



Consolidated Financial Statements

2011

CCP hf.
Grandagarði 8
101 Reykjavík
Iceland
ID no. 450697-3469

CCP Hf.

Consolidated Financial Statements

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Independent Auditor's Report

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 Board of Directors and the CEO, balance sheet as of 31 December 2011, and the 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 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 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 and fair presentation 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 overall presentation of the consolidated financial statements.

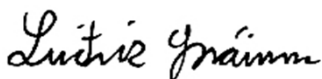
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

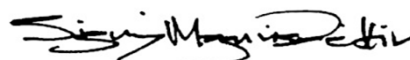
In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of CCP hf. as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union applied on a consistent basis.

Kopavogur, 30 March 2012

Deloitte ehf.



Lúðvík Þráinnsson
State authorized public accountant



Signý Magnúsdóttir
State authorized public accountant

Endorsement by the Board of Directors and CEO

The Consolidated Financial Statements for the year 2011 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.

The Company's revenues in 2011 were USD 65,264,151. The profit for the year amounted to USD 8,672,471. Assets at year-end were USD 97,614,885 with shareholders' equity of USD 59,511,731, or 61%. The Company employed 514 people at year-end in its offices in Reykjavík, Newcastle, Shanghai and Atlanta, compared to 603 at the beginning of the year. Salaries and related expenses amounted to USD 45,221,562 of which USD 27,798,365 were capitalized as development cost.

EVE Online ended the year with 351,502 subscribers. Three expansions to the EVE Online universe were launched in 2011. Incursion brought a new age of artistry to video games and gave a glimpse of the potential of the Carbon technology framework. The Incarna 1.0 expansion was the first step to avatar-based gameplay with the introduction of 3D avatars to the sci-fi virtual universe. The third expansion, Crucible, was launched in late 2011 to player acclaim with a large number of much-requested enhancements.

The Company and Sony Computer Entertainment Inc. announced an agreement to bring the innovative DUST 514® video game exclusively to the PlayStation®3 console entertainment system in 2012.

The Company unveiled the results of its technology partnership with NVIDIA at the EVE Online Fanfest event in March. The Company leverages NVIDIA technology to enable its recently launched EVE Online Character Creator.

Customer and market feedback in the second half of the year triggered a review and re-evaluation of the Company's priorities and processes. This led to a reduction of staff affecting twenty percent of global positions, the majority of which impacted our Atlanta, GA office, although a number of positions in our Reykjavik, Iceland office were also affected. The focus was set on enhancing the EVE Online player experience and bringing DUST 514 to market. World of Darkness will continue in development with a dedicated core team.

The Company's Atlanta office announced the relocation of the CCP North America headquarters from Gwinnett County to the City of Decatur in DeKalb County.

The Board of Directors recommends that dividends shall not be paid to shareholders in 2012. 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, 2011 shareholders owning more than 10% are NP Ehf with 30.37% and Teno Investments with 23.83%.

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. The Compensation Committee did not meet during 2011 and the Audit Committee met three times.

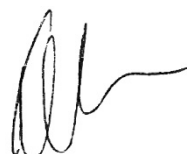
It is the opinion of the Board of Directors and the CEO of the Company that the accounting policies applied herein are appropriate and that these Consolidated Financial Statements present all information necessary to give a true and fair view of the Company's assets and liabilities, financial position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

Reykjavík, March 30, 2012

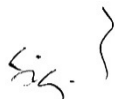
Board of Directors



Vilhjálmur Þorsteinsson, Chairman



David Fialkow



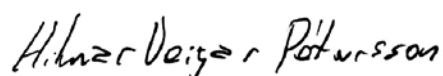
Sigurður Ólafsson



Steve Wieck



Birgir Már Ragnarsson



Hilmar Veigar Pétursson, CEO

Consolidated Statements of Comprehensive Income

		For the twelve months ended		
		December 31,		
	Notes	2011	2010	2009
Subscription and sales - EVE Online		63,167,059	57,443,934	51,782,424
Other revenue		2,097,092	1,739,731	3,486,367
	5	65,264,151	59,183,665	55,268,791
Cost of sales	6	(5,605,430)	(6,073,734)	(7,752,486)
Gross profit		59,658,721	53,109,931	47,516,305
Operating expenses				
Research and development		(12,972,482)	(11,127,383)	(9,342,375)
Publishing		(11,313,726)	(8,797,352)	(7,204,531)
Marketing		(9,912,335)	(9,769,965)	(9,410,916)
General and administrative		(17,635,870)	(16,923,857)	(13,670,677)
Total operating expenses		(51,834,414)	(46,618,557)	(39,628,499)
Operating profit		7,824,307	6,491,374	7,887,806
Financial income	8	40,124	89,176	51,092
Financial cost	8	(1,306,617)	(1,344,520)	(1,431,053)
Net exchange rate difference	8	(75,015)	(1,499,015)	21,624
Profit before taxes		6,482,799	3,737,015	6,529,469
Income tax	9	2,189,672	1,677,743	(339,238)
Profit for the year		8,672,471	5,414,758	6,190,231
Other comprehensive income				
Exchange differences arising on translation of foreign operations		144,791	67,506	(169,358)
Total comprehensive income for the year		8,817,262	5,482,264	6,020,873

