

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

(Corporate identity SE - 556640-4769)

Financial year

**2011**



The Board of Directors and Chief Executive Officer of MindArk PE AB (publ) hereby present the Annual Report for January 1<sup>st</sup> – December 31<sup>st</sup> 2011.

## 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. The industry has had a growth rate of nearly 17 percent per year and in 2011, the market was calculated at USD 65 billion. 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 year's experience developing and managing technology for 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, EU Support and Operations (EUSO) and AR Universe are both 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 and sister company EUSO. These services include assisting MindArk in the development of the Entropia Platform, and marketing of the same with potential partners.

Ilunova also helps EUSO with first- line customer support allowing prime-time support coverage for users in Entropia Universe from around the world. AR Universe is the operator and developer of Planet Calypso, Entropia Universe's first planet.

### Employees

MindArk during the year has averaged 36 employees, including 5 women. The MindArk group has employed the equivalent of 60 employees, including 11 women. In Mexico, 16 employees are located.

The company's CEO is David Simmonds. Other senior officials of the company are Magnus Eriksson (vice president), Mats Kling (CTO), Keren Edlund (Legal Counsel), David Malcus (Development), Gunilla Krogh (CFO) and Bernt Wåhlin (Human Resources).

### Shares

MindArks shares are unlisted the total number of shares are 114 635 000.

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	34,1 %
C-G Bothén AB	25 600 000	22,3 %
Others 900	49 897 400	43,6 %
<b>Totalt</b>	<b>114 635 000</b>	<b>100 %</b>

### Important events during 2011

#### Technical Development

Work continued in 2011 on reimplementing some of the older game systems into the CryEngine2 environment, such as make-up and robot beacons. Several exciting new game systems were also developed and released, including an impressive achievements system, space travel and combat, fort PvP events, and wave spawn logic for boss-level creatures.

#### New Planet Release and updates on existing

In May 2011, a fourth planet, Planet Arkadia, was released in Entropia Universe. The company behind Planet Arkadia is based in Singapore and is targeting the Southeast Asian market. Throughout the year, the existing planets of Calypso, ROCKTropia and Next Island received numerous content updates and patches to expand and improve the overall user experience and fun-factor.

#### Collaboration with Ericsson

MindArk has worked in close collaboration with Ericsson in a project for developing an advanced voice communication system in Entropia Universe. The technology enables in-depth social interaction capability and enhances the experience for the end-users of Entropia Universe.

Ericsson made a public announcement about the collaboration in May 2011. Development continues on the project and the two companies are discussing future joint efforts in marketing.

#### Launching Space

The vision of implementing Space to connect the various planets has always been an important part of the Entropia Universe concept. The development project was initiated during 2010 to prepare for such implementation.

During the first two quarters of 2011 major resources were focused towards completing the Space project, and in June 2011 MindArk launched Space as part of Entropia Universe.

The enormous and diverse land areas of the various worlds are now surrounded by a complete Space experience. Avatars can walk around on spaceships, land on planets and asteroids, and then disembark from their ships to explore strange new worlds and trade with the inhabitants they meet.

The launch of space included new space craft, new environments, space battles and new opportunities for entrepreneurs to put their skills and creativity to the test to earn money in the Real Cash Economy of Entropia Universe.

A new karma system will provide ranks and titles for the ships with a clear distinction between good and evil. Participants' choices will lead them toward one or the other; towards becoming a feared space pirate or towards being a steadfast vigilante. New space creatures and features will be implemented as well.

#### Planet Calypso back in the books of AR Universe

In December 2010, AR Universe AB and SEE Digital Studios AB signed a contract for the transfer of the assets of the company AR Universe AB, at that time under the name First Planet Company AB. SEE could not pay the agreed purchase price and the contract was terminated.

The main rule in Swedish law after termination is that the subject of the agreement reverts to its original owner, i.e. AR Universe AB. Due to the above, Planet Calypso, which was included in the contract, has been re-admitted to the balance sheet of AR Universe.

#### Calypso Land Deeds

An exciting event of 2011 was the announcement late in the year of Calypso Land Deeds, which allow avatars to become citizens of Planet Calypso and receive a share of the Planet Partner Gross Revenue. In addition, each of the 60,000 Land Deeds will provide the holder with voting rights in a new political system scheduled for development in 2012, which will allow avatars to have a direct influence on the future development of Calypso.

### MindBank

In March 2010, MindArk put a request to the Swedish Financial Supervisory Authority (Finansinspektionen) to withdraw earlier granted approval to conduct banking activities. A board meeting in March 2011 decided to discontinue all activities related to the bank project.

The Managing Director of MindBank, however, will continue to work closely with MindArk's CEO in the process of contracting more partners. The bank project is quality assured and thoroughly documented to prepare for a future application when the necessary funds for establishing the bank can be guaranteed.

### The estate in Dresden

The reconstruction of the company's property in Dresden, eastern Germany, was completed in January 2011. The capitalized refurbishment costs have thus been booked on to "Building and lands" in the Annual report and depreciation began in 2011. This property has been for sale for a long time without being sold, therefore 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 of the property of 5.3 million SEK.

