



NET ENTERTAINMENT

First quarter report 2008



Net Entertainment NE AB (publ)

Net Entertainment hereby submits its Interim Report for the period January - March 2008

- Net sales increased by 27% to SEK 42.8 (33.7) million.
- Operating profit increased by 35.1% to SEK 16.9 (12.5) million.
- Profit after tax increased by 34.4% to SEK 15.4 (11.5) million.
- Net profit margin was 36.1 % (34.1).
- Operating margin was 39.6 % (37.2).
- Earnings per share amounted to SEK 0.39 (0.29).
- 4 new license agreements for CasinoModule™ were signed.
- Pilot order for CasinoCafé™

Comments from Johan Öhman, CEO

"Net Entertainment achieved strong development in the first quarter, with a 27.0 percent increase in net sales over the same period in 2007 and a 17.7 percent increase over the previous quarter. Profitability continues at a healthy level and the operating margin rose to 39.6 percent for the quarter. Growth is being driven by the generally strong growth in the market, successful new games and new customers opening a number of casinos in the quarter. Net Entertainment continues to make good sales progress and four new licence agreements for CasinoModule™ were entered into during the quarter. One of the agreements is with leading operator, bet-at-home.com. In addition, a pilot order for CasinoCafé™ was secured.

During the quarter, Net Entertainment has pursued its recruitment process in order to strengthen the organisation and reduce its dependence on consultants. The Company has also begun with the development of contracts in the Ukraine in a bid to accelerate the pace of development and to increase the cost efficiency. Net Entertainment's continuing focus on product development offers excellent opportunities for the Company to consolidate its position in the market and gain additional market share.

Net Entertainment's Board of Directors has decided to file an application to move its exchange listing to the OMX Exchange Stockholm, Small Cap, in 2008. The work is ongoing this and the aim is that the transfer will take place in the third quarter of 2008. The transition to a different exchange will increase the knowledge about Net Entertainment and likely also the liquidity in the stock.

The online gaming market is predicted to continue experiencing positive growth, which benefits us through the organic growth of our current licensees. Our highly competitive product portfolio and continuing focus on the development of new, innovative games also present us with excellent opportunities for entering into agreements with new customers. I am convinced that our healthy order book, strong product portfolio and brisk pace of development provide us with excellent opportunities for continued profitable growth.

The second quarter is off to a strong start which in combination with strong development of our sales pipeline indicates continued positive development for the company."

¹⁾ Global Betting and Gaming Consultants, 15 Jan 2008

About Net Entertainment

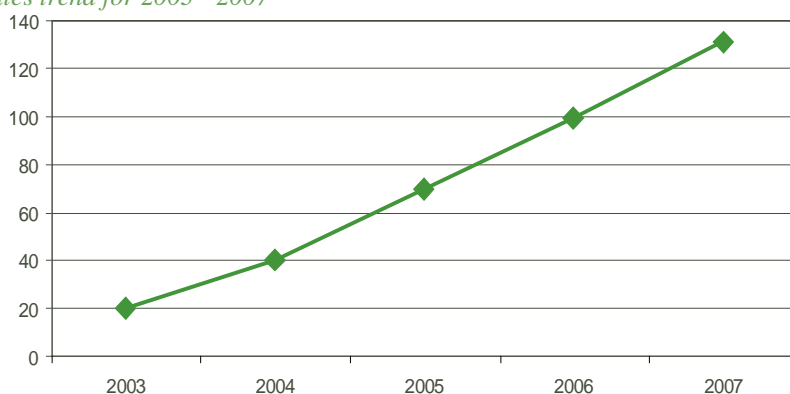
Net Entertainment NE AB (Parent Company with corporate identification number 556532-6443) and its subsidiary Net Entertainment Malta Ltd (together, the Group) are leading suppliers of digitally distributed software for Internet gaming. The Company was established in 1996 and has a customer base of just over 50 international gaming companies. Revenues consist of royalties based on the revenues generated by the Company's products and other sales revenues. Net Entertainment is a pure development company and thus does not conduct any gaming operations of its own. The Company is internationally known and associated with innovation, service and quality.

The Group has offices in Stockholm, where all of the Company's technical development activities take place, and on Malta where all commercial operations, including sales, marketing and product management, are conducted.

