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### LEGAL DISCLAIMER

Certain statements in this annual report are forward-looking and the actual outcomes may be materially different. In addition to the factors discussed, other factors could have an impact on actual outcomes. Such factors include developments for customers, competitors, the impact of economic and market conditions, national and international legislation and regulations, fiscal regulations, the effectiveness of copyright for computer systems, technological developments, fluctuations in exchange rates and interest rates, and political risks.

## Net Entertainment in brief

Net Entertainment is a premium supplier of digitally distributed gaming systems. The most successful gaming operators in the world can offer online casino through Net Entertainment's games and platform. The core product CasinoModule™ is a customized, full scale gaming platform that easily integrates into the operators' websites. In addition to systems, Net Entertainment develops a wide range of high-quality games. The goal is to provide the best Internet-based gaming solutions using cutting-edge technology and expertise. The business is permeated by entertainment, availability and reliability.

Net Entertainment offers CasinoModule™ on a royalty basis which is determined by the revenues generated by the games. Net Entertainment's customers, the operators, choose the supplier that can provide the greatest entertainment value for the players. This means that CasinoModule™ is continuously upgraded to include new features and games that meet the needs of the players. It also means that Net Entertainment's revenues increase as the operators' revenues increase.

# The success story continues

- Revenues increased by 46.0% to SEK 300.1 (205.6) million
- Operating profit increased by 36.9% to SEK 120.2 (87.8) million
- The operating margin was 40.1 (42.7)%
- Profit after tax increased by 34.7% to SEK 107.7 (80.0) million
- Earnings per share was SEK 2.72 (2.02)
- Ten new license agreements for CasinoModule™ were signed and 14 new customers' casinos were launched
- Two agreements were signed for CasinoCafé™ in January
- Proposed dividend is SEK 2.00 (1.25) per share

REVENUES IN 2009 INCREASED BY

46%

AVERAGE ANNUAL REVENUE GROWTH SINCE 2003

53%

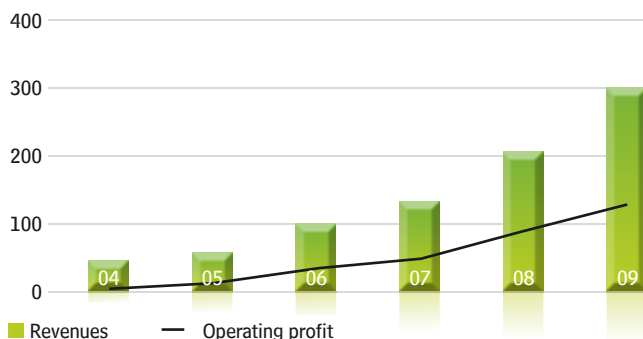
## Financial ratios

	2009	2008	2007
Revenues (SEK thousands)	300,050	205,573	132,020
Operating profit (SEK thousands)	120,182	87,803	50,580
Operating margin (percent)	40.1	42.7	38.3
Profit after tax (SEK thousands)	107,677	79,967	45,911
Profit margin (percent)	39.1	41.8	38.5
Equity/assets ratio (percent)	70.0	71.9	62.4
Earnings per share (SEK)	2.72	2.02	1.16
Equity per share (SEK)	4.40	2.95	1.34
Employees at year-end	133	85	67

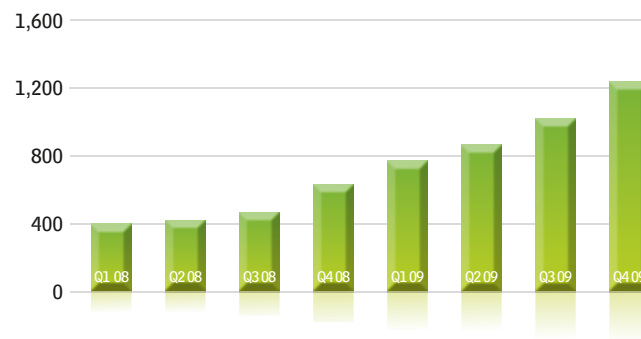
## IMPORTANT EVENTS IN 2009

- Net Entertainment changed stock exchange to Nasdaq OMX Stockholm in January.
- Number of game transactions totalled 3.9 billion in 2009.
- Several countries have indicated that they will be introducing a licensing system. Italy is leading the way, followed by Denmark and France.
- One new feature in the administration tool, called the Seamless Wallet, was launched in the third quarter allowing Net Entertainment to reach a wider player base.
- Net Entertainment's first operator unique game was launched in August which enables the operator to differentiate its casino offering.

Revenues and operating profit 2004-2009  
SEK millions



Number of game transactions per quarter 2008-2009  
Millions



# Best quality, maximum entertainment

Net Entertainment is a premium supplier of digital gaming systems. Some of the worlds most successful gaming operators can offer online casino through Net Entertainment's games and platform. CasinoModule™, the core product of the Company, is a customized, full-scale gaming platform that easily integrates into the operators' websites. In addition to systems, Net Entertainment develops a wide range of high-quality games. The goal is to provide the best Internet-based gaming solutions using cutting-edge technology and expertise. The business is permeated by entertainment, availability and reliability. Net Entertainment strives to allways provide high quality and maximum entertainment value.

THE 2009 OPERATING MARGIN WAS

40%



**The goal is to provide the best Internet-based gaming solutions using cutting-edge technology and expertise. The business is permeated by entertainment, availability and reliability.**

## Offering

Creative games



Innovative technology



Transaction secure system





## Shared interests, a successful concept

Net Entertainment and the operator have a very close partnership and share an interest in providing a first-class product that is profitable for the operator and attractive to players. The operator pays a royalty which is calculated as a percentage of the gross gaming yield. This acts as an incentive for Net Entertainment to continue improving its product portfolio.

## Success criterias

### → High quality and entertainment value

The players' demands for entertainment value are increasing as the market matures and they choose the operator that can meet their requirements. Net Entertainment is at the forefront of games development and focus heavily in factors as graphics, animations and sound.

### → Stable platform

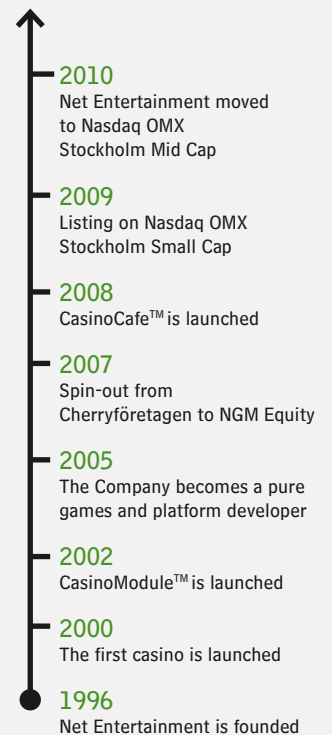
The number of game transactions are increasing markedly which places high demands on the capacity of the Company's platform. Net Entertainment's system is built with the the latest technology and manages several billion transactions each year. During 2009 the Company has continued to invest to further enhance the capacity and operational reliability.

### → Reliability

It is of great importance for Net Entertainment to maintain its good reputation and credibility. Regular game and platform inspections are therefore carried out to ensure complete randomness and reliability. The Company's gaming operations are conducted under the control system of the LGA, which approves all new games. In addition, independent testing institutions perform regular analyses of the platform.

## History

Net Entertainment was established in 1996 by one of the worlds leading casino companies and the Company became one of the pioneers in Internet gaming. The Company was set up in response to the growing Internet market and the objective was to offer casino online. Since no suitable commercial casino solution was available, the Company decided to develop the requisite software in-house.





## Johan Öhman

**CAREER:** Johan has experience from the telecom industry where he has worked within the Ericsson Group and at Nortel Networks. He has worked within the gaming industry since 2003.

**LEISURE AND HOBBIES:** Spend time with family and friends and interested in golf, cars and traveling.

**LIVES:** Apartment in central Stockholm.

**FAMILY:** Wife and two children.

# Another fantastic year with strong development

The success from previous years continued in 2009, with strong financial development, additional new leading operators and technical progress that create a foundation for continued growth.

The listing of the share on Nasdaq OMX Stockholm in January 2009 contributed to a positive share price development throughout the year, which resulted in a transfer to the Mid Cap Market in early 2010. An additional four analyst houses initiated coverage of Net Entertainment (Carnegie, Danske Bank, ABG Sundal Collier and Daniel Stewart & Co) which creates increased awareness of our Company and interest in our share.

In 2009, the number of gaming transactions managed in our systems almost doubled, indicating a strong demand for our products and digitally distributed gaming. In the same period, we noted a slight decline in the average stake. Although it is hard to pinpoint the exact reason for this, it is probably the result of the financial unease combined with changes in gaming behavior resulting from changes in player demographics.

Over the past year, we have invested in our organization as well as infrastructure to be better equipped to meet the increasing demands placed on us as a provider. These investments proved successful, securing our position in terms of products and operational performance. I am convinced that moving forward, accessibility will be as important a competitive factor for the operators as product offering in the battle for the players.

## MARKET

Several countries have indicated that they intend to introduce a licensing system and Italy is first out, followed by France and Denmark. I am delighted by this development, which will change the market as we know it today. It creates not only growth opportunities for existing operators, it also enables new operators to become established legally. As a consequence of this, the competition for players will intensify as will the demand for high-quality products and services. Net Entertainment is well positioned to benefit from this development due to the investments made in 2009.

In addition to the new business opportunities created by the re-regulation, the online market continues to gain market share from the traditional gaming industry. An increasingly important segment for the operators is women and older persons. Surveys carried out on the use of the Internet in 2009 reveal that 57 percent of users were women. In comparison, male users account for ca 80 percent of the player base of today's gaming operators. Analysis also shows that 40 percent of people over the age of 65 have purchased a product or service online at some time during 2009. These statistics should be considered with reference to the fact that today's typical online casino players are men aged 25 to 35. All in all, I feel there is good potential for online gaming to continue its solid growth.

## CUSTOMERS

In 2009, we signed ten new license agreements, including Expekt and Microgame. The majority of our existing customers experienced positive growth during 2009, which is reflected in our figures. Delta Invest faced technical and regulatory challenges which resulted in a lower than antici-

pated business volumes. However, they showed solid growth throughout the fourth quarter, albeit from a low level. Delta Invest's focus is increasingly turning towards the Ukrainian market which they consider having better potential than Russia.

## PRODUCTS AND SERVICES

The production capacity increased significantly during 2009 with the development of 24 new games. A continuous flow of new games is pivotal for the operators to be able to retain and attract new players. In order to further support our largest customers, a VIP offering has been introduced whereby we provide them with bespoke games. By offering bespoke games the operators further increase their competitiveness. Bespoke games are offered to a limited player base but in return the operator pays a higher royalty on these games which creates strong incentives for both parties.

At the end of the year, we launched our downloadable casino which is a longed-for addition to our product portfolio. It answers a market demand that we have not previously been able to satisfy and therefore paves the way for new revenues. The introduction of new platform functionality that allows operators to offer our games to a considerably larger share of their players was also an important event that creates opportunities for increased revenues from our existing customer base.

## The organization

A total of 73 people were recruited during the year, which means that 53 percent of the workforce at the end of the year was employed in 2009. This high rate of recruitment places heavy demands on the organization and we are currently strengthening our HR department to further develop the organization on management levels as well as individual employees and teams.

Our move to new offices in October was a milestone in the Company's history. The new office, with 240 workstations, has been designed to meet our needs and allow for future growth. Having a centrally located office increases the Company's attractiveness on the labour market, which is important when fighting for the best resources.

I would like to take this opportunity to thank our employees for their unstinting efforts and commitment throughout the year. They are the backbone of our business and they make Net Entertainment one of the world's foremost providers of casino software for the online industry today. We will foster our position by continuing to focus on providing the best products and services and thereby securing future success.

Stockholm, March 11, 2010

Johan Öhman,  
President and CEO



# 19 NEW GAMES

LAUNCHED IN 2009



# Best games, latest technology

Net Entertainment's games are developed to meet the wishes of the operators and players. The combination of entertainment, availability and reliability results in a strong offering of the best quality.

As well as creating an exciting gaming experience, Net Entertainment offers a platform that meets all the demands for integration and transaction volume from the operators. The increasing demands on operators for availability and scalability put greater pressure on Net Entertainment as a supplier. By satisfying the demands of the operators, Net Entertainment is creating not only security and stability but also a greater potential for success for the operator.

## CasinoModule™ – Better games

The core of Net Entertainment's offering is the CasinoModule™. The Company has used the latest technology to create a casino solution that today comprise of over 90 games and a powerful management tool. New games and features are being added continuously.

CasinoModule™ allows for quick and easy integration with the operators' websites. Using the operators' existing infrastructure such as payment and CRM systems, the IT architecture is kept simple and the operating costs to a minimum. Net Entertainment manages the operations and system surveillance for most customers. This allows the gaming operators to concentrate on their core business.

As the market for online gaming matures, players expectations on higher entertainment value increase which increase competition between the operators. Net Entertainment strives to always provide the very latest in gaming technology when it comes to graphics, animations and sound, which contribute to creating a competitive offer for

### FACTS ABOUT CasinoModule™

- **Properties:** A complete set of casino games and a strong management tool.
- **Market:** Online
- **Customers:** Gaming operators in Europe
- **Casino installations:** CasinoModule™ is installed in about 100 casinos

### POWERFUL MANAGEMENT TOOL

#### Statistics

- Information about the most revenue-generating players
- Player demography
- The most revenue-generating games

#### Administration

- Fast and intuitive management of bonus programmes and tournaments
- Detailed graphic illustration of each game transaction
- Simple access to all aspects of player information
- Monitoring and analysis of performance

#### Real-time information

- Casino results for the operators
- Announcements of big winnings
- Information about player numbers

the gaming operators. They regularly receive new product releases that include new games and system features.

When the industry expands and matures, greater demand will be placed on reliability and availability. That's why Net Entertainment continuously invests in research and development. The Company follows a strict development process to guarantee superior product quality.

CasinoModule™ is not just a set of casino games, it's also a powerful management tool. This enables the gaming operators to monitor their casinos in real-time, down to each game, tournament and even individual players. Thereby the operator can optimize the operation of their casinos. Since casino games are very transaction intense and place great demands on capacity and operational reliability, the CasinoModule™ has been designed to manage millions of transactions on a daily basis. In 2009, CasinoModule™ processed almost four billion gaming transactions, which is 129 times more transactions than the Nasdaq OMX Stockholm share trading.

### NEW FEATURES AND CULTURAL ADAPTATIONS

CasinoModule™ provides full support for 22 languages. This is essential since the gaming operators are active on an international market.

To further strengthen Net Entertainment's position as a full-scale online casino supplier the Company developed several new features in

## PRODUCTS

CasinoModule™ in 2009. Today, there are two technical solutions for online casino gaming – downloadable and browser-based. The downloadable version of CasinoModule™ works well in markets with lower broadband penetration as players install the software on their computers instead of playing directly on the operator's website.

Only about 20 percent of an operator's active players visit the casino. To reach the remaining 80 percent offers great revenue potential for both the operator and Net Entertainment. Seamless Wallet is a new functionality that was developed for this reason and was launched in the third quarter to allow operators to extend their offering and provide casino games in other areas of their websites, for example in the sportsbook.

Through Seamless Wallet players who do not usually visit the website's casino section can also discover and play Net Entertainment's games.

## CasinoCafé™ – an even larger market

CasinoCafé™ enables Net Entertainment to address another part of the market with great potential.

CasinoCafé™ is Net Entertainment's second pillar and a relatively new product that was launched in the spring 2009. It is based on CasinoModule™ which has been adapted to work in a physical environment, such as an Internet café or a hotel chain. With this extension of the product portfolio, Net Entertainment can address the physical casino market with both new kinds of customers and a completely new group of players. The online market is growing rapidly but only accounts for 8 percent of all gaming today. This means there

is a large potential for CasinoCafé™ which addresses a market that is almost twelve times greater than the online market <sup>1)</sup>.

The games are played on standard computers in a public environment, where the player through a one-time account gains access to the casino games, basically the same games as for CasinoModule™. This means limited investments for the operator and greater availability for the players.

CasinoCafé™ has been designed for markets with low Internet penetration combined with a widespread tradition of cash payments and a legal area for running gaming operations in a physical environment.

### EFFICIENCY AND VOLUME

The real advantage of CasinoCafé™ is that the system combines the cost-efficiency of electronically distributed games with the business volumes of land-based casino operations. Since the operators have often established good relations with the players, no major initial marketing investments are necessary. The operator is responsible for the hardware and infrastructure. Two agreements for CasinoCafé™ were signed in early 2009 with introduction throughout the year. The roll-out has been slower than anticipated due to technical challenges but also due to a somewhat cautious market.

<sup>1)</sup> H2 Gambling Capital, February 2010

### FACTS ABOUT CasinoCafé™

- **Attributes:** CasinoCafé™ addresses markets that cannot be reached via operators over the Internet
- **Market:** Offline where Internet penetration is limited
- **Customers:** Including bookmakers, hotel chains and Internet cafés



**CasinoCafé™**



**CasinoModule™**



## A symbiotic relationship

### PRODUCT DEVELOPMENT

Net Entertainment's agile development process affords high efficiency. This means that the customers regularly receive a new release of CasinoModule™ with new games and system features. A total of 19 new games were released in 2009.

A team of product owners manages the product planning and produces product specifications for each new game. These specifications then form the basis for the actual development process. The practical work commences with a hand-drawn graphic concept which is then transformed into a digital format. The demands for graphics and sound are high and Net Entertainment therefore invests large resources to create an exciting, first-rate gaming experience.

The development department uses a development methodology called Scrum which is based on cross-functional development teams. The model has been modified to suit Net Entertainment. The work

is conducted in an iterative manner in so called sprints that are two weeks long. This kind of development process allows teams to work in a flexible way and changes can be made as work progresses. Scrum also helps generate an efficient and positive working environment with a clear allocation of responsibilities and delegated decision-making.



**Net Entertainment's development process is efficient. Customers regularly receive a new release of CasinoModule™ with new games and features.**



# A POWERFUL PLATFORM

REQUIRES THE LATEST TECHNOLOGY AND A TRANSACTION SECURE SYSTEM

# Model for success, why we are doing well

Net Entertainment's business model is something rather special. The proof: The Company is doing better than ever, despite financial crisis and increased competition.

## Business model

Net Entertainment's business model is to provide gaming operators with leading edge solutions, enabling them to offer the ultimate entertainment experience. This will enable them to profitably grow their business faster than the competition. By doing so, Net Entertainment shall generate sustainable profit and growth for its shareholders.

## Financial objective

The European market for online gaming is expected to maintain good growth and Net Entertainment's objective is to grow faster than the market.

## Strategy

### TO ACHIEVE ITS FINANCIAL OBJECTIVES, NET ENTERTAINMENT MUST:

- Aim to sign more license agreements with major, well-established so called Tier 1 operators
- Maintain long-term customer relationships and close collaboration to better serve the needs and wishes of existing customers
- With new and unique games with high entertainment value and innovative features in the platform support the customers' casino operations to increase attraction and profits.
- Conduct regular analyses of developing trends and gaming behaviour in the gaming market
- Retain and develop industry-related expertise to provide market-leading games and features
- Increase the product offerings to increase sales and attract new customers
- Continuously evaluate potential acquisitions that complement current operating activities

### GROWTH

Objective: To grow more than the market

Achievement of objectives: 46% on a market that grew by 22%

46%

### PROFITABILITY

Objective: Operating margin exceeding 40%

Achievement of objectives: Operating margin of 40.1% for the year

40.1%

### NEW CUSTOMERS

Objective: To sign an agreement with a certain Tier 1 operator

Achievement of objectives: Not achieved. The company has however signed agreements with Paf and Microgame

# STRATEGY

## The customer's success – a strong incentive

Net Entertainment's business and revenue model is based on that the Company's gaming platform, CasinoModule™, is licensed to gaming operators who in return pay a monthly license fee through a royalty based on the gross gaming yield generated by the product. The revenue model provides Net Entertainment with a strong incentive to continuously develop new games and features that meet the wishes of the players and operators.

A graduated scale is used to calculate the fee as a percentage of the gross gaming yield generated by Net Entertainment's games for the operator. There is, however, a minimum fee to guarantee a certain revenue level for Net Entertainment both before and after a launch. There are approximately 60 customers. The operator grows as new players continue to join its website. Net Entertainment expands as new agreements are signed and with the growth of its existing operators. Furthermore, there is a common interest and incentive to continue developing each major operator's portfolio by offering individual operators or groups of operators unique products that set them apart from the competition. Operator unique games increase revenue growth prospects for both the operator and Net Entertainment where the operator's increased revenues create potential for higher royalties for Net Entertainment – a true win win situation.

### SIMPLE PROCESS

The new sales to launch process is simple and is illustrated below. As the industry grows and matures regular procurement procedures are becoming increasingly common. Once a licence agreement has been signed, the customer pays a set-up fee. Net Entertainment then inte-



grates CasinoModule™ into the operator's system and customizes the games to harmonise with the operator's graphical image and make it a natural feature on the operator's website. Training courses guide the operator through the techniques and uses of the games and the administrative tool. Although the underlying technology of the tool is advanced, it has been designed with focus on user-friendliness to optimize time and performance efficiency.

CasinoModule™ is usually launched three to six months after an agreement has been signed. Account management is also included to ensure total customer satisfaction and maximum product utilisation. This service is aimed at supporting the customer with advice and recommendations that for example, will enable more efficient marketing.

3–6 months				
SALES & AGREEMENTS	INTEGRATION	LAUNCH	UPGRADING	ACCOUNT MANAGEMENT
<b>NET ENTERTAINMENT</b>				
Net Entertainment presents its product offerings. Major deals are disclosed	Net Entertainment customizes the games graphics and assist with the integration	The casino is launched	Net Entertainment offers new games and features on an ongoing basis	CasinoModule™ includes support, advice and recommendations for the operator for greater marketing efficiency
<b>OPERATORS</b>				
The operator and Net Entertainment sign an agreement	The operator has to apply to the authority for a licence unless it already has one. Integration is carried out	The operator markets its casino to existing and potential players	The operator manages its website and maintains close contact with the players	The operator invests heavily in marketing resources and uses account management to improve efficiency and accuracy
<b>FINANCIAL IMPACT</b>				
The operator pays Net Entertainment a set-up fee	No impact	Net Entertainment receives royalties according to the contract model based on the gross gaming yield generated by the operator. If the gross gaming yield does not exceed a base amount, the operator pays a minimum fee instead	Since players are continually offered new games and features, they stay with the operator which generates revenues both for the operator and Net Entertainment	Account management use increases the operators efficiency and allows them to focus more on operations. This leads to greater customer satisfaction and higher revenues for the operators and for Net Entertainment

# Responsibility and reliability, we take an active role

Online gaming is fun, exciting, entertaining and can also be lucrative. At the same time online gaming can also be addictive why Net Entertainment works actively to prevent problems related to gaming.

Players that loose control over their gaming risk not only their financial situation, it can also affect the family with adverse consequences. Players must therefore be made well aware of the risks of online gaming. Net Entertainment's website includes a test that players can take to see if they are at risk of addiction. It also provides information about where they can seek help if necessary.

Net Entertainment plays an active role in the prevention of gaming-related problems and is a member of G4 (Global Gambling Guidance Group). G4 strives to minimize the damage and problems that can arise as a result of gaming addiction by developing responsible gaming and training programs for gaming company employees and by offering help line services and personal advice services. CasinoModule™ fully supports the guidelines of the organisation.

## SCOPE OF THE G4 PROGRAM

The G4 programme addresses areas such as.

- Ethical business practices
- Staff and customer information
- Monitoring and intervention on issues such as underage gambling
- Referrals to help and counseling

Net Entertainment also fulfills the specific requirements of the Maltese Lotteries and Gaming Authority (LGA). All new games have to be approved by LGA before they can be put into operation. These accreditations create credibility and trust which will also benefit Net Entertainment's customers in the long run. Net Entertainment has no direct contact with the players. However, CasinoModule™ incorporates features that make it possible for the gaming operator to allow end users to limit their gaming by setting a betting ceiling or by disabling certain features (such as autoplay). It is also possible to program the system so that a certain period of time has to expire between two gaming sessions. All of Net Entertainment's games incorporate a clock to help players keep track of time.

The online player should feel confident that their money is in safe hands, that total randomness is ensured in the games on an operator's website and that they do have a chance of winning. All of Net Entertainment's games are tested for randomness by the independent test institute Technical Systems Testing (TST). This is a requirement of the Maltese Lotteries and Gaming Authority (LGA) and eCOGRA. eCOGRA is an organization that annually reviews Net Entertainment's development environment. These inspections ensure that software is maintained and managed in a secure and reliable manner and that the Company's products are regularly tested for randomness by third-party testing facilities such as TST.

