

ENTROPIA
UNIVERSO



MINDARK PE AB ANNUAL REPORT 2006



ENTROPIA
UNIVERS

This annual report comprises MindArk PE AB(publ) with Corporate identity number 556640-4769.

The company does not own interests in any other companies and is not part of any group.

A copy of the undersigned annual accounts can be obtained from www.bolagsverket.se

06

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2006 – A breakthrough year for



“Our users brought a total of 110 million PED into the virtual environment during 2006. The corresponding figure for 2005 amounted to 47 million PED, an increase of 134%. ”

Market Development

”The entertainment of the future is here”, was the opening phrase in MindArks Annual Report for 2005. A claim that in truth has been fulfilled during the year gone by. The entertainment industry is today under great pressure to change, and the computer games industry is today larger than both the film and music industries.

With its unique mix of online entertainment, social interaction and e-commerce connected to a real economy in a gigantic three dimensional virtual universe, MindArk and Entropia Universe are world leaders and thus very well prepared for the changes in the entertainment industry currently under way.

Our unique product has also received great interest from several global actors on the international media scene, and MindArk are currently in negotiation with several potential partners.

Entropia Universe – The Virtual Environment

Entropia Universe originally began as a so called MMORPG – a Massive Multiplayer Online Role Playing Game. Today we consider the Entropia Universe as something much greater, more all-encompassing, like a virtual universe which expands continuously in step with MindArk’s expansion of the content in the virtual environment.

The long term vision is to create a complete universe for its users, where all social, economic and entertainment needs are satisfied. This is to be packaged in a visual environment that completely imitates the real world in appearance and feeling. The technology for this visual

MindArk and Entropia Universe

feedback is not yet available today, but we continue to work at the forefront of technological development to reach that goal as soon as possible. Within a few years we believe that Entropia Universe will be a better universe to live in than our own real one! As we see Entropia Universe continuing for a very long time to come, this is a very natural goal for us to adopt.

There are today over 575,000 registered users in the Entropia Universe. The software for the Entropia Universe is free and available for download from our website. We also distribute the software via DVDs discs and, in contrast to other software companies, we encourage our users to spread the program to other interested parties.

The most unique quality of the Entropia Universe is the real economy connected to the virtual environment. All economic transactions are conducted using the virtual PED currency, which has a fixed exchange rate with the US dollar. 1 US dollar equals 10 PED. MindArk guarantee the exchange rate and all participants can, at any time, request a withdrawal of all or part of their PED funds. MindArk then pay the corresponding sum to the user in their own local currency.

Income Statement Development

The influx of new users during 2006 continued strongly. Our users brought a total of 110 million PED into the virtual environment during 2006. The corresponding figure for 2005 amounted to 47 million PED, an increase of 134%.

The good influx of PED is also reflected in the company's income statement, which during 2006 continued to develop strongly. The result after depreciation, but before items affecting comparability entries

amounted to 22.5 million SEK, and increase of 237% compared with the previous year.

New Share Issue in MindArk and the Coming Stock Market Introduction

The share issue during 2005 meant that the company received approximately 900 new shareholders during the year. Through these shareholders an amount of 25 million SEK was supplied to the company. This addition of capital means that MindArk today have a very strong financial position and are therefore well equipped for the continued expansion of the company.

The share issue also means that the company today fulfills its owner's spread demands for an introduction on most stock market lists. It is my hope that MindArk shall fulfill its plans for a stock market introduction in the near future.

Development during 2007

The first quarter of 2007 has begun strongly with a good growth in deposited PED. During the remainder of the current year we are counting on a very strong turnover and income statement growth.

The company's old and new share holders are welcome to join a very exciting journey!

Gothenburg, April 2007

Jan Welter Timkrans
CEO and principal shareholder
MindArk PE AB

Entropia Universe



As the real cash economy is a fundamental part of

MindArk operates, develops and markets the entertainment platform called Entropia Universe, which gives people from all over the world the opportunity of becoming members in a common 3d virtual universe. Entropia Universe offers a unique mixture of online entertainment, social interaction and E-commerce through a ground breaking concept; the connecting of a real cash economy to a gigantic three dimensional virtual universe.

The Basics

The Entropia Universe client software is free to download over the Internet and doesn't involve any subscription fees what so ever. Entropia Universe utilizes a "real cash economy", which means that the internal Entropia Universe economy is linked to the real world economy. This is achieved using a virtual currency called the Project Entropia Dollar (PED), which has a fixed exchange rate, guaranteed by MindArk, to the US Dollar, where 10 PED equals 1 USD.