Consolidated Balance Sheets

Assets	Notes	2011.12.31	2010.12.31
Non-current assets			
Property, plant and equipment	10	5,426,464	4,387,399
Goodwill	11	4,252,956	4,252,956
Development cost	12	74,768,626	54,615,436
Other intangible assets	12	543,658	543,658
Deferred tax assets	20	439,625	0
Other financial assets		87,037	87,037
		<u>85,518,366</u>	<u>63,886,486</u>
Current assets			
Inventories	14	161,156	459,487
Trade receivables	15	2,141,276	2,120,285
Other receivables	15	6,130,506	5,800,111
Cash and cash equivalents	16	3,663,581	11,223,672
		<u>12,096,519</u>	<u>19,603,555</u>
Total assets		<u>97,614,885</u>	<u>83,490,041</u>
Equity and liabilities			
Equity			
Share capital	17	123,554	123,526
Share premium	17	20,342,830	20,178,172
Foreign currency translation reserves	17	668,798	524,007
Equity settled employee benefits reserve	17,18	4,424,200	3,664,845
Retained earnings	17	33,952,349	25,279,879
Total equity		<u>59,511,731</u>	<u>49,770,429</u>
Non-current liabilities			
Long term debt	19	12,192,776	438,229
Deferred tax liabilities	20	9,824,738	7,848,641
Other non-current liabilities	21	0	86,837
		<u>22,017,514</u>	<u>8,373,707</u>
Current liabilities			
Trade payables		4,610,579	3,290,098
Current maturities of non-current liabilities	19	1,189,085	12,073,793
Deferred income	23	4,152,311	3,587,330
Other current liabilities	22	6,133,665	6,394,684
		<u>16,085,640</u>	<u>25,345,905</u>
Total liabilities		<u>38,103,154</u>	<u>33,719,612</u>
Total equity and liabilities		<u>97,614,885</u>	<u>83,490,041</u>

Consolidated Statements of Cash Flows

		For the twelve months ended		
		December 31,		
	Notes	2011	2010	2009
Cash flow from operating activities				
Profit for the period		8,672,471	5,414,758	6,190,231
Net financial cost (-income)		1,341,508	2,754,359	1,358,337
Income tax expense	20	(2,189,672)	(1,677,743)	339,238
Depreciation and amortization	10,12	10,355,560	8,443,400	6,302,647
Impairment loss on capitalized development	12	0	0	633,497
Equity settled employee stock options	17,18	759,245	204,496	2,494,273
Loss on disposal of asset		49,422	0	0
Other items		629,617	(152,987)	(74,027)
		<u>19,618,152</u>	<u>14,986,283</u>	<u>17,244,196</u>
Change in operating assets and liabilities				
Decrease in inventories	14	183,930	797,070	523,772
(Increase)/decrease in operating assets		(111,955)	836	236,635
Increase/(decrease) in operating liabilities		<u>1,660,803</u>	<u>1,356,447</u>	<u>2,929,603</u>
Cash generated by operating activities		21,350,930	17,140,637	20,934,206
Financial income received		126,119	100,866	59,109
Financial cost paid		(1,787,920)	(1,877,231)	(1,990,671)
Tax credit received		<u>3,250,849</u>	<u>2,018,443</u>	<u>1,085,934</u>
Net cash generated by operating activities		22,939,977	17,382,715	20,088,578
Cash flows from investment activities				
Purchases of property, plant and equipment	10	(2,483,589)	(2,374,555)	(1,361,350)
Development cost	12	(27,798,365)	(23,503,434)	(17,011,736)
Change in other financial assets		<u>0</u>	<u>(36,437)</u>	<u>0</u>
		<u>(30,281,954)</u>	<u>(25,914,425)</u>	<u>(18,373,086)</u>
Cash flows from financing activities				
Repayments of borrowings		(6,231,581)	(314,254)	(2,388,568)
New loans raised	19	12,000,000	0	10,819,909
Short term borrowings		0	(331,767)	(9,182,332)
Net increase in share capital	17	164,686	16,622,478	104,292
		<u>5,933,105</u>	<u>15,976,457</u>	<u>(646,699)</u>
Net change in cash		(1,408,872)	7,444,746	1,068,793
Cash at beginning of the year		11,223,672	3,804,265	2,655,203
Effect of foreign exchange rates		41,994	(25,339)	80,270
Offset against financial liabilities	19	(6,193,213)	0	0
Cash at end of the year		<u>3,663,581</u>	<u>11,223,672</u>	<u>3,804,265</u>