The Parent Company has been listed on the Nordic Growth Market (NGM) Equity since April 5, 2007. Net Entertainment's Board of Directors has decided to file an application to move its exchange listing to the OMX Exchange Stockholm, Small Cap, in 2008.

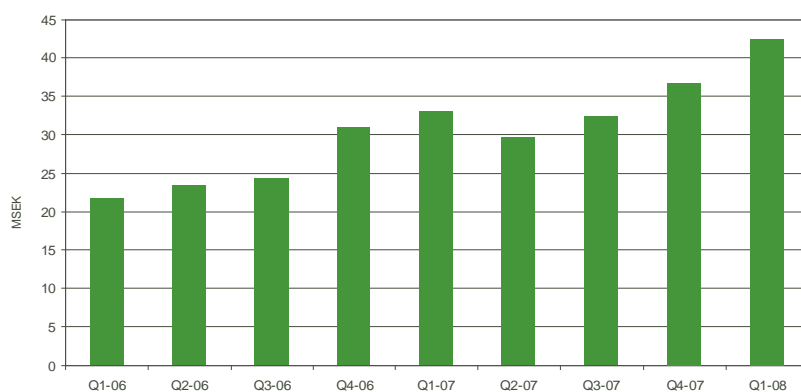
Consolidated net sales have risen steadily over the past five years and stood at SEK 132.0 million for the year ending December 31, 2007.

Sales trend for 2003 - 2007



Developments during the quarter

Net sales for the quarter increased to SEK 42.8 (33.7) million, a 27.0 percent increase over the same period a year ago. Operating profit amounted to SEK 16.9 (12.5) million, which resulted in an operating margin of 39.6 (37.2) percent. During the quarter, four new CasinoModule™ license agreements were signed.



The license revenues for the first quarter increased due to good basic market growth, a successful new game release and the addition of several new customers who launched their casino operations. Our ongoing focus on games with high entertainment value continues to be reflected in the license revenues. The Company signed four new agreements in Q1 that generated revenues in the form of setup fees.

Operating profit was up 35.1 percent over the first quarter of 2007 and 11.2 percent over the previous quarter. This trend is due to continued strong growth in sales combined with cost control.

As previously announced, the management team has evaluated the financial length of life for the gaming platforms. Against the background of the existing and expected market and the competitive situation, it has determined that it is difficult to motivate a 5-year depreciation period. It has therefore been decided to shorten the depreciation period to 3 years with effect from January 1, 2008. The new assessment does not cause a write-down requirement for existing platforms in addition to the regular planned depreciation.

During the quarter, six new casinos were launched. These casinos will generate licensing revenues henceforth. At the end of the quarter, the Company had a backlog of 12 casinos ready to be opened in the next few months.

The market

The market for online gaming continues to grow strongly and global sales for Internet gaming are expected to exceed USD 16 billion in 2008. In the next few years, Europe is expected to represent more than 50 percent of total gaming revenues and grow by 15-20 percent annually, making it by far the largest online gaming market.²

Net Entertainment views the conditions for continued market expansion as good. The market for online gaming is maturing and resulting in consolidations and increased competition between operators. This means that the long-term market will be dominated by fewer players, which will increase demand for "best-of-breed" solutions. Online operators continue to add new products, making them more and more like gaming portals. This helps attract new players and increasing revenues from existing customers through cross-sales. All in all, this development benefits Net Entertainment and the Company means to take an active role in the market restructuring.

The market continues to expand as online gaming attracts new categories of operators and players. Market surveys show, for example, an increasing percentage of women, partly due to the growth of the bingo segment. The traditional image of a typical player, a man aged between 25 and 35, is thus much less predominant than before. At the same time, we are observing how gaming activities are becoming increasingly popular among older age groups. Mature players are sometimes collectively referred to as "Silver Surfers". The younger generation of players, with their experience of playing TV games and easy familiarity with computer technology, are demanding more sophisticated games and features. As a games development company, it is vital to concentrate on the demands from the market and ensure that new products meet the changing demands.

Legal developments in the EU are gradually giving more manoeuvring space for Net Entertainment's customers. The European Court of Justice continues to act against state gaming monopolies, and in the long term the Company believes there will be a regulated gaming market. This will eventually open new possibilities for the operators in the market while introducing new requirements. Net Entertainment is well equipped for this development. For instance, CasinoModule™ already supports the standards for player protection set by the organisation G4.