### Marketing

During the year, MindArk attended and participated on the panels of several major computer game exhibitions and conferences, including Gamescom in Germany, and CES and TEDActive in the United States.

Neverdie Studios, the company behind "Planet ROCKtropa", launched a new game area in conjunction with the release of a major Universal Studios Hollywood film, the classic "The Thing". "Hunt The Thing" the game, still proves to be popular long after the film's debut. MindArk is looking forward to the continued relationship with Hollywood studios and bringing other film titles and customers to the Entropia Universe platform.

Planet Partner Beladcom invited MindArk to join them at the World Economic Forum Dead Sea to sign an exclusivity agreement in front of HM King Abdullah II of Jordan. Also, MindArk welcomed Spaniard Blend as a new planet Partner. Spaniard Blend is located in Madrid and is a game developer studio focused on the development of videogames for PS3, Xbox 360 and PC.

Otherwise, marketing has been fairly limited during the year, primarily due to MindArk being focused on completing the conversion of various game systems onto the CryEngine2 platform.

### **Economic Development in Parent Company**

Economic development during the year remained weak. One reason was a delay in the development and conversion of existing game systems causing marketing efforts to be deprioritized.

A second reason for declining revenues in terms of SEK was that the average dollar rate in 2010 was 7.21 SEK compared to 6.49 in 2011. Because the internal currency of Entropia Universe is linked to the USD and MindArk has not raised prices in the game, the company has been adversely affected by the weakening of the dollar against the Swedish krona.

Net sales excluding inter-billing against MindArk Group companies amounted to SEK 43.7 million (previous year 59.9 million). Unconsumed user holdings have been reduced by 3.7 million, from SEK 68.6 million to 64.9 million. This means that the turnover of the game has been greater than net deposits indicates.

Of total revenues, SEK 1.7 million (previous year SEK 22.5 million) was added to AR Universe under a profit sharing contract.

Operating expenses amounted to about SEK 60.3 million (last year about SEK 53 million). Operating profit before depreciation and MindBank project (EBITDA) amounted to minus SEK 15.1 million (previous year minus SEK 11.2 million).

After expenses for the MindBank project and after financial items, the profit before taxes amounts to minus SEK 29.3 million (previous year minus SEK 25.6 million). The equity of the parent company amounted at year-end to SEK 41.3 million (previous year SEK 49.3 million).

#### **Cash Flow and Liquid Assets for Parent Company**

Operating cash flow in the parent company amounts to minus SEK 12 million. A positive cash flow from investing activities on SEK 104 691, together with a received group contribution of SEK 12.2 million meant that the parent company's cash flow was positive, an increase of SEK 320 823 during the fiscal year. Liquid assets amounted to SEK 8.5 million.

#### **MindArk Group summary**

One of the major goals for 2011 was to re-establish a positive cash flow. MindArk's implementation of organizational streamlining was part of this, resulting in lower operating costs. Furthermore, MindArk made investments in new content in Entropia Universe which increased net sales.

Group revenues amounted to SEK 60.6 million (previous year SEK 63.5 million). Operational costs were SEK 53 million (previous year SEK 64 million). After the expenses incurred in the MindBank project, the Group profit after net financial items amounted to minus SEK 7.7 million (previous year minus SEK 17.3 million) before tax. Note that this year's loss included a property write-down of SEK 5.3 million.

#### **Equity of the Group amounted to SEK 41 million (last year SEK 49 million)**

Cash flow was plus SEK 58 185 (last year minus 2.5 million) and has hence improved compared to the development during 2010. The Group's liquid assets as of December 31 were approximately SEK 9.5 million (last year SEK 9.7 million).

#### **Listing of MindArk shares**

The timing of the listing of the MindArk shares has not yet been established. However, the company continues preparation for the IPO in terms of documentation, organization and formality.

### **Annual Meeting and extraordinary general meeting**

The annual meeting for 2011 was held on June 1 at the company's offices. In addition to standard decisions according to the articles of association, it was decided during the meeting to submit an authorization to the Board of Directors to issue new shares at market conditions. The increase of the share capital may be made up to 25%. The Board has not exercised the authorization during the fiscal year.

The Board's members, elected at the 2010 Annual meeting, - Fred Rosenthal (Chairman), Jan Welter Timkrans, Christophe Morvan and Urban Näsman – were all reelected during the annual meeting on June 1 2011. The meeting resolved that the Board should not have any alternate. On September 19, 2011 an Extraordinary General Meeting was held, also on the company's premises. It was decided to replace the current Board and a new board was elected. Jan Welter Timkrans was elected as Chairman, and Sven Sandberg and Michael Zolotas were elected as Board members.

### **Important events in early 2012**

#### 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.

#### 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 was Head of Business Unit Command, Control and Applications at Ericsson, the Swedish telecom giant.

#### One Board member leaving

Michael Zolotas has for personal reason chosen to leave his post as a Board member as of May 2012. At the annual meeting in June a replacement for Michael Zolotas will be elected.

#### Calypso Land Deeds sold out

In April 2012 all Calypso Land Deeds were sold out. The Deeds are now traded on the Entropia Universe global auction.