By enabling this kind of currency exchange, both to and from Entropia Universe, a participant has the opportunity to earn real money while in essence partaking in an online computer game. Real currency is entered into Entropia Universe using mainly credit cards and pre-paid cards. The virtual PED currency may then be exchanged back into real world currency using either a direct bank transfer, or the Entropia Universe Cash Card, which

essentially is an ATM card that can be loaded with PED from inside the Entropia Universe and used to instantaneously withdraw real funds according to the exchange rate mentioned above, from over 1 million ATM machines worldwide.

The Virtual Universe

The Entropia Universe is set on the distant colony of Calypso, the first habitable planet mankind has ever found. Participants assume the role of colonists that strive to build a new world together, under threat from the natural elements and a marauding robot force out to destroy the fledgling colony.

As Calypso is a recently discovered planet, the colonists – players – must establish their own society and economy. This requires a lot of cooperation and specialization – one person cannot do it all. This means that colonists need to collaborate when it comes to advancing the level of development; it is better to have a specialized miner searching for minerals and an expert tools manufacturer making tools. Should colonists choose to leave the safety of the cities and towns on Calypso, they may have to defend themselves against wild animals, hostile mutants and invading robots. However the risk can be worth the reward with pristine new land areas to survey and extract minerals from.

Upon entering Entropia Universe, one creates an alter ego, an avatar (a 3d character which represents the participant in the



Entropia Universe, it also becomes valuable in real life

virtual universe), which can be modeled completely according to the participant's wishes regarding gender, appearance, skin color etc. One is then transported to the virtual planet Calypso where In-World adventures and social interaction with other participants begin. As a participant in Entropia Universe you use PED to acquire virtual land and equipment in order to invest in your avatar's growth and abilities.

MindArk expands and develops Entropia Universe continually, much of which is based on participant feedback and initiative. This means that the individual, together with others, has the opportunity to participate in the creation of a new civilization, the exploration of whole continents and the establishment of new communities.

Virtual Items and Values

Virtual items are items that exist in the Entropia Universe, like a shirt, a house, or a tool. They are intangible assets, which in Entropia Universe have a real value as they can be bought and sold for PED. The concept is not as strange as it seems, as people have already paid for virtual items, or experiences, for decades. When you go to a store and buy a CD, do you buy a shiny, physical plastic disc or is it the content in form of music – the

experience, sensations and mood, from listening to something you deem valuable? The same theory applies to the virtual items in Entropia Universe – they are valuable in the context they exist, and as the real cash economy is a fundamental part of Entropia Universe, they also become valuable in real life.

“ MindArk wants the Entropia Universe to grow to be one of the largest online entertainment platforms in the world. The virtual economy must therefore offer unlimited income opportunities to the participant. ”

Most items are traded on the free market in Entropia, either through direct participant-to-participant interaction, or by use of the auction system which allows for global trades, or through the numerous shops, marketplaces and shopping malls scattered around the virtual universe. The market imitates the real world where supply and demand determine price and availability. Some of the rarer virtual items

in Entropia Universe have a market value of over 25,000 USD. This may seem a lot, but the perceived value, both in function and/or status warrants it.

Just like in the real world, where you live virtually is also important. If you can find a nice three room condo next to one of Entropia's celebrity players, you will have to be able to afford paying premium money for the estate, compared to an apartment of equal size somewhere in the virtual suburbs. As the virtual universe is composed of real human beings behind every avatar, real world mechanics, psychology and social patterns are imitated in the society built by Entropia participants.

Entropia Universe



The Year in Review – Highlights: Culture,

New Oxford

During spring, the Entropia city of culture, New Oxford, was launched. Designed by esteemed professor Ernst Billgren, the virtual city contains education in the form of lectures from London fashion designers, and artists from the USA like Mark DeMuro and Mark Kostabi. The virtual galleries sell both virtual and even real life works of art, using Entropia's e-commerce backbone for selling real life items. As the PED has a fixed exchange rate to the US Dollar, buying and distributing real life items all around the world is very easy.

Fashion is also featured in New Oxford with London based Vexed Generation, a renowned urban street wear brand from the UK who have a line of virtual clothes on display. The same models are available as real life clothing also, meaning both the avatar and the person behind can look alike. A bit of trivia concerning this is that the virtual piece of clothing is often more expensive than its real life counterpart.