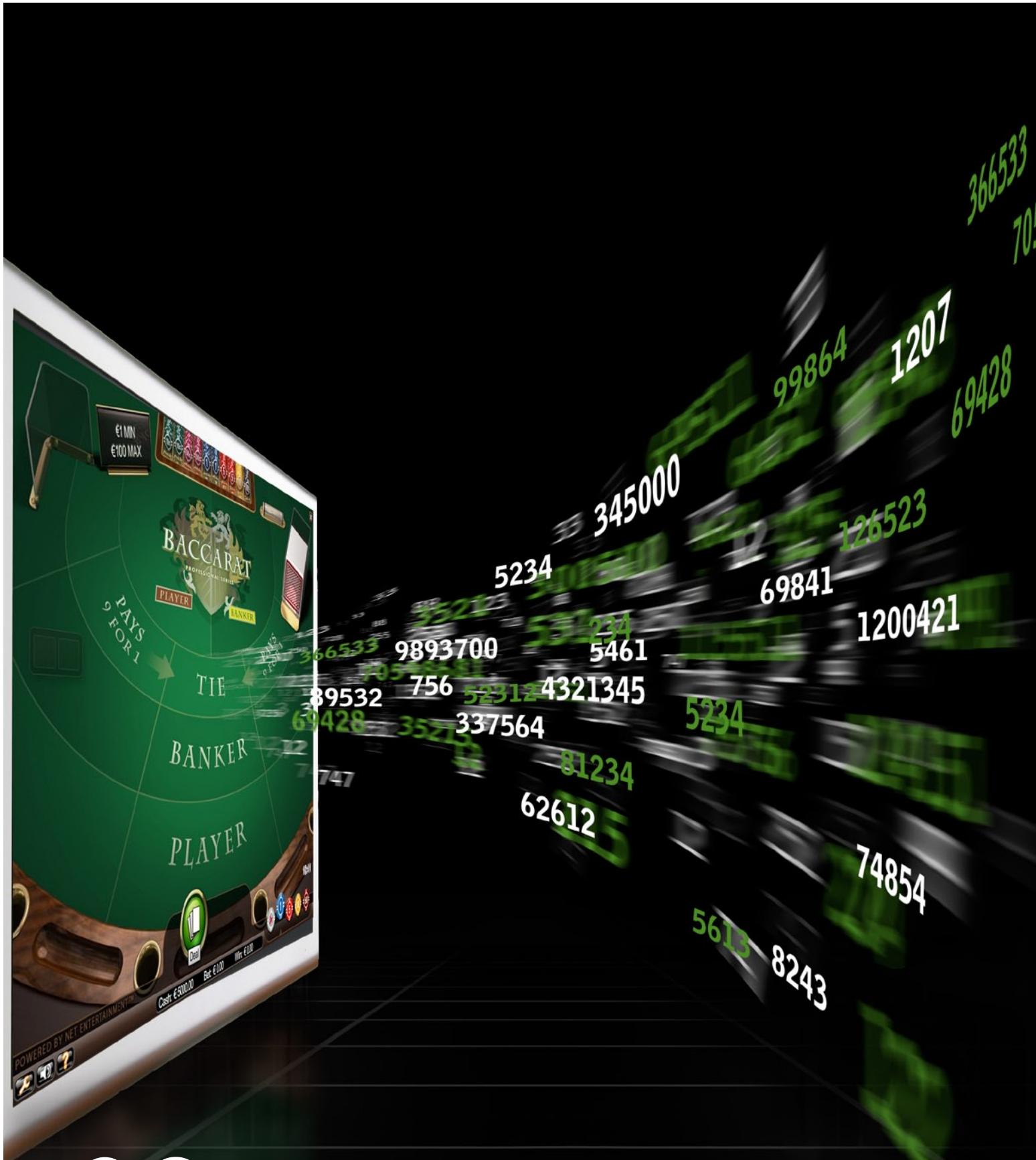


GLOBAL GAMBLING GUIDANCE GROUP



**Net Entertainment takes an active roll in gaming related problems and is connected to the organization G4 (Global Gambling Guidance Group).**





3.9 BILLION

GAME TRANSACTIONS WERE MANAGED IN 2009



# The trend is clear, future gaming is online

In 2009, Net Entertainment's revenues increased by 46 percent. There is still more to give. The online gaming market is in its infancy and accounts for just 8 percent of the total gaming market.

Historically, the online gaming market has demonstrated a strong growth that is expected to continue. As the market matures, greater demands are being placed on product offerings, sophisticated features, regular updates, quality and reliability.

There are three categories of participating entities on the online gaming market – suppliers (games and system developers like Net Entertainment), gaming operators (the suppliers' customers) and the end users/players. In 2009, the global gross gaming yield for online gaming amounted to approximately USD 27 billion, which is the gross gaming proceeds for operators after player winnings. Since 2003, the market has grown by an annual average of 23 percent.<sup>1)</sup>

The games that dominate are wagering, casino and poker. To date, Net Entertainment's revenues have mainly come from the casino segment. In terms of absolute figures, wagering is the largest form of gaming.

Online gaming is becoming more popular and its growth is driven by factors such as Internet penetration, new markets opening due to regulation and new player groups. Since 2004, women's share of internet users in the age of 16–74 in Europe has increased by more than 80 percent, while the same age group for men has seen an increase of 60 percent<sup>2)</sup>. Online gaming used to attract mainly younger men. These days, it is becoming increasingly popular among women and older age groups.

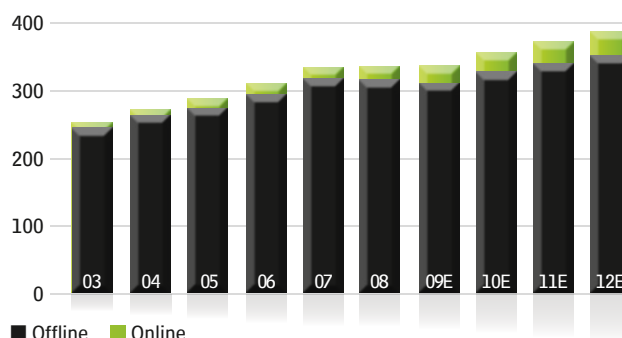
## DRIVING FORCES IN THE GLOBAL MARKET FOR ONLINE GAMING:

- **Greater Internet penetration:** As access to the Internet in homes spreads around the globe, the number of potential players continues to grow. Asia, Africa and Eastern Europe currently have very high growth rates of Internet penetration.
- **Increased broadband capacity:** Infrastructure developments increase data transmission capacity and Internet access. The increased bandwidth allows for more advanced gaming features.
- **Greater confidence in online payment services:** It is essential that the players feel they can trust the gaming operators and online payment services. Consumers are feeling more confident and comfortable about using their credit or debit cards online and this is contributing to market growth.
- **New groups of players:** Online gaming used to attract mainly younger men. These days, it attracts women and men of all ages, which leads to a larger customer base.
- **Regulation:** Deregulation and reregulation of national gaming laws is taking place in a large number of European countries. Regulation of the gaming market creates new opportunities for both the industry and Net Entertainment.

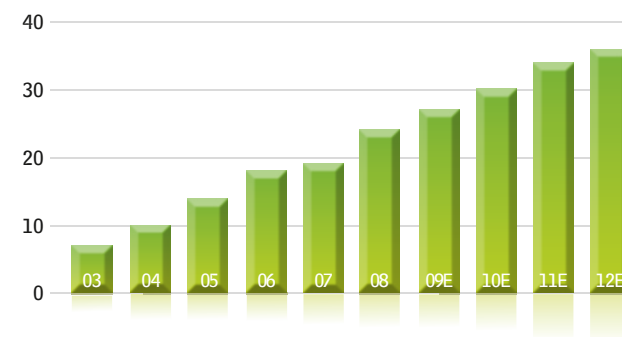
<sup>1)</sup> H2 Gambling Capital, February 2010

<sup>2)</sup> EUROSTAT

Gross gaming yield globally online vs offline 2003–2012E<sup>1)</sup>  
USD billion



Gross gaming yield globally online 2003–2012E<sup>1)</sup>  
USD billion

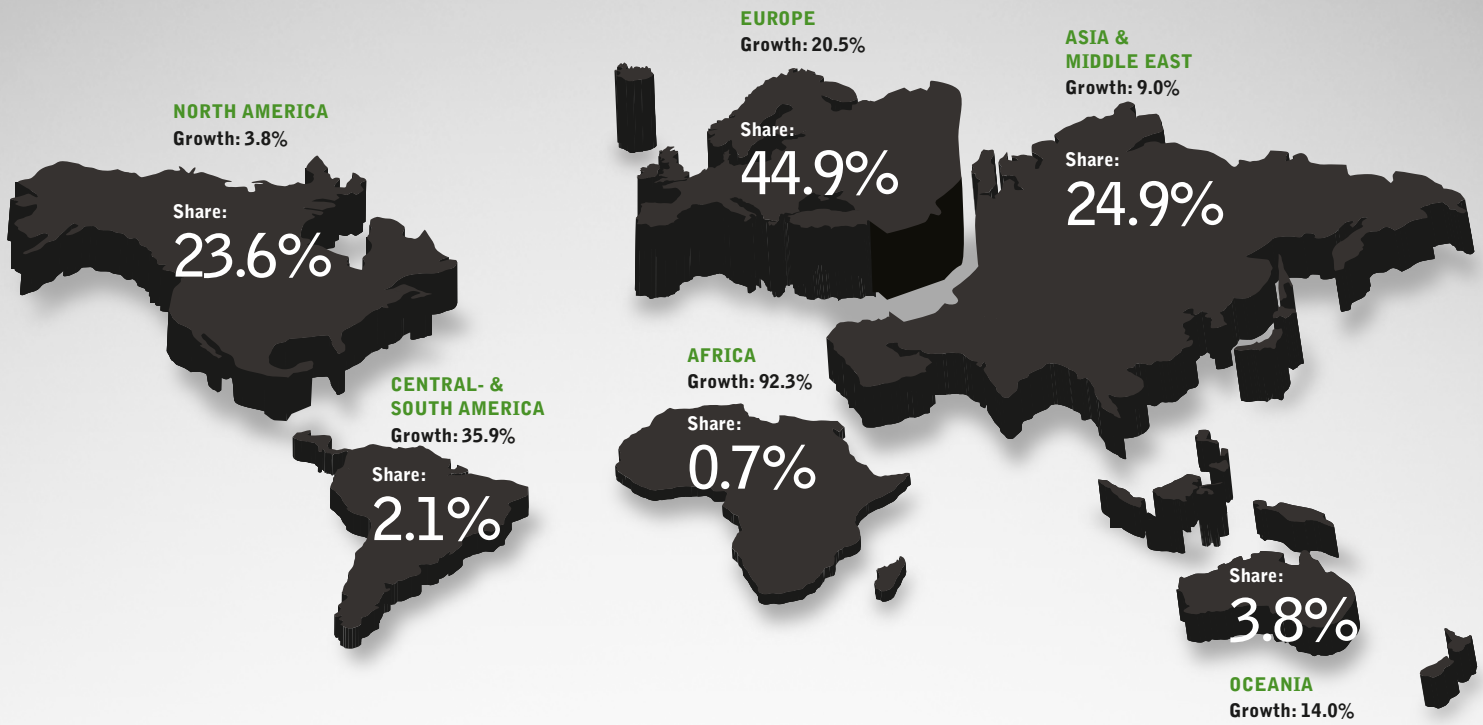


Market share of the different forms of gaming online in 2009<sup>1)</sup>



## MARKET

Expected growth per region 2010. Share of the total online market, based on the player's location in 2009 <sup>1)</sup>



## European market largest, more are following

Online gaming is known all over the world and the global market is growing. Most regions are showing large and solid growth <sup>1)</sup>.

### FEW BARRIERS FOR EXPANSION

Europe is the single, largest gaming market and also the fastest growing market in absolute figures. Europe accounted for 45 percent of the total gross gaming yield from online gaming in 2009 <sup>1)</sup>. The majority of Net Entertainment's customers are based in Europe, while the operators' customers, i.e. the players, are spread all over the world.

Apart from Europe, Asia and the Middle East are the largest online gaming markets, followed by North America. North America used to be the second largest market, but has shown poor growth due to a restrictive legislation that was introduced in the USA in the fall of 2006. Online gaming in the USA offers great potential and discussions about market reregulation are currently underway. In spite of many cultural differences between the western world and Asian and Middle Eastern countries, online gaming is becoming increasingly common and this

has resulted in a positive trend in recent years. Africa and Central and South America are expected to be the largest growth markets between now and 2012, although from historically low levels <sup>1)</sup>.

There are few barriers for expansion into new markets. Primarily they consist of legal restrictions, marketing costs and language adaptation. Expansion into new markets also places considerable demands on gaming developers and operators to produce interesting new games that take cultural nuances into consideration.



**There are few barriers for expansion into new markets. Primarily they consist of legal restrictions and costs for marketing and language adaptation.**

<sup>1)</sup> H2 Gambling Capital, February 2010

## Jackpot for casino

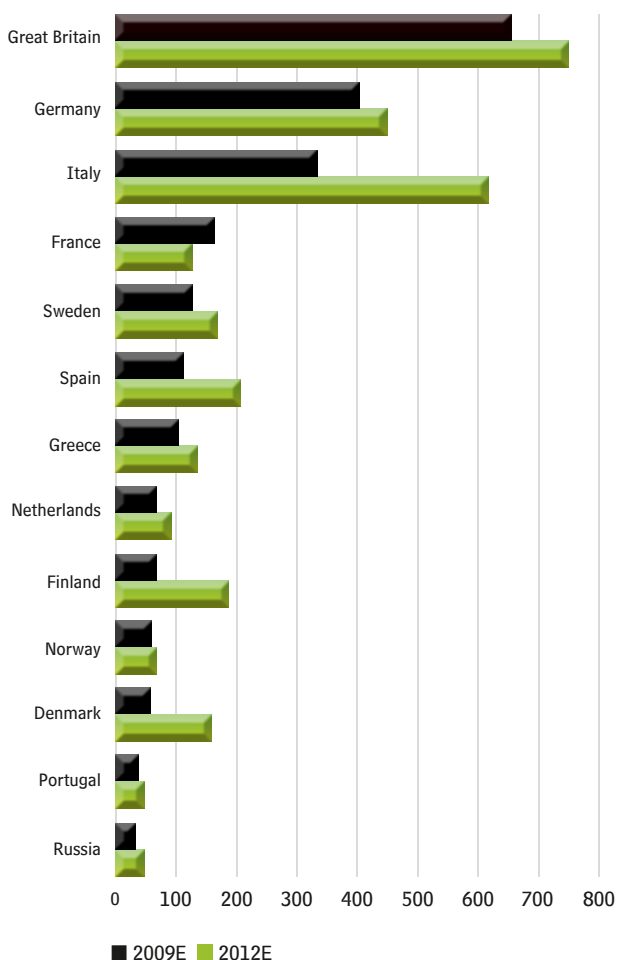
The market for casino online, which is Net Entertainment's main market, have shown positive growth which is expected to continue.

Casino gaming today accounts for approximately 22 percent of the online market<sup>1)</sup>. The online casino market generated a gross gaming yield of USD 5.7 billion in 2009, representing a 14 percent increase over the previous year<sup>1)</sup>. Net Entertainment's objective is to grow faster than the market. With the quality and scalability that CasinoModule™ offers, Net Entertainment is well positioned on the market.

### REGULATION CREATES NEW OPPORTUNITIES

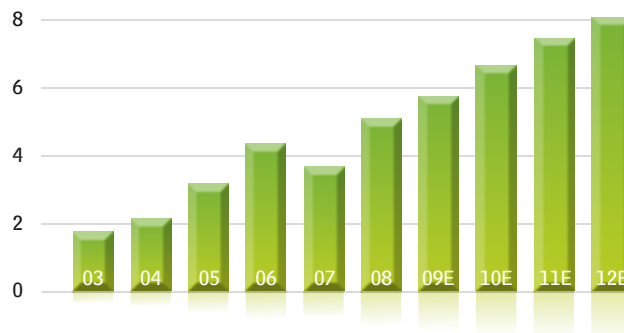
The online gaming market is changing and several countries have indicated that they will be introducing a licensing system which gives the operator permission to manage casino operations online if they fulfil certain conditions. Regulation creates new opportunities for both the industry and Net Entertainment. The chart below shows the gross gaming yield in 2009 in relation to the expected gross gaming yield in 2012. The development in Italy and Denmark is a result of the regulation of these markets which creates opportunities.

Gross gaming yield casino market online in Europe 2009 and 2012E<sup>1)</sup>  
USD million

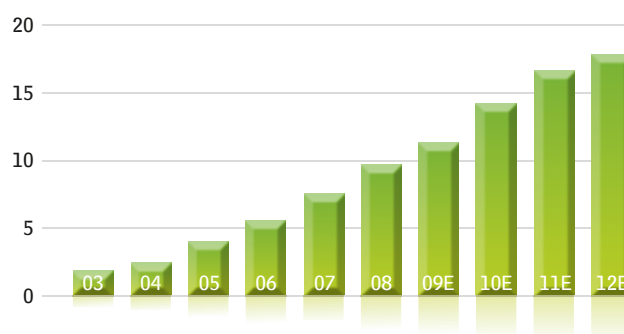


<sup>1)</sup> H2 Gambling Capital, February 2010

Gross gaming yield casino market online 2003-2012E<sup>1)</sup>  
USD billion



Gross gaming yield online market in Europe 2003-2012E<sup>1)</sup>  
USD billion



**THE GLOBAL ONLINE MARKET 2009**  
In 2009, the global market for online gaming totalled approximately USD 27 billion. The forms of gaming that dominate today are wagering, casino and poker. In terms of absolute figures, wagering is currently the largest form of gaming.<sup>1)</sup>

26.6

USD billion

**CASINO ONLINE**  
The casino market online accounts for approximately 22 percent of the global online market.<sup>1)</sup>

5.7

USD billion

6.7%

**NET ENTERTAINMENT'S SHARE OF CASINO ONLINE**  
The market share is an estimation, based on the gaming volume from Netentertainment's customers in relation to the global online casino market.<sup>1)</sup>

## MARKET

### A maturing market

As the online gaming market continues to grow and mature the gaming operators are growing in size and it takes more for new operators to establish a market presence. Net Entertainment believes that the trends behind the development of online gaming entertainment today are beneficial to the Company's development. It is the view of the Company that the greatest risks in the market are changes in the legislation and regulations that control the gaming market.

#### TRENDS

Net Entertainment has identified these trends in the online gaming market:

- **Deregulation and reregulation of national gaming laws are taking place** in a large number of European countries. Regulation of the gaming market creates new opportunities for both the industry and Net Entertainment.
- **The number of gaming transactions are increasing significantly.** At the same time, the average wager has decreased slightly. Net Entertainment believes this is attributable to the current economic downturn. This is creating a strong foundation for growth in the future.
- **The demands for availability are increasing** and greater demands for stability and availability are being placed on operators and suppliers alike. The demands that are placed on games today are comparable to the demands placed on TV and telephony. Net Entertainment is well positioned for this.
- **Higher entrance barriers.** New operators are finding it increasingly difficult as established operators have already invested in software and market positioning and have the advantage of economies of scale. Larger media companies are showing a great interest in online gaming which further makes it harder for smaller operators to become established.
- **Marketing is becoming increasingly important.** Online consumers can be fickle. It is therefore essential to create customer loyalty and attract new customers. This mainly affects the gaming operators who have to stand out from the crowd.
- **End users demand the latest.** The gaming operators make every effort to present new product offerings and to stand out from the competition. This sets the pace of development for the gaming developers. It is thus important for the games developers to have flexible, customer-oriented production processes.

These trends lead to greater pressure on the subcontractors. This is an advantage for Net Entertainment as it already has an impressive range of products and a strong focus on quality.

#### NEW GROUPS OF PLAYERS

Different types of players have different preferences and reasons for playing. Most people play for entertainment, some play to win money and others play for relaxation. Whatever the reason, it is vital that gaming operators and developers are attentive to the various preferences of the players.

The range of ages among players is also becoming greater as Internet penetration continues to expand in our society and interest in online gaming increases. The traditional image of a player, a man aged between 25 and 35, is becoming much less predominant. According to research carried out by GP Bullhound it is expected that 43 percent of all online players in 2009 will be women. Women players used to show a preference for various kinds of bingo games but are now playing increasingly in other gaming segments. Surveys indicate that men and women have different gaming behaviour. Women generally play longer but at lower stakes, while men play more frequently at higher stakes but shorter sessions. Men generally play for excitement and women for relaxation. One reason why the bingo segment is experiencing strong growth is because it offers players relaxation in a social community.

#### COMPETITION

Although the market for online gaming is experiencing strong profitability and growth, it is dominated by a small number of agents. Most games developers offer a wider product portfolio than Net Entertainment. It is not easy to define a clear picture of the competition since there are few players who only operate in the casino segment. In Net Entertainment's opinion, casino gaming is a more stable form of gaming because it has been established longer and is well known.

The Company's primary competitors today are Playtech and Microgaming. These are full-service providers, which means that they offer more than one product and a wider range of services.

” The range of ages among players is also becoming greater as Internet penetration continues to expand in the society and interest in online gaming increases.

#### Competitors overview

COMPANY	HEAD OFFICES	STOCK EXCHANGE	PRODUCTS					MARKET VALUE <sup>1)</sup>	REVENUES 2009
			Casino	Poker	Bingo	Soft Games	Live Casino		
Boss Media	Sweden	Private	✓	✓	✓	✓		n/a	n/a
Chartwell	Canada	Toronto Stock Exchange	✓		✓	✓	✓	127	104 <sup>2)</sup>
Cryptologic	Ireland	Nasdaq Stock Market	✓	✓				279	315 <sup>3)</sup>
Microgaming	Isle of Man	Private	✓	✓	✓		✓	n/a	n/a
Playtech	Isle of Man	London Stock Exchange (AIM)	✓	✓	✓		✓	14,228	1,458
Net Entertainment	Sweden	Nasdaq OMX Stockholm	✓	✓ <sup>4)</sup>		✓		2,828	300

<sup>1)</sup> Value as of January 31, 2010

<sup>2)</sup> Value as of November 2008 - October 2009

<sup>3)</sup> Value as of October 2008 - September 2009

<sup>4)</sup> The product Turkish Poker

## How the market is regulated

Net Entertainment is legally established in the European Union. This gives the Company the constitutional protection for its business operations that results from national legislation, European legislation and the WTO system as a whole. Despite this, its operations depend on the legal and political frameworks that apply to its customers, i.e. the purchasers of Internet-based gaming systems. The development of the European legal protection that customers have against national protectionist monopolistic systems is of particular significance.

The market for practically all kinds of gaming services is regulated by national legislation that defines how gaming operations should be run. As a subcontractor without any operator activities of its own, Net Entertainment is not directly affected by the regulations that apply to the gaming market. It is possible that changes in the situation of its customers may also have an impact on Net Entertainment's terms for growth, profitability and product development.

The European Court of Justice has ruled on national gaming regulations in numerous cases. Under current EU legislation, Member States are relatively free to choose gaming regulations. However, the regulations must incorporate the EU principles of proportionality and non-discrimination. They must meet fundamental requirements for consistency and systematics. National regulations may not, for example, bar foreign private players for public health reasons if the government allows extensive marketing of state-owned gaming companies in order to swell the public treasury. In recent years, the European Court of Justice and national courts have rendered significant judgments that affect the gaming entertainment market. Some of the judgments have helped open markets for private operators while other judgments have been more protectionist.

In this context, it should be noted that the gaming market has not been the subject of any specific European Union harmonisation measures. No legal directives, recommendations or decisions have been adopted by the political institutions of the European Union.

The European Court of Justice is currently handling approximately 15 cases of requests for preliminary rulings from courts in Member States. Furthermore, the European Commission has initiated cases against Sweden, Finland, Denmark, Germany, France, the Netherlands, Hungary, Austria, Greece and Italy for breach of treaty. The European Commission is currently deliberating whether to take these States to the European Court of Justice.

Deregulation and reregulation of national gaming laws is taking place in many European countries. Italy has created a working licensing system. France is soon implementing a licensing system that however is somewhat less attractive for private operators. The development of national licensing systems is partly driven by the rulings in the European Court of Justice which has given the member states a somewhat larger freedom to implement limitations for offering of remote gaming across borders. Member states are now given increased opportunities to secure tax revenues provided the licensing systems create better competitive conditions that are formally open for all operators who meet certain requirements.

### NET ENTERTAINMENT LISTS THE FOLLOWING AS THE MOST IMPORTANT LEGAL DEVELOPMENTS IN RECENT YEARS:

- Legislation passed in October 2006 forbade online gaming aimed at private individuals in the USA. This legislation imposes severe limits on the ability of gaming operators to conduct gaming operations and of banks to process payment transactions to gaming operators online. After the legislation came into effect, Net Entertainment ended

its partnerships with those gaming operators whose activities were directed at users in the US market. At the moment, it is uncertain how the US market will develop in the future. Many believe it may eventually open again, possibly following the creation of some kind of licensing system. In 2009, a political discussion to remove the prohibitions and allow casino games on the Internet has started.

- In March 2007, Turkey introduced a ban similar to that in the USA, forbidding operators to offer games over the Internet. However, since the operators moved their operations to another European country where online gaming is legal, this law was practically ineffective.
- The Italian gambling market, for all types of gambling, is expected to generate approximately EUR 20 billion in 2010, making it the single largest market in Europe<sup>1)</sup>. Italy is today a regulated market with sports and horse betting, tournament poker, skill games and scratch tickets available on the internet via licensed operators. In the future, concessions are expected to be extended to also include cash poker games, bingo and casino. Most stakeholders believe the new regulations are to take effect in the beginning of 2010.
- France is contemplating to transition from being a monopolistic to a regulated commercial market. In the beginning of October 2009 a legislation was introduced which purpose is to legalize betting on sporting events, horse racing and poker. If the proposal is accepted the new regulation is expected to become effective during the second half of 2010.
- A ruling by the EFTA Court in Luxembourg can be seen as defending Norway's gaming monopoly. Norway has now extended its prohibition on promoting gaming offered by companies established abroad which means that banks are prohibited from processing payment transactions from Internet-based games without a license in Norway.
- Swedish courts have expressed doubt about whether the Swedish Lottery Act is in violation of the European Community Treaty. One example of this is the decisions of the High Court and the Svea Court in 2008 that resulted in the imminent inquiry into the Swedish gaming monopoly by the European Court of Justice. A decision is expected at the end of 2010.
- Sweden presented an investigation report entitled "An investigation into the future of gaming" (SOU 2008:124) in December 2008. This report presented two alternatives. However, it is very uncertain whether the findings of the report will be used to develop a proposal. The success of this legislative proposal is highly uncertain following the legal criticism of the Commission's report (the Competition Authority recommended the rejection of the proposal) and the fact that there are about 15 cases currently being examined by the European Court of Justice.
- In 2009, The European Court of Justice has given the member states increased flexibility to maintain protectionist monopolistic systems. During 2010 a number of decisions are expected to clarify if the gaming area shall be looked at as a "free zone" for Member States to impose restrictions on operators' freedom to provide gaming services.

