



*MindArk PE AB (publ) develops, operates and markets 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.*

## Mid-Year Report January – June 2013

### Technical Development 2013

#### Back-end infrastructure upgrades to the Entropia Platform

Over the past several platform releases in the earlier part of this year, the first components of a major upgrade to the Entropia Universe infrastructure have been implemented. Much of that groundwork has taken place behind the scenes, without much immediately noticeable impact on the end-user experience.

During the summer, the MindArk development team has been working hard on building and testing the next phase of the infrastructure upgrade project, both software and hardware. Those improvements will be implemented into Entropia Universe in the upcoming platform release, and the final stages will be deployed in the subsequent platform releases during autumn and early winter.

The benefits of this major infrastructure upgrade are many, including:

- Greater server capacity (simultaneous users)
- Improved server stability and expandability as the Entropia Universe population grows
- More frequent Version Updates
- Ability to deploy small hot fixes to clients very quickly
- Much shorter downtimes when new Version Updates are released

In addition, the new infrastructure will allow our developers and partners to spend much more of their time working on new features, systems and content, and improving existing systems, rather than on packaging and delivering Version Updates.

### Development Tools

In the beginning of 2013 a major upgrade of the EUPDK (content development sandbox) was made to be able to create more complex, diverse, and higher performance content.

### Systems & Features

MindArk has decided to place a greater focus on smaller feature refinements and additions to existing systems as opposed to the release of major updates and new systems. This change in focus will allow MindArk to further improve existing systems and content while delivering a more polished error-free experience to participants, which in turn should result in lower customer support costs.

### Social networking

MindArk has been working hard on upgrading the capabilities for social networking in Entropia Universe.



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Social networking has exploded on the internet in general and many such features have become standard for modern online multiplayer games.

Accordingly, MindArk has begun a major project to improve the social features within the Entropia Universe client which will make it much easier and more convenient for participants to communicate and form social connections with one another. Development on this important project is already well underway, and is planned for release in winter 2013.

### **New Payment methods**

In June, MindArk released two new payment methods, PayPal and Zong. PayPal is one of the most popular and widely-used processors of internet transactions. Currently PayPal has only been implemented

for deposits into Entropia Universe but will ultimately be expanded to include withdrawals.

Zong was bought by PayPal in 2011 and adds the ability to easily make payments with smartphones and other mobile devices. With the growing numbers of smartphones in use, MindArk is pleased to now provide a safe and easy native mobile payment method to participants.

The introduction of Zong also provided the opportunity to launch Starter Packs, consisting of easy and affordable packages to enrich the Entropia Universe experience for new participants.

### **New Planet Release**

Regarding the sixth planet in Entropia Universe, Planet Toulan,

development has continued and the new preliminary release date is late December 2013. The planet is produced by the company Beladcom, which is headquartered in Amman, Jordan.

### **Marketing**

After optimizing MindArks online advertising for efficiency during 2012, online marketing spending was scaled up markedly during the first half of 2013. As a result, the total number of new user accounts more than doubled compared to the same period in 2012.

However, new users need considerable time to learn how to play. Revenue from new users thus builds relatively slowly. It will take approximately another half-year before users recruited during the first



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half year of 2013 will contribute significantly to revenue.

Video for YouTube has become a vital promotional tool in the gaming industry. During the first half of 2013, MindArk has produced a series of seventeen video tutorials targeted at new recruits to Entropia Universe, one new concept video for Entropia Universe, and a trailer for the new dungeon Cyclops Depths on the first planet of the universe, Planet Calypso.

Other marketing activities during the period included publicity received via Press Releases, search engine optimization, website development, social media marketing and direct mailings to current and former participants.

### **Dresden property sold**

As discussed in earlier annual reports, the company acquired in June 2006 a property located in Dresden, eastern Germany. The acquisition was part of the internationalization of the company's operations. The purchase price amounted to 195 000 EUR. The purpose of the purchase was that the property would be used partly as a secondary server room and for representation. At the time of purchase, one of the world's largest computer gaming conventions was held every year in nearby Leipzig. The original plan was to be able to use the property for representation with media, end-users and partners in conjunction with the computer gaming convention.

