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## Consolidated Financial Statements

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# 2012

# CCP hf.

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## Consolidated Financial Statements

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# 2012

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# Independent Auditor's Report

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## To the Board of Directors and Shareholders of CCP hf.

We have audited the accompanying Consolidated Financial Statements of CCP hf., which comprise the endorsement of the Board of Directors and the CEO, balance sheet as of December 31, 2012, and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's and the Board of Directors Responsibility for the Financial Statements

Management and the Board of Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management and the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the Consolidated Financial Statements.

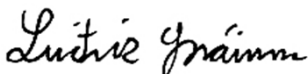
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of CCP hf. as of December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Kópavogur, March 14, 2013.

Deloitte ehf.



Lúðvík Þráinsson  
State Authorized Public Accountant



Signý Magnúsdóttir  
State Authorized Public Accountant

## Endorsement by the Board of Directors and CEO

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The Consolidated Financial Statements for the year 2012 consist of the Financial Statements of CCP hf. and its subsidiaries, together referred to as the Company. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and denominated in USD.

CCP hf. designs, develops, markets and operates immersive virtual worlds and games accessed over the internet. The Company is headquartered in Iceland and owns and operates subsidiaries in the United States, United Kingdom and China.

The Company's revenues in 2012 were USD 65,296,524. The profit for the year amounted to USD 4,713,127. Assets at year-end were USD 128,316,444, with shareholders' equity of USD 66,641,684, or 51.9%. The Company employed 530 people at year-end in its offices in Reykjavik, Newcastle, Shanghai, Atlanta and San Francisco, compared to 514 at the beginning of the year. Salaries and related expenses amounted to USD 38,775,678 of which USD 18,575,346 were capitalized as development cost.

EVE Online ended the year with approximately 490,000 subscribers. Two expansions to the EVE Online universe were launched in 2012. The Inferno expansion was released on May 22, 2012 and brought a complete overhaul of the war declaration and factional warfare systems, the addition of 17 new modules and 3D models for missile launchers and missiles, along with a mercenary marketplace. Retribution, EVE Online's 17th expansion was released on December 4, 2012 and has been one of the most successful EVE expansions to date. This release most notably introduced improvements to the game's Bounty Hunting and Crimewatch systems. In December 2012 EVE Online was also re-launched in China with a new partner.

In the spring of 2012 the Company held its 9th annual EVE player gathering, Fanfest, in a new location, Reykjavik's new concert hall and conference center, Harpa. At Fanfest, a refocused plan for EVE Online was introduced and orbital bombardment from EVE Online to the Company's upcoming console game DUST 514 was shown publicly for the first time.

The Company opened an office in San Francisco, California that is operated as part of CCP North America, which is headquartered in Atlanta, Georgia.

On July 4, 2012, the Company completed a convertible bond offering in the amount of USD 20 million with a maturity in July 2017. The bonds will be listed on the Nasdaq OMX Fixed Income market in Iceland.

The Board of Directors recommends that dividends shall not be paid to shareholders in 2013. With regards to disposal of profit and changes in the equity of the Company, the Board refers to the Notes attached to the Consolidated Financial Statements.

As of December 31, 2012 there were 484 shareholders in the Company compared to 417 at December 31, 2011. Shareholders owning more than 10% are NP ehf with 30.06% and Teno Investments with 23.58%.

The Board of Directors complies with written operating procedures agreed by the Board. The procedures address issues such as allocation of responsibilities and powers of decision within the Board, conflicts of interest, confidentiality, and similar governance issues. The Board has appointed a Compensation Committee and Audit Committee within its ranks.

It is the opinion of the Board of Directors and the CEO of the Company that the accounting policies applied herein are appropriate and that these Consolidated Financial Statements present all information necessary to give a true and fair view of the Company's assets and liabilities, financial position and operating performance, as well as describing the principal risk and uncertainty factors faced by the Company.

Reykjavik, March 14, 2013

Board of Directors



Vilhjálmur Þorsteinsson, Chairman



David Fialkow



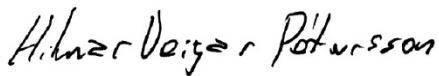
Sigurður Ólafsson



Stephan Wieck



Birgir Már Ragnarsson



Hilmar Veigar Pétursson, CEO

# Consolidated Statement of Comprehensive Income

		For the twelve months ended December 31,		
	Notes	2012	2011	2010
Game revenue .....		64,436,996	63,323,357	57,428,530
Other revenue .....		859,528	1,940,793	1,755,135
	5	65,296,524	65,264,150	59,183,665
Cost of sales .....	6	(4,824,763)	(5,605,430)	(6,073,734)
<b>Gross profit</b>		<b>60,471,761</b>	<b>59,658,720</b>	<b>53,109,931</b>
<b>Operating expenses</b>				
Research and development .....		(16,513,666)	(12,972,482)	(11,127,383)
Publishing .....		(9,604,372)	(11,313,726)	(8,797,352)
Marketing .....		(12,567,302)	(9,912,335)	(9,769,965)
General and administrative .....		(18,968,828)	(17,635,870)	(16,923,857)
<b>Total operating expenses</b>		<b>(57,654,167)</b>	<b>(51,834,413)</b>	<b>(46,618,557)</b>
<b>Operating profit</b>		<b>2,817,593</b>	<b>7,824,307</b>	<b>6,491,374</b>
Financial income .....	8	412,683	40,124	89,176
Financial cost .....	8	(1,867,632)	(1,306,617)	(1,344,520)
Net exchange rate difference .....	8	2,554,240	(75,015)	(1,499,015)
<b>Profit before taxes</b>		<b>3,916,884</b>	<b>6,482,799</b>	<b>3,737,015</b>
Income tax .....	9	796,242	2,189,672	1,677,743
<b>Profit for the period</b>		<b>4,713,127</b>	<b>8,672,471</b>	<b>5,414,758</b>
<b>Other comprehensive income</b>				
Exchange differences arising on translation of foreign operations .....		(115,571)	144,791	67,506
<b>Total comprehensive income for the period</b>		<b>4,597,556</b>	<b>8,817,262</b>	<b>5,482,264</b>

# Consolidated Balance Sheet

Assets	Notes	2012.12.31	2011.12.31
<b>Non-current assets</b>			
Property, plant and equipment .....	10	5,572,787	5,426,464
Goodwill .....	11	4,252,956	4,252,956
Development cost .....	12	88,011,617	74,768,626
Other intangible assets .....	12	738,678	543,658
Deferred tax assets .....	20	93,849	439,625
Other financial assets .....		97,831	87,037
		<u>98,767,718</u>	<u>85,518,366</u>
<b>Current assets</b>			
Inventories .....	13	10,034	161,156
Trade receivables .....	14	3,641,856	2,141,276
Other receivables .....	14	5,528,195	6,130,506
Cash and cash equivalents .....	15	20,368,641	3,663,581
		<u>29,548,726</u>	<u>12,096,519</u>
<b>Total assets</b>		<u>128,316,444</u>	<u>97,614,885</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital .....	16	124,551	123,554
Share premium .....	16	22,768,634	20,342,830
Foreign currency translation reserves .....	16	553,227	668,798
Equity settled employee benefits reserves .....	16,17	4,529,796	4,424,200
Retained earnings .....	16	38,665,476	33,952,349
Total equity		<u>66,641,684</u>	<u>59,511,731</u>
<b>Non-current liabilities</b>			
Borrowings .....	18	25,761,221	11,497,610
Deferred tax liabilities .....	20	11,713,020	9,824,738
Derivative financial instruments .....	19	3,274,666	0
Other long-term liabilities .....	21	1,099,542	695,166
		<u>41,848,449</u>	<u>22,017,514</u>
<b>Current liabilities</b>			
Trade payables .....		4,705,554	4,610,579
Borrowings .....	18	3,051,291	1,091,948
Current portion of other long-term liabilities .....	18	0	97,137
Deferred income .....	23	5,230,702	4,152,311
Other current liabilities .....	22	6,838,764	6,133,665
		<u>19,826,311</u>	<u>16,085,640</u>
Total liabilities		<u>61,674,760</u>	<u>38,103,154</u>
<b>Total equity and liabilities</b>		<u>128,316,444</u>	<u>97,614,885</u>

