

NET ENTERTAINMENT  
INTERIM REPORT JANUARY – JUNE 2013



\* Please note that this is a translation for information purposes only - in case of any discrepancies between this version and the Swedish, the Swedish version shall prevail.

## INTERIM REPORT JANUARY – JUNE 2013

### SECOND QUARTER 2013

- Revenues for the second quarter increased by 12.6 % to SEK 148.7 (132.0) million
- Operating profit amounted to SEK 38.7 (39.6) million
- Operating margin was 26.0 (30.0) %
- Profit after tax amounted to SEK 38.8 (36.7) million
- Earnings per share amounted to SEK 0.98 (0.93) before and after dilution
- Six license agreements with new customers were signed, two new customers' casinos were launched

### FIRST SIX MONTHS 2013

- Revenues for the first six months increased by 14.6 % to SEK 297.5 (259.5) million
- Operating profit amounted to SEK 79.7 (79.7) million
- Operating margin was 26.8 (30.7) %
- Profit after tax amounted to SEK 71.7 (71.4) million
- Earnings per share amounted to SEK 1.81 (1.80) before and after dilution
- Twelve new license agreements were signed and five new customers' casinos were launched

### IMPORTANT EVENTS IN THE SECOND QUARTER

- Agreement signed with Lottomatica, one of the largest operators in Italy
- Three agreements were signed with existing customers for delivery of Live Casino. Four customers launched Live Casino in the second quarter
- Four agreements were signed with existing customers for delivery of mobile games. Twelve customers launched mobile games in the second quarter
- Net Entertainment won three prestigious prices at the EGR Awards

### QUOTE FROM CEO, PER ERIKSSON

- *Again, Net Entertainment showed double digit growth in the second quarter despite the low season that normally starts in May. We have a solid sales pipeline in Great Britain as well as in other parts of Europe and overall our position is strong on the market and I look forward to the second half of 2013.*

SUMMARY IN FIGURES	Apr-Jun 2013	Apr-Jun 2012	Jan-Jun 2013	Jan-Jun 2012	Jan-Dec 2012
Operating revenues	148,707	132,049	297,463	259,523	526,671
Operating expenses	-110,005	-92,404	-217,805	-179,812	-373,614
<b>Operating profit</b>	<b>38,702</b>	<b>39,645</b>	<b>79,658</b>	<b>79,711</b>	<b>153,057</b>
Operating margin	26.0%	30.0%	26.8%	30.7%	29.1%
Cash flows from operating activities	46,588	57,179	116,109	100,670	195,422
Cash flows for the period	-79,876	-48,692	-43,118	-38,370	7,332
Cash and cash equivalents at end of period	37,577	36,546	37,577	36,546	81,230

## COMMENTS FROM PER ERIKSSON, PRESIDENT AND CEO

The second quarter showed a solid development for Net Entertainment. We launched several new games and despite the seasonal effect that normally occurs during the months May-August the game volumes remained at a relatively stable level compared to the previous quarter. Compared to last year the game transactions increased by 34 percent. Revenue growth was 13 percent (17 percent in euros) during the second quarter compared to the same period last previous year and the operating margin amounted to 26 percent.

Net Entertainment is known for innovation, technology leadership and quality. In June the Company received three prestigious awards at the EGR Awards for Innovation in Slot Provision, Innovation in Mobile and Mobile Supplier of the Year which was very pleasing.

We see a continued interest for Net Entertainment's products and services. Six new customer agreements were signed in the second quarter, of which one Tier-1 customer, Lottomatica, which is one of the market leaders in Italy. The agreement will further strengthen our position in Italy.

Mobile games continue to show good growth and during the quarter four new agreements were signed. To date 34 customers have launched mobile games. The launch of the Live Casino product is moving forward, albeit at a somewhat slower pace than expected, primarily due to certain operators that are waiting to fully market the product until blackjack is live. We signed three new agreements for Live Casino during the quarter with a total of 19 agreements signed to date, of which eight are launched.

The Company is in the final phase of developing a unique game within Live Casino, Common Draw Blackjack™. In traditional blackjack each table can have a maximum of seven people playing simultaneously which has made the operators experience a shortage in blackjack tables within live casino. In addition, traditional blackjack is not scalable. Common Draw Blackjack™ is a unique solution developed by Net Entertainment where the number of players is unlimited while still receiving the same good experience as for traditional blackjack. The launch of Common Draw Blackjack is expected to take place during the third quarter followed by standard blackjack which also is an important part in Net Entertainment's Live Casino portfolio.

Net Entertainment has continued to invest in the Company's platform and internal systems to make development and distribution processes more efficient. These projects are proceeding as planned.

Net Entertainment has a solid sales pipeline in Great Britain as well as in other parts of Europe. We are following the developments in the US and are currently investigating potential American partnerships. Overall our position is strong on the market and I look forward to the second half of 2013

## FUTURE OUTLOOK

### GROWTH

During 2012 and during the first half of 2013 Net Entertainment has launched several new interesting products and signed agreements with twelve new operators during the most recent twelve months. Live Casino new customers in Great Britain and mobile games are some of the most important initiatives. These initiatives are in an early stage with a gradual ramp-up and expected to contribute to noticeable revenues for the Company, but not until they reach full capacity. The third quarter is normally the weakest in a year due to the summer months July – August which typically leads to lower activity among the players.

### COSTS AND INVESTMENTS

The operating margin was in line with the Company's expectations during the second quarter. During coming quarters Net Entertainment will continue to strengthen the organization to meet a growing customer base, higher demand for the Company's products and demands from regulated markets. As previously communicated, depreciation is also expected to continue to increase in coming quarters as new products and platform functionality is launched with the Company's customers.

## NEW AGREEMENTS AND CUSTOMERS

During the second quarter six new agreements were signed with new customers, including Lottomatica Scommese.

Lottomatica Scommese is a fully owned company of GTECH S.p.A., a member of the World Lottery Association (WLA) and recognized as a market leader in the Italian gaming industry. The company has both B2C (business to consumer) operations and global B2B (business to business) operations.