During the years 2006 - 2009 the building was restored, at a cost of approximately 1.4 million EUR. The

property is listed which has made the renovation far more expensive and time consuming than anticipated. Once the restoration of the property was completed, the yearly Leipzig computer gaming convention had been relocated several hours away to Cologne.

Additionally, the company determined that it was more cost effective to get a second data center in Amsterdam. The property was then for sale for three years. With the economic climate and extraordinary circumstances over the last few years, MindArk determined that it was prudent to accept a 500,000 EUR cash bid for the property.

The Dresden property was finally sold in April 2013 and cash payment was received in June 2013. The sale generated a positive cash flow but at the same time a capital loss which explains the high external costs for



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the first 6 months of this year. The loss was in total 9.3 million SEK, of which 5.3 million SEK was charged last year as an impairment of the property.

### **Economic Development**

Net contribution from end users (excluding deposits made for Calypso Land Deeds) during the first six months of 2013 was 22.4 million SEK, compared to 23.1 million SEK for the same period in the previous year, a 3% decrease. If net contribution is counted in PED, the in-game currency (10 PED = 1 USD), there is no decrease in spending in Entropia Universe for the period. The numbers are almost exactly the same.

The reason for MindArk's decreased income is the falling average SEK/USD exchange rate. The

average rate for the first six months of last year was 6.83 SEK for one USD compared to 6.50 SEK for one USD this year. Thus, MindArk has received less SEK for approximately the same amount of deposited PED between the two years.

Operating expenses decreased from 41 million SEK in the previous year to 28.6 million SEK this year. This decrease is mainly a result of the settlement with SEE Digital Studios and SEE Virtual Worlds last year. 4 million SEK of the external costs are a capital loss regarding the sale of the property in Germany.

The profit before taxes for the MindArk Group amounts to minus 6.2 million SEK compared to minus 12.2 million SEK for the previous year.

### **Cash Flow and Liquid Assets**

The cash flow balance has been greatly affected by the installment payments to SEE Digital Studios and SEE Virtual Worlds. The last installment will take place in October 2013.

The sale of the property in Dresden resulted in a positive impact on cash flow by 4.4 million SEK. Hence, cash flow balance has improved slightly in the first six months of this year compared to 2012, 3.9 million SEK compared to 3.1 million SEK during the first half of 2012.

However, the Group's liquid assets as of June 30 totaled approximately 6 million SEK, compared to 12.7 million SEK for the previous year.



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### **Annual Meeting 2013**

The annual meeting for 2013 was held on June 26 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), David Simmonds and Sven Sandberg were reelected. It was resolved in the meeting that the Board should not have any alternate.

### **Accounting Principles**

This semi-annual report has been compiled according to the laws concerning annual accounts. The accounting principles are unchanged compared to the last annual report.

Receivables are shown as the value at which they are expected to be paid. Other assets and debts are shown at acquisition value unless otherwise noted.

Accrual of income and costs are shown according to accepted accounting practices. For further descriptions of accounting principles, see the 2012 Annual Report.

### **Financial Information**

For further information concerning the company's financial results, standing and cash flow during the period, see results and balance reports below, as well as the cash flow analysis and key figures.

Göteborg, August 30, 2013

The Board of Directors



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### **Review report**

I have reviewed this report for the period 1 January 2013 to 30 June 2013 for MindArk PE AB (publ). The board of directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with the Swedish Annual Accounts Act. My responsibility is to express a conclusion on this interim report based on my review.

I conducted my review in accordance with the Swedish Standard on Review Engagements SÖG 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review

procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

Based on my review, nothing has come to my attention that causes me to believe that the interim report is not prepared, in all material respects, in accordance with the Swedish Annual Accounts Act.