# Consolidated Statement of Cash Flows

		For the twelve months ended December 31,		
	Notes	2012	2011	2010
<b>Operating activities</b>				
Profit for the period .....		4,713,127	8,672,471	5,414,758
Net financial cost (income) .....		(1,099,291)	1,341,508	2,754,359
Income tax expense .....	20	(796,242)	(2,189,672)	(1,677,743)
Depreciation and amortization .....	10,12	13,622,089	10,355,560	8,443,400
Equity settled employee stock options .....	16,17	2,048,425	759,245	204,496
Loss on disposal of assets .....		147,163	49,422	0
Other items .....		1,321,798	629,617	(152,987)
		<u>19,957,069</u>	<u>19,618,151</u>	<u>14,986,283</u>
<b>Change in operating assets and liabilities</b>				
Decrease in inventories .....	13	151,122	183,930	797,070
(Increase)/decrease in operating assets .....		(1,930,422)	(111,955)	836
Increase/(decrease) in operating liabilities .....		<u>1,736,855</u>	<u>1,660,803</u>	<u>1,356,447</u>
<b>Cash generated by operating activities</b>		<u>19,914,624</u>	<u>21,350,929</u>	<u>17,140,637</u>
Financial income received .....		2,816,000	126,119	100,866
Financial cost paid .....		(787,467)	(1,787,920)	(1,877,231)
Tax credit received .....		3,071,220	3,250,849	2,018,443
Tax paid .....		<u>(244,930)</u>	<u>0</u>	<u>0</u>
<b>Net cash generated by operating activities</b>		<u>24,769,447</u>	<u>22,939,977</u>	<u>17,382,715</u>
<b>Investment activities</b>				
Purchases of property, plant and equipment .....	10	(1,319,749)	(2,483,589)	(2,374,555)
Purchases of other intangible assets .....	12	(195,020)	0	0
Development cost .....	12	(24,668,549)	(27,798,365)	(23,503,434)
Change in other financial assets .....		<u>0</u>	<u>0</u>	<u>(36,437)</u>
<b>Net cash used in investment activities</b>		<u>(26,183,318)</u>	<u>(30,281,954)</u>	<u>(25,914,425)</u>
<b>Financing activities</b>				
Repayments of borrowings .....	18	(8,045,571)	(6,231,581)	(314,254)
New loans raised .....	18	19,049,039	12,000,000	0
Short term borrowings .....		0	0	(331,767)
Net increase in share capital .....	16	<u>484,073</u>	<u>164,686</u>	<u>16,622,478</u>
<b>Net cash from financing activities</b>		<u>11,487,541</u>	<u>5,933,105</u>	<u>15,976,457</u>
Net change in cash .....		10,073,670	(1,408,872)	7,444,746
Cash at beginning of the period .....		3,663,581	11,223,672	3,804,265
Effect of foreign exchange rates .....		438,176	41,994	(25,339)
Offset against financial liabilities .....	18	<u>6,193,213</u>	<u>(6,193,213)</u>	<u>0</u>
<b>Cash at end of the period</b>		<u><u>20,368,641</u></u>	<u><u>3,663,581</u></u>	<u><u>11,223,672</u></u>



## Consolidated Statement of Changes in Equity

	Total numbers of shares*	Share capital	Share premium	Equity-settled employee benefits reserve	Foreign currency translation reserve	Retained earnings	Total
Balance at January 1, 2010	9,247,958	123,315	20,027,263	3,460,349	456,501	19,865,121	43,932,549
Profit for the period.....						5,414,758	5,414,758
Translation difference.....					67,506		67,506
Total comprehensive income .....		0	0	0	67,506	5,414,758	5,482,264
Increase in share capital .....	24,980	211	150,909				151,120
Employee stock options.....				204,496			204,496
Balance at January 1, 2011	9,272,938	123,526	20,178,172	3,664,845	524,007	25,279,879	49,770,429
Profit for the period.....						8,672,471	8,672,471
Translation difference.....					144,791		144,791
Total comprehensive income .....		0	0	0	144,791	8,672,471	8,817,262
Change in share capital .....	25,000	28	164,658				164,686
Employee stock options.....				759,355			759,355
Balance at January 1, 2012	9,297,938	123,554	20,342,830	4,424,200	668,798	33,952,349	59,511,731
Profit for the period.....						4,713,127	4,713,127
Translation differences.....					(115,571)		(115,571)
Total comprehensive income .....		0	0	0	(115,571)	4,713,127	4,597,555
Change in share capital .....	97,514	997	2,425,804				2,426,801
Employee stock options.....				105,596			105,596
Balance at December 31, 2012	9,395,452	124,551	22,768,634	4,529,796	553,227	38,665,476	66,641,684

# Notes to the Consolidated Financial Statements

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## 1. General information

CCP hf. is a limited liability company incorporated in Iceland. The principal activities of CCP hf. are the design, development, marketing, sales and operation of immersive virtual worlds and games accessed over the internet. All copyright and intellectual property in EVE Online, DUST 514 and World of Darkness are property of the Company. CCP hf. operates the following offices: CCP hf. in Reykjavík, CCP North America, Inc. in Atlanta and San Francisco, CCP Games UK, Ltd. in Slough and Newcastle and CCP Information Technology (Shanghai) CO., Ltd.

## 2. Application of new and revised International Financial Reporting Standards (IFRSs)

### 2.1 Standards and interpretations effective in the current and prior periods

The Consolidated Financial Statements are presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the year 2012. Management believes that those new and revised IFRS standards do not have material effect on amounts reported in the Consolidated Financial Statements.

### 2.2 New and revised IFRSs in issue but not yet effective

The Company has not early adopted new and revised IFRSs that have been issued but are not yet effective. Management believes that implementation of those standards and interpretations do not have a material affect on the Consolidated Financial Statements of the Company.

## 3. Significant accounting policies

### 3.1 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

### 3.2 Basis of preparation

The Consolidated Financial Statements of CCP hf. for the year 2012 have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### 3.3 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Parent and entities controlled by the Parent (its subsidiaries), together referred to as the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Company.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

### 3.4 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The consideration for each acquisition is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date, except for non-current assets (or disposal Company's) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

# Notes to the Consolidated Financial Statements

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## 3.5 Goodwill

Goodwill arising on business combinations is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## 3.6 Risk management

The Company's Board of Directors has an overall plan towards risk management to identify and analyze the risks faced by the Company. Historically the Company has used derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain commitments and forecasted transactions. There are no such financial instruments in place at this time. Interest rate risk arises from long term liabilities such as bank loans. All such commitments are managed by the Company's Corporate offices and the general policy is to fix long term interest rates as the Company determines appropriate.