#### Expected development

While much was accomplished during the last year, 2012 offers more opportunities and promises for Entropia Universe in terms of number of participants, active Planet Partners and the continued development of rich new game systems.

To accommodate the increasing number of planets within Entropia Universe and to encourage the growth of local planetary economies, one area that will receive special attention in the coming months is space travel and interplanetary trade. Resources and materials will be rebalanced

among the planets in order to enable each planet to develop a thriving and healthy local economy, while at the same time creating opportunities for participants to engage in commerce across multiple planets.

One of the main priorities for MindArk and its Planet Partners in 2012 will be improving the experience for new participants. Our development team is already hard at work redesigning the Genesis new arrivals area, with a focus on making it easier for new participants to become familiar with the user interface and Entropia Universe game concepts. Another priority during 2012 will be improving the balance and performance of existing game systems, along with finalizing the reintroduction of prior game systems disabled after the CryEngine2 conversion.

MindArk's plan for maximizing the potential of Entropia Universe in 2012 focuses on two key areas:

- Upgrade existing game systems to provide an enjoyable and rewarding user experience.
- Develop innovative and reliable new game systems to enable our Planet Partners to deliver engaging and immersive content for Entropia Universe participants.

As these planned improvements and developments are completed during 2012, MindArk will ramp up its efforts to promote Entropia Universe and expand the active user base.

#### Several year summary (TSEK)

<b>Consolidated</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net sales	45 993	50 796	66 386	66 625	69 709
Profit after amortization	-7 396	-16 328	1 026	11 562	17 074
Profit after financial items	-7 688	-17 331	-1 200	12 711	18 108
Total assets	51 140	94 948	77 785	78 292	68 331
Equity	40 999	49 072	63 468	64 475	48 027
Anläggningstillgångar	30 974	41 949	51 502	33 608	13 711

<b>Parent company</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net sales	44 752	32 423	50 664	66 625	69 709
Profit after amortization	-29 072	-24 866	-980	11 296	17 074
Profit after financial items	-29 288	-25 592	-3 051	12 687	18 108
Net profit for the year	-23 677	-11 704	-1 651	7 345	9 090
Total assets	60 111	65 865	77 002	78 316	68 331
Equity	41 337	49 290	54 912	55 372	48 027
Untaxed reserves	0	0	11 717	12 731	10 518
Fixed assets	34 962	46 943	52 851	36 030	13 711

**The Board's proposed appropriation of profits**

The Board of Directors and the Chief Executive Officer propose that the net profit and retained earnings will be carried forward (all amounts in SEK):

Retained earnings	39 452 016
Shared premium reserve	24 365 295
Net loss for the year	-23 677 105
	<b>40 140 206</b>
 Amount carried forward	 40 140 206

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	2011-01-01 -2011-12-31	2010-01-01 -2010-12-31
Net sales	1	45 993 394	50 796 366
Other income	2	14 553 269	12 746 925
		<b>60 546 663</b>	<b>63 543 291</b>
<b>Operating expenses</b>			
Other external cost	3	-20 703 706	-25 062 810
Personnel cost	4, 5	-32 360 133	-38 936 078
Amortization and depreciation		-13 594 905	-9 315 549
MindBank - cost		-1 283 924	-6 556 387
		<b>-67 942 667</b>	<b>-79 870 823</b>
<b>Operating profit</b>		<b>-7 396 004</b>	<b>-16 327 532</b>
<b>Financial items</b>			
Interest income		-55 538	-145 630
Other financial items		79 030	246 098
Exchange rate differences in bank holdings		-247 454	-993 761
Interest cost		-68 446	-110 488
<b>Profit after financial items</b>		<b>-7 688 413</b>	<b>-17 331 314</b>
Income tax on profit for the year		-156 460	-101 472
Deferred tax		0	3 081 571
<b>Net profit</b>		<b>-7 844 873</b>	<b>-14 351 215</b>

## Balance Sheet Consolidated

	Not	2011-12-31	2010-12-31
<b>Assets</b>			
<b>Non-current assets</b>			
<i>Intangible assets</i>			
Planet Calypso	6	1 714 232	0
Entropia Platform	7	14 166 608	19 479 086
Other intangible assets	8	123 100	236 620
		<b>16 003 940</b>	<b>19 715 706</b>
<i>Property and equipment</i>			
Buildings and land	9,11	8 824 308	14 527 645
Equipment and computer hardware	10	3 764 764	6 065 636
		<b>12 589 072</b>	<b>20 593 281</b>
<i>Financial assets</i>			
Loan MindArk Groups Vinstandelsstiftelse		16 900	0
Other long-term receivables	12	2 363 836	1 639 858
		<b>2 380 736</b>	<b>1 639 858</b>
<b>Total non-current assets</b>		<b>30 973 748</b>	<b>41 948 845</b>
<b>Current assets</b>			
<i>Stock-in-trade</i>			
Commercial goods	13	511 826	555 180
		<b>511 826</b>	<b>555 180</b>
<i>Short-term receivables</i>			
Account receivables		1 294 223	765 388
Receivables from payment providers	14	1 822 809	1 377 814
Tax advanced		2 110 717	1 360 469
Other receivables	15	485 487	35 188 427
Prepaid expenses and accrued income	16	4 471 545	4 092 466
		<b>10 184 781</b>	<b>42 784 564</b>
<i>Cash and bank balances</i>			
		9 469 852	9 659 121
<b>Total current assets</b>		<b>20 166 459</b>	<b>52 998 865</b>
<b>Total assets</b>		<b>51 140 207</b>	<b>94 947 710</b>

