CCP hf.

Consolidated Financial Statements

2008

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

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Endorsement by the Board of Directors and CEO

The Consolidated Financial Statements for the year 2008 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 2008 were USD 46,482,140. The profit for the year amounted to USD 5,062,431. Assets at year-end were USD 43,837,015, with shareholders' equity of USD 18,841,753, or 43%. The Company employed 353 people at year-end in its offices in Reykjavík, Shanghai and Atlanta, compared to 261 at the beginning of the year. Salaries and related expenses amounted to USD 18,581,204, of which USD 7,344,250 was capitalized as development cost.

The Company achieved a number of important milestones during 2008 and received various accolades, including a global online award for EVE Online from the Korean Game Industry Agency (KOGIA). Early in the year the CCP Iceland office expanded by inaugurating the newly renovated 4th floor of the office building in Reykjavik. March saw the formation of the Council of Stellar Management (CSM), the first democratically-elected governing body in a virtual world. In November a partnership with Atari was announced, which will see Atari exclusively distribute boxed versions of EVE Online in 2009. Two new expansions to the EVE Online universe were launched successfully, EVE Online: Empyrean Age and EVE Online: Quantum Rise, released in June and November respectively. The two expansions helped to push the subscriber number to nearly a quarter of a million by the end of the year, or 244,551 to be exact.

The Company‘s shareholders reached 119 at year-end compared to 99 at the beginning of the year. Shareholders owning more than 10% were NP ehf. with 34.0%, Teno Investments with 17.3% and S. Reynir Harðarson with 11.4%.

The Board of Directors recommends that dividends shall not be paid to shareholders in 2009. With regard to disposal of profit and changes in the equity of the Company, the Board refers to the Notes attached to the Consolidated Financial Statements.

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, etc.

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 24th, 2009

Board of Directors

Vilhjálmur Þorsteinsson, Chairman

David Fialkow

Sigurður Ólafsson

Steve Wieck

Birgir Már Ragnarsson

Hilmar Veigar Pétursson, CEO

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 balance sheet as at December 31, 2008, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with generally accepted accounting principles in Iceland. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 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, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Kópavogur, March 31st 2009

Deloitte hf.

Birkir Leósson	Lúðvík Þráinsson
State Authorized Public Accountant	State Authorized Public Accountant

Consolidated Income Statement 2008

	Notes	Group 2008	Group 2007
Subscription and sales revenue - EVE Online		41.668.893	32.370.477
Other revenue		4.813.247	4.784.630
	5	46.482.140	37.155.107
Cost of sales		(8.403.237)	(5.605.861)
Gross profit		38.078.903	31.549.246
Operating expenses			
Research and development		(7.868.828)	(5.654.815)
Publishing		(7.164.659)	(3.801.729)
Marketing		(8.524.124)	(8.249.089)
General and administrative		(11.024.626)	(9.399.762)
Operating profit		3.496.666	4.443.851
Financial income	7	3.656.093	1.971.048
Financial cost	8	(1.913.488)	(1.927.139)
Profit before taxes		5.239.271	4.487.760
Income tax expense	9	(363.991)	(1.489.505)
Effect of decrease in tax rate	9	187.151	0
Profit for the year		5.062.431	2.998.255

Consolidated Balance Sheet at December 31st 2008

Assets	Notes	Group 31.12.2008	Group 31.12.2007
Non-current assets			
Computers and equipment	10	3.260.910	3.232.585
Goodwill	11	4.252.956	4.257.553
Development cost	12	25.945.305	14.019.497
Other intangible assets	12	543.658	868.197
Deferred tax assets	19	0	29.550
Security deposit		18.000	0
		34.020.829	22.407.382
Current assets			
Inventories	14	1.780.325	2.338.153
Trade receivables	15	2.634.850	3.167.481
Other receivables	15	2.745.808	2.002.681
Market securities	15	0	16.316.411
Cash and cash equivalents	15	2.655.203	1.063.107
		9.816.186	24.887.832
Total Assets		43.837.015	47.295.214