**CUSTOMERS TO BE LAUNCHED**

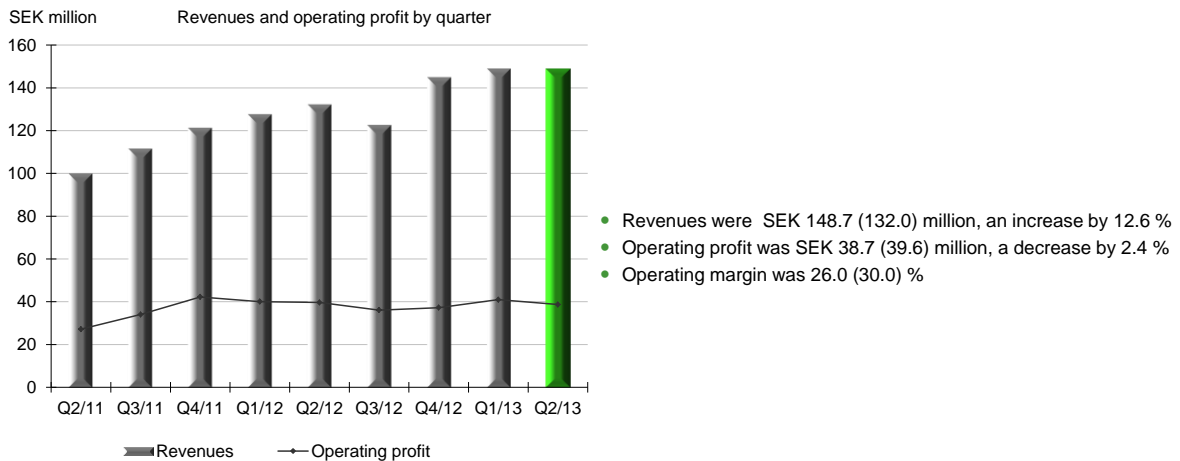
At the end of the quarter, the Company held agreements with 15 new customers that have not yet launched, including Sky Betting & Gaming, 888 and Lottomatica.

Sky Betting & Gaming is focused on the British market. Sky Betting & Gaming has a broad offering of services within betting and games via SkyBet, SkyPoker, SkyVegas and SkyBingo. The Company is licensed in Alderney and is owned by BskyB Group PLC.

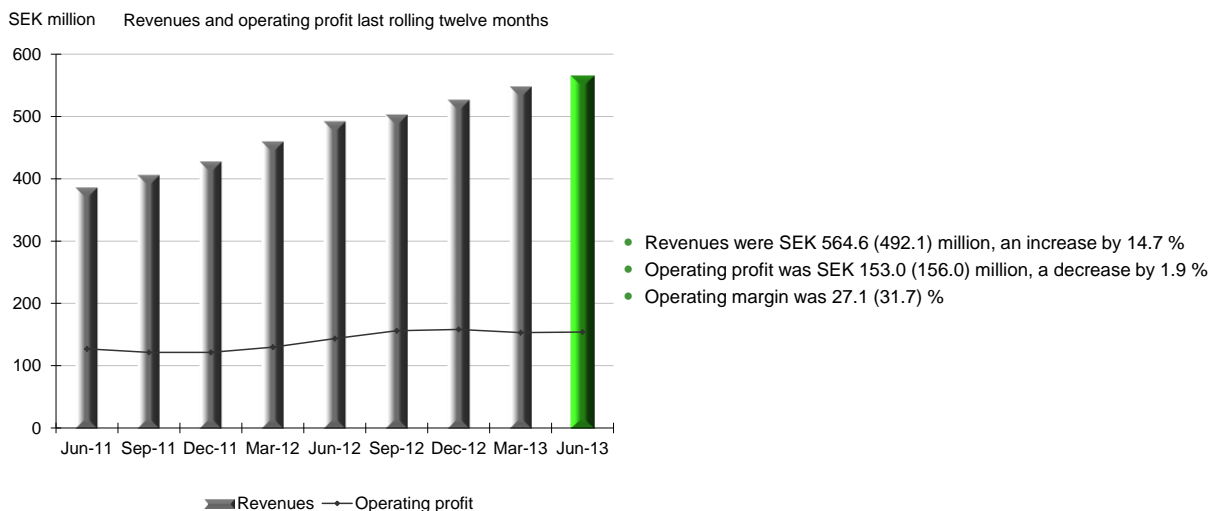
888 is one of the largest and most reputable gaming operators in the world. 888 is licensed by the gaming authorities in Gibraltar where the company’s main office is located. 888’s B2C revenues amounted to EUR 330 million in 2012 where casino represented approximately 50 percent.

**REVENUES AND PROFITABILITY**

Revenues and operating profit by quarter are portrayed in the diagram below.



Revenues and operating profit for the most recent rolling twelve months is presented below.



**REVENUES – VOLUME, PRICE AND CURRENCY DEVELOPMENT**

Net Entertainment's revenues are affected by changes in volume, price (royalty levels and mix), and currency. 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 revenues and a smaller part from setup-fees as new customer agreements are signed as well as revenues for managing pooled jackpots. Revenues amounted to SEK 148.7 (132.0) million during the second quarter, an increase of 12.6 percent compared to the corresponding period 2012. Net Entertainment's revenue increase compared with the corresponding period the previous year comes from a combination of existing customers' growth, launch of new games and revenues from the launch of new customers. During the second quarter, revenues were mainly positively affected by increased volumes from existing customers. Two new customer's casinos were launched during the quarter. During the most recent twelve month period, 12 new customers have been launched. The average royalty level has been stable during the quarter compared to the previous year.

Revenues are affected by the development of the Swedish currency in relation to other currencies. The majority of revenues are invoiced in Euros, but also in British pounds and US dollars. Revenues are accounted for in Euros and then translated into the Swedish Krona for the Group's reporting. During the second quarter 2013, the Swedish Krona strengthened by 3.9 percent towards the Euro compared to the same period 2012 and was weakened by 0.8 percent compared to previous quarter. In Euros, revenues increased by 16.8 percent for the second quarter compared to the corresponding period last year.