It is today difficult to provide a clear picture today of the legal and political frameworks that apply to Net Entertainment's operations in the European gaming market. This is because European legislation and national regulations are continually changing. Net Entertainment believes that the European countries will eventually opt for license-based national systems that are open to private players. The expansive Italian gaming market with revenues today of EUR 20 billion is one example of a successful licensing system. New markets beyond Europe offer exciting opportunities for Net Entertainment to expand. South America and the USA, which are moving towards deregulation, are of particular large interest.

<sup>1)</sup> H2 Gambling Capital, February 2010

# Creativity, a cornerstone, strong teams, self-explanatory

To achieve success in a fast-growing industry, Net Entertainment works actively to attract the best people.

We also want to provide a stimulating work environment with great variation. Our employees should be able to develop professionally and personally. One of Net Entertainment's most important values is creativity and this is deeply embedded in our corporate culture. No ideas are too strange to consider and it is only thanks to the right balance of expertise and a strong team spirit that our Company can continue to deliver good results.

## EMPLOYEE DEVELOPMENT

In order for Net Entertainment to continue its growth all employees must have knowledge and feel involved in the Company's goals and strategies. It is equally important that individual employees appreciate their own roles and understand how she or he can contribute to the Company's performance. Appraisals are conducted, followed up and assessed annually. Net Entertainment's strength is built on the combined expertise of its employees. Therefore the Company strives to be an attractive workplace environment where they feel involved and satisfied. Net Entertainment's future depends greatly on its ability to successfully recruit and retain employees.

## LEADERSHIP

Leadership at Net Entertainment involves the managers working together with employees to drive the Company forward. It also involves

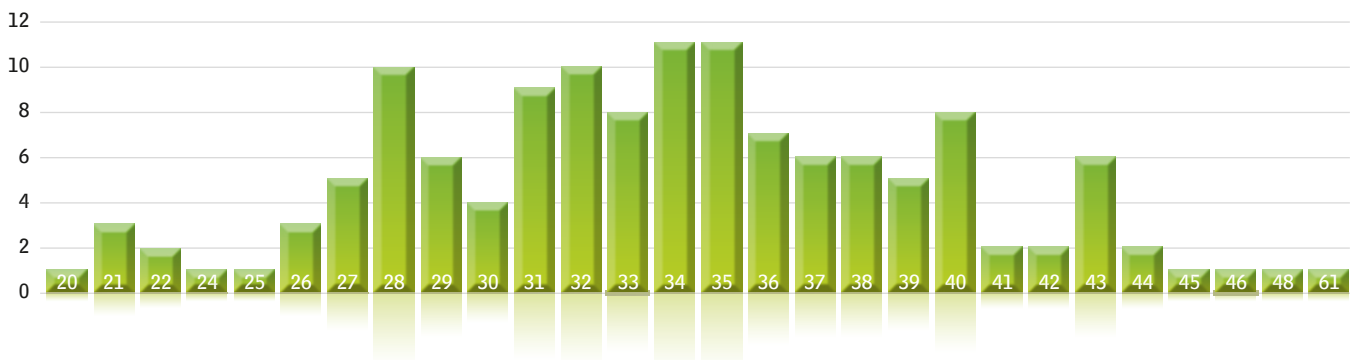
understanding the vision, goals and strategies of the Company and communicating them to the employees and other stakeholders. As Net Entertainment's business grows, managers' responsibilities increase and managerial roles become more important. All managers with personnel responsibilities took part in a leadership program in 2009. This was designed specifically with Net Entertainment's needs in mind.

## FAST GROWING COMPANY

Net Entertainment recruited 73 persons in 2009. At the end of the year however, not all of these people had started their employment yet. Many of the new employees will be working with development and IT-operations. The Company has also recruited a number of middle and executive managerial personnel in the areas of account management, project management, product ownership and finance.

Finding the right person with the right skills is a challenge. This is why the Company often use third party recruitment services. On December 31, 2009, the Company had a total of 133 employees and 54 consultants. The number of consultants has declined since 2008 thanks to successful recruitments. At the same time, development work is being increasingly transferred to overseas subcontractors in order to provide greater flexibility and to reduce costs.

Age distribution employees  
Number

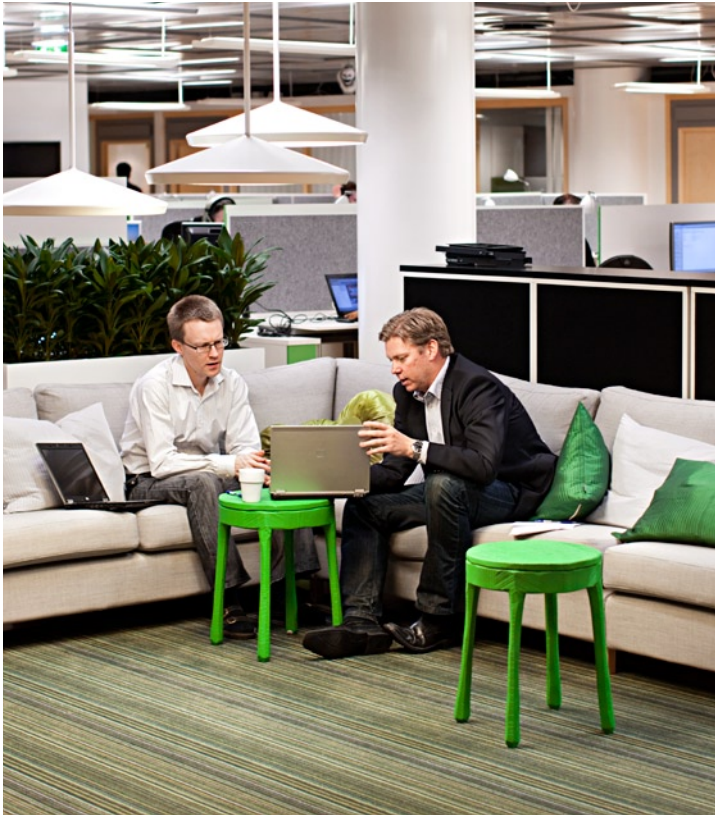


**A MIX OF SKILLS**

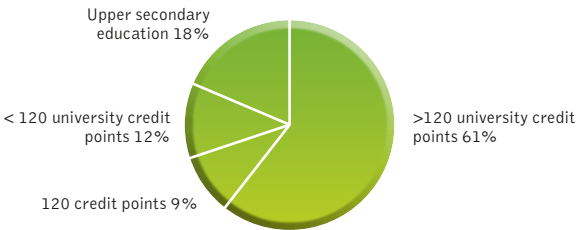
The Company’s systems manages billions of transactions each year which means its employees are expected to demonstrate good judgement and have appropriate background experience and education. Net Entertainment recruits its employees from different sectors with a particular focus on banking and finance for platform development and on the video gaming sector for gaming development. The systems should be reliable, secure and also thoroughly creative. Such a mix requires a fine balance of skills.

One advantage of employing people from different industries is that Net Entertainment can constantly expand its portfolio of expertise and abilities. New employees contribute in numerous, positive ways to the Company’s development with innovative ideas and experience of various working methods and organisations.

” It is through the right mix of expertise and a strong team spirit that the Company can continue to deliver good results.



Level of employee education



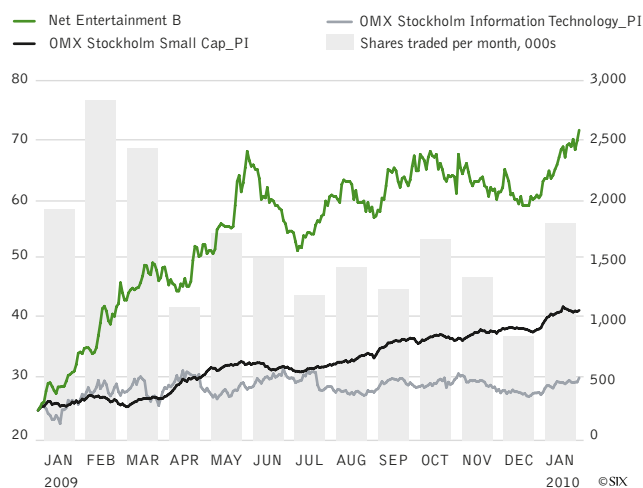
73 PERSONS

WERE RECRUITED IN 2009

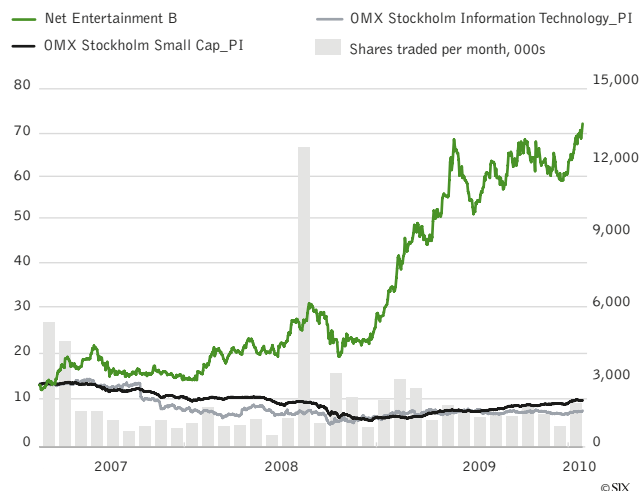
# Ownership structure and investor information

2009 has been a very positive and eventful year for the Net Entertainment share. The Company was listed in January on Nasdaq OMX Stockholm and the share price has developed well. There has been considerable focus on maintaining good relations with the capital market and several activities aimed at these groups have been carried out in Europe and the USA.

Share development 2009



Share development 2007–2009



Straumur-Burdaras Investment Bank sold its holding in August 2008 representing 29 percent of the shares.

## SHARE PRICE DEVELOPMENT AND SHARE TURNOVER

In 2009, the share price increased from SEK 25.00 to SEK 60.75, an increase by 143.0 (51.3) percent. The Nasdaq OMX Stockholm Small Cap\_PI index increased by 54.8 (–46.6) percent in 2009. Information Technology\_PI index increased by 9.8 (–26.4) percent.

Net Entertainment's market capitalization, i.e. the value of all the Company's outstanding shares, amounted to SEK 2,403 (957) million on December 31, 2009 and SEK 2,828 (1,246) million on January 31, 2010.

In 2009, 19.3 million shares were traded, which is an average of approximately 77,000 shares per day.

## INVESTOR RELATIONS

Net Entertainment considers communication and transparency to be important for maintaining good relations with investors and analysts. The Company places great importance on investor relations where the aim is to inform the capital market about Net Entertainment's operations, development and financial position to increase knowledge and interest in the Company and also to obtain a fair valuation.

Throughout the year, Net Entertainment has taken part in several IR activities, such as seminars, investor meetings and roadshows in Europe and the USA. In addition, the Company participates at all major gaming fairs, including the EIG in Copenhagen and the ICE in London.

## Key data for the Net Entertainment share

	2009	2008	2007
Earnings per share	2.72	2.02	1.16
Transfer to shareholders <sup>1)</sup>	2.00	1.25	0.75
Transfer to shareholders as a % of after-tax profits	74	62	65
Shares outstanding at year-end (millions)	39.6	39.6	39.6
Average number of shares outstanding (millions)	39.6	39.6	39.6
Quoted share price at the closing date, SEK	60.75	24.20	16.00
Direct return <sup>2)</sup>	3.3	5.2	4.7
Total return, Net Entertainment shares as % <sup>3)</sup>	156.2	55.9	18.6
P/E ratio	22.3	12.0	13.8
Number of shares sold per year, millions	19.3	26.4	18.3
Turnover rate	48.8	66.9	46.3
Market value at year-end, SEK millions	2,402.9	957.2	632.9
No. of shareholders	3,745	3,011	3,006

<sup>1)</sup>Board's proposal for 2009

<sup>2)</sup>Dividends divided by the share price at year-end

<sup>3)</sup>Closing price for 2009 plus dividends paid in 2009 divided by the closing price on the final day of trading 2008



## Ten largest shareholders according to Euroclear Sweden AB at December 31, 2009

Name	No. of Series A shares	No. of Series B shares	Holding (%)	Votes (%)
Hamberg, Per	1,700,000	1,823,478	8.91%	20.90%
Lundström, Rolf	1,152,500	1,201,688	5.95%	14.13%
SIX SIS AG	700,000	2,099,635	7.08%	10.11%
Kling, Lars	797,000	478,371	3.22%	9.38%
Lindwall estate, Bill Johan Bertil	561,000	–	1.42%	6.23%
EFG Private Bank	360,000	1,991,515	5.95%	6.21%
Banque Carnegie Luxembourg	339,500	73,000	1.04%	3.85%
Swiss Life	–	2,110,000	5.33%	2.34%
SEB Enskilda	–	2,066,000	5.22%	2.29%
SEB Private Bank	–	1,777,735	4.49%	1.97%
<b>Total, ten largest shareholders</b>	<b>5,610,000</b>	<b>13,621,422</b>	<b>48.62%</b>	<b>77.43%</b>
Other shareholders	–	20,322,294	51.38%	22.57%
<b>TOTAL</b>	<b>5,610,000</b>	<b>33,943,716</b>	<b>100.00%</b>	<b>100.00%</b>

Four new analyst houses have initiated a coverage of Net Entertainment in 2009. This further contributes to increased knowledge and analysis of the Company for the capital market.

**SHARE OPTIONS SCHEME**

At the end of 2009 the total outstanding share option rights amounted to 629,225, corresponding to the same number of shares. In the case of full subscription of these share option rights the parent company's equity will increase by SEK 45.1 million. The share options rights have been issued under an incentive program and 586,225 share option rights have been subscribed for at market value determined to SEK 7.10 which generated SEK 4.2 million to equity for the group. The strike price for the shares amounted to SEK 71.70 which represents 130 percent of the average share price during the period May 12–26, 2009. Subscription of shares can be made during the period May 15 to July 15, 2012. An additional 43,000 share option rights are held by the wholly owned subsidiary Mobile Entertainment ME AB, which will not be used.

**DIVIDEND POLICY AND PROPOSED DIVIDEND 2009**

It is the ambition of Net Entertainment's Board of Directors that the company's ordinary dividend shall grow in line with the Company's earnings per share, with due consideration for the Company's long-term capital requirements. However, the ambition is that the dividend shall be at least 50% of net profit after tax, after taking the Company's long-term capital requirements into account.

The Board of Directors proposes no dividend for 2009. The Board of Directors propose that the Annual General Meeting resolves upon the transfer of SEK 79,107,432 (equivalent to SEK 2.00 per share) to shareholders through a share redemption program. The complete proposal and an information folder will be available for download two weeks prior to the Annual General Meeting.



Net Entertainment's CEO Johan Öhman and CFO Bertil Jungmar opened the Nasdaq Stock Exchange in New York in August 2009.

**ANALYSTS**

**ABG Sundal Collier**, Stockholm  
**Carnegie Investment Bank**, Stockholm  
**Danske Bank**, Stockholm  
**Daniel Stewart & Company**, London  
**Redeye**, Stockholm  
**Remium**, Stockholm

Anders Hillerborg  
 Martin Arnell  
 Bile Daar  
 James Hollins  
 Dawid Myslinski  
 Kristian Kierkegaard

# Corporate governance

This Corporate Governance Report has not been subject to review by the Company's auditors.

Net Entertainment NE AB is a Swedish public limited liability company with shares quoted on the Nasdaq OMX Stockholm Stock Exchange. Net Entertainment's corporate governance is therefore based on Swedish regulations and Swedish legislation. The rules and regulations comprise the Swedish Companies Act, the Swedish code for corporate governance (the Code), the listing requirements of Nasdaq OMX Stockholm as specified in "Regulations for issuers" and the Company's own internal instructions and policies. Through legislative amendments applying for all Swedish companies whose shares are traded on the Swedish regulated market and the financial year beginning after February 28, 2009, i.e. for Net Entertainment from financial year 2010, Corporate Governance Report is a legal requirement. The company's auditor will then review the corporate governance report. A legal requirement that audit committees should have an independent person with accounting or auditing skills are also introduced.

The Swedish Companies Act provides a regulatory framework for the organization of a public limited liability company. The Code is intended to provide guidance on sound corporate governance principles and support the legislation in a number of areas where it places higher demands. However, the Code makes it possible for companies to deviate from the provisions of the Code provided that each deviation can be explained as leading to better corporate governance (based on the principle of 'comply or explain'). If a company finds any rule or recommendation inappropriate to the special circumstances of the company, it may depart from best practice provided it can explain and justify the reasons for such departure

## ANNUAL GENERAL MEETING

The Annual General Meeting is the ultimate decision making body of Net Entertainment. The Annual General Meeting must be held within six months after the end of each financial year. The Annual General Meeting approves the annual report for the financial year, elects the Board of Directors and auditors and considers other formal issues. An extraordinary general meeting can be held if so demanded.

Shareholders are entitled to attend a meeting provided they are recorded in the register of shareholders maintained by Euroclear Sweden AB on the date decided by the Board of Directors, and provided they notify the Company of their intention to attend no later than on the date decided by the Board of Directors.

Each Series A share gives an entitlement to ten votes and each Series B share gives an entitlement to one vote.

## ELECTION COMMITTEE

At the Annual General Meeting in April 2009 it was decided that the chairman Rolf Blom shall convene an Election Committee composed of one representative of each of the three largest shareholders at 31 August 2009 which, together with the Chairman of the Board shall be members of the Election Committee for the Annual General Meeting 2010. In October 2009, Per Hamberg was appointed (appointed by the Hamberg family), Lena Apler (Provobis Invest AB) and Emil Sunvisson (Kling family) as members of the Election Committee. The

Committee's term of office runs until the new committee is appointed in accordance with the decision on appointing the Election Committee for the Annual General Meeting 2010.

## BOARD OF DIRECTORS

The Board of Directors is the Company's final decision making body in the period between the Annual General Meetings.

### Work of the board of directors

Net Entertainment's Board of Directors plays a strategic steering role and is responsible for ensuring that the executive management implements the strategies and decisions of the Board. The Board of Directors also has a control function and a responsibility to provide information that gives the market an accurate picture of the Company and its financial position.

The work of the Board of Directors involves setting goals and strategies, establishing business and marketing plans for each year and deciding the budget for the following financial year. In addition, the Board of Directors reaches decisions concerning key policies and agreements, major investments and forecasts.

The Board of Directors works according to a written set of procedures, which determines the frequency and agenda of Board meetings, the circulation of material for meetings and matters to be brought to the Board for decisions. It also regulates the division of responsibility between the Board, the Chairman of the Board and the CEO. It also defines the authority of the CEO. The Chairman of the Board prepares the Board meetings together with the CEO. At each scheduled Board meeting, the CEO presents a report on the Company's financial progress.

Net Entertainment's Board of Directors consists of six elected members. All members are independent in relation to the Company and its senior management and five board members to major shareholders.

At the 2009 Annual General Meeting, five members were re-elected and one new member was elected. Rolf Blom was re-elected and appointed Chairman of the Board by the Meeting. The Board of Directors held six scheduled meetings and eight additional meetings in 2009. Key points at the board meetings in 2009 have been questions regarding strategy, acquisitions, taxes, approval of business plans and budget, annual report, earnings report, interim reports and investments. In June, the board held a two-day meeting with senior management regarding strategy for continued growth and development. The CEO, Johan Öhman, attends the Board meetings together with the Chief Financial Officer, Bertil Jungmar, who also takes the minutes of the meetings. The meetings are also attended by different executive managers to give presentations on various aspects of the business. All Board members have attended the Board meetings, with the exception of Rolf Blom and Niclas Eriksson who have not been present on one meeting each.

### Audit Committee

The Board of Directors has established an Audit Committee that has since April 2009 comprised of Fredrik Erbing (Chairman), Rolf Blom and Mikael Gottschlich. Previously the Audit Committee comprised of all Board Members. The Company's CFO, Bertil Jungmar, is co-opted to the Committee and is the Committee secretary.

The Company's auditors participate in some of the committees meetings through presentations and debriefing. The Audit Committee is

responsible for the quality assurance regarding the Company's financial reporting and for Net Entertainment's internal control processes. The Committee is also responsible for the Board of Director's regular communications with the Company's auditors, establishing guidelines for services to be provided by the auditors in addition to audit services, evaluation of the audit work, assisting the Election Committee with proposals for the election of auditors and fees to auditors. Furthermore, the Committee has established an annual plan for its work, carried out a risk assessment on the Company's financial reporting, participated and evaluated the auditor's review, evaluated the internal controls and improvements performed by the company in that regard, considered the financial policy, and discussed the risks related to internal control and accounting issues.

The Audit Committee met four times in 2009. All members attended all of the meetings.

#### Remuneration Committee

The Remuneration Committee comprise of all six Board members. The Chairman of the Board is the Chairman of the Committee.

The Remuneration Committee deals with matters relating to remuneration and benefits to Senior Management, including the CEO. The Remuneration Committee prepares items for resolution by the Board relating to remuneration and benefits for the CEO and matters of significance for all senior executives. The Committee decides on remuneration matters concerning other senior executives and on matters of lesser importance. The Board of Directors also decides on matters of major significance concerning remuneration for senior executives and the salary of the CEO. The Board of Directors adopted a remuneration policy that will be presented to and approved by the Annual General Meeting. This remuneration policy is reviewed annually. The current remuneration policy is appended to the minutes of the Annual General Meeting. These documents are available on the Company's website.

The Remuneration Committee met once in 2009 and once in February 2010. All members attended both meetings.

#### Instructons for the CEO

The Board of Directors has developed and adopted a set of instructions specifying the work and responsibilities of the CEO and his duties towards the Board of Directors. Within the parameters of the Swedish Companies Act, the CEO is responsible for the Company's business plan, CEO instructions, guidelines and directions from the Board of Directors, managing and developing the Company and managing the ongoing administration of the Company's business. The CEO is responsible for ensuring that the Company's organization operates efficiently and professionally and that the internal control is purposeful and efficient, for implementing the Company's strategy and goals, and developing and proposing qualitative and quantitative goals for the Company's business units. In his duties towards the Board of Directors, the CEO shall regularly, and prior to each scheduled Board meeting, prepare, compile and present information requested by the Board for appraisal of the Company's financial situation, such as reports, key performance indicators, comments, proposals for business plans, marketing plans, budgets, forecasts, year-end reports, interim reports and annual reports.

#### AUDITING

The Company's auditors are elected by the Annual General Meeting for a four-year term of office. The Annual General Meeting gives the auditors the task of reviewing and examining the Company's accounts and business administration. At the Annual General Meeting in April 2008, Deloitte AB was elected as the Company auditors for the period extending until the 2012 Annual General Meeting. Therése Kjellberg has been appointed principal auditor.

The auditor has presented her findings of the audit of the January-September 2009 Interim Report, the 2009 Annual Report and Internal Control for both the Audit Committee and the Board of Directors. The auditor has also met with the Audit Committee without any members of Senior Management being present.

#### INTERNAL CONTROL

Internal control is the process affected by the Company's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of the Company's objectives in the following respects:

- purposeful and efficient operations,
- reliable financial reporting, and
- compliance with applicable laws and regulations.

The basis for the internal control with regard to financial reporting is the overall control environment adopted by the Board of Directors and the management, which they communicate and act upon and which provides discipline and structure for other components in the control process. Internal control components include risk assessment, control activities (both general and more specific controls) aimed at preventing, detecting and correcting errors and inconsistencies, systems for internal and external information and communication, and monitoring by the Board and the management and onwards down into the organization to ensure quality throughout the process. A key aspect of the control environment is a clear definition of the organizational structure, decision-making processes and delegation of authority, which is presented in steering documents such as internal policies, guidelines, manuals and assessments.

The Board is responsible for the internal control process in accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance.

#### Control environment

In its development of processes, Net Entertainment has greatly considered the control environment and implementation of a risk assessment. A well-planned internal control not only provides a good basis for reliable financial reporting, it also promotes sound and sustainable business performance, resulting in increased profitability. Net Entertainment's internal processes are under continuous development and review and this process will become increasingly important as the Company grows. This is equally important for the systems that Net Entertainment develops and manages on behalf of licensees.

The Board has the overall responsibility for the internal control with regard to financial reporting. The Board has adopted a written work plan that clarifies the Board's responsibilities and regulates the internal division of duties for the Board and its committees. The Board has appointed an Audit Committee whose primary task is to ensure compliance with established principles for financial reporting and internal controls and that appropriate relations are maintained with the Company's auditors. The Board has produced and adopted instructions for the CEO and instructions for financial reporting to the Board of Net Entertainment with regard to the ongoing work on internal control that has been delegated to the CEO. The CEO, in turn, delegates authority to those who report to him, both directly and through the Company's established guidelines and manuals.

The Group's Finance department reports to the Audit Committee and to the Group's CFO and works on the development and improvement of the internal control with regard to financial reporting across the Group. This is done both proactively with a focus on the internal control environment and by monitoring how the internal control process works. In a fast-growing company like Net Entertainment, it is

## CORPORATE GOVERNANCE

essential that internal control development is an ongoing process. A project was implemented in 2009 to document and further the development of processes with the aim of clarifying and strengthening the internal control process. This has also resulted in greater efficiency and reduced vulnerability. A new financial system has been implemented to facilitate reporting, analysis, planning and control. The Finance department has also been strengthened by the recruitment of more employees to ensure that the department's capabilities meet Company needs.

Internal steering documents for financial reporting primarily comprise the Group's Finance Policy, Information Policy, Finance Manual and authorization instructions that define the accounting and reporting regulations, and the Group's definition of processes and minimum requirements for good internal control regarding financial reporting. The Company has also established a policy for Trading in the Company's Shares, an IT Policy, a Dividend Policy and a Drugs and Gambling Policy.

### Risk Assessment

Net Entertainment has conducted a structured risk assessment to enable identification of the significant risks that affect the internal control for financial reporting and identification of where these risks lie. Special consideration has been given to the risk of irregularities and improper favoring of another party at the Company's expense, as well as the risk of loss or misappropriation of assets. At the same time, the risk assessment has placed greater focus on key processes and positions.

Risks in connection with financial reporting are loss or misappropriation of assets, improper favoring of another party at the expense of the Company and other risks concerning material misstatements in the financial statements, for example, the accounting and valuation of assets, liabilities, revenues and expenses or non-compliance in disclosure requirements. The issues are prepared by the Audit Committee for review by the Board. A number of items have been identified in the income statement and balance sheet where there is an increased risk of material misstatement. These risks can be attributed primarily to legal areas such as regulated operations and taxes and the Company's substantial cash equivalents.

The risk assessment results in control objectives that support compliance with the fundamental requirements for the financial reports. The risk assessment is updated annually and the results are reported to the Audit Committee.

### Control activities

The most significant risks identified with regard to financial reporting are managed through control structures in processes. Appropriate control activities are designed and documented at process level and include general and more detailed controls aimed at preventing, detecting and correcting errors and inconsistencies. The control activities must be designed to ensure they are implemented in the correct manner and at the correct time. General IT controls should be appropriately designed for those systems that support the processes that affect internal control with regard to financial reporting.

Areas encompassed by control activities may include:

- proper authorization of business transactions business systems that have an impact on financial reporting, including handling of vouchers
- the financial reporting process, including annual accounts and consolidated financial statements and their compliance with current and applicable rules with respect to generally accepted accounting principles, applicable legalization and regulations and listed com-

pany requirements, and also to guarantee that correct supporting documentation for decision-making is reported to the Board and management

- material and unusual or complex business transactions, as well as business transactions or valuations of assets or liabilities that include a significant element of judgment.

### Information and communications

All employees concerned have access via the Company's intranet to information and communications about internal steering documents for financial reporting. Net Entertainment has information and communication channels aimed at promoting the completeness and accuracy of the information contained in the financial reports. Essential guidelines and manuals of importance to the financial reporting are updated and communicated regularly to the employees concerned. Employees are able to communicate essential information to corporate management and the Board via formal and informal channels of information. There are guidelines for external communications to ensure Company compliance with stringent requirements for correct and relevant information to the market.

### Monitoring

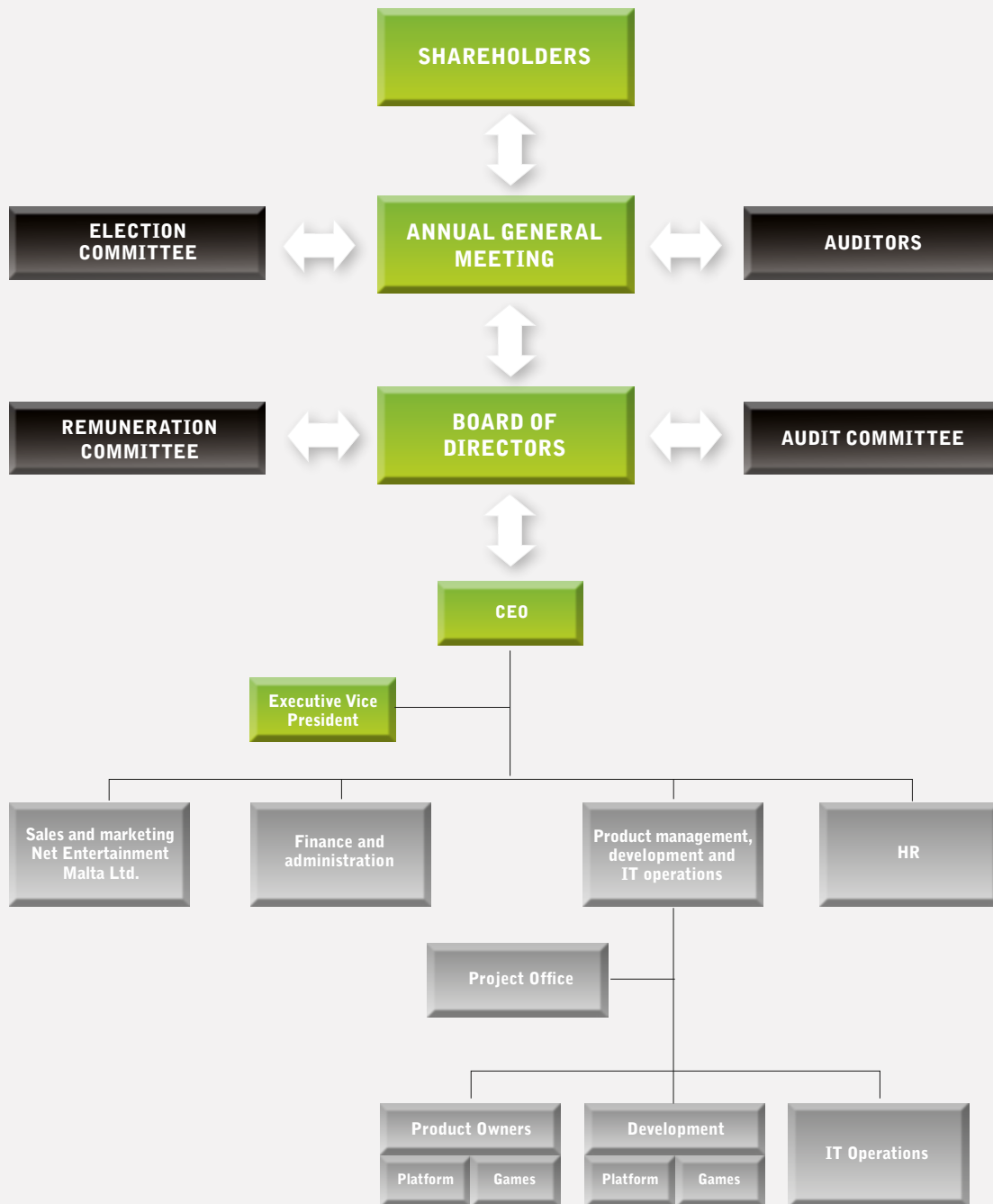
The Board regularly analyses the information reported by the management. Monitoring includes the follow-up of monthly financial reports on budgets and targets as well as reports from Board meetings. The Company implements a process to regularly monitor and assess compliance with internal policies, guidelines, manuals and codes, and also the functionality and appropriateness of established control activities. The Audit Committee is responsible for ensuring the implementation of measures concerning weaknesses and proposals for measures that have been identified via internal control activities and the external audit.

A standing item on the agenda of the Audit Committee's meetings is a report from the Group's CFO on the results of his work on internal control. The Board is given regular reports on the results of the Audit Committee's work in the form of observations, recommendations and proposals for decisions and measures.

### Internal audit

If a company does not have a dedicated audit function (internal audit), it is the responsibility of the Board of Directors to annually assess whether such a function is necessary and present its opinion in its report on corporate governance. Net Entertainment does not have a dedicated audit function. The future development and administration of the internal control system is handled in the organization. The Board does not consider it necessary to establish a dedicated internal audit function.

# Organization Net Entertainment Group





## Board of Directors and auditors

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### ROLF BLOM

Chairman of the Board

Born 1957

Elected 2007

Independent in relation to the company, senior executives and owners

Rolf Blom is the Chairman of the Board of Directors of PBM Sweden AB, Nasp AB, e-capital AB and is a member of the Board of Cherryföretagen AB and Proxibit Svenska AB. Rolf has a BSc. in Economics from the Gothenburg School of Economics.

Shareholding<sup>1)</sup>: 460,000 B shares

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### NICLAS ERIKSSON

Board Member

Born 1964

Elected 2008

Independent in relation to the company, senior executives and owners

Niclas Eriksson is Chairman of the Board of Kungstaden Fastighets AB and a Member of the Board of Vasastaden Holding AB, Stigberget Fastighet-sutveckling AB, Vassholmen AB and Isogenica Ltd. Niclas has a degree in Financial Economics.

Shareholding<sup>1)</sup>: 25,000 B shares

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### VIGO CARLUND

Board Member

Born 1946

Elected 2008

Independent in relation to the company, senior executives and owners

Vigo Carlund is Chairman of the Board of Tele2 AB and Korsnäs AB and a Member of the Board of Investment AB Kinnevik and AcademicWork Solutions AB.

Shareholding<sup>1)</sup>: 400,000 B shares

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### MIKAEL GOTTSCHLICH

Board Member

Born 1961

Elected 2008

Independent in relation to the company, senior executives and owners

Mikael Gottschlich is Chairman of the Board of Sentat Asset Management AB and a Board member of CKT Capital incl. subsidiaries and of Powerwave Inc. Mikael has also been the CEO of MG Instrument AB, Arkivator AB and LGP Telecom

Shareholding<sup>1)</sup>: 300,000 B shares

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### FREDRIK ERBING

Board Member

Born 1967

Elected 2008

Independent in relation to the company, senior executives and owners

Fredrik Erbing is Business Area Manager at Acando AB. Fredrik holds a Master of Engineering from the Royal Institute of Technology in Stockholm

Shareholding<sup>1)</sup>: 20,000 B shares

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### PETER HAMBERG

Board Member

Born 1973

Elected 2009

Independent in relation to the company and senior executives. Peter Hamberg is closely related to one of the Company's major shareholders.

Peter Hamberg is the CEO and Board member of Hamberg Förvaltnings AB and Board member of Solporten Fastighets AB. Peter has a B.A. in International Business Administration from the San Francisco State University, USA.

Shareholding<sup>1)</sup>: 120,000 B shares

### AUDITORS

At the Annual General Meeting held on April 10, 2008, Deloitte AB was elected as the company's auditors for the period until 2012 Annual General Meeting, with Therése Kjellberg (authorised public accountant and member of FAR SRS) as the principal auditor.

<sup>1)</sup>Shareholdings include holdings through families and companies, and are as of December 31, 2009. In addition to these holdings there are holdings in endowment insurance where Board members and senior executives are beneficiaries. The total number of shares in such endowment insurances amounted to 2,315,914 B shares.



## Senior Executives

### JOHAN ÖHMAN

President and CEO  
Born 1969  
CEO since 2006

Johan Öhman took office as CEO of Net Entertainment in November 2006. Johan has many years of experience from the telecom industry having worked with the Ericsson Group of companies and at Nortel Networks. Johan has a BSc. in Economics from the University of Lund.

Shareholding<sup>1)</sup>: 2,200 B shares  
Share option rights: 200,000

### MATHIAS CRONA

Deputy CEO  
Born 1974  
Employed since 2008

Mathias Crona has experience from the financial sector and of business development. He has worked with corporate banking and corporate finance at Citibank in Stockholm, Goldman Sachs in London and Concordia Bus. Before joining our company, he worked as a management consultant for the Boston Consulting Group. Mathias has a BSc. in Economics from the University of Stockholm.

Shareholding<sup>1)</sup>: –  
Share option rights: 75,000

### BERTIL JUNGMAR

CFO  
Born 1961  
Employed since 2008

Bertil Jungmar has a solid financial background with 14 years' experience of auditing, accounting and business advising at Deloitte and PricewaterhouseCoopers in Sweden and the USA. He has subsequently been Chief Financial Officer at Karo Bio and most recently PAN Vision. Bertil has a B.Sc. in Business Economics from the University of Stockholm.

Shareholding<sup>1)</sup>: 12,000 B shares  
Share option rights: 75,000

### SVEN GRIP

Acting Chief Technology Officer  
Born 1963  
Consultant since November 2009 and acting CTO since February 2010

Sven Grip has many years of experience from small and medium-sized companies, mainly in the telecom industry. Sven has worked as a project manager on a number of projects, predominantly in the Ericsson Group. Sven holds a Master of Engineering from the Royal Institute of Technology in Stockholm.

Shareholding<sup>1)</sup>: –  
Share option rights: –

### BJÖRN KRANTZ

Chief Executive Officer  
Net Entertainment Malta Ltd  
Born 1970  
Employed since 2009

Björn Krantz has more than a ten years of international experience in the fields of sales and marketing management. Björn has several years' experience from the telecom industry, including Swedia Networks in London and Ericsson in Sweden, London, USA and Austria, most recently as head of sales and business development for Ericsson, Central Europe. Björn has a degree in Mechanics & Electronics and has also studied at the IHM Business School.

Shareholding<sup>1)</sup>: –  
Share option rights: 75,000

<sup>1)</sup>Shareholdings include holdings through families and companies, and are as of December 31, 2009. In addition to these holdings there are holdings in endowment insurance where Board members and senior executives are beneficiaries. The total number of shares in such endowment insurances amounted to 2,315,914 B shares.

# Five-year summary

## CONDENSED CONSOLIDATED INCOME STATEMENTS

SEK thousands	2005	2006	2007	2008	2009
Operating revenues	64,683	99,773	132,020	205,573	300,050
Operating profit before depreciation/amortization	21,811	45,208	58,419	103,316	142,480
Depreciation/amortisation	-3,473	-4,407	-7,839	-15,513	-22,298
Profit after depreciation/amortization	18,338	40,801	50,580	87,803	120,182
Net financial income/expense	4,537	-958	224	-1,850	-2,966
Profit after financial income/expense	22,875	39,843	50,804	85,953	117,216
Profit after tax	15,329	28,482	45,911	79,967	107,677

## CONDENSED CONSOLIDATED BALANCE SHEETS

SEK thousands	2005	2006	2007	2008	2009
<b>ASSETS</b>					
Non-current assets	9,740	24,298	30,124	42,202	79,674
Current receivables	22,482	19,210	42,055	54,679	63,999
Cash and cash equivalents	5,535	13,053	25,915	65,132	105,009
Total current assets	28,017	32,263	67,970	119,811	169,008
<b>TOTAL ASSETS</b>	<b>37,757</b>	<b>56,561</b>	<b>98,094</b>	<b>162,013</b>	<b>248,682</b>
<b>EQUITY AND LIABILITIES</b>					
Shareholders' equity	12,129	16,090	53,145	116,493	174,018
Long-term liabilities	358	835	2,195	1,676	-
Current liabilities	25,270	39,636	42,754	43,844	74,664
Total liabilities	25,628	40,471	44,949	45,520	74,664
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>37,757</b>	<b>56,561</b>	<b>98,094</b>	<b>162,013</b>	<b>248,682</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

SEK thousands	2005	2006	2007	2008	2009
Cash flows from operating activities	-1,039	36,382	35,879	89,073	150,042
Cash flows from investing activities	4,328	-18,561	-13,439	-23,414	-62,136
Cash flows from financial activities	-	-9,889	-9,889	-29,665	-45,280
Cash flow for the year	3,289	7,932	12,551	35,994	42,626
Liquid assets at the beginning of the year	2,246	5,535	13,053	25,915	65,132
Exchange rate differences in cash and cash equivalents	-	-414	311	3,223	-2,749
Liquid assets at the end of the year	5,535	13,053	25,915	65,132	105,009



KEY FIGURES

Group	2005	2006	2007	2008	2009
Operating margin (percent)	28.4	40.9	38.3	42.7	40.1
Profit margin (percent)	35.4	39.9	38.5	41.8	39.1
Interest coverage ratio (multiple)	12	2,491	273	297	2,494
Equity/assets ratio (percent)	32.1	28.4	62.4	71.9	70.0
Quick ratio (percent)	79.7	65.1	184.0	273.3	226.4
Net interest-bearing liabilities (SEK thousands)	-5,535	-13,053	-25,915	-65,132	-105,009
Net Debt/equity ratio (multiple)	-0.5	-0.8	-0.5	-0.6	-0.6
Average number of employees	32	43	60	70	110
Employees at year-end	39	53	67	85	133
Employees and consultants at year-end	40	63	77	132	187
Earnings per share	0.39	0.72	1.16	2.02	2.72
Shareholders' equity per share	0.31	0.41	1.34	2.95	2.40
Dividends per share (proposed for 2009)	0.25	0.25	0.75	1.25	2.00
Average number of outstanding shares	39,553,716	39,553,716	39,553,716	39,553,716	39,553,716
Number of shares at year-end	39,553,716	39,553,716	39,553,716	39,553,716	39,553,716

## Definitions

**OPERATING MARGIN**

Operating profit in relation to revenues.

**PROFIT MARGIN**

Profit after financial items divided by revenues.

**RETURN ON INVESTMENT ON SHAREHOLDERS' EQUITY**

Year's profit divided by average shareholder equity for the year.

**INTEREST COVERAGE RATIO (MULTIPLE)**

Profit after financial items, plus interest expense, divided by interest expense.

**EQUITY/ASSETS RATIO**

Equity at the end of year as a percentage of total assets at the end of year.

**QUICK RATIO**

Current assets divided by current liabilities.

**NET INTEREST-BEARING LIABILITIES**

Net of interest-bearing provisions and liabilities less financial assets including cash and cash equivalents.

**NET DEBT/EQUITY RATIO (MULTIPLE)**

Net of interest-bearing earnings and liabilities minus financial assets including cash and cash equivalents divided by shareholders' equity.

**AVERAGE NUMBER OF EMPLOYEES**

Average number of employees converted into full-time equivalents.

**NUMBER OF EMPLOYEES AT YEAR-END**

Number of employees during the year.

**NUMBER OF EMPLOYEES AND CONSULTANTS AT YEAR-END**

Number of employees and subcontractors at year-end.

**EARNINGS PER SHARE**

Profit pro the year divided by the average number of shares outstanding during the year.

**CASH FLOW PER SHARE**

Cash flow for the year divided by the average number of shares outstanding during the year.

**SHAREHOLDERS' EQUITY PER SHARE**

Shareholders' equity divided by the number of shares outstanding at the end of the year.

**DIVIDEND PER SHARE**

Implemented/proposed dividend divided by the number of shares outstanding during the year.

**AVERAGE NUMBER OF OUTSTANDING SHARES**

Weighted average number of shares outstanding during the period, adjusted for bonus issue and share split.

**NUMBER OF SHARES OUTSTANDING**

The number of shares outstanding at year-end, adjusted for bonus issue and share split.

# Management report

## OPERATIONS

### About Net Entertainment

Net Entertainment is a premium supplier of digitally distributed gaming systems used by some of the world's most successful online gaming operators. The core product, CasinoModule™, is a complete gaming platform comprising high quality games and a powerful administration tool. Operators are provided a customized solution that is easily integrated ensuring short time to market and a cost efficient operation. Revenues consist of royalties based on revenues generated by the company's products and setup fees when new agreements are signed. Net Entertainment is a pure development company and thus does not conduct any gaming operations of its own. The company's brand is internationally recognized and associated with innovation, service, and quality.

All technical development is carried out at the Group's Stockholm office and all commercial operations such as sales, marketing and product management are carried out from the Malta office. The company also has an office in Gibraltar.

The parent company is listed on NASDAQ OMX Stockholm since January 13, 2009. Prior to this, the Company's share was listed on the Nordic Growth Market (NGM) Equity since April 2007.

### Business model and objectives

Net Entertainment's business model is to provide gaming operators with leading edge solutions, enabling them to offer the ultimate entertainment experience. This will enable them to profitably grow their business faster than the competition. By doing so, Net Entertainment shall generate sustainable profit and growth for its shareholders.

The gaming operators pay a monthly license fee, calculated using a tiered scale as a percentage of the gross gaming yield generated by the casino. It is therefore in the interest of both the operator and Net Entertainment to increase the operator's gaming revenues. Through the launch of new and unique games with high entertainment value and different kinds of bonus and loyalty schemas, players are stimulated to stay on the operator's site.

The European market for online gaming is expected to maintain good growth and Net Entertainment's objective is to grow faster than the market.

### Market

The online gaming market has shown strong growth in recent years, a growth that has continued albeit a somewhat lower pace during 2009 due to the global downturn in the economy. However, the market shows signs of improvement during the end of 2009. The expectations for growth in 2010 are high, mainly due to global sporting events such as the winter Olympic Games and the World Cup in soccer. The global gross gaming yield for online gaming is expected to amount to USD 30.4 billion in 2010 compared to USD 26.6 billion in 2009<sup>1)</sup>. In the coming years, Europe is expected to represent close to half of the total gaming revenues, making it the single largest gaming market.

Deregulation and reregulation of national gaming laws is taking place in many European countries. Italy has created a working licensing system. France is soon implementing a licensing system that however

is somewhat less attractive for private operators. The development of national licensing systems is partly driven by the rulings in the European Court of Justice which has given the member states a somewhat larger freedom to implement limitations for offering of remote gaming across borders. Member states are now given increased opportunities to secure tax revenues provided the licensing systems create better competitive conditions that are formally open for all operators who meet certain requirements.

The Italian gambling market is expected to generate approximately EUR 20 billion in 2010, making it the single largest market in Europe<sup>1)</sup>. Italy is today a regulated market with sports and horse betting, tournament poker, skill games and scratch tickets available on the internet via licensed operators. In the future, concessions are expected to be extended to also include cash poker games, bingo and casino. Most stakeholders believe the new regulations are to take effect in the beginning of 2010.

France is contemplating to transition from being a monopolistic to a regulated commercial market. In the beginning of October 2009 a legislation was introduced which purpose is to legalize betting on sporting events, horse racing and poker. If the proposal is accepted the new regulation is expected to become effective during the second half of 2010.

Net Entertainment believes that conditions for continued expansion are good. The key reason for this is that the company can continue to gain market share by delivering a first-class product. Good products and an effective product development secure the conditions for new deals. By extending the product portfolio Net Entertainment can target a wider market and broaden its customer base. This can be attained through organic growth, acquisitions or via in-licensing. New markets outside Europe offer exciting expansion opportunities. South America and the US that face deregulation could be of particular interest.

### New agreements and customers

During 2009, 10 (20) new agreements were signed for CasinoModule™, including Paf, Expekt.com and Microgame. Since the start of 2009, Net Entertainment have focused even more on increasing the number of large customers, which is the reason for the number of new customers being lower in 2009 than in 2008. Agreements have been terminated with a number of smaller customers who did not generate the minimum sales that the company requires.

CasinoModule™ was launched with Paf in July and with Sportingbet in August on their largest markets. Paf runs gambling operations with a license issued by the Åland authorities. Paf's online operations were launched in 1999 and have over 500,000 registered players. The casino was well received by Paf's customers and developed in a financially satisfying manner. Sportingbet was founded in 1998 and has over 200,000 active players. Additional roll-out to other markets is expected to continue gradually. In total, 14 new customers' casinos were launched during the year.

CasinoCafé™ was launched in September for Delta Invest with a first roll-out to approximately 20 shops and prior to this in April for PCP Electronics. The development for CasinoCafé™ with Delta Invest and PCP Electronics has commenced somewhat slower than anticipated

<sup>1)</sup>H2Gaming Capital, January 2010

due to technical challenges but also due to a slightly resistant market. Discussions are ongoing with the licensees regarding actions to increase the availability and also expanding the offering geographically, to the Ukraine in Delta Invest's case. These discussions have developed well. The recruitment of a local resource is commencing with the purpose to dedicatedly assist Delta Invest, and potential new customers, to approach the market.

At the end of the period, the Company had 13 contracted customers for CasinoModule™ that have not yet launched operations, including Microgame and Expekt.com. The integration is commencing and Microgame will launch its casino as soon as the regulatory structure in Italy is in place which was announced to take place in the end of the first quarter 2010. Expekt intends to offer Net Entertainments casino to their customers by the beginning of the second quarter 2010.

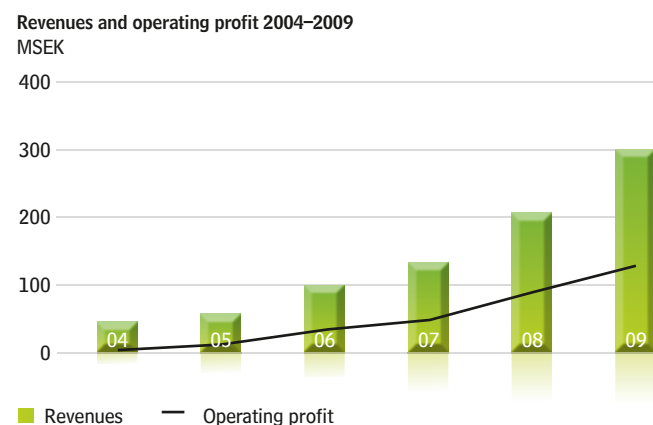
A new functionality in the administration tool, called Seamless Wallet, was completed and launched during the third quarter. The functionality gives a dynamic opportunity for the operators to expand their gaming offering and provide casino games in other parts of their internet portal, for example in the sports book. Through this addition players who usually do not visit the casino can explore and play Net Entertainment's casino games. The integration of Seamless Wallet is in process with the majority of larger customers with an objective to fully be able to take advantage of the functionality by the start of the World Cup in soccer in June 2010.

To further strengthen Net Entertainments offering a downloadable casino was launched during the fourth quarter. This type of online casino works well in markets where the internet penetration is lower since the player downloads the software to the computer instead of playing directly on the operator's website.

Net Entertainment's first operator unique game was launched in August. The game gives the operator an opportunity to differentiate its casino offering. This also strengthens Net Entertainment's ties with the operator and also generates a higher royalty level for Net Entertainment.

**REVENUES AND PROFITABILITY**

Revenues increased SEK 94.5 million to SEK 300.1 million from 205.6 million in 2008, an increase of 46.0 percent. Operating profit increased to SEK 120.2 million from SEK 87.8 million and the operating margin was 40.1 percent compared to 42.7 percent the previous year. Revenues and operating profit for the past six years are presented in the diagram below.



**Revenues – volume, price and currency development**

Net Entertainment's revenues are affected by changes in volume, price (royalty levels and mix) and currency development. The volume is affected by both existing customers' growth as well as the launch of new customers. The largest part of revenues is derived from royalty and a smaller part, 1.9 (3.7) percent in 2009, from setup-fees as new customer agreements are signed.

The number of gaming transactions continued to increase and amounted to 3.9 (2.0) billion game transactions in 2009 which is 129 times more than the Nasdaq OMX Stockholm's share trading.

Growth in 2009 was the result of continued market growth despite financial unease in the world economy. Net Entertainment's revenue increase compared with last year is due to a combination of existing customers' growth and revenues from the launch of new customers. 14 (20) new customer's casino was launched during 2009. Revenues have continued to increase during the end of the quarter to a larger extent than of the corresponding quarter 2008

Royalty revenues from CasinoModule™ were positively affected by higher volumes during the last twelve months compared with the same period last year, a development that continued throughout the fourth quarter of 2009 at a higher pace than earlier this year. However, the higher volumes have also meant a somewhat lower average price since the customers have staggered pricing systems whereby a higher volume generates a lower price. At the same time the average revenue per game transaction is lower. The royalty levels for each step remained stable during the year and royalty revenues for 2009 increased 46 percent compared to the corresponding period last year. In Euros, which is the main invoicing currency, royalty revenues increased 32 percent compared to 2008.