East-Indiaman Ship “Götheborg”

During late summer the same year, MindArk traveled to Shanghai, China, together with a delegation from the city of Gothenburg and several international Swedish companies, to celebrate the arrival of the East-Indiaman ship “Götheborg”. At the same time the Götheborg arrived in real life Shanghai, a virtual version emerged by the shores of New Oxford, allowing all Entropia Universe avatars to check out the ship themselves, regardless of their physical location on Earth.

Nobel Prize Celebrations

Immediately after the prize giving ceremony and banquet at Stockholm Town Hall, the Nobel Laureates, their guests, and other honorees were taken to the Stockholm School of Economics for the Nobel Night Cap Party where Entropia Universe welcomed them to a combined virtual and real night club – a worlds first in entertainment!



Commerce and Entertainment

Live sounds and video were projected from the famous virtual Club Neverdie into the physical night club, creating the illusion that the Nobel Laureates and the avatars were dancing and celebrating together. The night club was built in the main hall of the Stockholm School of Economics and immediately became the center of the party. It was a stunning display, melding the virtual world into the real world. Jon “Neverdie” Jacobs, at Club Neverdie, and famous Swedish radio DJ Anders Berglund, in place in Stockholm, took turns spinning records for the happy guests.

Shopping Malls Sold

Just before Christmas three grand virtual shopping malls were sold using the Entropia Universe auction system. The final tally of prices was 179,668 USD. One of the shopping mall owners managed to turn a profit from the major purchase just a couple of weeks later.

“ The neat and mind boggling feature with the Entropia ATM card is that a person who just sold a virtual chair inside Entropia Universe can go out into the streets of London and buy a pizza with the earnings from that sale, within minutes! ”

Several year summary and key-ratios

Several year summary (amounts in kSEK if not otherwise stated)	2006	2005	2004	2003
BALANCE SHEET				
Fixed assets	10 521	10 533	5 563	5 405
Current receivables	7 773	2 737	1 531	673
Liquid funds including investments	32 979	3 710	459	521
Equity	38 937	3 709	1 143	1 009
Untaxed reserves	5 200	3 320	480	0
Interest bearing liabilities	0	2 232	3 279	3 921
Current liabilities	7 136	7 717	2 652	1 668
Total assets	51 273	16 980	7 553	6 599
INCOME STATEMENT				
Net sales	59 038	28 219	16 908	4 976
Operating profit before items affecting comparability	22 551	6 683	868	160
Financial items	1 045	-139	-184	-89
Profit after financial items	14 595	6 544	684	71
Transfers to/from untaxed reserves	-1 880	-2 840	-480	0
Income tax for the year	-2 000	-1 136	-71	-61
Net profit	10 716	2 568	133	9
Adjusted net profit	12 069	4 612	479	9
ECONOMIC KEY RATIOS				
Adjusted equity	42 681	6 100	1 488	1 009
Equity ratio	83%	36%	20%	15%
Debt equity ratio	0.2	1.8	4.1	5.5
Operational capital employed	42 681	8 333	4 767	4 930
Investments	2 949	6 882	1 317	5 677
Number of shares issued adjusted for split				
October 2006	11 463 500	10 000 000	10 000 000	10 000 000
Adjusted equity per share	3,72 kr	0,61 kr	0,15 kr	0,10 kr
Operational profit margin	38%	24%	5%	3%
Return on operational capital	56%	80%	18%	3%
Return on equity	56%	107%	46%	7%
Earnings per share	1,05 kr	0,46 kr	0,05 kr	-
Average on number of employees	32	24	20	18
KEY RATIOS ENTROPIA UNIVERSE				
Newly registered customer accounts	145 698	133 265	76 495	76 476
Relative growth	9%	74%	0%	
Gross funds provided in PED	110 696 160	47 320 820	29 072 475	6 492 297
Requested withdrawals in PED	20 174 426	4 827 018	1 042 639	906 493
Net funds deposited in PED	90 521 734	42 493 802	28 029 836	5 585 804
Relative growth	113%	52%	402%	

Definitions of key ratios

Adjusted equity: Total equity + 72% of untaxed reserves.

Equity ratio: Adjusted equity as a percentage of total assets.

Debt equity ratio: Total liabilities including postponed tax liability divided by adjusted equity.

Operational capital employed: Total assets – (non interest bearing liabilities + 28% of untaxed reserves).

Operational profit margin: Operation profit excluding items affecting comparability as a percentage of net sales.

Return on operational capital: Profit after financial items + financial cost as a percentage of operational capital employed.

