profitability was due to the cost savings program initiated and executed during the reporting period in addition to the significant increase in revenue.

Gross profit was 59%, compared to 58% in comparison period.

Taxes for the reporting period were EUR -0.3 million. The result was a loss of EUR -4.0 million.

Undiluted earnings per share were EUR -0.22 for the reporting period. Diluted earnings per share were EUR -0.22 for the reporting period. In the comparison period, the undiluted earnings per share were -0.30 and diluted EUR -0.30.

## Product Development Costs, Licenses and Accounting Principles

The company has two globally live games; The Walking Dead: No Man's Land, and The Walking Dead: Our World. In addition, the company's Blade Runner game is in soft launch phase. In June 2019, the company announced it is collaborating with Netflix to create a game based on the Stranger Things series, which is estimated to launch in 2020.

Development costs constituted of both salaries and work sourced from third parties. The company has capitalized development costs on the balance sheet during the reporting period. The company is able to identify the point in time when capitalization criteria is met in its business model. The development expenses incurred after the launch of the mobile game do not qualify for capitalization.

The company continued active development of its proprietary technology and analytics platforms. The platforms will enable effective scalability to a company that actively operates multiple live games.

The company's license agreements may include prepayments and costs related to acquisition of licenses. The acquisition cost of a license is recorded as an intangible asset and its value is amortized over a three-year period from the release of the game.

## Investments

Capitalizations amounted to EUR 1.4 million during the first half of 2019 (EUR 4.6 million). All capitalizations in the reporting period were related to game development expenses. In the comparison period, 3.2 million euros of the costs were related to game development expenses.

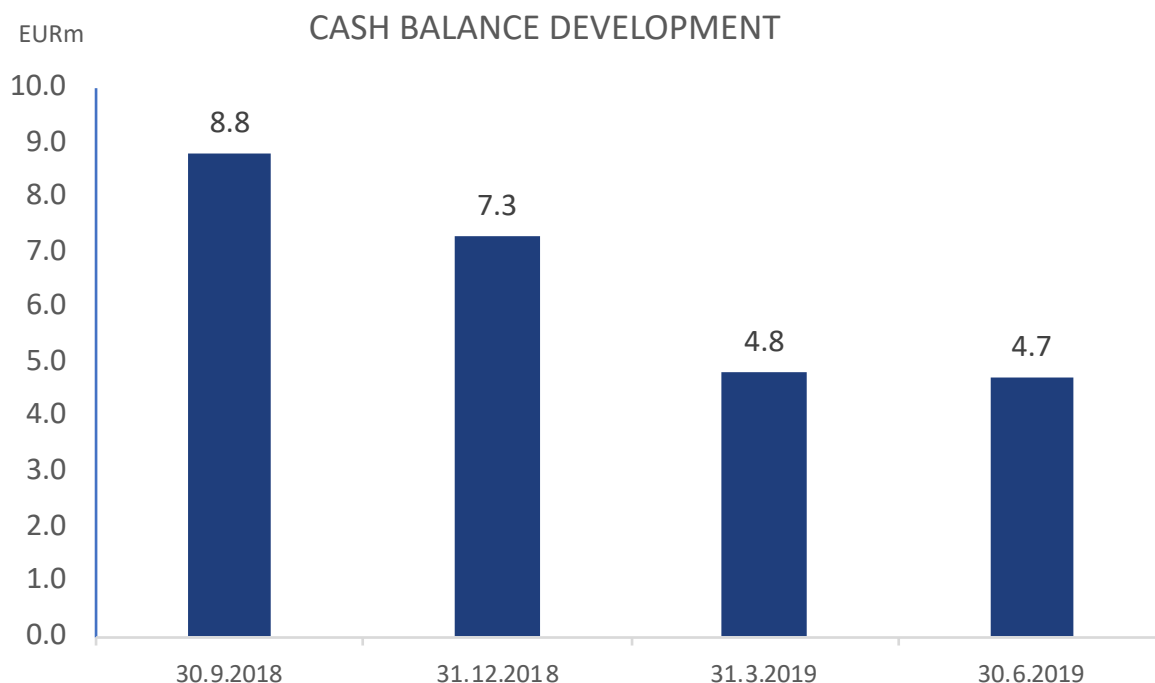


## Cash Flow and Financing

Cash flow from operating activities was EUR -0.7 million during the reporting period ( EUR -4.8 million). The largest impact on the company's cash position were investments, amounting to EUR -1.4 million (EUR -4.6 million). Cash from financing activities amounted to EUR -0.6 million ( EUR -0.2 million) and was largely impacted by the company's office space.