Currency fluctuations that began in the fourth quarter 2008 have contributed positively to Net Entertainments revenue growth during 2009 due to the weakened Swedish Krona compared to 2008. However since the second quarter 2009 the Krona has strengthened and the positive currency effect has diminished. In 2009, 23 percent of the royalty revenue increase was attributable to exchange rate effects, which means volume is by far the largest share of revenue growth.

**Profitability**

Operating profit increased by 36.9 percent to SEK 120.2 million from SEK 87.8 million in 2008. Operating expenses increased to the Company's increased development pace to secure a market-leading position and to broaden the product portfolio. The costs also increased by the non-recurring expenses related to the IT projects and the delivery and launch of CasinoCafé™ previously announced. These expenses amounted to a total of SEK 11 million and are attributable to the first three quarters in 2009. The increased development pace is enabled through staff recruitments and external consultants in Stockholm and out-sourced development in the Ukraine and India. This has also resulted in an increased volume of intangible assets being capitalized. The organizational improvement measures that have been implemented as a natural step in the Company's development and expansion, especially within IT operations and Group management have also led to a higher cost structure. Through a strong focus on recruitment, consultants have been replaced by own personnel which has a positive impact on personnel costs. The operating margin amounted to 40.1 percent during 2009 versus 42.7 percent in 2008.

The financial net, that amounted to SEK -3.0 (-1.9) million consists of the return on cash and cash equivalents and exchange rate effects on cash and cash equivalents and financial receivables and liabilities. The magnitude of the return is negatively affected by the low interest

## MANAGEMENT REPORT

rate level. The volatility in the Swedish currency since the end of 2008 has led to significant effects on inter-company transactions which are items included in the financial net.

The Group had an effective tax rate of 8.1 (7.0) percent. The Group's effective tax rate is primarily affected by the distribution of profit between Sweden and the countries in which the Group conducts operations and can vary from one reporting period to the next. Since the taxable profit in Sweden for 2009 is higher than in 2008 the tax expense is higher than previously.

### CASH AND CASH EQUIVALENTS, FINANCIAL POSITION

The Group's cash flow from operating activities amounted to SEK 150.0 million, from SEK 89.1 million for the full year 2009. Cash and cash equivalents were affected by the pay-out of jackpot winnings during the year amounting to in total SEK 99.1 million with a corresponding decrease in other liabilities. In the amount for tax received/paid SEK 7.3 million is the refund received for previously paid income tax included. Cash flow from investing activities amounted to SEK -62.1 (-23.4) million. Cash flow from financing activities amounted to SEK -45.3 (-29.7) million and is related to the transfer of SEK 49.4 million to the shareholders in accordance with the resolution by the Annual General Meeting. The Group's consolidated cash and cash equivalents amounted to SEK 105.0 (65.1) million on December 31 2009, of which SEK 33.2 (12.2) million refers to funds held on behalf of licensees. The Group's strong liquidity is attributed to the large cash flow generated by operating activities.

### CAPITAL INVESTMENTS

The Group's capitalization of development costs as intangible assets amounted to SEK -33.2 (-16.9) million for the full year and investments in property, plant, and equipment amounted to SEK -29.0 (-6.6) million.

Capitalized development costs increased primarily as a result of greater activity in this area and the type of work being carried out, since not all costs meet the IAS 38 requirements for capitalization. Major projects currently being capitalized is related to CasinoCafé™ during the first quarter and Multi Currency, a system for handling of several simultaneous currencies in CasinoModule™ and the development of the game Gonzo's Quest.

Fixed asset investments are primarily servers, other computer equipment and consulting costs and other costs directly attributable to the completion of the assets. Additional investments are furniture, fixtures and equipment in the Company's new and larger office that became operational in October. The investment pace is driven by both the increased transaction volume and the increased requirements for system availability.

### PERSONNEL AND ORGANIZATION

At the end of the period, the number of employees amounted to 133 versus 85 people a year ago. Including consultants, Net Entertainment employed 187 (132) people. During 2009 the organization has strengthened with personnel and managers within development, IT operations, project management and sales. In September Björn Krantz was employed as managing director for the sales company Net Entertainment Malta Ltd. and in February 2010 Sven Grip was appointed acting CTO.

### INCENTIVE PROGRAM

The Annual General Meeting April 29, 2009 resolved to introduce a long-term incentive program intended for management and key employees within Net Entertainment. The resolution entailed the issue of

a maximum of 760,000 share option rights to personnel with permanent employment within Net Entertainment to subscribe for an equal amount of shares in Net Entertainment NE AB.

At the end of the year 586,225 share option rights had been subscribed for, corresponding to 86 percent of the total offered share option rights. The share option rights were issued at market value determined to SEK 7.10 which generated SEK 4.2 million to equity for the group. The strike price for the shares amounted to SEK 71.70 which represents 130 percent of the average share price during the period May 12-26, 2009. Subscription of shares can be made during the period May 15 to July 15, 2012. An additional 43,000 share option rights are held by the wholly owned subsidiary Mobile Entertainment ME AB, which will not be used.

At the end of 2009 the total outstanding share option rights amounted to 629,225, corresponding to the same number of shares. In the case of full subscription of these share option rights the parent company's equity will increase by SEK 45.1 million.

To stimulate participation in the program the board has resolved to offer a loyalty compensation which will be paid out no later than June 15, 2012 to participants who are still employed at the date of payment and have not resigned. The compensation can amount to a maximum of 50 percent of paid premium for the share option rights net after tax or a total of SEK 6.1 million including social security costs paid by the Company. This commitment is accrued for in the accounts on an ongoing basis considering forecasted employee turnover and interest.

### PARENT COMPANY

The parent company's revenues were SEK 154.1 million compared to SEK 111.3 million in 2008. Operating profit was SEK 13.3 (2.3 million). In the financial items anticipated dividends from subsidiaries are included by SEK 66.9 (52.8) million. Profit after tax was SEK 81.1 (57.7) million.

Revenues in the parent company come from services provided to the subsidiaries. No development expenses are capitalized in the parent company as projects are ordered and owned by the subsidiaries in Malta. The original technologies are still owned by the parent company and generate inter-company royalty revenues. These royalty revenues have increased during 2009 and create a larger tax base in the parent company.

Cash and cash equivalents in the parent company at the end of the period amounted to SEK 54.3 (14.6) million.

### RISK FACTORS

Some of the risk factors in relation to the business and industry that can be significant to Net Entertainment's future development are explained below. The risk factors are not ranked by importance or potential financial impact on the Company's revenues, performance or financial position. The list of risk factors below is not intended as exhaustive or exclusive but is intended to provide examples and guidance. For financial risk factors potentially affecting the Company's business, see note 29.

### Political decisions

Net Entertainment is a supplier of Internet-based gaming systems. This means that its operations are greatly affected by the legal situation for gaming of this sort. The legal situation within the EU, where most of the Company's customers are active, is of particular interest to the Company.

Net Entertainment is legally established in the European Union. This gives the Company the constitutional protection for its business operations that results from national legislation, European legislation

and the WTO system as a whole. Despite this, its operations depend on the legal and political frameworks that apply to its customers, i.e. the purchasers of Internet-based gaming systems. The development of the European Legal Protection that customers have against national protectionist monopolistic systems is of particular significance.

The market for practically all kinds of gaming services is regulated by national legislation that defines how gaming operations should be run. As a subcontractor without any operator activities of its own, Net Entertainment is not directly affected by the regulations that apply for the gaming market. It is possible that changes in the situation of its customers may also have an impact on Net Entertainment's terms for growth, profitability and product development.

The European Court of Justice has ruled on national gaming regulations in numerous cases. Under current EU legislation, Member States are relatively free to choose gaming regulations. However, the regulations must incorporate the EU principles of proportionality and non-discrimination. They must meet fundamental requirements for consistency and systematics. National regulations may not, for example, bar foreign private players for public health reasons if the government allows extensive marketing of state-owned gaming companies in order to swell the public treasury. Those who argue against the gaming monopolies say that the gaming monopolies cannot be defended on the grounds of public health and safety as they are operated for commercial purposes.

In recent years, the European Court of Justice and national courts have rendered significant judgments that affect the gaming entertainment market. Some of the judgments have helped open up markets for private operators while other judgments have been more protectionist. In 2009, The European Court of Justice has given the member states increased flexibility to maintain protectionist monopolistic systems. During 2010 a number of decisions are expected to clarify if the gaming area shall be looked at as a "free zone" for Member States to impose restrictions on operators' freedom to provide gaming services.

In this context, it should be noted that the gaming market has not been the subject of any specific European Union harmonisation measures. No legal directives, recommendations or decisions have been adopted by the political institutions of the European Union.

The European Court of Justice is currently handling 15 or so cases of requests for preliminary rulings from courts in Member States. Furthermore, the European Commission has initiated cases against Sweden, Finland, Denmark, Germany, France, the Netherlands, Hungary, Austria, Greece and Italy for breach of treaty. The European Commission is currently deliberating whether to take these States to the European Court of Justice.

Deregulation and regulatory reform of national gaming laws take place in many European countries. Italy has developed an efficient licensing system. Private operators may find the licensing system that France is in the process of introducing less attractive. National licensing systems has been developed as a result of the latest legal practice of the European Court of Justice which gives the Member States greater freedom to introduce restrictions on cross-border gaming services offered by companies. The Member States now have increased ability to secure tax revenues provided that the licensing systems create good competitive conditions and are formally open to all operators that satisfy certain basic conditions.

Net Entertainment has a Class IV license in Malta that covers the delivery and technical operation of casino games for gaming operators licensed in Malta. Malta is a Member State of the EU and is thus required to comply with EU law. It is one of the few EU countries that have elected to adopt a national licensing system to allow competitive gaming.

Political decisions and court rulings in the EU area aimed at making it difficult for private gaming companies to operate in the national markets, especially in Sweden, Malta, France and the UK, and Norway outside the EU, could have a drastically adverse impact on Net Entertainment's customers and thus the Company's business. Deregulation of the gaming market in these markets could likewise have positive effects for Net Entertainment's customers and thus for Net Entertainment.

It is currently difficult to predict how the legal situation in the European Union will develop and subsequently affect the commercial conditions for gaming operators and eventually for gaming developers like Net Entertainment. It must therefore be particularly emphasised that with current legal developments in the different Member States, along with progressive policies in European law, Net Entertainment is operating in a relatively unpredictable legal environment as far as the European Union market is concerned. There is thus a risk, which is difficult to quantify, that future legal developments may adversely impact Net Entertainment's operations.

Legislation was passed in the USA in October 2006 prohibiting gaming aimed at private individuals in the USA. This legislation has imposed severe limits on gaming operators to conduct gaming operations in the USA and has also restricted banks and other financial institutions from processing payment transactions for Internet-based games. After the legislation came into effect, Net Entertainment ended its partnerships with operators whose activities were directed at users in the US market to avoid legal risks associated with this market. Net Entertainment does not offer its products or services to gaming operators who, in turn, offer gaming activities to players in the USA. 2009 saw the start of a political debate concerning the removal of the ban and whether to allow online casino gaming.

#### **Operations subject to official approval and other legal aspects**

Following a ruling by the Maltese Lotteries and Gaming Authority (LGA), Net Entertainment's subsidiary Net Entertainment Malta Ltd. has obtained a Class IV license. This permits the Company to offer gaming systems for its customers and confirms that Net Entertainment and its products are approved by LGA. The maintenance and extension of this permit are crucial to Net Entertainment's operations. The license is valid until November 2010 and, provided it complies with the laws and regulations for the license, the Company should be able to renew its license for a new five-year period. Net Entertainment examines its operations constantly to ensure they always comply with the conditions required for such license.

Some EU Member States, including Sweden, prohibit the promotion of lotteries from outside the country. "Promotion" is a broad concept and can thus cover highly diverse activities. Although it seems far-fetched that Net Entertainment's operations as a software supplier and host for gaming operators could be viewed as "promotion", it is uncertain just how far this concept of "promotion" extends. This exemplifies that Net Entertainment operates in an unpredictable legal environment as mentioned above.

#### **Immature market**

The Internet-based gaming market is still relatively immature and is clearly characterised by a rapid rate of change. The change is driven by factors such as strong growth, increased competition (especially among gaming operators) and high levels of profitability among gaming operators and gaming developers. Other important factors are growth of the online gaming market in relation to the gaming market as a whole, increased Internet penetration and greater reliability of online transactions and the launch of new forms of gaming and new gaming

## MANAGEMENT REPORT

categories such as women and older age groups. The fact that this is a relatively new market, with a short history, and a strong growth in recent years, makes it difficult to assess its long-term growth potential and how it is affected by the general economic climate.

### Service disruptions

Net Entertainment is responsible for the operations of the licensed customer systems through the Company's operations centres in Malta and Costa Rica. However, like all Internet-based services, the systems can be affected by operational disruptions. This can be due to a number of reasons within or beyond the control of Net Entertainment. Since the Company's products are either completely or partly unavailable for users during service disruptions, this affects the operators' revenues and thus Net Entertainment's license revenues. Disruptions or technical problems with the Company's servers could therefore result in lost revenues, loss of confidence in the Company and possible claims for damages. The Company incorporates state-of-the-art security technology into its systems to continuously ensure minimal risk of service disruptions. Net Entertainment does not include a product guarantee or warranty in its customer agreements. The agreements include clauses that put a limit on the damages the Company will pay in the event of a service disruption.

### Gambling addiction

Although Net Entertainment does not pursue any gaming operations, people suffering from gambling addiction could sue the companies in the Net Entertainment Group as suppliers of gaming software and as facilitators of gaming. Even if such claims appear as groundless and is likely to be dismissed by a court of law, they could give rise to substantial costs and a loss of confidence in Net Entertainment, which might eventually lead to a decline in revenue. Net Entertainment is affiliated with G4, an organization that works to prevent gaming addiction, and it has designed CasinoModule™ to ensure full compatibility with the guidelines established by G4.

### Dependence on key personnel and skilled employees

Net Entertainment's success depends on its ability to maintain a high level of technical expertise among its staff, recruit employees to its operations centres and retain employees who are highly skilled in games development. The Company is equally dependent on certain key managerial personnel. Due to the rapid rate of progress, the event of loss of key personnel or gaming developers might have a temporary negative impact on the Company's earnings and economic development. Net Entertainment conducts an active programme of advanced training and professional development opportunities to foster increased staff commitment and loyalty.

### Dependence on large customers

The loss of any of the Company's customers could impact negatively on Net Entertainment's earnings and performance. The Company's dependence on individual major customers is gradually decreasing as the number of larger customers increases.

### Competition

The Company competes with a number of players who have substantially larger financial and operational resources than those at the disposal of Net Entertainment. This is an extremely attractive market and new players may establish a market presence. However, the threshold for establishing a presence in the games development market is high. Any failure to compete successfully with these players would have negative consequences for Net Entertainment's earnings and financial position.

The Company's ambition is to maintain and develop its position in the market as a premium supplier of casino games and a serious player in the online gaming market. By retaining a focus on the development of games with top entertainment value and offering a powerful management tool and associated services, Net Entertainment hopes to be able to retain existing customers and attract new ones too.

### Intellectual property rights

Net Entertainment's most important intangible property rights consist primarily of the copyright to software, notably CasinoModule™, and all associated material that the Group has developed and is still developing. It is thus crucial that everything developed within the Group remains the property of Net Entertainment. The Company requires its employees and consultants to enter into contracts stipulating that ownership of the copyright to developed products shall vest in Net Entertainment.

### Exchange differences

The Group's results are exposed to changes in exchange rates as the majority of its sales are in Euro, and the majority of its costs are in Swedish kronor. Net Entertainment's present policy is not to hedge against exchange rate fluctuations. A rise in the value of the Swedish krona (SEK) in relation to the Euro affects the Company's earnings. Fluctuations in exchange rates in the future may affect Net Entertainment's achievement of its financial objectives.

Its results are also affected by changes in exchange rates when foreign subsidiaries' results are translated to SEK. Moreover, exchange rate movements affect Group equity when assets and liabilities in foreign subsidiaries are translated to SEK.

### Tax situation

Net Entertainment operates in Sweden and Malta. Its activities, including transactions between the Group's companies, are managed in compliance with current tax laws, tax agreements and provisions in the countries concerned and the requirements of the tax authorities, as these have been interpreted by Net Entertainment. However, it is generally not possible to rule out that the interpretation of applicable laws, policies, taxation agreements and provisions, or the interpretations of these by authorities concerned, is wrong. Furthermore, these regulations may be amended and possibly with retroactive effect. It is possible that Net Entertainment's previous or present tax situation will become less favourable as a result of decisions taken by the tax authorities.

The activities in Malta are exempt from VAT. The interpretation of relevant Maltese VAT regulations concerning the Company's liability to pay Maltese VAT on services purchased was amended in 2007 and 2008 may affect purchases that the Maltese subsidiaries carried out from other Group companies.

The Company has together with legal experts estimated how the rules will affect the business and has taken measures to reduce the risk for additional VAT in the future. The Company reports and pay the Maltese tax authorities the VAT amounts that the Company considers correct. These amounts may prove insufficient should the Maltese tax authorities apply a more restrictive interpretation of the VAT regulations than what the Company has deemed appropriate and correct.

### GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES Guidelines adopted by the 2009 Annual General Meeting

It is of fundamental importance to the Company and its shareholders, from both a short and long-term point of view, that the principles of remuneration and other terms of employment for senior executives

are consistent with market practice and provide a sound structure that enables the Company to retain and motivate competent personnel and attract new employees when required. To achieve this, it is important that the Company maintains fair and internally balanced conditions that are also competitive in the market. Conditions of employment for senior executives should contain a well-balanced combination of basic salary, variable compensation, share-based incentive schemes, pension benefits and conditions relating to termination of employment.

Remuneration should be based on performance and should therefore consist of a combination of basic salary and variable compensation, where variable compensation accounts for a relevantly significant proportion of the overall remuneration. The basic salary should be competitive and market aligned. It should be set individually and be based on the individual's role, responsibility, skills and experience in the relevant position. Variable compensation is determined and paid out annually. Annual variable compensation may be no more than 100% of the basic salary and is based on actual achievement in relation to predetermined financial and operational targets. Targets for variable compensation are set annually by the Board for the CEO and by the CEO for other senior executives to ensure that targets are in line with the Company's business strategy and performance targets. The terms for variable pay should include the lowest performance level in relation to targets. Performance below this level results in a zero payout.

Variable annual compensation can be complemented with long-term cash incentive programmes with deferred payments (between 12 and 24 months) to secure long-term commitment, continued employment and internationally competitive remuneration. Incentive programmes such as these are used selectively and are based on targets for the current financial year. To qualify for long-term cash incentive compensation, directors are required to remain with the Company for a predetermined period of time. Long-term cash incentive compensation shall not exceed 50% of the annual basic salary. It shall also comply with the applicable principles for the Company's annual variable compensation as explained above.

Persons within the sales organisation may receive variable remuneration in the form of a commission based on actual sales. The commission may be more than 100% of the basic salary in some cases where exceptional sales results have been achieved. Variable remuneration for salespeople with commission-based pay is limited, in accordance with the previous two sentences, to 50% and 25% respectively of the basic salary.

Senior employees are invited to participate in current share-based schemes to encourage long-term commitment. In order to increase employee loyalty, the Company may combine a share-based incentive scheme, with share option rights issued at the market rate, with cash compensation that is awarded at the time of exercise of the share option rights to employees who are still employed at the date of redemption. This compensation (after-tax net amount) shall not exceed 50% of the premium paid for the warrants.

Benefits provided by pension schemes for the CEO and other senior executives shall be market aligned and be based on defined contributions where the premium shall not exceed 33% of the pensionable salary. Other benefits, such as company cars, health and medical care compensation and healthcare insurance, shall reflect market practice and represent a smaller proportion of the total remuneration package.

The period of notice for the CEO and other senior executives is six (6) months. Severance compensation (including pay during the period of notice) shall not exceed 18 months' basic salary.

## ELECTION COMMITTEE

In accordance with the principles resolved by the Annual General Meeting 2009 for appointment of Election Committee, Per Hamberg (appoin-

ted by the Hamberg family) and Lena Apler (Provobis Invest AB) and Emil Sunvisson (the Kling family) have been appointed to, together with the Chairman of the Board of Directors Rolf Blom, form Election Committee for the Annual General Meeting 2010. The Election Committee's proposal will be published at the latest in connection with the notice for the Annual General Meeting. The term of office of the Election Committee runs until a new Election Committee has been appointed in accordance with the resolution on appointment of the Election Committee by the Annual General Meeting 2010.

## EVENTS AFTER THE END OF THE FISCAL YEAR

No significant events to report have occurred after the end of the period.

## FUTURE OUTLOOK

Net Entertainment continuously evaluates the possibility to add more products to the product portfolio, through self development or via acquisitions, and also within other gaming segments than casino. The development pace for new games is increased further to develop in excess of 40 games during 2010. New users, who have not yet played games online, such as women and older people, are important drivers for the underlying market growth and also change the product requirements. Both the technical, as well as the political development is expected to bring increased markets, such as higher internet penetration and the dismantling of monopolies and other re-regulation. Net Entertainment's customers can be found in Europe and the Company will continue to focus on the European market, but at the same time monitor Asia which is deemed to be an important future market for online gaming and the US at a potential re-regulation, as well as South America.

## THE SHARE

Net Entertainment's share capital is SEK 1,190,566.85 distributed across 5,610,000 Series A shares with ten votes per share and 33,943,716 Series B shares with one vote per share. Holders of Series A shares are entitled, within the parameters for the highest number of Series B shares that may be issued under the articles of association, to propose in writing to the Board of Directors that one or more Series A shares be converted to Series B shares. All classes of shares have equal rights to Net Entertainment's assets and earnings. In the event of liquidation, shareholders are entitled to a share of the surplus in relation to the number of shares held by the shareholder. A shareholder may vote for the full number of shares represented at the Annual General Meeting.

As far as the company knows there are no restrictions prohibiting the transfer of its shares, either legal or agreements between shareholders.

There are no outstanding warrants in the Company. On December 31, 2009, Per Hamberg directly or indirectly owned 8.91 percent of the shares and 20.90 percent of the votes and Rolf Lundström 5.95 percent of the shares and 14.13 percent of the votes.

## Share option rights

At the end of 2009 the total outstanding share option rights amounted to 629,225, corresponding to the same number of shares. In the case of full subscription of these share option rights the parent company's equity will increase by SEK 45.1 million. The share options rights have been issued under an incentive program and 586,225 share option rights have been subscribed for at market value determined to SEK 7.10 which generated SEK 4.2 million to equity for the group. The strike price for the shares amounted to SEK 71.70 which represents 130 percent of the average share price during the period May 12–26, 2009. Subscription of shares can be made during the period May 15 to July 15, 2012. An additional 43,000 share option rights are held by the

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wholly owned subsidiary Mobile Entertainment ME AB, which will not be used.

### Mandate for new share issues

The Annual General Meeting held on April 29, 2009, granted Net Entertainment's Board of Directors the authority, on one or more occasions, before the next annual general meeting, with or without deviation from shareholders' preferential rights, to decide to issue shares, convertibles and/or share option rights involving issue of, conversion or subscription of a total of 4,300,000 shares of series A and/or series B (equivalent to an increase of about 10 percent of the capital) for cash and/or determination of subscription in kind or through offset or otherwise subject to conditions. The purpose of this authorization is to increase the company's financial flexibility and be able to make payment with own financial instruments in connection with possible acquisitions the company might carry out. Determining the issue price should be, at issue without preferential rights for shareholders, the share's market value at the time of the issue.

### Authorization for repurchase and disposal of the Company's own shares

The Annual General Meeting held on April 29, 2009 granted Net Entertainment's Board of Directors the authority to before the next annual general meeting, on one or more occasions, decide on the acquisition of as many series B shares in the Company, without the Company's holding at any time exceeding 10 percent of the total number of shares in the Company. The shares shall be acquired on Nasdaq OMX Stockholm and only at a price within the price range registered at any given time, meaning the price between the highest bid price and lowest selling price, or through a purchase offer directed to all shareholders, where the acquisition will take place at a price which at the time of the decision corresponds to the lowest current share price and no more than 150 percent of the current share price. The Board of Directors was further authorized to before the next annual general meeting decide on the sale with deviation from shareholders' preferential rights, on one or more occasions, of all or part of the company's holding of own shares of series B as payment upon the acquisition of companies or businesses at a price equivalent to the quoted share price on the transfer date. The sale of all or part of the Company's holding of own shares of series B should also be able to take place, at one or more occasions, to fund such acquisitions, where the sale of the shares shall take place on Nasdaq OMX Stockholm at a price within the share price range registered at any given time. The authorization is intended to give the company

flexibility in financing acquisitions of companies and businesses. No share repurchase was made during the year.

The articles of association are available for viewing on the website, [www.netent.com](http://www.netent.com)

### Proposed dividend

The board of Directors proposes that no dividend is paid for the fiscal year 2009.

The Board proposes to the Annual General Meeting to allocate SEK 79.1 (49.4) million to shareholders, which corresponds to SEK 2.00 (1.25) per share. The Board intends to propose that the transfer be handled through a share redemption program. The record date is planned for April 22, 2010. The complete proposal and an information folder will be available for download two weeks prior to the Annual General Meeting. Information will be available to shareholders at the Company and on its website [www.netent.com](http://www.netent.com) as from March 31 2010. The information will also be sent free of charge to those shareholders who so request and provide their postal address.

