

NET ENTERTAINMENT

INTERIM REPORT JANUARY-SEPTEMBER 2012



NETENT

BETTER GAMES™

## STRATEGIC PROJECTS ENABLES A POSITIVE FUTURE

### THIRD QUARTER 2012

- Revenues for the third quarter increased by 9.9 % to SEK 122.5 (111.4) million
- Operating profit amounted to SEK 36.1 (34.0) million
- Operating margin was 29.5 (30.5) %
- Profit after tax amounted to SEK 30.8 (31.0) million
- Earnings per share amounted to SEK 0.78 (0.78) before and after dilution
- One new license agreement was signed and five new customers' casinos were launched

### FIRST NINE MONTHS 2012

- Revenues for the first nine months increased by 24.6 % to SEK 382.0 (306.5) million
- Operating profit amounted to SEK 115.8 (87.5) million
- Operating margin was 30.3 (28.5) %
- Profit after tax amounted to SEK 102.2 (79.0) million
- Earnings per share amounted to SEK 2.58 (2.00) before and after dilution
- Eleven new license agreements were signed and eleven new customers' casinos were launched

### IMPORTANT EVENTS IN THE THIRD QUARTER

Revenues increased by 9.9 percent in the third quarter compared to the third quarter 2011. The corresponding growth calculated in Euros was 19.7 percent. The increase is mainly derived from increased volumes which are primarily driven by existing customers' growth and new customer agreements signed.

Net Entertainment's revenues are affected by the development of the Swedish currency in relation to other currencies, mainly the Euro. A dominating portion of revenues are invoiced in Euros. All revenues are then accounted for in Euros which is then translated into Swedish Krona for Group reporting purposes. Since the end of the previous quarter the Swedish Krona has strengthened significantly against the Euro which has affected Net Entertainment's revenues negatively in the third quarter 2012.

During the quarter two new agreements were signed for beta test of Live Casino which is expected to be launched during the fourth quarter 2012.

The number of game transactions amounted to 2.8 billion in the third quarter which is a decrease of approximately 3 percent compared to previous quarter. The decrease is primarily a result of seasonal variations as the summer months traditionally have lower player activity levels in combination with the Olympics, since the Company's customers, the operators, focused their marketing towards sports betting during the period at which the Olympics was held. The game transactions increased by approximately 27 percent compared to the same period 2011.

SUMMARY IN FIGURES	Jul-Sep 2012	Jul-Sep 2011	Jan-Sep 2012	Jan-Sep 2011	Jan-Dec 2011
Operating revenues	122,472	111,434	381,994	306,522	427,618
Operating expenses	-86,375	-77,420	-266,186	-219,058	-297,905
<b>Operating profit</b>	<b>36,097</b>	<b>34,014</b>	<b>115,808</b>	87,464	<b>129,713</b>
Operating margin	29.5%	30.5%	30.3%	28.5%	30.3%
Cash flows from operating activities	48,066	45,731	148,731	146,462	203,251
Cash flows for the period	21,268	23,700	-17,102	2,861	27,642
Cash and cash equivalents at end of period	57,456	50,040	57,456	50,040	74,234

## COMMENTS FROM PER ERIKSSON, PRESIDENT AND CEO

The third quarter has been an eventful quarter characterized by larger strategic development projects such as Live Casino, the Great Britain entry and preparations for slot games in Italy, all which are estimated to be completed during the fourth quarter. These projects are expected to gradually start generating noticeable revenues during the first and second quarter 2013.

Revenues were affected by currency effects during the third quarter as the Swedish Krona strengthened by approximately eight percent compared to the corresponding quarter 2011. This resulted in a revenue increase of about 10 percent in SEK but 20 percent in Euros compared to the corresponding period 2011. In addition, the casino activity among several of the Company's customers was negatively affected by the summer months in combination with the Olympics as many of our customers focused their marketing efforts on sports betting instead of casino.

We see a big interest for the Company's Live Casino product and agreements for beta testing have been signed with two customers. In addition, several discussions are ongoing with large operators for the Live Casino. Initially, Net Entertainment will offer Roulette and recruitment of studio personnel started during the third quarter which will continue as Live Casino grows and new game types are added.

Discussions with operators based in Great Britain are progressing and there is a great interest for Net Entertainment's games portfolio. Depending on what customers the Company signs in this market, additional development work may be required.

