

Annual report
and
Consolidated accounts
for
MindArk PE AB (publ)

(Corporate identity SE - 556640-4769)

Financial year

2012



The Board of Directors and Chief Executive Officer of MindArk PE AB (publ) hereby present the Annual Report for January 1st – December 31st 2012.

Directors' report

Business

MindArk PE AB (publ) develops and operates Entropia Universe and the Entropia Platform. Entropia Universe is a 3D internet virtual universe with a unique integrated economic system and stunning graphics. The client software is free-of-charge and available to anyone with internet access.

The Entropia Platform is a secure entertainment and business platform, enabling companies and organizations all over the world to build content on themed planets inside Entropia Universe.

Market and Competition

The computer gaming industry is the fastest growing segment of digital media in recent years. In 2012 the market was calculated at USD 67 billion and the forecast for year 2017 is USD 82 billion. This is a slight decline in the increase compared to earlier forecasts, but still a solid growth with a slower pace. MindArk is active in the segment of Massively Multiplayer Online Games (MMOs). Several trends suggest that online games will have strong growth in the future, along with games for mobile devices.

Entropia Universe competes with several large global MMO producers. The largest western online game is Blizzard's World of Warcraft, but there are millions of players in many other games as well.

MindArk's Differentiation

One factor that differentiates MindArk and Entropia Universe from the competition is the game's virtual economy with micro-transactions and its own currency which has a fixed value against the U.S. dollar, and the opportunity for participants to both deposit and withdraw money in a safe manner.

A further differentiation is the Planet Partner model, which allows other developers to partner with MindArk and build their own planets within Entropia Universe, sharing revenues generated on the planet.

MindArk now has more than ten years' experience developing and managing technology for a virtual economy in an interactive 3D online environment. Today MindArk offers secure micro-transactions for a large number of concurrent users that interact with one another online via their computers.

With the Entropia Platform, MindArk has a leading position in the worldwide computer gaming industry.

MindArk and its Affiliates

MindArk is the parent company of a group comprising the parent company and three subsidiaries. The parent company and two subsidiaries, Entropia Universe AB and Planet Calypso AB are located in Gothenburg. MindArk Group's third wholly-owned subsidiary, Ilunova Sa. the. Cv., is located in Playa del Carmen, Mexico, and has been operational since February 2008.

Ilunova provides various services to the parent company. These services include assisting MindArk in the development of the Entropia Platform, and marketing of the same with potential partners. Ilunova also operates the first-line customer support service, facilitating prime-time support coverage for Entropia Universe participants from around the world. Planet Calypso AB is the operator and developer of Planet Calypso, Entropia Universe's first and most active planet.

Employees

MindArk during the year has averaged 33 employees, including three women. The MindArk group employs the equivalent of 50 employees, including four women. In Mexico 13 employees are located, including one woman.

The company's CEO is David Simmonds. Other senior officials of the company are Magnus Eriksson (VP and COO), Mats Kling (CTO), Keren Edlund (Legal), David Malcus (Development), Klas Moreau (Technical Director), Gunilla Krogh (CFO), Bernt Wählin (Human Resources) and Sven Sandberg (Marketing).

Shares

MindArks shares are unlisted, the total number of shares are 143 293 750.

The distribution of shares among major shareholders is as follows:

<i>Shareholders</i>	<i>Shareholding</i>	<i>Proportion of shares and votes</i>
Jan Welter Timkrans	39 137 600	27,3 %
Wasto AB	28 658 750	20,0 %
C-G Bothén AB	25 600 000	17,9 %
Others 900	49 897 400	34,8 %
Totalt	143 293 750	100 %

Important events during 2012

New Participant Experience

MindArk made a conscious effort in 2012 to improve the overall Entropia Universe user experience, especially for newcomers. Towards that goal, MindArk and the planet partners put a lot of focus on refining the systems and content encountered by new participants during their first few hours in Entropia Universe. Newly designed beginner areas were introduced on Planet Arkadia and Planet Calypso, with the goal of better educating and engaging new participants and helping them gain some early momentum in their Entropia Universe careers.

Systems Development

While there certainly was a major focus on the new player experience in 2012, there were also many other enhancements and improvements introduced for existing participants, many of which were given priority based on feedback received through support cases and on community forums. Some of the highlights of those improvements includes:

- New and improved crafting interface
- Instance system - major improvements and expansion (beacons/dungeons)
- Improved creature loot balancing
- Mission system enhancements & rebalancing
- Mindforce improvements and new effects
- Dozens of critical bugfixes and user interface optimizations

Platform Development

MindArk's development team spent a large part of the second half of 2012 building the foundations to allow other types of client software to connect to Entropia Universe. The first of those new clients, Virtual Tycoon, was released in December and allows participants to connect to Entropia Universe through their Android powered smartphone. An iOS version Virtual Tycoon compatible with iPhone and iPad will be released in the very near future.

While adapting the crafting system for the mobile application, a complete overhaul of the PC client crafting interface was performed, resulting in a much improved crafting experience that has been very well received by our participants.

The effort invested in this project will pay future dividends, as it allows for much faster development to make Entropia Universe available on other client platforms such as tablets, additional mobile devices, along with various web-based interfaces.