### THE BOARD OF DIRECTOR'S PROPOSED ALLOCATION OF PROFIT IN THE PARENT COMPANY

The following profits are at the disposal of the Annual General Meeting (SEK):	
Opening profit brought forward	15,244,046
Share premium reserve	3,473,500
Profit/loss for the year	81,142,832
	<b>99,860,378</b>

The Board of Directors proposes:	
That the following amount should be carried forward	99,860,378

Proforma after transfer to the shareholders	
Opening profit brought forward incl. profit/loss for the year	99,860,378
Transfer to the shareholders	-79,107,432
	<b>20,752,946</b>

The Group's and the Company's earnings and financial position are otherwise presented in subsequent income statements, balance sheets, statements of changes in equity and cash flow analysis, with accompanying notes, additional comments and information, which form an integral part of this annual report.



## Income statements, Group

SEK thousands	Note	2009	2008	2007
Revenues	3,4	299,722	204,602	131,145
Other revenues	5	328	971	875
<b>Total operating revenues</b>		<b>300,050</b>	<b>205,573</b>	<b>132,020</b>
<b>OPERATING EXPENSES</b>				
Personnel expenses	6	-71,242	-52,630	-36,105
Depreciation/amortization	12,13	-22,298	-15,513	-7,839
Other operating expenses		-86,328	-49,627	-37,496
<b>Total operating expenses</b>		<b>-179,868</b>	<b>-117,770</b>	<b>-81,440</b>
<b>Operating profit</b>		<b>120,182</b>	<b>87,803</b>	<b>50,580</b>
<b>FINANCIAL ITEMS</b>				
Financial income	8	11,739	2,757	411
Financial expense	9	-14,705	-4,607	-187
<b>Total financial items</b>		<b>-2,966</b>	<b>-1,850</b>	<b>224</b>
<b>Profit before tax</b>		<b>117,216</b>	<b>85,953</b>	<b>50,804</b>
Income tax	10	-9,539	-5,986	-4,893
<b>Profit for the year</b>		<b>107,677</b>	<b>79,967</b>	<b>45,911</b>
Earnings per share before dilution (SEK)	11	2.72	2.02	1.16
Earnings per share after dilution (SEK)	11	2.72	2.02	1.16
Number of shares at period's end		39,553,716	39,553,716	39,553,716
Average number of shares		39,553,716	39,553,716	39,553,716
Effective tax rate		8.1%	7.0%	9.6%
<b>Profit for the period attributable to:</b>				
Parent company shareholders		107,677	79,967	45,911
<b>Statement of total income – Group</b>		<b>2009</b>	<b>2008</b>	<b>2007</b>
Profit for the period		107,677	79,967	45,911
<b>OTHER TOTAL INCOME</b>				
Exchange differences arising from the translation of foreign operations		-4,872	13,046	1,033
Sum of other total income for the period, net after tax		-4,872	13,046	1,033
<b>Total income for the period</b>		<b>102,805</b>	<b>93,013</b>	<b>46,944</b>
Proposed/implemented transfer to shareholders/dividend per share		2.00	1.25	0.75

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## Balance sheet, Group

SEK thousands	Note	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
<b>ASSETS</b>				
<b>FIXED ASSETS</b>				
Intangible fixed assets	12	47,732	31,409	24,246
Tangible fixed assets	13	31,942	10,788	5,860
Other long-term receivables	15	–	5	18
<b>TOTAL FIXED ASSETS</b>		<b>79,674</b>	<b>42,202</b>	<b>30,124</b>
<b>CURRENT ASSETS</b>				
Accounts receivable	16	3,841	11,254	11,143
Prepaid expenses and accrued income	17	54,176	30,040	15,874
Current tax assets		–	9,641	–
Other receivables	19	5,982	3,744	2,085
Cash and cash equivalents	20	105,009	65,132	25,915
<b>TOTAL CURRENT ASSETS</b>		<b>169,008</b>	<b>119,811</b>	<b>55,017</b>
<b>TOTAL ASSETS</b>		<b>248 682</b>	<b>162 013</b>	<b>85 141</b>

SEK thousands	Note	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
<b>EQUITY AND LIABILITIES</b>				
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	21	1,191	1,191	1,191
Other capital contributed		38,362	34,200	34,200
Reserves		8,975	13,847	801
Retained earnings incl. profit for the year		125,490	67,255	16,953
<b>TOTAL EQUITY</b>		<b>174,018</b>	<b>116,493</b>	<b>53,145</b>
<b>LONG-TERM LIABILITIES</b>				
Deferred tax liabilities	18	–	1,676	2,195
<b>TOTAL LONG-TERM LIABILITIES</b>		<b>–</b>	<b>1,676</b>	<b>2,195</b>
<b>CURRENT LIABILITIES</b>				
Accounts payable		12,007	9,541	4,739
Current tax liabilities		8,828	–	8,922
Other liabilities	23	37,657	17,147	7,399
Accrued expenses and deferred income	24	16,172	17,156	8,741
<b>TOTAL CURRENT LIABILITIES</b>		<b>74,664</b>	<b>43,844</b>	<b>29,801</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>248,682</b>	<b>162,013</b>	<b>85,141</b>
Pledged assets		None	None	None
Contingent liabilities	25	None	0	0

## Cash flow statements, Group

SEK thousands	Note	2009	2008	2007
<b>OPERATING ACTIVITIES</b>				
Profit after financial items		120,182	85,953	50,804
Adjustments for non-cash items				
– Depreciation/amortization	12, 13	21,161	15,513	7,839
– Interest received		311	–	–
– Interest paid		–47	–	–
– Other		–1,938	5,803	529
Income taxes paid		7,342	–24,988	184
Cash flow from operating activities before changes in working capital		147,011	82,281	59,356
Changes in working capital		3,031	6,792	–23,477
Cash flows from operating activities		150,042	89,073	35,879
<b>INVESTING ACTIVITIES</b>				
Acquisition of intangible fixed assets	12	–33,154	–16,867	–10,460
Acquisition of tangible fixed assets	13	–28,982	–6,560	–3,003
Disposal of other financial fixed assets		–	13	24
Cash flow from investing activities		–62,136	–23,414	–13,439
<b>FINANCING ACTIVITIES</b>				
Transfer to shareholders		–49,442	–29,665	–9,889
Received premium for share option rights		4,162	–	–
Cash flows from financing activities		–45,280	–29,665	–9,889
<b>CASH FLOW FOR THE PERIOD</b>				
Cash and liquid assets at beginning of period		65,132	25,915	13,053
Exchange rate differences in cash and cash equivalents		–2,749	3,223	311
Cash and liquid assets at end of period*	20	105,009	65,132	25,915
*Closing cash and cash equivalents include funds held on behalf of licensees with				
		33,216	12,152	5,438

## Changes in equity, Group

	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
<b>2007</b>					
Opening equity Jan 1, 2007	1,187	34,204	-232	-19,069	16,090
Profit for the year	-	-	-	45,911	45,911
Exchange differences arising from the translation of foreign operations	-	-	1,033	-	1,033
<b>Total income for 2007</b>	-	-	<b>1,033</b>	<b>45,911</b>	<b>46,944</b>
Bonus issue and split	4	-4	-	-	0
Dividend	-	-	-	-9,889	-9,889
<b>Closing equity Dec 31, 2007</b>	<b>1,191</b>	<b>34,200</b>	<b>801</b>	<b>16,953</b>	<b>53,145</b>
<b>2008</b>					
Opening equity Jan 1, 2008	1,191	34,200	801	16,953	53,145
Profit for the year	-	-	-	79,967	79,967
Exchange differences arising from the translation of foreign operations	-	-	13,046	-	13,046
<b>Total income for 2008</b>	-	-	<b>13,046</b>	<b>79,967</b>	<b>93,013</b>
Transfer to shareholders	-	-	-	-29,665	-29,665
<b>Closing equity Dec 31, 2008</b>	<b>1,191</b>	<b>34,200</b>	<b>13,847</b>	<b>67,255</b>	<b>116,493</b>
<b>2009</b>					
Opening equity Jan 1, 2009	1,191	34,200	13,847	67,255	116,493
Profit for the year	-	-	-	107,677	107,677
Exchange differences arising from the translation of foreign operations	-	-	-4,872	-	-4,872
<b>Total income for 2009</b>	-	-	<b>-4,872</b>	<b>107,677</b>	<b>102,805</b>
Premium received for share option rights	-	4,162	-	-	4,162
Transfer to the shareholders	-	-	-	-49,442	-49,442
<b>Closing equity Dec 31, 2009</b>	<b>1,191</b>	<b>38,362</b>	<b>8,975</b>	<b>125,490</b>	<b>174,018</b>

There is no minority interest in the Group. All equity is therefore attributable to Parent Company shareholders

## Income statements, Parent Company

SEK thousands	Note	2009	2008	2007
Revenues	3,4	153,889	111,005	78,050
Other revenues	5	215	249	874
<b>Total operating revenues</b>		<b>154,104</b>	<b>111,254</b>	<b>78,924</b>
<b>OPERATING EXPENSES</b>				
Personnel expenses	6	-80,965	-57,276	-35,889
Depreciation/amortization	12,13	-7,269	-8,869	-5,208
Other operating expenses		-52,603	-42,849	-32,883
<b>Total operating expenses</b>		<b>-140,837</b>	<b>-108,994</b>	<b>-73,980</b>
<b>Operating profit</b>		<b>13,267</b>	<b>2,260</b>	<b>4,944</b>
<b>FINANCIAL ITEMS</b>				
Profit/loss from interests in Group companies	7	74,195	52,830	29,515
Interest and similar income	8	10,680	1,951	195
Interest and similar expense	9	-13,182	-1,427	-186
<b>Total financial items</b>		<b>71,693</b>	<b>53,354</b>	<b>29,524</b>
Appropriations	22	-	2,982	-
<b>Profit before tax</b>		<b>84,960</b>	<b>58,596</b>	<b>34,468</b>
Tax	10	-3,817	-905	-1,458
<b>Profit for the year</b>		<b>81,143</b>	<b>57,691</b>	<b>33,010</b>
Earnings per share before dilution (SEK)	11	2.05	1.46	0.83
Earnings per share after dilution (SEK)	11	2.05	1.46	0.83
Number of shares at period's end		39,553,716	39,553,716	39,553,716
Average number of shares		39,553,716	39,553,716	39,553,716
Effective tax rate		4.5%	1.5%	4.2%
<b>Profit for the period attributable to:</b>				
Parent company shareholders		81,143	57,691	33,010

# FINANCIAL REPORT

## Balance sheet, Parent Company

SEK thousands	Note	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
<b>ASSETS</b>				
<b>FIXED ASSETS</b>				
Intangible fixed assets	12			
Games and gaming systems		986	5,212	12,612
Trademarks		–	–	44
<b>Total intangible fixed assets</b>		<b>986</b>	<b>5,212</b>	<b>12,656</b>
Tangible fixed assets	13			
Equipment and fittings		20,593	4,226	3,635
<b>Total tangible fixed assets</b>		<b>20,593</b>	<b>4,226</b>	<b>3,635</b>
Financial fixed assets				
Participating interests in Group companies	14	512	183	216
Other long-term receivables	15	–	5	5
<b>Total financial fixed assets</b>		<b>512</b>	<b>188</b>	<b>221</b>
<b>TOTAL FIXED ASSETS</b>		<b>22,091</b>	<b>9,626</b>	<b>16,512</b>
<b>CURRENT ASSETS</b>				
Current receivables				
Accounts receivable	16	1,265	–	4
Receivables from Group companies	28	294,651	61,225	29,545
Current tax assets		–	985	–
Other receivables	19	5,982	3,744	2,083
Prepaid expenses and accrued income	17	3,872	1,972	2,024
<b>Total current receivables</b>		<b>305,770</b>	<b>67,926</b>	<b>33,656</b>
Cash and bank balances	20	54,297	14,598	12,462
<b>TOTAL CURRENT ASSETS</b>		<b>360,067</b>	<b>82,524</b>	<b>46,118</b>
<b>TOTAL ASSETS</b>		<b>382,158</b>	<b>92,150</b>	<b>62,630</b>
<b>EQUITY AND LIABILITIES</b>				
<b>SHAREHOLDERS' EQUITY</b>				
Restricted equity	21			
Share capital		1,191	1,191	1,191
Statutory reserve		38	38	38
<b>Total restricted equity</b>		<b>1,229</b>	<b>1,229</b>	<b>1,229</b>
Unrestricted equity				
Share premium reserve		3,473	–	–
Retained earnings		15,244	6,995	3,650
Profit for the year		81,143	57,691	33,010
<b>Total unrestricted equity</b>		<b>99,860</b>	<b>64,686</b>	<b>36,660</b>
<b>TOTAL EQUITY</b>		<b>101,089</b>	<b>65,915</b>	<b>37,889</b>
Untaxed reserves	22	–	–	2,982
<b>CURRENT LIABILITIES</b>				
Accounts payable		10,312	9,078	4,504
Liabilities to Group companies	28	252,219	89	1,806
Tax liabilities		1,571	–	6,763
Other liabilities	23	1,939	1,024	924
Accrued expenses and deferred income	24	15,028	16,044	7,762
<b>TOTAL CURRENT LIABILITIES</b>		<b>281,069</b>	<b>26,235</b>	<b>21,759</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>382,158</b>	<b>92,150</b>	<b>62,630</b>
Pledged assets		None	None	None
Contingent liabilities		None	None	None

## Cash flow statement, Parent Company

SEK thousands	Note	2009	2008	2007
<b>OPERATING ACTIVITIES</b>				
Profit after financial items		13,267	55,614	34,468
Adjustments for non-cash items				
– Depreciation/amortization	12,13	7,269	8,869	5,208
– Other		–2,641	–	–297
Interest received/paid		139	–	–
Income taxes paid		–1,262	–8,302	–218
Cash flow from operating activities before changes in working capital		16,772	56,181	39,161
Changes in working capital		88,630	–22,396	–18,341
<b>Cash flow from operating activities</b>		<b>105,402</b>	<b>33,785</b>	<b>20,820</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of intangible fixed assets	12	–	–	–4,620
Acquisition of tangible fixed assets	13	–19,410	–2,560	–2,759
Disposal of tangible fixed assets		–	543	2,820
Acquisition of shares and participating interests	14	–329	–	–
Disposal of shares and participating interests	14	–	33	34
Increase in share capital	14	–	–	–108
Change in long-term receivables		5	–	37
<b>Cash flow from investing activities</b>		<b>–19,734</b>	<b>–1,984</b>	<b>–4,596</b>
<b>FINANCING ACTIVITIES</b>				
Received premium for share option rights		3,473	–	–
Transfer to shareholders/dividend		–49,442	–29,665	–9,889
<b>Cash flow from financing activities</b>		<b>–45,696</b>	<b>–29,665</b>	<b>–9,889</b>
<b>CASH FLOW FOR THE YEAR</b>				
		<b>39,699</b>	<b>2,136</b>	<b>6,335</b>
Cash and cash equivalents at beginning of year		14,598	12,462	6,127
Cash and cash equivalents at year-end	20	54,297	14,598	12,462
<b>ADDITIONAL DISCLOSURES</b>				
Interest paid during the period amounted to		30	255	135
Interest received during the period amounted to		169	488	187

## Changes in equity, Parent Company

SEK thousands	Share capital	Other capital contributed	Share premium reserve	Reserves	Retained earnings	Total equity
Opening equity Jan 1, 2007	1,187	38	–	–14,384	27,927	14,767
Profit for the year	–	–	–	–	33,010	33,010
Bonus issue and split	4	–	–	–4	–	–
<b>Total changes in value, excl. transactions with company's owners</b>	<b>1,191</b>	<b>38</b>	<b>–</b>	<b>–14,388</b>	<b>60,937</b>	<b>47,777</b>
Allocation adopted by Annual General Meeting	–	–	–	18,039	–27,927	–9,888
Closing equity Dec 31, 2007	1,191	38	–	3,650	33,010	37,889
<b>Opening equity Jan 1, 2008</b>	<b>1,191</b>	<b>38</b>	<b>–</b>	<b>3,650</b>	<b>33,010</b>	<b>37,889</b>
Profit for the year	–	–	–	–	57,691	57,691
<b>Total changes in value, excl. transactions with company's owners</b>	<b>1,191</b>	<b>38</b>	<b>–</b>	<b>3,650</b>	<b>90,701</b>	<b>95,580</b>
Allocation adopted by Annual General Meeting	–	–	–	3,345	–33,010	–29,665
Closing equity Dec 31, 2008	1,191	38	–	6,995	57,691	65,915
<b>Opening equity Jan 1, 2009</b>	<b>1,191</b>	<b>38</b>	<b>–</b>	<b>6,995</b>	<b>57,691</b>	<b>65,915</b>
Profit for the year	–	–	–	–	81,143	81,143
<b>Total changes in value, excl. transactions with company's owners</b>	<b>1,191</b>	<b>38</b>	<b>–</b>	<b>6,995</b>	<b>138,834</b>	<b>147,058</b>
Received premium for share option rights	–	–	3,473	–	–	3,473
Allocation adopted by Annual General Meeting	–	–	–	8,249	–57,691	–49,442
Closing equity Dec 31, 2009	1,191	38	3,473	15,244	81,143	101,089



# Notes to the financial statements

## NOTE 1 GENERAL INFORMATION

Net Entertainment NE AB (Parent Company, corporate registration number 556532-6443) and its subsidiaries (together, the Group) is a leading supplier of digitally-distributed online gaming software for Internet-based gaming. The company was founded in 1996 and its customers consists of about sixty international gaming companies. Revenue consist of royalties based on revenues generated by the company's products and setup fees when new agreements are signed. Net Entertainment is a pure development company and thus does not conduct any gaming operations of its own. The company's brand is internationally recognised and associated with innovation, service, and quality.

All technical development is carried out at the Group's Stockholm office, and all commercial operations such as sales, marketing, and product management are carried out at the Malta office and Gibraltar.

The Parent Company is listed on NASDAQ OMX Stockholm as of Jan 13 2009 and was previously listed on the Nordic Growth Market (NGM) Equity since April 5, 2007.

This annual report was approved for publication by the Board of Directors on March 11, 2010. The Statements of Income and Balance Sheets shall be adopted at the Annual General Meeting on April 14, 2010.

## NOTE 2 ACCOUNTING AND VALUATION PRINCIPLES

### Preparation of the report

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the statements of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU Commission for application within the EU. The Group has also adopted the Swedish Financial Reporting Board's recommendation RFR 1.1 Supplementary Accounting Rules for Groups.

This Annual Report has been prepared by the Parent Company with subsidiaries distributed by Betsson AB (publ) as per March 30, 2007. The Group has been historically created via transactions under common control of the former Betsson Group. IFRS 3 provides no guidelines for such transactions and IAS 8 guidelines specify that related standard regulations in such a situation can be used as a principle basis for reporting the specific event. The US GAAP accounting principles provide such a regulatory framework and the principle that has thus been chosen is the preparation of the consolidated financial statements according to the historical value method ('predecessor basis').

### Preparation of the Group's financial reports

The parent company's functional currency is the Swedish krona, which is also the reporting currency for the parent company and the Group. This means that the financial reports are presented in SEK.

All figures are expressed in thousand Swedish kronor unless otherwise stated. SEK million is an abbreviation of million Swedish kronor. Amounts and figures in brackets are comparable figures for the same period in the previous year.

Assets and liabilities are reported using the historical cost basis of accounting, apart from some financial assets and liabilities which are measured at fair value.

The most important accounting principles in the preparation of these consolidated financial statements are stated below. These principles have been applied consistently for all the years presented, unless otherwise stated. The parent company applies the same principles as the Group, with the exception that the parent company's report has been prepared in accordance with RFR 2.1 Accounting for Legal Entities. This results in certain differences caused by the requirements of the Annual Accounts Act or by tax considera-

tions. The accounting principles for the parent company are stated below in the section 'Parent Company Accounting Principles'.

### Standards, amendments and interpretations that came into force in 2009

IAS 1 (revised) Presentation of Financial Statements (effective from January 1, 2009). The amendment primarily introduces changes to the way in which financial statements are presented. The revised standard prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity arising from transactions with shareholders in a statement of comprehensive income. The Group therefore presents all owner changes in equity in the statement "Consolidated changes in equity" and all non-owner changes are presented in the statement "Consolidated statement of comprehensive income". Comparable information has been restated to reflect the amendment in the standard. This amendment in the accounting standard only impacts presentation aspects and has no effect on earnings per share.

IFRS 7 (amendment) Financial Instruments: Disclosures (effective from January 1, 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure about fair value measurement per level in the measurement hierarchy. This amendment only requires additional disclosures and has no effect on the Group financial statements.

IFRS 8, Operating segments (effective from January 1, 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the USA standard SFAS 131, Disclosures about segments of an enterprise and related information. The new standard requires an entity to adopt the "management approach" for presenting the segment information, which means that it is presented in the way that is used in the internal reporting. The Group will adopt IFRS 8 with effect from January 1, 2009.

### Standards, amendments and interpretations that came into force in 2009 but which are not relevant for the Group

IAS 23 (amendment) Borrowing costs (effective from January 1, 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group currently has no borrowing costs.

IAS 32 (amendment) Financial Instruments (effective from January 1, 2009). The amendment requires that some financial instruments that meet the definition of a financial liability are recognised as equity. The amendment will have no impact on consolidated financial statements.

IAS 27 (amendment) Consolidated and Separate Financial Statements (effective from July 1, 2009). The amendment requires that income attributable to non-controlling interests must always be recognised even if this means that the share of the non-controlling interests is negative, that all transactions with non-controlling interests must be recognised in equity and that, in cases where a parent company loses the controlling interest, any remaining share must be reassessed at fair value. As the Group currently has no minority interests the amendment is not expected to impact its financial statements.

IAS 39 (amendment) Financial Instruments: Recognition and Measurement (effective from January 1, 2009). The amendment allows financial assets in the category "Fair value through profit or loss" to be reclassified as "Available-for-sale financial assets" in rare circumstances. The amendment will have no impact on consolidated financial statements.

IFRS 1 (amendment) First-time Adoption of IFRS (effective from January 1, 2009). The amendment requires the recognition of shares in subsidiaries at the carrying value under previous GAAP or fair value at the date of transition

## NOTES

to IFRS and that all dividends from subsidiaries are accounted for as income and mandatory impairment tests are carried out in respect of the shares. The amendment will have no impact on consolidated financial statements.

IFRS 2 (amendment) Share-based Payment (effective from January 1, 2009). The amended standard clarifies vesting conditions and cancellations. It clarifies that "vesting conditions" are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions (conditions that are not defined as vesting conditions). These features should be recognised when the fair value at the grant date is determined for transactions with employees and others providing similar services. However, they do not affect the number of options expected to vest or the value of options after the grant date. All cancellations, whether by the entity or other parties, should receive the same accounting treatment. The amendment will have no impact on consolidated financial statements.

IFRS 3 (amendment) Business Combinations (effective from July 1, 2009). The amendment is still subject to endorsement by the EU. The amendment applies proactively to combinations after the date it comes into force. The application will mean a change in accounting for future business combinations, e.g. accounting of transaction costs, possible conditional purchase prices and successive acquisitions. The amendment will not affect the accounting for the Group.

IFRIC 13, Customer Loyalty Programmes (effective from July 1, 2008). This interpretation is still subject to endorsement by the EU.

IFRIC 13 clarifies that when goods or services are sold together with some form of customer loyalty incentive (e.g. loyalty credits or free products), the arrangement is a multiple-element agreement. This interpretation will have no impact on the Group.

IFRIC 15, Agreements for the Construction of Real Estate (effective for periods beginning on or after January 1, 2009). This interpretation is still subject to endorsement by the EU. This interpretation will have no impact on the Group.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for periods beginning on or after October 1, 2008). IFRIC 16 provides guidance on identifying the foreign currency risks that qualify for hedge accounting. This interpretation will have no impact on the Group as the Group does not hedge any foreign currency risk.

IFRIC 17, Distributions of Non-cash Assets to Owners (effective for periods beginning on or after July 1, 2009). This interpretation is still subject to endorsement by the EU. This interpretation will have no impact on the Group.

IFRIC 18, Transfers of Assets from Customers (effective for periods beginning on or after July 1, 2009). This interpretation is still subject to endorsement by the EU. This interpretation will have no impact on the Group.

### **The following standards and amendments to existing standards have been published but are still not effective and have not been early adopted by the Group.**

IFRIC 17, Distribution of Non-cash Assets to Owners (effective for the financial year beginning on or after July 1, 2009). The interpretation is part of the IASB's annual improvement project published in April 2009. The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. An amendment has also been made to IFRS 5 requiring that the assets are only classified as "held for distribution" if they are available for distribution in their current state and the transaction is highly probable. The Group will adopt IFRIC 17 with effect from January 1, 2010 but it is not expected to have any material impact on the financial statements of the Group.

IAS 27 (amendment) Consolidated and Separate Financial Statements (effective from July 1, 2009). The revised standard requires that the effects of all transactions with non-controlling interests are recognised in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies that when a parent company loses the controlling interest any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in the income statement. The Group will apply IAS 27 (amendment) prospectively to transactions with non-controlling interests from periods beginning on January 1, 2010.

IFRS 3 (revised) Business Combinations (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations but with some significant amendments. For example, all payments to purchase a business are to be recognised at fair value on the acquisition date, with contingent payments classified as liabilities subsequently re-measured via the income statement. A choice is available for each business combination for non-controlling interests in the acquired entity to be measured either at fair value or at the non-controlling interest's proportionate share of the acquired

entity's identifiable net assets. All costs associated with the acquisition must be expensed. The Group will adopt IFRS 3 (revised) prospectively to all business combinations with effect from January 1, 2010.

IAS 38 (amendment) Intangible Assets. The amendment is part of the IASB's annual improvement project published in April 2009. The Group will adopt IAS 38 (amendment) and IFRS 3 (revised) with effect from the same date. The amendment provides guidance on how to measure fair value of an intangible asset acquired in a business combination. According to the amendment, intangible assets may be grouped together and recognised as a single asset provided the assets have similar useful lives. The amendment will not have any material impact on the financial statements of the Group.

IFRS 5 (amendment) Non-current Assets Held for Sale and Discontinued Operations. The amendment is part of the IASB's annual improvement project published in April 2009. It clarifies that IFRS 5 specifies the disclosure requirements for non-current assets (or disposal groups) that are classified as non-current assets held for sale or discontinued operations. It also clarifies that the general requirements in IAS 1 are still applicable, in particular paragraph 15 (to give a true and fair view) and paragraph 125 (sources of uncertainty in estimates). The Group will adopt IFRS 5 (amendment) with effect from January 1, 2010. The amendment is not expected to have any impact on the financial statements of the Group.