We continue to see good growth numbers in Italy and Net Entertainment's mobile solution is growing rapidly. With the new products and games now becoming completed and launched with our customers in combination with several interesting business opportunities, mainly in the Great Britain, the outlook looks very promising for the Company. Short term we will continue to see effects on cost levels due to the necessary strengthening of the organization, support systems and product development to further solidify the Company's position for the future and long term, the scalability in the Company's business is expected to become more evident.

## FUTURE OUTLOOK

The fourth and first quarter normally implies a higher cost level compared to other quarters due to less vacation absence and higher activity for development projects as well as within other areas. As a step in making the Company's processes and system support more efficient, Net Entertainment has initiated a pre-study of a new ERP-system during the fourth quarter. In addition, the fourth and first quarter is also active periods within for example marketing. The high activity level also implies continued need for recruitment of new personnel as well as consultants.

To conclude, Net Entertainment is thus still in an expanding and a development intense phase where the full revenue potential from these initiatives will not begin until next year. The market potential from Live Casino, Great Britain and mobile games that have only began to be explored by Net Entertainment in combination with regulation of various markets in Europe allows for a positive future outlook.

## NEW AGREEMENTS AND CUSTOMERS

During the third quarter one new customer was signed which addresses the European market.

### CUSTOMERS TO BE LAUNCHED

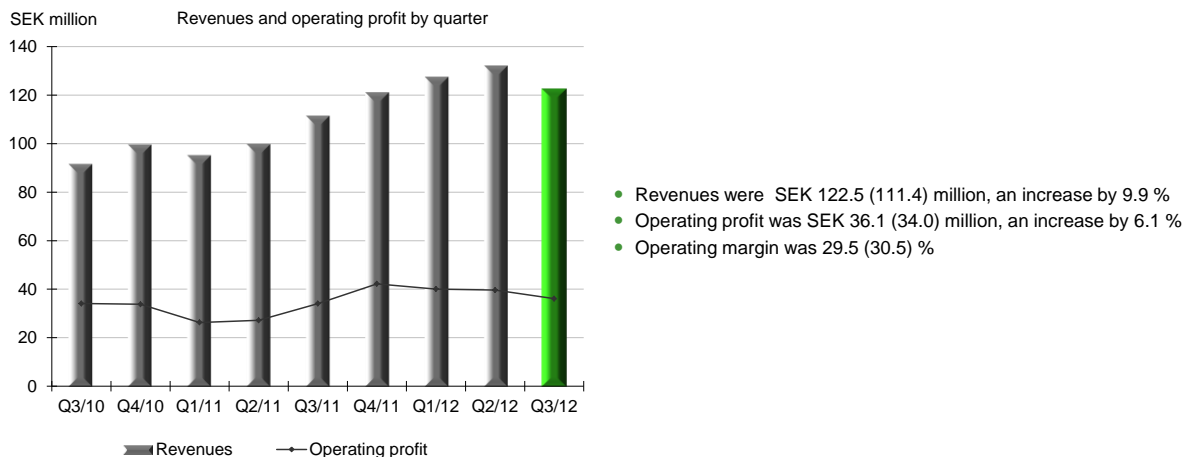
At the end of the quarter, the Company held agreements with five new customers that have not yet launched, including Sky Betting & Gaming and Boylesports.

Boylesports is Ireland's largest independent bookmaker and offer betting, casino, games, poker and bingo online.

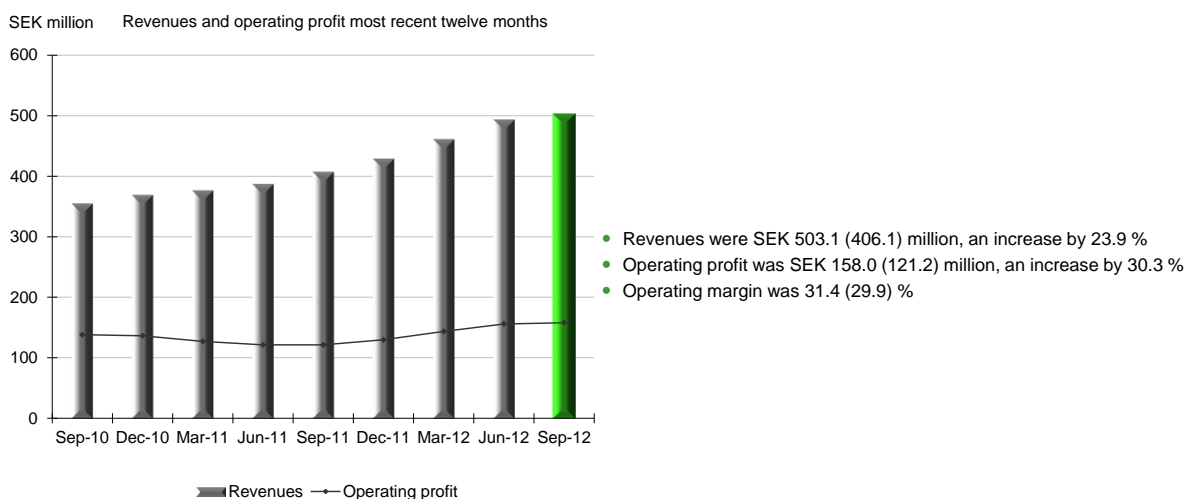
Sky Betting & Gaming is focused on the UK market. Sky Betting & Gaming has a broad offering of services within betting and games via SkyBet, SkyPoker, SkyVegas and SkyBingo. The Company is licensed in Alderney and is owned by BskyB Group PLC.