²⁾ *Global Betting and Gaming Consultants, 15 Jan 2008*

Competitors

Even if the market for online gaming is large and growing, the supplier side is dominated by a small number of players. Net Entertainment has six primary competitors: Boss Media, Chartwell, Cryptologic, Playtech, Microgaming and Real Time Gaming. All of these have a wider product portfolio than Net Entertainment and many have focused on the poker market in recent years. The process of supplier consolidation has continued and during the quarter a number of competitors were acquired from other suppliers.

In the past, Net Entertainment has focused on casino gaming as a well-defined market segment and therefore develops casino solutions of the highest class. This has proved to be a very successful strategy. The management's assessment is that the Company has a market share of about 10%, based on the fact that Net Entertainment delivers casino games to around 10 of the 100 largest sport betting sites. The Company intends to expand its product portfolio over time.

Price trend

In recent years, the licensing fees for casino solutions have risen in absolute terms. This trend is driven by the operators' increasing sales. During the same period, the royalty level decreased slightly but this trend seems to have stabilised now.

New assignments and customers

During the quarter, new agreements for delivery of CasinoModule™ were signed with four operators: bet-at-home.com, Smart TV Broadcasting Ltd and two bingo operators who wish to remain anonymous at the time of writing.

Cash and cash equivalents, financing and financial position

The Group's cash flow from operating activities during 2007 amounted to SEK 14.3 (-7.8) million. Cash flow from investing activities was negative in an amount of SEK -3.2 (negative 3.9) million. Cash flow from financing activities amounted to SEK 0.0 (0.0) million. On March 31, 2008, consolidated cash and cash equivalents stood at SEK 36.9 (1.5) million, including SEK 2.3 million of funds held on behalf of licensees.

Investments

During the period, the Group's net investments in intangible assets amounted to SEK 3.2 (2.2) million, and property, plant, and equipment amounted to SEK 0.1 (1.7) million.

Personnel and organisation

There were 71 (55) active employees in the Group at the end of the quarter. Women comprised 30 (29) percent. The total headcount at Net Entertainment, including subcontractors, was 85 (63) at the end of the period. Personnel costs during the period amounted to SEK 14.7 (11.2) million.

At the end of the quarter, 9 (6) persons were employed by the subsidiary Net Entertainment Malta Ltd. The Maltese company is responsible for sales, account management, business development, product management, and marketing.

Parent Company

The Parent Company's earnings for the quarter totalled SEK 24.2 million, compared with SEK 20.0 million for the same period in 2007. Operating profit amounted to SEK 1.9 (1.4) million and the profit after tax reached SEK 1.0 (1.0) million. Cash and cash equivalents in the Parent Company amounted to SEK 29.2 (0.4) million at March 31, 2008. This significant increase can be attributed to the fact that all consolidated cash and cash equivalents from January 1, 2008, are concentrated in the Parent Company.

Events after the end of the period

Since the end of the quarter, four licensees have begun their casino operations.

Outlook ahead

Net Entertainment predicts a bright future, and it is the Company's assessment that the market will develop well during 2008. As well as a strong, expanding customer base that includes several leading operators, the Company has a solid sales pipeline. By offering a range of market-leading products and services, the Company improves the competitive strength of its existing customers and attracts new operators.

In 2008, Net Entertainment aims to grow more than the market and show strong profitability.

Accounting principles

Preparation of the report

This Interim Report has been prepared in accordance with IAS 34, Interim Financial Reporting and follows the provisions of the Swedish Financial Accounting Standards Council's recommendation RR31, Interim Financial Reporting for Groups. The Parent Company's report has been prepared in accordance with the Swedish Annual Accounts Act and RR 32 Accounting for Legal Entities. The same accounting principles and definitions for key ratio and calculation methods have been used as in the previous Annual Report. Unless otherwise stated, all amounts are expressed in thousands of Swedish kronor (SEK).

No new standards have come into effect that have an impact on Net Entertainment's position or result.

Segment reporting

The Company's core product, CasinoModule™, represented the majority of revenues during the period. Geographically, Net Entertainment's partners (the operators) offer gaming to their customers in many different countries. Net Entertainment does not have access to information about the end customer (the player) and therefore cannot determine where gaming revenues originate geographically. Net Entertainment's direct customer's domicile is governed by other reasons than proximity to the local market, for instance suitable gaming legislation, taxation reasons, or other reasons. The advantage of the Internet is that it is a global, cross-border distribution form where gaming site owners can be domiciled anywhere in the world and still serve many local markets around the world. Dividing operations into geographical segments according to these companies' legal domicile would not provide relevant information. Similarly, the operations of the Net Entertainment Group are also spread geographically, primarily for legal and market reasons.