IAS 1 (amendment) Presentation of Financial Statements. The amendment is part of the IASB's annual improvements project published in April 2009. It clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required to settle in shares at any time. The Group will adopt IAS 1 (amendment) with effect from January 1, 2010. The amendment is not expected to have any material impact on the financial statements of the Group.

IFRS 2 (amendment) Group cash-settled and share-based payment transactions. The amendment clarifies that IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" have been incorporated into the standard. The amendment also complements the guidance in IFRIC 11 on classification of transactions among group entities, which is not dealt with in the interpretation. The new guidance is not expected to have any material impact on the financial statements of the Group.

## CLASSIFICATIONS

Assets are classified as current assets if they are expected to be sold or are intended to be sold or used in the company's normal operating cycle, if they are held primarily for trading purposes, if they are expected to be sold within twelve months after the balance sheet date or if they are cash or cash equivalents. All other assets are classified as fixed assets. Liabilities are classified as current liabilities if they are expected to be settled in the company's normal operating cycle, if they are owned primarily for trading purposes, if they are expected to be settled within twelve months after the balance sheet date or if the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. All other liabilities are classified as non-current liabilities.

## CONSOLIDATED STATEMENTS

The consolidated financial statements include the parent company and companies in which the parent company directly or indirectly owns more than 50% of the voting rights or has control.

### Principles of consolidation

The consolidated accounts have been prepared in accordance with the purchase method. The cost of an acquisition is measured as the fair value of the assets given, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference between the cost of acquisition of the shares and the fair value at the time of acquisition of the Group's share of the identifiable net assets acquired is recognised as consolidated goodwill. If the difference is negative, the amount is immediately recognised in the income statement.

Subsidiaries' revenue, expenses, assets and liabilities are included in the consolidated financial statements from the date on which control arises (acqui-

sition date) until and including the date on which control ceases. Intra-group receivables and liabilities, and transactions among group companies and any associated gains, are eliminated in their entirety.

#### Translation of foreign operations

Operations which do not have the Sweden krona as their functional currency are translated to SEK using the current method. All assets, provisions and other liabilities are translated at the closing day rate, and income statement items are translated at the average rate. Exchange rate differences arising during this conversion (translation differences) are recognised immediately in equity. Independent foreign operations are sold at their accumulated translation differences, less any hedging in the consolidated financial statements.

#### Revenue

Net Entertainment's revenue is largely dependent on the licensing of online gaming products/services. Revenue consists of the fair value of what is received or will be received for services sold in the Group's operating activities. Revenue is recognised excluding VAT and discounts, and after elimination of internal Group sales. All invoicing takes place monthly in arrears.

CasinoModule™ generates license revenues according to a royalty model and the amount is determined by the earnings generated by the product for the customer and is recognised for the period the customer uses the product. Other revenues, such as start-up and delivery fees, are recognised when the services are delivered to the customer.

The Group reports revenue when its amount can be reliably measured and it is likely that the Company will reap financial benefits in the future. The revenue amount cannot be measured in a reliable manner until all sales commitments are fulfilled or have lapsed. The Group bases its assessments and estimates on historical outcomes and takes into account the type of customer, type of transaction and special circumstances in each individual case. If there are any circumstances that might change the original assessment of the revenue amount, the estimates are reviewed. These reviews can result in increases or decreases of the estimated revenue or expenses and affect the revenue during the period when the circumstances that caused the change came to the knowledge of the company management.

#### Other revenues

Revenues from activities which do not come under ordinary operations are reported as other income. This item mainly includes recovered amortized receivables, exchange gains from operations and profit from the sale of fixed assets.

#### Financial income/expenses

Interest revenues and expenses are reported in the period they are incurred.

#### Other operating expenses

Costs of secondary activities in ordinary operations relating to operating receivables and operating liabilities are reported as other operating expenses. This item mainly includes exchange losses from operations and losses on the sale of fixed assets and businesses.

#### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. In the case of the Group, the chief operating decision maker has been identified as the Chief Executive Officer who makes strategic decisions.

The Company's only product (segment) is systems for casino games.

#### Cash flow statement

The cash flow statement is prepared using the indirect method. The recognised cash flow only covers transactions that result in incoming or outgoing payments. This means that discrepancies may occur compared with changes in individual items in the balance sheet.

#### Intangible assets

Development expenditure is capitalized to the extent that it is expected to result in future economic benefits. Only expenditure associated with the development phase of online gaming products, systems and platforms is capitalized and recognised as an asset from the date on which the decision is made to complete

the project and when conditions allow this. The carrying amount includes direct expenditure for salaries, purchased services, materials and indirect expenses that can be reasonably and consistently attributed to the asset.

Development expenses are recognised in the balance sheet at cost, less deductions for accumulated amortisation and impairment losses. Regular assessments are made of the projects' income-generating capacity in order to identify any impairment requirements. Intangible fixed assets also include acquired gaming agreements, concessions and trademarks. These intangible assets are reported in the balance sheet at acquisition value, less accumulated amortization and impairment losses.

All of the Company's intangible assets have limited useful life.

#### Property, plant and equipment

Items of property, plant and equipment are recognised as assets in the balance sheet when it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably. Items of property, plant and equipment are recognised at cost less accumulated depreciation and impairment losses. Repairs and maintenance are recognised as expenses in the period incurred.

#### Depreciation/amortization and impairment

Depreciation/amortization is based on the original acquisition cost less the estimated residual value and allowance for impairment. Depreciation/amortization is applied on a straight-line basis over the asset's estimated useful life. Useful economic life for assets (years):

- Trademarks, domain names, maximum 5 years.
- Gaming agreements and concessions, 3–5 years.
- Capitalized development expenses for games, gaming systems and gaming platforms are based on class of asset and amount to a maximum of 3 years.
- Computer and server equipment, 4–5 years.
- PCs (work stations for developers etc.) 1–3 years.
- Office equipment, 3–7 years.

The residual value and useful life of an asset are reviewed annually. If the carrying amount of tangible, intangible or financial fixed assets in the Group appears excessive, impairment is identified and quantified by reference to the recoverable value of individual or naturally related types of assets, measured as the higher of net selling price and value in use. The value in use is measured as expected future discounted cash flow. Impairment loss is the difference between the carrying amount and the recoverable value. When a previously recognised impairment loss is no longer warranted, it is reversed. A reversal may not be higher than a value that does not exceed the carrying amount that would have been recognised (net of amortization or depreciation) had no impairment loss been recognised.

#### Borrowing costs

Borrowing costs are expensed in the income statement for the period to which they relate.

#### Financial instruments

Financial assets can be classified in the following categories:

(a) financial assets measured at fair value in the income statement, (b) loan receivables and accounts receivable and (c) available-for-sale financial assets. The classification is dependent upon the purpose for which the financial asset was acquired. The classification of the financial assets is determined at the time of initial accounting.

The Group does not have any assets which come under the categories (a) or (c).

#### Loan receivables and accounts receivable

Loan receivables and accounts receivable are financial assets that are not derivatives with fixed payments or payments that can be defined and are not listed in an active market. They are included in current assets with the exception of items with an expiry date of more than 12 months from the closing date, which are classified as fixed assets. Accounts receivable categorised in this category consist of Accounts Receivable and other receivables as well as Cash or cash equivalents in the balance sheet (see notes 16 and 20).

#### Accounts receivable

Accounts receivable are initially measured at accumulated acquisition value and then at accumulated acquisition value with application of the effective

## NOTES

interest method, less any provision for impairment. Provision for impairment on accounts receivable is made when there is direct evidence that the Group will not be able to collect all the amounts due under the original terms of the receivable. The amount of a provision is the difference between the asset's carrying value and the current value of assessed future cash flows, discounted using the original effective interest rate and the adjustment is recognised in the income statement in sales costs. When an accounts receivable cannot be collected, it is completely written off accounts receivable.

### Cash and cash equivalents

Cash and cash equivalents include cash, bank balances and other short-term investments with an expiry date within three months of the acquisition date.

### Shareholders' equity

Shareholders' equity consists of registered share capital, other paid-in capital, hedge reserves, retained earnings and profit for the year. Ordinary shares are classified as equity. Transactions that can be directly attributed to issues of new shares or options are recognised, net after tax, in equity as a deduction from the issue amount. In addition to the shares' nominal value, other paid-in capital relates to capital raised by new share issues, group contributions and shareholder contributions. Incremental costs directly attributable to the issue of new shares are recognised in equity as a deduction, net of tax, from the proceeds. Translation reserves relate to translation differences attributable to translation of foreign subsidiary operations into Net Entertainment's reporting currency.

### Accounts payable

Accounts payable are initially recognised at fair value and then at the accumulated acquisition value using the effective interest method.

### Other financial liabilities

Financial liabilities not held for trading are measured at amortized cost. Accumulated acquisition value is measured on the basis of the effective interest calculated when the liability was recognised. This means that surplus and deficit values and transaction costs are accrued over the liability's maturity.

### Financial investments

Financial investments are either financial assets or short-term investments, depending on the purpose of the holding. If their maturity or expected period of ownership exceeds one year they are financial fixed assets, and if it is less than one year they are short-term investments. Financial investments comprising shares are either financial assets measured at fair value in the income statement or available-for-sale financial assets.

Interest-bearing securities acquired to be held until maturity are classified as held-to-maturity financial assets and are measured at amortized cost. Interest-bearing securities, not acquired to be held until maturity, are classified as "available-for-sale" financial assets. When financial assets are measured at fair value in the income statement, any changes in value are recognized in net finance income/expense.

### Hedge accounting

To reduce risk exposure in terms of exchange rate fluctuations, Net Entertainment began hedging parts of its future cash flow as of 1 April 2008 through currency forward contracts. In September, Net Entertainment discontinued hedging and all hedging contracts were allowed to expire in 2008. No currency forward contracts were held as of December 31, 2008 and thereafter.

All existing derivatives are recognised at fair value in the balance sheets. For derivative instruments qualifying as cash flow hedge, the effective portion of the changes in the fair value is recognised in separate equity categories until such time that the hedged item is recognised in the income statement. For derivative instruments that do not meet the criteria for hedge accounting, and for ineffective portions of derivatives qualifying for hedge accounting, changes in fair value are recognised in the income statement as other interest income/expenses.

### Taxes

Total tax expense consists of current tax and deferred tax. Current tax is tax (paid or received) that relates to the current year. This also includes adjustment of current tax attributable to prior periods.

Income tax liabilities and receivables are valued at their nominal amount according to tax regulations and tax rates that have been approved or announced and which are likely to be adopted. For items reported in the income

statement, related tax effects are also reported in the income statement. Tax is charged against equity if the tax is attributable to items that are charged directly against equity.

Deferred tax is calculated using the balance sheet method based on temporary differences arising between the reported value and tax value of the assets and liabilities, and applying the tax rates and regulations approved or announced at the balance sheet date and which are expected to apply when the deferred tax receivable concerned is realised or the deferred tax liability is settled. Temporary differences are not considered for goodwill related to consolidation or in differences attributable to shares in subsidiaries and associated companies that are not expected to be taxed within the foreseeable future. Untaxed reserves including deferred tax liabilities are reported in legal entities. Deferred tax assets relating to deductible temporary differences and loss carryforwards are only reported to the extent that it will be possible to utilise them in the future and that they will result in lower future tax payments.

### Leases

Leases are classified either as finance or operating leases in the consolidated income statement. Leasing of fixed assets where the Group is essentially exposed to the same risks and rewards as in direct ownership is classified as finance leasing. The leased asset is recognised in fixed assets and the corresponding rental liability falls under interest-bearing liabilities. Leasing of assets where the lessor essentially remains the owner of the asset is classified as operating leasing and the leasing charges are expensed on a straight-line basis over the leasing period. Details of operating leases and rental agreements are shown in note 26.

### Dividends

Dividends are recognised as a liability in the period in which they are approved by the Annual General Meeting.

### Employee benefits

#### Pension costs and pension commitments

The Group has various pension plans in different countries. The pension plans are normally financed by payments from the relevant Group companies and in some cases from employees. As all pension plans are defined-contribution the Group has no legal or informal obligations once the contributions have been paid. The Group's outgoing payments for defined-contribution pension plans are reported as an expense during the period in which the employees performed the services to which the contribution relates.

#### Remuneration after termination of employment

The Group has no obligations to employees after they have retired or finished in their posts.

#### Termination benefits

Compensation is paid when an employee's job is terminated by Net Entertainment before the normal retiring date or when an employee voluntarily accepts severance pay. The Group recognises severance pay when it is demonstrably committed to either terminating the employment of employees in accordance with a detailed formal plan without the possibility of retraction, or providing termination benefits as a result of an offer which is made to encourage voluntary departure.

#### Bonus plans

The Group recognises a liability and an expense for bonus based on various qualitative and quantitative standards. The Group provides a provision for bonuses if there is a legal obligation or an informal obligation owing to previous practice.

#### Provisions

A provision is recognized in the balance sheet when the Group has a present obligation (legal or informal) as a result of a past event and an outflow of resources will probably be required to settle the obligation and a reliable estimate of the amount can be made. In a situation where the effect of when the payment takes place is important, provisions are measured by discounting expected future cash flows at an interest rate before tax, so that it reflects the present market value of the expenditure required to settle the amount and, if applicable, the risks associated with the liability. A restructuring provision is recognised when the Group has defined a detailed, formal restructuring plan and the restructuring has either commenced or has been officially approved. No provision is made for future operating expenses.

**Contingent liabilities**

A contingent liability is recognised when there is a possible obligation arising from past events and its existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events, or when there is an obligation which is not reported as a liability or a provision due to the fact that it is not probable that an outflow of resources will be required to settle the obligation.

**PARENT COMPANY ACCOUNTING PRINCIPLES**

The parent company complies with the same accounting principles as the Group with the exception of that which is stated below.

Interests in subsidiaries are reported at acquisition value with deductions for possible depreciation.

Group and shareholder contributions are reported in accordance with the recommendations of the Swedish Financial Accounting Standards Council's Emerging Issues Task Force. Shareholder contributions are recognised directly in the equity of the recipient company and capitalised in the contributor's shares and participating interests. These assets are subsequently subject to impairment testing. Group contributions are recognised on the basis of economic substance. This means that Group contributions made or received for the purpose of minimising the Group's total tax are recognised directly in retained earnings after a deduction for their current tax effect.

All leasing agreements are recognised as operating leasing.

Dividends from subsidiaries are recognised when the right to receive dividends is considered to be reliable.

The parent company recognises the deferred tax liability on untaxed reserves as part of the untaxed reserves because of the connection between accounting and taxation.

**KEY ESTIMATES AND ASSUMPTIONS**

The Group makes estimates and assumptions about the future. These estimates are used when preparing the financial reports. By definition, these predictions rarely match the actual results. The estimates and assumptions which involve a risk of significant adjustments in the carrying values of assets and liabilities in the next financial year are presented below. They are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are deemed reasonable in the circumstances.

**Income tax and VAT**

The Group's effective tax rate is primarily affected by the distribution of profit between Sweden and the countries in which the Group conducts operations. Extensive assessments are required in order to establish the provisions for income tax. In many transactions and calculations the final tax is uncertain at the time when the transactions and calculations are carried out. At present, no extra provision has been made for any tax audit issues.

The Group's operations in Malta are exempt from VAT. The interpretation of relevant Maltese VAT regulations concerning the Company's liability to pay Maltese VAT on services purchased was amended in 2007 and 2008 and may affect purchases made by the Maltese subsidiaries from other Group companies. Together with legal experts, the Company has assessed how the regulations affect its business operations. The Company has taken measures to minimise the risk of additional VAT in the future. The Company reports to and pays the Maltese tax authorities the VAT amounts that the Company deems correct. However, the amounts may be insufficient if the Maltese tax authorities interpret the VAT regulations more restrictively than Net Entertainment has done and deems as correct.

**Impairment tests**

Every year, the Group's assets are tested to determine if any impairment has occurred in accordance with IAS 36. The Group has invested considerable amounts in the development of gaming platforms and their carrying amounts are compared to the present value estimated from expected future discounted cash flows.

Development expenses are recognised in the balance sheet at cost, less deductions for accumulated amortisation and impairment losses. Regular assessments are made of the projects' income-generating capacity in order to identify any impairment requirements.

**NOTE 3 REVENUES**

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
– License revenues, royalties	299,722	204,602	131,145	13,158	9,441	6,185
– Consulting revenues	–	–	–	135,853	98,991	71,803
– Invoiced expenses	–	–	–	4,878	2,573	62
<b>Total</b>	<b>299,722</b>	<b>204,602</b>	<b>131,145</b>	<b>153,889</b>	<b>111,005</b>	<b>78,050</b>

**NOTE 4 SEGMENT REPORTING**

The corporate management has identified the CEO as the chief operating decision maker.

Segments are defined as components of an enterprise that can generate revenue and incur expenses and are reported on the basis of this financial information which is used to make strategic decisions. In its reporting to the chief operating decision maker, the Group has identified one reportable segment. The segment that has been identified is the system for casino games.

The CEO assesses the business performance based on the operating segment.

Geographically, Net Entertainment's customers (gaming operators, betting companies) offer gaming to their customers (players) in many different countries. The domicile of Net Entertainment's direct customers' (websites) is determined by reasons completely different to proximity to the local market, for instance appropriate gaming legislation, tax-related reasons or other reasons. The advantage of the Internet is that it is a global, cross-border form of distribution, where gaming site owners can be domiciled anywhere in the world and still serve many local markets around the world. Net Entertainment Group operations are spread geographically for legal and tax-related reasons. The geographical information below regarding revenues and assets been distributed based on where the group's customers have their headquarters and where the group has its assets.

**GEOGRAPHICAL BREAKDOWN**

	2009	2008	2007
<b>Revenue</b>			
Sweden	0%	0%	0%
Malta	84%	90%	89%
Other Countries	16%	10%	11%
<b>Fixed Assets</b>			
Sweden	28%	23%	55%
Malta	72%	77%	45%

The distribution per customer is presented to give a picture of the dependency of specific customers.

**CUSTOMERS**

	2009	2008	2007
Customer I	26%	26%	23%
Customer II	18%	25%	21%
Customer III	14%	8%	11%

**NOTE 5 OTHER REVENUES**

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
– Bad debts recovered	–	82	–	–	–	–
– Exchange differences, operations	328	517	853	215	–	853
– Other	–	372	22	–	249	21
<b>Total</b>	<b>328</b>	<b>971</b>	<b>875</b>	<b>215</b>	<b>249</b>	<b>874</b>

## NOTES

### NOTE 6 EMPLOYEE BENEFITS

#### AVERAGE NUMBER OF EMPLOYEES

	2009		2008		2007	
	Average number of employees	Of which men	Average number of employees	Of which men	Average number of employees	Of which men
Sweden	101	78%	61	76%	55	72%
Malta	9	63%	9	61%	5	65%
Group total	110	77%	70	75%	60	72%

Januari 1–December 31	PARENT COMPANY		
	2009	2008	2007
Total sickness absence – employees' total standard working hours	2.94%	2.40%	2.50%
Share of sickness absence pertaining to absence exceeding 60 consecutive days; proportion of long-term absence	17.47%	8.90%	25.40%
– Sickness absence, women	5.67%	3.10%	4.00%
– Sickness absence, men	2.14%	2.20%	1.90%
– Sickness absence, employees under 30*	2.52%	2.00%	2.20%
– Sickness absence, employees 30–49*	3.09%	2.20%	2.60%
– Sickness absence, employees over 49*	–	–	–

\* as a percentage of the Group's total normal working hours.

Information has intentionally been omitted if a group of employees' is too small to be specified as per the Swedish Annual Accounts Act.

#### REMUNERATION TO SENIOR EXECUTIVES

	2009	2008	2007
<b>Members of the board, current</b>			
Rolf Blom, Chairman of the Board	644	332	112
Vigo Carlund	265	131	–
Fredrik Erbring	265	131	–
Niklas Eriksson	265	131	–
Mikael Gottschlich	265	131	–
Peter Hamberg	200	50 <sup>1)</sup>	–
<b>Members of the board, previous</b>			
Pontus Lindwall, former Chairman of the Board	–	83	225
John Wattin	–	42	112
Ann-Catrine Appelquist	–	42	112
Einar-Gunnar Gudmundsson	–	42	112
<b>Total</b>	<b>1,904</b>	<b>1,115</b>	<b>673</b>

<sup>1)</sup> Refers to remuneration as a deputy Board member

The table shows the remuneration paid in each fiscal year.

#### SALARIES AND SOCIAL SECURITY EXPENSES

	2009		2008		2007	
	Salaries	Social security expenses (of which pension costs)	Salaries	Social security expenses (of which pension costs)	Salaries	Social security expenses (of which pension costs)
Board of Directors and the CEO	4,833	2,417 (825)	3,859	1,791 (729)	2,780	1,223 (600)
Other employees Sweden	51,019	20,790 (7,077)	31,438	12,829 (2,726)	22,787	10,176 (2,098)
<b>Total Parent Company</b>	<b>55,852</b>	<b>23,207</b> <b>(7,902)</b>	<b>35,297</b>	<b>14,620</b> <b>(3,455)</b>	<b>25,567</b>	<b>11,399</b> <b>(2,698)</b>
Other employees Malta	5,645	788 (145)	3,362	1,183 (217)	1,888	585 (77)
<b>Total Group</b>	<b>61,497</b>	<b>23,995</b> <b>(8,047)</b>	<b>38,659</b>	<b>15,803</b> <b>(3,672)</b>	<b>27,455</b>	<b>11,984</b> <b>(2,775)</b>

Presented salaries and social security expenses represents amounts expensed as well as capitalized as development costs.

#### NUMBER AND PERCENTAGE OF WOMEN IN EXECUTIVE POSITIONS AT YEAR-END

	2009			2008			2007		
	No. of men	No. of women	Women	No. of men	No. of women	Women	No. of men	No. of women	Women
Board of Directors	6	0	0%	5	0	0%	4	1	20%
Other senior executives	5	0	0%	6	0	0%	2	1	33%
<b>Total Group Board of Directors and senior executives</b>	<b>11</b>	<b>0</b>	<b>0%</b>	<b>11</b>	<b>0</b>	<b>0%</b>	<b>6</b>	<b>2</b>	<b>25%</b>

**REMUNERATION TO THE BOARD OF DIRECTORS**

Remuneration to the Board of Directors are approved by the Annual General Meeting. At the Annual General Meeting April 29, 2009 it was resolved, for the period up until the end of the next Annual General Meeting 2010, that remuneration would be paid of SEK 1,500 thousand of which SEK 500 thousand to the Chairman of the Board and SEK 200 thousand to each Board member.

**REMUNERATION TO SENIOR EXECUTIVES**

During 2009 the remuneration to the CEO amounted to SEK 2,930 (2,744 and 2,107, respectively) thousand, of which SEK 830 (1,064 and 400, respectively) thousand was variable compensation, and pension costs of SEK 825 (729 and 600, respectively) thousand. Other benefits, such as health care insurance amounted to SEK 7 (6 and 5, respectively) thousand.

The notice period for termination of employment is mutually six months. If termination is initiated by the Company, the CEO is entitled to a severance pay corresponding to 12 months salary.

During 2009 the remuneration to the deputy CEO amounted to SEK 938 thousand, of which SEK 105 was variable compensation, and pension costs of SEK 124 thousand. As the deputy CEO took office during 2009, wherefor information for previous years in the group is included among other senior executives.

Remuneration for other senior executives during 2009 amounted to SEK 3,513 (3,762 and 2,112, respectively) thousand, of which SEK 356 (1,249 and 566, respectively) thousand was variable compensation, and pension costs of SEK 668 (391 and 218, respectively) thousand. Other senior executives consisted of 8 (6 and 3, respectively) persons during 2009, of which several only for a portion of the year.

The notice period for other senior executives is mutually six months. Other benefits amounted to SEK 74 (6 and 0, respectively) thousand.

**NOTE 7 EARNINGS FROM SHARES IN SUBSIDIARIES**

	PARENT COMPANY		
	2009	2008	2007
Anticipated dividend from subsidiaries	66,880	52,830	29,576
Dividend from subsidiaries	7,315	–	–
Capital loss on sale of shares in subsidiaries and liquidation	–	–	–61
<b>Total</b>	<b>74,195</b>	<b>52,830</b>	<b>29,515</b>

In 2007, the Parent Company sold all interests in the Costa Rican subsidiary Feliz Europa. The capital loss amounted to SEK 61 thousand.

**NOTE 8 FINANCIAL INCOME**

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
Interest income	311	1,259	492	169	488	225
Exchange rate differences	11,428	1,498	–81	10,511	1,463	–30
<b>Total</b>	<b>11,739</b>	<b>2,757</b>	<b>411</b>	<b>10,680</b>	<b>1,951</b>	<b>195</b>

**NOTE 9 FINANCIAL EXPENSES**

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
Interest expense	–47	–290	–187	–30	–255	–186
Exchange rate differences	–14,658	–4,317	–	–13,152	–1,172	–
<b>Total</b>	<b>–14,705</b>	<b>–4,607</b>	<b>–187</b>	<b>–13,182</b>	<b>–1,427</b>	<b>–186</b>

**NOTE 10 INCOME TAX**

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
<b>CURRENT TAX</b>						
Sweden	3,817	905	1,458	3,817	905	1,458
Outside Sweden	5,722	5,534	2,108	–	–	–
<b>Total current tax</b>	<b>9,539</b>	<b>6,439</b>	<b>3,566</b>	<b>3,817</b>	<b>905</b>	<b>1,458</b>
<b>DEFERRED TAX</b>						
Sweden	–	–835	–	–	–	–
Outside Sweden	–	382	1,327	–	–	–
<b>Total deferred tax</b>	<b>–</b>	<b>–453</b>	<b>1,327</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total tax expense</b>	<b>9,539</b>	<b>5,986</b>	<b>4,893</b>	<b>3,817</b>	<b>905</b>	<b>1,458</b>

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
<b>Difference between actual tax expense and tax expense based on present tax rate</b>						
Recognised profit before tax	117,216	85,953	50,804	84,960	55,614	34,468
Tax according to present tax rate 26,3% (28%)	30,828	24,067	14,225	22,344	15,572	9,651
Difference in tax rates in foreign operations	–22,275	–18,206	–9,420	–	–	–
Tax effect from non-taxable items	–	–	–	–19,513	–14,792	–8,281
Tax attributable to prior years	797	–47	–	797	–47	–
Tax effect from non-deductible items	189	172	88	189	172	88
<b>Recognised tax expense</b>	<b>9,539</b>	<b>5,986</b>	<b>4,893</b>	<b>3,817</b>	<b>905</b>	<b>1,458</b>
<b>Specification of deferred tax expense</b>						
Tax on appropriations	–	–835	–	–	–	–
Tax on temporary differences	0	382	1,327	–	–	–
	<b>0</b>	<b>453</b>	<b>1,327</b>	<b>–</b>	<b>–</b>	<b>–</b>

There are temporary differences between the fiscal and carrying amounts. For appropriations, see note 22.