## 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 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. 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 increased 9.9 percent in the third quarter compared to the corresponding period 2011. Net Entertainment's revenue increase compared with the corresponding period last year is a combination of existing customers' growth, launch of new games and revenues from the launch of new customers. Five new customer's casinos were launched during the quarter. During the most recent twelve month period, 13 new customers have been launched.

Royalty revenues were positively affected by higher volumes compared to the corresponding period last year. The average royalty level has increased 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 third quarter 2012, the Swedish Krona was 7.7 percent stronger than the Euro compared to the previous period 2011 and was strengthened by 5.3 percent compared to previous quarter. In Euros, total revenues increased by 19.7 percent for the third quarter compared to the corresponding period last year.

The number of game transactions amounted to 2.8 billion during the third quarter, which is an increase of approximately 27 percent compared to previous year. The increase of the number of game transactions has primarily been within the slot games. Since the bet per transaction is lower for slots compared to other casino games the revenues do not follow a corresponding development as the number of game transactions.

## PROFITABILITY

Operating profit for the third quarter increased by 6.1 percent to SEK 36.1 (34.0) million. Operating expenses have increased during the third quarter compared to previous year due to the Company's expansion and strengthening of the organization within areas such as sales, product management, development, and IT operations to meet increased demands from the market and authorities. The strengthening of the organization is enabled mostly through own personnel but also through external recourses in the form of subcontractors and outsourcing outside Europe. In addition, the regulation of the online market creates new requirements which affect costs, as do new initiatives such as Live Casino and the entry on the British market.

For the third quarter the operating margin was 29.5 percent compared to 30.5 percent the previous year. If the average currency rate used for translation to Swedish Krona in the Group's reporting during the quarter would have been the same as during the first half of 2012 the margin would have been 31.8 percent, as the revenues would have been approximately SEK 6.6 million higher and the costs would have been SEK 1.6 million higher.

The financial net amounted to SEK -2.0 (0.6) million for the third quarter and primarily consists of exchange rate effects on cash and cash equivalents, financial receivables and financial liabilities 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 9.7 (10.7) percent in the third 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 from one reporting period to the next.

## CAPITAL INVESTMENTS

The Group's expenditure for capitalized development projects as intangible assets amounted to SEK 19.9 (16.8) million during the third quarter. Investments in property, plant, and equipment amounted to SEK 6.8 (5.2) million in the third quarter.

Investments in intangible assets consist of development of new games, technical adjustments in the platform such as new functionality, increased capacity and adjustments for requirements on regulated markets. Among larger development projects, the projects Live Casino, establishment on the British and Danish market and adjustments of games for the mobile market were noticeable to mention a few examples. These projects represent approximately 65 percent of the total investments in intangible assets during the third quarter.

Investments in property, plant, and equipment are primarily servers and other computer equipment. The investment pace is driven by both the increased transaction volume and the increased requirements for system availability.

## CASH AND CASH EQUIVALENTS, FINANCING AND FINANCIAL POSITION

The Group's cash flow from operating activities for the third quarter amounted to SEK 48.1 (45.7) million. For the nine month period January-September the cash flow from operating activities amounted to SEK 148.7 (146.5) million, which is an improvement of SEK 2.3 million. During 2011, the date at which the transfer of accrued jackpot balance from the Group's own cash to the client fund account occurs was postponed which had a positive non-recurring impact on cash flow of SEK 33.5 million in 2011. Excluding this non-recurring effect, cash flow from operating activities was thus improved during 2012 by 35.8 million.

