

Annual report  
for



MindArk PE AB (publ)

(Corporate identity SE - 556640-4769)

Financial year 2016



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> 2016.

## 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 has been the fastest growing segment of digital media in recent years. In 2017 the worldwide market is estimated at 107 billion USD, and the forecast for 2018 is 113 billion USD.

MindArk is active in the segment of Massively Multiplayer Online Games (MMOs). The forecast for 2017 for this segment is growth of 27 billion USD including games for mobile devices and the forecast for next year is 34 billion USD.

With Entropia Universe, MindArk 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. The speculation that took place a few years ago that the PC platform might lose significance has come to naught. While the PC platform may not be growing as fast as in the past, it retains an already strong position.

Several trends suggest that online games will have continued strong growth, as well as games for mobile devices. The market for mobile games is expected to grow from 43 billion USD in 2017, to 48 billion USD in 2018. In view of this, MindArk has developed a new gaming experience, ComPet Game, that will be available for multiple types of mobile gaming platforms, including Android, iOS and Microsoft Mobile as well as desktop PC. This game, like Entropia Universe, is free to download (F2P), and based on the in-app purchase (IAP) form of payment. This will be the start of MindArk's entry into the mobile segment.

With ComPet, MindArk intends to broaden its product portfolio and balance growth and risk between the PC platform and the ever-growing mobile platform.

One aspect of technology that is becoming increasingly common in digital games is Virtual Reality (VR). Since 2015, MindArk has explored and developed VR technology to complement and enhance the gaming experiences offered by the company today.

## 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, PED, which has a fixed value against the USD (10 PED = 1 USD), 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 has more than 13 years of experience developing and managing technology for virtual economies 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 two subsidiaries, Entropia Universe AB and Planet Calypso AB. All are located in Gothenburg, Sweden.

Planet Calypso AB was the operator and developer of Planet Calypso, the first planet in Entropia Universe. Since January 1, 2015 all operations are handled by the parent company.

The subsidiary Entropia Universe AB previously provided much of the support for and operation of Entropia Universe. Since May 2012, the company is primarily used for marketing purposes.

## Employees

In 2016, MindArk averaged 40 employees, including four women.

The company's CEO since 2014 is Klas Moreau. Other senior officials of the company are Magnus Eriksson (COO), David Simmonds (Business Development Manager), Mats Kling (CTO), Jan Welter Timkrans (Working Chairman), Sven Sandberg (Marketing Manager) and Gunilla Krogh (CFO).

## Shares

The shares of MindArk 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	46 965 000	31,1 %
C-G Bothén AB	25 600 000	17,0 %
Others approx 900	70 728 750	51,9 %
<b>Totalt</b>	<b>143 293 750</b>	<b>100 %</b>

## Important events during 2016

MindArk continues to expand and invest in its core product, Entropia Universe, along with initiating an exciting new gaming experience, ComPet Game.

### ComPet Game

A first beta version of ComPet Game was released in May 2016. The feedback from the testers was very positive. In December 2016 ComPet Game was fully released for Android and is planned for release on iOS and Steam within the next few months. As promised, MindArk is also working on the integration between ComPet and Entropia Universe, offering an innovative cross-platform and cross-genre gaming experience. That being said, Entropia Universe is the primary product and focus of MindArk, and will continue to be so. In developing ComPet as an alternative gaming experience, MindArk has added an offering to complement and promote Entropia Universe.

### Growth

The number of players who downloaded the Entropia Universe client and tested the game increased by 12% in 2016 compared to 2015. During the same period, economic activity within Entropia Universe grew by over 5%. The company's continued efforts at improving the experience for new participants contributed to that growth, as did the support of community members and existing participants in welcoming and mentoring new Entropians. MindArk will continue to improve the experiences and resources available to newcomers, including in-game and video tutorials, educational missions, improving the mentor/disciple system and rewards, and additional support for community efforts aimed at new participants.

### Infrastructure & Performance

MindArk has also been working on new and improved platform systems that will provide more powerful tools for the planet partners to deploy engaging content for all participants. One such system released during 2016 is the Dynamic Event System, currently being tested on Planet Calypso. This new system integrates event objectives and avatar participation with the existing mission tracker interface, and provides new tools for planet partners to create and manage more dynamic and engaging official events. Once that system is extended and refined, it will be made available to all planet partners in 2017.

### Entropia Universe Support Chat

The chat channel, which was launched last year, is now widely used by both novice and experienced users. It is another tool that contributes to the smooth introduction of new participants. MindArk has also added support for additional character sets in the Entropia Universe client chat interface, allowing participants to communicate in Korean, Chinese, Japanese, Thai, Hindi and more languages.

