Catalis

Annual Report 2010

Geschäftsbericht 2010

CATALIS SE

Annual Report

2010

Contents

1. Key Figures

€m	€ Mio.	2010	2009
Revenues (A)	Umsatz (A)	25.793	32.005
Subcontracting and cost of materials (B)	Fremdkosten und Materialkosten (B)	3.758	4.398
Gross Profit (A – B)	Rohertrag (A – B)	22.035	27.607
Gross Margin	Rohertragsmarge	85.4%	86.3%
Operating Income (EBIT)	Operatives Ergebnis (EBIT)	(0.901)	0.234
Non-recurring Costs	Einmalkosten	(0.803)	(1.724)
EBIT after Non-recurring Costs	EBIT nach Einmalkosten	(1.704)	(1.490)
Operating Margin	Operative Marge	n. a.	n. a.
Income Before Tax (EBT)	Ergebnis vor Steuern	(2.582)	(1.971)
Profit Margin	Ergebnismarge	n. a.	n. a.
Net Income	Periodenergebnis	(2.371)	(0.279)
Net Income Margin	Marge	n. a.	n. a.
Operating Cash Flow	Operativer Cashflow	0.822	0.407
Average number of shares outstanding	Durchschnittliche Aktienanzahl	37,878,999	36,328,580
Earnings per Share € (basic)	Ergebnis je Aktie (unverwässert)	(0.06)	(0.01)
Earnings per Share € (diluted)	Ergebnis je Aktie (verwässert)	(0.06)	(0.01)
Solvability (Equity / Total Assets)	Solvabilität (Eigen Vermögen / Bilanztotal)	45.6%	50.9%

2. Annual Review

Testronic Highlights

- Significant growth in hardware and consultancy work with Dutch and German cable operators and various Digital TV customers
- Increasing work load in the area of digital distribution movie downloads, direct to customer, including work for major Hollywood studios
- Good growth in games testing
- Significant growth in home entertainment consultancy
- Acceptance by influential trade bodies such as WiMedia Alliance, Digital Entertainment Group and Entertainment Supply Chain Academy
- Tested new motion controller for major games platform customer
- Launched 3D testing facilities in US and UK for both 3D Blu-ray and 3D games
- Seth Hallen appointed as new Testronic CEO
- Achieving official certification test lab status for SATA 1.4 test specification
- Expanding digital entertainment test lab in response to customer requirements including movie downloads and device interoperability
- New customers include digital agencies, cable operators, creators of casual games, providers of video game streaming technology and authoring and encoding service providers for DVD, Blu-ray and video-on-demand (VOD)

Kuju Highlights

- Major critical and commercial success of Art Academy for the Nintendo DS/DSi, selling more than 1.7m units in 2010 and making it number seven of the global DS charts.
- “Best Game” award for Art Academy at the KAPi Awards, being the successor of Media Molecules’ “Little Big Planet”
- Completed four games all based on the well-known movies being Grease, Sorcerer’s Apprentice, Top Gun and Aragorn’s Quest (Lord of the Rings)
- Completed Geometry Wars, one of the first titles for the iPad
- Kuju Entertainment was granted 3DS Developer status (for the new DS handheld device that operates in 3D)
- Games in production also include those using new Move motion controller from Sony
- Vatra named by the Japanese publisher Konami as developer on PS3 and Xbox360 of “Silent Hill: Downpour”, the latest instalment from the popular multi-million dollar franchise
- Fabric, the recently completed internally developed game engine technology, is now being used to build a number of the current games in development
- Signing of five new development contracts with international developers across a wide ranch of platforms and genres

DDP

- Establishment of DDP as a sister division to Kuju and Testronic as the group focused on future growth of the business through the development of self-published games in the digital games space
- License deal with 2WayTraffic for “Who Wants to be a Millionaire” (WWTBAM) Special Editions; future announcements will be made on the licensed brand partners that will fuel demand for Special Editions
- Working on two other new titles in the second half of 2010, including a new compelling space game and an action game

Segment Overview

Business segments	**Testronic**		**Kuju**		**DDP**		**Corporate**		**Total**	
€k	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Revenues	13,446	12,353	12,347	19,652				-	25,793	32,005
Subcontracting and cost of materials	2,994	2,700	764	1,698				-	3,758	4,398
Gross Profit	10,452	9,653	11,583	17,954				-	22,035	27,607
Personnel Costs	5,600	6,195	9,486	12,662	55		422	516	15,563	19,373
Depreciation	542	500	717	934			10	14	1,269	1,448
General & Administration	3,187	2,417	1,912	3,381	344		661	754	6,104	6,552
Operating Income (EBIT) before Non-recurring Costs	**1,123**	**541**	**(532)**	**977**	**(399)**		**(1,093)**	**(1,284)**	**(901)**	**234**
Non-recurring Costs										
- Legal Settlement Costs		793						-		793
- Restructuring	166	-	637	681				-	803	681
- Manila Write-off		-		250				-		250
	166	**793**	**637**	**931**				**-**	**803**	**1,724**
Operating Income (EBIT) after Non-recurring Costs	**957**	**(252)**	**(1,169)**	**46**	**(399)**		**(1,093)**	**(1,284)**	**(1,704)**	**(1,490)**

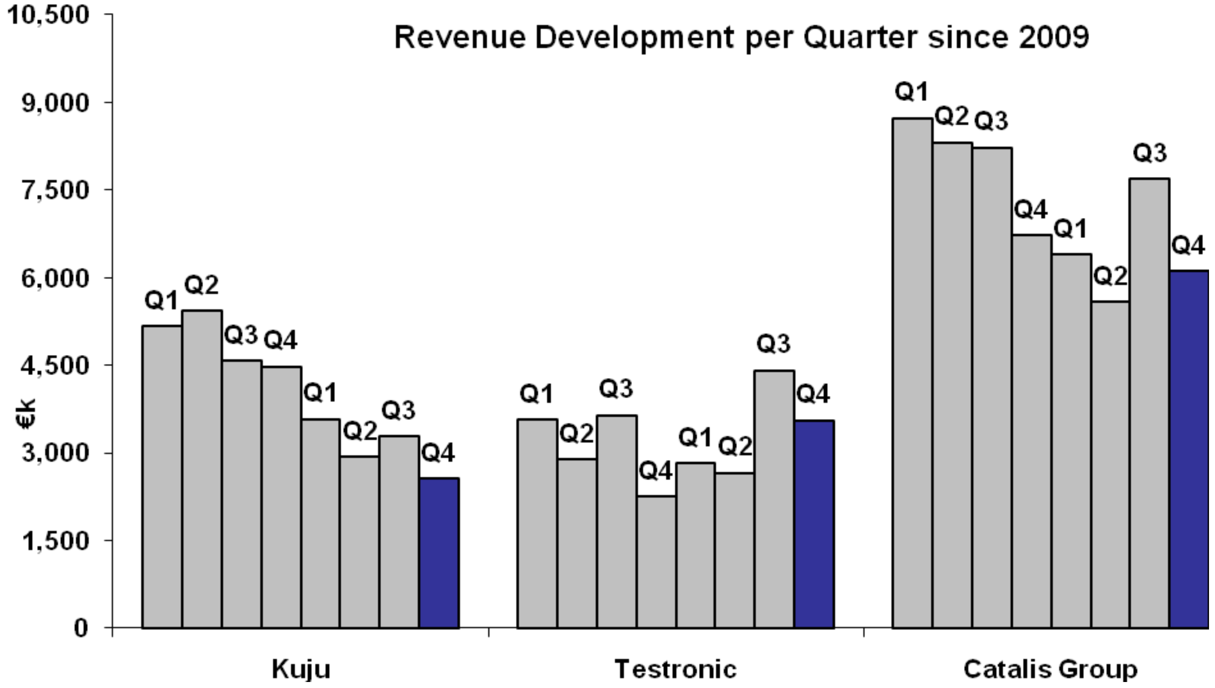
3. To Our Shareholders

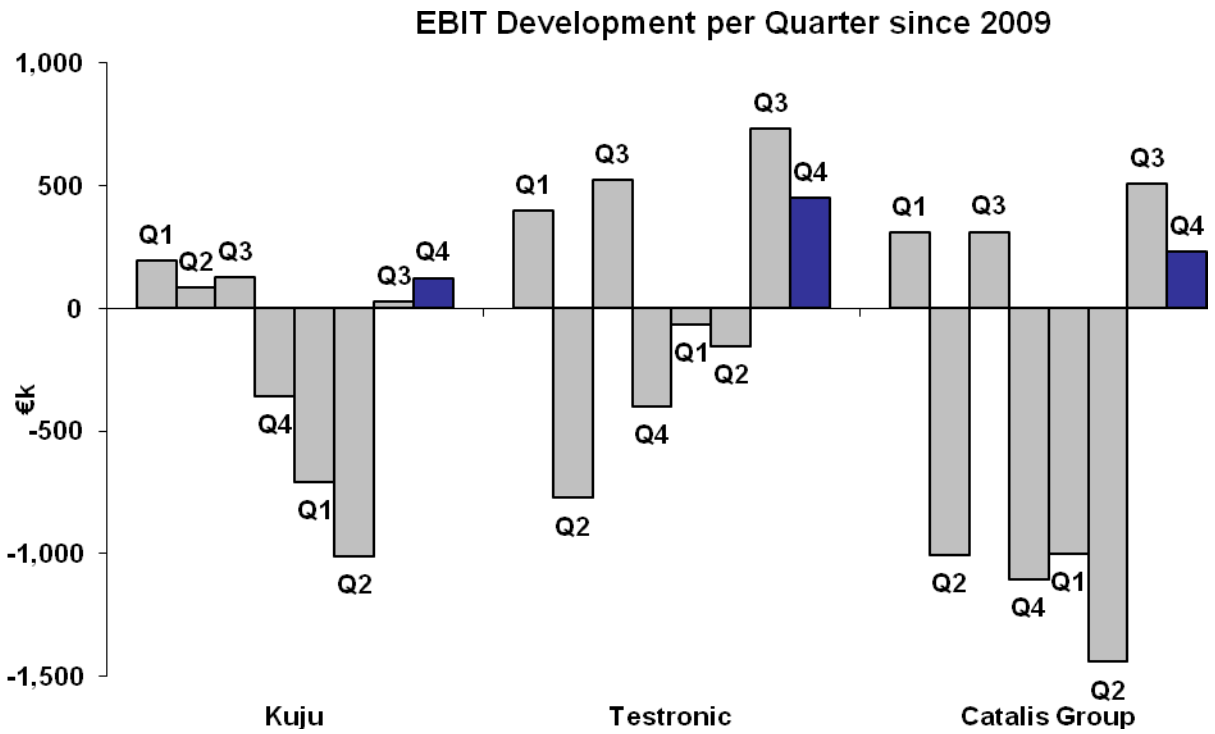
Successful Return to Profitability in the Second Half-Year

I am pleased to say that Kuju and Testronic as well as Catalis Group as a whole have successfully returned to profitability in the second half of the fiscal year 2010 and we are looking forward to continuing this trend in the current fiscal year 2011, based on the strong positioning of our operating units as a result of the restructuring efforts in the past years.

As can be seen in the below diagrams, Testronic has seen strong quarters in the second half of the year and Kuju has also made great progress, posting operating profits in both the third and fourth quarter.

Although in general the market environment remained weak throughout large parts of the year, Catalis Group benefitted from the previous rigorous structural and organisational adjustments it made to its business. Customer demand for our services has also been stronger in the second half-year partly driven by the upcoming holiday season when a large number of home entertainment products are traditionally brought to the market.





A key development at Catalis Group was the formation of Doublesix Digital Publishing (DDP) as an independent division alongside Testronic and Kuju. This allows us to optimise the Group's dual focus of work-for-hire projects at Kuju and self-published, downloadable projects developed and released under DDP, focusing on future growth of the business in the digital game space. In the fiscal year 2010, DDP has already secured a licence deal with 2WayTraffic for the "Who Wants to be a Millionaire" (WWTBAM) Special Editions together with co-branding partners. Moreover, DDP is working on a number of other new games, including a compelling space game and an action title, and is also in advanced negotiations for some further exciting licences.

As home entertainment consumer delivery formats continue to evolve, the markets are still in transition from one physical format to another as well as from physical to digital. With the issue of the media format now being broadly solved the new challenge is the development of the "connected home" and the "connected customer". In other words, the future of the home entertainment market is all about accessibility of content, enabling the consumer to access his content anytime he wants, anywhere he is (in- and outside the home) and on any possible device he might use – be it a big TV set or a small smart phone. Additionally, the upstream B2B post production process is rapidly transforming from a tape-based to a file-based environment.

With its operating subsidiaries Catalis Group is well positioned to benefit from this development as both a provider of testing services and as a creator of content. Testronic is a well versed, innovative, leading provider of testing services that can ensure the interconnectivity and interoperability of all the different devices inside and outside the consumer's home. Kuju and DDP are renowned, high quality content creators that will meet consumers' continuously increasing demand for content.

Although the current transition phase in a number of end user markets in the home entertainment space provided rather tough market conditions for Catalis Group, its operating subsidiaries have successfully adapted to this new market environment and have delivered positive operating results as promised in both the third and fourth quarter of the year. It is our clear aim to retain this profitability throughout the whole fiscal year 2011.

DDP is set to grow its self-published, downloadable games business while Kuju will increase its profitability by optimising its work-for-hire opportunities and building on its long-established customer relationships and experience as a leading independent video games developer.

Testronic on the other hand, will continue to focus on providing the most efficient quality assurance work flows for the digital world, continuously refining and enhancing its high-quality service portfolio and keeping up to the requirements of its customers. Thus, Testronic may not be the cheapest service provider in the market but aims to be the most cost-efficient one, yielding maximum benefits to its customers at a reasonable price.

Following a successful Q4, the Group continued to make good progress in Q1, traditionally the least active quarter in the year. Based on the trading experienced in Q1, we have lifted our forecast for the full fiscal year 2011 of revenues from € 29.0m to between € 30.0m and € 32.0m and an EBIT from € 1.5m to between € 1.7m and € 2.0m.

Eindhoven, May 6, 2011

Jeremy Lewis (Executive Director)	Dr. Jens Bodenkamp (Chairman of the Board)

4. THE CATALIS GROUP

Introduction

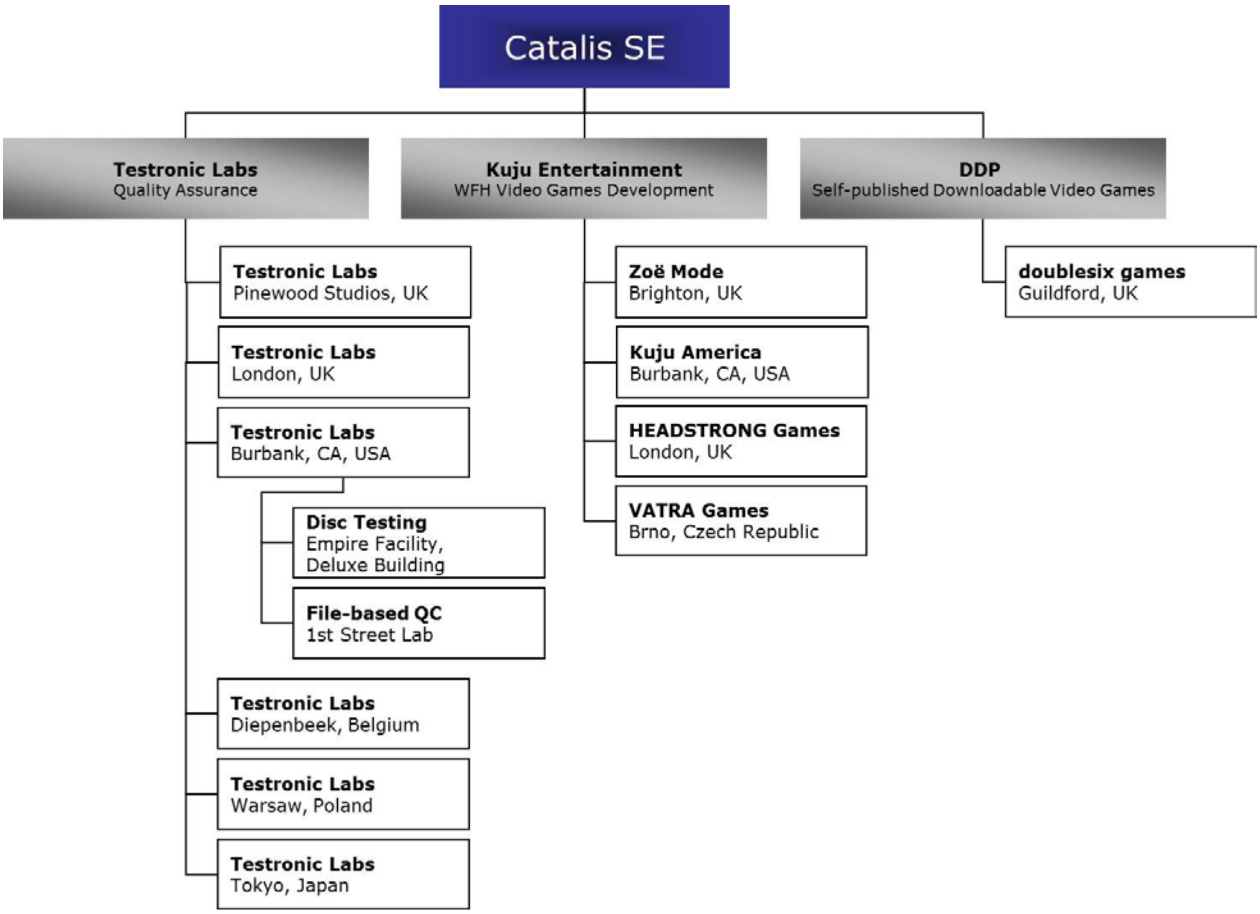
Comprehensive Services for the Digital Media and Entertainment Industry

Catalis is a worldwide leading provider focusing on high-end technical services relating to the creation of digital content for the film, video games and software industries. Catalis offers both testing and development services. It operates through its wholly-owned subsidiaries Testronic, Kuju and DDP from ten locations throughout the US, the UK, Poland, Belgium, the Netherlands and the Czech Republic.

Structure

Catalis Group consists of the holding company Catalis SE and its wholly-owned operating subsidiaries. These operating entities are Testronic Labs, Kuju Entertainment and DDP with their respective subsidiaries.

The operating structure of Catalis Group looks as follows



In its business development, Catalis SE follows a strict diversification and growth strategy. The key industries of Catalis SE are described below.

Testronic Labs – Leader in Quality Assurance for Digital Media

Testronic offers quality assurance (QA) services for any type of digital media content (films, games, music, e-learning, interactive software) distributed over any digital medium (Internet, Intranet, USB, CD, DVD, Blu-ray Disc) for all devices (CD-, DVD-, Blu-ray-Readers, TVs, PCs, mobile equipment, game consoles, PDAs). Its service portfolio is composed of the following closely linked units:

- Video film & Entertainment QA, in particular comprising DVD and Blu-ray disc testing activities for all major film studios, where it is a global market leader;
- Software Testing and Consultancy, comprising interactive digital media-related testing and consulting services for example for e-learning, websites and digital TV systems and applications;
- Games Testing, with a proven track record of QA and localization for console (Microsoft, Nintendo and Sony), PC, handheld gaming devices, mobile platforms and interactive DVD games for large international leading video games publishers;
- Hardware Testing and Certification, for Digital TV and many other types of equipment and interfaces in the multimedia environment.

Apart from being the global leader in DVD/Blu-ray testing, our QA business also enjoys top rankings for video game testing and e-learning testing in Europe. Moreover, Testronic is continuously building up and expanding new business fields such as certification and website testing.

Kuju Entertainment – Versatile High Quality Work-for-Hire Games Development

Kuju acts on behalf of large video game publishers and develops video games for all game consoles (including the major brands from Sony, Microsoft and Nintendo), as well as PC and mobile games. Based on their considerable experience and reputation, the cutting edge technical specialists at Kuju have enjoyed top rankings among the independent video game developers for more than 15 years. Critically acclaimed video games like Crush, Chime, Battalion Wars 2 or Art Academy are constantly adding to the group's reputation.

Kuju follows a multi-studio concept, with each studio having its own clearly defined profile regarding game genres, target groups and technology. The studios' specific genre and client orientation is reflected in their individual, unique identities with high brand recognition.

Studio		Profile
Zoë Mode		**Zoë Mode** Award winning world-leading independent developer of music, party, fitness and social games All gaming platforms
HEADSTRONG GAMES		**Headstrong** Character license action titles and art/learning titles For Wii, Xbox360, PS3, DS and 3DS
VATRA		**VATRA Games** Specialized on high-end, next generation action games For Xbox360, PS3 and PC.

DDP

DDP is the most recent division of Catalis SE and addresses the Group's activities in the development and distribution of self-published digital games. As recently announced, DDP has been established as a separate entity alongside sister division, Kuju Entertainment, as the Group looks to build on its successful self-published digital games strategy. Self-published digitally downloadable titles such as Burn Zombie Burn continue to push the boundaries in this area as the games industry continues to develop within the realms of digital downloadable content. Having already secured such compelling licenses as the "Who Wants to be a Millionaire" special editions and with other games licenses ahead, DDP is poised for strong growth while this new business evolves.

Studio		Profile
		doublesix games Award winning "pick-up and play" games. Dedicated to all self-published, downloadable games business at Catalis Group For XBLA, PSN, Wii-Ware, PC, PSP, iPhone/iTouch

Employees

The Catalis Group is active in six different countries. Altogether the company employs 357 people of which 207 are employed at Testronic, 123 at Kuju and 25 at DDP. Catalis Holding has 2 employees.

Service Portfolio

Our services are in the areas of quality assurance and video games development, covering a large part of the supply chain in the digital media and entertainment industry.

Quality Assurance

All quality assurance services from Catalis SE are handled by the subsidiary company Testronic Labs. Our outsourcing quality control offers quality assurance services:

- for any type of content (films, video games, music, websites and software)
- on any type of communications medium (internet, physical media like CD, DVD, Blu-ray and mobile)
- to any type of end device (DVD- and Blu-ray players, video game consoles, PC and mobile devices)

We serve a global client base of about 300 media and hi-tech companies, including many prestigious brands.

Testronic Labs remains at the forefront of multimedia testing. From CDi, VCD, DVD, and UMD, to the new high definition format Blu-ray, Testronic has been testing multimedia content for over 12 years. Proven processes, depth of knowledge and rapid turnaround are some of the main reasons that have helped establish Testronic as a leading independent quality assurance testing solution centre for the home entertainment industry.