## 3.7 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

### 3.7.1 Subscription fees

- the Company recognizes revenues from subscription fees on a straight-line basis over the subscription period;
- fees for the selected subscription period (1, 2, 3, 6 or 12 months) are collected at the beginning of the period. Fees are non-refundable;
- unrecognized revenues from subscription fees are accounted for as deferred revenues among current liabilities.

### 3.7.2 In-game currency

Revenue from the sale of in-game currency is recognized when it has been consumed and rendering of service has been fully satisfied.

- revenues received from the sale of unused in-game currency are reported as deferred revenues among current liabilities.

### 3.7.3 Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### 3.7.4 Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements that are based on sales and other measures are recognized by reference to the underlying arrangement.

# Notes to the Consolidated Financial Statements

## 3.7.5 Dividend and interest revenue

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established.

Interest income is accrued over time, by reference to the principal outstanding and at the interest rate applicable.

## 3.8 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### 3.8.1 The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

## 3.9 Foreign currencies

The individual financial statements of each Company's entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each entity are expressed in USD, which is the functional currency of the Company and the presentation currency for the Consolidated Financial Statements.

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Company's operations are expressed in USD using exchange rates prevailing at the end of balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity as translation reserve. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at exchange rates prevailing at the end of balance sheet date.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rate of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The exchange rates used for translating other currencies to USD are derived from the Central Bank of Iceland.

	Average exchange rate		Year end exchange rate	
	2012	2011	2012.12.31	2011.12.31
EUR .....	1.285363	1.390514	1.318937	1.294434
ISK .....	0.007997	0.008616	0.007768	0.008149
GBP .....	1.584640	1.602337	1.616825	1.543721
CAD .....	1.000488	1.010643	1.004816	0.979627
DKK .....	0.172678	0.186631	0.176790	0.174126
NOK .....	0.171924	0.178342	0.178989	0.166270
SEK .....	0.147690	0.153992	0.153472	0.144984
CHF .....	1.066391	1.130092	1.092434	1.064787
JPY .....	0.012551	0.012563	0.011614	0.012919
CNY (RMB) .....	0.158499	0.154771	0.160502	0.158862

# Notes to the Consolidated Financial Statements

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## 3.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

## 3.11 Share-based payments

Equity-settled share-based payments to employees are measured at the estimated current fair value of the equity instrument determined at each balance sheet date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 17.

The fair value of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

## 3.12 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Corporate income tax in Iceland is 20%. In the U.S., CCP North America is subject to both Federal and Georgia State income taxes (the latter are deductible from Federal taxes, and are also impacted by certain tax credits that the Company has been able to generate). The Federal statutory rate for income in excess of USD 335,000 but not over USD 10,000,000 is 34% and the Georgia statutory income tax rate is 6%. Corporate income tax is 23% in the UK and 25% in China.

### 3.12.1 Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's current tax liability is calculated using the tax rates for each country.

### 3.12.2 Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

# Notes to the Consolidated Financial Statements

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## 3.12 Taxation (continued)

### 3.12.3 Current and deferred taxes for the period

Current and deferred taxes are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

### 3.12.4 Tax Credit

The Company obtains a Georgia film tax credit through its Georgia-based subsidiary. This tax credit can be sold to third parties. The Company has an arrangement with a third party to sell the credit for 83% of the calculated tax credit, and the Company has recorded income tax revenue at 83% of the estimated tax credit.

## 3.13 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, as follows:

Leasehold improvements	3 - 12 years
Computers and equipment	3 - 4 years
Other tangible assets	3 - 7 years

The estimated useful life, residual value and depreciation method is reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. For leasehold improvements the estimated useful life does not exceed the remaining term of the relevant lease agreement.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

## 3.14 Intangible assets

### 3.14.1 Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### 3.14.2 Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is capitalized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

# Notes to the Consolidated Financial Statements

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The amount initially capitalized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

## **3.14.3 Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

## **3.15 Impairment of tangible and intangible assets excluding goodwill**

At the end of each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## **3.16 Inventories**

Inventories are stated at the lower of cost or net realizable value, after taking obsolete and defective goods into consideration. Cost comprises direct materials and, where applicable, direct labor costs and those overhead expenses that have been incurred in bringing the inventories to their present location and condition, with the majority being valued on a first-in-first-out basis. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

## **3.17 Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

# Notes to the Consolidated Financial Statements

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## 3.18 Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as "at fair value through profit or loss" (FVTPL), "held-to-maturity investments," "available-for-sale" (AFS) and "loans and receivables." The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. As of year end the Company has no assets classified as FVTPL, "held-to-maturity investments" or AFS.

### 3.18.1 Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

### 3.18.2 Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

### 3.18.3 Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

### 3.18.4 AFS financial assets

Listed shares held by the Company that are traded in an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investment's revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of balance sheet date. The change in fair value attributable to translation differences that results from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in other comprehensive income.

### 3.18.5 Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables." Loans and receivables are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.



# Notes to the Consolidated Financial Statements

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## 3.18 Financial assets (continued)

### 3.18.6 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each balance sheet date. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

### 3.18.7 Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## 3.19 Financial liabilities

### 3.19.1 Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities:

- financial liabilities are classified at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL;
- financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss;
- the net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

### 3.19.2 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

### 3.19.3 Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

# Notes to the Consolidated Financial Statements

## 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

### 4.1 Impairment of internally generated intangible assets and goodwill

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which they have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. See notes 11 and 12.

## 5. Segment and geographic information

The Company's only business activity is developing and monetizing massive multiplayer online games and it operates in one reportable segment. The Company's reporting segment is based upon its internal organizational structure, the manner in which its operations are managed and the criteria used by its Executive Board, its chief operating decision maker (CODM), to evaluate performance. The Company is centrally managed and the CODM primarily uses consolidated financial information supplemented by revenue and expense level information by major product titles to make operational decisions and evaluate financial performance. All of the Company's products have similar economic characteristics, worldwide customer base and production and distribution methods.

The following is an analysis of the Company's revenues from its major services and products.

	2012	2011
Revenue from subscriptions and in-game sales.....	62,760,123	62,145,096
Revenue from sale of goods.....	859,524	1,926,199
Royalties and licenses.....	1,676,877	1,192,855
	<b>65,296,524</b>	<b>65,264,150</b>

### 5.1 Geographical information

The Company operates in three principal geographical areas - North America, Europe and Asia. The Company's revenue from external customers and information about its non-current assets\* by geographical location are detailed below. The "Other regions" category is comprised of South and Central America, the Caribbean, Africa, Australia and Oceania i.e. the southern hemisphere.

The Company is domiciled in Iceland. Revenues from external customers in Iceland are USD 262,645 (2011: USD 232,624). Almost all its revenues are generated from sales to customers outside of Iceland. The total of non-current assets\* located in Iceland is USD 93,090,107 (2011: USD 79,414,089). Revenues and non-current assets in Iceland are included in the figures for Europe.

	External Sales		Non-current assets	
	2012	2011	2012.12.31	2011.12.31
North America.....	33,517,873	27,589,687	4,627,045	4,517,982
Europe.....	25,107,635	32,920,568	93,346,234	79,208,573
Asia.....	2,389,897	1,311,632	700,590	1,352,186
Other regions.....	4,281,119	3,442,263	0	0
	<b>65,296,524</b>	<b>65,264,150</b>	<b>98,673,869</b>	<b>85,078,741</b>

\* Non-current assets excluding financial instruments and deferred tax assets.