### Entropia Pocket

MindArk released Entropia Pocket in 2016, a free mobile application for Android and iOS that integrates a two-factor authentication solution to provide comprehensive account security for all Entropia Universe participants. The Entropia Pocket app also provides real-time alerts about important events and news from within Entropia Universe. MindArk plans to add additional features to Entropia Pocket moving forward.

### Manomotion

MindArk has invested half a million SEK in the company Manomotion AB. The company was formally founded in June 2015, but the technology that forms the basis for Manomotion's product is the result of several years of research. In brief, the Manomotion technology enables control of any hardware equipped with a camera via hand movements. As Manomotion focuses on 3D games and applications for virtual reality MindArk sees great potential in the cooperation.

### **Planet Partners**

No new Planet Partners have been added during the year. The existing partners worked in 2016 to produce new content, strengthen relationships with existing participants and with marketing. Some of the planets grew both in terms of the number of active users, deposits and consumption in-game.

Next Island has also been developing "Next Island Mobile" during 2016, a "mini" mobile version of the Next Island MMO that will improve player acquisition and retention, with an expected launch in mid-2017.

### **New Share Issue**

MindArk's Board of Directors decided on 29 November 2016, with authorization from the recent Annual General Meeting of the Company, on a new share issue of up to 14 329 375 new shares. This is an increase of maximum 10% of the current number of shares. The entire issue was subscribed and it will increase the equity by SEK 5 million and share capital will increase from 1 432 937.50 SEK to 1 576 231.25 SEK.

The Board's decision in its entirety is reproduced on MindArk's website under 'Investor Relations'. Aktieinvest FK AB in Stockholm administered the issue. Information and instructions have been issued to all shareholders (or, where applicable, shareholders' management). As of December 2016, 2.7 million SEK of the total issue amount had been deposited in the company's bank account.

### **Economic Development**

Net sales for the company amounted to 63.8 million SEK (previous year SEK 52.9 million), an increase of 20 %. Approximately 9 million SEK of net sales is related to inactive users, i.e. a user whose account has not been active for at least one year. Remaining funds in these accounts have been moved from player debt to net sales. If inactive user accounts are excluded, this year's increase in net sales is 3.6%.

Net deposits in 2016 amounted to 70.1 million PED compared to the 2015 net deposits, which totaled 63.3 million PED. If a deduction is made for deposits related to financial purchases, such as Arkadia Underground Deeds and ComPet Deeds, the figure for 2016 is 63.7 million PED compared to 60.4 million PED in 2015, representing an increase in net deposits of 5.4 %.

The same comparison based on the revenue measure consumption in Entropia Universe excluding gains and bonuses, shows that revenue has increased by 5.3 % from the 70.8 million PED in 2015 to 74.6 million PED 2016.

Unconsumed user holdings decreased by 12.8 million PED, from 122.5 million PED to 109.7 million PED. However, the total debt in SEK has not decreased to that extent as the SEK/USD exchange rate rose from 8.35 SEK/USD at the end of last year to 9.10 SEK/USD on December 31, 2016 (1 USD = 10 PED). It resulted in a debt decrease of 2.4 million SEK, from 102.3 million SEK to 99.9 million SEK. Player debt declined partly because more PED were consumed than new money deposited and partly because inactive accounts were deducted from the debt.

Operating expenses amounted to about 63.5 million SEK (last year about 51.2 million SEK), an increase of 12.3 million SEK. Most of the increase was due to increased marketing. Operating profit before depreciation amounted to plus 9.1 million SEK (previous year plus 4.3 million SEK).

After financial items, profit before taxes amounts to plus 10.7 million SEK (previous year 4 million SEK). The equity of the company amounted at year-end to 38.5 million SEK (previous year 30.4 million SEK).

## **Cash Flow and Liquid Assets**

During the year the company acquired fixed assets of 0.5 million SEK and capitalized development costs for the amount 4.3 million SEK for ComPet Game.

The company's liquidity increased during the year and at year end amounted to 9.5 million SEK versus 4.8 million SEK the previous year.

## **Group in summary**

No consolidated financial statements have been prepared for fiscal year 2016, as no operations have been conducted in the subsidiaries during the year.

## **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.

## **Annual Meeting**

The annual meeting for 2016 was held on June 20 in the company's office. Nothing beyond standard decisions according to the articles of association was decided in the meeting.