Risks and uncertainties

Net Entertainment's operations are exposed to certain risks that could have a varying impact on earnings. These can be divided into industry/operational risks, and financial risks. The management's general view of the risks that could affect operations has not changed significantly compared with the description given in the most recently published Annual Report. The description below is a summary. For a detailed description of the risk profile, see Net Entertainment's 2007 Annual Report, pages 27-28 and page 47.

Industry and operational risks

As specific industry-related operational risks it is noted that since gaming is regulated by law on most national markets, Net Entertainment, as a supplier of casino games, and its customers are dependent on the legal situation of the gaming industry, and can be significantly affected by political decisions and changes in legislation. Net Entertainment has a class 4 license on Malta, which means that the Company is permitted to operate hosting for its customers. It is crucial that this license is maintained and extended. Since 2005, Net Entertainment is a member of the organisation G4, which works to prevent gaming

addiction (this membership is despite the fact that the Company itself does not have any gaming operations). CasinoModule™ has been adapted to follow the organisation's guidelines.

Other operational risks include the Company's dependency on maintaining the technical competence of its personnel, protecting internally developed products, intellectual property and contracts and maintaining larger customer contracts. The Company's competitors and general fluctuations in the market naturally also affect its situation.

Financial risks

The Group's results are exposed to changes in exchange rates as the majority of its sales are in Euro, and costs (transaction exposure) are in Swedish kronor. Some of Net Entertainment's sales are currently hedged.

Profit/loss and equity are also affected by changes in exchange rates when the foreign subsidiaries' profits, assets and liabilities are translated to SEK (translation exposure). Foreign subsidiaries' equity is not currently hedged. The Group's operations on Malta have been exempt from VAT to date.

The Maltese authorities are currently reviewing their regulations on foreign gaming companies, but it is not currently possible to gain a definite understanding of possible pending regulatory changes. If some areas of the Company's operations become subject to VAT, it will most likely have a negative impact on Company profitability.

Future reporting

The Interim Report for the period April-June 2008 will be published on August 18, 2008.

Net Entertainment NE AB is required to publicly disclose the information in this report under the Securities Market Act and/or Financial Instruments Trading Act. The information was submitted for publication on May 5, 2008, at 08:30 CET.

Stockholm, May 5th, 2008.

Johan Öhman
Chief Executive Officer

This Interim Report has not been subject to review by the Company's auditor.

Questions may be directed to:

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Consolidated income statement in summary

	Jan-March 2008	Jan-March 2007	Jan-Dec 2007
Revenues	42 469	33 165	131 145
Other revenue	282	489	875
Capitalised work for own use	3 157	2 227	9 967
Other external expenses	-11 314	-10 069	-39 263
Personnel expenses	-14 702	-11 212	-44 250
Depreciation/ amortisation	-2 918	-1 992	-7 839
Other operating expenses	-50	-83	-55
Operating profit	16 924	12 525	50 580
Financial revenue	333	-	411
Financial expense	-685	-4	-187
Profit before tax	16 572	12 521	50 804
Income tax	-1 156	-1 053	-4 893
Profit for the period	15 416	11 468	45 911
<i>Attributable to:</i>			
Parent Company shareholders	15 416	11 468	45 911
Earnings per share (before/ after dilution, SEK)	0.39	0.29	1.16

Parent Company income statement in summary

	Jan-March 2008	Jan-March 2007	Jan-Dec 2007
Revenues	24 239	19 985	78 050
Other revenue	50	489	874
Capitalised work for own use	-	2 227	4 620
Other external expenses	-7 688	-8 716	-32 827
Personnel expenses	-12 904	-11 076	-40 509
Depreciation/amortisation	-1 724	-1 471	-5 208
Other operating expenses	-50	-	-56
Operating profit	1 923	1 438	4 944
Financial revenue	152	-	29 710
Financial expense	-651	-4	-186
Profit before tax	1 424	1 434	34 468
Income tax	-399	-403	-1 458
Profit for the period	1 025	1 031	33 010