Technical Development

During 2012 the dynamic instance system was released, and provides the means to dynamically grow the number of instances of a particular game area in a way that a static area could never achieve. This system will be used to provide game areas to many players or team of players in parallel, either for reasons of gameplay or scaling.

An area of development that has been neglected for some time is the gameplay development tools that MindArk provide to our partners. In 2012 we reviewed the feedback from our partners and made a substantial update of the Entropia Universe Partner Development Kit. This will improve the efficiency and quality of the gameplay development.

New Planet Release - Planet Cyrene

A fifth planet, Planet Cyrene, developed by Creative Kingdom with headquarters in Los Angeles, was launched in May 2012. Planet Cyrene is a mythical planet where science fiction blends with fantasy to deliver a world where shamanistic tribes battle robot invaders. The player will be immersed in a gripping storyline, co-written by the actions of the players.

Throughout the year, the existing planets of Calypso, ROCKTropia, Arkadia and Next Island received numerous content updates and patches to expand and improve the overall user experience and fun-factor.

Avatar Development

Another project that has kept the MindArk team busy in the latter half of 2012 focuses on improving avatar appearance and the avatar creation interface. Originally planned for release at the end of 2012, completion of this project has required somewhat more time than expected, and was implemented early in 2013. This allowed MindArk and the planet partners to put the finishing touches to the new system, so Entropia Universe avatars will be looking better than ever!



Calypso Land Deeds

In 2011 Calypso Land Deeds was introduced. Land rights allow avatars to become citizens of Planet Calypso and receive a share of the Planet Partner Gross Revenue. Concept design of the Calypso Land Deed estate and political systems is in full swing.

Technical Director Recruited from Ericsson

MindArk announced in May 2012 that it has appointed Klas Moreau as its Technical Director. This is a newly created position which will aid the company in keeping its flagship, the Entropia Universe MMO, at the pinnacle of new technologies. Previously Mr. Moreau has held several executive R&D and Sales positions at Ericsson, the Swedish telecom giant. The last position was Head of Business Unit Command, Control and Applications.

Mutual Settlement regarding Planet Calypso

In June 2012, the arbitration between SEE Digital Studios and Planet Calypso AB (then under the name AR Universe AB) together MindArk regarding Planet Calypso was settled. Planet Calypso AB and MindArk are satisfied with the settlement arrangement.

Entropia Smartphone App

It is important for our participants to have access to part of the Entropia Universe functionality while on the move. In December 2012, MindArk released Virtual Tycoon 1.0, our first Entropia Universe mobile app for smartphones and tablets (Android). This app provides access to the Entropia Universe Construction and Auction systems, along with avatar inventory, professions and skills.

MindArk believes that mobile gaming will continue to increase as a proportion of the total gaming market. MindArk will therefore continue to follow the mobile gaming market closely to identify opportunities for Entropia Universe.

Marketing

MindArk gradually ramped up its marketing efforts during 2012, resulting in a 50% increase in the number of unique visitors to the EntropiaUniverse.com and planet partner websites. In addition, the redesign and optimization of the Planet Calypso website completed in early autumn helped to significantly improve the conversion rate of website visitors. The results of these marketing efforts are very encouraging indeed. In January 2013 Entropia Universe had significantly more active users than the average for 2012.

Economic Development in Parent Company

Net sales excluding inter-billing between MindArk Group companies amounted to SEK 45.8 million (previous year 43.7 million). Unconsumed user holdings have been increased by 2 million, from SEK 64.9 million to 66.9 million.

Of total revenues, SEK 18.8 million (previous year SEK 1.7 million, only for December 2011) was added to Planet Calypso AB under a profit sharing contract.

Operating expenses amounted to about SEK 64.9 million (last year about SEK 61.6 million). Operating profit before depreciation amounted to minus SEK 22.5 million (previous year minus SEK 16.4 million).

After financial items, profit before taxes amounts to minus SEK 29.4 million (previous year minus SEK 29.3 million). The equity of the parent company amounted at year-end to SEK 25.8 million (previous year SEK 41.3 million).

Cash Flow and Liquid Assets for Parent Company

Operating cash flow in the parent company amounts to minus SEK 20.8 million. A negative cash flow from investing activities on SEK 4.2 million, together with a received group contribution of SEK 14 million and an issue of new shares of SEK 5 million meant that the parent company's cash flow stopped at minus SEK 6 million. Liquid assets amounted to SEK 2.2 million.

MindArk Group summary

Group revenues amounted to SEK 60.8 million (previous year SEK 60.6 million). Operational costs were SEK 73.3 million inclusive of the settlement with SEE (previous year SEK 54.3 million including the MindBank project). The Group profit after net financial items amounted to minus 20.7 million (previous year minus SEK 7.7 million) before tax.

Equity of the Group amounted to SEK 25.1 million (last year SEK 41 million).

Cash flow was minus SEK 4.3 million (last year was plus SEK 58 185) and the Group's liquid assets as of December 31 were approximately SEK 2.2 million (last year SEK 9.5 million).

Listing of MindArk shares

The correct timing of the listing of the MindArk shares has not yet been established, any further information will be published on our website.

New share issue

During the annual meeting 2011 it was decided to submit an authorization to the Board of Directors to issue new shares at market conditions. An increase of the share capital with 25% was made in June 2012 from one investor, Wasto AB.

Annual Meeting

The annual meeting for 2012 was held on June 29 in the company's offices. Nothing beyond standard decisions according to the articles of association was decided by the meeting. Board members Jan Welter Timkrans (Chairman) and Sven Sandberg were reelected. David Simmonds, CEO of MindArk, was elected as a new board member. It was resolved in the meeting that the Board should not have any alternate.

Important events in early 2013

Entropia Universe's 10 Year Anniversary

While 2012 was an important, eventful and demanding year for MindArk and Entropia Universe, the upcoming year promises to bring even greater opportunities for development of the EU platform and participant growth.

One very exciting milestone that has been reached early in 2013 was Entropia's ten-year anniversary! The official "gold" version of Project Entropia (the predecessor to Entropia Universe) was released on January 30, 2003, and MindArk will celebrate this historic milestone with some wonderful universe-wide events beginning on the anniversary date and continuing throughout 2013.

Also in celebration of ten years of Entropia Universe, a major estate has been announced for auction with a completely new management/revenue model, the newly discovered Moon. See below.

Infrastructure Upgrades

Major upgrades have been performed on the Entropia Universe platform infrastructure, the first steps was released in January. These upgrades have resulted in improved server stability and faster development and deployment times for future version updates. While these upgrades will require a few months for full completion, participants can already expect better performance, fewer unexpected server outages, and much shorter VU downtimes.

In addition, refinements to the development and release procedures for MindArk and its planet partners will help improve client stability, reduce bugs and other unexpected system behavior, and generally improve the overall Entropia Universe experience.

Moon Estate Auction

On March 1, 2013, Entropia Universe announced that it will be auctioning a newly discovered moon starting on March 21, 2013. The auction for rights to manage the moon estate ended with a bid of 1.5 million PED (150,000 USD).

This unique opportunity combines the Entropia Universe Planet Partner and Marketing Partner programs, allowing the winner to operate an estate in a virtual universe which just celebrated its tenth anniversary.

The winning bidder will work closely with the MindArk team throughout the estate's development process with direct input on important design decisions, and will share revenue with MindArk resulting from all activity on the moon. As a way to further increase earning potential, the winning bidder will also have the ability to recruit new participants through marketing, and receive a share of revenue from resulting activity anywhere in Entropia Universe.

Starter Packs

New starter packs are now offered on Entropia Universe and planet partner websites. These packs are designed to provide new participants with a full range of appropriate starter gear at a reasonable cost, and help them start their Entropia Universe careers off on the right foot.

Payment Providers

Several new payment provider solutions will be introduced in 2013, including Paypal and Paypal's mobile payment service, Zong. MindArk is also researching opportunities for supplemental credit card processing solutions, in light of the recent disruptions and issues experienced with Dibs.

Expected Development

Veteran Appreciation - MindArk will focus lots of development time on improving the Entropia Universe experience for current participants and Entropia veterans. Many of the most common requests and wish list items received from our participants via support cases and community forums will be addressed in the first two version updates of the New Year. Issues that will be prioritized includes:

- Reducing cost to play / increasing average TT returns
- Lowering the volatility of returns for many activities
- Increasing UL item tiering speed / lowering UL item tiering cost
- Removing the UL armor equipping fee
- Lowering the minimum usable condition of many items
- Introducing goals for users that in many ways has hit the progression ceiling
- Fixing bugs

Many other interface improvements and game system upgrades are also planned for the second quarter of 2013 and beyond.

Modernizing the social aspects of Entropia Universe - Entropia universe is a social platform but the technology for this extremely important part are in a need of upgrade. The goal is to make it easier and more fun to communicate, find new friends and keep track of what's happening when you are experiencing Entropia Universe. As a user you should not either be constrained by having to be inside the PC client to communicate with friends or allies. Voice, other social networks, mobile phones should be connected to the communication system.

Taming - Many of our more patient participants will be happy to hear that a completely redesigned taming system will be developed in 2013. The new taming system will include many of the features from the pre-CryEngine system, along with many new and exciting features that will expand the utility of tamed creatures.

Space - In the State of the Universe Address 2012, we mentioned plans for expanding and improving space. Several other projects received higher priority in 2012, resulting in the plans for space development being pushed forward to mid-2013. The early focus will be on addressing several issues that currently allow for practically risk-free travel between planets. Space combat and weapons will also be adjusted to improve hunting space creatures and ship to ship PVP combat. Towards the end of the year, we hope to implement several completely new features to space, perhaps even space mining.

Final words

All in all, we leave behind a demanding 2012 and set our sights forward to some very promising opportunities available to continue expanding and improving Entropia Universe in 2013 and in developing the future of virtual reality in 2013 and beyond.

Several year summary (TSEK)

Consolidated	2012	2011	2010	2009	2008
Net sales	46 478	45 993	50 796	66 386	66 625
Profit after amortization	-20 790	-7 396	-16 328	1 026	11 562
Profit after financial items	-20 698	-7 688	-17 331	-1 200	12 711
Total assets	41 691	51 140	94 948	77 785	78 292
Equity	25 093	40 999	49 072	63 468	64 475
Anläggningstillgångar	27 136	30 974	41 949	51 502	33 608

Parent company	2012	2011	2010	2009	2008
Net sales	42 003	44 752	32 423	50 664	66 625
Profit after amortization	-29 529	-29 072	-24 866	-980	11 296
Profit after financial items	-29 400	-29 288	-25 592	-3 051	12 687
Net profit for the year	-27 057	-23 677	-11 704	-1 651	7 345
Total assets	47 036	59 742	65 865	77 002	78 316
Equity	25 844	41 337	49 290	54 912	55 372
Untaxed reserves	0	0	0	11 717	12 731
Fixed assets	32 306	34 962	46 943	52 851	36 030

The Board's proposed appropriation of profits

The Board of Directors proposes that the net loss and retained earnings will be carried forward (all amounts in SEK):

Retained earnings	22 340 023
Shared premium reserve	29 078 708
Net loss for the year	-27 057 207
	24 361 524

Amount carried forward	24 361 524
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Further inquiries regarding the financial position and performance of the parent company and the MindArk Group are directed to the below listed income statement, balance sheet and cash flow statement with accompanying notes.

Income Statement Consolidated	Not	2012-01-01 -2012-12-31	2011-01-01 -2011-12-31
Net sales	1	46 477 596	45 993 394
Other income	2	14 354 135	14 553 269
		60 831 731	60 546 663
Operating expenses			
Other external costs	3	-41 874 121	-20 703 706
Personnel costs	4, 5	-31 391 993	-32 360 133
Amortization and depreciation		-8 355 392	-13 594 905
MindBank – costs		0	-1 283 924
		-81 621 506	-67 942 667
Operating profit		-20 789 775	-7 396 004
Financial items			
Interest income		-17 252	-55 538
Other financial items		268 484	79 030
Exchange rate differences in bank holdings		-383 018	-247 454
Interest cost		223 775	-68 446
Profit after financial items		-20 697 786	-7 688 413
Income tax on profit for the year		-270 142	-105 180
Income tax relating to previous years		-3 230	-51 280
Net profit		-20 971 158	-7 844 873

Balance Sheet Consolidated

	Not	2012-12-31	2011-12-31
Assets			
Non-current assets			
<i>Intangible assets</i>			
Planet Calypso	6	1 126 495	1 714 232
Entropia Platform	7	8 854 130	14 166 608
Other intangible assets	8	4 153 312	123 100
		14 133 937	16 003 940
<i>Property and equipment</i>			
Buildings and land	9	8 377 171	8 824 308
Equipment and computer hardware	10	2 216 848	3 764 764
		10 594 019	12 589 072
<i>Financial assets</i>			
Loan MindArk Groups Vinstandelsstiftelse		43 700	16 900
Other long-term receivables	11	2 364 568	2 363 836
		2 408 268	2 380 736
Total non-current assets		27 136 224	30 973 748
Current assets			
<i>Stock-in-trade</i>			
Commercial goods	12	468 407	467 165
Advances to suppliers		2 027 012	44 661
		2 495 419	511 826
<i>Short-term receivables</i>			
Account receivables		2 874 815	1 294 223
Receivables from payment providers	13	2 010 959	1 822 809
Tax advanced		2 405 247	2 110 717
Other receivables	14	1 255 446	485 487
Prepaid expenses and accrued income	15	1 329 466	4 471 545
		9 875 933	10 184 781
<i>Cash and bank balances</i>			
		2 182 967	9 469 852
Total current assets		14 554 319	20 166 459
Total assets		41 690 543	51 140 207

Balance Sheet Consolidated

	Not	2012-12-31	2011-12-31
Equity and liabilities			
Equity	16		
Share capital (143 293 750 shares)		1 432 938	1 146 350
Restricted reserves		49 999	49 999
Unrestricted reserves		44 581 271	47 647 146
Net profit		-20 971 158	-7 844 873
Total equity		25 093 050	40 998 622
Long-term liabilities	17		
Debt to credit agency		0	332 818
Short-term liabilities			
Debt to credit agency		155 780	626 680
Accounts payable		2 683 734	1 049 064
Income tax liability		993 458	661 717
Other liability		9 026 495	3 886 473
Accrued expenses and prepaid income	18	3 738 026	3 584 833
		16 597 493	9 808 767
Total equity and liabilities		41 690 543	51 140 207
Contingent liabilities	19		
Guarantee		641 953	1 054 957
Unconsumed user holdings		66 895 000	64 900 000
		67 536 953	65 954 957

Cash Flow Statement Consolidated

	Not	2012-01-01 -2012-12-31	2011-01-01 -2011-12-31
Operating activities			
Cash received from customers		58 702 102	59 029 701
Cash paid to suppliers and personnel		- 65 596 194	- 58 131 315
Interest received		256 498	79 030
Interest paid		- 353 848	- 68 446
Income tax paid		- 236 161	- 337 586
Cash flow from operating activities		-7 227 603	571 384
Investing activities	20		
Sale of intangible assets		-4 137 445	0
Purchase of property and equipment		-341 754	-559 560
Sale of property and equipment		0	82 344
Amortization of long-term receivables		0	249 656
Increase / decrease in short-term investments		135 753	0
Cash flow from investing activities		-4 343 446	-227 560
Financing activities			
Issue of new shares		5 000 000	0
Increase of long-term liabilities		0	134 670
Amortization of long-term liabilities		-332 818	-420 309
Cash flow from financing activities		4 667 182	-285 639
Cash flow for the year		-6 903 867	58 185
Ingoing cash and bank balances		9 469 852	9 659 121
Exchange rate differences in cash and bank balances		-383 018	-247 454
Outgoing cash and bank balances	21	2 182 967	9 469 852

Income Statement Parent Company	Not	2012-01-01 -2012-12-31	2011-01-01 -2011-12-31
Net sales	1	42 003 484	44 752 222
Other income	2	392 819	411 898
		42 396 303	45 164 120
Operating expenses			
Other external costs	3	-41 490 320	-37 074 043
Personnel costs	4	-23 406 990	-23 320 025
Amortization and depreciation		-7 028 475	-12 557 901
MindBank – costs		0	-1 283 924
		-71 925 785	-74 235 893
Operating profit	22	-29 529 482	-29 071 773
Financial items			
Interest income		-17 252	-55 538
Other financial items		265 175	156 420
Interest cost		203 916	-4
Exchange rate differences in bank holdings		-322 339	-317 287
		129 500	-216 409
Profit after financial items		-29 399 982	-29 288 182
Net profit before tax		-29 399 982	-29 288 182
Income tax on group contributions received		2 342 775	5 611 077
Net profit		-27 057 207	-23 677 105

Balance Sheet Parent Company

	Not	2012-12-31	2011-12-31
Assets			
Non-current assets			
<i>Intangible assets</i>			
Entropia Platform	7	8 854 130	14 166 608
Other intangible assets	8	4 153 312	123 100
		13 007 442	14 289 708
<i>Property and equipment</i>			
Buildings and land	9	8 377 171	8 662 112
Equipment and computer hardware	10	944 342	2 061 204
		9 321 513	10 723 316
<i>Financial assets</i>			
Shares in subsidiaries	23, 24	7 568 417	7 568 417
Loan MindArk Groups Vinstandelsstiftelse		43 700	16 900
Other long-term receivables	11	2 364 568	2 363 836
		9 976 685	9 949 153
Total non-current assets		32 305 640	34 962 177
Current assets			
<i>Stock-in-trade</i>			
Commercial goods	12	468 407	467 165
Advanced to suppliers		2 027 012	44 661
		2 495 419	511 826
<i>Short-term receivables</i>			
Account receivables		1 795 338	67 478
Receivables from payment providers		2 010 959	1 822 809
Receivables group companies		4 235 232	9 330 613
Tax advanced		184 850	139 363
Other receivables	14	589 284	266 932
Prepaid expenses and accrued income	15	1 255 188	4 158 433
		10 070 851	15 785 628
<i>Cash and bank balances</i>			
		2 164 276	8 482 546
Total current assets		14 730 546	24 780 000
Total assets		47 036 186	59 742 177

Balance Sheet Parent Company

Not 2012-12-31 2011-12-31

Equity and liabilities

Equity

16

Restricted equity

Share capital (143 293 750 shares)
Restricted reserves

1 432 938	1 146 350
50 000	50 000
1 482 938	1 196 350

Non-restricted equity

Share premium reserve
Profit brought forward
Net profit

29 078 708	24 365 295
22 340 023	39 452 016
-27 057 207	-23 677 105
24 361 524	40 140 206

Total equity

25 844 462	41 336 556
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Short-term liabilities

Accounts payable
Liabilities group companies
Other liability
Accrued expenses and prepaid income

18

2 381 566	955 969
8 924 073	0
6 436 861	12 734 392
3 449 224	4 715 260
21 191 724	18 405 621

Total short-term liabilities

Total equity and liabilities

47 036 186	59 742 177
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Contingent liabilities

19

Guarantee
Unconsumed user holdings

641 953	1 054 957
66 895 000	64 900 000
67 536 953	65 954 957

Cash Flow Statement Parent Company

	Not	2012-01-01 -2012-12-31	2011-01-01 -2011-12-31
Operating activities			
Cash received from customers		44 342 028	48 117 528
Cash paid to suppliers and personnel		-61 161 555	-60 298 853
Interest received		253 189	156 420
Interest paid		-148 722	-4
Income tax paid		-45 487	52 650
Cash flow from operating activities		-20 790 547	-11 972 259
Investing activities	20		
Purchase of intangible assets		-4 137 445	0
Purchase of property and equipment		-206 961	-227 309
Sale of property and equipment		0	82 344
Amortization of long-term receivables		0	249 656
Increase / decrease in short-term investments		135 753	0
Cash flow from investing activities		-4 208 653	104 691
Financing activities			
Issue of new shares		5 000 000	0
Received group contribution		14 003 269	12 188 391
Cash flow from financing activities		19 003 269	12 188 391
Cash flow for the year		-5 995 931	320 823
Ingoing cash and bank balances		8 482 546	8 479 010
Exchange rate differences in cash and bank balances		-322 339	-317 287
Outgoing cash and bank balances	21	2 164 276	8 482 546

Supplementary disclosures & accounting principles

The annual report has been prepared in accordance with the Swedish Annual Accounts Act. The accounting principles applied agree with the Annual Accounts Act as well as recommendations and comments from the Accounting Standard Committee.

The accounting principles in use are unchanged from last year.

Receivables are entered at the amount in which they are expected to be received.

Other assets and liabilities have been valued at acquisition value unless otherwise stated.

Accrual allocation of revenues and expenses has been done according to the professional ethics for accountants.

Fixed assets are entered at their acquisition value reduced for accumulated amortization and depreciations. Amortization and depreciation is accounted for in a straight line over the assets anticipated economic life.

The following percentages are applied:

Intangible assets	20 %
Equipment and tools	20 %
Computer hardware	20-33 %

The consolidated statement of accounts has been prepared according to the rules of acquisition accounting.

Notes

Note 1 Net sales Group

Corporate revenues consist of the net sum of deposited and withdrawn amounts from Entropia Universe made by users. The net revenues are presented in the income statement after deduction of reimbursements requested by participants in Entropia Universe.

From January 1, 2009 the revenues in Entropia Universe are shared with the subsidiary Planet Calypso AB (earlier AR Universe AB) and the other Planet Partners.

	2012	2011
Net sales		
Deposits and other net sales	63 449 284	67 240 107
Reimbursements	-16 971 688	-21 246 713
	46 477 596	45 993 394
Distribution of net sales through geographical markets		
Participants within the European Community	20 428 679	22 523 239
Participants from the rest of the world	26 048 917	23 470 155
	46 477 596	45 993 394

Parent Company

Corporate revenues consist of the net sum of deposited and withdrawn amounts from Entropia Universe made by users. The net revenues are presented in the income statement after deduction of reimbursements requested by participants in Entropia Universe.

From January 1, 2009 the revenues in Entropia Universe are shared with the subsidiary Planet Calypso AB (earlier AR Universe AB) and the other Planet Partners.

	2012	2011
Net sales		
Deposits and other net sales	44 037 708	63 234 403
Reimbursements	-16 971 688	-21 246 713
Inter group sales	14 937 464	2 764 532
	42 003 484	44 752 222
Distribution of net sales through geographical markets		
Participants within the European Community	16 810 310	23 570 115
Participants from the rest of the world	25 193 174	21 182 107
	42 003 484	44 752 222

**Note 2 Other income
Group**

	2012	2011
Exchange revenues	378 227	542 060
Work performed by company and capitalized	44 950	0
Other revenue	227 153	150 978
Sold Calypso Land Deeds	13 703 805	11 021 930
Result sale of fixed assets	0	2 838 300
	14 354 135	14 553 268

Parent Company

	2012	2011
Exchange revenues	335 114	324 599
Work performed by company and capitalized	44 950	0
Other revenue	12 755	87 298
	392 819	411 897

**Note 3 Remunerations to company auditors
Group**

	2012	2011
PwC		
Entered expenses for auditing	150 000	128 000
Other services	235 182	89 136
	385 182	217 136

Parent Company

	2012	2011
PwC		
Entered expenses for auditing	112 000	82 000
Other services	235 182	89 136
	347 182	171 136

**Note 4 Employees and personnel cost
 Group**

	2012	2011
Average number of employees		
Female	4	11
Male	48	49
	52	60
Wages and remunerations		
Paid to members of the Board, CEO and senior executives	5 415 328	4 829 542
Paid to other employees	16 932 112	19 814 831
	22 347 440	24 644 373
Social security cost		
Pension cost for Board members , CEO and senior executives	813 349	372 079
Pension cost for other employees	1 514 415	1 419 888
Social security cost	5 957 610	6 649 052
	8 285 374	8 441 019
Total cost for wages and remunerations etc	30 632 814	33 085 392

Parent Company

	2012	2011
Average number of employees		
Female	3	5
Male	30	31
	33	36
Wages and remunerations		
Paid to members of the Board, CEO and senior executives	3 941 200	3 954 859
Paid to other employees	11 296 251	12 824 200
	15 237 451	16 779 059
Social security cost		
Pension cost for Board members, CEO and senior executives	698 489	350 878
Pension cost for other employees	1 398 073	1 168 387
Social security cost	5 277 280	5 569 262
	7 373 842	7 088 527
Total cost for wages and remunerations etc	22 611 293	23 867 586

Note 5 Employees and personnel cost distributed over countries

Group		2012		2011
Average number of employees				
Sweden	38	(4)	44	(7)
Mexico	14	(1)	16	(3)
	52	(5)	60	(10)

Figures in parentheses are the average number of women.

Note 6 Planet Calypso

Group	2012-12-31	2011-12-31
Acquisition value brought forward	1 763 210	0
Purchase	0	1 763 210
	1 763 210	1 763 210
Amortization brought forward	-48 978	0
Amortization according to plan	-587 737	-48 978
	-636 715	-48 978
Entered net value carried forward	1 126 495	1 714 232

**Note 7 Entropia Platform
Group and Parent Company**

Capitalization of development cost for the technical platform of Entropia Universe was done between July 1st 2008 and August 31st 2009. The capitalized amounts consist of all expenses directly connected to the development of the technical platform. Amortization according to plan was activated as a result of the launch of version 10.0 of Entropia Universe.

	2012-12-31	2011-12-31
Acquisition value brought forward	26 562 390	26 562 390
	26 562 390	26 562 390
Amortization brought forward	-12 395 782	-7 083 304
Amortization according to plan	-5 312 478	-5 312 478
	-17 708 260	-12 395 782
Entered net value carried forward	8 854 130	14 166 608

Note 8 Other intangible assets
Group and Parent Company

Refers to the cost and amortization for MindArks and Entropia Universe web tools. The capitalization of expenses for the mobil app called "The Pet App" is also included.

	2012-12-31	2011-12-31
Acquisition value brought forward	567 600	567 600
Purchase	4 137 445	0
	4 705 045	567 600
Amortization brought forward	-444 500	-330 980
Amortization according to plan	-107 233	-113 520
	-551 733	-444 500
Entered net value carried forward	4 153 312	123 100

Note 9 Buildings and land
Group

Refers to property Gnomestieg 4, 01156 in Dresden, Germany. The reconstruction of the property in Dresden was completed in January 2011. The conversion expenditure has been posted on the building and land and depreciation thus started in 2011. This property has been for sale for a long time without being sold, the price was lowered from 1.4 million EUR to 990 000 EUR. As a consequence, it has been decided to perform a write-down on the property of 5.3 million SEK last year. The building in Quintana Roo, Mexico was classified as of this fiscal year on the equipment when it is a building on others' property.

	2012-12-31	2011-12-31
Acquisition value brought forward	14 417 786	1 936 734
Reclassifications	-170 733	12 481 052
	14 247 053	14 417 786
Depreciation brought forward	-293 478	0
Reclassifications	8 537	0
Depreciation according to plan	-284 941	-293 478
	-569 882	-293 478
Write-down brought forward	-5 300 000	0
Write-down for the year	0	-5 300 000
	-5 300 000	-5 300 000
Entered net value carried forward	8 377 171	8 824 308

Parent Company

Refers to property Gnomestieg 4, 01156 in Dresden, Germany and a property in Quintana roo, Mexico. The reconstruction of the property in Dresden was completed in January 2011. The capitalized cost of rebuilding has been posted on the building and land and depreciation thus started in 2011. This property has been for sale for a long time without being sold, the price was lowered from 1.4 million EUR to 990 000 EUR. As a consequence, it has been decided to perform a write-down on the property of 5.3 million SEK last year.

	2012-12-31	2011-12-31
Acquisition value brought forward	14 247 053	1 936 734
Reclassifications	0	12 310 319
	14 247 053	14 247 053
Depreciation according brought forward	-284 941	0
Depreciation according to plan	-284 941	-284 941
	-569 882	-284 941
Write-down brought forward	-5 300 000	0
Write-down for the year	0	-5 300 000
	-5 300 000	-5 300 000
Entered net value carried forward	8 377 171	8 662 112

Note 10 Equipment and computer hardware Group

	2012-12-31	2011-12-31
Acquisition value brought forward	13 882 931	13 706 915
Acquisitions	341 754	516 762
Sales	0	-170 013
Reclassifications	170 733	-170 733
	14 395 418	13 882 931
Depreciation brought forward	-10 118 167	-7 641 279
Accumulated depreciation assets sold	0	101 837
Exchange differences	2600	-59 039
Depreciation for the year	-2 063 003	-2 519 686
	-12 178 570	-10 118 167
Entered net value carried forward	2 216 848	3 764 764

Parent Company

	2012-12-31	2011-12-31
Acquisition value brought forward	8 116 553	8 102 055
Acquisitions	206 961	184 511
Sales	0	-170 013
	8 323 514	8 116 553
Depreciation brought forward	-6 055 349	-4 610 224
Accumulated depreciation assets sold	0	101 837
Depreciation for the year	-1 323 823	-1 546 962
	-7 379 172	-6 055 349
Entered net value carried forward	944 342	2 061 204

Note 11 Other long-term receivables
Group and Parent Company

Refers to promissory note loan according to agreement.

Note 12 Stock
Group and Parent Company

Inventories consist of the gold card and gold card readers used for secure login to Entropia Universe.

Note 13 Receivables from payment providers
Group and Parent Company

Refers to MindArk's outstanding receivables on all contracted payment providers. The open balance contains payments confirmed by the provider but not yet received by MindArk.

**Note 14 Other receivables
Group**

	2012-12-31	2011-12-31
Short-term loan according to agreement	367 150	0
Other receivables	888 296	485 487
	1 255 446	485 487

Parent Company

	2012-12-31	2011-12-31
Short-term loan according to agreement	367 150	0
Other receivables	222 134	266 932
	589 284	266 932

**Note 15 Prepaid expenses and accrued income
Group**

	2012-12-31	2011-12-31
Prepaid license fees for software	543 918	2 883 438
Other prepaid expenses	785 548	1 278 964
Accrued income	0	309 143
	1 329 466	4 471 545

Parent Company

	2012-12-31	2011-12-31
Prepaid license fees for software	543 918	2 883 438
Other prepaid expenses	711 270	987 039
Accrued income	0	287 956
	1 255 188	4 158 433

**Note 16 Changes in shareholders' equity
Group**

Number of shares: 143 293 750

	Share capital	Restricted reserves	Unrestricted reserves	Net profit
Opening balance	1 146 350	50 000	47 647 146	-7 844 873
Issue new shares	286 587		4 713 413	
Shareholders meeting			-7 844 873	7 844 873
Translation difference			65 585	
Net loss for the year				-20 971 158
Outgoing balance	1 432 937	50 000	44 581 271	-20 971 158

Parent Company

Number of shares: 143 293 750

	Share capital	Restricted Reserves	Share premium reserve	Profit carried forward	Net profit
Opening balance	1 146 350	50 000	24 365 295	39 452 016	-23 677 105
Issue new shares	286 587		4 713 413		
Shareholders meeting				-23 677 105	23 677 105
Group contributions				8 907 887	
Tax effects group contributions				-2 342 775	
Net loss for the year					-27 057 207
Outgoing balance	1 432 937	50 000	29 078 708	22 340 023	-27 057 207

**Note 17 Long-term liabilities
Group**

2012-12-31 **2011-12-31**

**Due later than 1 year and within 5 years after balance
sheet date**

Loan Atea/Benzler Finans	0	332 818
	0	332 818

155 780 SEK is left of the total loan at Atea/Benzler Finans and it is booked under short-term liabilities.

Note 18 Accrued expenses and income Group

User requested reimbursements of funds from Entropia Universe are accounted for as an accrual on the balance sheet.

	2012-12-31	2011-12-31
User requested reimbursements not yet settled	1 869 660	1 357 312
Other accrued operating expenses	1 777 366	3 945 174
Prepaid income	91 000	0
	3 738 026	5 302 486

Parent Company

User requested reimbursements of funds from Entropia Universe are accounted for as an accrual on the balance sheet.

	2012-12-31	2011-12-31
User requested reimbursements not yet settled	1 869 660	1 357 312
Other accrued operating expenses	1 488 567	3 357 948
Prepaid income	91 000	0
	3 449 227	4 715 260

Note 19 Contingent liabilities Group and Parent Company

Unconsumed user holdings:

MindArk defines operating income from Entropia Universe as the net amount of provided and withdrawn funds by users.

Participants in Entropia Universe can at any time request a reimbursement of all their unconsumed assets in the virtual currency PED. MindArk then reserves the corresponding amount in SEK as an accrual.

It is not possible to determine whether a certain amount of PED at any given moment will be withdrawn from Entropia Universe or spent on activities within the virtual environment. MindArk therefore consider all unconsumed funds in PED as a contingent liability.

The corresponding value of all unconsumed PEDs is calculated at 66,9 million SEK on December 31st compared to 64,9 million SEK the previous year.

Note 20 Investment in tangible assets Group and Parent Company

During the year the Parent Company acquired fixed assets of 206 961 SEK and the Group 341 754 SEK. In addition, the Parent Company acquired intangible assets for a total of 4 137 445 SEK of which 137 445 SEK is capitalized development costs.

**Note 21 Liquid funds
Group**

	2012-12-31	2011-12-31
Liquid funds		
Cash and bank balances	2 182 967	9 469 852
	2 182 967	9 469 852

Parent Company

	2012-12-31	2011-12-31
Liquid funds		
Cash and bank balances	2 164 276	8 482 546
	2 164 276	8 482 546

Note 22 Purchases and sales between group companies

Parent Company

	2012	2011
Percentage of the total purchases made from other companies in the Group	29,26 %	54,00 %
Percentage of the total sales made from other companies in the Group	35,55 %	6,10 %

Note 23 Shares in subsidiaries

Parent Company

	2012-12-31	2011-12-31
Acquisition value brought forward	7 568 417	7 568 417
Accumulated acquisition value brought forward	7 568 417	7 568 417
Entered net value carried forward	7 568 417	7 568 417

**Note 24 Specifikation andelar i koncernföretag
Parent Company**

Corporate name	Proportion	Share of voting	Number of shares	Book value
Ilunova SA de CV	100%	100%	100	2 658 417
Planet Calypso AB (publ)	100%	100%	100	3 910 000
Entropia Universe AB	100%	100%	100	1 000 000
				7 568 417

	Corporate identity	Domicile	Equity	Net profit
Ilunova SA de CV	0710163	Quintana roo, Mexico	1 906 848	479 063
Planet Calypso AB (publ)	556766-6416	Göteborg	3 910 096	5 061 183
Entropia Universe AB	556767-3594	Göteborg	1 000 063	1 503 930

Göteborg May 20, 2013

Jan Welter Timkrans

Sven Sandberg

Jan Welter Timkrans
Chairman of the Board

Sven Sandberg
Board Member

David Simmonds

David Simmonds
CEO and Board Member

My audit report concerning this annual report has been issued on May 20, 2013

Magnus Götenfelt

Magnus Götenfelt
Authorized public accountant