**NOTE 11 EARNINGS PER SHARE**

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
Profit after tax attributable to Parent Company shareholders (SEK thousand)	107,677	79,967	45,911	81,143	57,961	33,010
No. of shares	39,554	39,554	39,554	39,554	39,554	39,554
Earnings per share (SEK)	2.72	2.02	1.16	2.05	1.46	0.83

Earnings per share is calculated based on the average number of shares. The number of shares have been calculated in accordance with IAS 33 Earnings per share. At the end of 2009 the total outstanding share option rights amounted to 629,225, corresponding to the same number of shares. The Annual General Meeting April 29, 2009 resolved to introduce a long-term incentive program. The potential shares the issue of the share option rights are considered, when calculating the number of shares and earnings per share after dilution, to the extent they affect dilution in accordance with IAS 33 Earnings per share. As the share price at year end is below the strike price of SEK 71.70 the potential shares have no dilutive effect and are therefore not included in the number of shares after dilution.

# NOTES

## NOTE 12 INTANGIBLE ASSETS

GROUP	Gaming products, systems and platforms	Gaming contracts and licenses	Trademarks	Total
<b>2007</b>				
Opening acquisition value	27,554	1,615	147	29,316
Capitalized development expenses for the year	10,098	–	–	10,098
Translation difference	363	–	–	363
Closing accumulated acquisition value	38,015	1,615	147	39,777
Opening amortization	8,342	1,391	53	9,786
Amortization during the year	5,425	224	49	5,698
Translation difference	47	–	–	47
Closing accumulated amortization	13,814	1,615	102	15,531
Closing residual value according to plan Dec 31, 2007	24,201	0	45	24,246
<b>2008</b>				
Opening acquisition value	38,015	1,615	147	39,777
Capitalized development expenses for the year	16,867	–	–	16,867
Translation difference	4,432	–	–	4,432
Closing accumulated acquisition value	59,314	1,615	147	61,076
Opening amortization	13,814	1,615	102	15,531
Amortization/write-downs during the year	13,007	–	45	13,052
Translation difference	1,084	–	–	1,084
Closing accumulated amortization	27,905	1,615	147	29,667
Closing residual value according to plan Dec 31, 2008	31,409	0	0	31,409
<b>2009</b>				
Opening acquisition value	59,314	1,615	147	61,076
Capitalized development expenses for the year	33,154	–	–	33,154
Translation difference	-2,590	–	–	-2,590
Closing accumulated acquisition value	89,878	1,615	147	91,640
Opening amortization	27,905	1,615	147	29,667
Amortization/write-downs during the year	14,937	–	–	14,937
Translation difference	-696	–	–	-696
Closing accumulated amortization	42,146	1,615	147	43,908
Closing residual value according to plan Dec 31, 2009	47,732	0	0	47,732
<b>Parent Company</b>				
	Gaming products, systems and platforms	Gaming contracts and licenses	Trademarks	Total
<b>2007</b>				
Opening acquisition value	19,813	1,615	147	21,575
Capitalized development expenses for the year	4,620	–	–	4,620
Closing accumulated acquisition value	24,433	1,615	147	26,195
Opening amortization	8,210	1,391	53	9,564
Amortization during the year	3,612	224	49	3,885
Closing accumulated amortization	11,822	1,615	102	13,539
Closing residual value according to plan Dec 31, 2007	12,611	0	45	12,656
<b>2008</b>				
Opening acquisition value	24,433	1,615	147	26,195
Closing accumulated acquisition value	24,433	1,615	147	26,195
Opening amortization	11,822	1,615	102	13,539
Amortization during the year	7,399	–	45	7,444
Closing accumulated amortization	19,221	1,615	147	20,983
Closing residual value according to plan Dec 31, 2008	5,212	0	0	5,212



Parent Company	Gaming products, systems and platforms	Gaming contracts and licenses	Trademarks	Total
<b>2009</b>				
Opening acquisition value	24,433	1,615	147	26,195
Closing accumulated acquisition value	24,433	1,615	147	26,195
Opening amortization	19,221	1,615	147	20,983
Amortization during the year	4,226	–	–	4,226
Closing accumulated amortization	23,447	1,615	147	25,209
Closing residual value according to plan Dec 31, 2009	986	0	0	986

**NOTE 13 TANGIBLE FIXED ASSETS**

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
<b>EQUIPMENT AND FITTINGS</b>						
Opening acquisition value	18,843	11,181	8,178	10,133	8,117	8,178
Acquisitions for the year	24,126	6,560	3,003	14,554	2,560	2,759
Translation differences	-729	1,102	–	–	–	–
Sales and disposals	–	–	–	–	-544	-2,820
Closing accumulated acquisition value	42,240	18,843	11,181	24,687	10,133	8,117
Opening depreciation	8,055	5,321	3,456	5,907	4,482	3,456
Sales and disposals	–	–	-296	–	–	-297
Depreciation during the year	6,113	2,461	2,141	2,913	1,425	1,323
Write-down	1,118	–	–	–	–	–
Translation differences	-262	273	20	–	–	–
Closing accumulated depreciation	15,024	8,055	5,321	8,820	5,907	4,482
Closing residual value according to plan	27,216	10,788	5,860	15,867	4,226	3,635

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
<b>LEASEHOLD IMPROVEMENTS</b>						
Opening acquisition value	–	–	–	–	–	–
Acquisitions for the year	4,856	–	–	4,856	–	–
Closing accumulated acquisition value	4,856	–	–	4,856	–	–
Opening depreciation	–	–	–	–	–	–
Depreciation during the year	130	–	–	130	–	–
Closing accumulated depreciation	130	–	–	130	–	–
Closing residual value according to plan	4,726	–	–	4,726	–	–

## NOTES

### NOTE 14 PARTICIPATING INTERESTS IN GROUP COMPANIES

Parent Company	Corp. Reg. No.	Reg. HQ	Share %	No. of shares	Carrying amount 2009	Carrying amount 2008	Carrying amount 2007
<b>Name</b>							
Mobile Entertainment ME AB	556185-1758	Stockholm	100%	1,000	89	89	89
– Net Entertainment Malta Holding Ltd.		Malta	0.01%	1			
– Net Entertainment Malta Ltd.		Malta	0.01%	1			
– Net Entertainment Malta Services Ltd.		Malta	0.03%	1			
– Net Entertainment International Ltd		Malta	0.08%	1			
– Merit Media Marketing Ltd		Malta	0.08%	1			
Net Entertainment Malta Holding Ltd.	C 37769	Malta	99.99%	3,999	423	94	127
– Net Entertainment Malta Ltd.		Malta	99.99%	3,999			
– Net Entertainment Malta Services Ltd.		Malta	99.97%	2,999			
– NE Services Ltd.		Gibraltar	100%	2,000			
– Net Entertainment International Ltd		Malta	99.92%	1,199			
– Merit Media Marketing Ltd		Malta	99.92%	1,199			
<b>Total</b>					<b>512</b>	<b>183</b>	<b>216</b>

	PARENT COMPANY		
	2009	2008	2007
<b>Changes in participations in Group companies</b>			
Opening acquisition value	183	216	142
External divestment of companies	–	–	–34
Increase in share capital	329	–	108
Divestment of companies to subsidiaries	–	–33	–
Closing carrying amount	<b>512</b>	<b>183</b>	<b>216</b>

### NOTE 15 LONG-TERM RECEIVABLES

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
Long-term portion of deposits	–	5	5	–	5	5
<b>Total</b>	<b>–</b>	<b>5</b>	<b>5</b>	<b>–</b>	<b>5</b>	<b>5</b>

### NOTE 16 ACCOUNTS RECEIVABLE

The carrying amounts for accounts receivable comply with the fair values and corresponds to nominal amounts. No receivables have been placed as security for liabilities or contingent liabilities. On December 31, 2008, accounts receivable due totaled SEK 3,430 (3,028) thousand with no indication of impairment identified. This applies to a number of independent customers that have not previously had payment difficulties. Acknowledged bad debts during the period and an age analysis of consolidated accounts receivable are presented below. The analysis of bad debt only contains receivables in which no impairment have been identified. Credit risks are detailed in note 29.

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
Per January 1	213	285	–	–	–	–
Provision for bad debt	1,421	336	857	–	3	196
Customer losses in the income statement	–1,634	–326	–572	–	–3	–196
Reversed unused amounts	–	–82	0	–	–	–
Per December 31	–	213	285	–	–	–
<b>Age analysis accounts receivable</b>						
0–30 days	3,054	8,226	10,807	1,265	–	4
30–60 days	369	2,406	203	–	–	–
Older than 60 days	418	622	136	–	–	–
<b>Total</b>	<b>3,841</b>	<b>11,254</b>	<b>11,143</b>	<b>1,265</b>	<b>0</b>	<b>4</b>

**NOTE 17 PREPAID EXPENSES AND ACCRUED INCOME**

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
Accrued license/royalty income	40,880	26,767	13,429	–	–	–
Prepaid IT-services	7,548	–	–	–	–	–
Prepaid rent	2,002	1,146	1,023	1,958	1,146	988
Prepaid license fees	883	524	165	481	524	165
Other prepaid expenses	2,863	1,603	1,257	1,433	302	871
<b>Total</b>	<b>54,176</b>	<b>30,040</b>	<b>15,874</b>	<b>3,872</b>	<b>1,972</b>	<b>2,024</b>

**NOTE 18 DEFERRED TAX LIABILITY**

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
<b>Provisions for taxes</b>						
– Deferred tax on untaxed reserves	–	–	835	–	–	–
– Deferred tax on temporary differences	–	1,676	1,360	–	–	–
<b>Total</b>	<b>–</b>	<b>1,676</b>	<b>2,195</b>	<b>–</b>	<b>–</b>	<b>–</b>

**NOTE 21 SHAREHOLDERS' EQUITY**

	2009		2008		2007	
	No. of shares	Share capital	No. of shares	Share capital	No. of shares	Share capital
Share capital distribution						
Shares, series A (10 votes per share)	5,610,000	168	5,610,000	168	5,610,000	168
Shares, series B (1 vote per share)	33,943,716	1,023	33,943,716	1,023	33,943,716	1,023
<b>Total number of shares</b>	<b>39,553,716</b>	<b>1,191</b>	<b>39,553,716</b>	<b>1,191</b>	<b>39,553,716</b>	<b>1,191</b>

Par value per share SEK 0.003

**GROUP****Other capital contributed**

This pertains to shareholders' equity contributed by the owners and Group contributions

**RESERVES****Translation reserve**

The translation reserve comprises all exchange-rate differences that arise from the translation of financial statements from foreign operations that have prepared their financial statements in a currency other than the currency in which the consolidated financial statements are presented. At year end, the accumulated translation differences were SEK 8,975 (13,847 and 801, respectively) thousand.

**NOTE 19 OTHER RECEIVABLES**

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
VAT	4,700	3,687	1,604	4,700	3,687	1,604
Other	1,282	57	481	1,282	57	479
Receivables from Group companies	–	–	–	294,651	–	–
<b>Total</b>	<b>5,982</b>	<b>3,744</b>	<b>2,085</b>	<b>300,633</b>	<b>3,744</b>	<b>2,083</b>

**NOTE 20 CASH AND CASH EQUIVALENTS**

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
Cash and bank balances	105,009	65,132	25,915	54,297	14,598	12,462
<b>Total</b>	<b>105,009</b>	<b>65,132</b>	<b>25,915</b>	<b>54,297</b>	<b>14,598</b>	<b>12,462</b>

Of the Groups' balance SEK 33,216 (12,152 and 5,438) thousand refers to funds held on behalf of licensees on December 31, 2009. The parent company has no funds held on behalf of licensees.

Specification reserves	Translation difference
Opening balance Jan 1, 2007	–232
Translation differences for the year	1,033
Closing balance Dec 31, 2007	801
Translation differences for the year	13,046
Closing balance Dec 31, 2008	13,847
Translation differences for the year	–4,872
Closing balance Dec 31, 2009	8,975

**RETAINED EARNINGS INCL. PROFIT FOR THE YEAR**

Retained earnings including profit for the year comprise earnings in the Parent Company and its subsidiaries, as well as the portion of untaxed reserves attributable to shareholders' equity. Previous provisions to statutory reserves and share premium reserves are also included in this equity item.

## NOTES

### NOTE 22 UNTAXED RESERVES, APPROPRIATIONS

	PARENT COMPANY		
	2009	2008	2007
<b>BALANCE SHEET</b>			
Accumulated accelerated depreciation	–	–	2,982
Total untaxed reserves	–	–	2,982
Deferred tax in untaxed reserves amounts to	–	–	835
<b>INCOME STATEMENT</b>			
Difference between recognised depreciation and depreciation according to plan	–	2,982	–
Total appropriations	–	2,982	–

### NOTE 23 OTHER CURRENT LIABILITIES

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
Other current liabilities						
Processed Jack-Pot	33,216	12,795	5,438	–	–	–
Personnel's tax	3,252	3,150	1,848	1,939	1,024	924
Other	1,189	1,202	13	–	–	–
Liabilities to Group companies	–	–	–	252,219	–	–
Total	37,657	17,147	7,399	254,158	1,024	924

Liabilities related to Jackpot consists of bank balances for the same amount.

### NOTE 24 ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
Accrued wages and salaries	2,829	7,984	2,127	2,400	7,680	1,902
Vacation pay liability	3,775	2,781	2,613	3,460	2,479	2,318
Social security contributions	2,766	1,760	1,501	2,766	1,760	1,501
Payroll tax	1,353	838	617	1,353	838	598
Other	5,450	3,793	1,883	5,049	3,287	1,443
Total	16,172	17,156	8,741	15,028	16,044	7,762

### NOTE 25 CONTINGENT LIABILITIES

The activities in Malta are exempt from VAT. The interpretation of relevant Maltese VAT regulations concerning the Company's liability to pay Maltese VAT on services purchased was amended in 2007 and 2008 may affect purchases that the Maltese subsidiaries carried out from other Group companies.

The Company has together with legal experts estimated how the rules will affect the business and has taken measures to reduce the risk for additional VAT in the future. The Company reports and pay the Maltese tax authorities the VAT amounts that the Company considers correct. These amounts may prove insufficient should the Maltese tax authorities apply a more restrictive interpretation of the VAT regulations than what the Company has deemed appropriate and correct.

### NOTE 26 LEASING

Leasing expenses for vehicles, rent for premises and other rented equipment as well as that which falls under the heading operational leasing amounted to:

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
Expensed lease payments and rental charges	7,445	5,562	3,046	6,974	4,956	2,715
Total	7,445	5,562	3,046	6,974	4,956	2,715

Future minimum charges for non-cancellable operating leases and rental agreements:

	GROUP	PARENT COMPANY
Within one year	7,514	6,997
Two to five years	24,230	24,230
After five years	11,760	11,760
Total	43,504	42,987

### NOTE 27 AUDITORS' FEES

Deloitte AB were elected auditors by the 2008 Annual General Meeting for a period of four years. Deloitte AB are auditors for Net Entertainment NE AB and the Swedish subsidiaries. In addition to the auditing assignment, Net Entertainment has also used Deloitte AB for consultation on taxation, VAT and accounting matters and analyses. An audit assignment includes the audit of the annual accounts, the accounting records and the administration of the board of directors. The audit assignment includes additional work given by the company to the auditors and consultations or other assistance resulting from observations made during the audit or completion of such additional work. Everything else is considered as non-audit assignments.

	GROUP			PARENT COMPANY		
	2009	2008	2007	2009	2008	2007
<b>Auditing assignments</b>						
Deloitte	720	505	–	530	505	–
Ernst & Young	–	148	254	–	148	254
Other accounting firms	–	82	94	–	–	–
<b>Other assignments than the auditing assignment</b>						
Deloitte	276	273	–	276	273	–
Ernst & Young	–	30	74	–	30	74
Total	996	1,038	422	806	956	328

### NOTE 28 RELATED PARTY TRANSACTIONS

	PARENT COMPANY		
	2009	2008	2007
<b>Purchase of services from related parties</b>			
Purchase from subsidiaries	–	–	–
– share of total operating expenses	–	–	–
<b>Sale of services to related parties</b>			
Sales to subsidiaries	153,877	111,005	77,857
– share of total revenue	99.85%	99.78%	98.65%
<b>Liability to related parties</b>			
Liability to subsidiaries	252,219	89	1,806
<b>Receivable from related parties</b>			
Receivable from subsidiaries	294,651	61,225	29,545

The Parent Company is related to its subsidiaries. Sold services pertain mainly to consulting services, license fees, hosting and forward invoiced expenses. Related party transactions are priced on the basis of normal market conditions.

For 2007 Net Entertainment had license revenues from the Betsson Group, in which the Chairman of the Board and two Board Members were partners and board members until April 1, 2008.

For remuneration to board members and senior executives, see note 6. During 2009 there are no relations with the Betsson Group.

Net Entertainment Malta Ltd is related to WH Law, thus the Board Member of Net Entertainment Malta Ltd, Dr. Olga Finkel, is also Managing Partner at WH Law. Remuneration to WH Law has amounted to SEK 1,756 (698, respectively 51) thousand.

**NOTE 29 FINANCIAL RISKS**

The Group's financial activities are pursued on the basis of a low-risk financial policy as established by the Board. Financial activities and the management of financial risks are coordinated via the Parent Company Net Entertainment NE AB, which is also responsible for the investment of excess liquidity. According to the finance policy placement of cash and cash equivalents may take place with a maturity of up to six months with no more than 25 percent of the excess liquidity bound on longer terms than three months.

The wholly owned operating subsidiaries are themselves responsible for managing their financial risks within the framework set by the Board and following coordination with the Parent Company.

**MARKET RISK**

Group earnings are exposed to changes in exchange rates since most sales are in Euros, and expenses are in SEK (transaction exposure). Net Entertainment does not currently hedge this portion. Earnings are also affected by exchange rate fluctuations when foreign subsidiaries' earnings are translated to SEK (translation exposure). Moreover, exchange rate movements affect Group equity when assets and liabilities in foreign subsidiaries are translated to SEK (translation exposure). At the present time there is no hedging of equity in foreign subsidiaries.

If the SEK had weakened/strengthened by 10 percent in relation to the Euro with all other variables constant, earnings for the year as of December 31, 2009, would have been SEK 10,1 (14,8 respectively 10,6) million higher/lower.

**INTEREST RATE RISKS**

Net Entertainment is largely a debt-free company, which means that the interest rate risk to which Group revenue and cash flows are exposed, is low. Changes in the interest rate position affect the Group's return on cash and cash equivalents. The risk in these changes is deemed immaterial.

**CREDIT RISK**

The Group does not have any significant concentration of credit risks. The Group has set guidelines for safeguarding the sale of services to customers with a suitable credit background. No credit limits were exceeded during the reporting period and management does not expect any material losses resulting from fai-

led payments from these other parties. Through short lead time and credit term, which gives a short customer credit time, the credit risk is further reduced.

**LIQUIDITY RISK**

Liquidity risk is managed by means of the Group holding sufficient cash and cash equivalents in order to finance the operation. Management also monitors rolling forecasts for the Group's liquidity reserve, which consist of cash and cash equivalents (note 20) on the basis of expected cash flows.

Group financial liabilities essentially consist of accounts payable, where the contractual expiry date falls within 12 months. Accounts payable usually have a credit of 30 days

**CAPITAL RISK MANAGEMENT**

The aim of Net Entertainment with regard to the capital structure is to secure the Group's ability to continue its operations, so that it can continue to generate return for its shareholders and maintain an optimum capital structure in order to keep the capital costs down.

In order to maintain or adjust the capital structure, Net Entertainment can change the allocation paid to the shareholders, repay capital to the shareholders, issue new shares or sell assets to reduce liabilities.

Net Entertainment assesses the capital on the basis of net debt/equity ratio and quick ratio.

The net debt/equity ratio (multiple) at the end of the reporting period amounted to -0.6 (-0.6 and -0.5, respectively) whilst the quick ratio amounted to 226.4 (273.3 and 184.0, respectively) percent.

**TAX RISKS**

Net Entertainment operates in Sweden, Malta and Gibraltar. Its activities, including transactions between the Group's companies, are managed in compliance with current tax laws, tax agreements and provisions in the countries concerned and the requirements of the tax authorities, as these have been interpreted by Net Entertainment. However, it is generally not possible to rule out that the interpretation of applicable laws, policies, taxation agreements and provisions, or the interpretations of these by authorities concerned, is wrong. Furthermore, these regulations may be amended and possibly with retroactive effect. It is possible that Net Entertainment's previous or present tax situation will become less favourable as a result of decisions taken by the tax authorities. See also note 25.

The Board of Directors and the CEO certifies that the consolidated financial statements and annual report have been prepared in accordance with International Financial Reporting Standards (IFRS), as approved by the European Union, and generally accepted accounting principles in Sweden and gives a true and fair view of the Group's financial position and results of operations and that the management report for the Company and for the Group gives a fair review of the development and performance of the business, financial position and results of operations and describes the material risks and uncertainties that the companies in the Group face.

Stockholm March 11, 2010

Rolf Blom  
Chairman of the board

Vigo Carlund  
Member of the board

Fredrik Erbing  
Member of the board

Niclas Eriksson  
Member of the board

Mikael Gottschlich  
Member of the board

Peter Hamberg  
Member of the board

Johan Öhman  
President and CEO

Our audit report was submitted on March 11, 2010

Deloitte AB

Therese Kjellberg  
Authorized Public Accountant

# Audit report

To the annual meeting of the shareholders of Net Entertainment NE AB  
(publ) Corporate identity number 556532-6443

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Net Entertainment NE AB (publ) for the financial year 2009. The Company's annual accounts and consolidated financial statements are included on pages 30-61 of the printed version of this document. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion

concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year

Stockholm March 11, 2010

Deloitte AB

Therese Kjellberg  
Authorized Public Accountant

# Annual General Meeting and other information

## ANNUAL GENERAL MEETING

Net Entertainment NE AB will hold its Annual General Meeting on Wednesday 14 April 2010 at 16.00 CET in Konferens Spårvagnshallarna, Birger Jarlsgatan 57A, Stockholm, Sweden. Notification of the Annual General Meeting is published on Net Entertainment's website [www.netent.com/agm](http://www.netent.com/agm).

## Right of attendance and registration

Shareholders wishing to attend the Annual General Meeting must be recorded in the register of shareholders maintained by Euroclear Sweden AB on Thursday 8 April 2010, and also notify Net Entertainment of their intention to attend no later than Thursday 8 April 2010.

Shareholders must send written notice of attendance with their name, personal/corporate identity number, address, email address, telephone number and number of shares to Net Entertainment NE AB, Attn: AGM, Luntmakargatan 18, 3tr, SE111 37, Stockholm, Sweden, by fax at +46 8-57 85 45 10, by email to [agm@netent.com](mailto:agm@netent.com) or on Net Entertainment's website at [www.netent.com/agm](http://www.netent.com/agm).

## Share registration

Shareholders whose shares are registered in the name of a nominee must temporarily register their shares in their own names to be entitled to participate in the Meeting. Such registration must be affected no later than 8 April 2010. This means that shareholders must notify their nominee well in advance of that date.

## OTHER INFORMATION

Net Entertainment intends to distribute financial reports and statements on the dates below:

Annual General Meeting 2010	April 14, 2010
Interim report: January–March 2010	April 29, 2010
Interim report: April–June 2010	August 26, 2010
Interim report: July–September 2010	October 28, 2010
Earnings report 2010 and quarterly report for the fourth quarter	February 10, 2011

Financial reports, press releases and other information are available from the date of publication on Net Entertainment's website [www.netent.com](http://www.netent.com).

Net Entertainment's principal method of distributing financial reports is by electronic means. Financial reports, press releases and other information are available for viewing on Net Entertainment's website ([www.netent.com/finance](http://www.netent.com/finance)) where it is also possible to subscribe to reports and press releases via email. Financial reports are available on the website from the date of publication. Printed copies of the Annual Report are sent by regular post upon request. For further information, please contact Johan Öhman, CEO, or Bertil Jungmar, CFO, on +46 8-57 85 45 00, or email [investor@netent.com](mailto:investor@netent.com).

## ADDRESSES

### HEADQUARTERS AND DEVELOPMENT

#### Net Entertainment NE AB

Luntmakargatan 18  
SE-111 37 Stockholm, Sweden  
Telephone: +46 8 57 85 45 00

### SALES AND MARKETING

#### Net Entertainment Malta Ltd.

#### Net Entertainment International Ltd.

Suite A, Dolphin Court A  
Embassy Way  
Ta' Xbiex MSD 11  
Malta  
Telephone: +356 21 311 621

#### NE Service Ltd.

Suite 4 B, Third floor  
Icom House  
1/5 Irish Town  
Gibraltar



Net Entertainment NE AB (publ)  
Org. nr. 556532-6443  
Luntnakargatan 18  
SE-111 37 Stockholm, Sweden  
[www.netent.com](http://www.netent.com)  
[info@netent.com](mailto:info@netent.com)