The number of game transactions amounted to 3.9 billion during the second quarter, which is an increase of approximately 34 percent compared to previous year. The increase of the number of game transactions has primarily been within the slot games, which represented approximately 81 percent of game win (player bet minus player win). Since the bet per transaction is lower for slot games compared to other casino games the revenues do not follow a corresponding development as the number of game transactions.

## COSTS AND PROFITABILITY

Operating profit for the second quarter decreased by 2.4 percent to SEK 38.7 (39.6) million. Operating expenses have increased during the second quarter compared to previous year due to the Company's expansion and strengthening of the organization to meet demands from several customers with more complex integration, increased demands from authorities and launch of Live Casino. The strengthening of the organization is enabled mainly through own personnel but also through external recourses in the form of subcontractors and outsourcing outside Europe. The expansion also lead to increased hosting costs such as license costs, bandwidth costs and hardware purchases. The Live Casino studio in Malta also affected the cost levels, as do increased depreciation and amortization. Amortization of development projects are linear with equal amounts each month from the launch date while revenues increase gradually which means that the positive margin effect from primarily larger projects can take some time.

The operating margin amounted to 26.0 percent in the second quarter compared to 30.0 percent the previous year.

The financial net amounted to SEK 4.0 (1.4) million for the second quarter and primarily consists of exchange rate effects on cash and cash equivalents, financial receivables and financial liabilities consisting mainly of intercompany transactions as well as the return on cash and cash equivalents. The volatility in the Swedish Krona has periodically led to effects on inter-company balances which are items included in the financial net.

The Group had an effective tax rate of 9.0 (10.4) percent in the second quarter. The effective tax rate is mainly affected by in which country where the Group conducts operations where the profit is generated and can vary between reporting periods.

## INVESTMENTS

The Group's acquisition of intangible assets amounted to SEK 30.1 (24.8) million during the second quarter. Investments in property, plant, and equipment amounted to SEK 7.4 (2.7) million in the second quarter.

Investments in intangible assets consist of development of new games, technical adjustments in the platform such as new functionality, increased capacity, adjustments for requirements on regulated markets and software licenses. Among larger development projects in the second quarter, further development of Live Casino, customer integrations, games for mobile units and for PC and certain platform projects were noticeable to mention a few examples.

Investments in property, plant, and equipment are primarily servers and other computer equipment but also equipment for the Live Casino studio.

## CASH AND CASH EQUIVALENTS, FINANCING AND FINANCIAL POSITION

The Group's cash flow from operating activities for the second quarter amounted to SEK 46.6 (57.2) million. A weakened cash flow from working capital was the largest contributing factor to the decrease compared to last year.

Cash flow from investing activities amounted to SEK -37.5 (-27.5) million during the second quarter. Further description of the investing activities can be viewed in the section Investments above.

Cash flow from financing activities was SEK -89.0 (-78.4) for the second quarter and consist of transfer to shareholders.

The Group's cash and cash equivalents amounted to SEK 37.6 (36.5) million on June 30. The Group's available credit lines amounted to SEK 50.0 million of which none had been used on June 30.

## SUMMARY OF THE FIRST SIX MONTHS

Revenues during the period January-June amounted to SEK 297.5 (259.5) million, an increase of 14.6 percent (19.5 percent in euro) compared to the same period 2012. Operating profit amounted to SEK 79.7 (79.7) million and the operating margin was 26.8 (30.7) percent. The revenue increase is primarily a result of increased volumes compared to the same period previous year as the Company has launched several successful games in combination with increased volumes from the Italian market and mobile games. The Company has signed twelve new license agreements during the six-month period which has generated set-up fees. In addition, five new customers have been launched.

Operating costs have increased during the nine-month period compared to the previous year due to expansion and strengthening of the organization within areas such as sales, product management, development and operations. In addition, regulation of the online gaming market has increased the demands from authorities which affect costs as well as initiatives such as Live Casino and the entry in Great Britain.

The Group's acquisitions for intangible assets amounted to SEK 53.6 (51.2) million for the first six months. Investments in property, plant, and equipment amounted to SEK 14.8 (9.5) million.

The Group's cash flow from operating activities for the first six months amounted to SEK 116.1 (100.7) million. Cash flow from financing activities amounted to SEK -90.9 (-78.4) million.

## MARKET

The online gaming market has shown positive growth in recent years. The global gross gaming yield for online gaming, including all game segments, amounted to EUR 26.0 billion in 2012, an increase of 6.7 percent compared to year 2011. Europe is by far the largest gaming market and is expected to represent close to half of the gross gaming yield in coming years.<sup>1</sup>

Deregulation and reregulation of national gaming laws is taking place in many European countries. Net Entertainment closely monitors the development on all markets that are undergoing regulation. A selection of markets is stated below.

In July 2011 the Italian online gaming market was regulated. The legislation for casino games to end-users was initially limited to table games. However, in December 2012 the Italian authorities approved slot games.

In January 2012 the Danish market for online gaming was regulated. The legislation includes sports betting, casino and poker. The casino games include blackjack, roulette, slots, baccarat and punto banco.

Spain has introduced a federal gaming legislation. The first licenses were awarded in June 2012. Online slot games are however not allowed. The different states can admit their own gaming legislation for online gaming.

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<sup>1</sup> H2 Gaming Capital, April 2013



The government announced during the spring of 2013 that they intend to allow slot games in the future. This process has started but the government has not yet announced when slot games will be introduced.

During 2012 Great Britain has communicated that they intend to change the gaming legislation from being based where the games are distributed from, to where the games are consumed. This will mean that operators that today can offer games to British players from foreign jurisdictions will need a British gaming license and will pay game tax in Great Britain. The change is expected to be approved no later than in December 2014.