Equity and liabilities

Equity			
Share capital	16	115.953	115.950
Share premium	16	3.458.974	3.374.452
Foreign currency translation reserves	16	625.859	155.948
Equity settled employee benefits reserve	16	966.076	1.268.461
Retained earnings	16	13.674.891	8.612.460
Total equity		18.841.753	13.527.271
Non-current liabilities			
Non-current liabilities	18	415.001	2.216.871
Deferred tax liabilities	19	3.410.230	2.082.066
Other non-current liabilities	20	209.995	236.513
		4.035.226	4.535.450
Current liabilities			
Trade payables		3.494.504	4.732.209
Bank overdrafts and loans	18	9.514.099	18.440.297
Current maturities of non-current liabilities	18	2.357.200	1.583.807
Deferred income	22	2.353.451	1.591.175
Other current liabilities	21	3.240.782	2.885.004
		20.960.036	29.232.493
Total Liabilities		24.995.262	33.767.943
Total equity and liabilities		43.837.015	47.295.214

Consolidated Statement of Cash Flows

	Notes	2008	2007
Cash flow from operating activities			
Profit for the year		5.062.431	2.998.255
Operating items not affecting cash flow			
Depreciation and amortization	10,12	5.369.108	1.361.696
Exch. rate difference on assets and liabilities		679.971	18.141
Other items		595.120	247.124
Deferred tax assets/liability - change	19	1.357.714	1.366.058
Equity settled employee stock options	16,17	(302.385)	920.879
Working capital provided by operating activities		12.761.959	6.912.153
Change in operating assets and liabilities			
(Increase)/decrease in inventories	14	52.527	65.124
(Increase)/decrease in operating assets		(280.117)	(2.243.107)
Increase/(decrease) in operating liabilities		174.415	5.396.469
Net cash from (to) operating activities		12.708.783	10.130.639
Cash flows from investment activities			
Purchases of property, plant and equipment	10	(1.591.011)	(2.679.875)
Development cost	12	(15.459.249)	(10.612.531)
Long term securities and other receivables		0	140.146
		(17.050.260)	(13.152.260)
Cash flows from financing activities			
Repayments of borrowings		(1.620.868)	14.950.846
New loans raised		272.304	4.400.000
Short term borrowings		(8.926.198)	(897.697)
Net increase in share capital	16	84.525	62.365
		(10.190.237)	18.515.513
Net increase (decrease) in cash and cash equivalents		(14.531.714)	15.493.892
Cash and cash equivalents at the beginning of the year		17.379.518	1.953.123
Effect of foreign exchange rates		(192.601)	(67.497)
Cash and cash equivalents at the end of the year		2.655.203	17.379.518

Consolidated Statement of changes in Equity
for the period ended December 31st 2008

	Total numbers of shares*	Share capital	Share premium	Equity-settled employee benefits reserve	Foreign currency translation reserve	Retained earnings	Total
Balance at January 1st 2007	8.259.286	115.257	3.312.780	347.582	160.325	5.614.205	9.550.149
Increase in share capital	36.000	693	61.672				62.365
Translation difference.......................					(4.376)		(4.376)
Employee stock options....................				920.879			920.879
Profit for the year..............................						2.998.254	2.998.254
Balance at December 31st 2007	8.295.286	115.950	3.374.452	1.268.461	155.949	8.612.459	13.527.272
Balance at January 1st 2008	8.295.286	115.950	3.374.452	1.268.461	155.949	8.612.459	13.527.272
Increase in share capital	11.933	116	94.592				94.708
Translation differences......................					469.911		469.911
Employee stock options....................				(302.385)			(302.385)
Correction from previous year..........		(113)	(10.070)	0			(10.183)
Profit for the year..............................						5.062.431	5.062.431
Balance at December 31st 2008	8.307.219	115.953	3.458.974	966.076	625.859	13.674.891	18.841.753

*Each share is 1 ISK

All amounts in USD

Notes

1. General information

CCP hf. is a limited liability company incorporated in Iceland. The principal activities of CCP hf. are the design, development, marketing and sales of immersive virtual worlds and games accessed over the internet. All copyright of the computer game EVE Online are property of the Company. CCP hf. has two subsidiaries, CCP NA in Atlanta and CCP Games UK in Slough, and a Representative Office in Shanghai, China.

2. Adoption of new and revised Standards

2.1 Standards and interpretations effective in the current period

The Consolidated Financial Statements are presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the year 2008. These standards and interpretations are:

IAS 39 (revised) - *Financial Instruments: Recognition and Measurement*
IFRIC 11, IFRS 2 - *Company and treasury share transactions*
IFRIC 12 - *Service concession arrangements*
IFRIC 14 - *IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction.*

The adoption of the new and revised standard and interpretations has not led to changes in the accounting policies.