Adjusted net profit: Net profit + 72% of transfers to untaxed reserves.

Return on equity: Profit after financial items as a percentage of adjusted equity.

Earnings per share: Adjusted net profit divided by the number of shares issued at the end of the financial year.

Share capital and ownership structure

The share capital in MindArk PE amounts to 1 146 350 SEK. Number of shares issued is 11 463 500. All issued shares have equal rights to the company's assets and profits and are entitled to one vote each. During March the company received payment for the new share issue decided the previous year. Since the company was established in 2003 the share capital has developed as follows.

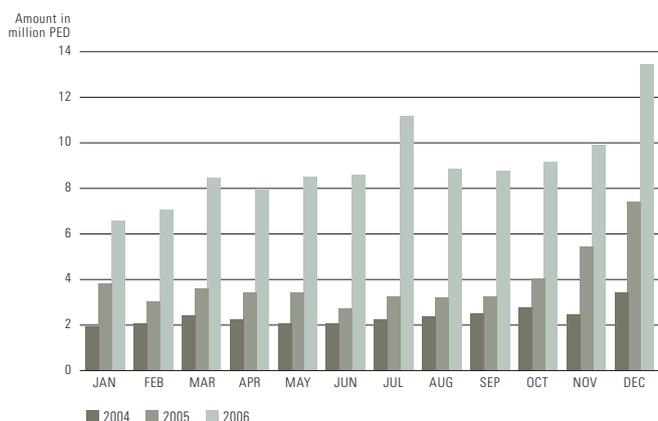
Share Capital Development

Time	Event	Increase in number of shares	Total number of shares	Increase in share capital	Total share capital
February 2003	Founded	1 000	1 000	100 000 kr	100 000 kr
July 2003	Split 100:1	99 000	100 000	0 kr	100 000 kr
September 2003	New share issue	900 000	1 000 000	900 000 kr	1 000 000 kr
March 2006	New share issue	146 350	1 146 350	146 350 kr	1 146 350 kr
October 2006	Split 10:1	10 317 150	11 463 500	0 kr	1 146 350 kr

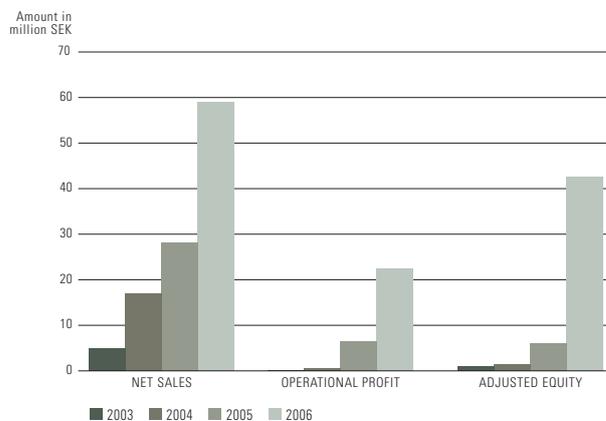
Ownership structure

Shareholders	Shareholdings 31 December 2006	Proportion of shares and votes
Jan Welter Timkrans	4 475 030	39.0%
C-G Bothén AB	3 100 000	27.0%
Lars Molinder	500 000	4.4%
Mattias Sundström	418 570	3.7%
Kronboken AB	222 650	1.9%
Lars Hammarström	199 220	1.7%
Urban Bothén	195 000	1.7%
Other shareholders (approximately 900)	2 353 030	20.5%
	11 463 500	100%

MONTHLY DEPOSITS IN PED 2004–2006



SEVERAL YEAR SUMMARY 2003–2006



Board of Directors and leading officials 2006

Board of Directors



Jan Welter Timkrans

Age: 50 years
Title: Chief Executive Officer
Number of shares owned: 4 475 030
Background: Member of the Board of Directors since 2003.
Studies at Chalmers 1978–1984.
More than 20 years of experience in executive position leadership. Creator of Entropia Universe and founder of MindArk PE.



Anders Gutenbrant

Age: 58 years
Title: Member of the Board of Directors
Number of shares owned: 100 000
Background: Member of the Board of Directors since 2005. Economic Graduate HHS. Active as financial advisor.
More than 20 years of experience as an advisor within Corporate Finance with Handelsbanken and Alfred Berg among others.



Bernt Wåhlin

Age: 52 years
Title: Chairman of the Board of Directors, Chief Personnel Manager at MindArk PE
Number of shares owned: 29 860
Background: Member of the Board of Directors since 2003. Studies at Chalmers 1974-1979. More than 20 years experience of management assignment. Has been at MindArk since 1999.

Leading Officials



Anders Bodin

Age: 51 years
Title: Chief Operations Officer
Number of shares owned: 0
Background: Studies at Chalmers 1977–1981. More than 25 years of experience of business development in IT and telecom of which more than 10 years as managing director. Has been at MindArk since 2006.



Magnus Eriksson

Age: 36 years
Title: Chief Development Officer
Number of shares owned: 24 050
Background: Masters Degree in Computer Science from Mälardalens Högskola. Has previously worked with educational graphical software for production industries. Has been at MindArk since 2000.



Cornelia Sundström

Age: 33 years
Title: Customer Service Director
Number of shares in company: 8 000
Background: Studies in Communication Science and Social anthropology at Freie University in Berlin 1996-2002. More than 15 years experience within service industry professions. Has been at MindArk since 2005.

Jan Welter Timkrans

Chief Executive Officer
Facts: See above

Bernt Wåhlin

Personnel Manager
Facts: See above



Marco Behrmann

Age: 34 years
Title: Chief Information Officer
Number of shares in company: 41 500
Background: Systems Science education at University of Gothenburg. Has worked with various computer games for almost 10 years. Has been at MindArk since 2002.



Carl Ugglå

Age: 63 years
Title: Chief Marketing Officer
Number of shares in company: 1 300
Background: Marketing degree from University of Linköping. Has previous experience from management positions within marketing, restaurant businesses and the music industry among others. Has been at MindArk since 2005.



Anders Stenlund

Age: 49 years
Title: Chief Financial Officer
Number of shares in company: 22 265 through company
Background: Economics graduate from University of Gothenburg with more than 20 years experience as an economic consultant. Has been at MindArk since 1999.

Auditor

Peter Önnheim

Authorized Public Accountant
Önnheim & Olsson Account Firm

Director's Report 2006

The Board of Directors and Chief Executive Officer for MindArk PE AB (publ) hereby present the Annual Report for January 1st – December 31st 2006

Activity

The company runs and develops Entropia Universe which is a 3-dimensional Internetbased virtual universe, globally available and free of charge for everybody with access to an Internet connection.

The activity has continued to grow. Net turnover rose to 59 million SEK, an increase with 109% compared to the previous year.

Cash flow amounted to 29 million SEK of which 8 million SEK from current operations.

Cash and bank balances including short-term investments amount to 33 million SEK at the end of the financial year.

146 000 new subscriber accounts has been created, an increase with 9%.

Profit before items affecting comparability amount to 22,5 million SEK, previous year 6,7 million SEK) an increase with 237%.

Important events during 2006

The final payment for the acquisition agreement for Entropia Universe was paid in March. The acquisition value is thereby fixed at approximately 15 million SEK.

The company received payment for the new share issue decided in 2005 in March. After deduction of issue expenses a total amount of 24,5 million SEK was provided to MindArk PE. Due to the delayed payment MindArk PE obtained an interest compensation of 580 000 SEK.

During April our product was renamed Entropia Universe.

The annual shareholders meeting was held in Goteborg on June 2nd. In addition to common issues new articles of incorporation was decided.

The meeting also decided on a split of the company's share where every old share was replaced by 10 new shares. The split was registered by the Swedish Bolagsverket in October.

MindArk PE has in June acquired a real estate in Dresden in eastern Germany. The acquisition value amounts to 195 000 EUR.

During July the board has negotiated a premature redemption of the royalty agreement between the company and CEO. The Board is of the opinion that the royalty agreement will jeopardize a future listing of the MindArk share. Against a lump sum of 9 million SEK the CEO resigns from all future demands connected to the royalty agreement. The payment is accounted for as an item affecting comparability.

Work with a new game-server park for Entropia Universe has started during the autumn. The game-servers are located in a co-location center. Total investment in hardware amounts to approximately 3 million SEK and will charge profit during 24 months after establishment in February 2007.

Important events in 2007

During February the new game-server park has been established. In addition to monthly cost for computers on approximately 125 000 SEK the rent for premises and other operational cost will amount to approximately 75 000 SEK monthly.

Expected future development

Entropia Universe continues to grow rapidly. The Board is expecting a considerable growth in netsales and profitability during 2007.

The Boards proposition for distribution of earnings

The Board of Directors and the Chief Executive Officer propose that the net profit and retained earnings will be carried forward.