In Germany the state Schleswig-Holstein (SH) has admitted a gaming legislation approved by the EU-commission for sports betting and casino games. However, after a time of political debate between SH and the other 15 states, SH has decided to try and recall the newly admitted gaming legislation and join the more restrictive federal legislation. The situation has created an insecurity regarding the future legal situation in Germany.

In Sweden the government has announced they are preparing changes after criticism from the national audit that the government does not protect consumers enough from gambling addiction. The government has however announced that a new legislation is not likely before 2015.

Holland has published a new law proposal with a liberal gaming legislation that is expected to be introduced in 2015.

Greece is again a gaming monopoly after licenses have been withdrawn in March 2013 and games based on chance distributed via internet are now forbidden.

Belgium presently has a gaming legislation that limits the number of gaming operators to the ones that already have a land-based license for the same products. Some online operators are now offering games online through partnerships with land-based operators.

In the US political initiatives are ongoing on a state level to introduce a new regulation of online gaming. Several states have already regulated online gaming; US Virgin Islands (all games), Nevada (poker) and Delaware (all games). New Jersey has since February an approved legislation that includes all game forms and that will take effect already in November 2013. Illinois and California attempts to introduce new gaming laws are ongoing.

Net Entertainment believes that the conditions for continued expansion are good. The key reason for this is that the Company can continue to gain market share by delivering first-class products in combination with continued strong customer closeness. 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.

The majority of Net Entertainment's customers are located in Europe, which is the largest geographical market for online gaming. The Company will continue to focus on the European market, but at the same time monitor new potential markets outside Europe. Net Entertainment carefully follow the development on markets that are about to regulate and intends to launch products on these markets if the prerequisites are right.

## EVENTS AFTER THE END OF THE PERIOD

No important events have occurred after the end of the period.

## ABOUT NET ENTERTAINMENT

Net Entertainment is a world leading supplier of digitally distributed gaming systems used by some of the world's most successful online gaming operators. The Net Entertainment Casino™ is a complete gaming system comprising a full suite of high quality games and a powerful management platform. The games create the ultimate gaming experience for the player while the management platform enables Net Entertainment's customers, the operators, to optimize their business and profitability. Operators are provided a customized system 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.

Technical development and infra-structure are managed at the Group's Parent Company in Stockholm and product management, sales, IT-operations, customer support and marketing are managed from the Malta office. The Company also has an office in Gibraltar and an IT-operations site in Alderney. Development is also carried out from the Company's offices in Gothenburg and Kiev and with a partner in India.

The parent company is listed on NASDAQ OMX Stockholm (NET-B.ST).

## 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 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.

## PERSONNEL AND ORGANIZATION

At the end of the period, the number of employees amounted to 326 versus 245 people one year ago. Including external recourses such as dedicated persons with contract suppliers and subcontractors, Net Entertainment employed 428 (351) persons.

## INCENTIVE PROGRAM

### PROGRAM 2012-2015

The Annual General Meeting on April 25, 2012 resolved to introduce a long-term incentive program intended for senior management and key employees within the Net Entertainment Group. 114,994 share option rights were subscribed and at the end of the quarter all the options outstanding corresponded to the same amount of shares. The strike price for the shares was determined to SEK 85.83 and subscription of shares can be made during the period August 1 to October 1, 2015. In the case of full subscription based on the outstanding share option rights the parent company's equity will increase by SEK 9.9 million. For further information about this program please view 2012 annual report.

To stimulate participation in the program the board has resolved to offer a loyalty compensation which will be paid one month prior to maturity of the options to participants who are still employed at the date of payment and have not resigned and meet certain other conditions. The compensation can amount to a maximum of 50 percent of paid premium corresponding to SEK 1.0 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.

### PROGRAM 2011-2014

The Annual General Meeting in April 2011 resolved to introduce a long-term incentive program intended for senior management and key employees within Net Entertainment. At the end of the quarter, the total outstanding share option rights amounted to 353,100 corresponding to the same number of shares. The strike price for the shares is determined to SEK 70.20 and subscription of shares can be made during the period August 1 to October 1, 2014. In the case of full subscription of these share option rights the parent company's equity will increase by SEK 24.8 million. Further information about this program can be viewed in the annual report 2011. Like program 2012-2015, participants that are employed within the Group at the end of the program have the opportunity to receive a loyalty compensation according to the same terms as program 2012-2015. The maximum cost for the loyalty compensation connected to program 2011-2014 amounts to SEK 0.8 million.

## PARENT COMPANY

The parent company's revenues for the second quarter amounted to SEK 100.4 (88.9) million. Operating profit amounted to SEK 5.0 (3.2) million for the second quarter. The operating margin was 5.0 (3.6) percent. Currency effects on inter-company transactions are included in financial items. Profit after tax was SEK 5.0 (3.2) million for the second quarter.

Revenues in the parent company come from services provided to subsidiaries. No product development costs are capitalized in the parent company as the development projects are ordered and owned by subsidiaries in Malta. Some parts of the technologies are still owned by the parent company and generate inter-company royalty revenues.



The parent company's revenues for the period January – June amounted to SEK 195.2 (179.2) million. Operating profit amounted to SEK 7.3 (11.5) million and the operating margin was 3.8 (6.4) percent. Profit after tax amounted to 6.3 (8.2) million

Cash and cash equivalents in the parent company at the end of the period amounted to SEK 27.2 (4.4) million.

Investments in property, plant and equipment amounted to SEK 3,9 (1.1) million for the period January-June 2013. The parent company's investments in intangible assets amounted to SEK 6,6 (-) million for the period January – June 2013 and primarily consist of software and development related to the ongoing adoption of a new ERP system.

## ACCOUNTING POLICIES

Net Entertainment prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS) as approved by the European Union. The Group's interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. The parent company uses the same accounting principles as the Group, with the addition of the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities. The same accounting and valuation principles have been applied as in the 2012 annual report. For further information on the principles, please refer to the annual report on [www.netent.com](http://www.netent.com).