2.2 Standards and interpretations in issue not yet adopted

Following is an overview of new or revised standards and interpretations that are not yet effective:

IFRS 2 (revised 2008) - *Share-based Payment* (effective for accounting periods beginning on or after 1 January 2009);

IFRS 3 (revised 2008) - *Business Combinations* (effective for accounting periods beginning on or after 1 July 2009);

IFRS 8 - *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009);

IAS 1 (revised 2008) - *Presentation of Financial Statements* (effective for accounting periods beginning on or after 1 January 2009);

IAS 23 (revised 2008) - *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009);

IAS 27 (revised 2008) - *Consolidated and Separate Financial Statements*; (effective for accounting periods beginning on or after 1 January 2009);

IAS 39 (revised 2008) - *Financial Instruments: Recognition and Measurement* (effective for accounting periods beginning on or after 1 January 2009);

Minor changes to various standards as a result of the IASB's annual improvement process (2008). Most changes take effect for periods beginning 1 January 2009 or later.

IFRIC 13 - *Customer Loyalty Programs* (effective for accounting periods beginning on or after 1 July 2008);

IFRIC 15 - *Agreements for the Construction of Real Estate* (effective for accounting periods beginning on or after 1 January 2009);

IFRIC 16 - *Hedges of a Net Investment in a Foreign Operation* (effective for accounting periods beginning on or after 1 October 2008);

IFRIC 17 - *Non-cash Assets to Owners* (effective for accounting periods beginning on or after 1 July 2009);

Revised IAS 1 will have the impact that all items of income and expense (including those recognised outside of profit or loss) must be presented either in a single statement as a statement of comprehensive income; or in two statements as a separate income statement and a statement of comprehensive income.

Revised IAS 23 eliminates the previously available option to expense all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. All other borrowing costs shall be expensed.

Revised IFRS 3 states that all acquisition-related costs are to be recognised as period expenses. Implementation may also result in a change in accounting for the recognition of goodwill related to the minority share of the acquired companies, step acquisitons and partial disposal of shares in subsidiaries.

It is the management´s assessment that in general, the adoption of those new and revised standards and interpretations will have no material impact on the financial statements, except for the additional disclosure requirements for operating segments according to IFRS 8.

IFRS 8 is the only one of the above new or revised standards and interpretations that has been approved by the EU.

Notes

3. Accounting Policies

3.1 Basis of preparation

The Consolidated Financial Statements of CCP hf. for the year 2008 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments.

The principal accounting policies adopted are set out below.

3.2 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). 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 income statement 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 into line with those used by other members of the Company.

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

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Company's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3.3 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination 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, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal Companys) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

3.4 Investments in Subsidiaries

Subsidiaries are companies where the Parent Company has full control over the entity. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Investments in subsidiaries are accounted under the equity method, investments in subsidiaries are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company´s share of the net assets of the subsidiary, less any impairment in the value of individual investments.

3.5 Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not in control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

3.6 Goodwill

Goodwill arising on acquisition is recognised as an asset and 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 recognised. 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 recognised immediately in P/L.

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 recognised for goodwill is not reversed in a subsequent period.

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

The Company's policy for goodwill arising on the acquisition of an associate is described at 3.5 above.

3.7 Risk management

The Company´s Board of Directors has an overall plan towards risk management and has made interest rate and currency swap contracts to reduce risk as possible. The Company uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The significant interest rate risk arises from bank loans. The Company´s policy is to convert a proportion of its floating rate debt to fixed rates. The Company designates these as cash flow hedges of interest rate risk. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised immediately in profit or loss. After the bank collapse in Iceland in October 2008 there have not been any currency risk hedging instruments available for the ISK.

3.8 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

3.8.1 <u>Subscription fees</u>

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

3.8 Revenue recognition (continued)

3.8.2 Sale of goods

Revenue from the sale of goods is recognised 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; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.8.3 Royalties

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

3.8.4 Dividend and interest revenue

Dividend revenue from investments is recognised 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.

3.9 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.