Retained earnings	27 025 199
Net profit for the year	10 715 799
Summary	37 740 998
Amount carried forward	37 740 998

Any profit distribution is thereby not proposed to take place.

Further inquiries are directed to the below listed income statement, balance sheet and cash flow statement with accompanying notes.

Several year summary (kSEK)	2006	2005	2004	2003
Net sales	59 038	28 219	16 908	4 976
Operational profit	13 550	6 683	868	160
Profit after financial items	14 595	6 544	684	71
Net profit	10 716	2 568	1 333	9
Total assets	51 273	16 980	7 492	6 642
Equity	38 937	3 710	1 142	1 009
Untaxed reserves	5 200	3 320	480	0
Interest-bearing liabilities	0	2 232	3 279	3 921
Fixed assets	10 521	10 533	5 563	5 405

Income statement

SEK	Note	2006	2005
OPERATING INCOME			
Net sales	1	59 037 742	28 218 752
OPERATING EXPENSES			
Other external cost	2	-14 052 737	-7 378 391
Personnel cost	3,4	-19 473 675	-12 245 159
Amortization according to plan	5	-2 960 693	-1 911 906
Items affecting comparability		-9 000 000	0
		-45 487 105	-21 535 456
Operating profit		13 550 637	6 683 296
FINANCIAL ITEMS			
Interest income		1 117 048	7 308
Interest cost		-72 189	-146 654
Profit after financial items		14 595 496	6 543 950
Transfers to untaxed reserves	6	-1 880 000	-2 840 000
Income tax on profit for the year	7	-1 999 697	-1 136 382
Net profit		10 715 799	2 567 568

Balance sheet

SEK	Note	2006-12-31	2005-12-31
ASSETS			
FIXED ASSETS			
INTANGIBLE ASSETS			
Entropia Universe	8	8 584 479	10 533 189
TANGIBLE ASSETS			
Land and buildings	9	1 936 734	0
Total fixed assets		10 521 213	10 533 189
CURRENT ASSETS			
CURRENT RECEIVABLES			
Receivables from payment providers	10	2 179 289	1 247 745
Other receivables		204 239	2 000
Prepaid expenses	11	5 389 199	1 487 724
		7 772 727	2 737 469
INVESTMENTS			
Other investments	12	20 049 159	0
Cash and bank balances		12 930 208	3 709 134
Total current assets		40 752 094	6 446 603
TOTAL ASSETS		51 273 307	16 979 792
EQUITY AND LIABILITIES			
EQUITY			
RESTRICTED EQUITY			
Share capital (11 463 500 shares)	13	1 146 350	1 000 000
Statutory reserve		50 000	50 000
		1 196 350	1 050 000
UNRESTRICTED EQUITY			
Share premium reserve		24 365 295	0
Profit carried forward		2 659 904	92 336
Net profit		10 715 799	2 567 568
		37 740 998	2 659 905
Total equity		38 937 348	3 709 904

Balance sheet (CONT.)

SEK	Note	2006-12-31	2005-12-31
UNTAXED RESERVES			
Untaxed reserves	14	5 200 000	3 320 000
SHORT-TERM LIABILITIES			
Accounts payable		855 031	579 876
Income tax liability		586 632	1 148 411
Other liabilities	15	2 202 689	6 109 203
Accrued expenses	16	3 491 607	2 112 398
		7 135 959	9 949 888
TOTAL EQUITY AND LIABILITIES		51 273 307	16 979 792
MEMORANDUM ITEMS			
Pledged assets		0	50 000
Contingent liabilities	17	-	Royalty Agreement
		Unconsumed userfunds	Unconsumed userfunds

Cash flow statement

SEK	Note	2006	2005
CURRENT OPERATIONS			
Profit after financial items		14 595 497	6 543 949
Amortization according to plan		2 960 693	1 911 906
Paid income tax		-2 561 476	-59 169
Cash flow from current operations before changes in working capital		14 994 714	8 396 686
CASH FLOW FROM WORKING CAPITAL			
Changes in current receivables		-5 035 259	-1 206 796
Changes in current liabilities		-2 252 280	2 942 174
Cash flow from current operations		7 707 175	10 132 064
ASSET MANAGEMENT OPERATIONS			
Investments in Entropia Universe		-1 011 983	-6 882 138
Investments in building and land		-1 936 734	0
Cash flow from asset management operations		-2 948 717	-6 882 138
FINANCING			
New share issue		24 511 645	0
Cash flow from financing		24 511 645	0
CASH FLOW FOR THE YEAR			
Opening cash and bank balances		3 709 264	459 338
Closing cash and bank balances	18	32 979 367	3 709 264
CASH FLOW FOR THE YEAR		29 270 103	3 249 926

Supplementary disclosures

Accounting principles

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

The principles are unchanged from last year except from the treatment of amounts in PED held by customers. These assets in PED are considered as a contingent liability by MindArk. For additional information, please refer to note 17.

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 income and expenses has been done according to the professional ethics for accountants.

Notes (amounts in SEK unless otherwise stated)

NOTE 1. NET SALES

Corporate revenue consist of the net amount between deposited and requested withdrawals supplied to Entropia Universe by the users. The net revenues are presented in the income statement after deduction of user requested reimbursements.

	2006	2005
Net sales	71 321 143	31 340 790
Reimbursements	-12 518 332	-3 122 038
Other income	234 932	0
	59 037 743	28 218 752
Distribution of net sales through different geographical markets		
Users within the European Union	31 073 260	15 157 844
Users from rest of the world	27 964 483	13 060 908
	59 037 743	28 218 752

NOTE 2. REMUNERATIONS

Entered expenses for audit fee	75 000	86 800
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The auditors have not performed any consultations for the company.

NOTE 3. ABSENSE DUE TO ILLNESS

Absence is quoted in percentage of the total ordinary working hours for every group of employees.

All employees	1.60%	0.90%
Employees in age group 30-49 years	2.40%	0.50%

NOTE 4. EMPLOYEES AND PERSONNEL COST

Average number of employees		
Female	6	5
Male	33	19
	39	24
Wages, remunerations and social security cost		
Paid to members of the Board and CEO	1 517 826	949 748
Paid to other employees	11 281 049	7 057 255
Pension cost to other employees	23 178	0
Social security cost	4 100 018	2 561 991
	16 922 071	10 568 994

The Board of Directors is completely comprised of men. The annual shareholders meeting 2006 decided on a remuneration to the Board members in equivalence of 150 000 SEK. The amount will be paid during 2007. Two members of the Board are employed by the company.

Notes

NOTE 5. AMORTIZATION

Fixed assets is amortized according to plan over the anticipated economic lifetime. For Entropia Universe an amortization of 20% is deployed.

NOTE 6. UNTAXED RESERVES

	2006	2005
Amortization outside the plan	500 000	-1 500 000
Tax allocation reserve	-2 380 000	-1 340 000
	-1 880 000	-2 840 000

NOTE 7. INCOME TAX ON NET PROFIT FOR THE YEAR

Calculated tax	1 999 697	1 136 382
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A standard interest calculation for transfers to tax allocation reserves brought forward increase the income tax on net profit with 9 332 SEK.

In relation to the new share issue MindArk was provided a gross amount of 30 million SEK. Issue expenses amounted to 5,5 million SEK and was entered against the share premium reserve in the accounts. The issue expenses are deductible for tax purposes which reduces income tax cost for the year by approximately 1,5 million SEK.

NOTE 8. INTANGIBLE ASSETS

Relates completely to the acquisition value and amortization of the Entropia Universe.

Accumulated acquisition value		
Acquisition value brought forward	13 875 795	6 993 657
Acquisition during the year	1 011 983	6 882 138
Accumulated acquisition value brought forward	14 887 778	13 875 795
Accumulated amortization		
Amortization brought forward	-3 342 606	-1 430 700
Amortization according to plan	-2 960 693	-1 911 906
Accumulated amortization brought forward	-6 303 299	-3 342 606
Entered net value carried forward	8 584 479	10 533 189

Notes

NOTE 9. BUILDINGS AND LAND

Relates to an acquisition of real estate property in Dresden in eastern Germany.

	2006	2005
Accumulated acquisition value		
Acquisition value	1 936 734	0
Accumulated acquisition value brought forward	1 936 734	0
Entered net value carried forward	1 936 734	0

No depreciation has been made since the property is currently being rebuilt.

NOTE 10. RECEIVABLES FROM PAYMENT PROVIDERS

Outstanding receivables on payment providers MindArk has agreements with. The outgoing balance contains payment confirmed by the payment provider but not received by MindArk on the balance day.

NOTE 11. PREPAID EXPENSES

MindArk enters hardware investments as expendable equipment. The cost for computer purchases are entered as prepaid cost in the purchase month. Thereafter the cost is distributed monthly over the estimated economic lifetime.