Amounts are expressed in SEK (thousands of Swedish Kronor) unless otherwise indicated. Amounts or figures in parentheses indicate comparative figures for the corresponding period last year.

## RISKS AND UNCERTAINTIES

Net Entertainment's operations are exposed to certain risks that could have a varying impact on earnings or financial position. These can be divided into industry, operational, and financial risks. The management's general view of the risks that may 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 2012 Annual Report, pages 35-38 and page 68.

### 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 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 legislative changes. Net Entertainment has a Class 4 license on Malta, which enables delivery of systems and certain associated services to the Company's customers. The Company also has a category 2 license on Alderney. It is crucial that these licenses are maintained and extended. An extended license for another five years was obtained in November 2010 for the Malta license and the Alderney license is valid until further notice.

Other operational risks include the Group's dependency on access to qualified employees, maintaining larger customer contracts, and protecting internally developed products, intellectual property, and contracts. Like all Internet-based services, the system can suffer from operational interruptions. These can be caused by many different reasons, and may be either within or outside of Net Entertainment's control. In case of operational interruptions, the Company's product is entirely or partially unavailable for the end user, which affects the gaming operator's income and thus the license income for Net Entertainment.

The Group's competitors and general market fluctuations naturally also affect the Company's situation. With Net Entertainment's success the Company has at various times been sued for alleged infringement of intangible rights. Although the Company has not lost in any such allegation there could be a risk for a negative effect in the future in the case a court would rule to the Company's disadvantage. Each case involves costs in varying extent for legal advisors.

### FINANCIAL RISKS AND TAXES

The Group's results are exposed to changes in exchange rates as the majority of the revenues are in Euro, and most costs are in the Swedish Krona. The Group's revenues in Euro are also affected indirectly by the end customer's (the players) currency which can be different from the billing currency. Profit and equity are also affected by changes in exchange rates when foreign subsidiaries' earnings, assets and liabilities are translated to SEK. The Group does normally not hedge its net exposure to currency fluctuations.

The Group's tax expense is affected by in which country where the Group conducts operations where the profit is generated and tax laws in each respective country. Extensive assessments are required in order to establish the provisions for income tax. There are many transactions and calculations where the final tax is uncertain at the

time when the transactions and calculations are taking place. The Company has with legal experts assessed how tax rules affect the business to ensure a correct tax situation. This also applies to indirect taxes. The Company reports and pays the tax authorities the tax amounts the Company and its legal experts deem are correct. However, these amounts may be insufficient if tax authorities make more restrictive interpretations of tax regulations than the Company has done and deems as correct.

After a tax audit in Net Entertainment NE AB concerning fiscal years 2007-2010, the Swedish Tax Agency has announced its decision to impose additional taxes on Net Entertainment in the amount of approximately SEK 92.1 million. The Swedish Tax Agency states in its' decision that the transfer pricing that has been applied between the Swedish based parent company Net Entertainment NE AB and the Malta-based operations is not motivated. Thus, the Swedish Tax Agency gives certain agreements between companies within the Net Entertainment Group a different legal interpretation and economic substance than what Net Entertainment and it's expert advisors do. Net Entertainment disputes the assessment that the Swedish Tax Agency has done and consequently also the amounts as it relates to the income tax adjustment and the tax surcharges. Net Entertainment insists that it has followed applicable laws for taxation of its operations, which is also supported by the experts that the Company has consulted on the subject. The Company has appealed the Swedish Tax Agency's decision and is now awaiting a reviewed decision. Net Entertainment does not currently see grounds to make a provision in the accounts for possible additional taxes related to this matter. The amount SEK 92.1 million has been reported as a contingent liability in the annual report for 2012.

## REDEMPTION OF SHARES AND TRANSFER TO SHAREHOLDERS

On April 25, 2013 the Annual General Meeting decided to approve the Board's proposal for share split and automatic redemption procedure, involving a cash transfer to shareholders of SEK 2.25 per share. In accordance with the Annual General Meeting's authorization, the Board decided on the subsequent board meeting to set the record date for share split of the Company's shares to May 6 2013 and the record date for withdrawal of the redemption shares to May 27, 2013. Furthermore, cash was transferred to the holders of redemption shares on May 30 through Euroclear.

## PRESENTATION OF INTERIM REPORT

On Friday, July 12 at 9.00 the report will be presented by CEO Per Eriksson via a live audio webcast. The presentation can be followed live via webcast on Net Entertainment's website [www.netent.com](http://www.netent.com).

## FINANCIAL INFORMATION

Net Entertainment intends to distribute financial reports on the dates below.

Interim report January-September 2013	October 24, 2013
Earnings report and report for the fourth quarter 2013	February 13, 2014

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).

The Board of Directors and the CEO certify that the interim report gives a true and fair view of the operations, position, and results of the Group and parent company and describes principal risks and uncertainties facing the Company and Group companies.

Stockholm July 11, 2013

Vigo Carlund  
Chairman of the Board of  
Directors

Fredrik Erbing

Mikael Gottschlich

Peter Hamberg

Michael Knutsson

Pontus Lindwall

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This report has not been subject to special review by the Company's auditor.

## LEGAL DISCLAIMER

Certain statements in this 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.

## PUBLICATION

The information in this interim report is such information that Net Entertainment NE AB (publ) is required to publicly disclose under the Securities Market Act and/or Financial Instruments Trading Act. The information was submitted for publication on July 12, 2013 at 7.30 am.