## Balance Sheet Consolidated

	Not	2011-12-31	2010-12-31
<b>Equity and liabilities</b>			
<b>Equity</b>	17		
Share capital (114 635 000 shares)		1 146 350	1 146 350
Restricted reserves		49 999	49 999
Unrestricted reserves		47 647 146	62 226 456
Net profit		-7 844 873	-14 351 215
<b>Total equity</b>		<b>40 998 622</b>	<b>49 071 590</b>
<b>Long-term liabilities</b>	18		
Debt to credit agency		332 818	456 337
<b>Short-term liabilities</b>			
Debt to credit agency		626 680	788 800
Accounts payable		1 049 064	3 724 850
Income tax liability		661 717	92 595
Other liability		3 886 473	2 472 364
Accrued expenses and prepaid income	19	3 584 833	38 341 174
		<b>9 808 767</b>	<b>45 419 783</b>
<b>Total equity and liabilities</b>		<b>51 140 207</b>	<b>94 947 710</b>
<b>Contingent liabilities</b>	20		
Guarantee		1 054 957	1 327 674
Unconsumed user holdings		64 900 000	68 600 000
		<b>65 954 957</b>	<b>69 927 674</b>

## Cash Flow Statement Consolidated

	Not	2011-01-01 -2011-12-31	2010-01-01 -2010-12-31
<b>Operating activities</b>			
Cash received from customers		59 029 701	63 196 564
Cash paid to suppliers and personnel		- 58 131 315	-68 979 072
Interest received		79 030	246 098
Interest paid		- 68 446	-110 488
Income tax paid		- 337 586	1 299 857
<b>Cash flow from operating activities</b>		<b>571 384</b>	<b>-4 347 041</b>
<b>Investing activities</b>	21		
Sale of intangible assets		0	5 115 596
Purchase of property and equipment		-559 560	-2 631 667
Sale of property and equipment		82 344	9 805
Investment other tangible assets		0	-164 276
Amortization of long-term receivables		249 656	291 199
<b>Cash flow from investing activities</b>		<b>-227 560</b>	<b>2 620 657</b>
<b>Financing activities</b>			
Increase of long-term liabilities		134 670	0
Amortization of long-term liabilities		-420 309	-742 359
<b>Cash flow from financing activities</b>		<b>-285 639</b>	<b>-742 359</b>
<b>Cash flow for the year</b>		<b>58 185</b>	<b>-2 468 743</b>
Ingoing cash and bank balances		9 659 121	13 121 624
Exchange rate differences in cash and bank balances		-247 454	-993 761
<b>Outgoing cash and bank balances</b>	22	<b>9 469 852</b>	<b>9 659 121</b>

<b>Income Statement Parent Company</b>	<b>Not</b>	<b>2011-01-01 -2011-12-31</b>	<b>2010-01-01 -2010-12-31</b>
Net sales	1	44 752 222	32 423 424
Other income	2	411 898	9 367 569
		<b>45 164 120</b>	<b>41 790 993</b>
<b>Operating expenses</b>			
Other external cost	3	-37 074 043	-31 528 834
Personnel cost	4, 5	-23 320 025	-21 511 592
Amortization and depreciation		-12 557 901	-7 059 775
MindBank – cost		-1 283 924	-6 556 387
		<b>-74 235 893</b>	<b>-66 656 588</b>
<b>Operating profit</b>	23	<b>-29 071 773</b>	<b>-24 865 595</b>
<b>Financial items</b>			
Interest income		-55 538	-145 630
Other financial items		156 420	168 005
Interest cost		-4	-2 609
Exchange rate differences in bank holdings		-317 287	-745 979
		<b>-216 409</b>	<b>-726 213</b>
<b>Profit after financial items</b>		<b>-29 288 182</b>	<b>-25 591 808</b>
Transfers to untaxed reserves	24	0	11 717 000
<b>Net profit before tax</b>		<b>-29 288 182</b>	<b>-13 874 808</b>
Income tax on group contributions received		5 611 077	2 170 333
<b>Net profit</b>		<b>-23 677 105</b>	<b>-11 704 475</b>

## Balance Sheet Parent Company

Not 2011-12-31 2010-12-31

### Assets

#### Non-current assets

##### *Intangible assets*

Entropia Platform	7	14 166 608	19 479 086
Other intangible assets	8	123 100	236 620
		<b>14 289 708</b>	<b>19 715 706</b>

##### *Property and equipment*

Buildings and land	9,11	8 662 112	14 527 645
Equipment and computer hardware	10	2 061 204	3 491 831
		<b>10 723 316</b>	<b>18 019 476</b>