The change in cash and cash equivalents amounted to EUR -2.6 million including currency fluctuations, and cash and cash equivalents at the end of the reporting period was EUR 4.7 million. The biggest change in the company's net cash position occurred during the first quarter. Change in cash and cash equivalents between the first and second quarter was EUR -0.1 million. The company successfully renewed its credit limit guarantee during the review period. As a part of the full assessment of additional financing, the company is negotiating with credit providers about new terms for the credit limit.

Financial expenses amounted to EUR -0.2 million. In the comparison period, net financial income was EUR 0.3 million.



## Development of Games Business

The company has invested in renewing its game development process as part of the company's turnaround plan. The goal for the new operating model is to decrease time to market for the company's products and reduce the risk involved in different stages of the development through a renewed testing process as well as investigate opportunities to develop games without a third party license.

The game based on Netflix's Stranger Things series, which received considerable international media attention in June after its announcement, has been developed utilizing new practices. Additionally the company has initiated several products in the prototyping and concepting phase, thanks to the renewed game development process.

The company has done preliminary research on multiple third party licenses for potential future projects with significant global license holders. It is important for the company to have several projects in the pipeline to ensure successful global launches of products as it is typical for the mobile games industry that only a portion of games will pass through the testing phases to global launch. Making an agreement with a license holder to develop a game does not guarantee a global launch. The company aims to launch a minimum of one game per year.

## Combined Key Operational Metrics of the Company's Products

Definitions related to key operational metrics can be found at the end of this document.

	01-03/2018	04-06/2018	07-09/2018	10-12/2018	01-03/2019	04-06/2019
Gross Bookings	4,747	5,702	13,787	11,552	9,536	8,971
DAU	312,228	306,492	668,566	482,814	441,735	349,993
MAU	1,017,936	979,599	2,919,031	1,505,995	1,670,936	1,161,302
ARPPDAU (USD)	0.21	0.24	0.26	0.30	0.27	0.31
ARPPDAU (EUR)	0.17	0.20	0.22	0.27	0.24	0.28

## The Walking Dead: No Man's Land

No Man's Land ARPPDAU has improved year-on-year and was 0.22 euros on average during the first half of 2019. The number of daily active users has however decreased year-on-year. The game as an independent project has remained profitable throughout the reporting period. The team aims to maintain the game's key metrics on a stable level.

TWD: No Man's Land	01-03/2018	04-06/2018	07-09/2018	10-12/2018	01-03/2019	04-06/2019
Gross Bookings	4,691	5,482	5,534	5,727	4,547	3,753
DAU	300,367	286,806	274,752	253,339	225,048	189,852
MAU	977,754	883,966	799,919	728,296	669,181	539,948
ARPPDAU (USD)	0.21	0.24	0.26	0.28	0.25	0.24
ARPPDAU (EUR)	0.17	0.21	0.24	0.25	0.22	0.22

## The Walking Dead: Our World

Our World achieved another record-breaking in-app purchase ARPDAU record, 0.34 Euros in June. However, the game still experienced challenges with retention, and thus the marketing investment level was on a higher level in comparison to revenue than the company's objectives. The team now focuses on improving the game's retention and further development of the product will continue.

In order to achieve revenue growth, the company has actively developed its advertisement revenue business model. The company implemented video ads similar to No Man's Land, to Our World in mid-June 2019. Additionally, the company has piloted an innovative location-based ad solution in Our World with a significant global partner with promising preliminary results during the first half of 2019.

TWD: Our World	01-03/2018	04-06/2018	07-09/2018	10-12/2018	01-03/2019	04-06/2019
Gross Bookings	-	-	8,219	5,793	4,961	5,200
DAU	-	-	386,109	222,943	210,693	154,936
MAU	-	-	2,096,120	758,542	982,345	602,486
ARPDAU (USD)	-	-	0.27	0.31	0.29	0.41*
ARPDAU (EUR)	-	-	0.23	0.28	0.26	0.37*

\*ARPDAU includes In App Purchases- and Ad-revenue since Jun 11, 2019.

## Blade Runner Nexus

Blade Runner Nexus continued in soft launch in Philippines, Australia, New Zealand, Finland and Poland. The testing and analysis efforts have focused on optimizing and improving the game's first time user experience and early retention.

## Stranger Things

Next Games and Netflix announced on 12 June at the games industry fair E3 in Los Angeles, that they collaborate to create a mobile game based on Stranger Things series. Stranger Things is a scifi horror series set in the 80s published by Netflix. The first season of the series aired in summer 2016.

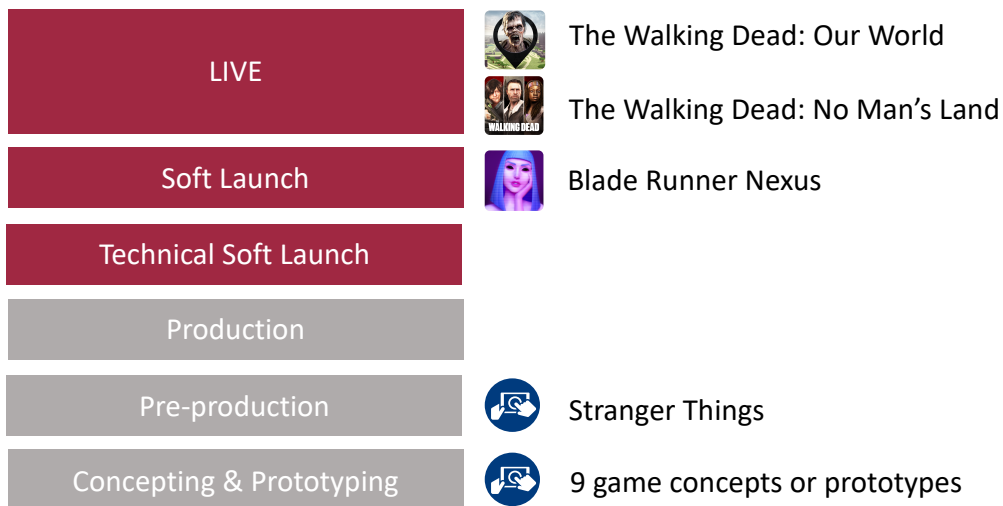
Netflix has published three seasons of the series, of which the latest in July 2019. According to Netflix, 40.7 million household accounts watched the show during the first four days after launch — more than any other film or series in its first four days. Thus, the series has a large global audience and it has won multiple media industry awards.

The location-based puzzle RPG game is currently estimated to be released in 2020. The game will reimagine the Stranger Things universe in the style of an 80s Saturday morning cartoon. Through location-based mechanics and Google Maps integration, players can explore The Upside Down hidden around them in their daily travels and work with fellow fans to fight back its emerging evils.

## Unannounced Projects

As a result of its renewed product development pipeline, the company has 9 new concepts or prototypes in development. According to its new product development model, some of the new projects have a third party IP attached to them whereas some do not. Even though a game may not have a license attached to it at the very early stages, a license can be added at a later stage, if appropriate. The company emphasizes that only part of the games in development will pass all the stages of the product development process and will be launched globally. The company keeps its guidance to publish at least one game per year.

## Game and Product Development Pipeline H1 2019



## Personnel and Management

	1-6/2019	1-6/2018	Change, %
Employees (at the end of the period)	108	132	-18.18%

At the end of the reporting period, Next Games had 108 (132) employees that represented 22 nationalities. On average, the company employed 119 (127) employees during January-June 2019 and on average 108 (130) employees during April-June.

At the end of the reporting period 14% of the staff worked on No Man's land, 27% on Our World, 46% in new projects and 12% in administrative tasks.

As part of the company's program to review the cost structure of the company's operations and streamline its operational model, the company concluded consultations with its personnel, which resulted in reductions in personnel. As a result of the consultation proceedings, the company implemented a new organizational structure with the aim of decreasing time-to market for its upcoming products, increasing performance, as well as, improving its product development process.