## CONDENSED CONSOLIDATED INCOME STATEMENTS AND STATEMENTS OF TOTAL INCOME FOR THE GROUP

INCOME STATEMENTS	Apr-Jun 2013	Apr-Jun 2012	Jan-Jun 2013	Jan-Jun 2012	Jan-Dec 2012
Revenues	148,253	131,926	296,749	259,076	525 518
Other revenues	454	123	714	447	1 153
<b>Total operating revenues</b>	<b>148,707</b>	<b>132,049</b>	<b>297,463</b>	<b>259,523</b>	<b>526,671</b>
Personnel expenses	-47,018	-41,473	-96,029	-78,706	-161,225
Depreciation, amortization and impairments	-24,968	-17,632	-47,503	-34,271	-74,257
Other operating expenses	-38,019	-33,299	-74,273	-66,835	-138,132
<b>Total operating expenses</b>	<b>-110,005</b>	<b>-92,404</b>	<b>-217,805</b>	<b>-179,812</b>	<b>-373,614</b>
<b>Operating profit</b>	<b>38,702</b>	<b>39,645</b>	<b>79,658</b>	<b>79,711</b>	<b>153,057</b>
Financial items	3,966	1,357	-450	-53	-1,794
<b>Profit before tax</b>	<b>42,668</b>	<b>41,002</b>	<b>79,208</b>	<b>79,658</b>	<b>151,263</b>
Tax on the period's profit	-3,830	-4,265	-7,496	-8,285	-18,008
<b>Profit for the period</b>	<b>38,838</b>	<b>36,737</b>	<b>71,712</b>	<b>71,373</b>	<b>133,255</b>
Earnings per share before dilution (SEK)	0.98	0.93	1.81	1.80	3.37
Earnings per share after dilution (SEK)	0.98	0.93	1.81	1.80	3.37
Average number of shares					
- before dilution	39,553,716	39,553,716	39,553,716	39,553,716	39,553,716
- after dilution	39,670,818	39,553,716	39,647,192	39,553,716	39,553,716
Operating margin	26.0%	30.0%	26.8%	30.7%	29.1%
Effective tax rate	9.0%	10.4%	9.5%	10.4%	11.9%
Profit for the period attributable to parent company shareholders	38,838	36,737	71,712	71,373	133,255
<b>STATEMENTS OF TOTAL INCOME</b>					
<b>Profit for the period</b>	<b>38,838</b>	<b>36,737</b>	<b>71,712</b>	<b>71,373</b>	<b>133,255</b>
<b>Other total income</b>					
Exchange differences arising from the translation of foreign operations	10,268	-1,838	4,473	-2,532	-4,301
<b>Sum of other total income for the period, net after tax</b>	<b>10,268</b>	<b>-1,838</b>	<b>4,473</b>	<b>-2,532</b>	<b>-4,301</b>
<b>Total income for the period</b>	<b>49,106</b>	<b>34,899</b>	<b>76,185</b>	<b>68,841</b>	<b>128,954</b>

**CONDENSED CONSOLIDATED BALANCE SHEETS**

<b>ASSETS</b>	<b>2013-06-30</b>	<b>2012-06-30</b>	<b>2012-12-31</b>
Intangible assets	188,322	157,383	167,246
Property, plant, and equipment	52,309	49,058	49,129
<b>Total non-current assets</b>	<b>240,631</b>	<b>206,441</b>	<b>216,375</b>
Accounts receivable	7,427	9,568	16,818
Other receivables	43,054	26,115	59,666
Prepaid expenses and accrued revenues	69,582	58,709	63,698
Funds held on behalf of licensees	31,489	24,798	114,034
Cash and cash equivalents	37,577	36,546	81,230
<b>Total current assets</b>	<b>189,129</b>	<b>155,736</b>	<b>335,446</b>
<b>TOTAL ASSETS</b>	<b>429,760</b>	<b>362,177</b>	<b>551,821</b>
<b>EQUITY AND LIABILITIES</b>			
	<b>2013-06-30</b>	<b>2012-06-30</b>	<b>2012-12-31</b>
Share capital	1,191	1,191	1,191
Other capital contributed	41,624	41,624	41,624
Reserves	-7,298	-10,001	-11,770
Retained earnings including profit for the period	240,222	195,623	257,505
<b>Total equity</b>	<b>275,739</b>	<b>228,437</b>	<b>288,550</b>
Deferred tax liability	9,265	3,306	9,157
<b>Total long-term liabilities</b>	<b>9,265</b>	<b>3,306</b>	<b>9,157</b>
Liabilities to credit institutions	-	-	1,874
Accounts payable	26,455	28,693	28,650
Current tax liabilities	8,363	9,687	9,537
Other liabilities	62,126	48,873	172,357
Accrued expenses and prepaid revenues	47,812	43,181	41,696
<b>Total current liabilities</b>	<b>144,756</b>	<b>130,434</b>	<b>254,114</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>429,760</b>	<b>362,177</b>	<b>551,821</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS**

	<b>Apr-Jun 2013</b>	<b>Apr-Jun 2012</b>	<b>Jan-Jun 2013</b>	<b>Jan-Jun 2012</b>	<b>Jan-Dec 2012</b>
Operating profit	38,703	39,645	79,659	79,711	153,057
<i>Adjustment for items not included in cash flows:</i>					
Depreciation, amortization and impairments	24,967	17,632	47,503	34,271	74,257
Other	5,288	1,689	2,046	453	-1,550
Interest received	1	-	177	-	204
Interest paid	-281	-55	-427	-225	-552
Tax paid	-5,441	-4,716	-9,204	-13,803	-17,187
<b>Cash flows from operating activities before changes in working capital</b>	<b>63,237</b>	<b>54,195</b>	<b>119,754</b>	<b>100,407</b>	<b>208,229</b>
Changes in working capital	-16,649	2,984	-3,645	263	-12,807
<b>Cash flows from operating activities</b>	<b>46,588</b>	<b>57,179</b>	<b>116,109</b>	<b>100,670</b>	<b>195,422</b>
Acquisition of intangible assets	-30,107	-24,756	-53,554	-51,181	-90,980
Acquisition of property, plant, and equipment	-7,361	-2,728	-14,803	-9,472	-20,597
<b>Cash flows from investing activities</b>	<b>-37,468</b>	<b>-27,484</b>	<b>-68,357</b>	<b>-60,653</b>	<b>-111,577</b>
Utilized line of credit	-	-	-1,874	-	1,874
Transfer to shareholders	-88,996	-79,107	-88,996	-79,107	-79,107
Received premium for share option rights	-	720	-	720	720
<b>Cash flows from financing activities</b>	<b>-88,996</b>	<b>-78,387</b>	<b>-90,870</b>	<b>-78,387</b>	<b>-76,513</b>
<b>Cash flow for the period</b>	<b>-79,876</b>	<b>-48,692</b>	<b>-43,118</b>	<b>-38,370</b>	<b>7,332</b>
Cash and cash equivalents at beginning of period	117,165	84,885	81,230	74,234	74,234
Exchange rate differences in cash and cash equivalents	288	353	-535	682	-336
<b>Cash and cash equivalents at end of period</b>	<b>37,577</b>	<b>36,546</b>	<b>37,577</b>	<b>36,546</b>	<b>81,230</b>