Göteborg, 27 September 2013

Magnus Götenfelt  
Authorised Public Accountant



**INCOME STATEMENT (kSEK)**

**GROUP**

**PARENT COMPANY**

JANUARY–JUNE 2013

JANUARY–JUNE 2012

JANUARY–JUNE 2013

JANUARY–JUNE 2012

Net sales	23 620	23 844	22 230	20 805
Other income	2 546	9 164	131	63
Operating expenses	- 28 623	- 40 985	- 25 920	- 35 408
Depreciation according to plan	- 3 649	- 4 112	- 3 003	- 3 436
Operating loss	- 6 106	- 12 089	- 6 562	- 17 976
Financial items	- 125	- 97	- 47	83
<b>NET PROFIT BEFORE TAX</b>	<b>- 6 231</b>	<b>- 12 186</b>	<b>- 6 609</b>	<b>- 17 892</b>
	=====	=====	=====	=====



**BALANCE SHEET (kSEK)**

**GROUP**

**PARENT COMPANY**

	JUNE 2013	JUNE 2012	JUNE 2013	JUNE 2012
<b>ASSETS</b>				
Intangible assets	11 168	17 285	10 335	15 865
Tangible assets	1 648	11 691	717	10 051
Financial assets	2 551	2 467	10 120	10 035
Receivables	10 491	11 685	10 612	11 657
Prepaid expenses	1 089	6 115	1 052	6 046
Cash and bank balances	6 035	12 680	5 587	10 831
<b>TOTAL ASSETS</b>	<b>32 982</b>	<b>61 923</b>	<b>38 423</b>	<b>64 484</b>
<b>EQUITY &amp; LIABILITIES</b>				
Equity	18 930	33 959	19 236	28 444
Short-term liabilities	14 052	27 964	19 187	36 040
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>32 982</b>	<b>61 923</b>	<b>38 423</b>	<b>64 484</b>
UNCONSUMED USER HOLDING PLEDGED ASSETS	73 261 0	67 268 848	73 261 0	67 268 848





**CASH FLOW STATEMENT (kSEK)**

**GROUP**

**PARENT COMPANY**

	JANUARY-JUNE 2013	JANUARY-JUNE 2012	JANUARY-JUNE 2013	JANUARY-JUNE 2012
<b>OPERATING ACTIVITIES</b>				
Cash received from customers	26 190	33 315	22 150	18 053
Cash paid to suppliers and personnel	- 30 570	- 29 987	- 27 694	- 25 119
Interest received	96	170	96	170
Interest paid	- 191	- 167	- 124	0
Income tax paid	309	- 120	- 600	- 646
<b>Cash flow operating activities</b>	<b>- 4 166</b>	<b>3 211</b>	<b>- 6 171</b>	<b>- 7 541</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of intangible assets	0	- 4 288	0	- 4 288
Purchase of property and equipment	- 259	- 264	- 104	- 51
Sale of property and equipment	8 377	0	8 377	0



Increase in long-term receivables	0	- 184	0	0
<b>Cash flow from investing activities</b>	<b>8 118</b>	<b>- 4 736</b>	<b>8 273</b>	<b>- 4 339</b>
FINANCING ACTIVITIES				
New share issue	0	5 000	0	5 000
Group contribution received	0	0	1 334	9 330
Other financing / amortization (-)	- 61	- 333	0	0
<b>Cash flow from investing activities</b>	<b>- 61</b>	<b>4 667</b>	<b>1 334</b>	<b>14 330</b>



<b>Cash flow for the period</b>	<b>3 891</b>	<b>3 142</b>	<b>3 436</b>	<b>2 450</b>
Ingoing cash and bank balances	2 183	9 470	2 164	8 483
Exchange rate differences in cash and bank balances	- 39	68	- 13	- 102
<b>Outgoing cash and bank balances</b>	<b>6 035</b>	<b>12 680</b>	<b>5 587</b>	<b>10 831</b>



<b>KEY RATIOS – MINDARK GROUP</b>	<b>JANUARY-JUNE 2013</b>	<b>JANUARY-JUNE 2012</b>
Net sales (kSEK)	23 620	23 844
Operating profit (kSEK)	- 6 106	- 12 089
Financial items (kSEK)	- 125	- 97
Net profit (kSEK)	- 6 231	- 12 186
Thousand number of shares issued	143 294	143 294
Operating margin	- 26 %	- 51 %
Profit per share (SEK)	- 0,04	- 0,08
Liquid funds (kSEK)	6 035	12 680
Adjusted Equity (kSEK)	18 930	33 959
Adjusted Equity per share (SEK)	0,13	0,24
Total assets (kSEK)	32 982	61 923
Equity ratio	57 %	55 %
Number of employees in the MindArk Group	49	49