##### *Financial assets*

Shares in subsidiaries	25, 26	7 568 417	7 568 417
Loan MindArkGroups Vinstandelsstiftelse		16 900	0
Other long-term receivables	12	2 363 836	1 639 858
		<b>9 949 153</b>	<b>9 208 275</b>
<b>Total non-current assets</b>		<b>34 962 177</b>	<b>46 943 457</b>

#### Current assets

##### *Stock-in-trade*

Commercial goods	13	511 826	555 180
		<b>511 826</b>	<b>555 180</b>

##### *Short-term receivables*

Account receivables		67 478	585 221
Receivables from payment providers		1 822 809	1 377 814
Receivables group companies		9 330 613	3 319 384
Tax advanced		139 363	192 013
Other receivables	15	266 932	1 058 391
Prepaid expenses and accrued income	16	4 158 433	3 354 432
		<b>15 785 628</b>	<b>9 887 255</b>

##### *Cash and bank balances*

		8 482 546	8 479 010
<b>Total current assets</b>		<b>24 780 000</b>	<b>18 921 445</b>

#### Total assets

**59 742 177 65 864 902**

## Balance Sheet Parent Company

Not 2011-12-31 2010-12-31

### Equity and liabilities

#### Equity

17

##### *Restricted equity*

Share capital (114 635 000 shares)  
Restricted reserves

1 146 350	1 146 350
50 000	50 000
<b>1 196 350</b>	<b>1 196 350</b>

##### *Non-restricted equity*

Share premium reserve  
Profit brought forward  
Net profit

24 365 295	24 365 295
39 452 016	35 432 677
-23 677 105	-11 704 475
<b>40 140 206</b>	<b>48 093 497</b>

#### Total equity

<b>41 336 556</b>	<b>49 289 847</b>
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#### Short-term liabilities

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

19

955 969	1 534 661
0	10 101 858
12 734 392	1 456 289
4 715 260	3 482 247
<b>18 405 621</b>	<b>16 575 055</b>

#### Total short-term liabilities

#### Total equity and liabilities

<b>59 742 177</b>	<b>65 864 902</b>
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#### Contingent liabilities

20

Guarantee  
Unconsumed user holdings

1 054 957	1 327 674
64 900 000	68 600 000
<b>65 954 957</b>	<b>69 927 674</b>

## Cash Flow Statement Parent Company

	Not	2011-01-01 -2011-12-31	2010-01-01 -2010-12-31
<b>Operating activities</b>			
Cash received from customers		48 117 528	41 154 773
Cash paid to suppliers and personnel		-60 298 853	-52 854 425
Interest received		156 420	168 005
Interest paid		-4	-2 609
Income tax paid		52 650	2 506 998
<b>Cash flow from operating activities</b>		<b>-11 972 259</b>	<b>-9 027 258</b>
<b>Investing activities</b>	21		
Purchase of property and equipment		-227 309	-2 240 742
Sale of property and equipment		82 344	0
Investments other financial assets		0	-164 276
Amortization of long-term receivables		249 656	291 199
<b>Cash flow from investing activities</b>		<b>104 691</b>	<b>-2 113 819</b>
<b>Financing activities</b>			
Received group contribution		12 188 391	8 068 106
<b>Cash flow from financing activities</b>		<b>12 188 391</b>	<b>8 068 106</b>
<b>Cash flow for the year</b>		<b>320 823</b>	<b>-3 072 971</b>
Ingoing cash and bank balances		8 479 010	12 297 960
Exchange rate differences in cash and bank balances		-317 287	-745 979
<b>Outgoing cash and bank balances</b>	22	<b>8 482 546</b>	<b>8 479 010</b>

### **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 AR Universe AB (earlier First Planet Company AB) and the other Planet Partners.

	2011	2010
<b>Net sales</b>		
Deposits etc	67 240 107	74 699 645
Reimbursements	-21 246 713	-23 903 279
	<b>45 993 394</b>	<b>50 796 366</b>
<b>Distribution of net sales through geographical markets</b>		
Participants within the European Community	22 523 239	26 851 629
Participants from the rest of the world	23 470 155	23 944 737
	<b>45 993 394</b>	<b>50 796 366</b>

### 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 AR Universe AB (earlier First Planet Company AB) and the other Planet Partners.

	2011	2010
<b>Net sales</b>		
Deposits	63 234 403	51 853 442
Reimbursements	-21 246 713	-23 903 279
Inter group sales	2 764 532	4 473 261
	<b>44 752 222</b>	<b>32 423 424</b>
<b>Distribution of net sales through geographical markets</b>		
Participants within the European Community	23 570 115	19 703 318
Participants from the rest of the world	21 182 107	12 720 106
	<b>44 752 222</b>	<b>32 423 424</b>

### Note 2 Other income Group

In November 2011 the sale of Calypso Land Deeds began. Originally, a total of 60 000 Land Deeds were

offered for sale at a price of \$100 each, and at the end of the year approximately 18,000 Deeds had been sold.