**CONDENSED CONSOLIDATED CHANGES IN EQUITY**

2012	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
Opening equity 2012-01-01	1,191	40,904	-7,469	203,357	237,983
Transfer to shareholders	-	-	-	-79,107	-79,107
Premium received for share option rights	-	720	-	-	720
Total income for the period Jan-Dec	-	-	-4,301	133,255	128,954
<b>Closing equity 2012-12-31</b>	<b>1,191</b>	<b>41,624</b>	<b>-11,770</b>	<b>257,505</b>	<b>288,550</b>

2013	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
Opening equity 2013-01-01	1,191	41,624	-11,770	257,505	288,550
Total income for the period Jan-Mar	-	-	-5,795	32,874	27,079
Transfer to shareholders	-	-	-	-88,996	-88,996
Total income for the period Apr-Jun	-	-	10,267	38,839	49,106
<b>Closing equity 2013-06-30</b>	<b>1,191</b>	<b>41,624</b>	<b>-7,298</b>	<b>240,222</b>	<b>275,739</b>

There is no minority interest in the Group. All equity is therefore attributed to parent company shareholders

## CONSOLIDATED KEY DATA AND FIGURES

	Apr-Jun 2013	Apr-Jun 2012	Jan-Jun 2013	Jan-Jun 2012	Jan-Dec 2012
Operating revenues (SEK thousands)	148,707	132,049	297,463	259,523	526,671
Operating euro based revenues (EUR thousands)	17,366	14,872	34,873	29,185	60,500
Operating margin (percent)	26.0	30.0	26.8	30.7	29.1
Profit margin (percent)	28.7	31.1	26.6	30.7	28.7
EBITDA margin (percent)	42.8	43.4	42.7	43.9	43.2
Return on shareholders' equity, roll 12 months (percent)	47.2	58.8	47.2	58.8	50.6
Equity/assets ratio (percent)	64.2	63.1	64.2	63.1	52.3
Quick ratio (percent)	130.7	119.4	130.7	119.4	132.0
Net interest-bearing liabilities (SEK thousands) <sup>1</sup>	-37,577	-36,546	-37,577	-36,546	-79,356
Net debt/equity ratio (multiple)	-0.1	-0.2	-0.1	-0.2	-0.3
Average number of employees	322	244	316	241	257
Employees at period's end	326	245	326	245	301
Employees and external resources at period's end	428	351	428	351	403
Earnings per share before and after dilution	0.98	0.93	1.81	1.80	3.37
Equity per share (SEK)	6.97	5.78	6.97	5.78	7.30
Average number of outstanding shares before dilution	39,553,716	39,553,716	39,553,716	39,553,716	39,553,716
Average number of outstanding shares after dilution	39,670,818	39,553,716	39,647,192	39,553,716	39,553,716
Number of outstanding shares at the period's end before dilution	39,553,716	39,553,716	39,553,716	39,553,716	39,553,716
Number of outstanding shares at the period's end after dilution	40,021,810	39,553,716	40,021,810	39,553,716	39,906,816

<sup>1</sup> A negative figure means that the Group has a net cash position (positive cash flow and no interest-bearing liabilities)

## CONSOLIDATED KEY DATA AND FIGURES BY QUARTER

	2013				2012				2011
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Operating revenues (SEK millions)	148.7	148.8	144.7	122.5	132.0	127.5	121.1	111.4	99.9
Operating eurobased revenues (EUR millions)	17.4	17.5	16.8	14.6	14.9	14.3	13.3	12.2	11.1
Operating profit (SEK million)	38.7	41.0	37.2	36.1	39.6	40.1	42.2	34.0	27.2
Operating margin (percent)	26.0	27.5	25.7	29.5	30.0	31.4	34.9	30.5	27.2
EBITDA-margin (percent)	42.8	42.7	40.2	45.0	43.4	44.5	46.9	41.6	37.2
Growth SEK vs prior year (percent)	12.6	16.7	19.5	9.9	32.2	33.9	21.6	21.7	12.0
Growth EUR vs prior year (percent)	16.8	22.3	25.9	19.7	34.2	33.5	23.1	24.1	19.9
Growth in SEK vs prior quarter (percent)	0.0	2.8	18.1	-7.3	3.5	5.3	8.7	11.6	4.8
Growth in EUR vs prior quarter (percent)	-0.8	4.5	15.0	-2.1	3.9	7.6	9.3	9.8	3.4
Cash and cash equivalents (excl. funds held on behalf of licensees)	37.6	117.2	81.2	57.5	36.5	84.9	74.2	50.0	26.1
Funds held on behalf of licensees	31.5	54.4	114.0	87.7	24.8	36.4	87.7	25.4	57.5
Equity/assets ratio (percent)	64.2	64.0	52.3	56.5	63.1	67.1	53.8	59.7	53.2
Return on shareholders' equity roll 12 months (percent)	47.2	48.5	50.6	56.1	58.8	57.2	55.0	53.8	55.8
Net debt/equity ratio (multiple)	-0.1	-0.4	-0.3	-0.2	-0.2	-0.3	-0.3	-0.2	-0.2
Earnings per share	0.98	0.83	0.79	0.78	0.93	0.88	0.93	0.78	0.64
Equity per share (SEK)	6.97	7.98	7.30	6.36	5.78	6.87	6.02	5.23	4.39
Cashflow per share (SEK)	-2.03	0.93	0.62	-1.23	-1.23	0.26	0.63	0.60	-1.90
Average number of employees	322	311	291	251	244	239	229	228	223

## DEFINITIONS

### *Operating margin*

Operating profit in relation to operating revenues.