Consolidated balance sheet in summary

Assets	2008-03-31	2007-03-31	2007-12-31
Intangible assets	24 918	20 833	24 246
Property, plant and equipment	5 406	5 612	5 860
Other long-term receivables	5	49	18
Total non-current assets	30 329	26 494	30 124
Accounts receivable	11 522	11 863	11 143
Prepaid expenses and accrued revenues	18 831	15 540	15 874
Current tax recoverable	13 100	2 724	12 953
Other receivables	4 089	1 348	2 085
Cash and cash equivalents	36 886*	1 518	25 915
Total current assets	84 428	32 993	67 970
TOTAL ASSETS	114 757	59 487	98 094
EQUITY AND LIABILITIES	2008-03-31	2007-03-31	2007-12-31
Share capital	1 191	1 191	1 191
Other capital contributed	34 200	34 200	34 200
Reserves	645	-89	801
Retained earnings incl. profit/loss for the year	32 369	-7 601	16 953
Total equity	68 405	27 701	53 145
Deferred tax liabilities	2 183	843	2 195
Total non-current liabilities	2 183	843	2 195
Accounts payable	11 498	3 531	4 739
Current tax liabilities	17 538	8 656	21 875
Other liabilities	3 874	5 530	7 399
Accrued expenses and prepaid revenue	11 259	13 226	8 741
Total current liabilities	44 169	30 943	42 754
TOTAL EQUITY AND LIABILITIES	114 757	59 487	98 094

*Closing cash and cash equivalents for the period include SEK 2 309 000 which are funds held on behalf of licensees.

Parent Company balance sheet in summary

ASSETS	2008-03-31	2007-03-31	2007-12-31
Intangible assets	11 243	13 385	12 656
Property, plant and equipment	2 815	1 693	3 635
Shares in subsidiary	182	216	216
Other long-term receivables	5	42	5
Total non-current assets	14 245	15 336	16 512
Accounts receivable	9 115	7 690	4
Receivables from Group companies	29 322	9 262	29 545
Prepaid expenses and accrued revenues	2 674	8 084	2 024
Current tax recoverable	258	88	0
Other receivables	4 093	1 219	2 083
Cash and cash equivalents	29 167	409	12 462
Total current assets	74 629	26 752	46 118
TOTAL ASSETS	88 874	42 088	62 630

EQUITY AND LIABILITIES	2008-03-31	2007-03-31	2007-12-31
Share capital	1 191	1 191	1 191
Statutory reserve	38	38	38
Retained earnings	36 660	13 539	3 650
Profit/loss for the year	1 025	1 031	33 010
Total equity	38 914	15 799	37 889
Untaxed reserves	2 982	2 982	2 982
Accounts payable	2 433	3 531	4 504
Liabilities to Group companies	33 661	1 421	1 806
Current tax liabilities	1 799	5 365	6 763
Other liabilities	165	5 503	924
Accrued expenses and prepaid revenue	8 920	7 487	7 762
Total current liabilities	46 978	23 307	21 759
TOTAL EQUITY AND LIABILITIES	88 874	42 088	62 630

Consolidated key data and figures

	Jan-March 2008	Jan-March 2007	Jan-Dec 2007
Sales (SEK thousands)	42 751	33 654	132 020
Operating profit (SEK thousands)	16 924	12 525	50 580
Profit before tax (SEK thousands)	16 572	12 521	50 804
Profit/loss for the period (SEK thousands)	15 416	11 468	45 911
Operating margin (percent)	39.6	37.2	38.3
EBIT margin (percent)	40.4	37.2	38.5
Profit margin (percent)	38.8	37.2	38.5
Net profit margin (percent)	36.1	34.1	34.8
Return on investment on shareholders' equity (percent)	25.4	52.4	132.6
Equity/assets ratio (percent)	59.6	46.6	54.2
Quick ratio (percent)	191.1	106.6	159.0
Net interest-bearing liabilities (SEK thousands) *	-36 886	-1 518	-25 915
Net debt/equity ratio (multiple)	-0.5	-0.1	-0.5
Average number of employees	69	54	60
Employees at period-end	71	55	67
Earnings per share	0.39	0.29	1.16
Equity per share (SEK)	1.73	0.70	1.34
Cash flow per share (SEK)	0.28	-0.29	0.33
Average number of outstanding shares	39 553 716	39 553 716	39 553 716
Number of outstanding shares at period-end	39 553 716	39 553 716	39 553 716

* A negative figure means that the Company has a net cash position (the Company has a positive cash flow and no debt).