During autumn considerable investments for implementation of a new game-server park has been made. The servers will not be in operation until spring 2007. The invested amount is therefore entered as a prepaid cost.

	2006	2005
Computer hardware for new game server-park	3 185 243	0
Other hardware purchases	1 508 727	1 089 163
Other prepaid expenses	695 229	398 561
	5 389 199	1 487 724

The new game server-park will be distributed as cost over 24 months.
Other hardware purchases will be distributed as cost over 12 months.

NOTE 12. OTHER INVESTMENTS

Relates to invested surplus cash balances in interest bearing low risk investments.

Commercial papers with a duration less than 3 months	13 973 903	0
Interest fund	6 075 256	0
	20 049 159	0

Notes

NOTE 13. CHANGES IN SHAREHOLDERS EQUITY

Number of shares: 11 463 500 (previous year 1 000 000)

	Share capital	Statuary Reserve	Share premium reserve	Profit carried forward	Net profit
Opening balance	1 000 000	50 000		92 337	2 567 568
New share issue	146 350		24 365 295		
Decides Shareholders meeting				2 567 568	-2 567 568
Net profit					10 715 799
Outgoing balance	1 146 350	50 000	24 365 295	2 659 905	10 715 799

NOTE 14. UNTAXED RESERVES

	2006	2005
Accmulated amortization	1 400 000	1 900 000
Tax allocation reserve 2005	80 000	80 000
Tax allocation reserve 2006	1 340 000	1 340 000
Tax allocation reserve 2007	2 380 000	0
	5 200 000	3 320 000

NOTE 15. FINANCING BY OWNERS

MindArks two largest share holders have during the founding of the company and acquisition of Entropia Universe, in addition to share capital, also provided a total of 3 921 000 SEK as short-term loan to the company. Reimbursement of this loan was initiated in 2004 and finalized in December 2006. The outstanding values were entered as short-term liabilities.

At the closing day total debt amounts to 0 2 232 419

NOTE 16. ACCRUED COST

Among user requested reimbursements of funds from Entropia Universe is treated as an accruals in the balance sheet. At the closing day total debts amounts to:

User requested reimbursements not yet performed	2 503 232	1 200 000
Other accrued operating cost	988 375	912 398
	3 491 607	2 112 398

Notes

NOTE 17. CONTINGENT LIABILITIES

The royalty agreement from previous years has been terminated.

Unconsumed userfunds

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

Users of Entropia Universe can 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's not possible to determine whether a certain amount in PED at any given time will be withdrawn from Entropia Universe or spent on activities within the virtual universe. MindArk therefore consider all unconsumed amounts in PED as contingent liabilities.

The total value of all unconsumed PEDs is an amount that is constantly changing due to activities inside Entropia Universe. The amount is calculated at 21 million SEK on the balance day (previous year 14 million SEK).

The amount that on the balance day has been withdrawn but not yet settled by MindArk is entered as accruals in the balance sheet. The amounts appear in note 16.

NOTE 18. CASH AND BANK BALANCES

	2006	2005
Liquid funds		
Cash and bank balances	12 930 208	3 709 134
Other investements	20 049 159	0
	32 979 367	3 709 134

Gothenburg, April 26, 2007

BERNT WÄHLIN
CHAIRMAN

ANDERS GUTENBRANT

JAN WELTER TIMKRANS
CHIEF EXECUTIVE OFFICER

My audit report concerning this annual report has been issued on May 8, 2007

PETER ÖNNHEIM
AUTHORIZED PUBLIC ACCOUNTANT

Audit Report

To the annual general meeting of the shareholders of MindArk PE Aktiebolag

Corporate identity number 556640-4769

I have audited the annual accounts, the accounting records and the administration of the board of directors and the managing director of MindArk PE Aktiebolag for the year 2006. The annual accounts of the company is included on pages 13-23 of this document. These accounts and the administration of the company are the responsibility of the board of directors and the managing director. My responsibility is to express an opinion on the annual accounts and the administration based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director, and significant estimates made by the board of directors and the managing director when preparing the annual accounts as well as evaluating the overall presentation of information in the annual accounts. As a basis for my opinion concerning discharge from liability, I examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. I also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and, give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The board of director's report is consistent with the other parts of the annual accounts.

I recommend to the annual general meeting of shareholders that the income statement and balance sheet be adopted, that the profit be dealt with in accordance with the proposal in the board of director's report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Gothenburg, May 8th 2007

PETER ÖNNHEIM
AUTHORISED PUBLIC ACCOUNTANT



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