Consolidated Statements of Changes in Equity for the year ended December 31, 2011

	Total numbers of shares*	Share capital	Share premium	Equity-settled employee benefits reserve	Foreign currency translation reserve	Retained earnings	Total
Balance at January 1, 2009	8,307,219	115,953	3,458,974	966,076	625,859	13,674,890	18,841,752
Profit for the period.....						6,190,230	6,190,230
Translation difference.....					(169,358)		(169,358)
Total comprehensive income		0	0	0	(169,358)	6,190,230	6,020,873
Increase in share capital	940,739	7,362	16,568,289				16,575,651
Employee stock options.....				2,494,273			2,494,273
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 differences.....					144,791		144,791
Total comprehensive income		0	0	0	144,791	8,672,471	8,817,262
Increase in share capital	25,000	28	164,658				164,686
Employee stock options.....				759,355			759,355
Balance at December 31, 2011	9,297,938	123,554	20,342,830	4,424,200	668,798	33,952,349	59,511,731

Notes to the Consolidated Financial Statements

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 the computer game EVE Online are property of the Company. CCP hf. operates the following offices: CCP North America, Inc. in Atlanta, 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 2011. 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 effect 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 2011, 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

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 and 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 current 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, 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 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.

3.7.3 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.

3.7.4 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.

Notes to the Consolidated Financial Statements

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 rates 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 is derived from the Central Bank of Iceland.

	Average exchange rate		Year end exchange rate	
	2011.01.01 2011.12.31	- 2010.01.01 2010.12.31	2011.12.31	2010.12.31
EUR	1.390514	1.326508	1.294434	1.336810
ISK	0.008616	0.008194	0.008149	0.008692
GBP	1.602337	1.544967	1.543721	1.551239
CAD	1.010643	0.970659	0.979627	1.001825
DKK	0.186631	0.178122	0.174126	0.179357
NOK	0.178342	0.165575	0.166270	0.171004
SEK	0.153992	0.138990	0.144984	0.149109
CHF	1.130092	0.960624	1.064787	1.068318
JPY	0.012563	0.011411	0.012919	0.012293
CNY (RMB)	0.154771	0.147714	0.158862	0.151725

Notes to the Consolidated Financial Statements

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 capitalisation.

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 18.

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 December 2010 the Icelandic Parliament approved an increase in the income tax rate from 18% to 20% effective as of January 1, 2011. In the USA, 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 in China is 25%.

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 utilised. 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 utilise 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 realised, 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

3.12 Taxation (continued)

3.12.3 Current and deferred tax for the period

Current and deferred tax 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 cost less accumulated depreciation and any accumulated impairment losses.

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. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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.

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.

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.

Notes to the Consolidated Financial Statements

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 realisable 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 realisable 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

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.

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 investments 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

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 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 collateralised 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 as 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 judgements 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 judgements, 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. Segments

The Company's operation as a whole is one operating segment whose operating results are regularly reviewed by the Company's chief operating decision maker to make the decision about resources to be allocated to the operation and its performance. Because of this the information about profit or loss, assets and liabilities of that operating segment is the same as reported as a whole in this Consolidated Financial Statements.

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

	2011	2010
Subscription fees.....	62,466,345	56,683,536
Revenue from the sale of goods.....	2,097,092	1,739,731
Royalty fees	700,714	760,398
	<u>65,264,151</u>	<u>59,183,665</u>

5.1 Geographical information

The Company operates in three principal geographical areas - Northern America, Europe (includes Iceland, the Company's country of domicile) and Asia.

The Company's revenue from external customers and information about its non-current assets* by geographical location are detailed below.

The "Rest of the World" category comprises South and Central America, the Caribbean, Africa, Australia and Oceania i.e. the southern hemisphere.

	External Sales		Non-current assets	
	2011	2010	31.12.2011	31.12.2010
Northern America.....	27,589,687	26,270,716	4,517,982	1,107,489
Europe.....	32,920,568	28,080,044	79,208,573	62,778,997
Asia.....	1,311,632	1,539,323	1,352,186	0
Rest of World.....	3,442,264	3,293,582	0	0
	<u>65,264,151</u>	<u>59,183,665</u>	<u>85,078,741</u>	<u>63,886,486</u>

*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 per cent or more of Company's revenues.