Within the rapidly evolving world of digital content, mediums and devices, Testronic is uniquely positioned to offer testing services for optical media and the Electronic Distribution markets - for example the emerging Electronic Sell Through (EST), Download To Own (DTO) and Video On Demand (VOD) fields.

Testronic serves global video games developers and publishers from games testing laboratories at Pinewood Studios U.K., Diepenbeek Belgium, and Warsaw Poland. It has a proven track record of quality assurance for console (Microsoft, Nintendo and Sony), PC, handheld devices and interactive DVD games. Testronic is continuously investing in new

testing capabilities, e.g. new console platforms, mobile phone testing, additional language capabilities and PC hardware and software to ensure high quality services.
The software testing services help to prevent businesses failing. Software testing can eliminate errors in software products which would otherwise result in expensive fixes, late market delivery, lost customers, aborted marketing campaigns and other liabilities.

Testronic delivers its testing services tailor-made to customers' needs. Some services benefit from the test team being in the same offices as the development team. Testronic's experienced test team leaders can define the best risk and requirements based testing strategy. They can translate customer and functional requirements into testing requirements and write appropriate test cases. Testronic can staff and/or manage the test team, analyze and monitor the bug reports manage the test environment and configuration.

Testronic Labs Belgium is one of the world's leading test houses for hardware quality assurance and certification of many types of multimedia equipment and interfaces. Today, the Belgian office is the global centre of excellence for hardware testing and certification within the organisation.

Services include alpha testing, beta testing, pre-WHQL testing, interoperability and interconnectivity testing, compatibility testing and functionality testing, and cover a range of communications and multimedia technologies including DVB, ATSC, IEEE-1394, WiFi, USB, S-ATA, PCI Express, HDMI, DVI, Ethernet and DLNA.

It carries out testing in its own laboratories or offers test consultancy services to develop test programs and procedures to enhance customers' in-house activities. All activities are carried out with a high degree of confidentiality.

Each of the five locations across the US and Europe have extensively trained and skilled staff and the infrastructure to cope with constantly changing production work loads and seasonal peaks. A total outsource solution or an overflow service is made available to customers.

Operating in the home entertainment optical media industry for more than 10 years, Testronic has gained detailed knowledge of clients' needs with the ultimate aim of protecting clients' brands by ensuring high levels of quality.

Video Games Development

As a service provider to the video game publishing industry, Kuju Entertainment is one of the largest independent development groups in the world. In the past Kuju has created more than 50 games for all kinds of gaming platforms.

Their know-how has helped to create popular video games such as “Rail Simulator”, “Battalion Wars”, “House of the Dead: Overkill”, “Sing it”, “Crush”, “Chime”, “South Park: Let's Go Tower Defense Play” or “Art Academy” and among other things has helped to round out Catalis' service portfolio as a complete media service provider.

With its broad know-how over a variety of games genres, its strong development capacities, the persuasive track record of successfully developed games for the world-wide leading games publishers, Kuju is well positioned as one of the major players in the video games outsourcing industry. Moreover, Testronic's long-established business relationship in quality assurance services for the major studios such as Disney, Paramount, Universal, and Warner Bros., who are increasingly active in the video games market themselves, will also help to strengthen Kuju's market position.

In the fiscal year 2010, Catalis has established DDP as a pure play self-publisher of downloadable entertainment software for console, mobile and online platforms as a sister division to Kuju Entertainment as the group looks to build on its successful self-published digital games strategy. As the market for digital downloadable content is gaining more and more importance, DDP is dedicated to the development and publishing of video games for all kinds of downloadable platforms, including XBLA, PSN, Wii-Ware, PC, Steam, PSP, iPhone/iTouch.

Strategy

"One Stop Shop" for the Entire Digital Media and Entertainment Industry

Catalis Group follows an active buy-and-build strategy, combining continuous organic growth and selected acquisitions, to realise its vision of a fully integrated outsourcing service provider for the entire digital media and entertainment industry.

A major element of this strategy is the diversification along the value chain of Catalis' core client segments (video film, video games and software) to increase continuously the scope and reach of its services, expanding business relationships with existing clients and establishing relationships with new clients.

Based on the implementation of this strategy in the recent years, Catalis is well positioned to benefit from the future growth potential of the digital media and entertainment industry, offering a broad range of digital media testing services through its subsidiary Testronic and video games development services through Kuju and DDP.

The future strategy of Catalis Group is to broaden its service portfolio, both regionally and in terms of services offered to adapt to the ongoing transitions in the industry, to open up new markets and new clients and to fully implement its one-stop-shop concept.

At the same time, Catalis' management has permanent focus on cost control in order to generate attractive margins from its business.

Clients

All Major Studios

In Testronic's quality assurance business, Catalis works for all major and a large number of smaller film studios particularly in Hollywood, but also in the UK, France and other locations. Kuju has long-standing client relationships with most of the large video game publishers including EA, Microsoft, Sony, Sega and Nintendo. The following gives an indication of Catalis Group's customer base:

Locations

Our locations in the US and Europe are in close proximity to the most important film studios and video game publishers. We operate quality assurance sites in Los Angeles, London, Poland and Belgium and video games development sites in the UK, the US and the Czech Republic (see also operating structure on page 10).

Testronic Labs:

Pinewood Studios (UK):
Testronic's flagship Pinewood Studios facility is a state-of-the-art, secure testing lab housing the European engine room of its home entertainment and games testing businesses. Ideally located to tap the language and skills base of London the experienced teams are housed on the Eastside Complex at historic Pinewood.

London (UK):
Bustling Borough High Street, central London, is Testronic's city presence where the nucleus of the software and web testing facility is located. With a wide array of PC configurations in the physical lab, London is also the home of some of its skilled consultants, bringing years of QA expertise to the various industries served by Testronic.

Warsaw (Poland):
The Testronic Labs Warsaw office is located on the site of Technicolor Entertainment Services central European manufacturing facility. Clients of Testronic Labs Warsaw benefit from an MPAA accredited facility with a team of experienced home entertainment and games QC professionals.

Diepenbeek (Belgium):
Located in the former Professional Multimedia Test Centre (PMTC), Testronic's Belgian office works across all of its business lines and features the biggest software testing lab in the group. The Belgian office is conveniently located near the University of Hasselt and harnesses the talent of the local engineering graduates.

Burbank (US):
From two offices in Burbank - conveniently located near its Hollywood studio clients - Testronic's DVD and Blu-ray facilities work in tandem with its European outposts to deliver round-the-clock QA services to the home entertainment industry. The Burbank offices are home to some of Testronic's leading experts on Blu-ray technology, and also the newly-launched 3D test lab is housed here.

Tokyo (Japan):
Testronic Labs' games QA division has a crucial presence in the heart of Tokyo - operating amongst huge publishers and in a culture where the history of gaming runs deep. Working with some of the behemoths of the games industry, the Japanese office is Testronic Labs' first expansion into the key Asian market.

Kuju Entertainment

Brighton (UK)
The head office of Zoë Mode, the social games specialist, is located in Brighton. Zoë Mode believes that games are powerful ways of bringing people together and its diverse work force is unified by exactly this attitude to play.

London (UK)
Headstrong Games Ltd is based in the heart of London, nearby to Borough Market and the river Thames. The studio develops for a variety of hardware platforms and is an expert in titles with a strong artistic vision and character led games.

Brno (Czech Republic):
The VATRA team, a mix of close-knit industry veterans with a healthy dose of new talent, is located in centre of Brno where they work on the development of high-end, next generation action games.

Burbank (US):
The American studio operations of Kuju are located in shared facility with Testronic in Burbank, home of major games publishers and movie studios. Here the studio is well placed to further develop key relationships with publishers and movie studios on the West Coast.

DDP

Guildford (UK):
Guildford harbours the development team of doublesix games, dedicated to the development and digital distribution of games across all the main downloadable platforms including XBLA, PSN and PC distribution platforms such as Steam.

Competition

In some ways the competitive environment has eased during the past two years as the demanding market conditions have resulted in a lower number of competitors being still active in the market. However, competition has also become more intense, as the remaining market participants have become substantially more aggressive on pricing. Though pricing is not always the key criterion and Catalis' operating units have successfully chosen to compete by quality and efficiency of their services rather than by pricing.

Testing Services

As Testronic Labs is successfully driving its involvement in the digital download space and evening out its revenues across its different business lines, the market for optical disc QA where Testronic enjoys a leading position is still an important source of revenues. In Europe, Testronic is the only major player in this segment and worldwide competition is made up of a few smaller US companies with estimated annual revenues of no more than USD 10 million. With the early establishment of its Blu-ray QA centre, becoming a member of the Blu-ray Disc Association and qualifying as a certified Blu-ray test lab already in 2009, Testronic has positioned itself successfully at the forefront of this technological change. So far, Testronic has already tested 5,500 Blu-ray SKUs as well as 75 3D-Blu-ray SKUs, indicating Testronic is defending well its leading position in the optical disc QA market.

The next important market for Testronic is in the field of video games testing. On the one hand, video games testing is a growing market segment in itself, on the other hand Testronic can leverage the cross-selling potential from the games development services of Kuju. Generally, the games testing market is in an early stage of development and still highly fragmented. In this segment, Testronic has six main competitors worldwide with estimated revenues of more than USD 5 million. These competitors are US-based VMC, Absolute Quality and iBeta Quality Assurance, UK-Based Babel Media, Canadian Enzyme Labs and Indian RelQ. Apart from these major competitors, there are some 20 specialised niche players.

Through its Belgian office, Testronic Labs is an authorized test laboratory for many industry standard interfaces such as all the USB logo programs, Firewire, DLNA and SATA and was the first test lab in the world to be qualified for some of these standards. Testronic is the only company worldwide that has USB and SATA official certification status for both Europe and the USA. Management estimates that it holds rank 4 or 5 in the global industry standard interfaces certification business.

In software testing Testronic faces competition from companies with similar specialization in software products for websites, CD-ROMs/DVD-ROMs, applications and systems. Yet, Testronic is eager to grow its scope of business and also move into the digital agencies

space. It is a European market leader in the niche market of educational software where it faces competition from US-based Liquid Media Communications and Canadian Epic on a worldwide basis.
Currently, Testronic has only limited presence in Asia, where the overwhelming majority of multimedia hardware testing takes place through a large number of market participants. Therefore, hardware testing is a small business segment at the moment. However, Testronic has put high priority on growing this business significantly in the future.

Video Games Development Services

In this segment, Catalis offers independent video games development through its subsidiary Kuju Entertainment. The video games development market is highly fragmented with a myriad of small developers all over the world.

The year 2010 has seen the continued shedding of staff within developers, particularly internal publishers' studios including Bizarre Creations and Propaganda, as business was lost during the year. The resultant landscape is one populated by fewer developers, which should stand Kuju in good stead as and when there is a resurgence in sales figures for casual console games, supported perhaps by the recent and upcoming hardware releases, and by more confidence and prosperity in the markets over time.

Kuju's competition in this business comes from the areas set out below:

1. Internal development organisations of game publishers, who maintain own development studios (the so-called first-party developers) and account for more than 50% of the worldwide development talent. For Kuju, internal developers provide the primary competition for qualified staff and to a lesser extent also for the acquisition of projects.

2. Publisher-independent developers (the so-called independents or third-party developers) who, like Kuju, develop both titles to order of game publishers and / or entirely on own risk. These can be split into:
    - Multi-studio developers operating in different genres and across different platforms: Here, Kuju faces for example competition from US-based Foundation 9 operating six different studios in the US and UK with approx. 700 permanent staff.
    - Specialist studios:
      In the field of single specialist studios Kuju faces day to day competition from dozens of games developers worldwide. Specific examples include Blitz Games in the UK or Seattle-based Zombie studios.

Self-published Downloadable Video Games

DDP, the Catalis subsidiary dedicated to the development and distribution of self-published downloadable video games, currently has a major focus on the XBLA, PC Steam and PSN platforms. This market segment is still in its early evolution and hence DDP is active in a busy landscape competing with a number of other players all over the world. However, this competition is all about creating fascinating games that people will love to play where DDP does already have a strong reputation from games like Burn Zombie Burn.

5. The Stock & Corporate Governance

Key Stock Figures (XETRA)

Number of Shares:	37,878,999
End of year Share Price:	€ 0.226 per share
Year High:	€ 0.325
Year Low:	€ 0.133
Market Capitalisation:	€ 8.56m
Symbol:	XAE
WKN:	927093
ISIN:	NL0000233625
Stock Markets:	XETRA, Frankfurt, Stuttgart, Munich, Berlin, Dusseldorf
Segment:	General Standard

The Trading Year 2010

The stock market development in the trading year 2010 is more or less a reflection of the economic development in the different countries. While the performance was stronger in the first and fourth quarter of the year, the development in the second and third quarter was rather volatile as a consequence of the Greek debt crisis and growing concerns about the financial stability of other countries, resulting in a severe Euro crisis that left its mark also on the stock markets.

In total, most of the major stock markets showed a positive performance for the year 2010. From an international point of view, the Dow Jones Industrial Index (+11.0%), the S&P 500 (+12.8%), the NASDAQ 100 (+19.2%) the Hang Seng Index (+5.3%) or the FTSE 100 (+9.0%) developed satisfactorily while other indices like the NIKKEI 225 (-3.0%) and the Dow Jones EuroSTOXX 50 (-5.9%) did less well. The latter reflecting the rather slow progress of the economic recovery in many countries of the European Union.

In line with the strong economic growth in Germany, the German stock market indices rose. However, the blue chip index DAX (+16.1%) was once again outperformed by the SDAX (+45.8%) and MDAX (+34.9%).

Though broadly positive, the stock market development in the trading year 2010 has been more differentiated than the mere recovery in the trading 2009 as market participants have returned to focusing on fundamentals. The German stock market benefitted from the strong economic development in Germany, being the undisputed leader of the economic recovery within the European Union.

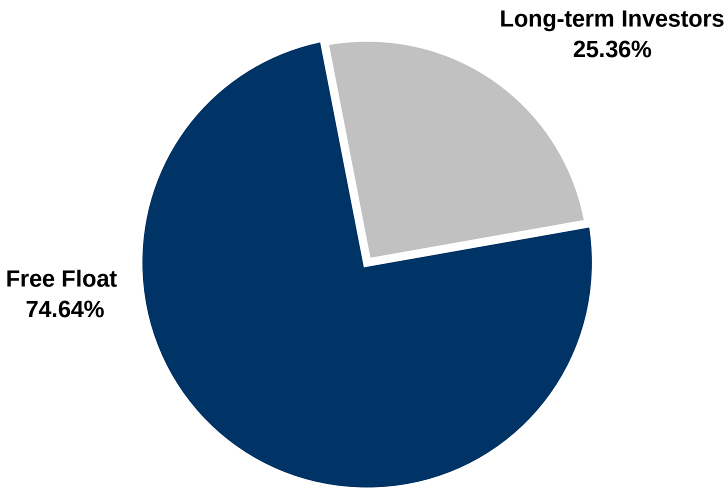
Catalis SE Stock

Catalis SE shares were listed on the Frankfurt Stock Exchange in July 2000. The shares are traded on the Regulated Market (General Standard) section of the Frankfurt Stock Exchange as well as on XETRA and the Open Market of the Stuttgart, Munich, Berlin and Dusseldorf Stock Exchanges.

At the end of 2010, the Catalis SE share price on XETRA amounted to € 0.226. The trading year's lowest share price was recorded at € 0.133 on August 24, 2010. The highest share price for the year was recorded at € 0.325 on January 18, 2010. At the end of the year 2010, Catalis SE's market capitalisation amounted to approximately € 8.6m. It should be noted that, in common with a lot of similar sized companies, the daily trading volume of shares is low. The share price performance for the year was -9.2%.

Shareholder Structure as of December 31, 2010

During the fiscal year 2009, the number of shares issued and outstanding was increased in two steps from 26,890,775 to 37,878,999. Of these shares, 25.36% were held by long-term investors and 74.64% were classified as free float.



Under the Dutch Major Holdings Disclosure Act, shareholdings of 5% or more in any Dutch company must be disclosed to the Netherlands Authority for the Financial Markets (AFM). According to the register kept by the AFM the following shareholders had disclosed that they owned between 10% and 15% of Catalis SE's total share capital on October 31, 2007 and April 30, 2010:

- IFOS Internationale Fonds Service AG 13.94%
- Navigator Equity Solutions SE 11.42%

Investor Relations

Catalis SE's financial communication policy aims to deliver all essential information to all its target groups in unison. We publish all important reports, financial releases, speeches and presentations on our corporate website as close to real time as possible. Our company publishes an electronic newsletter informing all subscribers on the Group's latest news.

As part of our Investor Relations framework, we regularly keep in contact with analysts and institutional investors. In 2010, the company was presented to institutional investors in the course of the Entry & General Standard Conference in Frankfurt on May 04 and we have also issued four ad hoc releases and 24 corporate news releases to inform our investors on major events and developments at Catalis Group.

Section 15a of the German Securities Trading Act (WpHG) requires members of the Board for Directors and Supervisory Board of Catalis SE to report the purchase or sale of Catalis SE's shares both to the company and to the German Federal Financial Supervisory Authority (BaFin). In addition to purchase and sales transactions involving Catalis SE shares, securities transactions relating to Catalis SE shares (e.g. purchase or sale of options or stock warrants for Catalis SE shares) must also be reported. In the course of 2010 we have issued three of these so called Directors' Dealings notifications.

Pursuant to Section 10 of the German Securities Prospectus Act WpPG, every publicly listed company is required to provide the capital market annually with a document containing or referring to any information that it has published during the preceding twelve months to comply with specific capital market requirements ("Yearly Document"). Catalis SE has decided to constantly update this document, using its corporate website.

You can find all information annual and quarterly reports since 2003 as well as all financial publications concerning the Catalis Group on our corporate website www.catalisgroup.com.

Catalis intends to keep to its open communication policy in the future and will continue to improve its communication.

Annual Shareholders´ Meeting

The organisation and carrying out of the Annual Shareholders' Meeting takes place at Catalis SE' s headquarters in Eindhoven, the Netherlands. The meeting is established in order to effectively and comprehensively inform all investors of the company's business activity over the previous year as well as the company's future plans.

In the run-up to the general meeting, shareholders are informed through the annual report about the developments in the previous fiscal year. Usually, all documents and information discussed during the Annual Shareholders' Meeting are available for download on our website.

The general meetings may be held in Amsterdam, Utrecht, Schiphol Airport, Eindhoven, Maastricht, Beek (Limburg) or Venlo whenever a managing director considers a meeting necessary or one or more shareholders, representing in total at least ten percent of the issued capital, address a written request to the management board containing a complete and accurate statement of the subjects to be dealt with.

A general meeting is held every year, within six months after the end of the previous financial year.

The agenda includes at least the following subjects:

a. management board report on company affairs and management during the previous year;
b. adoption of annual accounts;
c. the granting or withholding of a discharge to the management board from liability for acts performed by it during the previous financial year;
d. appropriation of profits;
e. provisions for vacancies.

Each shareholder and holder of depository receipts and each usufructuary and holder of a pledge in shares having the rights of a holder of depository receipts, is authorised to attend the general meeting of shareholders and to address the meeting. Each share confers the right to cast one vote.

Without prejudice to the provisions of Book 2 of the Netherlands Civil Code, resolutions of the general meeting are passed with an absolute majority of votes cast, unless the articles of association prescribe another majority.

A general meeting may resolve, with an absolute majority of votes cast, and if at least fifty percent (50%) of the issued capital is represented, to change the provisions of these articles of association, to effect a merger subject to the law with one or more other companies, or to divide or dissolve the company.

The provisions of the foregoing sentence are not applicable to resolutions passed by the general meeting on changing the articles of association, if and to the extent that less than half of the issued capital is represented at the general meeting in question, in which case the general meeting may only resolve to effect the change having legal validity with a majority of at least two thirds of the votes cast.

The announcement convening a new meeting must state that a resolution may be passed and why, independent of the portion of the capital represented at the meeting.

The statutory Annual Shareholders' Meeting for Catalis SE for the financial year 2009 took place on June 30, 2010 in Eindhoven, the Netherlands.

In total, 15.56% of the company's share capital was represented at the Meeting. All items of the agenda were approved unanimously by the attending shareholders.

Corporate Governance

Introduction

Catalis SE is subject to the Dutch Corporate Governance Code. The Board of Catalis SE is responsible for the corporate governance structure of the company and for compliance with the Dutch Corporate Governance Code. They are accountable for this to the general meeting and provide sound reasons for any non-application of the provisions. Catalis SE is aware and self-conscious of the importance and meaning of consistent corporate governance and recognizes the importance of the principles for good corporate governance as laid down in the Dutch Corporate Governance Code.

A copy of the principles and best practice provisions of the Dutch Corporate Governance Code is available on the website www.commissiecorporategovernance.nl.

Board

The Board of Catalis SE is an one-tier board, comprising an Executive Director and Non-Executive Directors. The Board has ultimate responsibility for the management, general affairs, direction and performance of our business as a whole. The responsibility of the Directors is collective, taking into account their respective roles as Executive Director and Non-Executive Directors. The Executive Director has additional responsibility for the operation of our business as determined by the Board.

We achieve compliance of our board arrangements with the Dutch Corporate Governance Code, which is for the most part based on the customary two-tier structure in The Netherlands, by as far as is possibly and practicable, applying the provisions of the Dutch Corporate Governance Code relating to members of a management board to our Executive Director and by applying the provisions relating to members of a supervisory board to our Non-Executive Directors. Management tasks not capable of delegation are performed by the Board as a whole.

Non-application

According to the Dutch Corporate Governance Code, non-application of best practice provisions is not in itself objectionable and indeed may even be justified by certain circumstances. To the extent we do not apply certain principles and best practice provisions of the Dutch Corporate Governance Code or do not intend to apply these in the future, we give an explanation. Best practice provisions that are not applicable for Catalis SE are not further explained. All other principles and best practice provisions of the Dutch Corporate Governance Code are applied by Catalis SE.

Best practice provision II.1.2
The Board has formulated their business strategy (see Strategy, page 15) and objectives for the coming years. The objectives and financial parameters to be applied are not mentioned in detail in the annual accounts. This will be on the agenda in the future together with corporate social responsibility issues relevant to Catalis SE.

Best practice provision II.1.3 & II.1.4
The Board is well aware of the risks (see Risk Report, page 44) of the company's business and has a suitable internal risk and control system in place to manage these risks. The Executive Director is discussing and assessing the company's management and control system with the Non-Executive Directors at least once per quarter and ensures that the identified risks are properly managed. Yet the system, also due to the size of the company, does not include all elements mentioned in this best practice provision (e.g. code of conduct).

Best practice provision II.1.7
Catalis SE has not formulated or published an explicit whistleblower policy. Yet, the Board holds, that there are no disadvantages for whistleblowers in the company.

Best practice provision II.2.4
The Dutch Corporate Governance Code recommends that if options are granted to the Executive Director they shall, in any event, not be exercised in the first three years after the date of granting. The number of options to be granted shall be dependent on the achievement of challenging targets specified beforehand. In the current contract with the Executive Director other arrangements have been made. The contract has not and will not be revised. In future contracts with Executive Directors this best practice provision will be taken into consideration. All legally required information regarding options is published in the Annual Report.

Best practice provision II.2.10 & II.2.11
According to the best practice provision II.2.10 and II.2.11 the supervisory board should have the power to adjust the value of the variable remuneration component downwards or upwards, as in the opinion of the supervisory board the value is an unfair result due to extraordinary circumstances. Also the supervisory board should have the power to recover any variable remuneration awarded on the basis of incorrect financial or other data. These provisions are based on the customary two-tier structure in The Netherlands. Because Catalis SE has an one-tier board it is mentioned in the articles of association that the remuneration of the Directors is determined by the general meeting. As a result of this the Non-Executive Directors do not have the power to adjust or to recover the variable remuneration. This is inherent to the fact that Catalis SE has an one-tier Board.

Best practice provision II.2.12, II.2.13, II.2.15 & III.5.10
The company has hitherto not drawn up a remuneration report. Catalis SE intends to apply this provision in the future. Because no remuneration report has been drawn up, no report is published on the company's website. All legally required information regarding remuneration is published in the Annual Report.

Best practice provision II.2.14
The Dutch Corporate Governance Code recommends that the main elements of the contract of the Executive Director with Catalis SE shall be made public after it has been concluded. The company has not and will not publish the main elements of the contract. All legally required information regarding the remuneration is published in the Annual Report.

Best practice provision III.1.1
The division and duties within the Board of Directors and the procedures are laid down in Terms of Reference. Hitherto the Terms of Reference are not posted on the company's website. Catalis SE intends to apply this provision in the future.

Best practice provision III.2.1, III.2.2, III.2.3 & III.8.4
The Dutch Corporate Governance Code recommends that all Non-Executive Directors, with the exception of not more than one person, shall be independent within the meaning of best practice provision III.2.2. The Management Report shall state that best practice provision III.2.2 is fulfilled, and shall also state which Non-Executive Director is not considered to be independent, if any. At this moment this statement is not mentioned in the Management Report. Catalis SE intends to apply this provision in the future.

Best practice provision III.3.5
The Dutch Corporate Governance Code recommends that a person may be appointed as a Non-Executive Director for a maximum of three four-year terms. According to the articles of association of Catalis SE a Non-Executive Director retiring by rotation can be reappointed immediately for the maximum period of three years. In the articles of association there is no maximum mentioned regarding the terms. The articles of association will not be modified because of this provision. If the articles of association ought to be modified in the future this best practice provision will be taken into consideration.

Best practice provision III.3.6
The Non-Executive Directors have, partly due to the size of the company, not drawn up a formal retirement schedule. Because no retirement schedule has been drawn up, no retirement schedule is posted on the company's website.

Best practice provision III.4.3 & III.4.4
The company has no company secretary and a vice chairman in place. Given the nature and the size of the company there is, at this moment, no need for such a position.

Best practice provision III.5 & III.8.3
The Dutch Corporate Governance Code recommends that if there are more than four Non-Executive Directors they should appoint from among its members an audit committee, a remuneration committee and a selection and appointment committee. The Non-Executive Directors have decided, due to the nature and the size of the company, not to appoint an audit committee, a remuneration committee and a selection and appointment committee. According to Dutch Law it is also allowed that the tasks assigned to the audit committee, are performed by the managerial or supervisory body. At Catalis SE the duties of these committees are part of the overall activities of the Board and are performed by the Board as a whole. No terms of reference and composition of the committees have been posted on the company's website.

Best practice provision IV.3.3
As Catalis SE is a relatively small listed company, research reports are normally not covered by the analysts, as they usually specialize in big listed companies. Therefore, Catalis SE pays fees for research reports to be prepared and published. Catalis SE does not have any influence on the outcome of the research.

Best practice provision IV.3.11
The Dutch Corporate Governance Code recommends that Catalis SE provides a survey of all existing or potential anti-takeover measures in the annual report and indicates in what circumstances it is expected that these measures may be used. Hitherto no survey of all existing or potential anti-takeover measures has been carried out. Because no survey has been carried out no indication, of circumstances it is expected that these measures may be used, is mentioned in the Annual Report.
Catalis SE intends to apply this provision in the future.

Best practice provision IV.3.13
Catalis SE has formulated an outline policy on bilateral contacts with the shareholders. Hitherto Catalis SE has not published this policy on its website. Catalis SE intends to apply this provision in the future.

Best practice provision V.3.3
Catalis SE has not assigned a specific internal auditor. The Management Board will review whether an internal auditor will be engaged in the future.

Information according to Article 10 of the Takeover Directive Decree

The EU Takeover Directive requires that listed companies publish additional information providing insight into defensive structures and mechanisms which they apply. The relevant provision has been implemented into Netherlands law by means of a decree of April 5, 2006. Pursuant to this decree, Netherlands companies whose securities have been admitted to trading on a regulated market have to include information in their annual report which could be of importance for persons who are considering taking an interest in the company.

Therefore, Catalis SE provides the following information:

- Capital structure and stock rights

As per December 31, 2010, the company has ordinary shares only and does not have any special control rights. Each share in the company provides entitlement to the casting of one vote at the meeting of shareholders. There are no restrictions on the exercise of voting rights except for own shares held by the company or its subsidiaries.

- Restriction of transferring shares or voting rights

The company has no limitation, in the terms of the Articles of Association or by contract, on the transfer of shares.

- Duty to report interests in the company

Under the Dutch Major Holdings Disclosure Act, shareholdings of 5% or more in any Dutch company must be disclosed to the Netherlands Authority for the Financial Markets (AFM). According to the register kept by the AFM the following shareholders had disclosed that they owned between 10% and 15% of Catalis SE's total share capital on October 31, 2007, February 18, 2009 and April 29, 2011:

• IFOS Internationale Fonds Service AG	13.94%
• Navigator Equity Solutions SE	11.42%

- Employee shares

The company has an employee share option plan. A detailed description is included in the notes to the financial statements (Notes 15, 16).

- Shareholder agreements

The company is not aware of any shareholders agreements which may affect the transfer of shares or voting rights.

- Governance structure

Catalis SE is a European Public Limited Company with a one tier structure of executive and non-executive Board members. The general meeting of shareholders appoints the executive and non-executive members of the Board.

The company is managed by the Executive Director whose powers arise from legislation and regulations.

The Board was authorised by the general meeting of shareholders on March 27, 2009, as the authorized corporate body to issue shares or rights to shares in the Company for a period of 5 years as of March 27, 2009. It is proposed that the amount of shares to be issued is at the Board's discretion provided that the total number of outstanding shares after issuance will not exceed 175.000.000.

The Board was also authorised as the relevant corporate body to restrict or to exclude the pre-emption right accruing to shareholders for a period of 5 years, as of March 27, 2009 in case of the issue of shares or rights to shares.

Furthermore, the Board was authorised by the general meeting of shareholders on June 30, 2010, to acquire for valuable consideration shares in the Company for a period of 18 months as of June 30, 2010. The number of shares to be acquired shall be limited by the maximum percentage of shares the Company may hold in its capital at any moment (after amendment of the articles of association a maximum of 50%). This acquisition may take place by all kinds of agreements, including on a Stock Exchange. The price per share may not be less than the par value and not more than 110% of the Stock Exchange Price. For purpose of the foregoing the Stock Exchange Price will be the average of the closing price on the Frankfurt Stock Exchange of the last five days on which business was done, preceding the date of acquisition.

- Change of control provisions

Other than with its main bank the company does not have significant contracts which include change of control clauses.

6. Management Report

Report of the Board of Directors

Catalis SE has a one-tier Board, consisting of Executive and Non-executive Directors where the Executive Director is charged with the day-to-day management of the company and the business connected with it while the Non-executive Directors shall supervise the management of the company.

The Board of Directors of Catalis SE comprises five members, Mr Jeremy Lewis, Dr. Jens Bodenkamp, Dr. Michael Hasenstab, Mr Robert Kaess and Mr Dominic Wheatley. The Chairman of the Board is Dr. Jens Bodenkamp.

Mr Jeremy Lewis (48), Member of the Board, Executive Director:
Gender: male
Nationality: British
Appointment effective as of March 27, 2009
Term ends in 2013
British citizen, home domicile is in London, England
Profession: Chief Executive Officer of Catalis SE

Dr. Jens Bodenkamp (66), Chairman of the Board, Non-executive Director
Gender: male
Nationality: German
Appointment effective as of January 22, 2008
Term ends in 2011
German citizen, home domicile is in Munich, Germany
Profession: graduate Physicist (Doktor der Physik)
Currently active as a Business Angel
Member of the Supervisory Board of Navigator Equity Solutions SE

Dr. Michael Hasenstab (41), Member of the Board, Non-executive Director
Gender: male
Nationality: German
Appointment effective as of January 22, 2008
Term ends in 2011
German citizen, home domicile is in London, England
Profession: graduate Business Economist (Doktor der Betriebswirtschaftslehre)
Currently active as Member of the Management Board of Navigator Equity Solutions SE and Managing Director of consulting company Ascendo Management GmbH.

Mr Robert Kaess (40), Member of the Board, Non-executive Director
Gender: male
Nationality: German
Appointment effective as of January 22, 2008
Term ends in 2011
German citizen, home domicile is in Munich, Germany
Profession: Business Economist (Diplom-Betriebswirt)
Currently active as Member of the Management Board of Navigator Equity Solutions SE and Managing Director of consulting company Ascendo Management GmbH.

Mr Dominic Wheatley (52), Member of the Board, Non-executive Director
Gender: male
Nationality: British
Appointment effective as of January 22, 2008
Term ends in 2011
British citizen, home domicile is in London, England

Profession: Software Specialist
Currently active as Chairman SocialGo plc.

Dr. Michael Hasenstab and Mr Robert Käβ are members of the Board since July 2002, Dr. Jens Bodenkamp and Mr Dominic Wheatley were appointed in January 2008 and Mr Jeremy Lewis in March 2009.

As all five members of the Board have gained considerable experience in a number of national and international businesses throughout their professional careers, the Board holds it that the Board's composition meets the requirements of the Dutch Corporate Governance Code.

The Board of the company held two plenary meetings in the fiscal year 2010.

The Non-executive Directors were in frequent written, e-mail and verbal contact with the Executive Director, regarding the financial situation and the business development of the company. At the meetings, the non-executive Board Members were informed and consulted about the activities and policies of Catalis SE.

Matters considered by the Board during the year included especially:

- Company strategy
- Main risks of the business
- Design and effectiveness of the internal risk management and control systems
- Changes in the risk management and control systems
- Development of the business and financial situation of the group
- 2009 Financial statements and audit
- M&A projects
- Employee stock option scheme
- Remuneration
- Board composition
- Corporate Governance
- Actual financials 2010
- Budget 2011

All members of the Board took part in the meetings personally. On rare occasions, members of the Board joined the meetings via telephone or were apologised.

Also, the Board has discussed its own functioning and composition as well as the functioning of the Executive Director.

Conflict of Interest

In the fiscal year 2010, there were no conflicts of interest in the Board of Directors.

Committees

As the Board of Catalis SE comprises only five members, the tasks of an audit committee, a remuneration committee and a selection and appointment committee were performed by the full Board in the course of their normal activities. This procedure is in line with provision III.5 of the Dutch Corporate Governance Code.

Audit committee tasks

The tasks of the audit committee were performed during the regular Board meetings for the purpose of approval of the quarterly results 2010 and the results for the full fiscal year 2009. The Board had a thorough discussion about the development of the financial results and the reasons therefore. Also, the Board discussed the risks for the future development of the company's financial situation and the measures to handle these risks. After these discussions, the Board is convinced that risks are adequately prioritised by the Executive

Director and that the Executive Director follows a reasonable approach in controlling and handling such risks.

Discussed were the financial statements, main audit and accounting issues, internal risk management and controls, developments in law and regulations as well as a statement to the audit and auditor's independence.

Based on the Board's discussions and the opinion of the independent auditors of Mazars Paardekoopers Hoffman Accountants N.V., the Board holds it that all relevant issues regarding the company's financial statements for the fiscal year 2009 have been taken care of properly.

Remuneration committee tasks

The remuneration package of the Board of Catalis SE is divided in the remuneration package for the Executive Director and the remuneration package for Non-executive Directors.

The remuneration package for Executive Directors consists of three main elements:

- a base salary
- a variable bonus
- stock options

The variable elements of the remuneration package are closely linked to the achievement of reasonable performance objectives.

Non-executive Directors receive a fixed base salary only, determined by the general meeting of shareholders of the company.

An overview of the Board's remuneration can be found in note 27 to the Consolidated Financial Statements.

According to the company's remuneration policy, the Non-executive Directors will regularly review the remuneration package to ensure that it meets the remuneration principles in both composition and amount.

Therefore, the tasks of a remuneration committee were performed by the Board in the course of the regular Board meetings. As a part of these discussions, the Board has also decided on the bonus payments for the fiscal year 2009.

The remuneration policy of the company is designed to attract qualified people with both, the necessary skills and background for the position of an Executive Director. Additionally, it is sufficiently challenging to ensure and extend the focus on performance and long-term growth in the value of the company, to motivate the Executive Director and to retain him if he performs well.

Selection and appointment committee tasks

In the fiscal year 2010, there was no necessity to perform any selection and appointment committee tasks.

However, the Board discussed also the Board's composition as they desire to add some new talent to the Board if possible.

The consolidated statements of Catalis SE were drawn up according to the International Financial Reporting Standards (IFRS) as adopted by the EU. The financial data has been audited by the independent auditors Mazars Paardekooper Hoffman Accountants N.V.

We have approved the financial statements of Catalis SE prepared by the Executive Director and we also agree with the Management Report. The chapters 1 to 6 are part of the Management Report.

The composition of the subscribed capital as well as the provisions concerning the appointment and removal of members of the executive board, or amendments to the articles of association are in compliance with the statutory requirements and are self explanatory.

The Board would like to thank the Executive Director for his commitment, hard work and for the consistently trustworthy and fruitful dialogue.

For the Board:

Dr. Jens Bodenkamp

Eindhoven, The Netherlands
May 6, 2011

Global Business Environment

According to the January update of its World Economic Outlook, the International Monetary Fund (IMF) saw the global economy return to growth in the year 2010. The growth rate amounted to 5.0% compared to -0.6% in 2009. However, this recovery has taken place at various speeds and magnitudes throughout the world, being led by the emerging and developing countries and many of the advanced economies clearly lagging behind.

Basically, the IMF also sees some imbalances that need to be amended to convey this recovery into a sustainable mid-term growth trend. The IMF points out that the recovery, especially in the advanced economies, has been fostered by fiscal stimulus and inventory accumulation, both of which have to be replaced by private consumption and corporate investing activities to achieve sustainability. However, the development is hampered by persistently high unemployment rates in many countries, where growth is not strong enough to stimulate the labour market, putting pressure on household incomes and private consumption. In the emerging and developing countries on the other hand, economic growth is highly dependent on net exports, i. e. consumption in the advanced economies which, given their relative economic weakness and the still lingering burden of the financial crisis with its after-effects, is unsafe to rely on. Thus, emerging and developing countries must look for means to replace net exports by increasing domestic consumption.

Given the above, it becomes clear why the recovery in the advanced economies was rather sluggish after the sharp setback experienced in the 2009 recession. The respective growth rate amounted to 3.0% compared to -3.4% in 2009. The economic development was not only sluggish but also highly unequal across the advanced economies, with growth rates ranging from -0.2% in Spain to 4.3% in Japan. The US was slightly below average with 2.8% compared to -2.6% in 2009. The euro area, led by Germany with a strong growth of 3.6% after the 4.7% drop in 2009, was clearly below average with 1.8% versus -4.1% in 2009. The UK has also seen some growth again however the 1.7% are relatively weak in comparison to the 4.9% setback in 2009.

The emerging and developing countries, which were hit by the global economic downturn resulting from the financial crisis but not so much by the crisis itself, have returned to strong growth in the year 2010. The average growth rate was up from 2.6% in 2009 to 7.1%, led by China (10.3%) and India (9.7%) once again.

As mentioned above, the development in many advanced economies was hampered by persistently high unemployment rates and the negative effects on household incomes and private consumption. The unemployment rate in the euro area was stuck at 10.0% throughout the whole year 2010, which is the highest level for more than ten years, and the December rate in the US was at 9.4%. In turn private consumption in the euro area was up only 0.6% (flat in Germany in spite of the strong growth) and 1.5% in the US, which is also comparably low given a wealth of incentives initiated throughout the year.

For Catalis Group as a service provider to the digital media and entertainment industry, private consumption is a very important indicator as consumer demand for digital media and entertainment products in turn determines the demand for the Group's services by respective producers. Thus, a sluggish private consumption indicates also a rather challenging business environment for the Group.

Industry Development

Home entertainment market in transition

DVD and Blu-ray
In the fiscal year 2010, according to The Digital Entertainment Group (DEG), consumer spending on pre-recorded content in the US totalled $18.8bn, 3% less than in 2009. Combined DVD sales and rentals dropped another 11% year-over-year to $14.0bn and continued the ongoing decline from their peak in 2006 when that figure was $20.2bn. A more detailed breakdown sees DVD sales down 15% to $8.5bn in 2010 while DVD rentals were

rather stable at $5.5bn. Still, the DVD format accounted for approx. 75% of total home entertainment revenues in 2010.

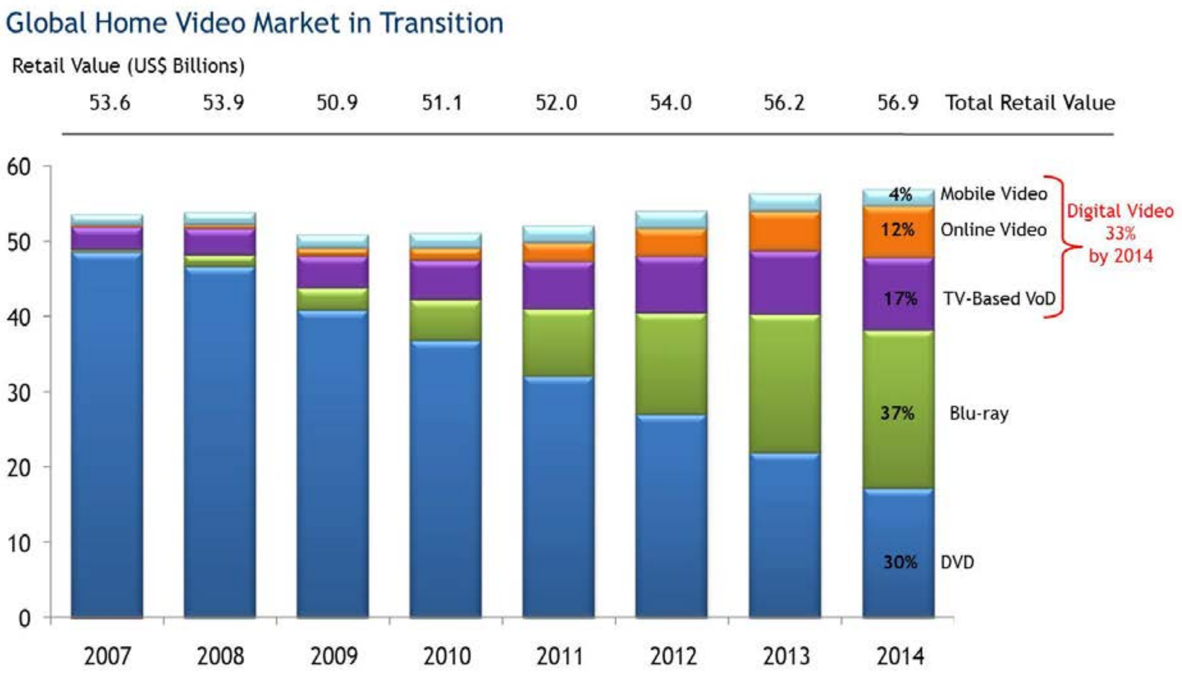
The fast growing Blu-ray segment, being up approx. 55% from the 2009 figure of $1.5bn to a total of $2.3bn, could not fully compensate the fall in DVD revenues. Blu-ray software sales were up 68% to $1.8bn while rentals accounted for $0.5m.

Though being less powerful than the Blu-ray segment, digital distribution also remained a key growth area in the year 2010. Digital distribution includes electronic sell-through (EST) as well as video on demand (VOD). EST was up 15.7% to $0.7bn, softening the fall of the overall sell-through segment from -7% to -6%. VOD was up 20.8% to $1.8bn, resulting in a slight growth of the entire rental category. The combined digital distribution channels were up 19% to a total of $2.5bn.

However, while revenues were slightly decreasing, the total number of consumer transact-tions for pre-recorded content grew by one percent, indicating that consumers' appetite for home entertainment products still remains strong.

Summing up theses figures, the market is clearly in transition, replacing the DVD format by its successor formats Blu-ray and digital distribution. Interestingly enough, when it comes to buying, consumers are rapidly adopting the Blu-ray format (16.4% of all sell-through) while digital distribution via EST is lagging behind (6.4% of all sell-through) and vice versa in the rental business. There digital distribution via VOD (23.1% of the rental segment) is much stronger than Blu-ray discs (6.4% of the rental segment).

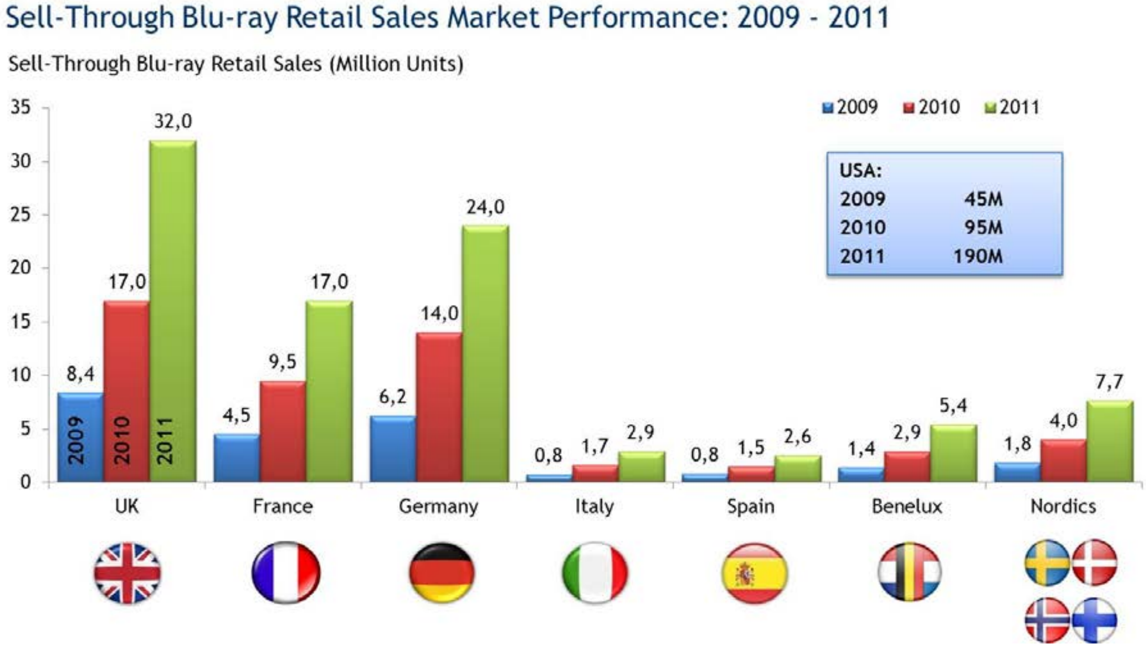
The following graph shows the replacement of DVD in a slowly growing global market.



Source: Futuresource Consulting Ltd, September 2010

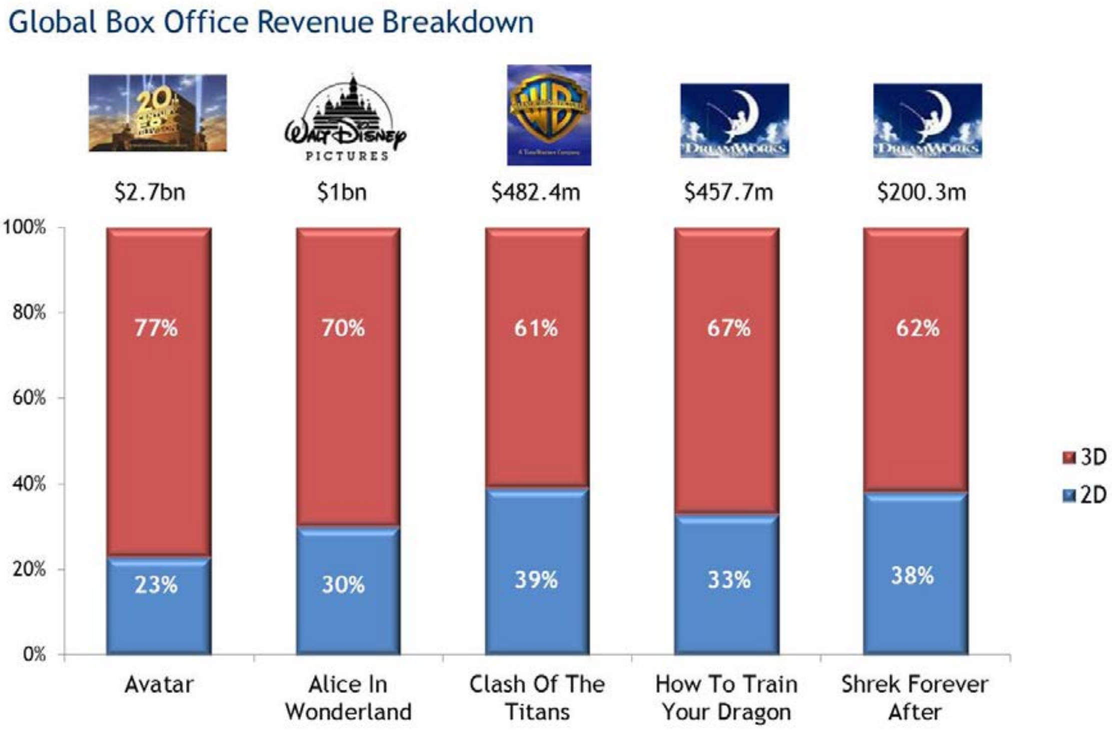
Nonetheless, Blu-ray is heading for a bright future based on the number of Blu-ray disc playback devices. In the year 2010, US consumers bought 11.3m units of such devices, including set-top box and game consoles, bringing the installed base up to 28.5m units. It is estimated that now more than 20% of US households own a Blu-ray disc playback device. This coincides with an estimated total of 56 million households now being endowed with a HDTV set.

The below graph shows the expected development of Blu-ray sales in 2011:



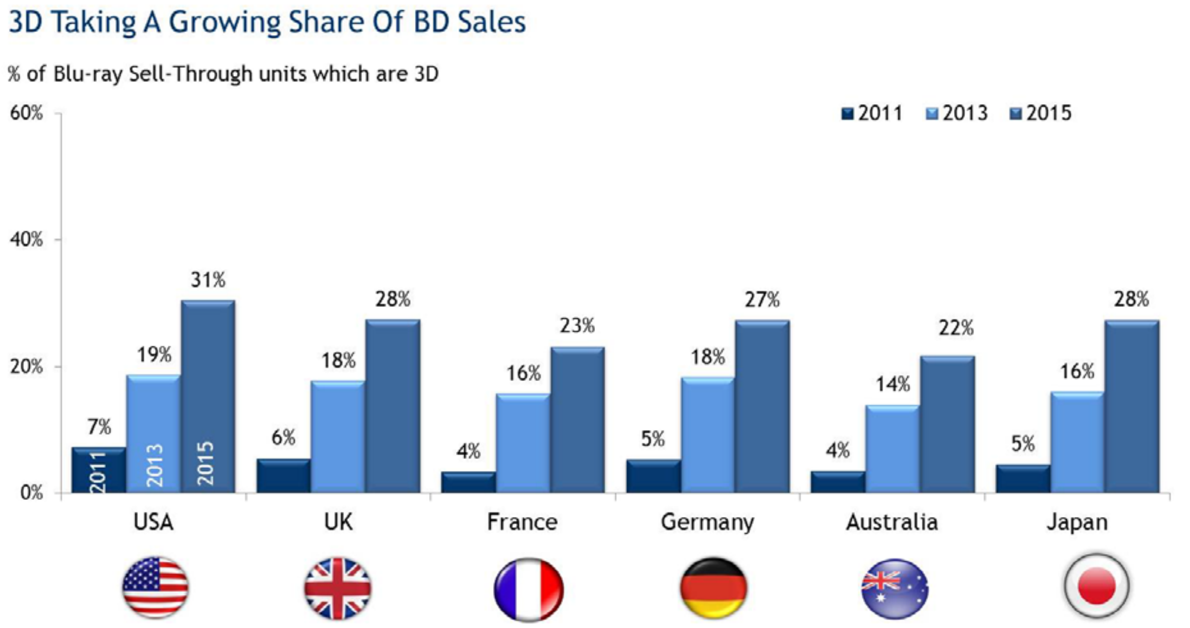
Source: Futuresource Consulting Ltd, September 2010

The growing acceptance of Blu-ray among consumers also provides positive sentiment for the new product-line of 3D Blu-ray discs, allowing consumers to experience the enhanced capacity of Blu-ray technology. This development is especially spurred by the theatrical success of Avatar and its successor on the movie screen in the year 2010 (see below graphics).



Box office revenues up to 31st May 2010

Source: Futuresource Consulting Ltd, September 2010



Source: Futuresource Consulting Ltd, September 2010

From a testing service provider's point of view, this development provides some interesting growth opportunities and challenges for the provision of quality assurance services.

In spite of the ongoing steady decline of the DVD segment, the continuous growth of the Blu-ray segment, introduction of 3D in the home, HDTV and the growing digital distribution business provide some promising growth opportunities for Testronic's quality assurance services in the future.

Consumer Electronics
According to figures from iSuppli, the global consumer electronics industry has seen revenues rise 6.2% in the year 2010. Thus, worldwide consumer electronics OEM revenues were estimated at USD 340.4bn, offsetting the 2009 decline of 4.4%. Consumer electronics include a number of devices that consumers make use of in their everyday life, e.g. televisions, portable media players, set-top boxes, gaming devices, DVD and Blu-ray players, digital cameras, digital picture frames, e-book readers and other consumer appliances.

On the positive side, the development was driven particularly by LCD-TVs and Blu-ray players. Total shipments of Blu-ray players rose more than 80% to 16.4m units, reflecting the fast growing acceptance of this technology in the market. Though almost every segment of the consumer electronics market has seen growth in 2010, there is a shadow on the portable media player segment (PMP) as PMPs are facing more and more competition from other electronic devices, e.g. smart phones and tablet PCs, subsuming the music-playing capabilities among their wealth of other features and applications.

According to iSuppli, the shift from analogue to digital in the consumer electronics market is nearly complete but the technological evolution continues however. Thus, in today's market the focus is no longer on the medias' format but much more on enabling the consumers to access the media content anytime they want, anywhere they are (in- and outside the home) and on any possible device, be it a television, a tablet or a smart phone. A crucial issue about the so called "connected consumer" is the usability of solutions. The average consumer does not want to know how it works - he just wants it to work. And he mostly prefers plain and simple easy-to-use plug-and-play solutions.
For a provider of quality assurance services, the concept of the "connected consumer", as well the "connected home", provides the potential for a lot of interoperability, interconnectivity and compatibility testing lying ahead.

Video Games
In 2010, the video games industry has seen another year of global downturn with all of the three major markets, the US, the UK and Japan, facing losses in industry revenues due to both price cuts and reduced demands for new video games.

The major events in the markets were the release of the new motion controllers from Sony (Move) and Microsoft (Kinect) as well as the launches of a small number of blockbuster video games like “Call of Duty: Black Ops”, “Halo: Reach”, “World of Warcraft: Cataclysm”, “Assassin’s Creed: Brotherhood” or “Gran Turismo 5”.

In the UK, total retail revenues for the video games industry amounted £2.88bn according to UKIE (Association for United Kingdom Interactive Entertainment, formerly known as ELSPA). This compares to a total of £3.3bn in 2009, representing a loss of 12.9%. This figure is composed of £1.53bn (2009: £1.6bn) from entertainment software, pc and console games, £0.80bn (2009: £1.1bn) from console hardware and £0.55bn (2009: £0.6bn) from console and PC gaming peripherals.

Mike Rawlinson, General Director of UKIE commented on these figures: “The UK videogames market has something for everyone, with the market expanding into new areas, particularly online, on mobile phones and on other interactive devices. This expansion is coupled with the continued strength of traditional markets, providing consumers with choice and demonstrating the industry’s increasing maturity. Thanks to continued innovation from games publishers and developers more and more people are playing games. With one in three people now considering themselves gamers, interactive entertainment is increasingly part of everyone’s everyday lives.”

According to research by HIS Screen Digest, the growing popularity of gaming in the UK also shows in the revenues from social network gaming which were close to $60m in 2010.

In the US, total video game revenues in retail were down 6% to $18.5bn (2009: $19.7bn). Hardware sales decreased 12%, totalling $6.3bn (2009: $7.2bn), while software sales were reduced by 6% to $ 9.4bn (2009: $9.9bn), according to figures from NPD Group. Including PC games software, used games, rentals, subscriptions, full digital game downloads, social network games, downloadable content and mobile game sales, the software figure climbs to an estimated $15.5bn. Thus, revenues from non-retail and PC amounted to approx. $6.1bn. Driven by the new motion controllers, accessories were up 12% to $2.9bn (2009: $2.6bn).

According to figures from Enterbrain, the Japanese games market was down another 9% in 2010. Total retail sales amounted to ¥493bn (£3.8bn) compared to ¥543bn (£4.2bn) in 2009. Hardware sales were down 18.9% to ¥176bn. Software sales, accounting for roughly 65% of the market, were rather stable at ¥318bn (down 2.5%). Both hardware and software market were clearly dominated by Nintendo, with the DS being the best selling platform and the top ten of the software charts, led by Pokemon Black & White (DS), showing 5 DS titles, 4 Wii titles and one PSP game.

In terms of global markets, Wii and DS remained the dominating platforms, though showing above average declines in unit sales. In terms of software, Wii remains strong with titles such as Wii Sports, Wii Sports Resort, New Super Mario Bros. or Wii Fit Plus. However, the best-selling video game in 2010 was the multi-platform blockbuster “Call of Duty: Black Ops” selling more than 19m units in only eight weeks on sale.

As for digital distribution, leading video game retailers are preparing for a challenging future as they expect to see further innovation in existing formats and growing competition from social and mobile gaming as well as digital and online distribution. Currently, a major driver for digital revenues, including downloadable content, digital game purchases, in-game items and portals, seems to be downloadable content that enables players to enhance their games and maximize their fun and gaming experience.

Given the still difficult situation for new video game software at retail, except for some major blockbuster games, the climate for both new video game releases and video game development contracts remained challenging throughout 2010, negatively affecting the business environment for both, video games development and testing services.

Company Situation

General

Following the 2009 reorganisation programme, Catalis Group has still suffered from an adverse economic situation in its markets during the first half of the fiscal year 2010. In the second half of the year, though the situation in some of its core markets remained challenging, Catalis Group reaped the fruits of its restructuring and cost-saving efforts, returning successfully to profitability in both the third and the fourth quarter. However, the loss of the first half-year could not be fully compensated. Based on its new structural and strategic positioning Catalis Group is well prepared to generate profits on full-year basis again.

Segment Information

Testronic Labs

The quality assurance business of Catalis SE is the traditional core business of the company and is operated through the company's subsidiary Testronic Labs, which runs the entire quality assurance operations through its internationally located sites.

The group specialises in quality control of any content (video film, video game, music, software) for any communication medium (DVD, Blu-ray, CD, online, wireless) for all end devices, ranging from DVD and Blu-ray players, personal computers and mobile devices to video game consoles and much more. Testronic is the leading testing service provider active in both the film and game industries.

While Testronic's first half year of 2010 was affected by the downturn in the US home entertainment business, especially in DVD testing, Testronic has seen good third and fourth quarters in the fiscal year 2010. On the positive side, the Blu-ray segment continued its strong growth while the installed base of Blu-ray players is increasing as prices are going down. Film studios are now putting out more of their back catalogue on Blu-ray to benefit from its growing popularity. So far, Testronic has already tested more than 5,500 Blu-ray SKUs (stock-keeping units) and 75 3D Blu-ray SKUs, establishing itself again at the forefront of this evolving new technology. This coincides with the fact, that Testronic has been awarded the status of an official BDA Test Centre for 3D.

Testronic is benefitting from increased digital distribution and Blu-ray business, but the continuous drop in DVD testing provides a significant pressure on the company in the short-term. Pricing became an increasingly crucial issue in this business as many competitors were struggling to generate cash flow. The same also held true for the games testing business where there are competitive alternatives in India and Canada.

Testronic has also seen a positive development in its other business fields. This applies especially to the hardware testing and consultancy space where the positive trend of the first half-year in the cable operator and Digital TV business continued throughout the rest of the year. Germany, Belgium and the Netherlands are markets where Testronic is working for several large cable TV companies.

Home entertainment consultancy has seen strong growth in the third quarter and Testronic expects this trend to continue as customers are outsourcing more and more work previously done by in-house departments for testing and quality assurance. Testronic has also seen more activity of film studios in preparing their websites for movie downloads / direct to customer distribution while two big studios actually had their movie download websites tested by Testronic in the third quarter. Hardware testing continued to grow as producers are currently pushing products into the European TV and home entertainment market.

The Belgium office of Testronic has made significant progress in its Digital TV business where it is testing Digital TV services as well as Digital TV tools based on test requirements as defined by Testronic and/or industry organisations. This success is the vindication of several years of steady expansion of the expertise and service offering seated in this department. Based on core skills in the Digital TV testing area and the use of an extensive test management database containing hundreds of test-cases, Testronic has achieved success by offering custom tailored testing solutions to meet the disparate needs of Digital TV operators.

The same pattern holds true for software testing and games testing where Testronic has also started a browser games testing initiative to expand its business.

Another achievement is the collaboration with a major Dutch digital television cable distributor to set up a certification programme for CI+ devices on their network. CI+ is a common interface standard for connecting televisions to the cable operators network. Having begun work testing the operator's CI+ enabled Conditional Access modules Testronic is now in a position to begin pitching complementary services to TV and set-top box manufacturers. Business development activity in this area has begun, having taken delivery of TVs from major providers who require this service.

Having established a compelling technical proposition and achieved almost complete coverage of the first target market, Germany, alongside existing Benelux clients, work is in progress to replicate this success elsewhere, whilst broadening the existing contracts to maximise revenues from these entrenched clients in the immediate term.

Testronic is also continuing its work with two major Hollywood Studios in testing all the content that is distributed through the studio's interactive website as well as with certain automotive makers in testing their in-car media devices. New customers also include GaiKai, provider of a cloud-based gaming technology that allows users to play major PC and console games, and PopCap Games, a creator of casual video games, FunCom (a MMO Games Developer), Ubisoft, KochMedia and DevoTeam, an IT consulting company. Eurostar and Generali were new clients for the website testing service, Teknet and BMW added to the list of hardware testing clients.

Due to the increased activity of film studios in the fields of movie downloads / direct to customer, Testronic is expanding its digital entertainment test lab and building on its services to meet customer's new requirements, including device interoperability. Testronic is also evaluating opportunities to push its services up the film and TV value creation chain deeper into the production and post-production space, in order to further broaden its quality assurance approach.

After having opened a 3D test lab in the US in the first quarter of 2010, Testronic has opened a 3D test lab for Blu-ray discs and a 3D test lab for games testing, both in the UK (Pinewood), in the second quarter.

Additionally, Testronic is providing testing services and QA consulting to several studios and other companies who are developing digital supply chain initiatives. Also, Testronic further developed its programme for testing a new motion controller for a major video game console producer and it also started testing of a new video games streaming technology.

In total, after a disappointing first half-year, Testronic has successfully returned to profitability in the third and fourth quarter. Testronic has seen growth in all of its business lines: The games testing unit has increased work from its existing customers, e. g. working on three major titles from Sony, and acquired a number of new customers, film studio clients are bringing more business again, the digital TV business shows triple digit growth, 3D business and on-site work continue to grow, hardware testing is benefitting from work on automotive entertainment systems as well as the CI+ interface (with customers such as LG, Panasonic, Samsung, Sony, etc.) and digital file testing needs are also significantly up.

As a result of these positive developments, Testronic is also reducing its dependency on the optical disc testing business as other business lines are showing strong growth and revenues are getting more and more equally spread -between the various business lines of Testronic.

Therefore, Testronic has not only seen an extraordinary performance of its business lines in the second half of the year but is also in a strong position to continue this development further in the fiscal year 2011.

Kuju Entertainment

The work-for-hire video games development services business of Catalis SE is undertaken by our Kuju division, one of Europe's leading game developers. Kuju studios develop all genres of video games for a variety of consoles, PC and handheld platforms.

For Kuju, the fiscal year 2010 was challenging throughout and there was no marked pick up at any point in the work-for-hire games market, despite new hardware releases in the second half of the year such as the new motion controllers Kinect and Move. However, Kinect sold 8m units over the holiday period and Move sales remain robust, so the demand for interactive console games is certainly there. The release of Nintendo's 3DS and upcoming release of Sony's PSP2 are also seen as a positive sign for a potential upturn in work-for-hire projects secured for these new platforms.

Given that climate, Kuju's performance in 2010 can be described as resilient. Kuju remained Europe's largest independent video games developer and the group of studios is well positioned to seize on any upturn in work-for-hire demand, particularly given the continuously decreasing number of first class video game developers in the market.

In the 1st quarter 2010, Kuju conducted a strategic review of its Asia-Pacific operations and concluded that it would no longer maintain a full service studio in the Philippines. The studio was closed in the course of the quarter. In the second quarter, the Zoë Mode London office was closed and the development teams were consolidated in Brighton. Additionally, Kuju conducted a realignment of its Headstrong studio. In the fourth quarter, Kuju's US studio was relocated from San Francisco to Burbank, enabling Kuju to focus its efforts better on serving the dominant west coast clients. These actions have led to the non-recurring costs.

On the positive side, Kuju has completed the development of several games, including Grease on the Wii (Zoë Mode), Sorcerer's Apprentice (Headstrong), Aragorn's Quest (Headstrong) and Geometry Wars on iPad (D6; Kuju's first iPad title). Vatra Games has been announced as the developer of Konami's new title "Silent Hill: Downpour" the eighth installment of the popular multi-million dollar world-wide Silent Hill franchise. This is scheduled to launch on both the Sony PlayStation and Microsoft Xbox 360 systems in 2011. In the fourth quarter, Zoë Mode's original musical puzzle game, Chime, was released on Steam. The game was originally a self-published charity project on XBLA in collaboration with One Big Game and has been generally well received. Chime has also been enlisted in a compilation of "1001 Video Games You Must Play Before You Die" by an international team of critics. The second Kuju title on this list is the award-winning PSP game "Crush".

Kuju achieved critical and commercial success of Art Academy for the Nintendo DS/DSi, adding to the group's storng reputation for high quality video games. In 2010, the game has sold more than 1.7 million units worldwide, making it number seven of the best-selling DS games. Cubed Three commented on this game: "Headstrong Games is renowned for working with Nintendo on the Battalion Wars series, as well as with SEGA on House of the Dead: Overkill. Now it has helped Nintendo transfer the two DSiWare Art Academy games over to a full retail package, and done so in fantastic style." Art Academy was also picked up a KAPi (Kids@Play Interactive) 'Best Game' Award in Las Vegas, the last recipient of that award being Media Molecules' Little Big Planet.

Headstrong and Zoë Mode have signed further development agreements with major customers. The Kuju group also significantly expanded its repertoire of titles in development with 505 Games during 2010. Kuju's Headstrong studio secured a top tier publisher game in the fourth quarter, winning the well known franchise in a competitive pitching exercise against a number of other developers. The title will be released in 2011. Zoë Mode secured an innovative online work-for-hire project with Channel Four Education, aimed at the 10-14 year demographic. The game is an avatar based titled called "Who I am". Zoë Mode also secured work with a new client in the form of Japanese publisher NanaOnSha, that has resulted in Zoë Mode's first Kinect project with NanaOnSha and Microsoft. Zoë Mode was recently awarded the development contractfor a well known dance/fitness game. Fabric, the recently completed internally developed game engine technology, is now being used to build a number of the current games in development. Finally, Kuju secured its first 3DS work for hire project with Zoe Mode and there are more in the pipeline.

The majority of recently signed contracts in Kuju were with existing customers indicating the strong relationship between developer and publisher that has been built up over many years. In total, Kuju has successfully adjusted to the difficult market conditions in the work for hire business and is continuously delivering high quality titles increasing the likelihood of repeat business and fostering long term relationships.

Geographically speaking, Kuju's customer base remained generally similar in 2010 to previous years, with slightly more work originating out of Europe (Germany, France, UK), but on the whole the customer base remains predominantly entrenched in the US and Japan.

Overall, the fiscal year 2010 was not without its challenges as the decline in boxed sales continued and demand for online digital games is increasing. This adjustment was also driven by the popularity of social online games and iOS games. In terms of market share, however, the boxed retail market is still significant in size and the industry believes that demand for high quality casual games will improve in the long-term.

Kuju successfully adapted to market pressures to ensure the group of studios remained nimble and versatile in a challenging market with appropriate cost cutting measures as and when required during this challenging year. Headstrong expanded its repertoire in 2010 from sole reliance on Wii titles, and is now a multi-platform developer for Wii, XBOX360, PS3, DS and 3DS. The group now aims to stabilise profitability by optimizing work-for-hire opportunities and building on Kuju's long-established experience as a leading independent developer. Economically, Kuju was better than break even also for the fourth quarter, putting the company back into profit as projected for the second half of the year.

DDP

DDP is the most recent division of Catalis SE and addresses the Group's activities in the development and distribution of self-published digital games.

In order to emphasise the importance of the self-published games segment for the future strategy, DDP has been established as a new business division of Catalis Group in the third quarter and therefore now sits alongside sister divisions Kuju and Testronic, as the Group looks to build on its successful self-published digital games strategy.

The formation of DDP was significant in that it will allow the group to optimize the dual focus of work-for-hire projects with Kuju and self-published projects developed and released under DDP. With the establishment of DDP Catalis Group continues to develop new relationships with an increasing number of potential collaborators and licensing partners.

Currently, DDP operates through its studio doublesix games. Since its establishment, doublesix has become a leader in the development and digital distribution of games across all the main downloadable platforms such as Xbox Live Arcade, PlayStation Network and PC distribution platforms such as Steam. An early example was the very successful production and self-publication of Burn Zombie Burn which was released on the PlayStation Network in March 2009.

In doing so doublesix gained invaluable experience in how to fund, develop, publish and launch downloadable games. doublesix now has considerable expertise in co-operating closely with the platform holders and in positioning and marketing such game offerings direct to consumers across the full life cycle of the game. doublesix has therefore become a centre of excellence and is responsible for all such activities in the wider Catalis Group.

doublesix announced its license deal with 2WayTraffic as the "Who Wants to be a Millionaire" (WWTBAM) Special Editions went into production, and future announcements will be made on the licensed brand partners that will fuel demand for Special Editions. In the fourth quarter, a partnership with Koch Media was announced around the WWTBAM project.

WWTBAM Special Editions is a joint project between doublesix and Koch Media's Deep Silver imprint and will be released in the second quarter 2011.

Apart from the WWTBAM Special Editions, DDP was working on a number of other new titles in the second half of 2010, including a new compelling space game and an action game. Moreover, DDP is already in discussions about several new compelling licences for the fiscal year 2011.

Research and Development

In the fiscal year 2010, Kuju completed the development of its next generation of game engine technology "Fabric".

R&D expenditures at Kuju Entertainment for the fiscal year 2010 amounted to approx. € 0.2m. Internally generated intangible assets of DDP were € 0.8m in the fiscal year 2010.

At Testronic Labs there were no R&D activities in the fiscal year 2010.

Management expects that R&D expenditure in the fiscal year 2011 will be rather flat.

Investments

Total investments in tangible fixed assets in the fiscal year 2010 amounted to € 0.4m and were mainly attributable to the purchase of property, plant and equipment. Apart from normal equipment and replacement investments, the following investments were of special importance.

At Testronic, total investments of € 0.3m comprised testing equipment for several 3D test labs, the company's Digital TV business, video games and hardware.

At Kuju there were no significant investments in the purchase of property, plant and equipment. However, it has invested approx. € 0.2m in the development of Fabric, and there were some investments made in DDP, specifically the purchase of the licence for WWTBAM.

For the fiscal year 2011, Kuju and DDP have no plans for material investments so far.

Testronic expects its investments to be significantly up from the 2010 level as the company intends to expand its facilities in response to the increased demand for its testing services.

So far, Catalis Group has no other plans for major investments in the fiscal year 2011. Thus, the management expects the Group's total capital expenditure to be higher than in 2010 as a result of Testronic's facility expansion plans.

Development of Earnings, Assets and Financial Situation

All financial data for the 2010 business year has been calculated in Euros (€) and comply with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Earnings situation

Sales Development

In the fiscal year 2010, Catalis Group generated total sales of € 25.8m (previous year: € 32.0m). Thereof, € 13.4m (2009: € 12.4m) were attributable to Testronic (quality assurance) and € 12.3m (2009: € 19.7m) were attributable to Kuju (video games development).

Subcontracting and cost of materials amounted to € 3.8m (2009: € 4.4m), where Testronic accounted for € 3.0m (2009: € 2.7m) and games development accounted for € 0.8m (2009: € 1.7m). The development in these costs reflects the increased adjustability of Catalis Group's work force and the ongoing transition to flexible working hours. This is due to the fact that the cost for flexible non-permanent staff is recognised as cost of sales, while the cost for permanent staff is recognised as personnel cost.

The group’s gross profit (total revenues minus subcontracting and cost of materials) amounted to € 22.0m in 2010 (2009 € 27.6m), representing a decrease of 20.3% from the previous year. To this gross profit Testronic contributed with € 10.5m (2009: € 9.7m), and € 11.6m were generated by Kuju (2009: € 18.0m). The gross profit margin amounted to 85.4 % (2009: 86.3 %).

Earnings Development

In the fiscal year 2010, Catalis Group had to recognise a total of € 0.8m of non-recurring costs resulting from legal disputes at Testronic (€ 0.2m) and the reorganisation programme at Kuju (€ 0.6m). Before these non-recurring costs, the group’s operating income (EBIT) amounted to € -0.9m (2009: € 0.2m). Taking into account the non-recurring costs of € 0.8m, the group’s operating income was € -1.7m (2009: € -1.5m).

The earnings situation is illustrated in the following table:

€ k	**2010**	**2009**
Total income	25,793	32,005
Subcontracting and cost of materials	(3,758)	(4,398)
Gross profit	22,035	27,607
Operating costs	(22,936)	(27,373)
Operating income (EBIT) before non-recurring costs	**(901)**	**234**
Non-recurring costs		
Kuju	(637)	(931)
Testronic	(166)	(793)
Total	(803)	(1,724)
Operating income (EBIT) after non-recurring costs	**(1,704)**	**(1,490)**

While the holding showed a negative EBIT of € -1.1m (2009: € -1.3m), Testronic contributed with a positive result of € 0.9m (2009: € -0.2m) but was not enough to compensate the negative EBIT of Kuju that accounted for € -1.2m (2009: € 0.0m)

The group’s financial income for the fiscal year 2010 amounted to € -0.9m. Taking into account this financial income, the pre-tax income amounted to €-2.6m (2009: € -2.0m).

In the fiscal year 2010, the group had a tax benefit of € 0.2m (2009: € 1.7m). The significant decrease is mostly due to decreased recognition of previous year unrecognized losses. Therefore, income for the period (after tax) amounted to € -2.4m (2009: € -0.3m). This equals earnings per share of € -0.06 (2009: € -0.01).

Profit Distribution

At the Annual Shareholders’ Meeting, the management of Catalis SE will recommend the allocation of € -2.4m of the after tax performance into the retained earnings of the company.

Asset Situation

Balance Sheet

As of December 31, 2010, Catalis Group’s balance sheet total amounted to € 27.2m. In comparison with the previous year’s total of € 27.7m, this represents a decrease of 1.8%.

The group’s fixed assets increased from € 19.1m to € 20.4m which is mainly due to Intangible assets being up from € 0.1m to € 0.9m.

Current assets of Catalis Group amounted to € 6.9m (2009: € 8.6m) which is a decrease of 19.8% due to a review of the position of other current assets (note 7).

In terms of equity and liabilities, the group's total shareholder equity decreased from € 14.1m to € 12.4m. Based on the number of 37,878,999 shares outstanding at the end of the fiscal year, shareholder's equity amounted to € 0.33 per share (2009: € 0.37 per share). In 2010 total equity represents 45.6% of the balance sheet total (2009: 50.9%).

Long-term liabilities were reduced from € 0.2m to € 0.1m.

Current liabilities were increased from € 13.4m to € 14.7m. Here, trade and other payables were up from € 3.8m to € 6.0m, provisions decreased from € 1.2m to € 0.0m and the bank overdraft increased to € 2.3m (2009: € 1.1m), while liabilities from taxes and social securities increased from € 0.6m to € 0.7m.

Financial Situation

Cash Flow

In the fiscal year 2010, Catalis Group generated an operating cash flow of € 0.8m (2009: € 0.4m).

Cash flow from investing activities amounted to € -1.4m (2009: € -0.9m) and is mainly attributable to the additions of intangible assets resulting from the development of downloadable self-published games.

Cash flow from financing activities amounted to € -0.9m (2009: € 0.5m) as a result of the omission of previous years' proceeds from the capital increases amounting to € 1.4m.

Additionally, the net effect of currency translation in cash and cash equivalents amounted to € 0.1m (2009: € -0.1m).

Thus, the company's total cash flow in the fiscal year 2010 amounted to € -1.3m (2009: € -0.1m), resulting in a net cash position at the end of the reporting period of € -1.3m (2009: € 0.0m).

Due to the low cash position, all cash ratios for the Group are substantially below their target values.

As of the balance sheet date 2010 (just as in 2009), Catalis SE did not fulfil the existing debt / EBIT ratio regarding the loan agreement with the KBC Bank. As, on the balance sheet date, the financing facility therefore was not guaranteed for a period of at least one year, the syndicated loan is recognised on the balance sheet under current liabilities. On April 7, 2011, an agreement was reached with the KBC Bank to waive the covenant breach and to continue the existing loan facilities on largely the same terms as before. The covenant tests will be re-applied as before on receipt of the audited consolidated financial statements 2011.

Employees

As of December 31, 2010, there were 357 permanent employees working at Catalis Group (previous year: 408 employees). 207 (212) employees were working for Testronic, an additional 123 (194) for Kuju and 25 for DDP In 2010, Catalis Holding had 2 employees (previous year: 2)

Highly qualified staff is an essential prerequisite to the delivery of top quality services and products for the digital media and entertainment industry. Therefore, it is crucial to Testronic Labs, Kuju and DDP to attract the best people for their jobs and to care for their further continuous skill enhancement to catch up with the ongoing technical evolution and enable them to deliver state-of-the-art services.

In general, the permanent work force of Testronic, Kuju and DDP has been reduced significantly over the past quarters with the intention of having a highly flexible work force with minimal fixed costs. As Kuju had to cope with some excess capacity in the first half of the year 2010, the work force has been further reduced.

However, with respect to current projects, Kuju and DDP are now recruiting which will result in a mix of new permanent and fixed-term contracts, with a high ratio of fixed-term contracts.

As Testronic plans to expand its facilities, employee numbers are also likely to increase.

Therefore, on a Group level, the management expects permanent employee numbers to be slightly up in 2011.

Supplementary Report

On January 13, 2010, Catalis SE announced that its subsidiary Kuju Entertainment has resolved to shut down its development studio in Manila, Philippines.

Kuju has conducted a strategic review of its Asian-Pacific operations and concluded that it will no longer maintain a full service studio in the Philippines. Despite its success in supporting Kuju's European studios and the success of Circus Games for the Wii gaming console, Kuju has concluded that, given the weakness of demand in this part of the video games market, the prospects for further titles of this type are limited.

Nonetheless, Kuju will continue its strategy of building a co-operative art resource in the Asia-Pacific region, but intends to base it outside the Philippines. Therefore, the Manila studio was closed in the course of the first quarter 2010.

On January 15, 2010, the subsidiary Testronic Laboratories GmbH was liquidated. At the time of liquidation, the entity had no operating business.

Risk Report

Catalis Group is a worldwide outsourcing service provider for the digital media and entertainment industry. The Group’s focus is on quality assurance and video games development services for its customers in the home entertainment and consumer electronics space. Through its subsidiary DDP, the Group is also active in the development and distribution of self-published, downloadable video games.

As a service provider, Catalis is always dependent on the demand for services from its customers which in turn is subject to the general economic environment and consumer demand for their respective products. In the field of self-published, downloadable video games, Catalis is directly dependent on the consumer demand for its products. Apart from these general risks that exist in company’s business environment, Catalis is also subjected to other risks which have been summarised below.

Risk of substantial changes in trends and technologies

A major risk for all of Catalis’ business activities lies predominately with consumer interest and demand. Building on the development in the media and entertainment industry, we depend on the developments of these industries’ driving forces. Technological changes and variations in end user behavioural patterns represent a risk as well as an opportunity for our business. Therefore, a material change or downturn in the pattern of the whole media and entertainment industry is a substantial risk for our business. Substantial changes in trends and consumer behaviour might lead to a significant weakening in demand for some of our clients’ products and in turn reduce their demand for our services. Technological changes may affect both the production and distribution processes in the industry and result in a significant change of demand for our services, some services might even become obsolete, demand for new services not yet developed, changes in the competitive environment or changes in the attainable margins. Such changes can have significant effects on the asset, financial and earnings situation of Catalis.

Quality and reputation risks

For Catalis as a service provider it is crucial to deliver high quality services just to stay in the business. It has a number of highly qualified competitors in its markets and therefore a substantial reduction or lack of quality in its services may cause significant cancellations and losses of orders. Moreover, Catalis might lose its strong reputation in the market and be eliminated from future pitches for new projects. This may have adverse effects on the asset, financial and earnings situation of Catalis.

Competition and pricing risks

Catalis is facing a number of different competitors in its respective markets. Though these markets are driven by quality, reputation, skills and capacity and barriers to market entry are therefore relatively high, intensified competition for available orders might result in more aggressive pricing behaviour in the markets and harm Catalis' margins. Competition might also provide opportunities for customers to put pressure on margins.

Competition and intellectual property risks

In the development and distribution of self-published, downloadable video games, Catalis competes with a large number of other publishers. The Group's success in this segment depends on the Group's ability to exploit and protect its intellectual property throughout the world. Domestic and foreign laws promoting or limiting intellectual property rights may have significant impacts on the Group's operations in this field. In some foreign countries preventing unauthorized use of the Group's intellectual properties can be difficult even in countries with substantial legal protections. In addition, the Group's activities that rely on the exploitation of intellectual property are subject to the risk of challenges by third parties claiming infringement of their proprietary rights.

Personnel risks

The performance of the company's services depends to a great extent on the special knowledge and qualification of its management and employees. If the company is not able to attract the necessary highly qualified staff or to maintain the quality of its existing staff through continuous training and skill enhancements, the company might lose its ability to deliver on its service obligations.

Capacity risks

The performance of Catalis' services is limited by its technological and personnel capacity. It is common in the company's markets that customers are specifying minimum requirements that service providers have to meet in order to be able to compete for a new project. Such minimum requirements sometimes result in substantial investments without a guarantee of winning the order. Also, if there should be a significant rise in customers' minimum requirements this will either cause the company to make some substantial investments to stay in the business or to be excluded from competition for certain projects. This may have adverse effects on the asset, financial and earnings situation of Catalis.

Conclusion

Catalis is designed to have a broad portfolio of high quality services, a distinguishing characteristic that allows our business to anticipate and prepare for all eventualities. Catalis has taken this stance from the beginning, making sure that it is at the forefront of all modern trends in technology and content. So far the management of Catalis has no reason to believe that any of the above mentioned risks represents an acute threat to the group's continuation.

Objectives and Policy regarding financial instruments

Catalis' investment activities expose it to the various types of risks, which are associated with the financial instruments and markets in which they invest. Financial instruments in the company are mainly used to mitigate currency exposures. The risk management policy is aimed at diminishing currency fluctuations in the income of the company.

The investments of the company are subject to certain risk factors, including but not limited to the following:

Market risk

The market price of financial instruments owned by the company may go up or down, sometimes unpredictably. The value of a security may decline due to general market conditions, such as real or perceived adverse economic conditions or general adverse investor sentiment. Financial instruments values may also decline due to factors which affect a particular industry or industries, such as production costs and competitive conditions within an industry.

Credit risk and default risk

The company could lose money if the counterparty to a contract, does not make timely payments or honor its obligation.

Liquidity risk

For investments that are thinly traded or for which no market exists and / or which are potentially restricted as to their transferability, the sale of any such investment may be possible only at substantial discounts and it may be difficult for the company's directors to accurately value any such investments.

Exchange rate fluctuations

The company's accounts are denominated in Euro. Certain of the investments of the company may be in currencies other than the Euro, such as the GBP. Similarly, certain expenses of the company, including organizational, offering and operating expenses and the fees of directors and service providers, have and will continue to be incurred in currencies other than the Euro. Accordingly, the company is at risk and liable for any gain or loss incurred as a result of exchange rate fluctuation, when such investments are realized or when such expenses are paid. Thus, shareholders – indirectly – bear the risk of exchange rate fluctuations.

Risk factors

There are certain risks to be considered that are common to an investment company of this nature. Including but not limited to the following:

Markets

There may be no established or recognized market for some of the company's investments. In other cases, any market may be relatively small and/or poorly developed. Not only may this result in illiquidity of investments held by the company, but also in difficulties in ascertaining their value for the purpose of the calculation of the value.

Economic conditions

The success of any investment activity may be affected by general economic conditions, which may affect the level and volatility of interest rates and the extent and timing of investor's participation in the respective markets.

Trading risks

Substantial risks are involved in the trading of securities. Market movements can be volatile and are difficult to predict. Politics, recession, inflation, employment levels, trade policies, international events, war and other unforeseen events can also have a significant impact on the price of securities.

Going Concern

The subsidiaries of Catalis SE are dependent for their working capital on funds provided by Catalis SE. Catalis SE has provided an undertaking that it will continue to make available such funds as needed by an individual subsidiary and, in particular, will not seek repayment of the amounts currently made available. This should enable each subsidiary to continue in operational existence and to meet its liabilities as they fall due for a period of at least twelve months from the date of approval of these financial statements. As with any company placing reliance on other group entities for financial support, the management boards of the subsidiaries acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that Catalis SE will not continue to be able to provide such support.

The management boards of the subsidiaries have produced budgets and cash flow forecasts which have been used by Catalis SE to forecast cash flows for the Group for the next twelve months. These forecasts are themselves reliant on the continuation of Group banking facilities which are expected to continue. Should the cash flows fall below those forecast, the management boards are aware that the parent Catalis SE can, if required, seek to raise further funds by public share issues within 2 – 4 weeks.

As of the balance sheet date 2010 (just as in 2009), Catalis SE did not fulfil the existing debt / EBIT ratio regarding the loan agreement with the KBC Bank. As, on the balance sheet date, the financing facility therefore was not guaranteed for a period of at least one year, the syndicated loan is recognised on the balance sheet under current liabilities. On April 7, 2011, an agreement was reached with the KBC Bank to waive the covenant breach and to continue the existing loan facilities on largely the same terms as before. The covenant tests will be re-applied as before on receipt of the audited consolidated financial statements 2011. The covenants are geared to the current financial position of Catalis SE and realistic expectations for the future.

The management board of Catalis SE has as always a conservative attitude regarding the implementation of financial forecasts, recognition of tax assets and impairment calculations. The management board has proven that is capable to cope with the financial crisis and current competitive situation and has successfully completed a restructuring and reorganization process in 2010. In addition, steps have been taken to mitigate possible risks regarding warranty claims.

Regarding future tax loss compensation possibilities the management has been successful in realizing more certainty about transfer price models and indefinite time frames of compensation. In view of this, the financial statements have been drawn up on the going-concern assumption.

Corporate Governance Declaration

This declaration is included pursuant to Article 2a of the Decree further stipulations regarding the content of annual reports dated 1 April 2009 (hereafter the “Decree”). For the statements in this declaration as understood in Articles 3, 3a and 3b of the Decree please see the relevant sections of this report. The following should be understood to be inserts to and repetitions of these statements:

- Compliance with the provisions and the best practice principles of the code (page 21 -23 ‘Corporate Governance’);
- The most important characteristics of the management and control systems in connection with the Group’s financial reporting process (page 45 ‘Internal Control’);
- The functioning of the shareholders’ Meeting and its primary authorities and the rights of shareholders and how they can be exercised (page 20 ‘Shareholders’ Meeting’);
- The composition and functioning of the Board of Directors (starting on page 25 ‘Report of the Board of Directors’);
- The regulations regarding the appointment and replacement of members of the Board of Directors (page 27 ‘Selection and appointment committee tasks’);
- The regulations related to amendment of the Company’s Articles of association (page 20 ‘Shareholders’ Meeting’,);

- The authorisations of the members of the Board of Directors in respect of the possibility to issue or purchase shares (page 24 'Information according to Article 10 of the Takeover Directive Decree', Governance structure paragraph);
- The change of control stipulations in major contracts (page 24 'Change in control provisions');
- The transactions with related parties (page 82 'Related parties').

Internal Control and Management Statement

With due observance of the limitations that are inevitably inherent in any risk management and internal control system, our internal risk management and control systems provide reasonable assurance that our financial reports are free of material misstatement and that these systems were adequate and effective in 2010. There are no indications that they will not be adequate and effective in the current year. The phrase „reasonable assurance" is taken to mean the level of assurance that would be provided by a director acting with due care under the given circumstances. The set of procedures involving the internal risk management and control systems, and the related findings, recommendations and measures have been discussed with the Board and the independent external auditor.

In addition, we declare, based on Article 5.25c Wet op het financieel toezicht (Wft), that to the best of our knowledge and in accordance with the applicable reporting principles:

- the consolidated financial statements of 2010 give a true and fair view of the assets, liabilities, the financial position and the profit and loss of Catalis SE and its consolidated operations; and

- the management report includes a true and fair review of the position as per December 31, 2010 and of the development and performance during 2010 of Catalis SE and its related participations of which the data have been included in the financial statements, together with a description of the relevant risks of which the Catalis Group is being confronted.

Eindhoven, May 6, 2011

The Board of Directors:

Dr. Jens Bodenkamp (Chairman, Non-Executive)
Jeremy Lewis (Executive)
Dr. Michael Hasenstab (Non-Executive)
Robert Kaess (Non-Executive)
Dominic Wheatley (Non-Executive)

Forecast Report

On January 25, 2011 the International Monetary Fund (IMF) has published the most recent update to its World Economic Outlook. According to the IMF, the global recovery is still proceeding at various speeds throughout the different regions and there are still some risks lingering in the financial sector.

The recovery in the advanced economies is still rather sluggish in comparison to the recent deep recession and it is by far not strong enough to make an impact on the prevailing high unemployment rates in these countries. Although the IMF assumes that the spillovers of the recent turmoil in the Euro area, i.e. concerns about the banking sector as well as fiscal stability in Ireland but also Spain and Portugal, will be limited to the periphery, the missing plans for a medium-term fiscal consolidation provide a substantial risk to the future economic development. The economic development in the emerging and developing countries remains strong and there are already some signs of overheating in these economies. Especially the low-income household are already beginning to feel the pressure from surging commodity prices, in particular crop and other food.

Consequently, the IMF has revised its forecast for the economic development in 2011 and is now expecting world output to grow by 4.4%. Advanced economies are expected to show growth of 2.5%, led by the US (+3.0%). The forecast for the Euro area is 1.5% with Germany (+2.2%) taking the lead once again. The projected growth rate for the emerging and developing countries is 6.5%, dominated by China (+9.6%) and India (+8.4%). Consumer prices are expected to rise by 1.6% in the advanced economies and 6.0% in the emerging and developing countries. Major risks for the future economic development are seen in the sovereign and financial troubles in the Euro area and the still pending reform of the financial systems in the advanced economies.

Given the fact that the above development is supported by increasing private consumption also in the advanced economies and the recently elevated consumer confidence there, this might also have a positive effect on the relevant consumer markets for Catalis Group, easing the business environment for our operating subsidiaries.

Independent of such additional impetus from the economic development, Catalis Group has successfully adapted to a still challenging market environment in the fiscal year 2010 and has returned to substantial profitability in the second half of the year. Therefore, Catalis Group is in good shape to continue this positive performance throughout the fiscal year 2011 and to generate operating profits for the full year.

In the fiscal year 2010, we have established DDP as an independent sister division to Testronic and Kuju, driving future growth of the business through the development of self-published, downloadable games in the digital games space.

Downloadable games, social games, browser games and mobile games are increasingly seen as an important part of the overall games landscape. The downloadable self-published games sector offers an exciting growth opportunity for established international developer groups. Whilst market estimates vary, the games software market in 2010 is approximately $ 40bn world-wide, of which 65% is retail (meaning boxed product bought in stores), 33% is on-line games (including massive multiplayer games and mobile) and approximately 2% (less than $ 1bn) are downloadable self-published games. However, that sector is forecast to experience extremely rapid growth reaching some $ 10bn by 2013.

Through DDP, Catalis Group is well positioned to seize the potential of this new market trend and will dedicate much effort to grow the self-published digital games business rapidly.

As for Kuju, though the market environment for work-for-hire projects is expected to remain challenging for the foreseeable future as a result of consumer behaviour in the video games market, following the recent adjustments in headcount and reductions in other fixed costs as well as a refocusing of sales efforts, the studios are well positioned to make optimal use of the existing work-for-hire opportunities in the market, based on their reputation for high-quality work and the positive long-term relationships to their customers.

At Testronic, we have seen strong quarters in the second half of the fiscal year 2010 and the demand for Testronic's services means that Testronic will now expand its facilities. Testronic expects to see some more activity on the digital side of the home entertainment market in 2011 and it will continue to support companies in setting standards for the digital world. In terms of business lines, Testronic expects to see growth especially in its 3D business, digital TV and hardware testing, games testing and software testing, where the company plans new service offerings in the US and to expand its services in Europe. Thus, Testronic will also continue to reduce its reliance on optical disc testing.

Following a successful Q4, the Group continued to make good progress in Q1, traditionally the least active quarter in the year. Based on the trading experienced in Q1, we have lifted our forecast for the full fiscal year 2011 of revenues from € 29.0m to between € 30.0m and € 32.0m and an EBIT from € 1.5m to between € 1.7m and € 2.0m.

Financial Information

CONSOLIDATED STATEMENT OF FINANCIAL POSITION CATALIS SE
as at December 31, 2010
(in thousands of euros)

	Note	Consolidated December 31, 2010	Consolidated December 31, 2009
ASSETS			
Non-current assets			
Intangible assets	3	906	129
Goodwill	4	14,105	13,461
Property, plant and equipment	5	1,598	2,246
Deferred tax	22	3,742	3,312
Total non-current assets		20,351	19,148
Current assets			
Trade receivables	6	3,605	2,817
Tax and social securities		77	569
Income tax		178	284
Other current assets	7	2,049	3,797
Cash and cash equivalents	8	965	1,100
Total current assets		6,874	8,567
Total assets		27,225	27,715
EQUITY AND LIABILITIES			
Equity			
Share capital		3,788	3,788
Share premium		18,808	18,808
Share based payments	15	379	366
Currency differences		(3,195)	(3,846)
Accumulated deficit		(7,374)	(5,003)
Total equity	9	12,406	14,113
Liabilities			
Non-current liabilities			
Deferred tax	22	102	96
Finance lease	11	-	91
Total non-current liabilities		102	187
Current liabilities			
Current loans	10	5,540	6,420
Finance lease	11	113	186
Bank overdraft	12	2,281	1,084
Trade and other payables	13	5,967	3,779
Taxes and social securities		732	595
Income tax		84	109
Provisions	14	-	1,242
Total current liabilities		14,717	13,415
Total equity and liabilities		27,225	27,715

CONSOLIDATED STATEMENT OF INCOME CATALIS SE
for the year ended December 31, 2010
(in thousands of euros)

	Note	2010	2009
Total revenues	18	25,793	32,005
Subcontracting and cost of materials		3,758	4,398
Personnel costs	19	15,563	20,054
Depreciation fixed assets	5	1,203	1,395
Amortisation intangible assets	3	66	84
Impairment intangible assets	4	94	219
General and administration	20	6,813	7,345
Total expenses		**27,497**	**33,495**
Profit / (loss) from operations		**(1,704)**	**(1,490)**
Interest income		8	49
Interest expense		(271)	(312)
Other financial income		(149)	84
Currency translation differences		(466)	(302)
Total financial income	21	(878)	(481)
Profit / (loss) before tax		**(2,582)**	**(1,971)**
Income tax	22	211	1,692
PROFIT FOR THE YEAR		**(2,371)**	**(279)**
Earnings per share	28		
Basic		(0.06)	(0.01)
Diluted		(0.06)	(0.01)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME CATALIS SE
for the year ended December 31, 2010
(in thousands of euros)

	Note	2010	2009
NET PROFIT FOR THE YEAR		**(2,371)**	**(279)**
Exchange differences on translating foreign operations		651	516
Other comprehensive income for the year, net of tax		651	516
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(1,720)**	**237**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CATALIS SE
for the year ended December 31, 2010
(in thousands of euros)

	Note	Share capital	Share premium	Share based payments	Currency differences	Accumu-lated deficit	Total Equity
Balance at January 1, 2009		**2,689**	**18,540**	**779**	**(4,362)**	**(5,162)**	**12,484**
Issue of share capital	9	1,099	268	-	-	-	1,367
Share based transactions	15	-	-	(413)	-	438	25
Total comprehensive income for the year		-	-	-	516	(279)	237
Balance at December 31, 2009		**3,788**	**18,808**	**366**	**(3,846)**	**(5,003)**	**14,113**
Share based transactions	15	-	-	13	-	-	13
Total comprehensive income for the year		-	-	-	651	(2,371)	(1,720)
Balance at December 31, 2010		**3,788**	**18,808**	**379**	**(3,195)**	**(7,374)**	**12,406**

CONSOLIDATED CASH FLOW STATEMENT CATALIS SE
for the year ended December 31, 2010
(in thousands of euros)

	Notes	2010	2009
Cash flow from operating activities			
Profit/(loss) after tax		(2,371)	(279)
Adjustments to reconcile profit after tax to net cash provided			
by operating activities	3,4,	1,363	1,698
Depreciation and amortization	5	(1,242)	1,154
Change in provisions	14	13	25
Share based payment	15	263	263
Interest expense	21		
Income taxes	22	(211)	(1,692)
(Increase) / decrease in other current assets		1,452	1,471
Increase / (decrease) in current liabilities		2,161	(1,793)
Cash generated from operations		1,428	847
Interest received	21	8	49
Interest paid	21	(271)	(312)
Income tax received / (paid)		(343)	(177)
Net cash generated from operating activities		822	407
Cash flow from investing activities			
Additions of intangible assets	3	(931)	-
Purchase of property, plant and equipment	5	(511)	(954)
Sale of property, plant and equipment	5	67	7
Net cash used in investing activities		(1,375)	(947)
Cash flow from financing activities			
Redemption of long term loans	10	(880)	(880)
Proceeds from issue of share capital	9	-	1,367
Net cash funded / used in financing activities		(880)	487
Net effect of currency translation in cash and cash equivalents		101	(109)
Net increase / (decrease) in cash and cash equivalents		(1,332)	(162)
Cash and cash equivalents at beginning of year		16	178
Cash and cash equivalents at end of year	8	(1,316)	16

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION CATALIS SE
for the years ended December 31, 2010 and 2009
(all amounts are in thousands of euros, unless otherwise indicated)

1. General

Catalis SE ("the Company") and its wholly owned subsidiaries (together "Catalis" or "the Group") provides testing services for the media industry and the design and development of interactive computer games for personal computers and video games consoles. The average number of employees of the Group was 366 and 434 in 2010 and 2009 respectively. The office of Catalis is located at Geldropseweg 26-28, Eindhoven, The Netherlands. Catalis SE was incorporated on March 24, 2000.

The consolidated financial statements of Catalis SE for the year ended December 31, 2010 were authorized for issue in accordance with a resolution of the (non) executive Board on May 6, 2011.

2. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial statements are prepared in euros, rounded to the nearest thousand. The financial statements have been drawn up on the basis of historical cost, with the exception of certain financial assets, which are valued at fair value.

New standards and interpretations, which became effective in 2010, did not have a material impact on Catalis' consolidated financial statements.

The amendment to IFRS 2, "Group Cash-settled Share –based Payment Transactions", clarifies the scope and the accounting for group cash-settled share-based payments transactions. Catalis adopted this amendment as of 1 January 2010. This has not had any effect on the financial performance or position of the company.

IFRS 3 (revised), "Business Combinations", and the amended IAS 27, "Consolidated and Separate Financial Statements" became effective as of 1 January 2010. The revised standards continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. All acquisition related costs should be expensed. The standard also specifies the accounting when control in interests is lost. The adoption of the revised standards did not have any effect on Catalis' consolidated financial statements.

The IASB's annual improvement projects resulted in minor amendments to several existing standards. These amendments were implemented on their respective effective dates and did not have an impact on the financial statements.

The adoption of other standards with an effective date after the date of these financial statements is not expected to have a material impact on these financial statements. Additional disclosures and accounting changes will be required and will be introduced as of the effective date of the standards and interpretations.

IFRIC 19, "Extinguishment Financial Liabilities with Equity Instruments", deals with situations where a debtor and a creditor renegotiate the terms of a financial liability with the result that the debtor extinguishes the liability by issuing equity instruments to the creditor. This interpretations will become effective as of 2011 and is not expected to have a material effect on the financial performance or position of Catalis.

Going concern

The subsidiaries of Catalis SE are dependent for their working capital on funds provided by Catalis SE. Catalis SE has provided an undertaking that it will continue to make available such funds as needed by an individual subsidiary and, in particular, will not seek repayment of the amounts currently made available. This should enable each subsidiary to continue in operational existence and to meet its liabilities as they fall due for a period of at least twelve months from the date of approval of these financial statements. As with any company placing reliance on other group entities for financial support, the management boards of the subsidiaries acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that Catalis SE will not continue to be able to provide such support.

The management boards of the subsidiaries have produced budgets and cash flow forecasts which have been used by Catalis SE to forecast cash flows for the Group for the next twelve months. These forecasts are themselves reliant on the continuation of Group banking facilities which are expected to continue. Should the cash flows fall below those forecast, the management boards are aware that the parent Catalis SE can, if required, seek to raise further funds by public share issues within 2 – 4 weeks.

As of the balance sheet date 2010 (just as in 2009), Catalis SE did not fulfil the existing debt / EBIT ratio regarding the loan agreement with the KBC Bank. As, on the balance sheet date, the financing facility therefore was not guaranteed for a period of at least one year, the syndicated loan is recognised on the balance sheet under current liabilities. On the April 7, 2011, an agreement was reached with the KBC Bank to waive the covenant breach and to continue the existing loan facilities on largely the same terms as before. The covenant tests will be re-applied as before on receipt of the audited consolidated financial statements 2011.The covenants are geared to the current financial position of Catalis SE and realistic expectations for the future.

The management board of Catalis SE has a conservative attitude regarding the implementation of financial forecasts, recognition of tax assets and impairment calculations. The management board has proven that is capable to cope the financial crisis and current competitive situation and has successfully completed a restructuring and reorganization process in the first half of 2010. In addition, steps have been taken to mitigate possible risks regarding warranty claims.

In view of this, the financial statements have been drawn up on the going-concern assumption.

Basis of Consolidation

The financial statements comprise those of the parent company and its subsidiaries. Subsidiaries which are directly or indirectly controlled by the Group are consolidated. Control is achieved where the parent company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of the subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency between the fair values of the net assets acquired and cost is recognised in the income statement. 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. Entities which are acquired and are controlled, but which will be held for a period less than twelve months, are recorded as assets held for sale.

The consolidated financial statements are based on the financial statements of the individual companies which have been drawn up using standardised group accounting policies. All companies in the group have the same reporting date of 31 December. All significant intercompany transactions and balances between group entities are eliminated on consolidation.

During 2010 Catalis SE adjusted the group structure in line with the reporting segments, with three intermediate holdings. One new segment has been setup, Doublesix Digital Publishing, with the development of downloadable self-published games. This in addition to the Kuju game segment, which develops games for external parties.
Testronic GmbH Germany has been liquidated in 2010.

At the end of 2010 Catalis SE (ultimate parent company) held the following direct and indirect participations, all consolidated. Details of the subsidiaries which have been consolidated in the group financial statements at 31 December 2010 are as follows:

Name of subsidiary	Country of incorporation (registration)	Ownership %	Voting rights %	Principal activity
Testronic Laboratories SE	The Netherlands	100	100	Intermediate Holding
International Quality Control Inc.	USA	100	100	Testing
Aerostream Corporation Inc.	USA	100	100	Testing
Testronic Laboratories Ltd	UK	100	100	Testing
Testline Ltd.	UK	100	100	Testing
Testronic SpZoo	Poland	100	100	Testing
Testronic Laboratories N.V.	Belgium	100	100	Testing
Kuju Group SE	The Netherlands	100	100	Games development
Catalis Development Services Ltd.	UK	100	100	Intermediate Holding
Kuju Plc.	UK	100	100	Games development
Zoe Mode Entertainment Ltd.	UK	100	100	Dormant
Kuju Entertainment Ltd.	UK	100	100	Games development
Nik Nak Games Ltd.	UK	100	100	Dormant
Kuju Brno s.r.o.	Czech Republic	100	100	Games development
Simis Ltd.	UK	100	100	Dormant
Headstrong Games Ltd.	UK	100	100	Dormant
Kuju Sheffield Ltd.	UK	100	100	Dormant
Kuju Manila Inc.	Philippines	100	100	Games development
Kuju America Inc.	USA	100	100	Games development
Doublesix Digital Publishing B.V. (former: Aeco Options B.V.)	The Netherlands	100	100	Intermediate Holding
Doublesix Digital Publishing Ltd. (former: Double Six Video Games Ltd.)	UK	100	100	Downloadable self-published games
Aeco International GmbH	Germany	100	100	None

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 Group in exchange for control of the acquiree. Acquisition costs are charged to the profit and loss account. 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 groups) that are classified as held for sale in accordance with IFRS 5, which are recognised and measured at fair value less costs to sell.

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 Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group'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 profit or loss.

Foreign Currencies

Catalis SE has designated the Euro as its reporting currency, due to the fact that the company is listed at the Frankfurt stock market and the majority of its shareholders have its habitat in the Euro region.

Each entity of the group records transactions and balance sheet items in its functional currency. Transactions denominated in currency other than the functional currency are recorded at the spot exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in a currency other than the functional currency of the entity are translated at the closing rates. Exchange rates resulting from the settlement of these transactions and from the translation of monetary items are recognized in the income statement.

Non – monetary assets denominated in a currency other than the functional currency continue to be translated against the rate of initial recognition and will not result in exchange difference.

On consolidation the balance sheet of subsidiaries whose functional currency is not the euro are translated into euro at the closing rate. The income statements of these entities are translated into euro at the average rates for the relevant period. Goodwill paid on acquisition is recorded in the functional currency of the acquired entity. Exchange differences from the translation of the net investment in entities with a functional currency other than the euro are recorded in equity (translation reserve). The same applies to exchange differences arsing from borrowings and other financial instruments in so far as they hedge the currency risk related to the net investment. On disposal of an entity with a functional currency other than the euro the cumulative exchange differences relating to the translation of the net investment is recognized in the income statement.

The currency exchange rates that were used in drawing up the consolidated statements are listed below for the most important currencies:

	Exchange rate at balance sheet date		Average exchange rate	
1 Euro =	2010	2009	2010	2009
Pound sterling	1.17	1.11	1.17	1.12
US dollar	0.75	0.70	0.75	0.72

Impairment

At each reporting date, the group 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 group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 as an expense immediately, 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 as income immediately, 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. For the developed downloadable self-published games, the group performs an impairment test two times a year. The assets are tested per game and cash flows are based on expectations on the number of sales per game.

Use of estimates in the preparation of the financial statements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in the income statement in the period in which they become known.

Judgements and assumptions

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

- Impairment of Goodwill

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a 'value in use' amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. Further details are contained in section Goodwill.

- Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in section Income taxes.

- Income taxes
The company is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide liability for income tax and the valuation of deferred income tax assets. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recognised, this will impact the income tax position and deferred income tax assets and liabilities in the applicable period.

Distinction between current and non-current

An asset (liability) is classified as current when it is expected to be realized (settled) within 12 months after the balance sheet date.

Intangible assets

Intangible assets are initially measured at cost. After initial recognition the benchmark treatment is that intangible assets should be carried at cost less any amortisation and impairment losses. The amortisation method reflects the pattern of benefits. If that pattern cannot be determined reliably, the straight-line method is used. Subsequent expenditure on an intangible asset after its purchase or completion are recognised as an expense when it is incurred, unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and the expenditure can be measured and attributed to the asset reliably.

Internally generated intangible assets will be amortised at a degressive basis. The expected useful lives vary from 2 to 3 years.
Acquired client lists amortisation is computed on a degressive basis (reflects the pattern of benefits) over the estimated useful live of 5 years and a discount rate of 11.6% has been used for the calculation of the degressive basis.

Currently, the useful lives of all intangible assets are estimated finite.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred. Where the recognition criteria are met, development expenditure (for downloadble self-published games are these mainly hourly rates) is capitalised and amortised over its useful live from the moment the product is launched commercially. The carrying amount of assets arising from development expenditures is reviewed for impairment at each balance sheet date or earlier upon indication of impairment. Any impairment losses are recorded in the income statement.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset. Goodwill is tested for impairment on an annual basis in respect of the cash generating unit to which the goodwill attaches. If the recoverable amount of the cash generating unit is less than the carrying amount of the investment, the impairment to the related goodwill is recognised in the profit and loss account.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The economic life of goodwill has been determined as indefinite.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is computed on a straight-line basis over the estimated useful lives. When assets are sold or retired, their cost and accumulated depreciation are eliminated for the accounts and any gain or loss resulting from their disposal is included in the income statement.

The rates used to write off the cost, less the residual value over useful economic lives of the various categories of tangible fixed assets are as follows:

- Buildings & Machinery: 15% - 33%
- Fixtures & Fittings: 14% - 25%
- Other fixed assets: 20% - 50%

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Leases, where the group has substantially all the risks and rewards of ownership, are classified as finance leases.

Assets held under finance lease are recognised as assets of the Group at their fair value or, if lower the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability of the lessor is included in the balance sheet as finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating lease are not recognised on the groups balance sheet, but are charged to income on a straight-line basis over the term of relevant lease.

Trade and other receivables

Trade receivables are stated at their amortised cost less any provisions for doubtful debts.

A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

As soon as individual trade accounts receivable can no longer be collected in the normal way and are expected to result in a loss, they are designated as doubtful trade accounts receivable and valued at the expected collectible amounts. They are written off when they are deemed to be uncollectible because of bankruptcy or other forms of receivership of the debtors. The allowance for the risk of non-collection of trade accounts receivable takes into account average historical losses.

Financial instruments

Financial assets and financial liabilities are initially recorded at fair value (plus any directly attributable transactions costs where applicable). For those financial instruments that are not subsequently held at fair value, the group assesses whether there is any objective evidence of impairment at each balance sheet date. If a market for a financial asset or liability is not active or if equity instruments are not listed, the Group establishes fair value by using valuation techniques.

Financial assets are recognised when the Group has the rights to future economic benefits. Financial assets are derecognised when the right to receive cash flows from the asset have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised when there is a present obligation to deliver cash or other financial assets. Financial liabilities are derecognised when they are extinguished (discharged, cancelled or expired).

All regular way purchases and sales of financial assets are recognised on the trade date, this is the date that the Group has a commitment to purchase the asset.

Interest income and expenses are recorded on the effective interest basis. Dividends received for these investments are allocated to the income statement when the Group has the right to receive them.
The classification depends on the purpose of the financial instrument. Management decides on the classification on initial recognition and evaluates this classification on each reporting date. In these financial statements all financial instruments are classified as “loans and receivables”.

Loans and receivables are non-listed financial assets (other than derivatives), with fixed or determinable repayment dates. They are presented as current assets, unless they have a maturity date more than 12 months after the balance sheet date, in which case they are classified as non-current assets.

After initial measurement loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Risk assumptions

Capital Risk Management
The Group 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 capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

Financial risk management objectives
The management of the Company monitors and manages the financial risks relating to the operations of the Group by management reports. These risks mainly include credit risk, price risk, interest risk and currency risk.

The Group uses derivative financial instruments to hedge these risk exposures. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

There has been no change to the Group’s exposure to credit risk and interest risks.

Interest rate risk
Catalis Group’s interest rate risk policy is aimed at minimizing the interest rate risks associated with the financing of the Company and thus at the same time optimizing the net interest costs.
The Group is exposed to interest rate risk on a limited basis. The average interest of all loans is based on Euribor added with 1.25-1.5%. An increase of the interest rate with 1 percent point would mean a decrease of the profit before tax with euro 75.

Credit risk
Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counter parties.

Trade receivables consist of a large number of customers. Ongoing credit evaluation is performed.
The Group does not have any significant credit risk exposure to any single counter party or any group of counter parties having similar characteristics. Concentration of credit risk did not exceed 5% of gross monetary assets at balance sheet date.

As of December 31, 2010 and 2009, the Company had accounts receivable from five major customers that accounted for 55% and 55% of total accounts receivable. During the year ended December 31, 2010 and 2009, revenues from five major customers accounted for 59% and 59% of total revenues. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	At December 31	
	2010	2009
Current assets and receivables	5,909	7,467
Cash and cash equivalents	965	1,100

Liquidity Risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close market positions. Due to the dynamic nature of the business treasury activities require a certain amount of flexibility. Group management monitors the liquidity position on a weekly basis.
The management boards of the subsidiaries have produced budgets and cash flow forecasts which have been used by Catalis SE to forecast cash flows for the Group for the next twelve months. These forecasts are themselves reliant on the continuation of Group banking facilities which are expected to continue. Should the cash flows fall below those forecast, the management boards are aware that the parent Catalis SE can, if required, seek to raise further funds by public share issues within 2 – 4 weeks.

Floating-rate, financial lease and short-term monetary liabilities analyzed by maturity are summarized in the following table. The remaining maturities presented in the following table provide an appropriate understanding of the timing of the cash flows related and amounts are not expected to differ from those reported. Financial assets are not linked to financial liabilities in order to meet cash outflows on these liabilities.

2010	Floating-rate borrowings	Finance lease	Short-term monetary liabilities	Interest payments	Total cash out
Within 1 year	880	113	6,783	105	7,881
Within 1 to 2 years	880			75	955
More than 5 years	3,780				3,780
Total	5,540	113	6,783	180	12,616

2009	Floating-rate borrowings	Finance lease	Short-term monetary liabilities	Interest payments	Total cash out
Within 1 year	880	186	4,483	122	5,671
Within 1 to 2 years	880	91		120	1,091
Within 2 to 3 years	880			100	980
More than 5 years	3,780				3,780
Total	6,420	277	4,483	342	11,522

Price risk

The Group does not hold any equity investments at balance date.

Currency risk

The Group is exposed to currency risks due to exchange rate fluctuations in connection with the activities denominated in foreign currencies and other foreign currency transactions. The currency risks mentioned exist in particular with respect to the exchange rate between the US dollar, British Pound sterling and the Euro. Risks in connection with other foreign currencies are only of minor significance.
Hedging activities took place to mitigate these risks regarding the operational cash flow. The currency risks are limited by entering into currency forward contracts. At December 31, 2010 and 2009 there were no outstanding hedging contract obligations.

In order to determine the effect of exchange rate changes deemed possible as at the balance sheet date, the effect of a change in the exchange rate of the US dollar and the British Pound sterling by 10% would have an effect of € 94 (2009: € 157) on the operational result of the Group and an effect of € 915 on equity.

Forward foreign exchange contracts

It is the Policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts and to manage the risk associated with anticipated operational cash flow for a period of 12 months. At year-end there were no outstanding contracts.

Bank balances and cash

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments which are readily available. Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at balance sheet date.

The cash flow statement provides an explanation of the changes in cash and cash equivalents. It is prepared on the basis of a comparison of the balance sheet as at January 1 and December 31. Changes that do not involve cash flows, such as changes in exchange rates, amortization, depreciation, impairment losses and transfers to other balance sheet items, are eliminated. Changes in working capital due to acquisition or disposal of consolidated companies are included under investing activities. All changes in the cash flow statement can be tracked back to the detailed statements of changes for the balance sheet items concerned.

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal repayments and amortizations.

Borrowing costs

In respect of borrowing costs relating to qualifying assets, the Group capitalises borrowing costs directly
attributable to the acquisition, construction or production of a qualifying asset as part of the cost
of that asset.

Loans

Loans are recognised initially at fair value, net of transaction costs incurred. Loans are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Trade payables

Trade payables are initially stated at fair value and subsequently stated at their amortised cost.

Provisions

A provision is recognised when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Equity

Currency differences
The Currency Reserve is intended for reflection of translation differences arising from the translation of net investments in foreign subsidiaries (including long term monetary items in foreign entities).

Dividend
Dividend distribution to the company’s shareholders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders.

Share based payments
The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (‘the vesting date’).

Revenue Recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer.

Revenue from the rendering of services are recognised when the outcome of the transaction can be estimated reliably. The outcome of the transaction can normally not be estimated reliably until the contracts are fulfilled. Until recognition in the income statement off such revenue can take place, revenue is recognized as deferred revenue and presented in the balance sheet as a liability.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

Royalty income is recognised in income on an accrual basis in accordance with the substance of the relevant agreements.
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Defined Contribution Plans

The Group sponsors defined contribution plans based on local practices and regulations. The plans cover full-time employees and provide for contributions ranging from 0% to 5% of salary. The Group's contributions relating to defined contribution plans are charged to income in the year to which they relate.

Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions').

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external value using an appropriate pricing model, further details of which are given in Note 15.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Income taxes

Current income tax
Current income tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred income tax
Deferred income tax is provided using the balance sheet method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Not recognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same tax authority.

Operating segments

The Company's operating segment information is based on existing management information which can be identified in the Company's internal reporting and internal controls, testing (quality assurance), games development under assignment of third parties and the development of downloadable self-published games.

In the second half of 2010 Catalis SE started this new segment: Downloadable self-published games. This new segment has a holding company named, Doublesix Digital Publishing, and has an own management structure and business model and many opportunities to generate cash inflows in the coming years.

Geographical information is reported based on the revenue for the country where the customer is located.

Non-allocated revenues and costs are shown as a separate segment and contain corporate overheads, corporate project costs and all other items that cannot be allocated.

Segment reporting reflects the Company's management and internal reporting structure and the same accounting policies that are applied for these consolidated financial statements are also applied by the operating segments.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Prior year adjustments

The tax position disclosure (note 22) is adjusted to fully comply with IAS 12. Comparable figures have been adjusted for comparability.

3. Intangible assets

The movements in intangible assets in 2010 are as follows:

	Client lists	Downloadable self-published games	Total
Cost			
Cost at January 1	420	-	420
Additions	-	931	931
Translation differences	18	-	18
Cost at December 31	438	931	1,369
Accumulated Depreciation			
Accumulated depreciation at January 1	(291)	-	(291)
Depreciation for the year	(66)	-	(66)
Impairment losses	-	(94)	(94)
Translation differences	(12)	-	(12)
Accumulated depreciation at December 31	(369)	(94)	(463)
Net book value	69	837	906

The movements in intangible assets in 2009 are as follows:

	Client lists	Downloadable self-published games	Total
Cost			
Cost at January 1	394	-	394
Additions	-	-	-
Translation differences	26	-	26
Cost at December 31	420	-	420
Accumulated Depreciation			
Accumulated depreciation at January 1	(197)	-	(197)
Depreciation for the year	(84)	-	(84)
Translation differences	(10)	-	(10)
Accumulated depreciation at December 31	(291)	-	(291)
Net book value	129	-	129

As of 2010 Catalis SE started the development of downloadable self-published games. This development is recognized as internally generated intangible assets and is expected to generate net cash inflows for Catalis SE.
Once complete the games will be offered for sale to consumers through the popular digital distribution networks of Microsoft, Sony and others. In most instances Catalis SE will be able to take the game straight to market and therefore the total gross revenues from the sale of the product will flow directly and immediately to the company removing the role of the intermediary publisher who has traditionally been able to retain the majority of the gross profit margin earned on such sales. At year-end 2010 three games are under development; Who Wants to be a Millionaire: Special Editions and two as yet un named action games .The net book value at year end 2010 is split equally between two titles : Who Wants to be a Millionaire: Special Editions and one of the action titles which is a zombie based shooting game.

For one of the yet unnamed action games under development an impairment loss has been recognised (€ 94) because the recoverable amount is based on expected sales numbers with a certain margin and has been estimated less than its carrying amount.
The game is one of the first downloadable self published games and management expectations of sales levels will be evaluated again in the future.

The client lists concern the recognised part of the acquisition price of subsidiaries which can be referred to the value of the acquired client lists. The value of the client lists is determined as a calculation of the expected benefits over the next five years and a discount rate of 11.6% in average five years was used for the amortisation. The amortisation follows the pattern of expected benefits and is therefore degressive.

4. Goodwill

The movements in goodwill are as follows:

	At December 31	
	2010	2009
Cost		
Cost at January 1	14,896	14,453
Currency adjustment goodwill at January 1	644	443
Accumulated cost at December 31	15,540	14,896
Accumulated impairment		
Accumulated at January 1	1,435	1,216
Impairment for the year	-	219
Accumulated impairment at December 31	1,435	1,435
Net book value	14,105	13,461

On December 31, 2009 the goodwill of Kuju Manila has been reduced to its recoverable amount through recognition of an impairment loss of € 219. This loss has been included in the income statement. The impairment charge arose because of the decision to shut down the development studio in Manila, Philippines.

The recoverable values of the goodwill allocated to cash generating units have been determined based on past experience and on a value in use calculation. Referring the goodwill allocated to the individual cash generating units an impairment test has been performed based on the discounted cash flow method (weighted average cost of capital of 14.7% (2009: 15,1%) using budgets approved by management covering a 5 year period. An average growth rate of 8% for the cash flow during the five year period and an inflation rate of 2% has been assumed for the cash flow after the five year period. The key assumption in the cash flow projections relate to market growth and related revenue projections. As a result no impairment turned out to be necessary. The key assumptions in the cash flow projections relate to the market growth for the cash generating units and the related revenue projections.

A decrease of corresponding revenues with 10% of the cash generating units doesn't have any impairment consequences. This is the same for an increase of the WACC percentage with an increase of one percent point.
The aggregate carrying amounts of goodwill allocated to each cash-generating unit are as follows:

	At December 31	
	2010	2009
Kuju	6,994	6,658
Testronic Europe	4,006	4,054
Testronic USA	3,105	2,749
Total	14,105	13,461

5. Property, Plant and Equipment

The movement in property, plant and equipment in 2010 is as follows:

	Buildings & Machinery	Furniture and fittings	Other fixed assets	Total
Cost				
Cost at January 1	5,332	887	338	6,557
Additions	221	185	105	511
Translation differences	237	35	22	294
Disposals	(194)	(213)	-	(407)
Cost at December 31	5,596	894	465	6,955
Accumulated Depreciation				
Accumulated depreciation at January 1	(3,619)	(543)	(149)	(4,311)
Depreciation for the year	(971)	(165)	(67)	(1,203)
Translation differences	(154)	(19)	(10)	(183)
Disposals	259	81	-	340
Accumulated depreciation at December 31	(4,485)	(646)	(226)	(5,357)
Net book value	1,111	248	239	1,598

Included within tangible fixed assets are items held under finance leases. These had a net book value of € 52 (2009: € 278) and were depreciated by € 216 (2009: € 175).

The movement in property, plant and equipment in 2009 is as follows:

	Buildings & Machinery	Furniture and fittings	Other fixed assets	Total
Cost				
Cost at January 1	4,255	720	388	5,363
Re – classification of assets	204	2	(206)	-
Additions	657	135	162	954
Translation differences	216	33	(2)	247
Disposals	-	(3)	(4)	(7)
Cost at December 31	5,332	887	338	6,557
Accumulated Depreciation				
Accumulated depreciation at January 1	(2,259)	(371)	(187)	(2,817)
Reclassification of assets	(122)	2	120	-
Depreciation for the year	(1,148)	(158)	(89)	(1,395)
Translation differences	(90)	(17)	6	(101)
Disposals	-	1	1	2
Accumulated depreciation at December 31	(3,619)	(543)	(149)	(4,311)
Net book value	1,713	344	189	2,246

6. Trade Receivables

Trade receivables include the following:

	At December 31	
	2010	2009
Accounts receivable	3,640	2,872
Less: provision for doubtful accounts	35	55
Total trade receivables	3,605	2,817

Debtors are dominated in 2010 by the currencies as following 24% in EUR, 38% in USD and 38% in GBP (in 2009 14% EUR, 47% USD and 38% GBP).

The movement in the provision for doubtful accounts is as follows:

	At December 31	
	2010	2009
Provision for doubtful accounts at January 1	55	141
Usage	(20)	(140)
Addition	-	54
Provision for doubtful accounts at December 31	35	55

With respect to trade accounts receivable that are neither impaired nor past due, there are no indications that the debtors will not meet their payment obligations. The trade receivables are mainly denominated in Pound sterling and US dollar.

In %	2010	2009
Neither past due nor impaired	69%	64%
1 – 29 days overdue	21%	21%
30 or more days overdue	10%	15%

7. Other Current Assets

Other current assets include the following:

	At December 31	
	2010	2009
Other receivables and prepaid expenses	2,047	3,795
Investments	2	2
Total other current assets	2,049	3,797

From time to time and in the ordinary course of its business the Company may become involved in contractual disputes that need to be resolved as part of a legal process. Such disputes may result in the payment of monies to 3rd parties, the receipt of monies by the Company from 3rd parties, or in some circumstances, both. At 31 December 2010 the directors were not aware of any unresolved disputes of this nature and consequently there were no assets or liabilities held at the balance sheet date in this respect.

8. Cash and Cash Equivalents

Cash and cash equivalents comprise bank balances and cash and are immediately available. The carrying amount of these assets approximates their fair value.

9. Share Capital

The authorised share capital of the Company amounts to € 17.5 million divided into 175 million common shares each having a nominal value of euro 0.10 per share.

Common shares, euro 0.10 par value
Authorised 175 million; issued and outstanding
37.88 million in 2009 and 2010

Movements in share capital:

	Shares (thousands)		Amount (thousands)	
	2010	2009	2010	2009
Common Shares Issued and paid-in				
January 1	37,879	26,890	3,788	2,689
Additions	-	10.989	-	1,099
December 31	37,879	37,879	3,788	3,788

Share premium relates to the additional capital paid-in-surplus. Share based payments includes the fair value of vested employee obligations based on equity instruments as explained in Note 15.

The currency differences reserve is due to translation of assets, liabilities, income and expenses of subsidiaries with a functional currency which is different from the reporting currency. The currency differences reserve is not distributable.

10. Loans

The average interest rate is the Euribor added with 1.25-1.5%. The half year instalments are € 440. To secure the commitments to the bank Catalis has established an equitable mortgage granted by Catalis Development Services Ltd. over 80% of the registered shares of Kuju Plc., has established a pledge of 80% of the shares of Testronic Laboratories N.V. and has established a pledge on the receivables of Testronic Laboratories N.V. in the amount of € 550.

Amounts are according to the particular loan contracts due within the following periods:

	At December 31	
	2010	2009
Within one year (Current)	880	880
In the second to fifth years	880	1,760
More than five years	3,780	3,780
Total	5,540	6,420

As of the balance sheet date 2010, Catalis SE did not fulfil the existing debt / EBIT ratio regarding the loan agreement with the KBC Bank. As, on the balance sheet date, the financing facility therefore was not guaranteed for a period of at least one year, the syndicated loan is recognised on the balance sheet under current liabilities. On the April 7, 2011, an agreement was reached with the KBC Bank to waive the covenant breach and to continue the existing loan facilities on largely the same terms as before. The covenant tests will be re-applied as before on receipt of the audited consolidated financial statements 2011.

11. Finance lease obligations

Amounts are due within the following periods:

	Minimum finance lease payments	Finance Costs	Present value
2010			
Within one year (Current)	138	25	113
In the second to fifth years	-	-	-
	138	25	113
2009			
Within one year (Current)	223	37	186
In the second to fifth years	112	21	91
	335	58	277

Equipment held under finance leases includes certain items of hardware, software licenses and leasehold improvements used.

In the table the present value of minimum lease payments are presented. This present value of minimum lease payments is in line with the nominal minimum lease payments. Interest rates are fixed or maximized at the contract date and all leases are on a fixed repayment basis.

12. Bank Overdrafts

As per December 31, 2010 and 2009 the Group has provided the same securities as those mentioned in the item loans. The maximum credit line amounts to € 2,304 at December 31, 2010.

13. Trade and Other Payables

Trade and other payables include the following:

	At December 31	
	2010	2009
Accounts payable trade	1,548	1,550
Accrued expenses	4,419	2,229
Total trade and other payables	5,967	3,779

14. Provisions

Provisions mainly relate to warranty claims on services sold and usually cover a period of 15 months after the moment of delivery.

	Warranty and other
Balance at 31 December 2009	1,242
Provisions made during the year	-
Amounts used	-
Amount reclassified	(1,242)
Balance at 31 December 2010	-
Current	-
Non-current	-

From time to time and in the ordinary course of its business the Company may become involved in contractual disputes that need to be resolved as part of a legal process. Such disputes may result in the payment of monies to 3rd parties, the receipt of monies by the Company from 3rd parties, or in some circumstances, both. At 31 December 2010 the directors were not aware of any unresolved disputes of this nature and consequently there were no assets or liabilities held at the balance sheet date in this respect.

15. Employee Benefits Obligations

Defined Contribution Plan
The group sponsors defined contribution plans for its employees based on the local practices and regulations in the United States of America, the United Kingdom, Poland and Belgium. These plans require employer contributions ranging from 0% to 5% of annual salary.

Defined contribution obligations were not significant as of December 2010 and 2009, respectively. These obligations are presented under other payables.

Share Option Plan
Catalis' policy for the remuneration of the key employees has as an objective to attract and retain high quality people and motivate them towards excellent performance, in accordance with Catalis' strategic and financial goals. The remuneration package consists of a base salary and a long-term incentive, currently in the form of stock options. Long-term incentives are linked to long-term drivers and sustained shareholder value creation.
The following stock options are equity-settled share-based payment transactions in accordance with IFRS 2. There have been no cancellations or modifications to the plan during 2009 and 2010.
Movements in the year
The following table illustrates the number and exercise prices of, and movements in, share options during the year, as well as the grant date and the term of the option:

Tranche	**1**	**2**	**4**	**5**	**6**	**7**
Grant date	October 5, 2006	October 5, 2006	January 8, 2009	May 31, 2010	May 31, 2010	August 31, 2010
Granted stock options	500,000	136,500	1,100,00	474,500	39,000	34,500
Term of the option	5 years	5 years	4.2 years	10 years	5 years	10 years
Exercise price (€)	1.23	1.23	0.27	0.27	0.27	0.27
Outstanding 1 January 2010	500,000	69,000	1,100,000	-	-	-
Granted during the year	-	-	-	474,500	39,000	34,500
Forfeited during the year	500,000	13,500	-	22,000	-	-
Exercised during the year	-	-	-	-	-	-
Expired during the year	-	-	-	-	-	-

Outstanding 31 December 2010	-	55,500	1,100,000	452,500	39,000	34,500
Exercisable 31 December 2010	-	55,500	733,333	-	-	-

Tranche 1 was completely forfeited in 2010, Tranche 3 in 2009.

Term of the option
The remaining term of the stock options as of December 31, 2010 is as follows:

	Grant date	End of term	Remaining term (yrs)
Tranche 2	October 5, 2006	October 5, 2011	0.8
Tranche 4	January 8, 2009	March 31, 2013	2.2
Tranche 5	May 31, 2010	June 1, 2020	9.4
Tranche 6	May 31, 2010	June 1, 2015	4.4
Tranche 7	August 31, 2010	September 1, 2020	9.7

Vesting conditions
Any option granted under the stock option plan shall be exercisable and the rights there under shall vest at such times and under such conditions as determined by the board at the time of grant, and as shall be permissible under the terms of the plan. For the options granted in 2006, 2009 and 2010 different vesting schedules apply:

Tranche 2
As per December 31, 2010 all options of are vested and exercisable. The options may only be exercised during the month November each calendar year.

Tranche 4
- 366,667 options (1/3) will vest on 31 December 2009,
- 366,667 options (1/3) will vest on 31 December 2010,
- 366,667 options (1/3) will vest on 31 December 2011.

These options can be exercised at any time after the options become exercisable.

Tranche 5
- 158,167 options (1/3) will vest on 1 June 2013,
- 158,167 options (1/3) will vest on 1 June 2014,
- 158,167 options (1/3) will vest on 1 June 2015.

The options can be exercised at any time after the options become exercisable.
Tranche 6
- all of the 39,000 options will vest on 1 January 2011,

The options can be exercised at any time after the options become exercisable.

Tranche 7
- 11,500 options (1/3) will vest on 1 September 2013,
- 11,500 options (1/3) will vest on 1 September 2014,
- 11,500 options (1/3) will vest on 1 September 2015.

The options can be exercised at any time after the options become exercisable.

In the event of termination of an optionee's continuous status as an employee during the first three years of the term of the option agreement running from the date of the grant of the option, any options issued in 2006 which have not been exercised at that moment shall terminate. In the event of termination of the continuous status as an employee at a point in time after the first three years, the optionee may exercise the options to the extent exercisable on the date of termination, provided that such exercise must occur within six months after the date of such termination, but no event later than the date of expiration of the terms of this option. To the extent that the optionee was not entitled to exercise the option at the date of such termination, or does not exercise such option, the option shall terminate.

In the event of termination of an option holder's continuous status as an employee, the option holder shall be entitled to exercise unexercised options, which were issued in 2009 and 2010, to the extent such options are exercisable at the date of termination of the option holder’s continuous status as an employee, provided that such exercise must occur within six months from the date of termination but in no event later than the date of expiration of the terms of this option as set forth in the option agreement. To the extent that the option holder was not entitled to exercise the option at the date of termination of continuous status as an employee or does not exercise such options within the time specified herein, the options shall lapse.

Valuation model and input parameters
The fair value of the stock options is measured using a binomial option pricing model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the plan for at the measurement date:

Tranche	**2**	**4**	**5**	**6**	**7**
Share price on the measurement date (€)	1.06	0.31	0.19	0.19	0.15
Life of the option on the grant date (years)	5.00	4.23	10.00	5.00	10.00
Exercise price (€)	1.23	0.27	0.27	0.27	0.27
Expected dividend yield (%)	-	-	-	-	-
Risk-free interest rate (%)	3.62	2.84	2.93	1.82	2.34
Expected volatility of the share price (%)	37.84	48.53	75.52	60.06	75.15
Option value (€)	0.54	0.10-0.13	0.09 – 0.11	0.03	0.06 – 0.08

For the stock option valuation the contractual life of the options and the possibility of early exercised was considered in the binomial model.

The risk-free interest rate is the implied yield currently available on German government issues, with a remaining term equal to the term of the options.

The future volatility for the lives of the options was estimated based on historical volatilities also considering the management’s expectation of future market trends.

The expense resulting from the share based payment transactions is recognized during the vesting period on a pro rata-basis with a corresponding increase in equity. Furthermore, the amount recognized is based on the best available estimate of the number of equity instruments expected to vest and is revised, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.
The expense recognised during 2010 is shown in the following table:

€ k	2010	2009
Expense arising from equity-settled share-based payment transactions	13	78
Expense arising from cash-settled share-based payment transactions	-	-

Total expense arising from share-based payment transactions	13	78

16. Other Options

Background
In order to improve relationships with suppliers, business partners and clients the group from time to time enters into option and other agreements which provide certain incentives for such partners and help to strengthen such relationships. There are no other options outstanding at December 31, 2010.

17. Operating segments

2010

The following table illustrates information about the reportable segments:

	Testing	Games	Downloadable self-published games	Corporate	Total
Revenue from external customers	13,446	12,347	-	-	25,793
Interest revenue	1	7	-	-	8
Interest expense	14	103	-	154	271
Personnel costs	5,600	9,486	55	422	15,563
Depreciation and amortisation	542	717	-	10	1,269
Impairment loss	-	-	94	-	94
Profit/(loss) from operations	957	(1,169)	(399)	(1,093)	(1,704)
Reportable segment assets	6,400	13,784	955	6,086	27,225
Income tax (expense) or income	(34)	587	111	(453)	211
Expenditures non-current intangible assets	-	-	931	-	931
Reportable segment liabilities	2,111	4,297	666	7,745	14,819

The geographical information of revenues and non-current assets is as follows:

	Revenues	Non-current assets
UK	17,636	10,163
Europe other	2,807	9,205
United States	5,350	919
Other	-	64
Total	25,793	20,351

Revenues and non-current assets are attributed to countries on the basis of the Catalis group’s location.

During the year ended December 31, 2010 and 2009, revenues from five major customers accounted for 59% and 59% of total revenues. One of these customers relates to the testing segment and four relate to the gaming segment.

2009

The following table illustrates information about the reportable segments:

	Testing	Games	Corporate	Total
Revenue from external customers	12,353	19,652	-	32,005
Interest revenue	5	44	-	49
Interest expense	14	45	253	312
Personnel costs	6,195	13,343	516	20,054
Depreciation and amortisation	500	965	14	1,479
Impairment losses	-	219	-	219
Profit/(loss) from operations	(252)	46	(1,284)	(1,490)
Reportable segment assets	5,965	12,557	9,193	27,715
Income tax (expense) or income	599	205	888	1,692
Expenditures non-current assets	399	548	-	947
Reportable segment liabilities	1,628	4,247	7,727	13,602

The geographical information of revenues and non-current assets is as follows:

	Revenues	Non-current assets
UK	23,644	9,087
Europe other	2,204	9,489
United States	6,154	508
Philippines	3	64
Total	32,005	19,148

Revenues and non-current assets are attributed to countries on the basis of the Catalis group's location.

18. Revenue

Revenues are summarised as follows:

	2010	2009
Testing and inspecting services	13,446	12,353
Game development	12,347	19,652
Downloadable self-published game development	-	-
Total revenue	25,793	32,005

Games development includes an amount of € 906 regarding royalties (2009: € 556).

19. Personnel costs

Personnel expenses are summarised as follows:

	2010	2009
Wages and salaries	13,159	17,235
Share based payments	13	78
Pension costs	177	274
Social expenses	1,203	1,484
Other expenses	1,011	983
Total personnel expenses	15,563	20,054

The average number of employees for the year was:

	2010	2009
The Netherlands	2	2
Poland	33	21
Belgium	41	40
United Kingdom	167	204
United States	83	112
Czech Republic	38	30
Philippines	2	25
Total average number of employees	366	434

20. General and administration

General and administration expanses can be summarised as follows:

	2010	2009
Housing and communication	1,489	1,514
Advisory and legal costs	1,606	1,366
Sales and marketing		665
	431	
Litigation cost	-	432
Operating lease payments	1,395	1,518
Other	1,892	1,850
Total G&A expenses	6,813	7,345

R&D expenditures for the fiscal year 2010 amounted to € 215.

21. Financial income

Financial income comprises the following:

	2010	2009
Interest expense	(271)	(312)
Interest income	8	49
Other financial income and expenses	(149)	84
Currency translation differences	(466)	(302)
Total financial income net	(878)	(481)

22. Income Taxes

Major components of income tax expense for the years ended December 31, 2010 and 2009 are:

	2010	2009
Current year current tax	(45)	(70)
Previous year adjustment	200	(56)
Current tax	***155***	***(126)***
Recognition of previous year unrecognized losses	(89)	(1,048)
Recognized losses of current year	(739)	(899)
Compensation of recognized losses	423	349
Accelerated depreciation	21	49
Timing difference client list	(15)	(17)
Adjustment taxrate	33	-
Deferred tax	***(366)***	***(1,566)***
Total tax result	**(211)**	**(1,692)**

Reconciliation between tax expense and the product of the accounting result multiplied by the statutory tax rate (25.5%) of The Netherlands for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
Accounting result before tax	(2,582)	(1,971)
Tax at statutory rate (nominal)	(645)	(503)
Lower / (higher) nominal tax rates foreign subsidiaries	(176)	(117)
Recognition of previous year unrecognized losses	(89)	(1,048)
Unrecognized current year losses	460	-
Accelerated depreciation	21	49
Timing difference client list	(15)	(17)
Adjustment taxrate	33	-
Previous year adjustments in current tax	200	(56)
Income tax in income statement	**(211)**	**(1,692)**

The valuation of deferred tax assets depends on the probability of the utilization of tax loss carry-forwards. Deferred tax assets are recognized for future tax benefits arising from tax loss carry forwards to the extent that the tax benefits are likely to be realized. The expected tax rate used is 25% (2009: 25.5%); the effect of the adjustment is € 33 (included in the other movements).

Catalis has been profitable the last three quarters (since Q3 2010) and it forecasts to be profitable for the coming periods also confirmed by recently gained new contracts. It should be noticed that in the two calendar years of losses (2009 and 2010) in fact only four quarters were loss making mainly due to incidental non recurring matters. Catalis has long term relationships with major publishers in the world and a proven business model. Management is very strongly of the view that the company having successfully returned to profit since three quarters ago and will continue profitable in future and the availability of future taxable profit.

Movements in deferred tax assets are as follows:

	2010	2009
Balance as of January 1,	3,312	1,714
Movements through comprehensive income		
Recognition of previous year unrecognized losses	89	1,048
Recognized losses of current year	739	899
Compensation of recognized losses	(423)	(349)
Adjustment taxrate	(33)	-
Translation differences	58	-
Balance as of December 31,	**3,742**	**3,312**

After the processing of the 2010 tax result, the tax losses currently amount to approximately € 16.5 million (2009: € 13.1 million), of which € 6.6 million can be allocated to Catalis SE (expires in 2015). € 6.9 million can be allocated to several UK based companies. The UK losses have an unlimited time frame of compensation.

Once the liquidation of Aeco International GmbH has been completed for tax purposes, these tax losses are expected to rise to approximately € 20.4 million.

Movements in deferred tax liabilities are as follows:

	Deferred tax liability		
	Client list	Accelerated depr	Total
Balance 31/12/2008	50	14	64
- Difference due to accelerated depreciation	(17)	49	32
Balance 31/12/2009	33	63	96
- Difference due to accelerated depreciation	(15)	21	6
Balance 31/12/2010	18	84	102

Tax effects relating to each component of other comprehensive income:

	2010			2009		
	Before tax	Tax	Net-of-tax	Before tax	Tax	Net-of-tax
Exchange differences on translating foreign operations	651	-	651	516	-	516
Other comprehensive income	651	-	651	516	-	516

23. Leases

The Company and its subsidiaries have various operating lease agreements for machinery, offices and other facilities. Future minimum lease payments as per December 31, 2010 under non-cancellable operating lease are as follows:

	2010	2009
Within 1 year	215	1,367
1 year through 5 years	466	1,461
After 5 years	325	1,094
Total future minimum lease payments	1,006	3,922

During the year ended December 31, 2010 € 1,395 was recognized as an expense in the income statement in respect of operating leases (2009: € 1,518).

24. Contingent Liabilities

Various legal actions and claims may be asserted in the future against the Group companies from litigations and claims incident to the ordinary course of business. These mainly include matters relating to warranties and infringement on intellectual property rights. Related risks have been analysed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes that no material liabilities are likely to result.

25. Related party transactions

The parties affiliated to the group, of which Catalis SE is the parent company, may be divided into: group companies, members of the (non) executive Board and other related parties.
A list of the group companies may be found in the note ‘Basis of the consolidation’.
Transactions among group companies are eliminated in the consolidation and no further notes are provided on them here.

For the remuneration of the members of the (non) executive Board reference is made to note 27.

The following related parties can be identified:

Ascendo Management GmbH:	relative of management
Hi7seas GmbH:	relative of management
Ideal Partners Ltd:	relative of management

The following transactions were carried out with related parties:

Purchase of services	2010	2009
Ascendo Management GmbH, consultancy fee	95	102
Hi7seas GmbH	2	-
Ideal partners Ltd., consultancy fee	12	10

26. Business combinations

There have been no acquisitions in 2010 and 2009.

27. Emoluments of the (Non) Executive Board

Directors' total remuneration approximated € 272 in 2010 and € 402 in 2009 respectively.

	2010		**2009**	
	Annual fixed fee	Bonus and costs	Annual fixed fee	Bonus and costs
Jeremy Lewis	199	50	134	26
Klaus Nordhoff	-	-	79	140
Jens Bodenkamp	8	-	8	-
Robert Kaess	5	-	5	-
Michael Hasenstab	5	-	5	-
Dominic Wheatley	5	-	5	-

Members of the Board had no compensation in 2010 and 2009 for the following:
- post-employment benefits
- other long-term benefits
- termination benefits
- share-based payment.

Shares and options held by members of the Board as at 31 December 2010:

		No. of shares	**No. of options**
Jeremy Lewis	Executive member	206,735	1,100,000
Jens Bodenkamp	Non executive member	89,167	
Michael Hasenstab	Non executive member	50,000	
Robert Kaess	Non executive member	50,000	
Dominic Wheatley	Non executive member	50,000	

Shares and options held by members of the Board as at 31 December 2009:

		No. of shares	**No. of options**
Jeremy Lewis	Executive member	50,000	1,100,000
Jens Bodenkamp	Non executive member	89,167	
Michael Hasenstab	Non executive member	50,000	
Robert Kaess	Non executive member	50,000	
Dominic Wheatley	Non executive member	50,000	
Klaus Nordhoff	Non executive member	50,000	

28. Earnings per Share

Basic earnings per share are calculated by dividing the net profit for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

For the purpose of calculating diluted earnings per share, the net result attributable to common shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive common shares from supposed exercise of all “in the money” share options. The number of common shares is the weighted average number of common shares plus the weighted average number of common shares which would be issued on the conversion of all the dilutive potential common shares into common shares. Share options are deemed to have been converted into common shares on the date when the options were granted.

	For the year ended 2010		
	Income (€k)	**Weighted Average Number of Shares (thousands)**	**Earning Per Share Amount (€)**
Basic Earnings per Share	(2,371)	37,879	(0.06)
Add: Bonus shares	-	-	-
Diluted Earnings per Share	**(2,371)**	**37,879**	**(0.06)**

	For the year ended 2009		
	Income (€k)	**Weighted Average Number of Shares (thousands)**	**Earning Per Share Amount (€)**
Basic Earnings per Share	(279)	36,328	(0.01)
Add: Bonus shares	-	322	
Diluted Earnings per Share	**(279)**	**36,650**	**(0.01)**

During 2009 and 2010 the average stock market exchange price was lower than the exercise prices of the outstanding stock option contracts. Therefore all stock option contracts were out of the money and are not recognised in the dilutive calculations.

Eindhoven, May 6, 2011

Management Board:

Jeremy Lewis	**Executive member**
Jens Bodenkamp	**Non executive member**
Michael Hasenstab	**Non executive member**
Robert Kaess	**Non executive member**
Dominic Wheatley	**Non executive member**
Klaus Nordhoff	**Non executive member (member until June 30, 2010)**

COMPANY-ONLY STATEMENT OF FINANCIAL POSITION CATALIS SE
as at December 31, 2010
after appropriation of net profit
(in thousands of euros)

	Note	December 31, 2010	December 31, 2009
ASSETS			
Non-current assets			
Goodwill	32	7,111	6,803
Intangible assets		-	10
Investment in group companies	33	259	1,744
Loans - group		9,144	9,471
Deferred tax	34	1,646	2,102
Total non-current assets		18,160	20,130
Current assets			
Receivables – group		4,390	3,637
Other current assets	35	57	190
Cash and cash equivalents	36	43	47
Total current assets		4,490	3,874
Total assets		22,650	24,004
LIABILITIES AND EQUITY			
Total equity	37		
Share capital		3,788	3,788
Share premium		18,808	18,808
Share based payments		379	366
Currency differences		(3,195)	(3,846)
Accumulated deficit		(7,374)	(5,003)
Total equity		12,406	14,113
Provision for subsidiaries	38	278	1,446
Liabilities			
Non current liabilities			
Loans - banks	39	-	-
Loans - group		240	230
Deferred tax		-	3
Total non current liabilities		240	233
Current liabilities			
Bank overdrafts		1,981	1,084
Loans	39	5,540	6,420
Liabilities-group	40	1,982	509
Trade and other payables		223	199
Total current liabilities		9,726	8,212
Total liabilities		22,650	24,004

COMPANY-ONLY STATEMENT OF INCOME CATALIS SE
for the years ended December 31, 2010 and 2009
(in thousands of euros)

	Note	2010	2009
Profit after taxes	44	1,197	2,250
Result subsidiaries after tax		(3,568)	(2,529)
Net Profit		**(2,371)**	**(279)**

NOTES TO COMPANY-ONLY FINANCIAL STATEMENTS CATALIS SE
for the years ended December 31, 2010 and 2009
(in thousands of euros)

29. General

The description of the Company's activities and the Group structure, as included in the notes to the consolidated financial statements, also apply to the Company-only financial statements. The company only financial statements form part of the financial statements 2010 of Catalis SE. With respect to the company profit and loss account of Catalis SE use has been made of the exemption under Article 2:402 of Book 2 of the Netherlands Civil Code.

30. Summary of Significant Accounting Policies

The company financial statements have been prepared in accordance with accounting principles generally accepted in The Netherlands. Catalis SE makes use of the option offered in Article 2:362 (8) of the Netherlands Civil Code. This means that the principles for the valuation of assets and liabilities and the determination of the result of the company-only financial statements of Catalis SE are equal to those of the consolidated financial statements. Investments in subsidiaries are accounted for in accordance with the equity method.

Going concern

The subsidiaries of Catalis SE are dependent for their working capital on funds provided by Catalis SE. Catalis SE has provided an undertaking that it will continue to make available such funds as needed by an individual subsidiary and, in particular, will not seek repayment of the amounts currently made available. This should enable each subsidiary to continue in operational existence and to meet its liabilities as they fall due for a period of at least twelve months from the date of approval of these financial statements. As with any company placing reliance on other group entities for financial support, the management boards of the subsidiaries acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that Catalis SE will not continue to be able to provide such support.

The management boards of the subsidiaries have produced budgets and cash flow forecasts which have been used by Catalis SE to forecast cash flows for the Group for the next twelve months. These forecasts are themselves reliant on the continuation of Group banking facilities which are expected to continue. Should the cash flows fall below those forecast, the management boards are aware that the parent Catalis SE can, if required, seek to raise further funds by public share issues within 2 – 4 weeks.

As of the balance sheet date 2010 (just as in 2009), Catalis SE did not fulfil the existing debt / EBIT ratio regarding the loan agreement with the KBC Bank. As, on the balance sheet date, the financing facility therefore was not guaranteed for a period of at least one year, the syndicated loan is recognised on the balance sheet under current liabilities. On April 7, 2011, an agreement was reached with the KBC Bank to waive the covenant breach and to continue the existing loan facilities on largely the same terms as before. The covenant tests will be re-applied as before on receipt of the audited consolidated financial statements 2011.The covenants are geared to the current financial position of Catalis SE and realistic expectations for the future.

The management board of Catalis SE has a conservative attitude regarding the implementation of financial forecasts, recognition of tax assets and impairment calculations. The management board has proven that is capable to cope the financial crisis and current competitive situation and has successfully completed a restructuring and reorganization process in the first half of 2010. In addition, steps have been taken to mitigate possible risks regarding warranty claims.

In view of this, the financial statements have been drawn up on the going-concern assumption.

32. Goodwill

The movements in goodwill are solely involved through currency differences with non euro origin.

As at balance sheet date, the company assessed the recoverable amount of goodwill, and determined that goodwill was not subject to impairment. The recoverable amount of the cash generating unit (Kuju, Testronic and DDP) is determined based on a value in use calculations which uses cash flow projections based on financial budgets approved by the directors covering a five-year period (including a terminal value), and a discount rate of 14.7% per annum. The Board believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

Further information regarding goodwill may be found in note 4 to the consolidated financial statements.

33. Investment in Group Companies

The movement in the investment in group companies as follows:

	2010	2009
Book value at January 1	1,744	3,236
Income from subsidiaries	(3,568)	(2,529)
Incorporation of Testronic SE	-	120
Share based payments	(33)	24
Provision for negative equity value	1,773	380
Currency translation differences	343	513
Book value at December 31	259	1,744

Negative equity values of group companies are balanced with receivables on those group companies, if additional provisions are required these are presented under provisions. This results in a provision for investments in group companies of € 278 as of December 31, 2010 and € 1,446 as of December 31, 2009.

34. Deferred tax

Deferred tax assets mainly relate to future benefits from tax loss carry forward in The Netherlands, to the extent that it is likely that these benefits will occur. Movements in deferred tax assets are as follows:

	2010	2009
Balance as of January 1,	2,102	1,200
Movements in deferred tax assets through income	(456)	902
Balance as of December 31,	1,646	2,102

Notes on the deferred tax assets may be found in section 22 of the notes to the consolidated financial statements.

35. Other current assets

Other current assets mainly consist of prepaid costs.

36. Cash and cash equivalents

Cash and cash equivalents comprise of several bank balances. The carrying amount of these assets approximates their fair value.

37. Equity

Notes on the equity may be found in note 9 of the notes to the consolidated financial statements.

38. Provisions for subsidiaries

A provision for subsidiaries is made for the negative equity value of investments, after netting with receivables on the subsidiaries.

39. Loans

Notes on the long and short term debt may be found in section 10 of the notes to the consolidated financial statements.

40. Liabilities – group

Intercompany group liabilities comprise of several current accounts.

41. Trade and other payables

Trade and other payables relate to several accrued costs.

42. Personnel

During the reporting year, the company employed 2 employees (2009: 2).

43. Audit fees

Included are audit fees for Mazars of € 45 (2009: € 42) for the audit of the financial statements.

44. Related parties

Included in the profit after taxes is an amount of € 2.1 million regarding charged licence fees and management fees to subsidiaries.

45. Emoluments of the (Non) Executive Board

Directors' total remuneration approximated € 272 in 2010 and € 402 in 2009 respectively.

	2010		2009	
	Annual fixed fee	Bonus and costs	Annual fixed fee	Bonus and costs
Jeremy Lewis	199	50	134	26
Jens Bodenkamp	8	-	8	-
Robert Kaess	5	-	5	-
Michael Hasenstab	5	-	5	-
Dominic Wheatley	5	-	5	-
Former Board member:				
Klaus Nordhoff	-	-	79	140

Members of the Board had no compensation in 2010 and 2009 for the following:
- post-employment benefits
- other long-term benefits
- termination benefits
- share-based payment.

Shares and options held by members of the Board as at 31 December 2010:

		No. of shares	No. of options
Jeremy Lewis	Executive member	206,735	1,100,000
Jens Bodenkamp	Non executive member	89,167	
Michael Hasenstab	Non executive member	50,000	
Robert Kaess	Non executive member	50,000	
Dominic Wheatley	Non executive member	50,000	

Shares and options held by members of the Board as at 31 December 2009:

		No. of shares	No. of options
Jeremy Lewis	Executive member	50,000	1,100,000
Jens Bodenkamp	Non executive member	89,167	
Michael Hasenstab	Non executive member	50,000	
Robert Kaess	Non executive member	50,000	
Dominic Wheatley	Non executive member	50,000	
Klaus Nordhoff	Non executive member	50,000	

OTHER INFORMATION

Appropriation of Net Profit after Taxes

The Articles of Association of the company provide that the appropriation of the profit after taxes for the year is decided upon at the Annual General Meeting of Shareholders. Awaiting the decision by the shareholders, the net profit for the year is added to the accumulated profit. At the Annual Shareholders' Meeting, the management of Catalis SE will recommend the allocation of € -2.4m of the after tax performance into the retained earnings of the company.

Events after the balance date

No events to report December 31, 2010.

Eindhoven, May 6, 2011

Management Board:

Jeremy Lewis	**Executive member**
Jens Bodenkamp	**Non executive member**
Michael Hasenstab	**Non executive member**
Robert Kaess	**Non executive member**
Dominic Wheatley	**Non executive member**
Klaus Nordhoff	**Non executive member (member until June 30, 2010)**

MAZARS

INDEPENDENT AUDITOR'S REPORT

To: The shareholders of Catalis SE

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2010 of Catalis SE, Amsterdam. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2010, the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management report, in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the 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 financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 WITH RESPECT TO THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Catalis SE as at 31 December 2010, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

OPINION WITH RESPECT TO THE COMPANY FINANCIAL STATEMENTS

In our opinion, the company financial statements give a true and fair view of the financial position of Catalis SE as at 31 December 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the management report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, May 6, 2011

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.

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