3.9.1 The Company as lessee

Assets held under finance leases are initially recognised 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 recognised 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 recognised as an expense in the period in which they are incurred.

3.10 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. 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 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 classified as equity and transferred to the Company's translation reserve. Such exchange differences are recognised 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 the closing rate.

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

Currency used for translating other currencies to USD is derived from the Central Bank of Iceland.

	Average exchange rate		Year end exchange rate	
	2008	2007	31.12.2008	31.12.2007
EUR	1,447138	1,368425	1,406222	1,470968
ISK	0,011354	0,015621	0,008273	0,016129
GBP	1,809227	2,000627	1,451394	2,004677
CAD	0,926325	0,933353	0,820055	1,018871
DKK	0,194098	0,183663	0,188707	0,197258
NOK	0,174996	0,170828	0,143096	0,184548
SEK	0,149819	0,147936	0,128717	0,156210
CHF	0,916211	0,833217	0,942500	0,888871
JPY	0,009801	0,008498	0,011085	0,008923
CNY (RMB)	0,141150	0,131670	0,146690	0,137100

3.11 Borrowing costs

Debt issuance cost is capitalized and amortized over the term of the loans, other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.12 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 recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

3.13 Taxation

Income tax in Iceland is 15%. 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 utilize). The Federal statutory rate for income in excess of $335,000 is 34% and the Georgia State rate is 6%. Taxes in China are comprised of offi ce income tax, turnover tax and municipal tax, which are all calculated based on the expenses of the representative offi ce. The total tax levied on the China representative offi ce was 8,67% of its expenses in 2008.

3.13.1 Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement 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 consolidated Company's current tax liability is calculated using the tax rates for each country.

3.13.2 Deferred tax

Deferred tax is recognised 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 recognised for all taxable temporary differences, and deferred tax assets are generally recognised 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 recognised 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 recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, 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 recognised 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 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.

3.13.3 Current and deferred tax for the period

Current and deferred tax are recognised 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 recognised 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.

3.14 Computers and equipment

Computers and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated 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 an item of computers and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.15 Intangible assets

3.15.1 <u>Intangible assets acquired separately</u>

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Other intangible assets are recognised only if it is probable that the asset will generate future economic benefits and the cost of the asset can be measured reliably. These intangible assets will be amortized on a straight-line basis over their useful life. The amortization charge for each period is recognised as expense.

3.15.2 <u>Internally-generated intangible assets – research and development expenditure</u>

Expenditure on research activities and development is recognised as an expense in the period in which it is incurred, except under the specific conditions described in the next paragraph.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised 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 recognised 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 recognised, 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.

3.15.3 <u>Intangible assets acquired in a business combination</u>

Intangible assets acquired in a business combination are identified and recognised 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.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

3.16 Impairment of tangible and intangible assets excluding goodwill

At 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 Company 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 recognised 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 recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised 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.

3.17 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 labour 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.

3.18 Provisions

Provisions are recognised 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 recognised as a provision is the best estimate of the consideration required to settle the present obligation at the 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 recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.19 Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as 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) financial assets 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.

3.19.1 Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset 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 financial asset, or, where appropriate, a shorter period.

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

3.19.2 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 recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

3.19.3 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 amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

3.19.4 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 recognised directly in equity in the investments 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 recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Company's right to receive payments 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 balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

3.19 Financial assets (continued)

3.19.5 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 amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3.19.6 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are 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 impacted.

For financial assets carried at amortised 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 recognised in profit or loss.

3.19.7 Derecognition of financial assets

The Company derecognises 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 recognises 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 recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.20 Financial liabilities and equity instruments issued by the Company

3.20.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.20.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

3.20.3 Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

3.20 Financial liabilities and equity instruments issued by the Company (continued)

3.20.4 Financial guarantee contract liabilities
Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition

3.20.5 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 recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

3.21 Derivative financial instruments

The Company enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

3.22 Trade receivables

Accounts receivables are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off.

3.23 Bank loans and other non-current liabilities

Bank loans and other non-current liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable.

3.24 Trade payables

Trade payables are valued at nominal value and accounts payable in other currencies have been booked at the exchange rates prevailing on the balance sheet date.

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 goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has 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.