Notes to the Consolidated Financial Statements

6. Cost of sales

	2011	2010
EVE Online.....	4,806,164	4,215,714
Physical Products and eCommerce.....	799,266	1,858,020
	<u>5,605,430</u>	<u>6,073,734</u>

Included in Physical Products and eCommerce stores is a write down of inventory to net realizable value of 12,571 (2010: 459,012). See note 14.

7. Salaries and other employee expenses

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

	2011	2010
Salaries	37,138,909	30,490,287
Capitalized salaries.....	(21,578,861)	(16,885,477)
Pension fund.....	2,467,514	1,477,818
Salary-related expenses	4,465,727	4,026,677
Other employee expenses.....	1,149,413	2,195,774
	<u>23,642,701</u>	<u>21,305,079</u>

Average number of positions 595 558

The salaries, remuneration and benefits for the year 2011 for the Company's CEO and board amounted to 630,000 (2010: 564,910).

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

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

	2011	2010
Cost of sales.....	2,309	855
Research and development	27,063,745	21,337,964
Capitalized development	(21,578,861)	(16,885,477)
Publishing	8,000,130	6,254,523
Marketing	2,767,634	2,569,039
General and administrative	7,387,744	8,028,175
	<u>23,642,701</u>	<u>21,305,079</u>

8. Financial income / (cost)

Financial income and (cost) are specified as follows:

	2011	2010
Financial income:		
Other interest income.....	40,124	89,176
	<u>40,124</u>	<u>89,176</u>
Financial cost:		
Interest on loans	(1,306,617)	(1,344,520)
	<u>(1,306,617)</u>	<u>(1,344,520)</u>
Net exchange rate difference	(75,015)	(1,499,015)
Net financial income / (cost)	<u>(1,341,508)</u>	<u>(2,754,359)</u>

Notes to the Consolidated Financial Statements

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 2,261,696. In the year 2012, no income tax will be paid as taxable income is negative in 2011.

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

	2011		2010	
	Amount	%	Amount	%
Profit before tax	6,482,799		3,737,015	
Tax at the rate of 20%/18%	(1,296,560)	20%	(672,663)	18%
Effect of different tax rates of other jurisdictions	550,906	-8%	(29,182)	1%
Effect of change in tax rate	(286,620)	4%	(705,661)	19%
Effect of previously unused tax losses and tax offsets now recognized as deferred assets	(2,079)	0%	0	0%
Effect of tax credit	2,549,929	-39%	3,039,377	-81%
Tax effect of other items	674,096	-10%	45,871	-1%
	<u>2,189,672</u>	<u>-33.8%</u>	<u>1,677,743</u>	<u>-44.9%</u>

10. Property, plant and equipment

2011

	Leasehold improvements	Computers and equipment	Other tangible assets	Total
Cost				
At beginning of year.....	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
At end of year.....	<u>2,519,218</u>	<u>8,501,547</u>	<u>1,508,068</u>	<u>12,528,833</u>
Accumulated depreciation				
At beginning of year.....	336,466	4,114,374	632,579	5,083,419
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)
At end of year.....	<u>515,839</u>	<u>5,725,746</u>	<u>860,784</u>	<u>7,102,369</u>
Carrying amount				
Book value at beginning of year.....	612,050	3,389,102	386,246	4,387,399
Book value at end of year.....	<u>2,003,379</u>	<u>2,775,801</u>	<u>647,284</u>	<u>5,426,464</u>

The following useful lives are used in the calculation of depreciation:

Leasehold improvements	3-12 years
Computers and equipment	3-4 years
Other tangible assets	4-5 years

Notes to the Consolidated Financial Statements

10. Property, plant and equipment (continued)

Depreciation classified by operational category is specified as follows:

	2011
Cost of sales.....	0
Research and development	174,581
Publishing	551,735
Marketing	18,779
General and administrative	1,965,290
	<u>2,710,385</u>

2010

	Leasehold improvements	Computers and equipment	Other tangible assets	Total
Cost				
At beginning of year.....	507,889	7,599,256	670,957	8,778,102
Additions.....	440,627	2,133,311	374,399	2,948,337
Fully depreciated assets	0	(2,100,434)	(30,444)	(2,130,878)
Currency exchange differences.....	0	(128,657)	3,913	(124,744)
At end of year.....	<u>948,516</u>	<u>7,503,476</u>	<u>1,018,825</u>	<u>9,470,817</u>
Accumulated depreciation				
At beginning of year.....	229,154	4,639,696	411,206	5,280,056
Charge for the year.....	107,312	1,624,616	251,599	1,983,527
Fully depreciated assets	0	(2,100,434)	(30,444)	(2,130,878)
Net foreign currency exchange differences.....	0	(49,504)	218	(49,286)
At end of year.....	<u>336,466</u>	<u>4,114,374</u>	<u>632,579</u>	<u>5,083,418</u>
Carrying amount				
Book value at beginning of year.....	278,735	2,959,560	259,751	3,498,046
Book value at end of year.....	<u>612,050</u>	<u>3,389,102</u>	<u>386,246</u>	<u>4,387,399</u>

