



*MindArk PE AB (publ) develops, operates and markets Entropia Universe and the Entropia Platform. Entropia Universe is a 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 differently themed planets inside Entropia Universe.*

## Mid-Year Report January – October 2022

### **Technical Development 2022**

The migration of Entropia Universe to Unreal Engine 5 has continued during the autumn, along with updates to the current version. To reach the projected activity goals, MindArk has prioritized improvements to the dynamic autumn and winter events, including Halloween Mayhem, Merry Mayhem, and Hadesheim.

When it comes to Entropia Universe Unreal, the focus has been on continuing developing the pipeline that enables the build process of the world to be as optimal as possible with regard to user experience, interaction, and performance. During the past quarter, characters, monsters, locations and items have been produced according to plan, along with animations and movement.

The work related to a scalable server infrastructure for Entropia Universe Unreal

has under the quarter entered a new phase during the past quarter, with a new goal of a testable version.

The project has been pushed forward on a broad scale during the autumn. For example, avatar and camera control, AI improvements, tweaking the combat system, as well as a technical foundation for the armor system.

### **Covid-19 and its effect on the Company**

MindArk continued to follow the authorities' recommendations regarding the COVID-19 pandemic throughout 2022. The company's operations have been adapted to enable the continued development of Entropia Universe without exposing the company's employees to unnecessary infection risks. MindArk has

also noted that the increase in user activity in 2020-2021 has continued during 2022, which has benefited the company.

### **Impact of Russia's invasion of Ukraine on the company**

MindArk has not been significantly affected by the war in Ukraine. However, the company has chosen to continue to close Entropia Universe to new customers from Russia. MindArk has also provided financial support to Ukraine through the UNHCR during 2022.

### **Economic Development**

The financial development for current operations remained stable in 2022. Net sales for the first ten months amounted to 71.7 million SEK, compared to 66.6 million



*MindArk PE AB (publ) develops, operates and markets Entropia Universe and the Entropia Platform. Entropia Universe is a 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 differently themed planets inside Entropia Universe.*

## Mid-Year Report January – October 2022

SEK the previous year. The strong US dollar relative to the Swedish krona had a positive effect on the outcome. The USD/SEK exchange rate was 18% higher on average in the first ten months compared to the same period last year (10.03 SEK/USD compared to 8.50 SEK/USD).

The accumulated usage in Entropia Universe was at the same level as the previous year. The company has enjoyed strong growth while maintaining high in-game activity, demonstrating the strength of the underlying business.

MindArk's net sales consist of, in addition to the main revenue of consumption and direct sales in Entropia Universe and exchange fees, two additional revenue streams. One such case arises when a user stops participating and has not been active for one year. Any remaining funds

on the user account are reclassified as income. If the user becomes active again, the funds will be reclassified back to unspent user funds.

The second case is revenue from changes in unspent user funds. A positive impact on net sales occurs when users deposit more money than they spend. Two-thirds of this change is recognized as revenue.

These two revenue items have not contributed to net sales to the same extent this year as last year. At the same time, reduced revenue from accounts that have become inactive can be seen as something positive because it means that fewer users have stopped participating. These two items together have reduced turnover the first ten months by 4.1 million SEK compared to the first ten months of last year.

Capitalized costs for new development of Entropia Universe amount to 21.9 million SEK in the first ten months of 2022. In the previous year, the majority of expenses related to new development for the second half of the year were incurred in the fourth quarter. A more even distribution of development expenses would have resulted in a positive earnings effect of approximately 5.4 million SEK for the comparative period.

The increase in capitalized new development costs compared to the previous year is due to an increase in the number of employees and a strong focus on new development in connection with the transition to Unreal Engine.

Other income amounts to 3.3 million SEK compared to 2.2 million SEK last year. The company has been informed by the company's insurance provider that part of



*MindArk PE AB (publ) develops, operates and markets Entropia Universe and the Entropia Platform. Entropia Universe is a 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 differently themed planets inside Entropia Universe.*

## Mid-Year Report January – October 2022

the costs incurred by the company during the litigation with David Storey will be allocated to the company. Hence, 2.8 million SEK has been accrued under other income. This amount may be adjusted upwards in the next reporting. In the previous year, other income consisted mainly of the sale of deeds.

Operating expenses have increased from 59.9 million SEK in October of last year to 73 million SEK in October of this year, an increase of almost 22%. The increased costs are largely due to increased personnel costs, as well as higher costs for external consulting.

Operating profit amounts to 15.2 million SEK, versus 12.6 million SEK for the same period in 2021. Profit before tax ended at 4 million SEK, compared to 11.3 million SEK the previous year. The main reason for the low profit before tax these first ten

months is an exchange rate difference of negative 9.9 million SEK on allocation for unconsumed user holdings. A strong dollar increases the SEK value of the allocation.

This exchange rate adjustment has no cash flow impact as any withdrawals from users can be paid out with deposits in the same currency, however the adjustment has a significant impact on the booked result.

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

During the first ten months, the company acquired tangible fixed assets of 387 thousand SEK.

The company's cash and cash equivalents have decreased and at the end of October amounted to 29.2 million SEK compared to 48.9 million SEK at the turn of the year

2021. The reduction in cash and cash equivalents is partly due to a dividend of 4.7 million SEK and partly to investments in funds at SEB during the first ten months of 2022 of SEK 1.5 million.