Cash flow from investing activities amounted to SEK -26.8 (-22.0) million for the third quarter and for the nine month period to -87.4 (-67.0) million. Further development of the mobile platform, Live Casino and the entry on

the British and Danish market were some of the contributing factors to the increased investing activities compared to previous year.

The Group's cash and cash equivalents amounted to SEK 57.5 (50.0) million on September 30. In addition, there are available credit lines of SEK 40 million that have not been used.

## SUMMARY OF THE FIRST NINE MONTHS

Revenues during the period January-September amounted to SEK 382.0 (306.5) million, an increase of 24.6 percent compared to the same period 2011. Operating profit amounted to SEK 115.8 (87.5) million and the operating margin was 30.3 (28.5) 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 eleven new license agreements during the nine-month period which has generated set-up fees. In addition, eleven 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, entry in Great Britain and Denmark. Operating profit also consist of a non-recurring cost of SEK 2.5 million related to a re-organization during the second quarter.

The Group's expenditure for capitalized development projects as intangible assets amounted to SEK 71.1 (54.6) million for the first nine months. Investments in property, plant, and equipment amounted to SEK 16.3 (12.4) million.

The Group's cash flow from operating activities for the first nine months amounted to SEK 148.7 (146.5) million. Cash flow from investing activities amounted to SEK -78.4 (-76.6) 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, is estimated to amount to EUR 27.0 billion in 2012, an increase of 9.6 percent compared to year 2011. In coming years, Europe is expected to represent close to half of the global gross gaming yield, making it the single largest gaming market<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.

Italy was previously a regulated market, limited to sports and horse betting, tournament poker, skill games, and scratch tickets available online via licensed operators. In July a new legal framework took effect which also includes cash game poker, bingo and online casino games. The legislation for online casino games to end users is initially limited to table games. The Italian gaming authority has announced that slot games online will be allowed in Italy from December 2012.

France adopted a legal framework in June 2010 where they grant licenses to online gaming operators who fulfill the local requirements. This allows private operators to offer betting on sporting events, horse racing, and poker on the Internet. The legal framework, that at the moment does not include casino, involves high taxation which makes it less attractive to private operators.

In January 2012 a new legislation took effect in Denmark where operators can now offer online games to the local market via a license. Companies who intend to operate on the local market must fulfill the gaming authorities requirements during the fourth quarter 2012. The legal framework includes sports and horse betting, online casino and poker. The casino games include blackjack, roulette, slots, baccarat and punto banco.

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<sup>1</sup> H2 Gaming Capital, March 2012

Spain has introduced a federal gaming legislation where the first licenses were awarded in June 2012.

In Germany, the states have admitted a federal legal framework. Simultaneously the state Schleswig-Holstein has also adopted a new legislation which has been approved by the EU-commission under which private operators are awarded licenses for betting and online casino. However, after the state elections held in May 2012 discussions are now in progress whether Schleswig-Holstein will merge with the other 15 states to create a common gaming legislation.

In Sweden, discussions of a potential change in regulation regarding online gaming have been initiated. A new legal framework has not been presented however and it is uncertain if a new proposal for re-regulation will be presented before the election in 2014.

As of 1 April 2012 a new gaming authority has been formed, Kansspelautoriteit (KSA) in the Netherlands. The Netherlands expected to re-regulate online gaming during 2012 with a possibility to award licenses to private operators during 2013. The situation has however changed since the change of government in April 2012 which can lead to delays.

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 a 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, primarily in North America but also Asia.

## EVENTS AFTER THE END OF THE PERIOD

Boylesports, Ireland's largest independent bookmaker has launched Net Entertainment's casino games to its online players in October.

## 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, 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 in Gothenburg, India and the Ukraine.

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 265 versus 225 people one year ago. Including external recourses such as dedicated persons with contract suppliers and subcontractors, Net Entertainment employed 376 (313) persons.

## INCENTIVE PROGRAM

### PROGRAM 2012-2015

The Annual General Meeting on April 18, 2012 resolved to introduce a long-term incentive program intended for senior management and key employees within the Net Entertainment Group. The resolution entailed the issue of a maximum of 350,000 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 quarter, 114,994 share option rights had been subscribed for, corresponding 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 of these share option rights the parent company's equity will increase by SEK 9.9 million.

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 or 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.

### PROGRAM 2009-2012

The Annual General Meeting in April 2009 resolved to introduce a long-term incentive program intended for management and key employees within Net Entertainment. The strike price for the shares was determined to SEK 71.70 and subscription of shares was made during the period May 15 to July 15, 2012.

No shares were subscribed for during this period as the share price did not exceed the strike price and all share option rights were therefore unused. There are thus no outstanding share option rights at the end of the quarter for this program.

## PARENT COMPANY

The parent company's revenues for the third quarter amounted to SEK 80.4 (76.6) million. Operating profit amounted to SEK 6.0 (6.1) million. The operating margin was 7.5 (7.9) percent for the third quarter. Currency effects on inter-company transactions are included in financial items. Profit after tax was SEK 2.9 (4.4) million for the third quarter.

Revenues in the parent company come from services provided to subsidiaries. No development costs are capitalized in the parent company as 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-September amounted to SEK 259.6 (231.2) million. Operating profit amounted to SEK 17.6 (20.7) million and the operating margin was 6.8 (9.0) percent. Profit after tax amounted to SEK 11.1 (16.0) million.

Cash and cash equivalents in the parent company at the end of the period amounted to SEK 7.8 (11.9) million.

Investments in property, plant and equipment amounted to SEK 9.2 (9.3) million for the period January-September 2012.



## 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 2011 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 2011 Annual Report, pages 31-34 and page 63-64.

### 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 the 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 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.

## NOMINATING COMMITTEE

In accordance with the principles resolved by the Annual General Meeting 2012 for appointment of nominating committee, Per Hamberg (appointed by the Hamberg family), Christoffer Lundström (Provobis Invest AB) and

Martin Watin (Kling family) have been appointed to, together with the Chairman of the Board of Directors Vigo Carlund, form nominating committee for the Annual General Meeting 2013.

The nominating committee is to prepare proposals for decisions at the Annual General Meeting in 2013 as regards the Chairman of the meeting, Chairman and other members of the Board of Directors, auditor when applicable, remuneration for the Board of Directors and auditor, and principles for appointment of the nominating committee. The period in office of the nominating committee runs until a new nominating committee is appointed in accordance with decisions on appointment of a nominating committee at the annual general meeting in 2013.

Shareholders can submit proposals to the nominating committee until December 3<sup>rd</sup> 2012 at: Nominating Committee, Net Entertainment NE AB, Luntmakargatan 18, SE-111 37 Stockholm, Sweden and nomination@netent.com. The nominating committee's proposal will be published at the latest in connection with the notice for the Annual General Meeting.

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held in Stockholm on April 25, 2013.

## PRESENTATION OF INTERIM REPORT

On Thursday, October 25 at 9.00 the report will be presented by CEO Per Eriksson at the Company's office Luntmakargatan 18 in Stockholm. 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.

Earnings report and report for the fourth quarter 2012	February 14, 2013
Interim report January-March 2013	April 25, 2013
Annual General Meeting	April 25, 2013
Interim report January-June 2013	July 12, 2013
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 October 24, 2012

Vigo Carlund  
Chairman of the Board of  
Directors

Fredrik Erbing

Mikael Gottschlich

Peter Hamberg

Michael Knutsson

Pontus Lindwall

Maria Redin

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President and CEO

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## 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 October 25, 2012 at 7.30 am.

## AUDITORS' REVIEW REPORT

### INTRODUCTION

We have reviewed the interim report for Net Entertainment NE AB (publ) for the period 1 January – 30 September 2012. The Board of Directors and the Chief executive officer are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

### SCOPE OF REVIEW

We conducted our review in accordance with the Standard on Review Engagements (SÖG) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not, in all material respects, prepared for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Stockholm 24 October 2012