### 5.2 Information about major customers

The Company has no transactions with a single external customer that amount to 10% or more of the Company's revenue.

# Notes to the Consolidated Financial Statements

## 6. Cost of sales

	2012	2011
EVE Online.....	4,594,567	4,806,164
Physical Products and eCommerce.....	230,197	799,266
	<b>4,824,763</b>	<b>5,605,430</b>

Included in Physical Products and eCommerce stores is a write down of inventory to net realizable value of USD 7,825 (2011: USD 12,571). See note 13.

## 7. Salaries and other employee expenses

Salaries and salary-related expenses paid by the Company are specified as follows:

	2012	2011
Salaries .....	33,981,202	36,379,664
Capitalized salaries.....	(18,575,346)	(21,578,861)
Pension fund contribution.....	2,422,237	2,467,514
Share-based payment expense (note 17).....	2,048,425	759,245
Salary-related expenses .....	4,794,476	4,465,727
Other employee expenses.....	902,016	1,149,413
	<b>25,573,010</b>	<b>23,642,701</b>

Average number of positions ..... 505 595

Salaries, short-term benefits and share-based payments for the year 2012 for the Company's CEO and Board of Directors amounted to USD 751,786 (2011: USD 630,000). The CEO and Board of Directors do not receive any other form of compensation.

Capitalized salaries are due to capitalized development cost. See note 12.

Salaries and salary-related expenses classified by operational category are specified as follows:

	2012	2011
Cost of sales.....	0	2,309
Research and development .....	24,270,409	27,063,745
Capitalized development .....	(18,575,346)	(21,578,861)
Publishing .....	7,302,301	8,000,130
Marketing .....	2,771,477	2,767,634
General and administrative .....	9,804,170	7,387,744
	<b>25,573,010</b>	<b>23,642,701</b>

# Notes to the Consolidated Financial Statements

## 8. Financial income / (cost)

Financial income and (cost) are specified as follows:

	2012	2011
<b>Financial income:</b>		
Other interest income.....	378,522	40,124
Fair value change on financial instruments.....	34,161	0
	<u>412,683</u>	<u>40,124</u>
<b>Financial cost:</b>		
Interest on loans .....	(1,867,632)	(1,306,617)
	<u>(1,867,632)</u>	<u>(1,306,617)</u>
Net exchange rate difference .....	2,554,240	(75,015)
Net financial income / (cost) .....	<u>1,099,291</u>	<u>(1,341,508)</u>

## 9. Income tax

Income tax has been calculated and recorded in the Consolidated Financial Statements. The amount posted to the Statement of Comprehensive Income is USD 796,242 (2011: USD 2,189,672). In the year 2013, no income tax will be paid as taxable income is negative in 2012.

The total charge for the year can be reconciled to the accounting profit as follows:

	2012		2011	
	Amount	%	Amount	%
Profit before tax .....	3,916,884		6,482,799	
Tax at the rate of 20% .....	(783,354)	20%	(1,296,560)	20%
Effect of different tax rates of other jurisdictions .....	(130,891)	3%	550,906	-8%
Effect of change in tax rate .....	0	0%	(286,620)	4%
Effect of previously unused tax losses and tax offsets now recognized as deferred assets .....	0	0%	(2,079)	0%
Effect of tax credit .....	2,485,037	-63%	2,549,929	-39%
Tax effect of other items .....	(774,550)	20%	674,096	-10%
	<u>796,242</u>	<u>-20.3%</u>	<u>2,189,672</u>	<u>-33.8%</u>

# Notes to the Consolidated Financial Statements

## 10. Property, plant and equipment

	Leasehold improvements	Computers and equipment	Other tangible assets	Total
<b>Cost</b>				
At January 1, 2011.....	948,516	7,503,476	1,018,825	9,470,817
Additions.....	1,576,834	1,869,208	716,193	4,162,235
Disposals.....	(4,430)	(410,166)	(87,491)	(502,087)
Fully depreciated assets.....	0	(452,268)	(175,008)	(627,276)
Currency exchange differences.....	(1,702)	(8,703)	35,549	25,144
<b>At December 31, 2011</b>	<b>2,519,218</b>	<b>8,501,547</b>	<b>1,508,068</b>	<b>12,528,833</b>
Additions.....	794,630	1,921,098	60,627	2,776,355
Disposals.....	(523,263)	(180,169)	(87,243)	(790,675)
Transfers between categories.....	0	(1,063,724)	1,063,724	0
Currency exchange differences.....	7,132	107,225	6,312	120,669
<b>At December 31, 2012</b>	<b>2,797,717</b>	<b>9,285,977</b>	<b>2,551,488</b>	<b>14,635,182</b>
<b>Accumulated depreciation</b>				
At January 1, 2011.....	336,466	4,114,374	632,579	5,083,419
Depreciation charge for the year.....	179,563	2,086,673	444,149	2,710,385
Disposals.....	0	(13,668)	(39,297)	(52,965)
Fully depreciated assets.....	0	(452,268)	(175,008)	(627,276)
Currency exchange differences.....	(190)	(9,365)	(1,639)	(11,194)
<b>At December 31, 2011</b>	<b>515,839</b>	<b>5,725,746</b>	<b>860,784</b>	<b>7,102,369</b>
Depreciation charge for the year.....	534,847	1,437,246	432,966	2,405,059
Disposals.....	(350,989)	(173,374)	(23,326)	(547,689)
Transfers between categories.....	0	(404,425)	404,425	0
Currency exchange differences.....	2,621	95,371	4,664	102,656
<b>At December 31, 2012</b>	<b>702,318</b>	<b>6,680,564</b>	<b>1,679,513</b>	<b>9,062,395</b>
<b>Carrying amount</b>				
At January 1, 2011.....	612,050	3,389,102	386,246	4,387,398
At December 31, 2011.....	2,003,379	2,775,801	647,284	5,426,464
At December 31, 2012.....	2,095,399	2,605,413	871,975	5,572,787

# Notes to the Consolidated Financial Statements

## 10. Property, plant and equipment (continued)

Depreciation classified by operational category is specified as follows:

	2012	2011
Cost of sales.....	0	0
Research and development .....	143,122	174,581
Publishing .....	126,018	551,735
Marketing .....	5,766	18,779
General and administrative .....	2,130,153	1,965,290
	<b>2,405,059</b>	<b>2,710,385</b>

Computers and equipment includes the following amounts where the Company is a lessee under a finance lease:

	2012	2011
Cost - capitalized finance lease.....	2,478,459	1,250,566
Accumulated depreciation.....	(835,916)	(290,355)
<b>Net carrying amount</b>	<b>1,642,543</b>	<b>960,211</b>

The Company leases various computers and related equipment under non-cancellable finance lease agreements. These leases have a term of three years and the assets are pledged as security against the financial liability under the agreements.

## 11. Goodwill

	2012	2011
Carrying amount.....	4,252,956	4,252,956

During the financial year, the Company assessed the recoverable amount of goodwill and determined that goodwill associated with certain of the Company's projects have not suffered an impairment loss.

The recoverable amount of the cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on medium term budgets. The discount rate of 22.1% (2011: 23%) per annum was used.