5. Operating revenue

	2008	2007
Subscription fees	41.668.893	33.264.698
Revenue from the sale of goods	4.813.247	3.890.409
	46.482.140	37.155.107

The Company operates within two principal segments - Europe and USA. Information about its segments assets by geographical location and external sales are detailed below.

	External Sales		Segment Assets	
	2008	2007	2008	2007
Europe	43.004.322	33.613.247	39.813.030	42.837.158
USA	3.477.818	3.541.860	4.023.985	4.458.056
	46.482.140	37.155.107	43.837.015	47.295.214

Notes

6. Salaries and other employee expenses

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

	2008	2007
Salaries	17.247.048	9.063.804
Capitalized salaries	(7.344.250)	(3.718.687)
Pension fund	244.889	166.343
Salary-related expenses	1.089.267	3.460.297
Other employee expenses	1.695.311	1.486.192
	11.236.954	8.971.758
Average number of positions	316	203

The salaries, remuneration and benefits for the year 2008 for the Company's CEO and board amounted to 516,676.

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

7. Financial income

	2008	2007
Exchange rate gains	2.695.196	808.837
Other interest income	960.897	1.162.211
	3.656.093	1.971.048

8. Financial cost

	2008	2007
Interest on bank overdrafts and loans	(1.913.488)	(1.927.139)
	(1.913.488)	(1.927.139)

9. Income tax

Income tax has been calculated and recorded in the Consolidated Financial Statements. The amount posted to the Income Statement is 363,991. In the year 2009, no income tax will be paid as taxable income is negative in 2008.

Legislation changing corporate tax rates in Iceland from 18% to 15% was enacted in May 2008, effective from January 1st 2008. The effect of the lower tax rate on the Company's deferred tax liability at the beginning of the year is a reduction of 187,151 and the change is posted to the income statement.

Notes

9. Income tax (continued)

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

	2008		2007	
	Amount	%	Amount	%
Profit before tax	5.239.271		4.487.760	
Tax at the rate of 15% / 18%	785.891	15%	807.797	18%
Change in tax rate from 18% to 15%	-187.151	-4%	0	0%
Due to R&D capitalization in USA	0	0%	458.349	10%
Due to foreign subsidiary	430.337	8%	125.991	3%
Tax benefit receivables	-662.451	-13%	0	0%
Tax effect of other items	-189.785	-4%	97.368	2%
Income tax according to income statement	176.840	7,0%	1.489.505	31,0%

10. Computers and equipment

2008

	Computers and equipment	Other tangible assets	Total
Cost or valuation			
At beginning of year	5.058.406	544.478	5.602.884
Revaluation	10.829	0	10.829
Additions	1.295.984	295.027	1.591.011
Currency exchange differences	(309.466)	0	(309.466)
At end of year	6.055.753	839.505	6.895.258
Accumulated depreciation			
At beginning of year	2.177.900	192.399	2.370.299
Charge for the year	1.328.475	182.653	1.511.128
Currency exchange differences	(247.079)	0	(247.079)
At end of year	3.259.296	375.052	3.634.348
Carrying amount			
Book value at beginning of year	2.880.506	352.079	3.232.585
Book value at end of year	2.796.457	464.453	3.260.910
Depreciation rates	33%	15-20%	

10. Computers and equipment (continued)

2007

	Computers and equipment	Other tangible assets	Total
Cost or valuation			
At beginning of year	2.935.701	321.181	3.256.882
Additions	2.456.577	223.297	2.679.874
Disposals	(345.584)	0	(345.584)
Currency exchange differences	11.712	0	11.712
At end of year	5.058.406	544.478	5.602.884
Accumulated depreciation			
At beginning of year	1.232.093	126.030	1.358.123
Charge for the year	1.239.692	66.369	1.306.061
Disposals	(293.885)		(293.885)
At end of year	2.177.900	192.399	2.370.299
Carrying amount			
Book value at beginning of year	1.703.608	195.151	1.898.759
Book value at end of year	2.880.506	352.079	3.232.585
Depreciation rates	33%	15-20%	

11. Goodwill

	2008	2007
Carrying amount at beginning of year	4.257.553	4.257.553
Updated January 1st 2008	(4.597)	0
Carrying amount at the end of year	4.252.956	4.257.553

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

12.1 Allocation of goodwill to cash-generating units

The carrying amount of goodwill was allocated to the following cash-generating units:

	2008	2007
CCP North America Inc.	4.252.956	4.257.553
	4.252.956	4.257.553

Notes

12. Other intangible assets

2008

	Capitalized development	Trademarks	Customer relationships	Total
Cost				
At beginning of year	14.019.497	543.658	389.447	14.952.602
Additions	15.459.249	0	0	15.459.249
At end of year	29.478.746	543.658	389.447	30.411.851
Amortization				
At beginning of year	0	0	64.908	64.908
Charge for the year	3.533.441	0	55.714	3.589.155
Impairment	0	0	268.825	268.825
At end of year	3.533.441	0	389.447	3.922.888
Carrying amount				
At beginning of year	14.019.497	543.658	324.539	14.887.694
At end of year	25.945.305	543.658	0	26.488.963

In 2008, the Company recognized an impairment loss on a certain customer list related to the Company's book publishing division in CCP North America Inc. The Company expects to continue incurring losses related to publishing operations, and projected future cash flows from this division were determined to be less than the carrying value of the customer list.

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

Amortization of capitalized development cost in 2008 is almost exclusively due to EVE Online.

2007

	Capitalized development	Trademarks	Customer relationships	Total
Cost				
At beginning of year	3.406.966	543.658	389.447	4.340.071
Additions	10.612.531	0	0	10.612.531
At end of year	14.019.497	543.658	389.447	14.952.602
Amortization				
At beginning of year	0	0	9.273	9.273
Charge for the year	0	0	55.635	55.635
At end of year	0	0	64.908	64.908
Carrying amount				
At beginning of year	3.406.966	543.658	380.174	4.330.798
At end of year	14.019.497	543.658	324.539	14.887.694

Notes

13. Subsidiaries

	Proportion of ownership	Principal activity
Shares in subsidiaries		
CCP North America Inc.	100%	Intellectual property creation
CCP Games UK Ltd	100%	Virtual world operation

14. Inventories

	31.12.2008	31.12.2007
Prepublication costs	333.405	199.187
Goods for sale	1.996.365	2.178.966
Reserve for obsolescence	(549.445)	(40.000)
	1.780.325	2.338.153

The Company's inventory is not pledged. The insurance value of the inventories is 2.3 million.
The increase in the reserve for obsolescence of inventory in 2008 relates to physical products inventories in the U.S., the non-cash cost of which is reflected in the Company's Cost of sales.

15. Other financial assets

15.1 Trade receivables	31.12.2008	31.12.2007
Trade receivables	1.182.439	1.295.855
Credit card receivables	1.484.187	1.766.745
PayPal	388.292	591.190
Allowances for doubtful accounts	(420.068)	(486.309)
	2.634.850	3.167.481

The average credit period on sales of goods is 23 (2007:25) days. An allowance has been made for doubtful accounts and sales returns. 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.

Aging of trade receivables

	31.12.2008	31.12.2007
0 - 90 days	2.416.704	1.970.913
Older than 90 days	218.146	1.196.568
	2.634.850	3.167.481

Movement in the allowance for doubtful debts:

	31.12.2008	31.12.2007
Balance at beginning of year	486.309	517.685
Amounts written off as uncollectable	(66.241)	(31.376)
Balance at end of year	420.068	486.309

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.

15. Other financial assets (continued)

15.2 Other receivables	31.12.2008	31.12.2007
Value added tax	118.150	320.023
Prepaid expenses	379.652	20.174
Capital income tax	110.012	97.345
Deposit	1.512.342	1.189.863
Other receivables	625.652	375.276
	2.745.808	2.002.681

15.3 Cash and cash equivalents

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

	31.12.2008	31.12.2007
Bank balances in USD	1.117.226	889.080
Bank balances in other currencies	1.532.367	174.027
Market Securities	0	16.316.411
Cash	5.610	0
	2.655.203	17.379.518

16. Equity

16.1 Issued capital

Issued capital is specified as follows:

	Share capital		Share premium	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Total share capital at year-end	115.953	115.950	3.458.974	3.374.452
	115.953	115.950	3.458.974	3.374.452

Shares issued and outstanding at period-end totalled 115,953. The nominal value of each share is one Icelandic krona.

Changes in share capital are as follows:	Total numbers of shares*	Share capital	Share premium	Issued capital
Balance as of 1 January 2007	8.259.286	115.257	3.312.780	3.428.037
Increase in share capital	36.000	693	61.672	62.365
Share capital as of 1 January 2008	8.295.286	115.950	3.374.453	3.490.403
Increase in share capital	11.933	116	94.592	94.708
Correction from previous year	0	(113)	(10.070)	(10.183)
Balance at 31 December 2008	8.307.219	115.953	3.458.974	3.574.927

(*)Each share is 1 ISK.

16.2 Foreign currency translation reserve	31.12.2008	31.12.2007
Balance at beginning of year	155.948	160.325
Arising on translation of foreign operations	469.911	(4.376)
Balance at end of year	625.859	155.948

16. Equity (continued)

16.3 Equity-settled employee benefits reserve	31.12.2008	31.12.2007
Balance at beginning of year	1.268.461	347.582
Expensed during year	(302.385)	920.879
Balance at end of year	966.076	1.268.461

16.4 Retained earnings	31.12.2008	31.12.2007
Balance at beginning of year	8.612.460	5.614.205
Profit for the year	5.062.431	2.998.254
Balance at end of year	13.674.891	8.612.460

17. Share-based payments

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	Exercise price	Cumulative provision
(1) Issued prior to 1 January 2006	21.000	1/1 2005	ISK 90	158.290
(2) Issued in the year 2006	347.070	19/12 2006	ISK 800	759.663
(4) Issued in the year 2007*	1.970	Various	ISK 800	3.810
(3) Issued in the year 2007*	52.180	Various	ISK 1200	25.437
(5) Issued in the year 2007*	87.000	Various	ISK 1400	0
(6) Issued in the year 2008*	62.800	Various	ISK 1200	18.876
(7) Issued in the year 2008*	6.600	Various	ISK 1400	0
(8) Issued in the year 2008*	132.200	Various	USD 20	0
				966.076

(*) During the year 2007 and 2008 the Company granted options to employees on various dates.

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 P/L and credit through share options reserve in equity.

17. Share-based payments (continued)

	2008		2007	
	Number of options	Weighted average exercise price*	Number of options	Weighted average exercise price*
Balance at beginning of the year	509.220	12,52	368.070	9,84
Granted during the year	201.600	16,66	141.150	19,50
Balance at end of the year	710.820	13,69	509.220	12,52
Exercisable at end of the year	179.658	7,58	86.740	10,03

(*)Weighted average exercise price in USD dollars.

18. Borrowings

	Current		Non-current	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Debts in EUR	0	58.570	0	67.005
Debts in USD	2.269.624	1.525.237	2.532.742	3.733.673
Debts in DKK	87.576	0	239.459	0
Debts in ISK	9.514.099	18.440.297	0	0
	11.871.299	20.024.104	2.772.201	3.800.678
Amount due for settlement within 12 months			(2.357.200)	(1.583.807)
Balance at end of year	11.871.299	20.024.104	415.001	2.216.871

The Company has issued a one year security note which is listed on the OMX Nordic Exchange. The note bears no interest and is not indexed. The total amount is ISK 1,230,000,000. The date of maturity is in July 2009.

Installments of non-current liabilities are specified as follows:

	Other long-term liabilities	Loans from credit institutions
Current maturities	123.062	2.234.138
Installments 2010	123.062	14.600
Installments 2011	99.933	8.571
Installments 2012	35.486	0
Installments 2013	35.486	0
Installments later	97.863	0
	514.892	2.257.309

19. Deferred tax

	Deferred tax asset	Deferred tax liability
At 1 January 2008	29.550	2.082.066
Tax benefit receivable	662.452	0
Valuation allowance	(692.002)	0
Calculated tax for the year 2008	0	1.026.443
Change in tax rate from 18% to 15%	0	(187.000)
Exchange difference	0	488.721
At 31 December 2008	0	3.410.230

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

Computers and equipment	0	(5.745)
Intangible assets	0	4.437.381
Tax losses	0	(1.021.406)
	0	3.410.230

20. Other non-current liabilities

	31.12.2008	31.12.2007
Provision	209.995	236.513
	209.995	236.513

21. Other current liabilities

	31.12.2008	31.12.2007
Value added tax	1.888.166	1.085.606
Forward contracts	496.516	0
Salaries and related expenses payable	114.441	398.926
Accrued interest	63.062	149.130
Accrued vacation pay	670.241	1.041.380
Other liabilities	8.356	209.962
	3.240.782	2.885.004

22. Deferred income

Deferred income relating to unrecognised subscriptions fees

	31.12.2008	31.12.2007
Balance at beginning of year	1.591.175	1.124.978
Changes during the year	762.276	466.197
	2.353.451	1.591.175

23. Commitments

The Company has a rent contract for its office real estate both in USA and Iceland under noncancelable leases expiring in September 2013 and July 2015. The Company also has a rent contract for its Representative Office in Shanghai that expires in the end of October 2009.