Board members Jan Welter Timkrans (Chairman), David Simmonds and Sven Sandberg were reelected. It was resolved in the meeting that the Board should not have any alternate.

## Final Words

MindArk shows financial strength for another year with positive results. Profit after financial items totals more than 10.7 million SEK for the full year 2016. The company is in a strong position for the coming year, with resources to promote the further growth of Entropia Universe and the launch of ComPet Game on more platforms.

## Several year summary (TSEK)

	2016	2015	2014	2013	2012
Net sales	63 764	52 893	37 653	43 848	42 003
Profit after amortization	8 161	3 691	-3 518	-8 718	-29 529
Profit after financial items	10 745	4 002	-4 912	-8 898	-29 400
Net profit for the year	5 434	3 056	3 709	-9 371	-27 057
Total assets	59 138	50 541	34 637	28 689	47 036
Equity	38 515	30 401	20 383	16 674	25 844
Fixed assets	29 465	26 730	24 577	18 604	32 306

## Changes in shareholders' equity (TSEK)

	Share capital	Restricted Reserves	Share premium reserve	Profit carried forward	Net profit	Total capital
Opening balance	1 433	50	29 079	-3 216	3 056	30 401
Shareholders meeting				3 056	-3 056	0
Not registered share capital	2 680					2 680
Fund for development		4 297		-4 297		0
Net profit for the year					5 434	5 434
<b>Outgoing balance</b>	<b>4 113</b>	<b>4 347</b>	<b>29 079</b>	<b>-4 457</b>	<b>5 434</b>	<b>38 515</b>

## Changes in shareholders' equity (TSEK)

	Share capital	Not registered share capital	Restricted Reserves	Share premium reserve	Profit carried forward	Net profit	Total capital
Opening balance	1 433		50	29 079	-3 216	3 056	30 401
Shareholders meeting:					3 056	-3 056	0
Not registered share capital		2 680					2 680
Fund for development			4 297		-4 297		0
Net profit for the year						5 434	5 434
<b>Outgoing balance</b>	<b>4 113</b>	<b>2 680</b>	<b>4 347</b>	<b>29 079</b>	<b>-4 457</b>	<b>5 434</b>	<b>38 515</b>

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

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

Fund for development	- 4 297 178
Retained losses	-160 424
Shared premium reserve	29 078 708
Net profit for the year	5 433 772
	<b>30 054 878</b>

Amount carried forward	30 054 878
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Further inquiries regarding the financial position and performance of the company are directed to the below listed income statement, balance sheet and cash flow statement with accompanying notes.



## Income Statement Parent Company

	Not	2016-01-01 -2016-12-31	2015-01-01 -2015-12-31
Net sales		63 764 476	52 893 408
Capitalized work		2 120 135	1 388 300
Other income		6 696 479	1 173 569
		<b>72 581 090</b>	<b>55 455 277</b>
<b>Operating expenses</b>			
Other external costs	1	-35 674 773	-28 482 739
Personnel costs		-27 845 983	-22 672 741
Amortization and depreciation		-899 296	-608 448
		<b>-64 420 052</b>	<b>-51 763 928</b>
<b>Operating profit</b>		<b>8 161 038</b>	<b>3 691 349</b>
<b>Financial items</b>			
Profit from other securities and receivables accounted for as non-current assets	2	619 765	445 487
Other financial items	3	68 194	2 034
Interest cost and similar items	4	2 183 602	-322 761
Exchange rate differences in bank holdings		-287 460	185 712
		<b>2 584 101</b>	<b>310 472</b>
<b>Profit after financial items</b>		<b>10 745 139</b>	<b>4 001 821</b>
Transfers to untaxed reserves		-3 704 210	0
<b>Net profit before tax</b>		<b>7 040 929</b>	<b>4 001 821</b>
Income tax		-1 607 157	-945 800
<b>Net profit</b>	5	<b>5 433 772</b>	<b>3 056 021</b>

## Balance Sheet Parent Company

Not

2016-12-31

2015-12-31

### Assets

#### Non-current assets

##### *Intangible assets*

Planet Calypso	6	330 757	441 010
Planet Calypso Forum	7	113 053	150 737
Other intangible assets	8	11 964 964	7 800 748
		<b>12 408 774</b>	<b>8 392 495</b>

##### *Property and equipment*

Equipment and computer hardware	9	1 679 067	1 761 707
		<b>1 761 707</b>	<b>1 761 707</b>

##### *Financial assets*

Shares in subsidiaries	10	4 910 000	4 910 000
Other long-term securities	11	688 320	188 320
Loan MindArk Groups Vinstandelsstiftelse		157 000	134 600
Deferred tax		5 378 443	6 986 600
Other long-term receivables	12	4 243 604	4 357 366
		<b>15 377 367</b>	<b>16 575 886</b>

#### Total non-current assets

**29 465 208**

**26 730 088**

#### Current assets

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

Commercial goods	13	408 626	379 857
Advanced to suppliers		160 332	0
		<b>568 958</b>	<b>379 857</b>

##### *Short-term receivables*

Account receivables		2 008 657	2 853 838
Receivables from payment providers	14	1 353 203	2 435 462
Receivables group companies		88 245	109 118
Tax advanced		31 638	106 302
Other receivables		14 743 206	11 370 334
Prepaid expenses and accrued income		1 414 056	1 772 421
		<b>19 639 005</b>	<b>18 647 475</b>

##### *Cash and bank balances*

		9 464 634	4 783 384
<b>Total current assets</b>		<b>29 672 597</b>	<b>23 810 716</b>

#### Total assets

**59 137 805**

**50 540 804**

## Balance Sheet Parent Company

Not

2016-12-31

2015-12-31

### Equity and liabilities

#### Equity

##### *Restricted equity*

Share capital (143 293 750 shares)  
Not registered share capital  
Restricted reserves  
Fund for development

1 432 938

1 432 938

2 680 195

0

50 000

50 000

4 297 178

0

**8 460 311**

**1 482 938**

##### *Non-restricted equity*

Share premium reserve  
Profit brought forward  
Net profit

29 078 708

29 078 708

-4 457 602

-3 216 445

5 433 772

3 056 021

**30 054 878**

**28 918 284**

#### Total equity

**38 515 189**

**30 401 222**

#### Long-term liabilities

Other liabilities

184 734

797 178

**184 734**

**797 178**

#### Short-term liabilities

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

1 971 271

2 552 092

3 908 294

3 984 081

2 358 437

5 403 258

8 495 670

7 402 973

#### Total short-term liabilities

**16 733 672**

**19 342 404**

#### Total equity and liabilities

**59 137 805**

**50 540 804**

## 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 annual accounts and the consolidated accounts drawn up in accordance with *BFNAR 2012: 1 Årsredovisning och koncernredovisning* (K3).

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 %

## Notes

### Note Contingent

#### *Unconsumed user holdings:*

Unconsumed user holdings equivalents of user deposits which are not used or withdrawn. The debt at the beginning of the fiscal year was PED 122.5 million which represented at that time approximately SEK 102.3 million (exchange rate of 0.835 SEK/PED). During the financial year the debt decreased by approximately PED 12.8 million to PED 109.7 million, which corresponds with the year-end exchange rate of a debt of SEK 99.9 million (exchange rate of 0.910 SEK/PED).

User requested reimbursements not yet settled is recognized in the balance sheet under Accrued expenses.

	2016-12-31	2015-12-31
Contingent	99 854 723	102 323 049
	<b>99 854 723</b>	<b>102 323 049</b>

### Note Important events in early 2017

#### New Share Issue ended

The new share issue MindArk conducted in December 2016 was completed in January 2017. The entire issued capital is now available on the company's bank account.

#### Marketing

MindArk continues to increase the number of active users in the Entropia Universe by improving the conversion of created accounts to active players and this with a smaller budget than in 2016 for Entropia Universe. Furthermore, the company plans to market ComPet Game intensively, with a goal of reaching as quickly as possible a similar number of users as Entropia Universe. In the budget, this goal is funded partly by the recently-completed new share issue and partly by cash flow from ComPet Game. The company also continues to position Entropia Platform as a useful component for virtual reality applications.

#### Contributions from Vinnova – Sweden's innovation agency

Given its position within the virtual universe sector, MindArk naturally follows current developments in the virtual reality sphere with great interest. In recent years, MindArk has explored various areas and developments to determine how best to position Entropia Universe within the emerging VR market. It is very likely that VR will be a part of Entropia Universe once MindArk determines that the market is ripe.

Vinnova is a government innovation authority under Sweden's Ministry of Industry. Vinnova's mission is to promote sustainable growth by improving the conditions for innovation and funding needs-driven research. MindArk applied for a grant from Vinnova's fund "Innovation projects in business" with the project "Development of a social VR experience compatible with a mobile

device."

The grant application was approved, providing MindArk with 1.8 million SEK during the period 2017-05-01 until 2018-04-30 to implement the proposed project.