Cash flow projections in the medium term budgets are based on the same expected gross margins throughout the period. Cash flows beyond 2017 are extrapolated using a conservative steady 1% per annum growth rate. It was concluded that the fair value less cost to sell did not exceed the value in use. Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

### 11.1 Allocation of goodwill to cash-generating units

	2012	2011
CCP hf. ....	4,252,956	4,252,956

# Notes to the Consolidated Financial Statements

## 12. Other intangible assets

	Capitalized development	Trademarks and domains	Total
<b>Cost</b>			
At January 1, 2011.....	69,993,916	543,658	70,537,574
Additions.....	27,798,365	0	27,798,365
<b>At December 31, 2011</b>	<b>97,792,281</b>	<b>543,658</b>	<b>98,335,939</b>
Additions.....	24,460,020	195,020	24,655,040
<b>At December 31, 2012</b>	<b>122,252,301</b>	<b>738,678</b>	<b>122,990,979</b>
<b>Amortization</b>			
At January 1, 2011.....	15,378,480	0	15,378,480
Charge for the year.....	7,645,175	0	7,645,175
<b>At December 31, 2011</b>	<b>23,023,655</b>	<b>0</b>	<b>23,023,655</b>
Charge for the year .....	11,217,029	0	11,217,029
<b>At December 31, 2012</b>	<b>34,240,684</b>	<b>0</b>	<b>34,240,684</b>
<b>Carrying amount</b>			
At January 1, 2011.....	54,615,436	543,658	55,159,094
At December 31, 2011.....	74,768,626	543,658	75,312,284
At December 31, 2012.....	88,011,617	738,678	88,750,295

During the financial year, the Company assessed the recoverable amount of development costs and trademarks and determined that those assets associated with Company's projects have not suffered an impairment loss.

The recoverable amount of the cash-generating units (the projects in development) is determined based on a value in use calculation which uses five-year cash flow projections for each project approved by the Directors. The discount rate of 16.4%-22.1% (2011: 16.3%-23.1%) per annum was used.

Cash flow projections in the medium term budgets are based on the same expected gross margins throughout the period. Cash flows beyond 2017 are extrapolated using a conservative steady 1% per annum growth rate. It was concluded that the fair value less cost to sell did not exceed the value in use. Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

The following useful lives are used in the calculation of amortization of intangible assets:

Development cost                      4 years

Amortization of capitalized development cost in 2012 and 2011 is almost exclusively due to EVE Online.

**Amortization and impairment classified by operational category are specified as follows:**

	2012	2011
Cost of sales.....	0	0
Research and development .....	11,217,029	7,645,175
Publishing .....	0	0
Marketing .....	0	0
General and administrative .....	0	0
	<b>11,217,029</b>	<b>7,645,175</b>

# Notes to the Consolidated Financial Statements

## 13. Inventories

	2012.12.31	2011.12.31
Prepublication costs .....	0	8,103
Finished goods .....	0	340,694
Supplies in stock .....	10,034	11,776
Less reserve for obsolescence .....	0	(199,417)
	<b>10,034</b>	<b>161,156</b>

The Company's inventory is not pledged.

The cost of inventories recognized as an expense during the year was USD 223,656 (2011: USD 820,102).

The cost of inventories recognized as an expense includes USD 7,825 (2011: USD 12,571) in respect to write-downs of inventory to net realizable value.

All inventories are expected to be recovered in the next twelve months.

## 14. Trade and other receivables

14.1 Trade receivables	2012.12.31	2011.12.31
Trade receivables .....	2,003,564	609,571
Credit card receivables .....	2,322,175	1,628,948
Provision for impairment of trade receivables.....	(683,883)	(97,243)
	<b>3,641,856</b>	<b>2,141,276</b>

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortized cost.

The average credit period on sales of goods is 18 (2011: 12) days. An allowance has been made for doubtful accounts. This allowance has been determined by management in reference to prior default experience. Management considers that the carrying amount of trade receivables approximates their fair value.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of the reporting period but against which the Company has not recognized an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts.



# Notes to the Consolidated Financial Statements

## 14. Trade and other receivables (continued)

### Aging of trade receivables

	2012.12.31	2011.12.31
Neither past due nor impaired .....	2,736,514	1,745,114
Past due but not impaired:		
30 - 90 days.....	36,644	165,792
Older than 90 days.....	868,698	230,370
	<b>3,641,856</b>	<b>2,141,276</b>

As at December 31, 2012, trade receivables of an initial value of USD 683,883 (2011: USD 97,243) were impaired and fully provided for. See below for the movements in the provision for impairment of receivables. All impaired trade receivables are older than 90 days.

	2012	2011
Balance at beginning of year .....	97,243	141,681
Receivables written off during the year as uncollectible .....	(1,653)	(44,438)
Provision for receivables impairment .....	588,293	0
Balance at end of year.....	<b>683,883</b>	<b>97,243</b>

In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believes that there is no further credit provision required in excess of the allowance for doubtful debts.

The creation and release of provision for impaired receivables have been included in "General and administrative" expenses in the Statement of Comprehensive Income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

### 14.2 Other receivables

	2012.12.31	2011.12.31
Value added tax.....	243,610	203,143
Prepaid expenses.....	1,079,090	1,180,563
Capital income tax.....	71,209	6,525
Deposit.....	819,191	811,405
Income tax receivable.....	2,906,415	3,425,619
Other receivables.....	408,680	503,251
	<b>5,528,195</b>	<b>6,130,506</b>

## 15. Cash and cash equivalents

The Company's cash and cash equivalents consist of cash and bank balances.

	2012.12.31	2011.12.31
Bank balances in USD.....	7,069,309	2,569,457
Bank balances in EUR.....	1,433,016	715,712
Bank balances in GBP.....	1,279,666	151,626
Bank balances in ISK.....	10,472,299	98,302
Bank balances in RMB.....	114,350	128,484
	<b>20,368,641</b>	<b>3,663,581</b>

# Notes to the Consolidated Financial Statements

## 16. Equity

### 16.1 Issued capital

Issued capital is specified as follows:

	2012.12.31	2011.12.31
Share capital .....	124,551	123,554
Share premium .....	22,768,634	20,342,830
	<b>22,893,185</b>	<b>20,466,384</b>

Shares issued and outstanding at year-end totaled USD 9,395,452 (2011: USD 9,297,938). The nominal value of each share is one Icelandic krona, totaling 124,551 of nominal capital.

Issued capital comprises:

9,395,452 fully paid ordinary shares .....	22,893,185	20,466,384
(December 31, 2012 and January 1, 2012, 9,395,452 and 9,297,938, respectively)		
	<b>22,893,185</b>	<b>20,466,384</b>

Changes in share capital are as follows:

	Total numbers of shares*	Share capital	Share premium	Issued capital
Balance at January 1, 2011.....	9,272,938	123,526	20,178,172	20,301,698
Increase in share capital.....	25,000	28	164,658	164,686
Share capital as of January 1, 2012.....	<b>9,297,938</b>	<b>123,554</b>	<b>20,342,830</b>	<b>20,466,384</b>
Increase in share capital.....	97,514	997	2,425,804	2,426,801
Balance at December 31, 2012.....	<b>9,395,452</b>	<b>124,551</b>	<b>22,768,634</b>	<b>22,893,185</b>

\*Each share is one ISK

### 16.2 Foreign currency translation reserve

	2012.12.31	2011.12.31
Balance at beginning of year.....	668,798	524,007
Arising on translation of foreign operations.....	(115,571)	144,791
Balance at end of year.....	<b>553,227</b>	<b>668,798</b>

Exchange differences relating to the translation of the net assets of the Company's foreign operations from their functional currencies to the Company's presentation currency (i.e USD) are recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

# Notes to the Consolidated Financial Statements

## 16. Equity (continued)

### 16.3 Equity-settled employee benefits reserve

	2012.12.31	2011.12.31
Balance at beginning of year.....	4,424,200	3,664,845
Expensed during year.....	105,596	759,355
Balance at end of year.....	<b>4,529,796</b>	<b>4,424,200</b>

The equity-settled employee benefits reserve relates to share options granted to employees under the employee share option plan. Further information about share-based payments to employees is set out in note 17.

### 16.4 Retained earnings

	2012.12.31	2011.12.31
Balance at beginning of year.....	33,952,350	25,279,879
Profit for the year.....	4,713,127	8,672,471
Balance at end of year.....	<b>38,665,476</b>	<b>33,952,350</b>

## 17. Share-based payments

### 17.1 Employee share option plan

The Company has an ownership-based compensation scheme for its employees. In accordance with the provisions of the plan, as approved by shareholders at a previous annual general meeting, employees may be granted options to purchase ordinary shares at a specific exercise price, usually being the current estimated spot price. The number of shares that an employee is entitled to buy under the option agreement can vary between employees. The number is based on the employee's status and responsibility within the Company.

No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. The options are granted both in ISK and USD. Therefore the Company's obligations under the share option plan in ISK are translated into USD at each balance sheet date. Options may be exercised at any time from the date of vesting to the date of their expiry.

The options are split into five portions, each for 20% of the total number of shares under the option agreement. The first portion vests one year after signature and the last portion vests five years after signature. The options granted expire within twelve months of the last portion's vesting date, or within 90 days of the resignation of the employee, whichever is the earlier.

# Notes to the Consolidated Financial Statements

## 17. Share-based payments (continued)

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Options series	Number	Grant date	Expiry date	Exercise price	Cumulative provision
Issued in the year 2006* +	138,721	Various	2013	ISK 800	2,367,547
Issued in the year 2006* +	1,200	Various	2013	ISK 1200	15,188
Issued in the year 2006* +	1,200	Various	2013	ISK 1400	13,319
Issued in the year 2007*	1,800	Various	2013	ISK 800	37,850
Issued in the year 2007*	47,933	Various	2013	ISK 1200	613,835
Issued in the year 2007*	18,160	Various	2014	ISK 1400	210,437
Issued in the year 2007*	13,200	Various	2014	USD 20	24,000
Issued in the year 2008*	43,900	Various	2014	ISK 1200	544,921
Issued in the year 2008*	600	Various	2014	ISK 1400	6,216
Issued in the year 2008*	50,510	Various	2015	USD 20	87,994
Issued in the year 2009*	174,986	Various	2015	USD 20	229,062
Issued in the year 2010*	287,570	Various	2016	USD 20	289,414
Issued in the year 2011*	169,600	Various	2017	USD 20	90,014
Issued in the year 2012*	273,800	Various	2018	USD 20	0
Issued in the year 2012*	98,000	Various	2018	USD 22	0
Issued in the year 2012*	200,000	Various	2018	USD 25	0
					<u>4,529,796</u>

(\*) During the years 2006, 2007, 2008, 2009, 2010, 2011 and 2012 the Company granted options to employees on various dates.

(+) During 2012 the Company extended the expiration date by one calendar year.

The Company's shares are not traded on an active market. The necessary market related data inputs to estimate fair value at grant date therefore do not exist. The Company acknowledges that the granted options are a cost to the Company and therefore an alternative method is applied to derive the cost. At each balance sheet date the Company calculates the outstanding cumulative provision. This method is in line with the accounting for cash-settled share options. Since the options will be settled in shares but not cash the Company transfers the change in cumulative provision debit through comprehensive income and credit through share options reserve in equity.

	2012		2011	
	Number of options	Weighted average exercise price*	Number of options	Weighted average exercise price*
Balance at beginning of the year.....	1,123,919	20.21	1,210,600	17.1
Granted during the year.....	571,800	20.34	101,700	20.0
Forfeited during the financial year.....	(64,460)	0	(192,998)	0
Exercised during the financial year.....	(110,079)	4.35	4,617	11.4
Balance at end of the year.....	<u>1,521,180</u>	<u>22.58</u>	<u>1,123,919</u>	<u>20.21</u>
Exercisable at end of the year.....	<u>626,538</u>	<u>11.59</u>	<u>600,893</u>	<u>11.59</u>

(\*) Weighted average exercise price in USD.

# Notes to the Consolidated Financial Statements

## 18. Borrowings

	Current		Non-current	
	2012.12.31	2011.12.31	2012.12.31	2011.12.31
Loans from bank institutions (i).....	2,100,000	450,000	9,029,434	11,001,796
Financial lease liabilities (ii).....	951,291	641,948	705,765	495,814
Convertible bonds (iii).....	0	0	16,026,022	0
<b>Total borrowings</b>	<b>3,051,291</b>	<b>1,091,948</b>	<b>25,761,221</b>	<b>11,497,610</b>

### 18.1 Summary of borrowing arrangements

(i) The Company entered into an agreement with a bank on a long-term financing in the amount of USD 20,000,000, thereof USD 8,000,000 as a revolving credit facility, bearing an interest of Libor plus 3.5%. The financing is secured by a charge over assets other than intellectual property, by pledge over all account receivables, a declaration of lien on the Company's general financial claims against third parties and a negative pledge over the Company's intellectual property. The terms of the financing are interest only payments through August of 2012 and interest and principal payments thereafter with a maturity date on July 1, 2016. As of December 31, 2012 the Company had not drawn on the revolving credit facility.

(ii) Secured by the assets leased. The borrowings are a mix of contracts with repayment periods not exceeding three years. Financial lease liabilities are denominated in Danish kroner.

(iii) The Company issued 200 convertible bonds at a total par value of USD 20,000,000 on July 16, 2012. The bonds have a fixed nominal interest of 7% per annum and mature five years from the issue date at their nominal value of USD 20,000,000 or can be converted into shares at the holder's option at any time until maturity at the rate of USD 32 per share. The values of the liability component and the equity conversion component were determined at the issuance of the bonds.

The fair value of the liability component, included in non-current long term debt, was calculated using a borrowing rate of 11.85%. The residual amount, representing the value of the equity conversion option, is recognized as a non-current derivative financial liability.

The convertible bond recognized in the balance sheet is calculated as follows:

Face value of convertible bond issued on July 16, 2012.....	20,000,000
Equity conversion option (note 19).....	(3,474,009)
Transaction costs.....	(785,779)
Liability component on initial recognition at July 16, 2012.....	15,740,212
Amortization recognized as interest expense.....	285,810
<b>Liability component at December 31, 2012</b>	<b>16,026,022</b>

The fair value of the liability component of the convertible bonds at December 31, 2012 amounted to USD 17,399,830. The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 11.85%.

Installments of borrowings liabilities are specified as follows:

	2012.12.31	2011.12.31
Current maturities .....	3,051,291	1,091,948
Installments 2014 / 2013 .....	3,358,536	2,878,105
Installments 2015 / 2014 .....	3,753,116	3,058,142
Installments 2016 / 2015 .....	2,623,547	3,487,164
Installments 2017 / 2016 .....	16,026,022	2,074,199
	<b>28,812,512</b>	<b>12,589,558</b>

# Notes to the Consolidated Financial Statements

## 19. Derivative financial instruments

### Conversion option

On July 16, 2012 the Company issued convertible bonds at a par value of USD 20,000,000. The bonds mature in five years from the issue date and can at any time at the holder's option be converted into shares of the Company at the rate of USD 32 per share.

The conversion option of the bonds is an embedded derivative that requires separate recognition as a derivative liability at fair value through profit or loss. The option was initially recognized as the difference between the fair value of the bonds, calculated using a borrowing rate of 11.85%, and the nominal value of the bonds. Transaction costs related to the issued bonds are allocated between the liability component and embedded derivative on a pro rata basis.

The conversion option recognized in the balance sheet is calculated as follows:

Face value of convertible bond issued on July 16, 2012.....	20,000,000
Fair value of the liability component of the bonds.....	(16,525,991)
Allocated transaction costs.....	(165,182)
Conversion option on initial recognition at July 16, 2012.....	3,308,827
Fair value change through profit and loss.....	(34,161)
<b>Conversion option at December 31, 2012</b>	<b>3,274,666</b>

## 20. Deferred tax assets/(liabilities)

	2012.12.31	2011.12.31
Balance at beginning of period .....	(9,385,113)	(7,848,641)
Income tax payable for the period .....	83,706	83,724
Calculated tax for the year .....	796,242	2,189,672
Effect of tax credit .....	(2,904,726)	(3,409,573)
Exchange difference .....	(452,267)	(240,936)
Permanent differences .....	242,986	(159,360)
Balance at end of period .....	<b>(11,619,171)</b>	<b>(9,385,113)</b>

The following are the major deferred tax liabilities and assets recognized:

	Assets	Liabilities	Net
<b>At 31 December 2012</b>			
Property, plant and equipment .....	232,085	(330,289)	(98,204)
Intangible assets .....	6,327	(18,087,605)	(18,081,278)
Trade receivables .....	136,777	0	136,777
Tax loss carry forward .....	6,612,281	0	6,612,281
Effect of tax credit .....	1,230,370	(1,096,760)	133,610
Other items .....	541,620	(338,977)	202,643
Total tax assets/ (liabilities).....	8,759,460	(19,853,631)	(11,094,171)
Tax assets offsetting tax liabilities.....	(8,140,611)	8,140,611	0
Valuation allowance for deferred tax assets.....	(525,000)	0	(525,000)
	<b>93,849</b>	<b>(11,713,020)</b>	<b>(11,619,171)</b>

# Notes to the Consolidated Financial Statements

## 20. Deferred tax assets/(liabilities) (continued)

	Assets	Liabilities	Net
<b>At 31 December 2011</b>			
Property, plant and equipment .....	146,753	(8,188)	138,565
Intangible assets .....	4,769	(15,433,156)	(15,428,387)
Trade receivables .....	19,449	0	19,449
Inventories .....	75,252	0	75,252
Tax loss carry forward .....	5,632,583	(225,000)	5,407,583
Tax credit .....	1,378,426	(1,299,495)	78,931
Other items .....	324,543	(1,049)	323,494
Total tax assets/ (liabilities).....	7,581,775	(16,966,888)	(9,385,113)
Tax assets offsetting tax liabilities.....	(7,142,150)	7,142,150	0
	<b>439,625</b>	<b>(9,824,738)</b>	<b>(9,385,113)</b>

## 21. Other long-term liabilities

	2012.12.31	2011.12.31
Deferred rent .....	1,099,542	792,303
Less current portion .....	0	(97,137)
<b>Other long term liabilities</b>	<b>1,099,542</b>	<b>695,166</b>

The Company has entered into leasehold agreements where monthly rental payments may vary over the life of the agreement. The Company calculates the total payments, including incentives, of each leasehold agreement and recognized the related leasehold expense on a straight line basis over the term of the agreement. The deferred rent at year end represents the amount the Company has recognized as a leasehold expense in excess of actual payments under the leasehold agreements.

## 22. Other current liabilities

	2012.12.31	2011.12.31
Value added tax and customs payable .....	1,819,343	1,959,457
Forward contracts settlement obligation .....	151,368	333,290
Salaries and related expenses payable .....	1,475,530	1,644,932
Accrued interest .....	777,981	145,668
Accrued vacation pay .....	2,348,287	2,000,374
Other liabilities .....	266,255	49,944
	<b>6,838,764</b>	<b>6,133,665</b>

## 23. Deferred income

Deferred income relating to unrecognized game revenues:

	2012.12.31	2011.12.31
Balance at beginning of year .....	4,152,311	3,587,330
Changes during the year .....	1,078,391	564,981
	<b>5,230,702</b>	<b>4,152,311</b>

# Notes to the Consolidated Financial Statements

## 24. Commitments

### Leasehold commitments

The Company has rent contracts for its office real estate in the UK, Iceland, China and U.S. under non-cancellable leases expiring in September 2013, July 2015, October 2015 and November 2022, respectively.

Following are the total of future minimum lease payments under non-cancellable leasehold agreements:

	2012.12.31	2011.12.31
Not later than one year .....	2,333,556	2,128,936
Later than one year and not later than five .....	6,022,030	7,338,860
Later than five years .....	4,293,475	5,104,781
	<b>12,649,062</b>	<b>14,572,576</b>

In 2012 the Company recognized USD 2,733,547 (2011: USD 2,506,604) as expenses in relation to leasehold agreements.

### Finance lease commitments

The Company has finance leases for various items of computer hardware. These finance leases have a fixed term of three years, with purchase options at the end of the term. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2012.12.31		2011.12.31	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
No later than one year .....	1,017,940	951,291	686,924	641,948
Later than one year and not later than five .....	745,238	705,765	523,545	495,814
Later than five years .....	0	0	0	0
Total minimum lease payments .....	1,763,178	1,657,056	1,210,468	1,137,762
Less amounts representing finance charges .....	(106,122)	0	(72,706)	0
<b>Present value of minimum lease payments</b>	<b>1,657,056</b>	<b>1,657,056</b>	<b>1,137,762</b>	<b>1,137,762</b>



# Notes to the Consolidated Financial Statements

## 25. Financial instruments

### 25.1 Capital management

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents disclosed in note 15 and equity of the Company, comprising issued capital, retained earnings as detailed in note 16.

### 25.2 Categories of financial instruments

	2012.12.31	2011.12.31
<b>Financial assets</b>		
<b>Loans and receivables</b>		
Trade and other receivables (less pre-payments).....	8,090,961	7,091,219
Cash and cash equivalents.....	20,368,641	3,663,581
<b>Total</b>	<b>28,459,602</b>	<b>10,754,800</b>
<b>Financial liabilities</b>		
<b>Financial liabilities at fair value through profit and loss</b>		
Conversion option.....	3,274,666	0
<b>Financial liabilities at amortized cost</b>		
Borrowings.....	28,812,512	13,381,861
Trade and other payables.....	11,544,318	10,744,244
	40,356,830	24,126,105
<b>Total</b>	<b>43,631,496</b>	<b>24,126,105</b>

### 25.3 Financial risk management objectives

The Company's management monitors and manages the financial risks relating to the operations of the Company through internal risk reports that analyze exposures by degree and magnitude of risk. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Company seeks to minimize the effects of these risks by effectively managing its capital structure, working capital and customer and vendor relationships. The Company may from time to time use derivative financial instruments to hedge these risk exposures. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### 25.4 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see 25.5 below) and interest rates (see 25.6 below). The Company seeks to minimize the effects of these risks by effectively managing its capital structure and working capital. The general policy is to apply natural exchange rate hedging to the extent possible. The Company may from time to time use derivative financial instruments to hedge these risk exposures.

There has been no change to the manner in which the Company manages and measures the risk.

# Notes to the Consolidated Financial Statements

## 25. Financial instruments (continued)

### 25.5 Foreign currency risk management

The Company is mainly exposed to two currencies, ISK and EUR. The carrying amount of the Company's ISK/EUR denominated monetary assets and monetary liabilities at the reporting date is as follows in USD:

	Currency net exposure	
	2012.12.31	2011.12.31
ISK.....	8,955,840	(1,689,594)
EUR.....	(2,422,821)	(4,892,214)

#### 25.5.1 Foreign currency sensitivity

The table below shows what effects a 10% increase of the relevant foreign currency rate against the USD would have on P/L and equity. The foreign currency assets and liabilities in the sensitivity analysis are mainly foreign currency borrowings and foreign currency bank balances. The analysis is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. The analysis assumes that all other variables, excluding the relevant foreign currency rate, are held constant. The sensitivity analysis does not take into account tax effects. A positive number below indicates an increase in profit and other equity. A decrease of the relevant foreign currency rate against the USD would have an opposite impact on P/L and equity.

	ISK Impact		EUR Impact	
	2012	2011	2012	2011
P/L and equity.....	895,584	(168,959)	(242,282)	(489,221)

### 25.6 Interest rate risk management

The Company has a mix of fixed and variable interest rate borrowings, which are as follows:

	Weighted average interest rate	2012.12.31	2011.12.31
Variable interest rate borrowing.....	4.3%	12,786,490	12,589,558
Fixed interest rate borrowing.....	7.0%	16,026,022	0
		<b>28,812,512</b>	<b>12,589,558</b>

In the analysis below the effects of a 50 and 100 basis point decrease on P/L and equity are demonstrated. This sensitivity analysis has been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. The analysis assumes that all other variables, except basis points, are held constant. The sensitivity analysis does not account for tax effects. A positive number below indicates an increase in profit and other equity. An increase in basis points would have an opposite impact on income statement and equity.

	2012		2011	
	50 bps	100 bps	50 bps	100 bps
Effects on P/L and equity .....	63,932	127,865	62,948	125,896

# Notes to the Consolidated Financial Statements

## 25. Financial instruments (continued)

### 25.7 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. Trade receivables mainly consist of receivables from credit card companies and therefore the credit risk is limited to the credit card company but not to the customer.

The following table represents the Company's maximum exposure to credit risk without taking into account the value of any collateral obtained:

	Maximum credit risk	
	2012.12.31	2011.12.31
Accounts receivables.....	3,641,856	2,141,276
Other receivables (less pre-payments).....	4,449,105	4,949,943
Cash and cash equivalents.....	20,368,641	3,663,581
	<u>28,459,602</u>	<u>10,754,800</u>

### 25.8 Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. On a regular basis the Company monitors the liquidity balance, development and the effects of market environment. Special attention is given to maintain an adequate level of liquid assets to cover repayments of borrowings and interest payments. The Company prepares a liquidity analysis to keep track of expected timing of expected payments.

#### 25.8.1 Liquidity risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	Carrying value	Contractual cash flow	Current	1-5 years	5 > years
<b>At December 31, 2012</b>					
Borrowings.....	28,812,512	41,541,290	3,641,647	37,899,643	0
Trade and other payables...	11,544,318	11,544,318	11,544,318	0	0
	<u>40,356,830</u>	<u>53,085,608</u>	<u>15,185,965</u>	<u>37,899,643</u>	<u>0</u>
<b>At December 31, 2011</b>					
Borrowings.....	12,589,558	14,945,374	1,671,448	13,273,926	0
Trade and other payables...	10,744,244	10,744,244	10,744,244	0	0
	<u>23,333,802</u>	<u>25,689,618</u>	<u>12,415,692</u>	<u>13,273,926</u>	<u>0</u>

# Notes to the Consolidated Financial Statements

## 25. Financial instruments (continued)

### 25.9 Fair value of financial instruments

Except as detailed in the following table, management considers that the carrying value of financial assets and financial liabilities recognized in the Consolidated Financial Statements approximate their fair value.

	2012.12.31		2011.12.31	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:				
Borrowings.....	28,812,512	30,606,885	12,589,558	13,093,594

The fair values of financial instruments are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

In specific circumstances, certain assets and liabilities are reported or disclosed at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the Company's principal market for such transactions. If the Company has not established a principal market for such transactions, fair value is determined based on the most advantageous market. Valuation inputs used to determine fair value are arranged in a hierarchy that categorizes the inputs into three broad levels, which are as follows:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are directly or indirectly observable valuation inputs for the asset or liability, excluding Level 1 inputs.
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The Company's conversion option reported under non-current liabilities is the Company's sole financial instrument reported at fair value and belongs to Level 3 in the fair value hierarchy. Fair value of the conversion option is estimated using appropriate valuation techniques using observable inputs as much as possible.

The following table presents the changes in Level 3 instrument for the year ended December 31, 2012:

	2012
<b>Financial liabilities at fair value through profit or loss</b>	
Opening balance.....	0
Issue of conversion option.....	3,308,827
(Gains) and losses recognized in profit or loss.....	(34,161)
<b>Closing balance</b>	<b>3,274,666</b>

## 26. Related party transactions

The Company's subsidiaries contribute to the development and operations of the Company's games and are fully funded by the parent company. Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Two subsidiaries, CCP Games UK and CCP North America, have issued guaranties for the parents loans from bank institutions, see note 18.

Transactions with key management are disclosed in note 7.

The consolidated financial statements of the Company include:

Name of subsidiaries	Proportion of ownership	Principal activity
CCP North America Inc. ....	100%	Intellectual property creation
CCP Games UK Ltd.....	100%	Virtual world / Intellectual property creation
CCP Asia Ltd.....	100%	Holding
CCP Information Technology CO. Ltd.....	100%	Intellectual property creation
CCP GI hf.....	100%	Holding

# Notes to the Consolidated Financial Statements

## 27. Approval of Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors on March 14, 2013.

## 28. Ratios

### From Statement of Earnings

#### For the twelve months ended December 31,

	2012	2011
EBITDA .....	16,439,681	18,179,867
a) Contribution margin on operation .....	25.5%	27.9%
b) Profit margin on operating revenues .....	7.2%	13.3%
c) Earnings per share (EPS) .....	0.50	0.93
d) Asset turnover ratio .....	0.58	0.72
e) Trade receivables turnover ratio .....	22.58	29.65

### Definitions

- a) EBITDA/operating revenue
- b) Net profit/operating revenue
- c) Earnings per share (EPS)
- d) Operating Revenues/average total assets
- e) Sales/average trade receivable

#### For the twelve months ended December 31,

	2012	2011
<b>Liquidity ratios</b>		
a) Quick or acid-test ratio .....	1.49	0.74
b) Current ratio .....	1.49	0.75
c) Equity ratio .....	0.52	0.61

### Definitions

- a) (Current assets - inventories)/current liabilities
- b) Current assets/current liabilities
- c) Equity/total assets

### Expenses as a Percentage of Operating Revenue:

#### For the twelve months ended December 31,

	2012	2011
Cost of sales .....	7.4%	8.6%
Research and development expenses .....	25.3%	19.9%
Publishing expenses .....	14.7%	17.3%
Marketing expenses .....	19.2%	15.2%
General and administrative expenses .....	29.1%	27.0%
Total expenses .....	95.7%	88.0%