Emmi Kuusikko, the company's Chief Product Officer and member of the Management Team, stepped down from her role during the reporting period. At the end of the reporting period, 30 June 2019, the Management Team consisted of Teemu Huuhtanen (CEO), Annina Salvén (CFO), Saara Bergström (CMO), Kalle Hiitola (CTO) and Joonas Viitala (COO). The members of the Management Team report to the CEO, Teemu Huuhtanen.

## Shares and Shareholders

The total number of shares increased during the review period by a total of 35,396 shares as new shares were subscribed for with stock options. These shares have been entered into the trade register on 4th of April 2019, as of which date the new shares have carried equal shareholder rights with the company's existing shares.

The entire subscription price of EUR 25,743.83 was recorded in the reserve for invested unrestricted equity, and the company's share capital has remained unchanged. The shares have no nominal value. After the subscriptions, the number of Next Games Corporation's shares increased to 18,538,710 shares.

New shares have been subscribed for with stock options during the reporting period, which will be added to the register only after the reporting period.

On June 30, 2019, Next Games' share capital amounted to EUR 80,000 and the number of shares was 18,538,710. According to information provided by Euroclear, the share of the company's five largest shareholders totalled 38.1% of the company's shares and the ten largest shareholder's share was 51% of the company's shares. The holdings of the 10 largest shareholders are listed in the table below.

### Next Games Corporation 10 largest shareholders 30 June, 2019\*

	Shareholders	Shares	% of shares
1	Ovaskainen Jari Juhani Rainer	3,093,110	16.68
2	IDG Ventures USA III, L.P.	1,188,306	6.41
3	Hiitola Kalle Johannes	942,896	5.09
4	Achrén Joakim Tomas Johan	940,818	5.07
5	Achrén Mikael Jan Kennet	889,941	4.80
6	Jumisko Jaakko	850,246	4.59
7	Ilmarinen Mutual Pension Insurance Company	546,224	2.95
8	Varma Mutual Pension Insurance Company	380,000	2.05
9	Nuard Ventures Oy	364,000	1.96
10	Vaah Holdings Oy	226,720	1.44

\* Next Games has nominee registered shareholders, including AMC Networks. With 3 221 458 shares, the total share of the nominee registered shareholders is 17.38 % of the company.

Table of Next Games' largest shareholders is updated monthly and can be found in the following address: <https://www.nextgames.com/ng/share/largest-shareholders/>

## Share-based Incentive Schemes

Next Games has four share-based incentive schemes during the reporting period: Equity Plan 2014, Equity Plan 2015, Equity Plan 2017 and Equity Plan 2018. The vesting period for the options in the share-based incentive schemes is a minimum of 12 and a maximum of 48 months. Options are granted in several installments and the board of directors decides the strike price for the options per installment, and thus there may be multiple different strike prices within each options program. The company may grant options to the company's or its subsidiaries current or future employees, external consultants, management and members of the board. Granting options requires a decision by the board of directors.

All of Next Games employees are option holders after passing probation period. The company intends to continue granting options to all new employees at the end of their probation period as a long term incentive.

The board of directors of the company has granted option rights free of charge. The subscription price of the options are determined separately for each equity plan.

## Risks and Uncertainties

According to the company's estimate, there is no significant change in the risks and uncertainties pertaining to the company's operations during the first half of 2019.

The company's revenue remains dependent on two games. The risks related to the games' financial performance, development and upkeeping the activity of the player bases affect the company's business risk level. In addition to the current live games, delays in the company's new game development may have a negative impact on the company's cash flow. New game launches may require significant investments in marketing and of which the returns carry a risk. The company also utilizes both its own and third party technology that is new, and which may carry a scalability risk.

According to the company's view, risks related to financing are essential from the company's business operations perspective. Cash balance and the availability of additional funding may have a significant effect on the company's ability to develop and publish new games. Risks related to financing may have a negative effect on the company's liquidity.

The company has capitalized expenses related to game development, of which future profits are uncertain. In addition, in accordance with IFRS, Next Games has valued goodwill and other assets based on future outlook of the company. There is a risk of impairment related to these.

New license agreements may require upfront minimum guarantee payments, some of which are recoupable through royalties. If such game projects are terminated there is a risk of write-off related to the original minimum guarantee payment.

The company has insured its business with customary insurances for cyber security, business interruption and property.

Risks other than those described above may have an impact on Next Games' business.

## Resolutions Passed By the Annual General Meeting and the Board of Directors' Constitutional Meeting

The annual general meeting of Next Games Corporation was held in Helsinki on 21 May 2019. The meeting approved the financial statements for the financial period ended 31 December 2018 and granted discharge from liability to all members of the board of directors and the managing director. In accordance with the proposal of the board of directors, the general meeting resolved not to distribute any dividend for the financial year ended 31 December 2018 and that the loss of the financial year will be recorded as undistributed profit.

The number of members of the Board of Directors was confirmed as six (6), from which two (2) are new members. Petri Niemi, Joakim Achrén, Peter Levin and Jari Ovaskainen were re-elected for the term of office ending at the conclusion of the Annual General Meeting to be held in 2020. Elina Anckar and Zenophin Lategan were elected as new members of the Board of Directors.

M.Sc. (Economics and Business Administration) Anckar (born 1968) acts as the Chief Financial Officer of Marimekko Corporation and as a board member of Kalevala Koru Oy.

B.Sc. Lategan (born 1980) acts as an Executive Advisor to Next Games Corporation and Fox (Film, TV and Sports) among others, and he has previously held positions at Microsoft, Google and Accenture.

The general meeting approved to maintain the previous level of monthly compensation of EUR 4,500 for the chairman of the board of directors and EUR 2,500 for other members of the board of directors. In addition, a compensation of EUR 1,000 will be paid to the members of the audit committee and the remuneration committee for each committee meeting. The compensation is paid as a cash payment.

Authorized public accountants PricewaterhouseCoopers Oy was re-elected auditor of the company for the financial period ending on 31 December 2019. APA Jukka Karinen serves as the main responsible auditor of the company.

The general meeting authorized the board of directors to decide on the purchase of a maximum of 1,800,000 own shares in one or several instalments (approximately 9,7% of the whole share base 05/2019). Shares can be purchased for the purpose of improving the company's capital structure, carrying out corporate or financing transactions, implementing the company's incentive schemes, or to be otherwise transferred or cancelled.

Additionally, the general meeting authorized the board of directors to decide on the issuance of shares and/or option rights to entitling to shares. Pursuant to the authorization, the board of directors may decide to issue a maximum of 1,800,000 shares in one or several tranches (approximately 9,7% of the whole share base 05/2019).

Both authorizations are valid until 21 November 2020.



At its constitutional meeting held after the general meeting, the board of directors appointed Petri Niemi as the chairman from among its members.

Elina Anckar was elected as chairman and Petri Niemi as member of the audit committee. Elina Anckar and Petri Niemi are independent of both the company and its significant shareholders.

Petri Niemi was elected as chairman and Jari Ovaskainen and Joakim Achrén as members of the remuneration committee. Petri Niemi is independent of both the company and its significant shareholders. Jari Ovaskainen is independent of the company and Joakim Achrén is independent of the company's significant shareholders.

## Distribution of dividends

In accordance with the proposal of the board of directors, the company's Annual General Meeting resolved on 21 May 2019 not to distribute any dividend for the financial year ended 31 December 2018.

## Events After the Reporting Period

The Board of Directors of Next Games Corp. adopted a new share-based incentive program on 8 July 2019. The Program is part of the company's personnel incentive and commitment scheme.

## Upcoming Events

1 November, 2019 - Business Review for January-September 2019

Helsinki 25 July, 2019

Board of Directors  
Next Games Corporation

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Statements are made in this report, which describe, inter alia, the current beliefs and expectations of the management of Next Games regarding the future plans and objectives concerning future activities and goals of Next Games. All such statements involve risks and uncertainties, which may cause the achievements of Next Games to differ materially from what has been expressed or implied in such statements.

## Alternative Performance Measures

### Definitions of Key Operational Metrics and Alternative Performance Measurements

Next Games presents certain financial performance measures on a non-IFRS basis as alternative performance measures (APMs). The APMs exclude certain non-operational or non-cash valuation items affecting comparability and are provided to reflect the underlying business performance and to enhance comparability between reporting periods. The APMs should not be considered as a substitute for performance measures in accordance with IFRS.

### New alternative performance measures as at 1.1.2019

Next Games will include Adjusted Operating Profit as a new alternative performance measure where Operating Profit (EBIT) is adjusted for IFRS 2 Share-based payments, which does not have cash impact, and depreciations. However, depreciations of leases, falling under IFRS 16 standard, are not adjusted from EBIT. The company includes also the corresponding margin, as a new APM in its financial reporting.

Unlike the Adjusted Operating Profit reported earlier, for which IFRS 2 Share-based payments were not adjusted, the new alternative performance measurement highlights operational profitability in a better way as the measurement is adjusted for the impact of non-revenue generating projects and items and as such is more informative as a measurement of operational cash flow.

Therefore the new APM is considered to complement other performance measures and provide valuable information to investors and will be included in financial reporting from Q1 2019 onwards. Adjusted EBITDA and Adjusted EBIT, which have been included as APMs in Next Game's financial reporting in 2018, will no longer be reported from Q1 2019 onwards.

### Calculation of Key Financial Ratios

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

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

**Adjusted Operating Profit** Operating profit (EBIT) is adjusted for IFRS 2 share-based payments which don't have cash impact and also depreciations for capitalized items relating to product developments and licenses according to IAS 38. However, depreciations of premises, falling under IFRS 16 standard, are not adjusted from EBIT. Adjusted operating profit % is also presented as a non IFRS Financial Measure.

**EBITDA** Operating profit (EBIT) is adjusted for depreciations and amortizations, including IFRS 16 depreciations. In order to be comparable to other game companies, Next Games represents EBITDA in income statement.

**Equity Ratio**

$$\frac{\text{Capital and reserves total}}{\text{Total Assets – Advances Received}} \times 100$$

**Current ratio**

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

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

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

**Key operational metrics**

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

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

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

## Half-year Review January-June 2019

### Financial tables

Next Games applies International Financial Reporting Standards (IFRS). This unaudited half-year review doesn't apply the IAS 34 requirements for interim reports that doesn't concern the First North companies.

### Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS as adopted by the European Union. The notes to the Consolidated Financial Statements also comply with the Finnish accounting and corporate legislation complementing the IFRS standards.

Next Games doesn't apply the IAS 34 -standard for the half-year review, but instead prepares in accordance with First North Finland -regulations.

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

- Timing of revenue recognition
- Impairment testing of goodwill
- Capitalization of development costs
- Measurement of intangible assets identified and recognized in business combinations
- Extension and termination options of lease agreements
- Share-based payment arrangements
- Deferred tax assets

These areas are explained in more detailed in the individual notes. Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations on future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

## Consolidated statement of comprehensive income

EUR thousand	Jan 1 - Jun 30, 2019	Jan 1 - Jun 30, 2018	Jan 1 - Dec 31, 2018
Revenue from contracts with customers	19,224	10,477	35,245
Cost of revenue	-7,974	-4,443	-13,952
<b>Gross profit</b>	<b>11,250</b>	<b>6,034</b>	<b>21,294</b>
Other operating income	9	45	71
Research and development costs	-4,679	-3,555	-10,418
Sales and marketing costs	-8,414	-5,405	-23,643
Administrative costs	-1,661	-2,073	-4,218
<b>Operating profit</b>	<b>-3,495</b>	<b>-4,954</b>	<b>-16,915</b>
Finance income	28	722	757
Finance costs	-189	-466	-608
<b>Finance costs - net</b>	<b>-161</b>	<b>255</b>	<b>149</b>
Share of associates' profit/loss	-85	-116	-122
<b>Profit (loss) before taxes</b>	<b>-3,741</b>	<b>-4,815</b>	<b>-16,887</b>
Current income taxes	-73	-	-143
Change in deferred tax	-228	-733	-1,008
<b>Total income tax expense</b>	<b>-300</b>	<b>-733</b>	<b>-1,151</b>
<b>Profit (loss) for the period</b>	<b>-4,042</b>	<b>-5,547</b>	<b>-18,037</b>
<b>Total comprehensive income (loss) for the period</b>	<b>-4,042</b>	<b>-5,547</b>	<b>-18,037</b>

## Consolidated balance sheet

EUR thousand	Jun 30, 2019	Jun 30, 2018	Dec 31, 2018
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	10,472	9,893	10,347
Goodwill	3,344	3,344	3,344
Property, plant and equipment	6,018	1,666	6,734
Shares of associates	303	393	388
Long-term debtors	395	669	395
Deferred tax assets	1,394	1,896	1,621
<b>Non-current assets total</b>	<b>21,926</b>	<b>17,863</b>	<b>22,829</b>
<b>Current assets</b>			
Trade and other receivables	5,937	6,359	6,339
Cash and cash equivalents	4,661	16,940	7,306
<b>Current assets total</b>	<b>10,598</b>	<b>23,300</b>	<b>13,646</b>
<b>Total assets</b>	<b>32,524</b>	<b>41,162</b>	<b>36,475</b>

EUR thousand	Jun 30, 2019	Jun 30, 2018	Dec 31, 2018
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	80	80	80
Invested non-restricted equity reserve	53,978	53,897	53,925
Retained earnings	-30,916	-13,832	-13,091
Profit (loss) for the period	-4,042	-5,547	-18,037
<b>Shareholders' equity</b>	<b>19,101</b>	<b>34,597</b>	<b>22,876</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Non-current governmental agency loan	540	628	518
Lease liabilities	3,636	-	4,145
<b>Non-current liabilities total</b>	<b>4,176</b>	<b>628</b>	<b>4,663</b>
<b>Current liabilities</b>			
Governmental agency loan	224	112	222
Lease liabilities	1,009	-	992
Deferred revenue	1,272	886	1,458
Trade payables	2,239	2,042	2,731
Other liabilities	140	192	204
Accruals and deferred income	4,362	2,705	3,329
<b>Current liabilities total</b>	<b>9,247</b>	<b>5,937</b>	<b>8,936</b>
<b>Liabilities total</b>	<b>13,423</b>	<b>6,565</b>	<b>13,598</b>
<b>Equity and liabilities total</b>	<b>32,524</b>	<b>41,162</b>	<b>36,475</b>

## Consolidated statement of changes in equity

EUR thousand	Share capital	Reserve for invested unrestricted equity	Retained earnings	Total
<b>Equity at Jan 1, 2018</b>	<b>80</b>	<b>53,866</b>	<b>-14,574</b>	<b>39,372</b>
Profit (loss) for the period	-	-	-5,547	-5,547
<b>Transactions with owners:</b>				
Issue of shares subscribed by options	-	37	-	37
Acquisition of treasury shares	-	-7	-	-7
Share-based payments	-	-	742	742
<b>Equity at Jun 30, 2018</b>	<b>80</b>	<b>53,897</b>	<b>-19,380</b>	<b>34,597</b>
<b>Equity at Jan 1, 2019</b>	<b>80</b>	<b>53,925</b>	<b>-31,128</b>	<b>22,876</b>
Profit (loss) for the period	-	-	-4,042	-4,042
<b>Transactions with owners</b>				
Issue of shares subscribed by options	-	53	-	53
Share-based payments	-	-	213	213
<b>Equity at Jun 30, 2019</b>	<b>80</b>	<b>53,978</b>	<b>-34,957</b>	<b>19,101</b>

## Consolidated statement of cash flows

EUR thousand	Jan 1 - Jun 30, 2019	Jan 1 - Jun 30, 2018	Jan 1 - Dec 31, 2018
<b>Net cash flows from operating activities</b>	<b>-687</b>	<b>-4,809</b>	<b>-12,004</b>
<b>Net cash flows from investing activities</b>	<b>-1,395</b>	<b>-4,649</b>	<b>-6,736</b>
<b>Net cash flows from financing activities</b>	<b>-554</b>	<b>-195</b>	<b>-555</b>
Net change in cash and cash equivalents	-2,636	-9,653	-19,295
Cash and cash equivalents at beginning of the period	7,306	26,377	26,377
Foreign exchange rate differences	-9	216	224
<b>Cash and cash equivalents at the end of the period</b>	<b>4,661</b>	<b>16,940</b>	<b>7,306</b>

## Certain Quarterly Financial Information

1 000 EUR	Mar-31 2018	Jun-30 2018	Sep-30 2018	Dec-31 2018	Mar-31 2019	Jun-30 2019
<b>Revenue, Gross Bookings &amp; Gross Profit</b>						
Revenue	4,788	5,689	13,435	11,333	9,829	9,395
Gross bookings	4,747	5,702	13,787	11,552	9,536	8,971
Gross Profit	2,761	3,273	7,410	7,850	5,580	5,670
<b>Operating profit and adjusted Operating Profit</b>						
Operating profit (loss)	-2,506	-2,448	-10,342	-1,618	-2,395	-1,100
Depreciation and amortization	70	70	772	742	736	737
IFRS 2 Share-based payments	371	371	371	371	347	-134
Adjusted operating profit (loss)	-2,065	-2,007	-9,199	-506	-1,312	-497
<b>As percentage of revenue</b>						
Gross Profit (%)	58%	58%	55%	69%	57%	60%
Operating profit margin (%)	-52%	-43%	-77%	-14%	-24%	-12%
Adjusted Operating Profit (%)	-43%	-35%	-68%	-4%	-13%	-5%
DAU	312,228	306,492	668,566	482,814	441,735	349,993
MAU	1,017,936	979,599	2,919,031	1,505,995	1,670,936	1,161,302
ARPDau (USD)	0.21	0.24	0.26	0.30	0.27	0.31
ARPDau (EUR)	0.17	0.20	0.22	0.27	0.24	0.28



## Notes to the Financial Statements

### Change in tangible and intangible assets

#### Intangible assets

EUR thousand	Goodwill	IT Software	IT Trademarks	Capitalized development costs	Other intangible assets	Total
<b>2018</b>						
Cost at January 1	3,344	262	61	2,540	4,298	10,505
Additions	-	-	-	3,229	-	3,229
Cost at December 31	3,344	262	61	5,769	4,298	13,734
Accumulated amortization and impairment at January 1	-	-85	-28	-	-272	-385
Amortization	-	-42	-9	-	-60	-111
<b>Accumulated amortization and impairment at June 30</b>	-	-127	-37	-	-332	-496
<b>2019</b>						
Cost at January 1	3,344	262	61	7,505	4,299	15,471
Additions	-	-	-	1,375	-	1,375
Cost at June 30	3,344	262	61	8,880	4,299	16,847
Accumulated amortization and impairment at January 1	-	-170	-44	-578	-988	-1,780
Amortization	-	-42	-4	-578	-625	-1,250
<b>Accumulated amortization and impairment at June 30</b>	-	-212	-48	-1,156	-1,613	-3,030
<b>Net book amount at:</b>						
30.6.2018	3,344	134	24	5,769	3,967	13,238
30.6.2019	3,344	49	13	7,724	2,686	13,817
31.12.2018	3,344	92	17	6,927	3,311	13,691

#### Property, Plant & Equipment

EUR thousand	Land and buildings	Machinery and equipment	Total
<b>2018</b>			
Cost at January 1	1,009	336	1,345
Additions	1,295	124	1,419
Business combinations	-	2	2
<b>Cost at June 30</b>	2,304	462	2,766
Accumulated depreciation and impairment at January 1	-891	-180	-1,071
Depreciation	-	-30	-30
<b>Accumulated depreciation and impairment at June 30</b>	-891	-209	-1,100
<b>2019</b>			
Cost at January 1	7,991	587	8,577
Additions	19	-	19
<b>Cost at June 30</b>	8,010	587	8,597
Accumulated depreciation and impairment at January 1	-1,565	-279	-1,844
Depreciation	-677	-58	-735
<b>Accumulated depreciation and impairment at June 30</b>	-2,242	-337	-2,579
<b>Net book amount at:</b>			
30.6.2018	1,413	253	1,666
30.6.2019	5,768	250	6,018
31.12.2018	6,426	308	6,734

## Related Party Transactions

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

Next Games related party transactions includes normal business transactions with license partners (AMC). Transactions are normal in Next Games business model and are following arm's length principle.

## Mergers and Acquisitions

There were no mergers or acquisitions during the reporting period.

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***NEXT GAMES***<sup>TM</sup>