### *Profit margin*

Profit after financial items in relation to operating revenues.

### *EBITDA-margin*

Operating profit excluding depreciation and amortization in relation to operating revenues.

### *Return on investment on shareholders' equity*

Period's profit/loss (rolling twelve months) in relation to average shareholder equity for last twelve months.

### *Equity/assets ratio*

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

### *Quick ratio*

Current assets in relation to current liabilities.

### *Net interest-bearing liabilities*

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

### *Net debt/equity ratio (multiple)*

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

### *Average number of employees*

The average number of employees during the period.

### *Number of employees at end of period*

The number of employees at the end of the period.

### *Number of employees and external resources at end of period*

The number of employees and external resources such as dedicated persons with contracted suppliers and subcontractors at the end of the period.

### *Earnings per share*

Profit for the period divided by the average number of shares outstanding during the period.

### *Equity per share*

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

### *Average number of shares outstanding*

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

### *Number of shares outstanding*

The number of shares outstanding. adjusted for bonus issue and share split.

**CONDENSED PARENT COMPANY INCOME STATEMENT**

INCOME STATEMENTS	Apr-Jun 2013	Apr-Jun 2012	Jan-Jun 2013	Jan-Jun 2012	Jan-Dec 2012
Operating revenues	100,379	88,943	195,230	179,230	371,101
Other external expenses	-36,893	-34,034	-71,423	-69,853	-136,707
Personnel expenses	-55,167	-48,644	-110,017	-91,816	-182,957
Depreciation and amortization	-3,319	-3,023	-6,451	-6,012	-12,153
<b>Operating profit</b>	<b>5,000</b>	<b>3,242</b>	<b>7,339</b>	<b>11,549</b>	<b>39,284</b>
Financial items	1,437	1,212	1,046	-152	66,937
Transfer to untaxed reserves	-	-	-	-	-11,696
<b>Profit before tax</b>	<b>6,437</b>	<b>4,454</b>	<b>8,385</b>	<b>11,397</b>	<b>94,525</b>
Tax on the period's profit	-1,473	-1,282	-2,049	-3,180	-7,533
<b>Profit for the period</b>	<b>4,964</b>	<b>3,172</b>	<b>6,336</b>	<b>8,217</b>	<b>86,992</b>

**STATEMENT OF TOTAL INCOME**

<b>Profit for the period</b>	<b>4,964</b>	<b>3,172</b>	<b>6,336</b>	<b>8,217</b>	<b>86,992</b>
Other total income	-	-	-	-	-
<b>Sum of other total income for the period, net after tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total income for the period</b>	<b>4,964</b>	<b>3,172</b>	<b>6,336</b>	<b>8,217</b>	<b>86,992</b>

**CONDENSED PARENT COMPANY BALANCE SHEET**

<b>ASSETS</b>	<b>2013-06-30</b>	<b>2012-06-30</b>	<b>2012-12-31</b>
Intangible assets	5,677	-	846
Property, plant, and equipment	24,979	29,452	26,528
Shares in subsidiary	1,669	512	1,669
<b>Total non-current assets</b>	<b>32,325</b>	<b>29,964</b>	<b>29,043</b>
Accounts receivable	38	9	9
Receivables from Group companies	99,165	219,984	583,918
Current tax receivables	2,320	-	-
Other receivables	5,934	5,308	6,999
Prepaid expenses and accrued revenues	7,608	7,829	7,274
Cash and cash equivalents	27,245	4,368	1,174
<b>Total current assets</b>	<b>142,310</b>	<b>237,498</b>	<b>599,374</b>
<b>TOTAL ASSETS</b>	<b>174,635</b>	<b>267,462</b>	<b>628,417</b>
<b>EQUITY AND LIABILITIES</b>	<b>2013-06-30</b>	<b>2012-06-30</b>	<b>2012-12-31</b>
Share capital	1,191	1,191	1,191
Statutory reserve	38	38	38
Share premium reserve	6,735	6,735	6,735
Retained earnings	23,826	25,830	25,830
Profit for the period	6,336	8,217	86,992
<b>Total equity</b>	<b>38,126</b>	<b>42,011</b>	<b>120,786</b>
<b>Untaxed reserves</b>	<b>11,696</b>	<b>-</b>	<b>11,696</b>
Liabilities to credit institutions	-	-	1,874
Accounts payable	17,365	23,064	24,107
Liabilities to Group companies	62,264	159,899	428,818
Current tax liabilities	-	870	1,375
Other liabilities	3,473	3,162	3,696
Accrued expenses and prepaid revenues	41,711	38,456	36,065
<b>Total current liabilities</b>	<b>124,813</b>	<b>225,451</b>	<b>495,935</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>174,635</b>	<b>267,462</b>	<b>628,417</b>

## NET ENTERTAINMENT'S PRODUCTS

### CASINO

The Net Entertainment Casino™ is a complete gaming system consisting of a powerful administration tool and a full suite of high quality games. Games are divided into four categories: table games, video poker, slot games and other games such as scratch cards and Keno.

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

Distributing the games is possible through a number of channels where browser based solutions are the most common but the Company has also developed a downloadable client.

### MULTIPLAYER GAMESMULTIPLAYERSPEL

Net Entertainment has developed blackjack and roulette where several players can participate.

### SERVICERVICE

Net Entertainment offers a number of peripheral services including technical support, hosting, account management and system surveillance. This allows the licensees to focus on their core business.

### DEVELOPMENT

Extensive analysis and development efforts ensure that the Company can deliver new exciting games and functions. The complexity within casino games is continuously increasing and Net Entertainment is seen as a market leader within its market.

Two new games are EggOmatic™ and Fisticuffs™.