The following useful lives are used in the calculation of depreciation:

Leasehold improvements	3-12 years
Computers and equipment	3-4 years
Other tangible assets	4-5 years

Depreciation classified by operational category is specified as follows:

	2010
Cost of sales.....	158,476
Research and development	200,329
Publishing	131,499
Marketing	17,512
General and administrative	1,475,711
	<u>1,983,527</u>

Notes to the Consolidated Financial Statements

11. Goodwill

	2011	2010
Carrying amount at beginning of year.....	4,252,956	4,252,956
Carrying amount at end of year.....	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 23% (2010: 22%) per annum was used.

11.1 Allocation of goodwill to cash-generating units

	2011	2010
CCP hf.	4,252,956	4,252,956
	4,252,956	4,252,956

12. Other intangible assets

2011

	Capitalized development	Trademarks	Total
Cost			
At beginning of year.....	69,993,916	543,658	70,537,574
Additions.....	27,798,365	0	27,798,365
At end of year.....	97,792,281	543,658	98,335,939
Amortization			
At beginning of year.....	15,378,480	0	15,378,480
Charge for the year	7,645,175	0	7,645,175
At end of year 2011.....	23,023,655	0	23,023,655
Carrying amount			
At beginning of period.....	54,615,436	543,658	55,159,094
At end of period	74,768,626	543,658	75,312,284

During the financial year, the Company assessed the recoverable amount of development cost and trademark 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 cash flow projections for each project approved by the directors. The discount rate of 16.32%-23.08% (2010: 15.77 - 21.97%) per annum was used.

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

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

Development cost 4 years

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

	2011
Cost of sales.....	0
Research and development	7,645,175
Publishing	0
Marketing	0
General and administrative	0
	7,645,175

Notes to the Consolidated Financial Statements

12. Other intangible assets (continued)

2010

	Capitalized development	Trademarks	Total
Cost			
At beginning of year.....	46,490,482	543,658	47,034,140
Additions.....	23,503,434	0	23,503,434
At end of year.....	69,993,916	543,658	70,537,574
Amortization			
At beginning of year.....	8,918,605	0	8,918,605
Charge for the year.....	6,459,875	0	6,459,875
At end of year.....	15,378,480	0	15,378,480
Carrying amount			
At beginning of year.....	37,571,877	543,658	38,115,535
At end of year.....	54,615,436	543,658	55,159,094

Amortization of capitalized development cost in 2010 is almost exclusively due to EVE Online.

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

	2010
Cost of sales.....	0
Research and development	6,459,875
Publishing	0
Marketing	0
General and administrative	0
	6,459,875

13. Consolidation

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

14. Inventories

	2011.12.31	2010.12.31
Prepublication costs	8,103	22,900
Finished goods	340,694	1,121,235
Supplies in stock	11,776	5,546
Less reserve for obsolescence	(199,417)	(690,194)
	<u>161,156</u>	<u>459,487</u>

The Company's inventory is not pledged.

The cost of inventories recognized as an expense during the year was 820,102 (2010: 1.4 million).

The cost of inventories recognized as an expense includes 12 thousand (YTD 2010: 459 thousand) in respect of write-downs of inventory to net realisable value.

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

15. Trade and other receivables

15.1 Trade receivables

	2011.12.31	2010.12.31
Trade receivables	609,571	626,405
Credit card receivables	1,628,948	1,635,561
Allowances for doubtful accounts.....	(97,243)	(141,681)
	<u>2,141,276</u>	<u>2,120,285</u>

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 12 (2010:19) days. An allowance has been made for doubtful accounts. This allowance has been determined by management in reference to prior default experience. The directors consider 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.

Aging of trade receivables

	2011.12.31	2010.12.31
0 - 90 days.....	1,910,906	1,996,485
Older than 90 days.....	230,370	123,800
	<u>2,141,276</u>	<u>2,120,285</u>

Movement in the allowance for doubtful debts:

	2011.12.31	2010.12.31
Balance at beginning of year	141,681	362,450
Amounts written off as uncollectable	(44,438)	(220,769)
Balance at end of year.....	<u>97,243</u>	<u>141,681</u>

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, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Notes to the Consolidated Financial Statements

15.2 Other receivables

	2011.12.31	2010.12.31
Value added tax.....	203,143	212,534
Prepaid expenses.....	1,180,563	725,408
Capital income tax.....	6,525	14,473
Deposit.....	811,405	824,818
Income tax receivable.....	3,425,619	3,103,232
Other receivables.....	503,251	919,646
	<u>6,130,506</u>	<u>5,800,111</u>

16. Cash and cash equivalents

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

	2011.12.31	2010.12.31
Bank balances in USD.....	2,569,457	8,747,070
Bank balances in EUR.....	715,712	601,979
Bank balances in GBP.....	151,626	1,355,024
Bank balances in other currencies.....	226,786	519,598
	<u>3,663,581</u>	<u>11,223,672</u>

17. Equity

17.1 Issued capital

Issued capital is specified as follows:

	2011.12.31	2010.12.31
Share capital	123,554	123,526
Share premium	20,342,830	20,178,172
	<u>20,466,384</u>	<u>20,301,698</u>

Shares issued and outstanding at year-end totalled 9,297,938 (2010: 9,272,938). The nominal value of each share is one Icelandic krona, totaling 123,554 of nominal capital.

Issued capital comprises:

9,297,938 fully paid ordinary shares	20,466,384	20,301,698
(December 31, 2011 and January 1, 2011: 9,297,938)		
	<u>20,466,384</u>	<u>20,301,698</u>

Notes to the Consolidated Financial Statements

17. Equity (continued)

Changes in share capital are as follows:	Total numbers of shares*	Share capital	Share premium	Issued capital
Balance at January 1, 2010.....	9,247,958	123,315	20,027,263	20,150,578
Increase in share capital.....	24,980	211	150,909	151,120
Share capital as of January 1, 2011.....	9,272,938	123,526	20,178,173	20,301,698
Increase in share capital.....	25,000	28	164,658	164,686
Balance at December 31, 2011.....	9,297,938	123,554	20,342,830	20,466,384

*Each share is one ISK

17.2 Foreign currency translation reserve

	2011.12.31	2010.12.31
Balance at beginning of year.....	524,007	456,501
Arising on translation of foreign operations.....	144,791	67,506
Balance at end of year.....	668,798	524,007

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.

17.3 Equity-settled employee benefits reserve

	2011.12.31	2010.12.31
Balance at beginning of year.....	3,664,845	3,460,349
Expensed during year.....	759,355	204,496
Balance at end of year.....	4,424,200	3,664,845

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 18.

17.4 Retained earnings

	2011.12.31	2010.12.31
Balance at beginning of year.....	25,279,879	19,865,121
Profit for the year.....	8,672,471	5,414,758
Balance at end of year.....	33,952,349	25,279,879

Notes to the Consolidated Financial Statements

18. Share-based payments

18.1 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 both granted 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 5 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.

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

Options series	Number	Grant date	Expire date	Exercise price	Cumulative provision
(1) Issued in the year 2006*....	30,000	2006-12-1-	2012	ISK 90	517,941
(2) Issued in the year 2006*....	253,006	Various	2012	ISK 90	2,765,066
(3) Issued in the year 2006*....	1,200	Various	2012	ISK 1400	7,875
(4) Issued in the year 2007*....	2,400	Various	2013	ISK 800	27,514
(5) Issued in the year 2007*....	54,073	Various	2013	ISK 1200	443,189
(6) Issued in the year 2007*....	25,780	Various	2013	ISK 1400	169,181
(7) Issued in the year 2007*....	800	Various	2013	USD 20	0
(8) Issued in the year 2008*....	2,400	Various	2014	ISK 800	27,514
(9) Issued in the year 2008*....	54,077	Various	2014	ISK 1200	443,217
(10) Issued in the year 2008*..	1,800	Various	2014	ISK 1400	11,812
(11) Issued in the year 2008*..	83,647	Various	2014	USD 20	0
(12) Issued in the year 2009*..	950	Various	2015	ISK 800	10,891
(13) Issued in the year 2009*..	170,737	Various	2015	USD 20	0
(14) Issued in the year 2010*..	341,350	Various	2016	USD 20	0
(15) Issued in the year 2011*..	101,700	Various	2017	USD 20	0
					<u>4,424,200</u>

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

Notes to the Consolidated Financial Statements

18. Share-based payments (continued)

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.

	2011		2010	
	Number of options	Weighted average exercise price*	Number of options	Weighted average exercise price*
Balance at beginning of the year.....	1,210,600	17.1	918,400	14.9
Granted during the year.....	101,700	20.0	349,724	20.0
Forfeited during the financial year.....	(192,998)	0	(78,969)	0
Exercised during the financial year.....	4,617	11.4	21,445	5.8
Balance at end of the year.....	1,123,919	20.21	1,210,600	17.08
Exercisable at end of the year.....	600,893	11.59	561,188	12.25

(*)Weighted average exercise price in USD dollars.

19. Non-current liabilities

	Current		Non-current	
Secured - at amortized cost	2011.12.31	2010.12.31	2011.12.31	2010.12.31
Loans from bank institutions (i).....	450,000	11,761,631	11,001,796	0
Financial lease liabilities (ii).....	641,948	248,176	495,814	320,959
Other liabilities.....	97,137	63,986	695,166	117,270
Balance at end of year.....	1,189,085	12,073,793	12,192,776	438,229

19.1 Summary of borrowing arrangements

(i) Secured with a pledge of collateral in certain bank accounts and a secured lien on the receivables from the Company's principal billing partner. The loan is in the original principal amount of ISK 1.35 billion with interest payments only until maturity. The Company entered into an agreement with Silicon Valley Bank on a long-term financing in the amount of \$20 million, thereof \$8 million as revolving credit facility. The \$12 million term loan was funded on August 24th, 2011 and half of that amount is currently held in the Company's account with Silicon Valley Bank. In accordance with IAS 32 the \$6 million cash is offset against the remaining 700 million ISK obligation. The terms of such bank loan provide that the Company will not secure its property with respect to additional financial debt, other than permitted exceptions outlined in the agreement, interest only payments through August of 2012 and interest and principal payment thereafter with a maturity date on July 1, 2016. Subsequent to December 31, 2011 the remaining ISK obligation was paid in full.

(ii) Secured by the assets leased. The borrowings are a mix of contracts with repayment periods not exceeding 5 years.

Installments of non-current liabilities are specified as follows:

	2011.12.31	2010.12.31
Installments 2013 / 2012	835,197	221,068
Installments 2014 / 2013	2,115,042	185,167
Installments 2015 / 2014	3,130,276	0
Installments 2016 / 2015	3,555,224	0
Installments later	2,557,038	31,994
	12,192,776	438,229

Notes to the Consolidated Financial Statements

20. Deferred tax assets (liability)

	2011.12.31	2010.12.31
Balance at beginning of period	(7,848,641)	(6,386,745)
Income tax payable for the period	83,724	0
Calculated tax for the year	2,189,672	1,677,743
Effect of tax credit	(3,409,573)	(3,039,377)
Exchange difference	(240,936)	(174,920)
Permanent differences	(159,360)	74,658
Balance at end of period	(9,385,114)	(7,848,641)

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

	Asset	Liabilities	Net
2011			
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
Effect of tax credit	1,378,426	(1,299,495)	78,931
Other items	324,543	(1,049)	323,494
Total tax asset/ (liabilities).....	7,581,775	(16,966,888)	(9,385,113)
Tax asset and liabilities offsetting.....	(7,142,150)	7,142,150	0
	439,625	(9,824,738)	(9,385,113)

	Asset	Liabilities	Net
2010			
Property, plant and equipment	18,284	(136,368)	(118,084)
Intangible assets	0	(11,402,518)	(11,402,518)
Trade receivables	53,172	0	53,172
Inventories	260,451	0	260,451
Tax loss carry forward	3,499,356	0	3,499,356
Tax credit	0	(394,690)	(394,690)
Other items	254,554	(882)	253,672
Total tax asset/ (liabilities).....	4,085,817	(11,934,458)	(7,848,641)
Tax asset and liabilities offsetting.....	(4,085,817)	4,085,817	0
	0	(7,848,641)	(7,848,641)

Notes to the Consolidated Financial Statements

21. Other non-current liabilities

	2011.12.31	2010.12.31
Inventory Credit	0	86,837
	0	86,837

Relates to inventory programs with certain distributors of U.S. physical product. If and when these relationships are terminated, this liability is expected to be extinguished by the transfer to such distributor(s) of ownership of an amount of inventory to be determined under the existing inventory program agreements.

22. Other current liabilities

	2011.12.31	2010.12.31
Value added tax and customs payable	1,959,457	2,702,332
Forward contracts	333,290	355,444
Salaries and related expenses payable	1,644,932	1,363,152
Accrued interest	145,668	184,756
Accrued vacation pay	2,000,374	1,735,873
Other liabilities	49,943	53,127
	6,133,665	6,394,684

23. Deferred income

Deferred income relating to unrecognized subscriptions fees

	2011.12.31	2010.12.31
Balance at beginning of year	3,587,330	3,372,026
Changes during the year	564,981	215,304
	4,152,311	3,587,330

24. Commitments

The Company has a rent contract for its office real estate in USA, UK, China and Iceland under noncancelable leases expiring in September 2013, July 2015, October 2015 and July 2022.

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 19, cash and cash equivalents disclosed in note 16 and equity of the Company, comprising issued capital, retained earnings as detailed in note 17.

25.2 Categories of financial instruments

	2011.12.31	2010.12.31
Financial assets		
Loans and receivables (including cash and cash equivalents).....	10,754,800	18,418,660

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 which analyze exposures by degree and magnitude of risks. 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 for example by using 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 enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk.

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:

	Currency net exposure	
	2011	2010
ISK.....	(1,689,594)	(12,971,127)
EUR.....	(4,892,214)	(1,795,665)

25.6 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	
	2011	2010	2011	2010
P/L and equity.....	(168,959)	(1,297,113)	(489,221)	(179,567)

25.7 Interest rate risk management

In the analysis below the effects of a 50 and 100 basis points decrease on P/L and equity are demonstrated. This sensitivity analysis below have 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, than 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.

	2011		2010	
	50 bps	100 bps	50 bps	100 bps
Effects on P/L and equity	62,948	125,896	61,586	123,172

25.8 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.

Notes to the Consolidated Financial Statements

25. Financial instruments (continued)

25.8 Credit risk management (continued)

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

	Maximum credit risk	
	2011	2010
Accounts receivables.....	2,141,276	2,120,285
Other receivables.....	6,130,506	5,800,111
Cash and cash equivalents.....	3,663,581	11,223,672
	<u>11,935,363</u>	<u>19,144,068</u>

25.9 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.

25.10 Liquidity and interest 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.

	Current	1-5 years	5 > years	Total
<u>2011</u>				
Non-interest bearing.....	10,744,244	0	0	10,744,244
Floating interest rate instruments.....	<u>1,189,085</u>	<u>12,192,776</u>	<u>0</u>	<u>13,381,861</u>
	<u>11,933,329</u>	<u>12,192,776</u>	<u>0</u>	<u>24,126,105</u>
	Current	1-5 years	5 > years	Total
<u>2010</u>				
Non-interest bearing.....	9,684,782	0	0	9,684,782
Floating interest rate instruments.....	<u>12,073,793</u>	<u>525,066</u>	<u>0</u>	<u>12,598,859</u>
	<u>21,758,575</u>	<u>525,066</u>	<u>0</u>	<u>22,283,641</u>

Notes to the Consolidated Financial Statements

25. Financial instruments (continued)

The following table details the Company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

	2011	2012	2013	Total
2011				
Non-interest bearing.....	7,091,219	0	0	7,091,219
Interest bearing.....	3,663,581	0	0	3,663,581
	10,754,800	0	0	10,754,800

	2011	2011	2012	Total
2010				
Non-interest bearing.....	7,194,988	0	0	7,194,988
Interest bearing.....	11,223,672	0	0	11,223,672
	18,418,660	0	0	18,418,660

25.11 Fair value of financial instruments

Management considers the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair value.

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 financial instruments, including cash and cash equivalents, accounts receivable, inventory, accounts payable, and accrued liabilities, are carried at cost, which approximates their fair value because of the short-term nature of these financial instruments. The carrying value of capital lease obligations are based on the instruments' interest rate, terms, maturity date and collateral, if any, in comparison to the Company's incremental borrowing rate for similar financial instruments. The Company's forward contract reported under other current liabilities is the sole derivative financial liability valued at fair value and belongs to level 2 in the fair value hierarchy.

26. Approval of Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors on March 30, 2012.

Notes to the Consolidated Financial Statements

27. Ratios

From Statement of Earnings

For the twelve months ended
December 31,

	2011	2010
EBITDA	18,179,867	14,934,775
a) Contribution margin on operation	27.9%	25.2%
b) Profit margin on operating revenues	13.3%	9.1%
c) Earnings per share (EPS)	0.93	0.58
d) Asset turnover ratio	0.72	0.75
e) Trade receivables turnover ratio	29.65	23.04

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,

	2011	2010
--	------	------

Liquidity ratios

a) Quick or acid-test ratio	0.74	0.76
b) Current ratio	0.75	0.77
c) Equity ratio	0.61	0.60

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,

	2011	2010
Cost of sales	8.6%	10.3%
Research and development expenses	19.9%	18.8%
Publishing expenses	17.3%	14.9%
Marketing expenses	15.2%	16.5%
General and administrative expenses	27.0%	28.6%
Total expenses	88.0%	89.0%