### Note 1 Average employees

	2016	2015
Average employees	40	34

### Note 2 Profit from other securities and receivables accounted for as non-current assets

	2016	2015
Interest	229 793	213 026
Exchange revenues	389 972	232 461
	<b>619 765</b>	<b>445 487</b>

### Note 3 Other financial items

	2016	2015
Other interest income	68 194	2 034
	<b>68 194</b>	<b>2 034</b>

### Note 4 Interest cost and similar items

	2016	2015
Interest cost	-750	-3 094
Exchange difference player debt	2 184 352	-319 667
	<b>2 183 602</b>	<b>-322 761</b>

## Note 5 The Board's proposed appropriation of profits

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

Fund for development Retained losses	- 4 297 178
Retained losses	-160 424
Shared premium reserve	29 078 708
Net profit for the year	5 433 772
	<b>30 054 878</b>
Amount carried forward	30 054 878

## Note 6 Planet Calypso

	2016-12-31	2015-12-31
Acquisition value brought forward	551 263	0
Purchase	0	551 263
	<b>551 263</b>	<b>551 263</b>
Amortization brought forward	-110 253	0
Amortization according to plan	-110 253	-110 253
	<b>-220 506</b>	<b>-110 253</b>
<b>Entered net value carried forward</b>	<b>330 757</b>	<b>441 010</b>

## Note 7 Planet Calypso Forum

	2016-12-31	2015-12-31
Acquisition value brought forward	188 421	0
Purchase	0	188 421
	<b>188 421</b>	<b>188 421</b>
Amortization brought forward	-37 684	0
Amortization according to plan	-37 684	-37 684
	<b>-75 368</b>	<b>-37 684</b>
<b>Entered net value carried forward</b>	<b>113 053</b>	<b>150 737</b>

## Note 8 ComPet Game

Refers to the acquisition of the ComPet Game idea, capitalized costs and capitalized expenses for the mobile application development. ComPet Game was launched in 2016. The note also refers to the cost and amortization for the MindArk and Entropia Universe web tool, which was fully amortized last fiscal year.

	2016-12-31	2015-12-31
Acquisition value brought forward	8 368 348	4 860 905
Purchase	4 370 011	3 507 443
	<b>12 738 359</b>	<b>8 368 348</b>
Amortization brought forward	-567 600	-567 600
Amortization according to plan	-205 795	0
	<b>-773 395</b>	<b>-567 600</b>
<b>Entered net value carried forward</b>	<b>11 964 964</b>	<b>7 800 748</b>

## Note 9 Equipment and computer hardware

	2016-12-31	2015-12-31
Acquisition value brought forward	10 678 446	9 413 524
Acquisitions	462 924	1 264 922
	<b>11 141 370</b>	<b>10 678 446</b>
Depreciation brought forward	-8 916 739	-8 456 228
Depreciation for the year	-545 564	-460 511
	<b>-9 462 303</b>	<b>-8 916 739</b>
<b>Entered net value carried forward</b>	<b>1 679 067</b>	<b>1 761 707</b>

## Note 10 Specification shares in subsidiaries

Corporate name	Proportion	Share of voting	Number of shares	Book value
Planet Calypso AB (publ)	100%	100%	450 000	3 910 000
Entropia Universe AB	100%	100%	2 000	1 000 000
				<b>4 910 000</b>

	Corporate identity	Domicile	Equity	Net profit
Planet Calypso AB (publ)	556766-6416	Göteborg	3 913 489	3 459
Entropia Universe AB	556767-3594	Göteborg	1 000 030	5



**Note 11 Other long-term securities holdings**

Refers to new issues in Rufoid AB and Manomotion AB.

	<b>2016-12-31</b>	<b>2015-12-31</b>
Acquisition value brought forward	188 320	0
Purchase	500 000	188 320
	<b>688 320</b>	<b>188 320</b>
<b>Entered net value carried forward</b>	<b>688 320</b>	<b>188 320</b>

**Note 12 Other long-term receivables**

Refers to promissory note loan according to agreement.

**Note 13 Stock**

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

Inventories also consist of profile products that are sold through an online shop on the company's website.

**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.

Göteborg April 27, 2017

*Jan Welter Timkrans*

Jan Welter Timkrans  
Chairman of the Board

*Sven Sandberg*

Sven Sandberg  
Board Member

*David Simmonds*

David Simmonds  
Board Member

*Klas Moreau*

Klas Moreau  
CEO

My audit report concerning this annual report has been issued on May 9, 2017.

*Magnus Götenfelt*

Magnus Götenfelt  
Authorized public accountant