24. Financial instruments

24.1 Capital risk management
The Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged.

24.2 Categories of financial instruments

	31.12 2008	31.12 2007
Financial assets		
Derivative instruments not designated as a hedge	0	83.410
Loans and receivables (including cash and cash equivalents)	8.455.929	22.113.806
Financial liabilities		
Amortised cost	19.231.581	30.094.701

24.3 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 analyse 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 minimise 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.

24.4 Market risk
The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see 24.5 below) and interest rates (see 24.6 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.

24. Financial instruments (continued)

24.5 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	
	2008	2007
ISK	(10.047.595)	(5.631.767)
EUR	(1.462.802)	1.464.368

24.5.1 Foreign currency sensitivity

The table below shows what effects 10% a 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	
	2008	2007	2008	2007
P/L and equity	(1.004.760)	(563.177)	(146.280)	146.437

24.6 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.

	2008		**2007**	
	50 bps	100 bps	50 bps	100 bps
Effects on P/L and equity	1.478	2.957	15.332	30.663

24.7 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.

24. Financial instruments (continued)

24.7 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	
	2008	2007
Accounts receivables	2.634.850	3.167.481
Other receivables	2.745.808	2.002.681
Cash and cash equivalents	2.655.203	1.063.107
Market securities	0	16.316.411
	8.035.861	22.549.680

24.8 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.

24.8.1 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.

Included in the Company's current liabilities is a one year security note amounting to ISK 1,230,000,000 with a maturity date in July 2009. As a result of this the Company's current ratio is below its policy ratio. The Company's aim is to refinance the security note before its maturity date, failing that the Company will reprioritize graphical asset out souring for upcoming titles in order to pay the security note.

	2009	2010	2011	Total
2008				
Non-interest bearing	15.757.504	0	0	15.757.504
Floating interest rate instruments	2.798.994	187.748	108.504	3.095.246
Fixed interest rate instruments	0	0	0	0
	18.556.498	187.748	108.504	18.852.750

	2008	2009	2010	Total
2007				
Non-interest bearing	7.607.317	0	0	7.607.317
Floating interest rate instruments	1.466.667	2.200.000	0	3.666.667
Fixed interest rate instruments	18.557.437	16.872	0	18.574.309
	27.631.421	2.216.872	0	29.848.293

24. 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.

2008	2009	2010	2011	Total
Non-interest bearing	5.380.658	0	0	5.380.658
Interest bearing	2.655.203	0	0	2.655.203
	8.035.861	0	0	8.035.861

2007	2008	2009	2010	Total
Non-interest bearing	4.817.698	0	0	4.817.698
Interest bearing	17.379.518	0	0	17.379.518
	22.197.216	0	0	22.197.216

25. Approval of Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 24th March 2009.

26. Ratios

From Statement of Earnings	2008	2007
Earnings before interests, taxes and depreciation (EBITDA)	8.865.773	5.805.547
a) Contribution margin on operation	19,1%	15,6%
b) Profit margin on operating revenues	10,9%	8,1%
c) Earnings per share (EPS)	0,61	0,36
d) Asset turnover ratio	1,02	1,14
e) Trade receivables turnover ratio	16,02	13,74

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

Liquidity ratios	2008	2007
a) Quick or acid-test ratio	0,38	0,77
b) Current ratio	0,47	0,85
c) Equity ratio	0,43	0,29

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

26. Ratios (continued)

Expenses as a Percentage of Operating Revenue:	2008	2007
Cost of sales	18,1%	15,1%
Research and development expenses	16,9%	15,2%
Publishing expenses	15,4%	10,2%
Marketing expenses	18,3%	22,2%
General and administrative expenses	23,7%	25,3%
Total operating expenses	92,5%	88,0%