Consolidated changes in equity for the period

2008	Share capital	Other capital contributed	Reserves	Retained earnings incl. profit for year	Total equity
Opening equity, January 1, 2008	1 191	34 200	801	16 953	53 145
Translation differences for the year			-156		-156
Total changes in value recognised directly in equity, excl. transactions with company owners			-156		-156
Profit/loss for the period				15 416	15 416
Total changes in value, excl. transactions with company owners			-156	15 416	15 260
Closing equity, March 31, 2008	1 191	34 200	940	32 369	68 405
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2007	Share capital	Other capital contributed	Reserves	Retained earnings incl. profit for year	Total equity
Opening equity, January 1, 2007	1 187	34 204	-232	-19 069	16 090
Translation differences for the year			143		143
Total changes in value recognised directly in equity, excl. transactions with company owners			143		143
Profit/loss for the period				11 468	11 468
Total changes in value, excl. transactions with company owners			143	11 468	11 611
Stock Dividend	4	-4			
Closing equity, March 31, 2007	1 191	34 200	-89	-7 601	27 701

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

Consolidated cash flow statement in summary

	Jan-March 2008	Jan-March 2007	Jan-Dec 2007
Cash flows from operating activities before changes in working capital	13 881	13 958	59 388
Changes in working capital	412	-21 719	-23 509
Cash flow from operating activities	14 293	-7 761	35 879
Acquisition of intangible assets	-3 157	-2 228	-10 460
Acquisition of property, plant and equipment	-81	-4 801	-3 003
Sales of property, plant and equipment	-	3 132	-
Divestment of other financial assets	13	-	24
Cash flow from investing activities	-3 225	-3 897	-13 439
Dividends paid	-	-	-9 889
Cash flows from financing activities	-	-	-9 889
Exchange rate differences in cash and cash equivalents	-97	122	311
Cash flow for the period	10 971*	-11 536	12 862

*Closing cash and cash equivalents for the period include SEK 2 309 000 which are funds held on behalf of licensees.

Definitions

Operating margin

Operating profit/loss divided by revenues for the period.

EBIT margin

Operating profit/loss plus financial income, divided by revenues for the period.

Profit margin

Profit/loss after financial items divided by revenues for the period.

Net profit margin

Profit/loss after tax, divided by revenues for the period.

Return on investment on shareholders' equity

The period's profit/loss divided by average shareholder equity for the period.

Equity/assets ratio

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

Acid test ratio

Current assets divided by current liabilities, including proposed but not yet adopted dividends.

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 provisions and liabilities less financial assets including cash and cash equivalents divided by shareholders' equity.

Average number of employees

The number of employees converted into full-time equivalents.

Number of employees at year-end

The number of employees on the last monthly wage-payment day.

Earnings per share

Earnings after tax divided by the average number of shares outstanding during the period.

Shareholders' equity per share

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

Cash flow per share

Cash flow for the year, divided by the weighted average number of shares outstanding during the year, adjusted for additional shares in the event of conversion of outstanding warrants.

Number of shares outstanding

The number of shares outstanding at the close of each period, adjusted for bonus issue and share split.

Products and services

Casino

The Company's core product, CasinoModule™, is a complete gaming platform consisting of a wide range of casino-style games and a powerful management system. Games are divided into four categories: table games, video poker, slot machines and other games (including scratch cards, keno, etc).

The games are customised for each licensee to become a natural, integral part of the gaming site. Net Entertainment also provides assistance with graphical design of the website where the games are presented.

Multiplayer games

The Company will be launching its multiplayer blackjack game in May. This game allows players to interact and observers to follow the progress of the game.

Casino Café™

Casino Café™ is a product that allows gaming in a physical environment. A very small initial investment allows an operator to set up a mini casino using standard PCs where gaming can be operated through one-time accounts.

Service

Net Entertainment offers a range of secondary services including technical support, hosting, account management and system surveillance, making it possible for the licensee to focus on their core business.

Development

Net Entertainment issues a new product release every 12th week, ensuring that licensees can continuously offer a new and exciting selection of games. Each product release includes 4-6 new games that licensees receive access to within the framework of the existing license agreement.

Two of the new games released with CasinoModule™ version 3.11 (March 10) were Relic Raiders™ and Geisha Wonders:

