CONSOLIDATED SEMI-ANNUAL REPORT

THE HUUUGE, INC. GROUP
for the six-month period ended June 30, 2023

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Disclaimer

This constitutes the semi-annual report for the six-month period ended June 30, 2023 (the "Semi-Annual Report") prepared in accordance with the Regulation of the Minister of Finance of March 29, 2018 on current and periodic information published by issuers of securities and the conditions for recognizing information as equivalent required by the law of a non-member state. This Semi-Annual Report should be read in conjunction with the interim condensed consolidated financial statements for the six-month period ended June 30, 2023 prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Since the separate data for Huuuge, Inc. and the consolidated data for the Huuuge Group are similar (trends are maintained for individual balance sheet and result items), the Board of Directors and Management perform and present a joint analysis for the separate and consolidated data.

Unless implied otherwise in this Semi-Annual Report, the terms "we" or the "Group", refer to the Company together with all of its subsidiaries and the term the "Company" or "Issuer", refers to Huuuge, Inc.

Unless indicated otherwise, references to statements as to beliefs, expectations, estimates and opinions of the Company or its management refer to the beliefs, expectations, estimates and opinions of the Company's Board of Directors.

Certain arithmetical data contained in this Semi-Annual Report, including financial and operating information, have been rounded. Therefore, in certain instances, the sum of the numbers in a column or a row in tables contained in this Semi-Annual Report may not conform exactly to the total figure given for that column or row.

Industry and Market Data

This Semi-Annual Report may include market share and industry data that we obtained from various third-party sources, including publicly available information concerning global social gaming industries. The information in this Semi-Annual Report that has been sourced from third parties has been accurately reproduced with reference to these sources in the relevant paragraphs and, as far as we are aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information provided inaccurate or misleading. Where third-party information has been sourced in this Semi-Annual Report, the source of such information has been identified. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. To the extent these industry publications, surveys and forecasts are accurate and complete, we believe we have correctly extracted and reproduced the information from such sources. Additionally, industry publications generally state that the information contained therein has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed and in some instances state that they do not assume liability for such information. We cannot therefore assure you of the accuracy and completeness of such information, and we have not independently verified such information.

In addition, in many cases, statements in this Semi-Annual Report regarding our industry and our position in the industry are based on our experience and our own investigation of market conditions. Comparisons between our reported financial or operational information and that of other companies operating in our industry using this information may not fully reflect the actual market share or position in the market, as such information may not be defined consistently or reported for all companies from our industry in line with how we define or report such information in this Semi-Annual Report.

While we are not aware of any mis-statements regarding the industry data presented herein, our estimates involve certain assumptions, risks and uncertainties and are subject to change based on various factors.

Key Performance Indicators

Certain KPIs included in this Semi-Annual Report, including DAU, MAU, DPU, MPU, ARPDAU, ARPPU and Monthly Conversion, are derived from management estimates, are not part of our financial statements or financial accounting records and have not been audited or otherwise reviewed by independent auditors, consultants or experts.

Our use or computations of these KPIs may not be comparable to the use or computations of similarly titled measures reported by other companies in our industry, by research agencies or by market reports. For that reason, comparisons using this information may not be reliable. Other companies, research agencies or market reporters may include other items or factors in their calculation of similar metrics and may use certain estimates and assumptions that we do not use when calculating these metrics. These factors may cause the calculations by others of similar metrics to differ substantially from our calculations if their methodologies instead were used to calculate our KPIs. The KPIs are not accounting measures, but management believes that each of these measures provides useful information concerning the usage and monetization patterns of our games, as well as the costs associated with attracting and retaining our players. None of the KPIs should be considered in isolation or as an alternative measure of performance under IFRS, and their inclusion in this Semi-Annual Report does not mean that the Issuer will continue to report these KPIs in the future.

Forward-looking statements

The Semi-Annual Report includes forward-looking statements, which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets," "believes," "expects," "aims," "intends," "will," "may," "anticipates," "would," "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond our control that could cause our actual results of operations, financial condition or prospects to materially differ from any of those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we currently operate and will operate in the future. These forward-looking statements speak only as at the date of the Semi-Annual Report. We have no obligation and have made no undertaking to disseminate any updates of or revisions to any forward-looking statements contained in this Semi-Annual Report unless we are required to do so under the applicable laws.

Investors should be aware that several important factors and risks may cause our actual results of operations to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

President's Letter

Dear Shareholders,

I am delighted to present to you our comprehensive report, showcasing the extraordinary progress we have achieved in the first half of 2023. In both the last quarter and in the first half of the year, our adjusted EBITDA nearly doubled in comparison to the previous year, setting yet another all-time high in adjusted EBITDA profitability. This milestone marks an unparalleled achievement for Huuuge.

In an industry that is continually adapting to evolving macro and market dynamics, the revenue of the Social Casino category, as reported by Eilers & Krejcik, exhibited a modest decline of 1.2% quarter-over-quarter in Q2 2023 (and 1.6% for the trailing 12 months ending June 30, 2023). In this ever-changing landscape, our foremost operational priority is the continued generation of cash flow and the sustained vitality of our core franchises. A noteworthy example of our commitment to this is the recent upgrade to our Huuuge Casino game economy, which was rolled out in early August. Initial indications are promising, and we anticipate that it will enhance revenue stability and predictability, enabling us to establish higher engagement baselines with our core franchises Huuuge Casino and Billionaire Casino.

We are also intensifying our efforts in VIP engagement and further elevating the player experience. The Huuuge Casino studio dedicated Q2 2023 to the development of a new Loyalty Program, which was launched in August to an enthusiastic reception, leading to positive feedback and improvements in key performance indicators. Furthermore, we are broadening our direct-to-consumer offerings, which currently constitute approximately 6% of our revenue according to our most recent monthly data. This initiative strengthens our direct connection with players, enhancing customer relationships and bolstering our business margins.

In response to paybacks exceeding our expectations, we have marginally increased our core marketing expenditure in Q2 2023. We intend to progressively augment our user acquisition spending in the coming months while upholding our rigorous payback discipline. The increased marketing budget, combined with the new game economy and loyalty program, is anticipated to drive a reversal in topline trends during the upcoming quarter.

Investing into our future with "Huuuge Pods", we have established small agile teams that continue to diligently work on the development of new games. We understand that success with new games takes time - it is a multi year plan and we are at an early stage. We anticipate bringing several projects to test markets in the coming year and if any of these establish commercial viability, we will prudently increase marketing investment to support these games.

Regarding market development, we identify compelling opportunities in the realm of skill gaming. In a broader sense, Huuuge is actively exploring avenues for M&A, partnerships, publishing, and licensing where our existing assets and core competencies, including our brand, audience, and expertise, can be leveraged to maximum effect.

We firmly believe that our strategic actions, focus on cash generation and core business principles, and our capital allocation decisions, exemplified by the recently completed and settled share buyback (SBB), will be met with appreciation from our valued shareholders. To me, these actions symbolize the substantial potential and upside that we are poised to deliver in the months and years ahead.

As always, we greatly value your feedback and support. We continue to work towards serving more players globally and we hope you'll enjoy playing together with Huuuge.

Best regards,

Anton Gauffin
President and CEO of Huuuge, Inc.

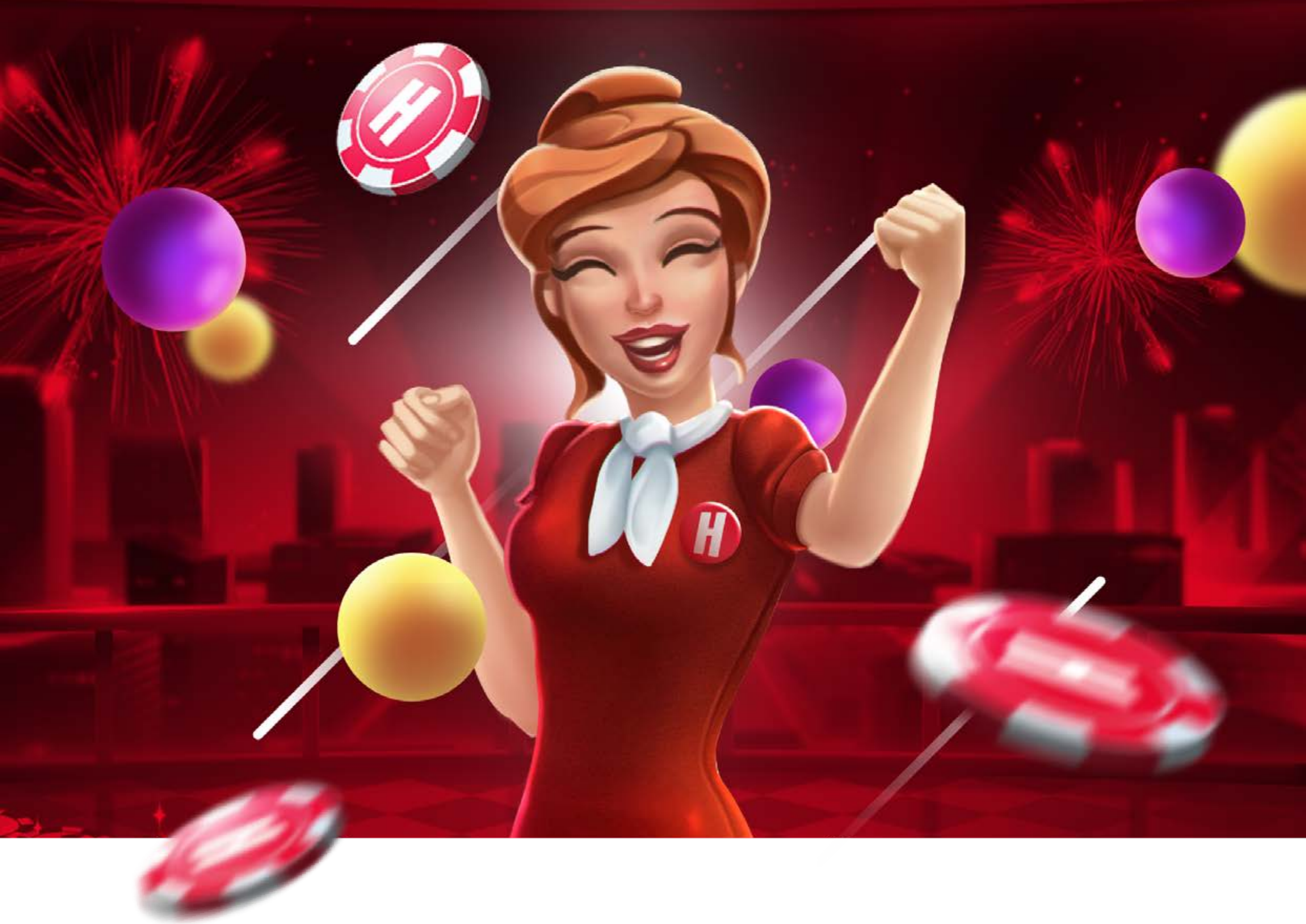
Anton Gauffin

Selected financial data

in thousand USD	USD H1 2023	USD H1 2022	EUR H1 2023	EUR H1 2022	PLN H1 2023	PLN H1 2022
Revenue	140,934	163,427	130,408	149,319	603,449	691,828
Operating profit (loss)	48,902	21,859	45,250	19,972	209,388	92,535
Pre-tax profit (loss)	52,469	20,715	48,550	18,927	224,661	87,692
Net profit (loss)	44,104	17,563	40,810	16,047	188,844	74,349
Net cash flows from operating activities	37,391	26,267	34,598	24,000	160,100	111,195
Net cash flows from investing activities	2,628	(26,722)	2,432	(24,415)	11,253	(113,121)
Net cash flows from financing activities	(1,985)	(16,217)	(1,837)	(14,817)	(8,499)	(68,651)
Total net cash flows	38,034	(16,672)	35,193	(15,233)	162,854	(70,577)
Cash and cash equivalents at the end of period	259,587	188,217	239,539	180,251	1,066,020	843,683

	USD H1 2023	USD H1 2022	EUR H1 2023	EUR H1 2022	PLN H1 2023	PLN H1 2022
Weighted average number of shares	79,418,767	81,918,361	79,418,767	81,918,361	79,418,767	81,918,361
Earnings per share basic (EPS)	0.56	0.21	0.52	0.19	2.40	0.89
Earnings per share diluted (EPS)	0.55	0.21	0.51	0.19	2.35	0.89

	EUR H1 2023	PLN H1 2023	EUR H1 2022	PLN H1 2022
Average exchange rate for the reported period	1.0807	0.2335	1.0945	0.2362
Exchange rate at the end of the reported period	1.0837	0.2435	1.0442	0.2231



Management report on the activities of the capital group

1. General information

Business profile

Huuuge, Inc. (the “Company”, “Huuuge”) is registered in the United States of America. Huuuge’s registered office is located in Dover, Delaware, 850 New Burton Road, Suite 201, DE 19904. The Company was established on February 11, 2015.

MISSION

Empower billions of people to play together

VISION

Transform mobile gaming into a massively social experience

Huuuge is a global game developer and publisher on a mission to build the world’s most social real-time, free-to-play mobile games portfolio. We strive to become the global leader in real-time free-to-play casual gaming, we aim to redefine the experience to give maximum joy and fun to players all around the world. Huuuge’s games provide entertainment every month to millions of players from 195 countries and are available in 17 languages. Huuuge shares have been listed on the Warsaw Stock Exchange since February 2021.

Key products

Huuuge develops and publishes games that are easy to play, great for small breaks and longer sessions alike, and designed around our social-first, “play together” ethos. The social-first nature of our games is based primarily upon the ability of our players to chat, play and compete with one another in-game and in real time. The concept of playing together with others is central to the Group’s approach to game design. We are one of the market leaders in implementing real-time multiplayer mechanics at scale in social casino games.

Our core franchises are Huuuge Casino and Billionaire Casino. Together, they generated 96% of Huuuge’s total revenues in Q2 2023. Our new franchises generated 4% of total revenues and include different titles at various stages of their life cycle.

Huuuge Casino: The game was launched in June 2015. It is Huuuge’s flagship title, responsible for 63% of total Q2 2023 revenue and for almost USD 1.2 billion in lifetime revenue. Huuuge Casino was a true pioneer with its mobile-first user experience and real-time PvP-style gameplay. We believe that it was the first social casino game to introduce features such as clubs to the realm of social casino games. Huuuge Casino offers players over 100 casino slot machines, as well as card games and roulette. The game enables players to join a club and compete in a Billionaire League, with multiplayer slots where they can play with friends and compete against each other. Huuuge Casino is ranked #22 (Apple App Store) and #12 (Google Play) among social casino apps in the United States in terms of revenue as at June 30, 2023.

Billionaire Casino: The game was launched in October 2016. Its revenue has grown rapidly since its release. It has achieved over USD 560 million of lifetime revenue and constitutes 32% of our total Q2 2023 revenues. Due to its aesthetic, which is different from that of Huuuge Casino, Billionaire Casino is targeted at a different player base in terms of demographics. Similarly to Huuuge Casino, Billionaire Casino offers players casino slot machines, as well as card games and roulette. Billionaire Casino allows players to create a club with their friends or join a club and meet new people while playing slot machines. In addition, the game allows players to participate in club events by playing slots and other casino games. Billionaire Casino is ranked #31 (App Store) and #26 (Google Play) among social casino apps in the United States in terms of revenue as at June 30, 2023.

New titles

In Q1 2023, we created four small internal teams, called "Pods", responsible for agile prototyping and development of new games. All four Pods have continued their development works throughout Q2 2023. Their exploration is focused on new games with attributes that play to our strengths and reflect market conditions, namely:

- Multiplayer games with natural word-of-mouth distribution
- Games with highly shareable moments
- Socially-oriented long-term retention drivers
- Games with high accessibility and universal appeal
- Language and platform agnostic.

We need to acknowledge the market reality and go beyond just mobile – several titles are being developed with launch as PC Steam free-to-play games first and then potentially mobile free-to-play. We understand that success with new games takes time - it is a multi year plan and we are at an early stage. We anticipate bringing several projects to test markets in the coming year and if any of these establish commercial viability, we will prudently increase marketing investment to support these games.

Shares and shareholding structure

The Company's outstanding share capital currently consists of: (i) 84,246,695 common shares with a nominal value of USD 0.00002 each and (ii) two Preferred Shares (Preferred Shares are not admitted to trading on the WSE).

To the best of the Company's knowledge, as of the date of publication of this Semi-annual Report, the shareholders holding directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Issuer's general meeting are presented in the table below.

Shareholder	Shares	% of share capital	Votes	% of votes at the General Meeting
Anton Gauffin (through Big Bets OÜ)[1]	20,290,922	30.23	20,290,922	32.30
Raine Group (through RPII HGE LLC)[1]	8,571,525	12.77	8,571,525	13.65
Nationale-Nederlanden FUNDS	5,688,696	8.47	5,688,696	9.06
Others[2]	32,573,635	48.53	28,259,424	44.99
Total[3]	**67,124,778**	**100.00**	**62,810,567**	**100.00**

[1] Includes one Preferred Share
[2] Includes 4,314,211 treasury shares, which carry no voting rights (as of September 6, 2023)
[3] 84,246,695 shares were introduced to public trading on the Warsaw Stock Exchange. Moreover, two shares of the Company are Preferred and have not been introduced to public trading.

Each holder of common shares, as such, and each holder of Preferred Shares, is entitled to one vote for each Common Share or Preferred Share, respectively. There are no restrictions on the exercise of voting rights. Unless otherwise expressly required by law or stipulated in the Certificate of Incorporation, the holders of common shares and Preferred Shares vote together as a single class on all matters submitted to a shareholder vote. The Certificate of Incorporation and the Bylaws do not stipulate any restrictions on the transfer of ownership of the Company's securities.

Treasury Shares

As at December 31, 2022, the Company held 5,063,182 treasury shares.

On March 5, 2023 the Huuuge, Inc. Board of Directors approved the allocation of up to 439,835 treasury shares (all of which have been exercised and allocated) for the purpose of satisfying exercise requests from participants of the share option plan.

As at March 31, 2023, the Company held 4,623,347 treasury shares.

On June 19, 2023, the Huuuge, Inc. Board of Directors approved the allocation of up to 309,136 treasury shares (all of which have been exercised and allocated) for the purpose of satisfying exercise requests from participants of the share option plan.

As of June 30, the Company held 4,314,211 treasury shares. The nominal value of all retained shares is USD 87. These shares represent approximately 5.1% of the share capital.

On July 4, 2023 (as announced in our Current Report 25/2023) The Company settled the Share Buyback (SBB). As a result of the settlement of the acquisition and transfer of ownership of the shares offered in response to a time-limited invitation to submit to the Company sale offers relating to shares in the Company, at a pre-determined and fixed price per share, open to all shareholders of the Company (the "Invitation") (the "SBB") announced by the Company on 30 May 2023 in the current report n° 19/2023 (as subsequently amended and announced by the Company in current report n° 23/2023 on 19 June 2023), the Company acquired 17,121,919 of its common shares that represent 20.32% of the share capital of the Company and that entitled their holders to exercise 21.42% of the total number of votes at the general meeting of the Company for a total consideration of USD 149,999,996.

On August 29, 2023, in accordance with Section 243 of the Delaware General Corporation law, the Board of Directors adopted a resolution on the retirement of 17,121,919 shares of common stock (as announced in our Current Report 37/2023). The retirement is effective as of the adoption of the resolution by the Board of Directors.

As of September 6, the Company holds 4,314,211 treasury shares. The nominal value of all retained shares is USD 87. These shares represent approximately 6.4% of the share capital.

Number of shares held by the members of the Board of Directors

The table below presents, to the best of the Company's knowledge, the shares and outstanding stock options held directly or indirectly by the Company's Board of Directors as at the date of publication of this Semi-Annual Report.

Members of the Company's Board of Directors	Function	Common Shares	Outstanding Stock Options
Anton Gauffin (through Big Bets OÜ)[1]	Chief Executive Officer & Executive director	20,290,922	425,000
Henric Suuronen	Non-executive director	1,673,610	-

[1] Anton Gauffin also holds one Series B Preferred Share through Big Bets OÜ.

The remuneration of Mr. Anton Gauffin, holding the positions of the President and Chief Executive Officer of the Company, for the period ending at the 2022 Annual General Meeting of the Company, consisted solely of 500,000 share options, out of which 75,000 had a vesting condition to provide the service continuously for about four years from the service commencement date and to meet 2021 EBITDA target. These options were forfeited in 2022 as the performance condition was not met. All options can be exercised at a price of PLN 50, i.e., the price of the Company's shares in the initial public offering.

The vesting conditions for the options are the following:

- 50,000 options with a vesting condition to provide the service continuously for about four years from the service commencement date. The Group's management expects Mr. Anton Gauffin to fulfill the service condition.
- 375,000 options with a variable vesting period due to the market condition, i.e., condition to meet the Company's market capitalization milestones. The Group's management estimated that a total of six years of continuous service from the service commencement date will be required for options to vest.

Similar to other share-based payments in the Group, for this program, staged vesting applies, i.e., each installment has a different vesting period and is treated as a separate award with a different vesting period.

Principles for the preparation of the interim condensed consolidated financial statements

The interim condensed consolidated financial statements as at and for the six-month period ended June 30, 2023 have been prepared in accordance with the IAS 34 Interim Financial Reporting as adopted by the European Union.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended December 31, 2022 prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Changes in the organization of the Capital Group

No changes were made to the Group structure in H1 2023.

The following Group entities entered into voluntary liquidation in 2022, and liquidation remains pending. Operations of these entities (individually and in total) were not significant in the Group's activity:
Huuuge Labs GmbH (Germany)
MDOK GmbH (Germany)
Coffee Break Games United Limited (Ireland)
Huuuge Mobile Games Limited (Ireland)

2. Risk factors

Determination and concise naming of the most important occurring or possible events or phenomena threatening or affecting the implementation of the goals of Huuuge Group

Risk assessment determines the probability and impact of a risk in relation to selected scenarios (based on the causes and results indicated in the risk analysis). The assessment is performed on the basis of defined scales. The descriptions included therein are of an auxiliary nature and, in the case of any doubts, the ranking of the assessment shall have priority.

Risk evaluation compares the risk value against previously adopted criteria, as well as identifying risks requiring the implementation of mitigation plans.

At the time of the publication of this report, the following material risk factors have been identified. However, the risk factors and uncertainties described below by the Group are not the only risk factors the Group faces. Additional risks and uncertainties that the Group is not aware of or currently considers to be insignificant may also have a significant adverse effect on the business, financial condition and operational results and prospects of the Group.

If we are unable to successfully attract new players or if we lose our current players, our business could be negatively affected. We rely on purchases from a small percentage of our players for nearly all of our revenue. If we are unable to entice players to make in-app purchases or engage with our games in ways that generate revenue, our business could be negatively affected.

Our business depends on developing and publishing mobile games that players download and spend time and money playing. The nature of our industry is that we develop and test hundreds of ideas and games, but subsequently focus only on the titles or features that exhibit the most promising key performance indicators (KPIs). Only a handful of our games make it to soft launch and even fewer progress to full launch and scaling. We cannot guarantee that high-quality games, even if favorably reviewed by players, will become "hits." Our new games may also attract players away from our existing games, especially when they provide similar gameplay features with an upgraded user interface or new social elements. Furthermore, we cannot ensure that new features or upgrades to our existing games will attract new players or allow us to retain existing ones.

The growth of our business largely depends upon our ability to attract new players to our existing and new games, as well as on retaining existing players of our games. Our success in doing so is conditional in part on unpredictable and volatile factors beyond our control, including customer preferences, competing games, the popularity of other forms of entertainment and economic conditions adversely affecting consumer spending. Achieving growth in our community of players may also require us to increasingly engage in sophisticated and costly sales and marketing efforts that may not result in additional players.

Currently (H1 2023), we derive 99% of our revenue from in-app purchases. As our games are available to players for free, we generate revenue from them only if they make in-app purchases above and beyond the level of free features provided as part of the game, e.g., they purchase virtual currency beyond the amount made available for free, or if they otherwise engage with our games in ways that generate revenue. Our games also contain in-app purchases relating to items other than virtual currency, such as “passes” granting players access to features such as mini games. If we fail to offer games that entice players to make in-app purchases, or if we fail to properly manage the economics of free versus paid currency, or if we fail to entice players to engage with our games in ways that generate revenue, this could materially and adversely affect our business, operating results and financial condition.

We rely on a small percentage of our players for nearly all of our revenue. However, we lose paying players in the ordinary course of business, and they may stop making purchases in our games or playing our games altogether at any time. In order to sustain or increase our revenue levels, we must attract new paying players or increase monetization across the current player base. To retain paying players, we must devote significant resources, for example in the areas of marketing and data analytics, in order to individualize offers provided to our players so that the games they play retain their interest and attract them to our other games.

Revenue concentration in a small number of games

The majority of our revenue is generated by a small number of our games, and this could negatively affect our business. We expect that this concentration will continue in the future. For example, our most popular games generating the highest revenue are Huuuge Casino and Billionaire Casino. These top two franchises historically have contributed the majority of our revenue, accounting for 95% of our revenue in H1 2023. If we are unable to diversify our portfolio of games in the long run, or to increase the popularity and improve the monetization of our existing games or the games we develop in the future, it could have a material adverse effect on our business, operating results and financial condition.

Dependence on third parties’ services

We rely, to varying degrees, on a number of third-party vendors, service providers and game developers, as well as strategic partners, to efficiently operate our business, develop games and meet the expectations of our players. In particular, some elements of the provision and distribution chain of our gaming services are operated by third parties we do not control and that it would take significant time to replace. This dependence is expected to continue.

Any adverse changes in our existing arrangements with these third parties, including an inability to fulfill their obligations in a timely manner or an inability to enter into or renew arrangements on favorable terms, if at all, could reduce the quality, revenue or availability of our games. Changes to third parties’ policies or terms of service could also negatively impact our ability to offer our existing or future games or could restrict the availability of certain features.

Disruption of IT infrastructure, networks and systems and IT gaps

We rely on information technology infrastructure, networks and systems that are important to the operation of our business. We use such infrastructure, networks and systems to operate our games and to manage and secure our business and data, particularly with respect to internal communications, controls, reporting, and relations with suppliers.

Some of these infrastructure, networks and systems are managed or provided by third parties. These third parties are typically under no obligation to renew agreements relating to such infrastructure, networks and systems, and there is no guarantee that we will be able to renew these agreements on commercially reasonable terms, or at all. In addition, our information technology infrastructure, networks and systems, including those operated by third parties, may experience breaks, suspensions or stoppages of service, or we may experience system crashes in connection with system integration or migration work. Any disruption or failure in these infrastructure, networks and systems could adversely affect the availability of games, slow them down or otherwise disrupt the functionality or operations of the relevant business.

As a result of technological advancements, our IT infrastructure may become outdated or inadequate for our business needs. If we are unable to keep our systems and infrastructure current with industry standards and with evolving technologies, our operations or growth may be impeded.

Undetected errors, bugs or vulnerabilities

Our games and other software applications and systems, as well as the third-party platforms upon which they are made available, could contain undetected errors, bugs or vulnerabilities that could adversely affect the performance of our games, some of which may only be detected after the code has been released for external or internal use. For example, errors, bugs or other types of defects could prevent our players from making in-app purchases, harm the overall game-playing experience for our players, delay game introductions or enhancements, cause measurement errors, result in our games being non-compliant with applicable laws or create legal liability for us. We have experienced some of these issues in the past, including lags in gameplay, in-app purchase errors, game data corruption and problems with players' access to our games. We resolved most of these issues in a timely manner, but we cannot guarantee that we will be able to do so in the future. Moreover, resolving such errors, bugs or other vulnerabilities could disrupt our operations or cause us to divert resources from other projects.

Failure to successfully pursue or implement new business initiatives

In order to grow our business, we need to evaluate, consider and effectively implement new business initiatives. Management may not properly ascertain or assess the risks associated with these new initiatives and subsequent events may arise that would render our initial assessment of the economic merits of a particular initiative uneconomic.

Moreover, the market of new technologies is one that is developing rapidly. Therefore, we conduct ongoing monitoring of new technologies and IT solutions in order to quickly adapt to the solutions introduced to the market. The failure to analyze or implement new technologies may result in a loss of competitiveness in the market, which could have a negative impact on our operating activities and financial results.

Business acquisitions and the integrating of acquired operations, as well as the strategic options review process, could divert the attention of our management and otherwise disrupt our operations or limit our growth.

As a part of our strategy, we may in the future explore, and have in the past carried out, acquisitions to strengthen our market position in selected game genres and grow our game development talent. We intend to use the net proceeds from the new shares sold in the initial public offering, which took place in February 2021, primarily to finance extraordinary growth events such as potential acquisitions, if the opportunity arises. We cannot guarantee we will be able to identify acquisition targets that help us to achieve our growth strategy, or that the transactions we have planned will be completed or prove to be successful or accretive. In addition, acquisitions and integration processes, as well as the work related to the strategic options review, could divert our management's attention from other business concerns and also lead to the use of resources that are needed in other parts of our business.

Real or perceived inaccuracies in our performance metrics

We track certain performance metrics, such as Installs, DAU, DPU, ARPDAU, ARPPU, Monthly Conversion. Our performance metrics tools have a number of limitations, and our methodologies for tracking these metrics may change over time, which could result in unexpected changes to our metrics, including those we report. If our performance metrics are not accurate representations of our business, player base or traffic levels, if we discover material inaccuracies in our metrics, or if those we rely on to track our performance do not provide an accurate measurement of our business, we may fail to obtain an accurate understanding of the performance of our business, our reputation may be significantly harmed or we may lose the confidence of players, analysts or business partners, and this could adversely affect our business, operating results and financial condition.

Ineffective protection of our intellectual property

Intellectual property rights are an essential element of our business. We rely on a combination of different intellectual property rights, such as trademarks, patents and copyrights relating to our games, and proprietary or confidential information that is not subject to formal intellectual property protection.

While we create internally most of the intellectual property that we use, we also license intellectual property such as, in particular, games (as a whole) and software development kits ("SDKs") from third parties. In particular, our games use SDKs provided by, among others, Facebook and Google. We also purchase or license, in whole or in part, photos, videos and audio used in our games from third parties, including Shutterstock and Envato. We rely on licenses for all of our third-party publishing.

Despite our efforts to protect our owned and licensed intellectual property, unauthorized parties may attempt to copy or otherwise obtain and use our technology, games or brands. There is a risk that the actions we take will not be sufficient to protect our owned and licensed intellectual property. Furthermore, our use of third-party intellectual property may inadvertently violate the rights of third parties, and therefore we could become subject to infringement claims, which we already occasionally face.

Third-party intellectual property rights may limit our development

We need to continuously adapt our games to incorporate new technologies. If such technologies are protected by the intellectual property rights of our competitors or other third parties, we may be prevented from introducing games based on these technologies or expanding into markets or platforms created by these technologies.

We license SDKs that may be integrated into our own products and that are required to, among other purposes, allow our players to connect their game accounts with their social media ones. If the owners of these SDKs, such as Google and Facebook, change the license terms in a manner that limits our ability to use the SDKs or integrate with their platforms, our business, operating results and financial condition may be adversely affected.

We also use open-source software in our games and expect to continue to do so. Some open-source software licenses require users who distribute open-source software to publicly disclose all or part of the source code to such software or make available any derivative works of the open-source code on unfavorable terms or at no cost. In addition, provisions of various open-source licenses have not been interpreted by courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or limitations on our use of the open-source software. If our use of open-source software is not in compliance with a particular license, we may be required to release our proprietary source code, pay damages for breach of contract, re-engineer our games or products, discontinue distribution in the event that re-engineering cannot be accomplished in a timely manner, or take other remedial action that may entail additional expenses or limit our activities.

Ineffective protection of confidential information

Our management and key employees have access to sensitive confidential information relating to our business, such as insights about strategic developments, business case planning and core technology. In the event that competitors, third parties or the general public gain access to such confidential information, whether on purpose or by accident, our market position could be materially weakened.

We could be the target of cyber-attacks, piracy, database security breaches and hacking

Our industry is prone to – and our games, systems and networks are subject to – cyber-attacks, viruses, worms, phishing attacks, malicious software, break-ins, theft, computer hacking, employee error or malfeasance, or other security breaches that may exploit, damage or disrupt the functioning of our games, networks or technological infrastructure. Physical locations where our IT infrastructure is located, as well as our hardware, may also be subject to break-ins, theft or damage.

Any security breach or incident that we experience could result in unauthorized access to, misuse of or unauthorized acquisition of our data or that of our players, the loss, corruption or alteration of this data, interruptions to our operations, unavailability or malfunctioning of our games, or damage to our computers or systems or those of our players or third-party platforms. Furthermore, third parties, such as hosted solution providers or third-party platform operators that provide services to us, could also be a source of security risks in the event of the failure of their own security systems and infrastructure.

As threats related to cyber-attacks develop and grow, we may also find it necessary to make further investments to protect our data and infrastructure.

Unauthorized operators may develop “hacks” or other types of “cheating” software enabling players to alter the intended game play, to abuse or exploit the mechanics of our games and thereby obtain unfair advantages in our games, or otherwise obtain virtual currency or other benefits available in our games. These may have a negative impact on the volume of in-app purchases and the amount of revenue we collect from players. In addition, such “hacks” or other similar vulnerabilities may result in increased costs of developing technological measures to respond to them.

The Russian invasion of Ukraine, and the associated developments on the international arena, could result in a heightened risk of cyber-attacks, which could affect our systems. We have taken action to analyze the impact of various types of cyber-attacks and have implemented additional security measures commensurate with the potential increase of such risk.

Fluctuations in foreign exchange rates and inflationary pressures could negatively impact our business

Our activities and businesses expose us to fluctuations in currency exchange rates between USD and other currencies, such as the Polish zloty and the euro. These fluctuations may reach significant levels during periods of increased market volatility related to, for example, the Russian invasion of Ukraine, the COVID-19 pandemic, or other events increasing uncertainty in the global economy. See also “Factors affecting our results.”

Our performance may also be affected by inflationary pressures and their impact on consumer spending patterns, which could result in decreased spending on leisure and entertainment and thereby negatively impact our revenues.

Our success and continued growth are heavily reliant on the experience and talent of our managers and skilled employees

The successful operation of our businesses, as well as the successful implementation of our strategy, is dependent on the experience of our managers and key personnel. Due to the specifics of the industry we operate in, we are dependent on our highly skilled, technically trained and creative employees, whose high competences and knowledge translate into the development of new technologies and the creation of innovative games. The loss of any of these individuals could harm our business. Competition for employees, particularly game designers, engineers and project managers with desirable skill sets, is intense, and we devote significant resources to identifying, hiring, training, successfully integrating and retaining these employees.

Our future success depends in part on our ability to retain highly qualified managers active in the mobile games industry who have had a significant impact on our development, as well as on our ability to attract and retain skilled employees able to effectively operate our business. We cannot guarantee that we will be able to attract and retain such managers or skilled employees in the future, and the costs associated with retaining them may impact our profitability or financial results.

Changes in tax laws or tax rulings, or the examination of our tax position, could materially affect our financial condition and results of operations

We are subject to complex tax legislation in the various countries in which we operate. In particular, given the international scope of our business and our structure, we are subject to rules on transfer pricing. Moreover, GAAR and the focus of tax regulations on real business substance may have an increasing impact on international taxation.

For example, we sell services or use intellectual property through legal entities that must necessarily procure these services or license such intellectual property within a group. Therefore, we perform numerous intercompany transactions. The jurisdictions in which we operate generally have transfer pricing regulations that require transactions involving related parties to be undertaken on properly documented arm’s-length terms and conditions. If the tax authorities in a particular jurisdiction do not regard intra-group transactions as being made on a properly documented arm’s-length basis and successfully challenge such transactions, or otherwise adopt a differing approach on the attribution of revenue or profits between our various group entities, the amount of tax payable by the relevant member or members of our group, in respect of both current and previous years, may increase, and we may be subject to penalties or fines or required to make interest payments.

In addition, we provide services whose price is subject to direct and indirect taxes in various countries, such as value added tax. The complexity of our business model may complicate the understanding of the legal obligations in the relevant tax application. We may also be subject to double taxation in jurisdictions with multiple tax authorities or incompatible tax regimes. In addition, applicable tax rates could increase. A significant increase in value added tax rates could negatively affect our activity, especially customer demand, which could have a material adverse effect on our business, operating results and financial condition.

Changes in tax treaties, laws, rules or interpretations or the outcome of tax audits could have an adverse effect on our business. The tax laws and regulations in the jurisdictions in which we operate may be subject to change; for example, a substantial amendment may be introduced to the taxation of digitized companies. New tax laws or regulations may be introduced with or without retroactive effect and there may be changes in the interpretation and enforcement of such tax laws or regulations.

If the relevant tax authority challenges our tax position, through audits or otherwise, and is successful, our effective tax rate may increase, and we may be required to pay additional taxes, penalty charges and interest, and we may incur costs in defending litigation or reaching a settlement with the relevant tax authority. We could be liable for amounts that are either not covered by or are in excess of our established reserves. Any of the foregoing situations could have an adverse effect on our business, operating results and financial condition.

Competition in the gaming industry

The gaming industry, which includes social casino games and from which we derive the majority of our revenue, is considered to be a highly competitive and rapidly evolving industry with low barriers to entry. We are experiencing, and are likely to experience in the future, competition from other developers and publishers in the gaming category. Our competitors range from established interactive entertainment companies to emerging start-ups, and we expect new competitors to continue to emerge globally.

Our operations depend on third-party platforms used to offer our games

Our social gaming offerings operate mainly through Apple's App Store, Google's Play Store and Facebook, which also serve as significant online distribution platforms for our games and provide us with valuable information and data. Consequently, our operations depend on our continued relationships with these providers and any emerging platform providers that are widely adopted by our target player base.

We are subject to the standard terms and conditions that these platform providers have for application developers, which govern the promotion, distribution and operation of games and other applications on their platforms and which the platform providers can change on a discretionary basis and unilaterally at short notice or without notice.

Moreover, Internet-connected devices and operating systems controlled by third parties increasingly contain features that allow device users to disable functionality that allows for the delivery of advertising on their devices, including through Apple's Identifier for Advertising or IDFA or, for Android devices, Google's Advertising ID or AAID. Device and browser manufacturers may include or expand these features as part of their standard device specifications. If players elect to utilize the opt-out mechanisms in greater numbers, our ability to deliver effective targeted advertisements would suffer, which could adversely impact our revenues from in-game advertising (currently less than 2% of Huuuge's overall revenue).

In addition, new regulations and increased focus on data protection may result in changes to the data protection policies of the platform providers, which we will be required to implement. We cannot exclude the possibility that our games, in particular social casino games, will be targeted by other limitations introduced by either third-party platform providers or our advertising and marketing partners and concerning, among other things, user acquisition and advertising revenue.

Changes in third-party platforms' classification of or approach towards social casino games or certain game features (such as "loot boxes" or similar features) could restrict the availability of our games or of certain game features on those platforms or to users in certain jurisdictions.

If similar events occur and we are unable to address them effectively, or if other similar issues arise that impact players' ability to download our games, access social features or purchase virtual currency, it could have a material adverse effect on our business, operating results and financial condition.

We operate in an industry characterized by an evolving and partially unclear regulatory environment

Generally, social gaming, including but not limited to social casino games, is not explicitly regulated in the markets where we operate; however, as the mobile and online game industry evolves, so too are regulations evolving, and, as a result of this evolution, as well as possible changes in the approach of legislators, regulators and courts, we cannot exclude the possibility that our activities could be regulated in ways that could adversely affect our business.

In some jurisdictions, there is growing opposition from regulators, public interest groups and/or media towards mobile and online gaming, including social casino games or social gaming, as well as towards specific in-game features, such as loot boxes. Such opposition could lead these jurisdictions to adopt legislation or impose or enforce an existing regulatory framework to govern mobile and online gaming more broadly (e.g., impacting social gaming) or more specifically (e.g., targeting in-game features such as loot boxes). Alternatively, jurisdictions or regulators could seek to apply laws that we do not believe are applicable to our games to certain types of games we offer or to games containing certain features or characteristics.

Courts may also interpret or apply laws in a manner adverse to us, notwithstanding the position taken by the relevant gambling authority, and this may compromise our ability to continue to offer our games in particular jurisdictions.

We believe that our games do not constitute gambling in the jurisdictions in which we operate, particularly due to the free access and lack of monetary rewards; however, we cannot exclude the possibility that gambling regulators, judicial or similar authorities in certain jurisdictions will interpret the applicable existing or new laws in a manner classifying our games as gambling or requiring that certain in-game features (e.g., features that are deemed to be "loot boxes") be limited or excluded. If any authority issues such an interpretation, we may face enforcement action on the basis of that interpretation. Moreover, if our games are considered to be gambling in jurisdictions that prohibit online gambling, we may be forced to cease offering our top-grossing games in such jurisdictions. If our games are classified, for regulatory purposes, in a manner differing from the manner in which we view them, we may also be barred from promoting those games via third-party platforms (such as the AppStore or Facebook.)

There is a risk that further legislative or regulatory developments could curtail our offering of games in certain jurisdictions, result in a prohibition on mobile or online gaming in the jurisdictions in which we operate, restrict our ability to advertise our games, allow our players to claim damages related to the use of our games, raise consumer protection claims, substantially increase the cost of complying with the applicable regulations, or subject us to fines or other regulatory actions, any of which could have an adverse effect on our business, operating results and financial condition. Finally, the increased public scrutiny of social casino games and loot boxes could result in reputational damage to ourselves and to the industry, deter players from participating in our games, generate negative publicity, or deter financial institutions and other third-party partners and suppliers from cooperating with us.

We could be subjected to sanctions or other penalties for data privacy and/or data security breaches

We collect, process, store, use and share personal information and other data in order to develop new games, offer products and features to players and to analyze the effectiveness of our marketing channels. Our business is therefore subject to a number of laws and regulations governing data privacy and security (including with respect to the collection, storage, use, transmission, sharing and protection of personal information and other consumer data), that are applicable in various jurisdictions. Such laws and regulations may be inconsistent between countries or conflict with other rules.

Any failure or perceived failure by us to comply with our posted privacy policies, our privacy-related obligations to players or other third parties – or with any other legal obligations or regulatory requirements relating to privacy, data protection or information security – may result in governmental investigations or enforcement actions, litigation, claims or public statements against us by consumer advocacy groups or others and could result in significant liability, cause our players to lose trust in us and otherwise materially and adversely affect our reputation and business.

Furthermore, the costs of complying with – and bearing other burdens imposed by – the laws, regulations and policies that are applicable to us may limit the adoption and use of – and reduce the overall demand for – our games. Additionally, if third parties we work with violate applicable laws, regulations or agreements, such violations may put our players' data at risk, could result in governmental investigations or enforcement actions, fines, litigation, claims or public statements against us by consumer advocacy groups or others and could result in significant liability, cause our players to lose trust in us and otherwise materially and adversely affect our reputation and business. Further, public scrutiny of, or complaints about, technology companies or their data handling or data protection practices, even if unrelated to our business, industry or operations, may lead to increased scrutiny of technology companies, including us, and may cause government agencies to enact additional regulatory requirements or to modify their enforcement or investigation activities, which may increase our costs and risks.

Operating in multiple jurisdictions and locations

Although the US is our most significant market in terms of revenue, we generate revenue across multiple jurisdictions, and our users originate from a large number of jurisdictions worldwide. Our main operations, including game development operations, are located in Poland. We operate offices in different cities worldwide, including Tel Aviv, Israel; Limassol, Cyprus; Amsterdam, Netherlands; Helsinki, Finland; and London, UK.

Our operations in multiple jurisdictions could subject us to additional risks customarily associated with such operations, including: the complexity of laws and regulations in different jurisdictions and markets; ambiguity or inconsistency resulting from conflicts-of-laws; the uncertainty of enforcement of remedies in various jurisdictions; the effect of currency exchange rate fluctuations; the impact of various labor laws and disputes; the ability to attract and retain key personnel in different jurisdictions; the economic, tax and regulatory policies of local governments; compliance with applicable anti-money-laundering, anti-bribery and anti-corruption laws, including the Foreign Corrupt Practices Act and other anti-corruption laws that generally prohibit US persons and companies and their agents from offering, promising, authorizing or making improper payments to foreign government officials for the purpose of obtaining or retaining business; and compliance with applicable sanctions regimes regarding dealings with certain persons or countries. Moreover, foreign jurisdictions could impose tariffs, quotas, trade barriers and other similar restrictions on our international sales.

Our international business operations could be interrupted and negatively affected by terrorist activity, political unrest or other economic or political uncertainties. We operate in locations that are regularly affected by such events, including Tel Aviv.

The Russian invasion of Ukraine might present obstacles to our collaboration with entities located in Ukraine with which we have commercial relationships. We are constantly reviewing the circumstances affecting our partners and taking available and appropriate measures to mitigate the potential impact on our operations, as well as to assist our partners where possible. The international sanctions imposed on Russia may also have an impact on our operations, which at the date of publication of this report we do not expect to be materially adverse. Finally, an escalation of the war in Ukraine could potentially impact the operations of our offices in Poland, and we are therefore constantly monitoring the situation with a view to taking any necessary mitigation steps to ensure the safety of our teams and the continuity of operations.

Legal proceedings may materially adversely affect our business and our results of operations, cash flows and financial condition

Huuuge operates in a highly regulated and litigious environment. We have and may become involved in legal proceedings, including litigation, arbitration and other claims, and investigations, inspections, audits, claims, inquiries and similar actions. Legal proceedings, in general, can be expensive and disruptive. Some of these suits are class actions and/or involve parties seeking large and/or indeterminate amounts, including punitive or exemplary damages, and may remain unresolved for several years. Player use of our games is subject to our privacy policy and terms of service. If we fail to comply with our posted privacy policy, terms of service or similar agreements, or if we fail to comply with applicable privacy-related or data protection laws and regulations, this could result in litigation, proceedings or investigations against us by governmental authorities, players or others, which could result in fines or judgments against us, damage our reputation or goodwill, impact our financial condition and harm our business.

Huuuge cannot predict with certainty the outcomes of any legal proceedings and other contingencies, and the costs incurred in litigation can be substantial, regardless of the outcome. As a result, we could from time to time incur judgments, enter into settlements or revise our expectations regarding the outcome of certain matters, and such developments could harm our reputation and have a material adverse effect on our results of operations in the period in which the amounts are accrued and/or our cash flows in the period in which the amounts are paid. In addition, as a result of the ongoing legal proceedings, Huuuge may be subject to damages, civil fines, or other sanctions. Additionally, defending against these lawsuits and proceedings may involve significant expense and diversion of management's attention and resources.

Our shareholders' rights under Delaware law differ from shareholder rights under Polish law

The Company is a Delaware corporation, and therefore its structure and operating procedures and the relationships between shareholders are governed by the laws of the State of Delaware and US federal laws, including US securities laws.

The principles underlying these laws differ from those underlying Polish law in many respects. Therefore, the rights of our shareholders are in many instances different from those of shareholders of Polish companies.

3. Risk Management

Risk factors are identified on the basis of the implemented risk management system. The organization's risk management process has been formally established based on its Risk Management Policy.

The risk management process includes:
- risk identification;
- risk analysis (description and assessment);
- risk evaluation;
- risk mitigation;
- risk monitoring and reporting.

The most important goals of the Risk Management System include:
- identification, analysis, assessment and evaluation of risks;
- improvement of the company wide approach to risk management;
- ensuring comparability of risks occurring in different areas of the organization using common risk methodology;
- linking the operational and strategic levels of risk management;
- reducing the frequency of adverse incidents;
- improvement of risk response, i.e., preparation for adverse incidents and minimization of losses caused thereby.

All employees of the organization are involved in the risk management process. The most important functions are performed by the Board of Directors, Audit Committee, Executive Management, Risk Committee, Risk Officer and Risk Owners.

Furthermore, all management areas outsourced outside the organization are described internally from a risk-management perspective. In exceptional cases, it is possible to place the responsibility for risk management coordination externally, with the consent of the Risk Committee.

4. Significant achievements or failures and unusual events significantly affecting the financial statements

Completion of a Share Buyback

On July 4, 2023 (as announced in our Current Report 25/2023) we settled the Share Buyback (SBB). As a result of the settlement of the acquisition and transfer of ownership of the shares offered in response to a time-limited invitation to submit to the Company sale offers relating to shares in the Company, at a pre-determined and fixed price per share, open to all shareholders of the Company (the "Invitation") (the "SBB") announced by the Company on 30 May 2023 in the current report n°. 19/2023 (as subsequently amended and announced by the Company in current report n° 23/2023 on 19 June 2023), the Company acquired 17,121,919 of its common shares that represent 20.32% of the share capital of the Company and that entitled their holders to exercise 21.42% of the total number of votes at the general meeting of the Company for a total consideration of USD 149,999,996. The settlement of the SBB took place on 4 July 2023 (the "Settlement Date") outside the organized system of trading in financial instruments through IPOPEMA Securities S.A. The acquisition was made at a gross price of USD 8.7607. Amounts due to investors, after withholding of applicable taxes, have been converted from USD to PLN in accordance with the interbank exchange rate applicable as of 3 July 2023 (as the day preceding the Settlement Date), which is 4.0735. On August 29, 2023, in accordance with Section 243 of the Delaware General Corporation law, the Board of Directors adopted a resolution on the retirement of 17,121,919 shares of common stock (as announced in our Current Report 37/2023). The retirement is effective as of the adoption of the resolution by the Board of Directors.

Group reorganization and focus on efficiency

We made significant changes in our operating setup throughout Q1 2023, namely:

- We sunset the Traffic Puzzle studio and put the game in maintenance mode. Part of the TP team stayed with the company and formed one of our new Pods (teams focused on prototyping and building new games);
- We reorganized and downsized our Marketing department to match our lower spend on performance marketing and our shift in focus. (We are exploring other channels such as influencer marketing and brand marketing.);
- We concluded the collective redundancies at Huuuge Games sp. z o.o. and reduced our headcount across our other subsidiaries as well.

As a result of the above initiatives, our headcount at the Group level is now ~22% lower than the level at the end of 2022. H1 2023 costs related to the headcount reductions amounted to USD 1,640 thousand. We have also streamlined and flattened our organizational structure, having merged our Technology and Content teams into the Huuuge Casino Studio.

We are actively looking at reducing complexity and improving processes across the whole organization, both in our core revenue-generating activities and in supporting functions.

5. Factors affecting our results

Core franchises continue to exhibit high profitability

We have witnessed another quarter of QoQ decline in our Core franchises' user base and a single-digit QoQ decline in Core revenue in Q2 2023. Although sales profit in our core portfolio slightly decreased QoQ (as well as sales profit margin), it still remained close to the levels observed over the past several quarters and was significantly higher YoY. Continued cash generation and longevity of the core franchises are our operational priority. We also continue to expand our direct-to-consumer offering (Webshop), which allows us to further improve our margins.

Creating of Pods and new approach to new game development

In Q1 2023 we created four small internal teams, called "Pods", responsible for agile prototyping and development of new games. All four Pods have continued their development works throughout Q2 2023. Their exploration is focused on new games with attributes that play to our strengths and reflect market conditions, namely: (1) Multiplayer games with natural word-of-mouth distribution; (2) Games with highly shareable moments; (3) Socially-oriented long-term retention drivers; (4) Games with high accessibility and universal appeal; (5) Language and platform agnostic. We need to acknowledge the market reality and go beyond just mobile – several titles are being developed with launch as PC Steam free-to-play games first and then potentially mobile free-to-play. We understand that success with new games takes time - it is a multi year plan and we are at an early stage. We anticipate bringing several projects to test markets in the coming year and if any of these establish commercial viability, we will prudently increase marketing investment to support these games.

Mobile gaming and social casino market environment

As far as market dynamics are concerned, Eilers & Krejcik estimate that the social casino market declined 1.2% QoQ in Q2 2023 (and grew +0.3% YoY). The long-term forecast (last revised in Q2 2022) remained unchanged, with the social casino market expected to decline at a 0.2% CAGR in 2022-25E (with a USD 7.4 billion market by 2025). Eilers & Krejcik forecast the category to decline by 0.2% YoY in 2023.

User Acquisition expenses and post-IDFA mobile advertising market update

User acquisition expenses were adapted to support the post-IDFA reality, such that budgets have been shifted to partners with better post-change performance, and overall spend has been reduced, with a focus instead on monetizing and retaining our large captive audience. Additionally, we have focused on driving greater profitability through other initiatives, such as rolling out an expanded VIP program and moving to new payment channels (Webshop). From a marketing perspective, we have increasingly focused on how we do things, making measurement and a single source of truth central to our goals. Leveraging technology to drive adoption of new measurement methods such as incrementality has become crucial to operating a successful marketing organization. We have slightly increased our overall UA spend QoQ, both for our Core franchises and for Traffic Puzzle, where the marketing spend is still largely immaterial and focused mostly on retargeting inactive players. Core franchise paybacks have slightly exceeded our expectations and we plan to continue increasing our marketing spend in the coming quarters, while maintaining strict payback level discipline.

Expected tax reforms & changes in tax law / tax law interpretations
In 2021, the debate on international taxation focused on the concepts of digital taxation and minimum taxation. The course of the debate also impacted the shape of the income tax reform in the United States that commenced in 2021. Among other things, we see the following changes in US taxation as potentially affecting the Group: (i) the increase in the federal corporate tax rate; (ii) revisions to the global intangible low-taxed income (GILTI), and (iii) lower deduction against the global minimum tax in Internal Revenue Code Section 250. The discussed changes in the GILTI rate or the GILTI calculation mechanism may negatively impact the Group's effective tax rate (ETR). Taking into account currently available information, the most impactful changes may be implemented starting from 2024, according to General Explanations of the Administration's Fiscal Year 2024 Revenue Proposals. The implementation of these rules in their current form would negatively impact the global effective tax rate of the Group and may have a negative impact on our financial results.

6. Key Performance Indicators

When evaluating our business, we consider the KPIs presented and discussed in this section. Each of these KPIs is defined below:

- **Daily Active Users (DAU):** DAU is defined as the number of individual users who played a game on a particular day. In order to more accurately reflect reality, we identify the users based on (human) ID (HID) rather than device ID. That allows us to eliminate the double counting of individuals playing games on multiple devices. The ability to identify and analyze actual players rather than accounts allows for substantially greater accuracy, including better in-game targeting of offers (the right offer, to the right person, at the right time), better retargeting capabilities and better predictive models. Average DAU for a period is the average of the monthly average DAU for the period. It is not a KPI that we internally use as an objective (we focus primarily on the number of paying users – e.g., DPU).

- **Daily Paying Users (DPU):** DPU is defined as the number of players (active users) who made a purchase on a given day.

- **Average Revenue per Daily Active User (ARPDAU):** ARPDAU is defined as average revenue per daily active user. ARPDAU for a period is calculated by dividing gross revenue (i.e., before deduction of platform fees) for the period by the number of days in the period and then dividing by the average DAU for the period.

- **Daily Average Revenue per Paying User (ARPPU):** ARPPU is defined as average revenue per paying user on a given day. It is calculated by dividing gross revenue from in-app purchases (i.e., before deduction of platform fees) for the period by the number of days in the period and then dividing by the average DPU for the period. ARPPU for the period is calculated by dividing IAP revenue for the period by the number of days in the period and then dividing by the average DPU for the period.

- **Monthly Payer Conversion (Monthly Conversion):** Monthly Conversion is defined as the percentage of MAU (the number of individual users who played a game during a particular month) that made at least one purchase in a month during the same period.

Our revenue is principally driven by DAU, ARPPU and conversion rates. We monitor our user acquisition costs using measures such as ROAS (Return On Ad Spend), but, given that these metrics are commercially sensitive, we do not disclose or discuss them in this report.

In Q1 2023, we re-classified some legacy games that are no longer actively supported and generate immaterial revenue. In previous reports we have presented them as “New franchises”, while they have now been moved to the “Other” category. In order to ensure apples-to-apples comparability of data, the charts and tables below reflect a new layout for past periods as well. As for our “Core franchises”, the KPI data remains unchanged vs prior reports.

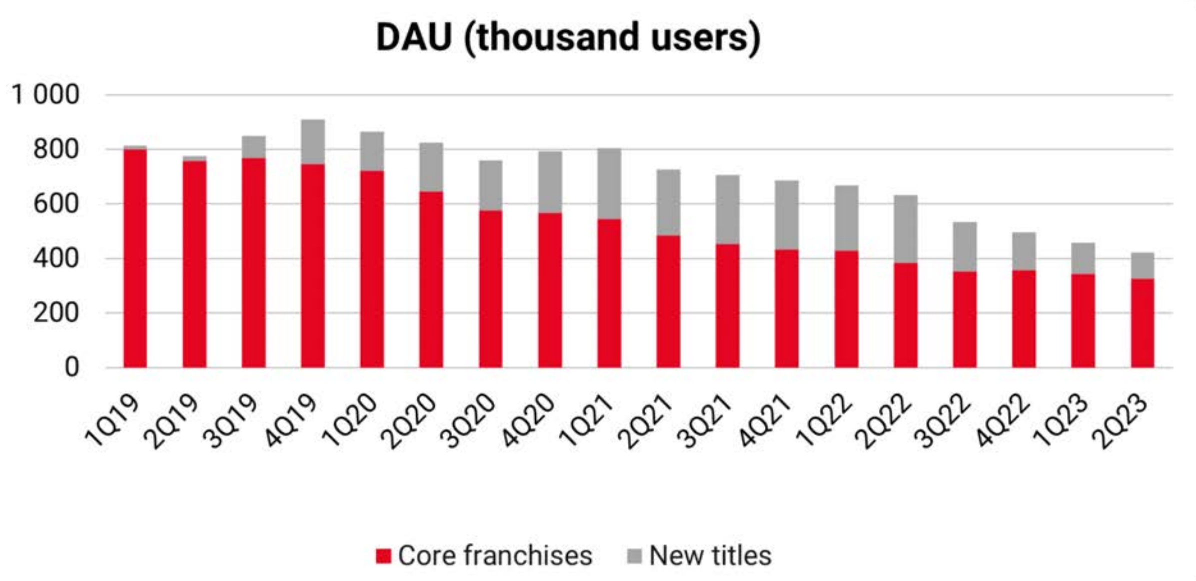
The table below presents our KPIs for Q2 2023 and Q2 2022 for the Group and “core franchises,” i.e., Huuuge Casino and Billionaire Casino.

	All games		**Core franchises Huuuge Casino and Billionaire Casino**	
KPI	**Q2 2023**	**Q2 2022**	**Q2 2023**	**Q2 2022**
DAU (in thousands)	426.0	672.0	326.6	384.4
DPU (in thousands)	16.3	23.1	14.8	18.1
ARPDAU (in USD)	1.77	1.29	2.21	2.00
ARPPU (in USD)	45.6	36.1	49.0	42.4
Monthly Conversion (%)	8.0	5.5	10.1	9.2

In addition, below we present a more detailed quarterly overview of our selected KPIs.

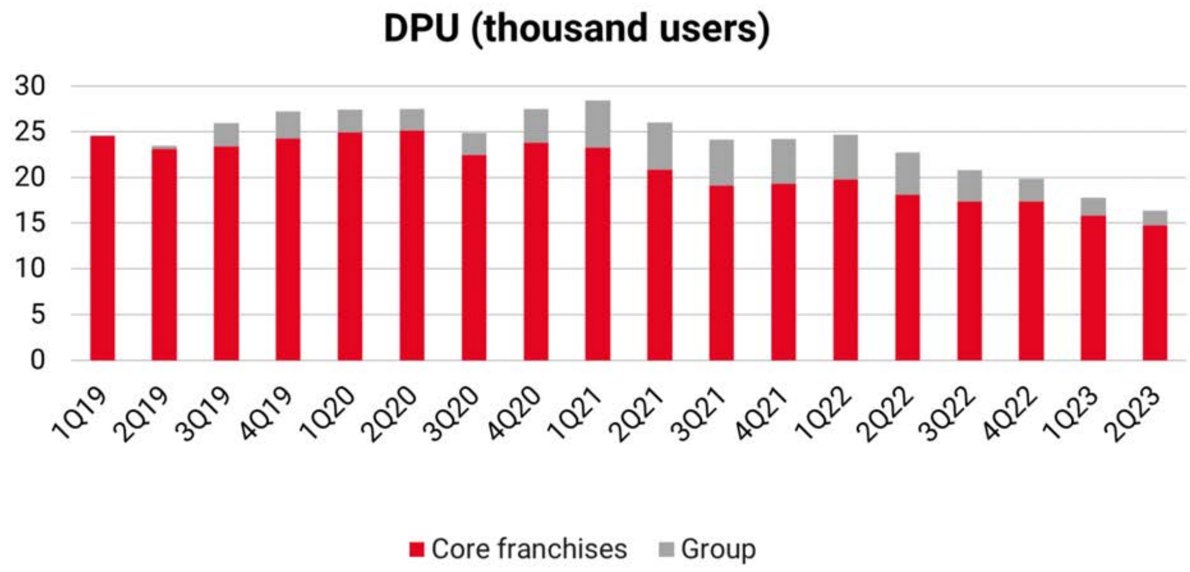
Daily Active Users

In Q2 2023, we observed a decline YoY and QoQ in DAU for our core franchises and new franchises. The downward trend in DAU for Core franchises reflects primarily our lower user acquisition expenses and broader social casino market trends. New titles' decline in DAU (-62% YoY and -17% QoQ) was connected with user acquisition spend on Traffic Puzzle gradually declining throughout the past several quarters and ultimately the game moving to maintenance mode with no active support.



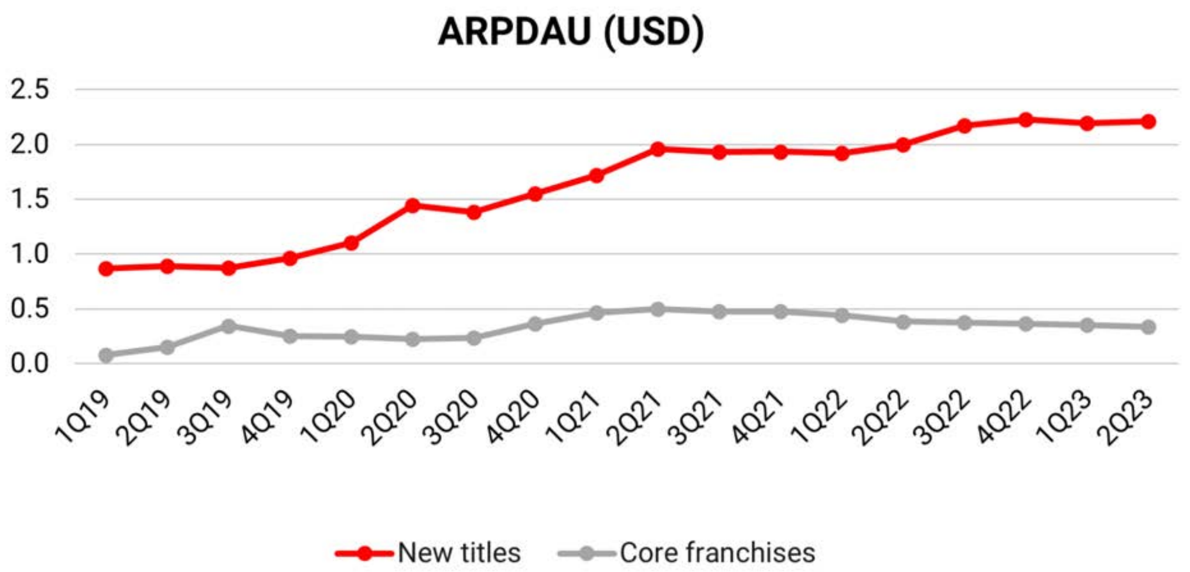
Daily Paying Users

In Q2 2023, we saw a 29% YoY and 8% QoQ decrease in the overall number of DPUs. Core franchise DPUs declined by 18% YoY and 7% QoQ, as a result of the decline in overall DAU. The DPUs of our new franchises (primarily Traffic Puzzle) decreased by 66% YoY and 18% QoQ, following the decline in TP user base.



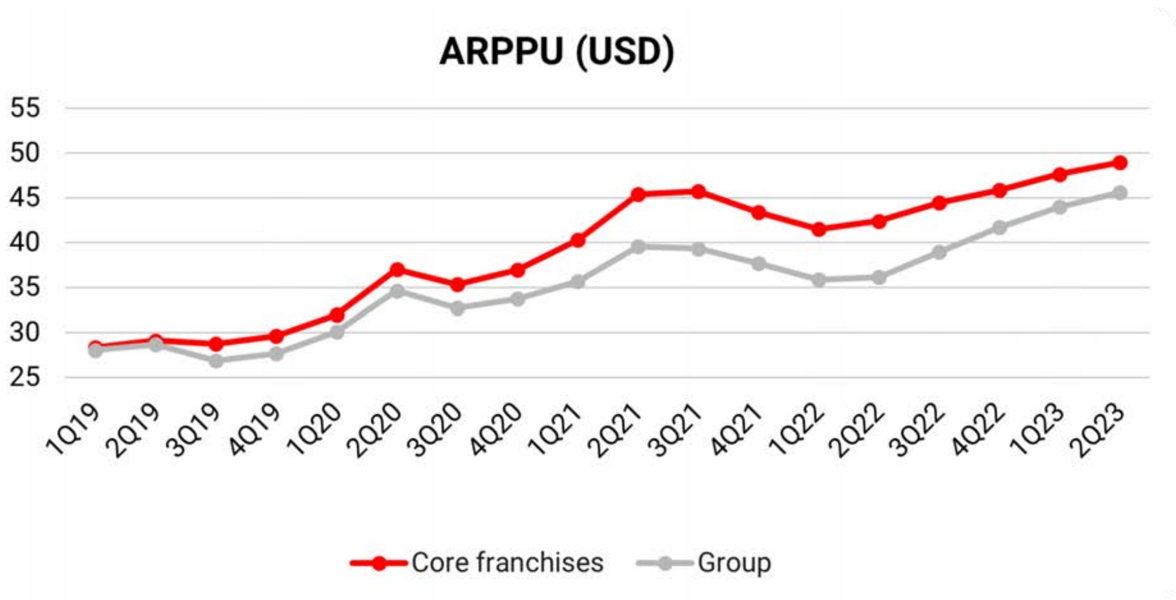
Average Revenue per Daily Active User

ARPDAU indicates how well we monetize our games, taking into account our whole player base. Thanks to our competences in marketing, as well as our technology, we have seen over the long run a sustained growth in the monetization of our core games, i.e., Huuuge Casino and Billionaire Casino. These two games continued to exhibit ARPDAU rates exceeding the category averages, and we saw further improvement in this KPI in Q2 2023 both on a YoY and QoQ basis, which was driven by higher ARPPU in that period. At the same time, the ARPDAU of new titles declined by 13% YoY and 6% QoQ, with Traffic Puzzle having the largest impact on our portfolio.



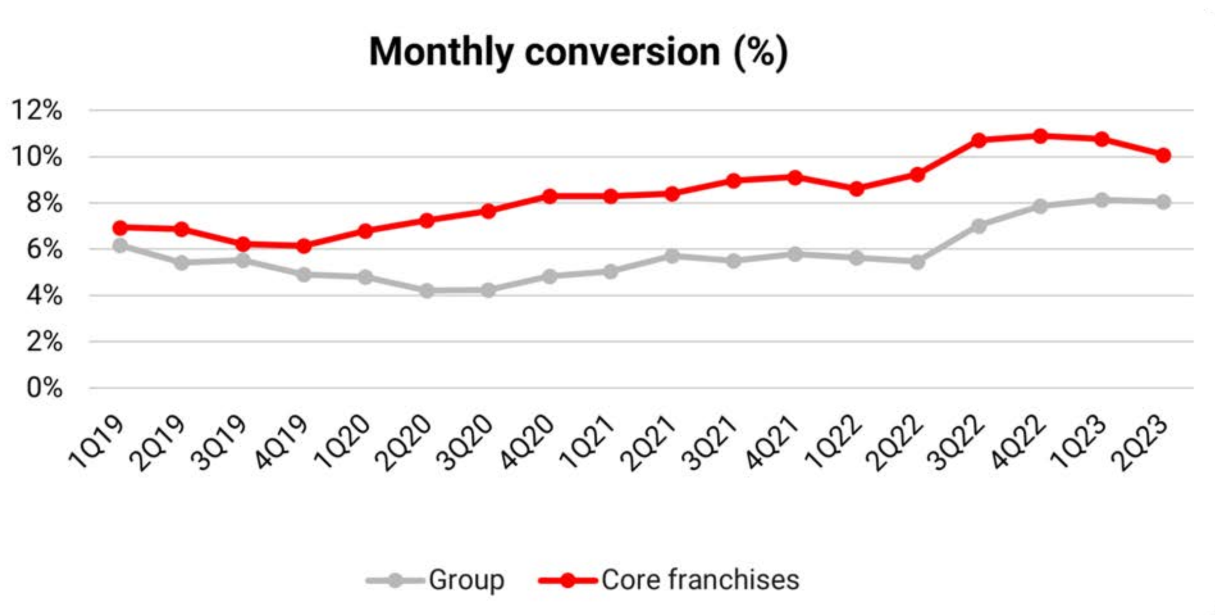
Daily Average Revenue per Paying User

In recent years, we have been able to consistently improve the ARPPU of our core franchises owing to the social features of our games and to our constant focus on live events and special offers. Core franchises ARPPU increased 16% YoY and 3% QoQ, reaching new record high levels. The latest trends observed in ARPPU prove that our loyal, paying customer base keeps enjoying our games and that we haven't reached a “monetization ceiling” yet.



Monthly Conversion

Monthly Conversion is an indicator of our ability to convert players into payers. Our core franchises' monthly conversion decreased slightly from 10.8% in Q1 2023 to 10.1% in Q2 2023, due to slightly less aggressive monetization ahead of preparations for the game economy upgrade. Total monthly conversion for the whole portfolio remained flattish (a decrease from 8.1% in Q1 2023 to 8.0% in Q2 2023).



7. Results of operations

The following table presents our consolidated statement of comprehensive income for the six-month periods ended June 30, 2023 and June 30, 2022.

in thousand USD	H1 2023	H1 2022	Change	Q2 2023	Q2 2022	Change
Revenue	**140,934**	**163,427**	**-13.8%**	**69,188**	**79,426**	**-12.9%**
Cost of sales	(41,444)	(49,499)	-16.3%	(20,308)	(24,026)	-15.5%
Gross profit/(loss) on sales	**99,490**	**113,928**	**-12.7%**	**48,880**	**55,400**	**-11.8%**
Sales and marketing expenses	(20,346)	(57,270)	-64.5%	(11,037)	(27,373)	-59.7%
user acquisition marketing campaigns	*(14,048)*	*(49,433)*	*-71.6%*	*(7,724)*	*(23,148)*	*-66.6%*
general sales and marketing expenses	*(6,298)*	*(7,837)*	*-19.6%*	*(3,313)*	*(4,225)*	*-21.6%*
Research and development expenses	(12,630)	(16,839)	-25.0%	*(5,449)*	(7,857)	-30.6%
General and administrative expenses	(17,979)	(18,233)	-1.4%	*(8,009)*	(9,182)	-12.8%
Other operating income/(expense), net	367	273	34.4%	*5*	198	-97.5%
Operating result	**48,902**	**21,859**	**123.7%**	**24,390**	**11,186**	**118.0%**
Finance income	3,729	145	>999.9%	2,141	-	n/a
Finance expense	(162)	(1,289)	-87.4%	(81)	(1,214)	-93.3%
Profit/(loss) before tax	**52,469**	**20,715**	**153.3%**	**26,450**	**9,972**	**165.2%**
Income tax	(8,365)	(3,152)	165.4%	(4,740)	(1,335)	255.1%
Net result for the period	**44,104**	**17,563**	**151.1%**	**21,710**	**8,637**	**151.4%**
Exchange gains/(losses)	966	(3,349)	n/a	538	(2,277)	n/a
Total comprehensive income for the period	**45,070**	**14,214**	**217.1%**	**22,248**	**6,360**	**249.8%**

The following tables show the Alternative Performance Measures used by us as at the dates and for the periods indicated, with a justification for their use. Please see below the definitions of the used measures and ratios.

in thousand USD	H1 2023	H1 2022	Change	Q2 2023	Q2 2022	Change
EBITDA	**53,589**	**27,073**	**97.9%**	**26,589**	**13,770**	**93.1%**
EBITDA *margin* (%)	38.0%	16.6%	21.4pp	38.4%	17.3%	21.1pp
Adjusted EBITDA	**55,106**	**28,092**	**96.2%**	**27,504**	**13,700**	**100.8%**
Adjusted EBITDA *margin* (%)	**39.1%**	**17.2%**	***21.9pp***	**39.8%**	**17.2%**	***22.6pp***
Sales Profit	85,442	64,495	32.5%	41,156	32,252	27.6%
Sales Profit *margin* (%)	60.6%	39.5%	21.1pp	59.5%	40.6%	18.9pp
User acquisition marketing campaigns as % of revenue	10.0%	30.2%	-20.3pp	11.2%	29.1%	-18pp
Adjusted Net Result	**45,621**	**18,582**	**145.5%**	**22,625**	**8,567**	**164.1%**
Adjusted Net Result (%)	**32.4%**	**11.4%**	**21pp**	**32.7%**	**10.8%**	**21.9pp**

EBITDA, **Adjusted EBITDA**, **EBITDA margin**, **Adjusted EBITDA margin**, **Sales profit**, **Sales profit margin**, **User acquisition cost as % of revenue** are supplemental measures of the financial and operating performance used by us that are not required by, or prepared in accordance with IFRS. These measures are prepared by us because we believe they provide a view of our recurring operating performance that is unaffected by our capital structure and allow us to readily view operating trends and identify strategies to improve operating performance and to assist investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are critical to our core operating performance. In evaluating these measures, you should be aware that, in the future, we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of these measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our use of each of these measures is as follows:

- We define **EBITDA** as the net result for the year adjusted for income tax, finance costs, finance income, and depreciation and amortization. The rationale for using the **EBITDA** is that it is a measure widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. **EBITDA** eliminates potential differences in performance caused by variations in capital structures (affecting finance costs and finance income), tax positions (such as the availability of net operating losses that offset taxable profits), the cost and age of property, plant and equipment (affecting the depreciation expense level) and the extent to which intangible assets are identifiable (affecting the amortization expense level).

- We define **Adjusted EBITDA** as **EBITDA** adjusted for events not related to the main activity of the Group and share-based payment expense. The rationale for using the **Adjusted EBITDA** is an attempt to show the **EBITDA** result after eliminating events not related to the main activity of the Group and items from the profit and loss account that are of a non-cash nature.

- We define **EBITDA margin** as the ratio of the **EBITDA** and Revenue. The rationale for using the **EBITDA margin** is that it is a measure of operational profitability widely used among securities analysts and investors, as well as the fact that **EBITDA** and **EBITDA margin** are internal measures used by us in the process of budgeting and management accounting.

- We define **Adjusted EBITDA margin** as the ratio of **Adjusted EBITDA** and Revenue. The rationale for using the **Adjusted EBITDA margin** is that it shows a measure of operating profitability after eliminating events not related to the main activity of the Group and items from the profit and loss account that are of a non-cash nature.

- We define **Sales Profit** (previously "Return on sales") as Gross profit/(loss) from the sales less the user acquisition costs. The rationale for using the **Sales Profit** is to show the profitability of sales in the value aspect after covering costs directly related to the generated revenue – mainly distribution costs (fees for owners of distribution platforms), server expenses and the user acquisition costs through paid advertising campaigns.

- We define **Sales profit margin** (previously "Sales margin") as the ratio of Sales profit to Revenue. The rationale for using the sales profit % is to show the profitability of sales as a percentage after covering variable costs directly related to the revenue generated – mainly distribution costs (fees for owners of distribution platforms), server expenses and the user acquisition costs through paid advertising campaigns.

- We define **User Acquisition cost as % of revenue** as the ratio of User acquisition costs to Revenue. The rationale for using the **User Acquisition cost as % of revenues** is to show how much of our revenue we reinvest directly in maintaining and expanding our player base. Historically, we used to include the total cost of external marketing and sales services in that measure, and, beginning from the full year 2020, we decided to narrow the ratio to track the reinvestment of user acquisition costs only. For comparative purposes, the values presented for prior periods have been recalculated accordingly.

- We define **Adjusted net result** as the net result for the year adjusted for events not related to the main activity of the Group, share-based payment expense and financial expenses related to the revaluation of the liability related to Series C preferred shares. The rationale for using the **Adjusted net result** is an attempt to show the Net result for the year after eliminating events not related to the main activity of the Group and items from the profit and loss account that are of a non-cash nature.

- We define **Adjusted net result %** as the ratio of the **Adjusted net result** to Revenue. The rationale for using the **Adjusted net result %** is to attempt to show the Net result for the year in percentage after eliminating events not related to the main activity of the Group and items from the profit and loss account that are of a non-cash nature.

The measures presented are not comparable to similarly titled measures used by other companies. We encourage you to review our financial information in its entirety and not to rely on a single financial measure.

Sales Profit and Sales Profit Margin

in thousand USD	H1 2023	H1 2022	Change	Q2 2023	Q2 2022	Change
Revenue	**140,934**	**163,427**	**-13.8%**	**69,188**	**79,426**	**-12.9%**
Gross profit/(loss) on sales	99,490	113,928	-12.7%	48,880	55,400	-11.8%
User acquisition marketing campaigns	14,048	49,433	-71.6%	7,724	23,148	-66.6%
Sales profit	**85,442**	**64,495**	**32.5%**	**41,156**	**32,252**	**27.6%**
Sales profit %	***60.6%***	***39.5%***	***21.1pp***	***59.5%***	***40.6%***	***18.9pp***

Adjusted EBITDA reconciliation

in thousand USD	H1 2023	H1 2022	Change	Q2 2023	Q2 2022	Change
Net result for the period	**44,104**	**17,563**	**151.1%**	**21,710**	**8,637**	**151.4%**
Income tax	8,365	3,152	165.4%	4,740	1,335	255.1%
Finance expense	162	1,289	-87.4%	81	1,214	-93.3%
Finance income	(3,729)	(145)	>999.9%	(2,141)	-	n/a
Depreciation and amortization	4,687	5,214	-10.1%	2,199	2,584	-14.9%
EBITDA	**53,589**	**27,073**	**97.9%**	**26,589**	**13,770**	**93.1%**
EBITDA Margin	**38.0%**	**16.6%**	**21.4pp**	**38.4%**	**17.3%**	**21.1pp**
Employee benefits costs – share-based plan[1]	970	1,019	-4.8%	915	(70)	n/a
Costs related to strategic options review	547	-	n/a	-	-	n/a
Adjusted EBITDA	**55,106**	**28,092**	**96.2%**	**27,504**	**13,700**	**100.8%**
Adjusted EBITDA Margin	**39.1%**	**17.2%**	**21.9pp**	**39.8%**	**17.2%**	**22.6pp**

[1] "Employee benefits costs – share-based plan" is a non-cash expense related to the Company's stock option plan and recognized in accordance with IFRS 2 Share-based Payment.

Adjusted Net Result

in thousand USD	H1 2023	H1 2022	Change	Q2 2023	Q2 2022	Change
Net result for the period	**44,104**	**17,563**	**151.1%**	**21,710**	**8,637**	**151.4%**
Employee benefits costs – share-based plan[1]	970	1,019	-4.8%	915	(70)	n/a
Costs related to strategic options review	547	-	n/a	-	-	n/a
Adjusted Net Result	**45,621**	**18,582**	**145.5%**	**22,625**	**8,567**	**164.1%**
Adjusted Net Result, %	**32.4%**	**11.4%**	**21pp**	**32.7%**	**10.8%**	**21.9pp**

[1] "Employee benefits costs – share-based plan" is a non-cash expense related to the Company's stock option plan and recognized in accordance with IFRS 2 Share-based Payment.

Revenue

Our revenue consists of revenue generated by in-app purchases in gaming applications and in-app advertising, as shown in the table below for the periods under review together with the percentage change over such periods.

in thousand USD	H1 2023	H1 2022	Change	Q2 2023	Q2 2022	Change
Gaming applications	138,957	156,955	-11.5%	68,331	76,387	-10.5%
Advertising	1,977	6,472	-69.5%	857	3,039	-71.8%
Total revenue	**140,934**	**163,427**	**-13.8%**	**69,188**	**79,426**	**-12.9%**

As a result of a decline in DAU and DPU driven by lower marketing spend, revenue generated by in-app purchases in gaming applications decreased by USD 17,998 thousand (i.e., 11.5%) from USD 156,955 thousand for the six months ended June 30, 2022 to USD 138,957 thousand for the six months ended June 30, 2023, while revenue generated by advertising decreased by USD 4,495 thousand (i.e., 69.5%) for the six months ended June 30, 2023 compared to the corresponding period of 2022. This is mostly due to the declining user base of Traffic Puzzle and of some previously discontinued games, as advertising revenue had a significantly higher share in total revenue as opposed to, for example, social casino games.

Below, we show the revenue analyzed in main product groups:

in thousand USD	H1 2023	H1 2022	Change	Q2 2023	Q2 2022	Change
Huuuge Casino	89,093	94,371	-5.6%	43,878	45,964	-4.5%
Billionaire Casino	44,998	49,867	-9.8%	22,217	24,304	-8.6%
Total core franchises	**134,091**	**144,238**	**-7.0%**	**66,095**	**70,268**	**-5.9%**
Traffic Puzzle	5,717	16,452	-65.3%	2,613	7,867	-66.8%
Other	1,126	2,737	-58.9%	480	1,291	-62.8%
Total new franchises	**6,843**	**19,189**	**-64.3%**	**3,093**	**9,158**	**-66.2%**
Total revenue	**140,934**	**163,427**	**-13.8%**	**69,188**	**79,426**	**-12.9%**
- including games developed by external developers based on publishing contracts	78	392	-80.1%	20	96	-79.2%

Revenue generated by our core games (i.e., Huuuge Casino and Billionaire Casino) decreased by USD 10,147 thousand (i.e., by 7.0%) for the six months ended June 30, 2023 compared to the corresponding period of 2022 and by 5.9% for Q2 2023 compared to the corresponding quarter of 2022. This was related to the decline in DPU, driven by a combination of lower marketing spend (fewer new players and payers) as well as churn of the existing payer base. Improvement in monetization metrics (namely ARPPU) did not fully offset the payer base decline. We also note that Q2 2023 core revenue declined by 2.8% compared to Q1 2023, indicating that the downtrend in revenue is slowing down.

With regard to Traffic Puzzle, revenue decreased by 10,735 thousand (i.e., by 65.3%) for the six months ended June 30, 2023 compared to the corresponding period of 2022 and by 66.8% for Q2 2023 compared to the corresponding quarter of 2022. This was driven by the user acquisition spend declining throughout 2022 and in H1 2023. Also, the game is in maintenance mode since early 2023 and no longer receives significant content updates other than minor bug fixes.

The significant decrease in Other revenue of 58.9% for the six months ended June 30, 2023 compared to the corresponding period of 2022 is a result of discontinued marketing spend and a number of these games having been put in maintenance mode (which also resulted in a drop in DAU).

Revenue was generated in the following geographical locations:

in thousand USD	H1 2023	H1 2022
North America	86,423	101,736
Europe	32,435	36,433
Asia-Pacific (APAC)	7,418	9,624
Other	14,658	15,634
Total revenue	**140,934**	**163,427**

North America (primarily the USA) remained the most important region from our revenue standpoint with 61% share in total in H1 2023 (vs 62% in H1 2022). Revenue generated in the United States amounted to 82,297 thousand in H1 2023 (96,808 thousand in H1 2022). With Europe contributing to 23% of total revenue in H1 2023 (22% in H1 2022) we can state that we have a slightly more diversified geographical footprint relative to the whole social casino category which tends to be even more US-centric.

Revenues through third-party platforms and through the Company's own direct-to-consumer offering were as follows:

in thousand USD	H1 2023	H1 2022
Third-party platforms	134,980	161,862
Direct-to-consumer platforms	5,954	1,565
Total revenue	**140,934**	**163,427**

Our own Direct-To-Consumer channel (Webshop) remains a strategic priority for the Company. In H1 2023 it accounted for 4.2% of total revenue (up from 1.0% in H1 2022). We continue to invest in this channel and expect this share to increase further - in Q2 2023 alone it exceeded 5% and grew even further in recent months. Rollout of the .com web version of HC and BC should further support our DTC expansion plans and we are already in the testing phase.

Operating expenses

The table below presents a breakdown of our operating expenses.

in thousand USD	H1 2023	H1 2022	Change	Q2 2023	Q2 2022	Change
Cost of sales	(41,444)	(49,499)	-16.3%	(20,308)	(24,026)	-15.5%
Sales and marketing expenses:	(20,346)	(57,270)	-64.5%	(11,037)	(27,373)	-59.7%
thereof, User acquisition marketing campaigns	(14,048)	*(49,433)*	-71.6%	*(7,724)*	*(23,148)*	*-66.6%*
thereof, General sales and marketing expenses	(6,298)	*(7,837)*	-19.6%	*(3,313)*	*(4,225)*	*-21.6%*
Research and development expenses	(12,630)	(16,839)	-25.0%	(5,449)	(7,857)	-30.6%
General and administrative expenses	(17,979)	(18,233)	-1.4%	(8,009)	(9,182)	-12.8%
Total operating expenses	**(92,399)**	**(141,841)**	**-34.9%**	**(44,803)**	**(68,438)**	**-34.5%**

Operating expenses for the six months ended June 30, 2023 decreased by USD 49,442 thousand (i.e., by 34.9%) compared to the three months ended June 30, 2022. This change resulted primarily from the decrease by USD 35,385 (i.e., by 71.6%) in User Acquisition Marketing Campaigns constituting a dominant part of the Sales and Marketing expenses, and it reflected our user acquisition strategy discussed in the User Acquisition and post-IDFA mobile advertising market update section.

The largest operating expenses item (i.e., cost of sales) for the six months ended June 30, 2023 decreased by USD 8,055 thousand (i.e., 16.3%) compared to the corresponding period of 2022 and by USD 3,718 thousand (i.e., 15.5%) for Q2 2023 compared to the corresponding quarter of 2022. This change is a combined effect of: (i) decrease in platform fees driven by the 11.5% decrease in revenue generated by in-app purchases in H1 2023 compared to H1 2022, (ii) the expansion of the direct-to-consumer webshop platform for our VIP players with significantly lower platform processing fees, and (iii) lower amortization costs of Traffic Puzzle game due to its partial impairment in Q4 2022.

General Sales and Marketing expenses for the six months ended June 30, 2023 decreased by USD 1,539 thousand (i.e., 19.6%) and by USD 912 thousand (i.e., 21.6%) for Q2 2023 compared to the corresponding period of 2022, which can be attributed primarily to a decrease in salaries and employee-related costs related to optimization of headcount in the Marketing department.

Research and Development expenses for the six months ended June 30, 2023 decreased by USD 4,209 thousand (i.e., 25.0%) and by USD 2,408 thousand (i.e., 30.6%) for Q2 2023 compared to the corresponding period of 2022. The decrease was mainly driven by (i) a decrease in ESOP expenses in Q1 2023 resulting mostly from the departure of some employees who had received equity grants in the previous periods, (ii) the decrease in salaries and employee-related costs driven by the headcount reductions, and (iii) a decrease in external developers' fees as a result of the increased focused on development of new games by internal teams.

Our General and Administrative expenses for the six months ended June 30, 2023 decreased slightly by USD 254 thousand (i.e., 1.4%) compared to the corresponding period of 2022 and by USD 1,173 thousand (i.e., 12.8%) for Q2 2023 compared to the corresponding quarter of 2022. This was driven primarily by a decrease in salaries and employee-related costs and by optimization of other costs (details can be found in Note 6 "Operating costs" in the Group's Interim Condensed Consolidated Financial Statements for the period).

Profitability

Despite the decrease in revenue, our sales profit increased by USD 20,947 thousand and the sales profit margin by 21.1pp for the six months ended June 30, 2023 compared to the corresponding period of 2022 and reached 60.6%, mostly as a result of a reduction in User acquisition marketing campaign expenses.

The adjusted EBITDA increased by USD 27,014 thousand and the adjusted EBITDA margin by 21.9pp in the six months ended June 30, 2023 compared to the corresponding period of 2022, mostly as a result of a similar increase in Sales Profit (as discussed above) and optimization in General Sales and Marketing as well as Research and Development expenses.

Finance income, net

in thousand USD	H1 2023	H1 2022	Change	Q2 2023	Q2 2022	Change
Finance income	3,729	145	>999.9%	2,141	-	n/a
Finance expense	(162)	(1,289)	-87.4%	(81)	(1,214)	-93.3%
Finance income, net	**3,567**	**(1,144)**	**n/a**	**2,060**	**(1,214)**	**n/a**

Finance income, net for the six months ended June 30, 2023 increased by USD 4,711 thousand to USD 3,567 (from negative USD 1,144 thousand) for the six months ended June 30, 2022. Finance income, net for the H1 2023 is mainly attributable to income generated on interests on short-term bank deposits (USD 3,403 thousand), driven by interest rates higher relative to prior periods.

Net Financial Debt

The table below presents the Net Financial Debt of the Company as at June 30, 2023 and December 31, 2022.

in thousand USD	As at June 30, 2023	As at December 31, 2022
Cash and cash equivalents[1]	**259,587**	**222,245**
Short-term lease liabilities	4,173	4,015
Net current financial indebtedness	**(255,414)**	**(218,230)**
Long-term lease liabilities	8,211	9,812
Non-current financial indebtedness	**8,211**	**9,812**
Net financial debt	**(247,203)**	**(208,418)**

[1] Includes cash in money market investment funds

Net financial debt of the Group between December 31, 2022 and June 30, 2023 decreased by USD 38,785 thousand (to negative USD 247,203 thousand from negative USD 208,418 thousand), which resulted from the increase in cash and cash equivalents by USD 37,342 thousand discussed in the Cash Flows and Liquidity section of this report.

Statement of Financial Position

Selected Consolidated Statements of Financial Position

	As at June 30		As at December 31	
in thousand USD	**2023**	**Structure**	**2022**	**Structure**
ASSETS				
Total non-current assets, incl.:	**32,930**	**10.1%**	**37,442**	**13.1%**
Right-of-use assets	*9,077*	2.8%	*12,965*	*4.5%*
Goodwill	*2,505*	0.8%	*2,462*	*0.9%*
Intangible assets	*10,999*	3.4%	*12,057*	*4.2%*
Other items	*10,349*	3.2%	*9,958*	*3.5%*
Total current assets, incl.:	**293,815**	**89.9%**	**248,875**	**86.9%**
Trade and other receivables	*32,219*	*9.9%*	*25,855*	*9.0%*
Cash and cash equivalents	*259,587*	*79.4%*	*222,245*	*77.6%*
Other items	*2,009*	*0.6%*	*775*	*0.3%*
Total assets	**326,745**	**100%**	**286,317**	**100.0%**
EQUITY				
Total equity	**286,035**	**87.5%**	**240,727**	**84.1%**
LIABILITIES				
Total non-current liabilities, incl.:	**8,576**	**2.6%**	**9,976**	**3.5%**
Long-term lease liabilities	*8,211*	*2.5%*	*9,812*	*3.4%*
Other items	*365*	0.1%	*164*	*0.1%*
Total current liabilities, incl.:	**32,134**	**9.8%**	**35,614**	**12.4%**
Trade and other payables	*18,484*	*5.7%*	*24,302*	*8.5%*
Other items	*13,650*	*4.2%*	*11,312*	*4.0%*
Total equity and liabilities	**326,745**	**100.0%**	**286,317**	**100.0%**

Assets

Total assets increased by USD 40,428 thousand (i.e., 14.1% from USD 286,317 thousand as at December 31, 2022 to USD 326,745 thousand as at June 30, 2023).

The structure of total assets mostly remained unchanged and comprised the following items: (i) cash and cash equivalents (accounting for 79.4% and 77.6% of total assets as at June 30, 2023 and December 31, 2022, respectively) and (ii) trade and other receivables (accounting for 9.9% and 9.0% of total assets as at June 30, 2023 and December 31, 2022, respectively).

The increase in total assets was mostly driven by a combined effect of: (i) an increase in cash and cash equivalents of USD 37,342 thousand (i.e., 16.8%, from USD 222,245 thousand as at December 31, 2022 to USD 259,587 thousand as at June 30, 2023) and (ii) an increase in trade receivables of USD 6,364 thousand (i.e., 24.6%, from USD 25,855 thousand as at December 31, 2022 to USD 32,219 thousand as at June 30, 2023) mainly due to payout calendars maintained by distributors, e.g. Apple.

Liabilities

Total liabilities decreased by USD 4,880 thousand (i.e. 10.7%, from USD 45,590 thousand as at December 31, 2022 to USD 40,710 thousand as at June 30, 2023). The decrease is mostly related to payout of 2022 performance bonus and settlement of liabilities related to strategic options review..

As at June 30, 2023, total liabilities mainly comprised (i) trade and other payables (accounting for 45.4% of total liabilities compared to 53.3% as at December 31, 2022) and (ii) long-term lease liabilities (accounting for 20.2% of total liabilities compared to 21.5% as at December 31, 2022).

Cash Flows and Liquidity

The following table summarizes selected net cash flows from operating, investing and financing activities for the six-month period ended June 30, 2023 compared to the six-month period ended June 30, 2022.

in thousand USD	H1 2023	H1 2022	Change
Cash flows from operating activities			
Profit/(loss) before tax	**52,469**	**20,715**	**153.3%**
Adjustments for:			
Total of non-cash changes in depreciation, amortization, profits or losses on disposal	5,160	5,304	-2.7%
Non-cash employee benefits expense – share-based payments	970	1,019	-4.8%
Finance (income)/cost – net	(1,888)	(2,811)	-32.8%
Changes in net working capital	(14,337)	3,168	n/a
Other items	93	(69)	n/a
Cash flows from operating activities	**42,467**	**27,326**	**55.4%**
Income tax paid	(5,076)	(1,059)	379.3%
Net cash flows from operating activities	**37,391**	**26,267**	**42.3%**
Cash flows from investing activities, incl.:			
Acquisition of property, plant and equipment and intangible assets	*(1,522)*	*(1,785)*	*-14.7%*
Acquisition of IP rights	-	*(25,000)*	*-100.0%*
Interest received	*3,875*	*63*	*>999,0%*
Sublease repayments & interest received from sublease	*275*	-	*n/a*
Net cash from investing activities	**2,628**	**(26,722)**	**n/a**
Cash flows from financing activities, incl.:			
Shares issued/(repurchased)	-	*(16,133)*	*-100.0%*
Lease repayment & interest paid	*(2,269)*	(2,246)	*1.0%*
Exercise of stock options	345	2,162	*-84.0%*
Other items	(61)	-	*n/a*
Net cash from financing activities	**(1,985)**	**(16,217)**	**-87.8%**
Net increase/(decrease) in cash and cash equivalents	**38,034**	**(16,672)**	**n/a**
Effect of exchange rate fluctuations and accrued interest	(692)	474	n/a
Cash and cash equivalents at the beginning of the period	**222,245**	**204,415**	**8.7%**
Cash and cash equivalents at the end of the period	**259,587**	**188,217**	**37.9%**

Net cash flows from operating activities

Net cash inflows from operating activities for the six-month period ended June 30, 2023 amounted to USD 37,391 thousand, which is mainly a combined effect of EBITDA generated during the period amounting to 53,589 USD, changes in the working capital (decrease by USD 14,337 thousand) and 5,076 USD of income tax paid during the current period. For details regarding changes in working capital, please see the above sections on Assets and Liabilities (Statement of Financial Position).

Net cash flows from investing activities

Net cash inflows from investing activities for the six-month period ended June 30, 2023 amounted to USD 2,628 thousand and resulted mainly from the interests received on short-term bank deposits.

Net cash flows from financing activities

Net cash outflows from financing activities for the six-month period ended June 30, 2023 amounted to USD 1,985 thousand and are mainly related to lease repayments.

8. Possibility of accomplishing previously published forecasts

The Issuer does not publish financial forecasts.

9. Significant proceedings pending in the courts

As at the date of the issuance of this report, the Company is involved in a number of pending litigations:

- On March 8, 2023, a plaintiff filed a complaint in the Circuit Court of Franklin County Alabama alleging that the Company's social casino games are unlawful gambling under Alabama law. The lawsuit seeks to recover all amounts paid by Alabama residents to the Company in those games during the period beginning one year before the filing of the lawsuit (i.e., March 8, 2022) until the case is resolved. The Company does not agree with the allegations and requests for relief made in the complaint and believes that there are meritorious legal and factual arguments supporting the Company's position. As of the date of the issuance of this report, to the best of the Company's knowledge, the litigation is not expected to have a material impact on the Company's operations, financial condition or cash flows.
- On May 18, 2023, the Company received a demand for arbitration, alleging that the Company's social casino games are unlawful gambling under Kentucky law. The claimant seeks to recover all amounts paid by Kentucky residents to the Company in those games during the period beginning five years before the filing of the demand (i.e., May 18, 2018) until the case is resolved. The Company does not agree with the allegations and requests for relief made in the complaint and believes that there are meritorious legal and factual arguments supporting the Company's position. As of the date of the issuance of this report, to the best of the Company's knowledge, this arbitration is not expected to have a material impact on the Company's operations, financial condition or cash flows.
- On June 2, 2023, plaintiffs filed a complaint in the US Federal District Court for the Central District of California, alleging: (a) that the Company's social casino games are unlawful gambling under the laws of California, Illinois, and potentially other US states; and (b) that the Company's display of sale pricing in its social casino games constitutes false advertising under the laws of California, Illinois and potentially other US states. The lawsuit purports to be a nationwide class action, which also includes potential California and Illinois subclasses. The Company does not agree with the allegations and requests for relief made in the complaint and believes that there are meritorious legal and factual arguments supporting the Company's position. As the case is in preliminary stages, the Company is unable to reasonably estimate the loss or range of loss, if any, arising from this litigation, or the impact, if any, on the Company's operations, financial condition or cash flows.
- On September 5, 2023, the Company received three similar demands for arbitration, alleging that the Company's social casino games are unlawful gambling under the laws of Ohio, Massachusetts and Kentucky. The Company does not agree with the allegations and requests for relief made in the complaint and believes that there are meritorious legal and factual arguments supporting the Company's position. As the arbitrations are in preliminary stages, the Company is unable to reasonably estimate the loss or range of loss, if any, arising from these arbitrations. As of the date of the issuance of this report, to the best of the Company's knowledge, these arbitrations, collectively and individually, are not expected to have a material impact on the Company's operations, financial condition or cash flows.

Except for the abovementioned proceedings, neither the Company nor any of its subsidiaries were, as at June 30, 2023, or as at the date of the issuance of this report, a party to any significant court or arbitration proceedings or before any public authority.

10. Transactions with related parties

Information regarding transactions with related entities is provided in Note 18 “Related Party Transactions” to the Interim Condensed Consolidated Financial Statement.

11. Granted sureties, loans, guarantees

There are no significant sureties, loans or guarantees granted by the Issuer.

12. Significant events after the balance sheet date

Significant events that occurred after the balance sheet date are presented in the Interim Condensed Consolidated Financial Statement for the period in Note 21 “Subsequent events.”

13. Other information important for the assessment of human resources, property, financial situation, financial result and their changes and information important for the assessment of the issuer’s ability to meet its obligations

There is no other significant information of the above nature in the Issuer’s Capital Group as at June 30, 2023.

Electronically signed by:

Anton Markus Gauffin

Date:
2023-9-7 16:42:47

____

Anton Gauffin

President of Huuuge, Inc., CEO

September 7, 2023

Board of Directors’ Statement

Board of Directors' Statements

Pursuant to the requirements of the Regulation of the Minister of Finance of 29 March, 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognized as equivalent, the Board of Directors of Huuuge, Inc. hereby represents that:

1) to the best of its knowledge, the semi-annual condensed consolidated and stand-alone condensed financial statements and the comparative information were prepared in accordance with accounting principles currently in effect and they reflect, in a true, fair and clear manner, the financial position and results of the Company and the Group, and;

2) the semi-annual Board of Directors' report on activities contains a true image of the Company's and the Group's development, achievements and standing, including a description of the basic risks and threats.

On behalf of the Board of Directors of Huuuge, Inc.

____

Anton Gauffin

Chief Executive Officer & executive director

Unanimous Written Consent
Of The Board Of Directors Of Huuuge, Inc.

September 7, 2023

The undersigned, being all of the members of the Board of Directors (the "**Board**") of HUUUGE, INC., a Delaware corporation (the "**Company**"), following diligent review of the facts and related documents, have not uncovered any information to indicate that the Company should not execute the measures covered by this consent and, therefore, do hereby adopt the following resolutions by unanimous written consent (the "**Board Consent**") in lieu of a meeting in accordance with Section 141(f) of the Delaware General Corporation Law ("**DGCL**") and the Bylaws of the Company, and further waive any and all notices that may be required to be given with respect to a meeting of the directors of the Company:

Whereas, the Company's President, Anton Gauffin and Huuuge Capital Group EVP Finance and the currently acting CFO, Marek Chwałek, have presented to the Board the interim consolidated financial statements of the Company for the six-month period ended June 30, 2023 ("**Consolidated Financial Statements**"), the interim separate financial statements of the Company for the six-month period ended June 30, 2023 ("**Separate Financial Statements**") and the consolidated interim report for the six-month period ended June 30, 2023 (including certain representations of the Board to this report which are included herein in the document titled "**Board of Directors' statements**") ("**Semi-Annual Report**" and together with the Consolidated Financial Statements and Separate Financial Statements, the "**Reports**") as attached herein as <u>Exhibit A</u> to this Board Consent; and

Whereas, the Company desires to approve and publish the Reports;

Whereas, the Board is required to make certain representations within the Semi-Annual Report;

Whereas, the Board has reviewed the Reports and intends with this Board Consent to give to Anton Gauffin authorization to issue and execute the Reports on behalf of the Company.

Now, Therefore, it being in the best interest of the Corporation, it is hereby:

Resolved, that the Reports substantially in the form attached herein as Exhibit A to this Board Consent are hereby approved and Mr. Anton Gauffin is authorized to issue and execute the Reports on behalf of the Company as the Company's President and CEO;

Resolved further, that Mr. Anton Gauffin is authorized to execute on behalf of the Company the Reports substantially in the form attached herein as Exhibit A to this Board Consent, but with such changes and additions as Mr. Marek Chwałek or Mr. Anton Gauffin may deem to be in the best interests of the Company (such determination that a change or addition is in the best interests of the Company to be conclusively evidenced by Mr. Anton Gauffin's or Mr. Marek Chwałek's or his or their designee's execution of the modification, provided that notice is provided to the Board of any changes to the Reports that deviate from Exhibit A in a reasonable time after the Reports have been executed);

Resolved further, that Mr. Anton Gauffin, or his designee, as an authorized representative of the Company, is individually further authorized and directed to file the Reports, with all exhibits thereto, and other documents in connection therewith, with the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) and to take all such further actions and to execute and deliver all such instruments and documents in the name and on behalf of the Company, and under corporate seal or otherwise, as in the individual's judgment shall be necessary, proper, or advisable in order to fully carry out the intent and to accomplish the purposes of the foregoing resolutions; and

Finally resolved, that any and all actions of Mr. Anton Gauffin and any of his agents or designees pursuant to, or in furtherance of the intent and purposes of the foregoing resolutions, including prior to the date of the foregoing resolutions adopted hereby that are within the authority conferred thereby are hereby ratified, confirmed and approved as the acts and deeds of the Company.

The undersigned constituting all of the members of the Board do hereby consent to and approve the adoption of the foregoing resolutions effective as of the date first written above. This consent may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument. This consent may be executed by way of either digital or electronic signatures.

Board Of Directors

Anton Gauffin

Rod Cousens

Henric Suuronen

John Salter

Krzysztof Kaczmarczyk

Tom Jacobsson

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