The remaining reduction in the company's cash and cash equivalents, apart from the investment mentioned in the first paragraph, is mainly due to increased expenses according to the plan for the upgrade of the game engine.

As of the end of October, MindArk has approximately 8.6 million SEK invested in funds and similar investments. The company has also donated 736 thousand SEK to the UN refugee agency UNHCR to help Ukrainians in need.



*MindArk PE AB (publ) develops, operates and markets Entropia Universe and the Entropia Platform. Entropia Universe is a 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 differently themed planets inside Entropia Universe.*

## Mid-Year Report January – October 2022

### **Unconsumed user holdings**

Unconsumed user holdings have somewhat decreased since mid-year from 134.9 million PED to 134.6 million PED, a decrease of 300 thousand PED. The total debt in SEK increased however, as the SEK/USD exchange rate increased from 10.22 SEK/USD at mid-year 2022 to 10.99 SEK/USD in October 2022 (10 PED = 1 USD). As a result, the debt increased during the first four months of the second half of the year by 10 million SEK, from 137.9 million SEK to 147.9 million SEK.

The total amount of "Unconsumed user holdings" is a variable amount that varies with the different activities within Entropia Universe. Historical figures (average over the last 19 years) show that 30-35% of funds deposited by users are later withdrawn. The remaining funds are either consumed or remain in the accounts of

users in the form of digital inventory, or cash in the form of the virtual currency PED.

However, it is a prerequisite for the continuation of Entropia Universe that MindArk pays out requested withdrawals and therefore the portion of the unspent user funds which is likely to be withdrawn, should be indebted.

With these facts in hand, the real debt is estimated to be 33% of the unused user funds available at the time of booking. This means that the real debt at the end of October 2022 is 44.4 million PED, equivalent to 48.8 million SEK. The allocation for unconsumed user holdings has therefore been adjusted for this as well as for currency adjustments at the end of October.

### **Accounting Principles**

Please refer to the latest annual report for the applicable accounting principles.

The principles are unchanged compared to the previous year.

### **Financial Information**

For further information concerning the company's financial results, see results and balance reports below, as well as the key figures.

**Göteborg, December 2, 2022**

**The Board of Directors**



INCOME STATEMENT (in kSEK)

	JANUARY–OCTOBER 2022	JANUARY–OCTOBER 2021	JANUARY–DECEMBER 2021
Net sales	71 658	66 588	81 201
Capitalized expenditures	21 867	7 891	16 143
Other income	3 320	2 215	9 621
Operating expenses	- 72 987	- 59 852	- 77 376
Depreciation according to plan	- 8 654	- 4 279	- 8 258
<b>Operating profit</b>	<b>15 204</b>	<b>12 563</b>	<b>21 331</b>
Financial items	- 11 195	- 1 253	- 2 827
Transfers to/from untaxed reserves	0	0	0
<b>Net profit before tax</b>	<b>4 009</b>	<b>11 310</b>	<b>18 504</b>
Income tax	- 826	- 2 330	- 4 583
<b>Net profit</b>	<b>3 183</b>	<b>8 980</b>	<b>13 922</b>



BALANCE SHEET (in kSEK)

	OCTOBER 2022	OCTOBER 2021	DECEMBER 2021
<b>ASSETS</b>			
Intangible assets	82 367	63 799	68 260
Tangible assets	2 214	2 787	2 664
Financial assets	11 162	10 704	10 570
Receivables	5 522	5 523	4 230
Prepaid expenses	6 700	3 290	2 261
Investments in securities	8 619	7 511	7 523
Cash and bank balances	29 216	40 683	48 855
<b>TOTAL ASSETS</b>	<b>145 800</b>	<b>134 297</b>	<b>144 363</b>
<b>EQUITY &amp; LIABILITIES</b>			
Equity	63 996	59 486	65 214
Untaxed reserves	2 700	2 700	2 700
Allocation unconsumed user holdings & deferred tax	56 907	47 246	47 571
Short-term liabilities	22 197	24 865	28 968
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>145 800</b>	<b>134 297</b>	<b>144 363</b>



PLEDGED ASSETS	3 000	3 000	3 000
KEY RATIOS			
	JANUARY-OCTOBER 2022	JANUARY-OCTOBER 2021	JANUARY-DECEMBER 2021
Net sales (kSEK)	71 658	66 588	81 201
Operating profit (kSEK)	15 204	12 563	21 331
Financial items (kSEK)	- 11 195	- 1 253	- 2 874
Net profit after tax (kSEK)	3 183	8 980	13 922
Thousand number of shares issued	157 623	157 623	157 623
Operating margin	21 %	19 %	26 %
Profit per share (SEK)	0,02	0,06	0,09
Liquid funds (kSEK)	29 216	40 683	48 855
AEQ * (kSEK)	66 140	61 630	67 268
AEQ * per share (SEK)	0,42	0,39	0,43
Total assets (kSEK)	145 800	134 297	144 363
Equity ratio	45 %	46 %	47 %
Number of employees in the MindArk	60	54	54

\* = Adjusted Equity