	<b>2011</b>	<b>2010</b>
Revenue higher revenue sharing	0	9 152 532
Exchange revenues	542 060	231 332
Other revenue	150 979	10 675
Sold Calypso Land Deeds	11 021 930	0
Result sale of fixed assets	2 838 300	3 352 386
	<b>14 553 269</b>	<b>12 746 925</b>

**Parent Company**

	<b>2011</b>	<b>2010</b>
Revenue higher revenue sharing	0	9 152 532
Exchange revenues	324 599	209 390
Other revenue	87 299	5 647
	<b>411 898</b>	<b>9 367 569</b>

**Note 3 Remunerations to company auditors  
 Group**

	<b>2011</b>	<b>2010</b>
<b>PwC</b>		
Entered expenses for auditing	128 000	128 100
Tax advice	0	35 837
Other services	89 136	31 300
	<b>217 136</b>	<b>195 237</b>

**Another auditing firm**

Entered expenses for auditing	0	75 900
Other services	0	33 800
	<b>0</b>	<b>109 700</b>

**Parent Company**

	<b>2011</b>	<b>2010</b>
<b>PwC</b>		
Entered expenses for auditing	82 000	93 200
Tax advice	0	35 837
Other services	89 136	31 300
	<b>171 136</b>	<b>160 337</b>

**Another auditing firm**

Entered expenses for auditing	0	74 500
Other services	0	33 800
	<b>0</b>	<b>108 300</b>

**Note 4 Employees and personnel cost Group**

	<b>2011</b>	<b>2010</b>
<b>Average number of employees</b>		
Female	11	14
Male	49	64
	<b>60</b>	<b>78</b>
<b>Wages and remunerations</b>		
Paid to members of the Board and CEO	4 829 542	4 389 816
Paid to other employees	19 814 831	26 036 248
	<b>24 644 373</b>	<b>30 426 064</b>
<b>Social security cost</b>		
Pension cost for Board members and CEO	372 079	640 867
Pension cost for other employees	1 419 888	1 616 098
Social security cost	6 649 052	8 284 486
	<b>8 441 019</b>	<b>10 541 451</b>
<b>Total cost for wages and remunerations etc</b>	<b>33 085 392</b>	<b>40 967 515</b>

**Parent Company**

	<b>2011</b>	<b>2010</b>
<b>Average number of employees</b>		
Female	5,0	6,5
Male	31,0	29,5
	<b>36,0</b>	<b>36,0</b>
<b>Wages and remunerations</b>		
Paid to members of the Board and CEO	3 954 859	3 104 608
Paid to other employees	12 824 200	13 740 517
	<b>16 779 059</b>	<b>16 845 125</b>
<b>Social security cost</b>		
Pension cost for Board members and CEO	350 878	481 470
Pension cost for other employees	1 168 387	1 026 026
Social security cost	5 569 262	5 426 280
	<b>7 088 527</b>	<b>6 933 776</b>
<b>Total cost for wages and remunerations etc</b>	<b>23 867 586</b>	<b>23 778 901</b>

## Note 5 Employees and personnel cost distributed over countries

Group	2011		2010	
<b>Average number of employees</b>				
Sweden	44	(7)	62	(11)
Mexico	16	(3)	16	(3)
	<b>60</b>	<b>(10)</b>	<b>78</b>	<b>(14)</b>

Figures in parentheses are the average number of women.

## Note 6 Planet Calypso

Group	2011-12-31	2010-12-31
Acquisition value brought forward	0	2 910 000
Purchase	1 763 210	0
Sale	0	-2 910 000
	<b>1 763 210</b>	<b>0</b>
Amortization brought forward	0	-582 000
Amortization according to plan	-48 978	-564 790
Accumulated amortization assets sold	0	1 146 790
	<b>-48 978</b>	<b>0</b>
<b>Entered net value carried forward</b>	<b>1 714 232</b>	<b>0</b>

## Note 7 Entropia Platform Group and Parent Company

Capitalization of development cost for the technical platform of Entropia Universe was done between July 1<sup>st</sup> 2008 and August 31<sup>st</sup> 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.

	2011-12-31	2010-12-31
Acquisition value brought forward	26 562 390	26 562 390
	<b>26 562 390</b>	<b>26 562 390</b>
Amortization brought forward	-7 083 304	-1 770 826
Amortization according to plan	-5 312 478	-5 312 478
	<b>-12 395 782</b>	<b>-7 083 304</b>
<b>Entered net value carried forward</b>	<b>14 166 608</b>	<b>19 479 086</b>

**Note 8 Other intangible assets  
 Group and Parent Company**

Refers to the cost and amortization for MindArk and Entropia Universe web tools.

	<b>2011-12-31</b>	<b>2010-12-31</b>
Acquisition value brought forward	567 600	567 600
	<b>567 600</b>	<b>567 600</b>
Amortization brought forward	-330 980	-217 460
Amortization according to plan	-113 520	-113 520
	<b>-444 500</b>	<b>-330 980</b>
<b>Entered net value carried forward</b>	<b>123 100</b>	<b>236 620</b>

**Note 9 Buildings and land  
 Group**

Refers to property Gnomenstieg 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.

	<b>2011-12-31</b>	<b>2010-12-31</b>
Acquisition value brought forward	1 936 734	1 936 734
Reclassifications	12 481 052	0
	<b>14 417 786</b>	<b>1 936 734</b>
Depreciation according to plan	-293 478	0
	<b>-293 478</b>	<b>0</b>
Write-down	-5 300 000	0
	<b>-5 300 000</b>	<b>0</b>
<b>Entered net value carried forward</b>	<b>8 824 308</b>	<b>1 936 734</b>

### 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.

	<b>2011-12-31</b>	<b>2010-12-31</b>
Acquisition value brought forward	1 936 734	1 936 734
Reclassifications	12 310 319	0
	<b>14 247 053</b>	<b>1 936 734</b>
Depreciation according to plan	-284 941	0
	<b>-284 941</b>	<b>0</b>
Write-down	-5 300 000	0
	<b>-5 300 000</b>	<b>0</b>
<b>Entered net value carried forward</b>	<b>8 662 112</b>	<b>1 936 734</b>

### Note 10 Equipment and computer hardware Group

	<b>2011-12-31</b>	<b>2010-12-31</b>
Acquisition value brought forward	13 706 915	12 690 577
Acquisitions	516 762	1 040 943
Sales	-170 013	-24 605
Reclassifications	-170 733	0
	<b>13 882 931</b>	<b>13 706 915</b>
Depreciation brought forward	-7 641 279	-4 323 632
Accumulated depreciation assets sold	101 837	14 800
Exchange differences	-59 039	0
Depreciation for the year	-2 519 686	-3 332 447
	<b>-10 118 167</b>	<b>-7 641 279</b>
<b>Entered net value carried forward</b>	<b>3 764 764</b>	<b>6 065 636</b>

### Parent Company

	<b>2011-12-31</b>	<b>2010-12-31</b>
Acquisition value brought forward	8 102 055	7 452 037
Acquisitions	184 511	650 018
Sales	-170 013	0
	<b>8 116 553</b>	<b>8 102 055</b>

MindArk PE AB  
Corporate identity SE 556640-4769

25 (30)

Depreciation brought forward	-4 610 224	-2 976 447
Accumulated depreciation assets sold	101 837	
Depreciation for the year	-1 546 962	-1 633 777
	<b>-6 055 349</b>	<b>-4 610 224</b>
<b>Entered net value carried forward</b>	<b>2 061 204</b>	<b>3 491 831</b>

**Note 11 Work in progress and advance payments for fixed assets**  
**Group and Parent Company**

Refers to property Gnomestieg 4, 01156 in Dresden, Germany. As the property was completed in the beginning of 2011 reconstruction work in progress has been rebooked to Property and land.

	<b>2011-12-31</b>	<b>2010-12-31</b>
Reconstruction work in progress	0	12 590 911
	<b>0</b>	<b>12 590 911</b>

**Note 12 Other long-term receivables**  
**Group and Parent Company**

Refers to promissory note loan according to agreement.

**Note 13 Stock**  
**Group and Parent Company**

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

**Note 14 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 15 Other receivables  
 Group**

The claim regarding the remaining portion of the sale proceeds according to Asset Purchase Agreement between First Planet Company AB (now AR Universe AB) and SEE Digital Studios AB is reversed in 2011. This is because the contract is rescinded. For more information, see the annual report.

	<b>2011-12-31</b>	<b>2010-12-31</b>
Short-term part of promissory note on loan	0	816 000
Other receivables	485 487	372 427
Receivables SEE Digital Studios AB	0	34 000 000
	<b>485 487</b>	<b>35 188 427</b>

**Parent Company**

	<b>2011-12-31</b>	<b>2010-12-31</b>
Short-term part of promissory note on loan	0	816 000
Other receivables	266 932	242 391
	<b>266 932</b>	<b>1 058 391</b>

**Note 16 Prepaid expenses and accrued income  
 Group**

	<b>2011-12-31</b>	<b>2010-12-31</b>
Disbursement for MindBank under incorporation	0	48 795
Prepaid license fees for software	2 883 438	2 947 256
Other prepaid expenses	1 278 964	1 018 498
Accrued income	309 143	0
Accrued interest	0	77 917
	<b>4 471 545</b>	<b>4 092 466</b>

**Parent Company**

	<b>2011-12-31</b>	<b>2010-12-31</b>
Disbursement for MindBank under incorporation	0	48 795
Prepaid license fees for software	2 883 438	2 928 510
Other prepaid expenses	987 039	377 127
Accrued income	287 956	0
	<b>4 158 433</b>	<b>3 354 432</b>

**Note 17 Changes in shareholders' equity  
Group**

Number of shares: 114 635 000

	<b>Share capital</b>	<b>Restricted reserves</b>	<b>Unrestricted reserves</b>	<b>Net profit</b>
Opening balance	1 146 350	50 000	62 226 455	-14 351 215
Shareholders meeting			-14 351 215	14 351 215
Translation difference			-228 094	
Net profit				-7 844 873
<b>Outgoing balance</b>	<b>1 146 350</b>	<b>50 000</b>	<b>47 647 146</b>	<b>-7 844 873</b>

**Parent Company**

Number of shares: 114 635 000

	<b>Share capital</b>	<b>Restricted Reserves</b>	<b>Share premium reserve</b>	<b>Profit carried forward</b>	<b>Net profit</b>
Opening balance	1 146 350	50 000	24 365 295	35 432 677	-11 704 475
Shareholders meeting				-11 704 475	11 704 475
Group contributions				21 334 891	
Tax effects group contributions				-5 611 077	
Net profit					-23 677 105
<b>Outgoing balance</b>	<b>1 146 350</b>	<b>50 000</b>	<b>24 365 295</b>	<b>39 452 016</b>	<b>-23 677 105</b>

**Note 18 Long-term liabilities  
Group**

	<b>2011-12-31</b>	<b>2010-12-31</b>
<b>Due later than 1 year and within 5 years after balans sheet date</b>		
Loan Atea/Benzler Finans	332 818	456 337
	<b>332 818</b>	<b>456 337</b>

626 680 SEK of the total loan at Atea/Benzler Finans is booked under short-term liabilities.

### **Note 19 Accrued expenses and income Group**

User requested reimbursements of funds from Entropia Universe are accounted for as an accrual on the balance sheet. The income regarding the remaining portion of the sale proceeds according to Asset Purchase Agreement between First Planet Company AB (now AR Universe AB) and SEE Digital Studios AB is reversed in 2011. This is because the contract is rescinded. For more information, see the annual report.

	<b>2011-12-31</b>	<b>2010-12-31</b>
User requested reimbursements not yet settled	1 357 312	1 626 802
Other accrued operating expenses	3 945 174	2 714 375
Income according to Asset Purchase Agreement	0	34 000 000
	<b>5 302 486</b>	<b>38 341 177</b>

### **Parent Company**

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

	<b>2011-12-31</b>	<b>2010-12-31</b>
User requested reimbursements not yet settled	1 357 312	1 626 802
Other accrued operating expenses	3 357 948	1 855 445
	<b>4 715 260</b>	<b>3 482 247</b>

### **Note 20 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 64,9 million SEK on December 31<sup>st</sup> compared to 68,6 million SEK the previous year.

### **Note 21 Investment in tangible assets Group and Parent Company**

During the year the Parent Company acquired fixed assets of 227 309 SEK and the Group 559 560 SEK. Of the Group investment 135 000 SEK has been funded through finance leases and the rest through cash.

**Note 22 Liquid funds  
Group**

	<b>2011-12-31</b>	<b>2010-12-31</b>
<b>Liquid funds</b>		
Cash and bank balances	9 469 852	9 659 121
	<b>9 469 852</b>	<b>9 659 121</b>

**Parent Company**

	<b>2011-12-31</b>	<b>2010-12-31</b>
<b>Liquid funds</b>		
Cash and bank balances	8 482 546	8 479 010
	<b>8 482 546</b>	<b>8 479 010</b>

**Note 23 Purchases and sales between group companies**

**Parent Company**

	<b>2011</b>	<b>2010</b>
Percentage of the total purchases made from other companies in the Group	54,00 %	36,11 %
Percentage of the total sales made from other companies in the Group	6,10 %	10,69 %

**Note 24 Untaxed reserves**

**Parent Company**

	<b>2011</b>	<b>2010</b>
Reversal of tax allocation reserve	0	10 890 000
Change in additional amortization in intangible assets	0	85 000
Change in additional depreciation on tangible assets	0	742 000
	<b>0</b>	<b>11 717 000</b>

**Note 25 Shares in subsidiaries**

**Parent Company**

	<b>2011-12-31</b>	<b>2010-12-31</b>
Acquisition value brought forward	7 568 417	7 568 417
<b>Accumulated acquisition value brought forward</b>	<b>7 568 417</b>	<b>7 568 417</b>
<b>Entered net value carried forward</b>	<b>7 568 417</b>	<b>7 568 417</b>

**Note 26 Specifikation andelar i koncernföretag**  
**Parent Company**

<b>Corporate name</b>	<b>Proportion</b>	<b>Share of voting</b>	<b>Number of shares</b>	<b>Book value</b>	
Ilunova SA de CV	100%	100%	100	2 658 417	
AR Universe AB (publ)	100%	100%	100	3 910 000	
EU Support & Operations AB	100%	100%	100	1 000 000	
				<b>7 568 417</b>	

  

	<b>Corporate identity</b>	<b>Domicile</b>	<b>Equity</b>	<b>Net profit</b>
Ilunova SA de CV	0710163	Quintana roo Mexico	2 320 326	108 417
AR Universe AB (publ)	556766-6416	Göteborg	3 910 095	10 571 162
EU Support & Operations AB	556767-3594	Göteborg	1 000 062	5 152 654

Göteborg May 31, 2012

*Jan Welter Timkrans*

*Sven Sandberg*

Jan Welter Timkrans  
Chairman of the Board

Sven Sandberg

*David Simmonds*

David Simmonds  
CEO

My audit report concerning this annual report has been issued on May 31, 2012

*Magnus Götenfelt*

Magnus Götenfelt  
Authorized public accountant