Deloitte AB

Therése Kjellberg

Authorized Public Accountant

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

INCOME STATEMENTS	Jul-Sep 2012	Jul-Sep 2011	Jan-Sep 2012	Jan-Sep 2011	Jan-Dec 2011
Revenues	121,918	111,189	380,994	305,970	426,838
Other revenues	554	245	1,000	552	780
<b>Total operating revenues</b>	<b>122,472</b>	<b>111,434</b>	<b>381,994</b>	<b>306,522</b>	<b>427,618</b>
Personnel expenses	-36,209	-40,432	-114,915	-111,303	-146,547
Depreciation and amortization	-19,015	-12,371	-53,286	-31,302	-45,823
Other operating expenses	-31,151	-24,617	-97,985	-76,453	-105,535
<b>Total operating expenses</b>	<b>-86,375</b>	<b>-77,420</b>	<b>-266,186</b>	<b>-219,058</b>	<b>-297,905</b>
<b>Operating profit</b>	<b>36,097</b>	<b>34,014</b>	<b>115,808</b>	<b>87,464</b>	<b>129,713</b>
Financial items	-1,978	646	-2,030	1,302	-719
<b>Profit before tax</b>	<b>34,119</b>	<b>34,660</b>	<b>113,778</b>	<b>88,766</b>	<b>128,994</b>
Tax on the period's profit	-3,302	-3,707	-11,586	-9,788	-13,380
<b>Profit for the period</b>	<b>30,817</b>	<b>30,953</b>	<b>102,191</b>	<b>78,978</b>	<b>115,614</b>
<i>Earnings per share before dilution (SEK)</i>	<i>0.78</i>	<i>0.78</i>	<i>2.58</i>	<i>2.00</i>	<i>2.92</i>
<i>Earnings per share after dilution (SEK)</i>	<i>0.78</i>	<i>0.78</i>	<i>2.58</i>	<i>2.00</i>	<i>2.92</i>
Average number of shares					
- before dilution	39,553,716	39,553,716	39,553,716	39,553,716	39,553,716
- after dilution	39,573,407	39,553,716	39,553,716	39,553,716	39,553,716
Operating margin	29.5%	30.5%	30.3%	28.5%	30.3%
Effective tax rate	9.7%	10.7%	10.2%	11.0%	10.4%
Profit for the period attributable to parent company shareholders	30,817	30,953	102,191	78,978	115,614
<b>STATEMENTS OF TOTAL INCOME</b>					
<b>Profit for the period</b>	<b>30,817</b>	<b>30,953</b>	<b>102,191</b>	<b>78,978</b>	<b>115,614</b>
<b>Other total income</b>					
Exchange differences arising from the translation of foreign operations	-7,880	2,295	-10,412	4,726	-911
<b>Sum of other total income for the period. net after tax</b>	<b>-7,880</b>	<b>2,295</b>	<b>-10,412</b>	<b>4,726</b>	<b>-911</b>
<b>Total income for the period</b>	<b>22,937</b>	<b>33,248</b>	<b>91,779</b>	<b>83,704</b>	<b>114,703</b>

**CONDENSED CONSOLIDATED BALANCE SHEETS**

<b>ASSETS</b>	<b>2012-09-30</b>	<b>2011-09-30</b>	<b>2011-12-31</b>
Intangible assets	158,003	124,626	133,142
Property, plant, and equipment	49,778	46,749	50,412
<b>Total non-current assets</b>	<b>207,781</b>	<b>171,375</b>	<b>183,554</b>
Accounts receivable	5,625	2,482	3,680
Prepaid expenses and accrued revenues	55,824	52,221	54,788
Other receivables	30,842	45,275	38,473
Funds held on behalf of licensees <sup>1</sup>	87,667	25,382	87,689
Cash and cash equivalents	57,456	50,040	74,234
<b>Total current assets</b>	<b>237,414</b>	<b>175,400</b>	<b>258,864</b>
<b>TOTAL ASSETS</b>	<b>445,195</b>	<b>346,775</b>	<b>442,418</b>

<b>EQUITY AND LIABILITIES</b>	<b>2012-09-30</b>	<b>2011-09-30</b>	<b>2011-12-31</b>
Share capital	1,191	1,191	1,191
Other capital contributed	41,624	40,904	40,904
Reserves	-17,881	-1,832	-7,469
Retained earnings including profit for the period	226,440	166,722	203,357
<b>Total equity</b>	<b>251,374</b>	<b>206,985</b>	<b>237,983</b>
Accounts payable	23,137	21,309	33,498
Current tax liabilities	14,899	14,828	18,512
Other liabilities	116,222	65,117	118,710
Accrued expenses and prepaid revenues	39,562	38,536	33,715
<b>Total current liabilities</b>	<b>193,821</b>	<b>139,790</b>	<b>204,435</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>445,195</b>	<b>346,775</b>	<b>442,418</b>



**CONDENSED CONSOLIDATED CASH FLOW STATEMENTS**

	<b>Jul-Sep 2012</b>	<b>Jul-Sep 2011</b>	<b>Jan-Sep 2012</b>	<b>Jan-Sep 2011</b>	<b>Jan-Dec 2011</b>
Operating profit	36,097	34,014	115,808	87,464	129,713
<i>Adjustment for items not included in cash flows:</i>					
Depreciation and amortization	19,015	12,371	53,286	31,302	45,823
Other	-2,190	988	-1,739	1,699	-430
Interest received/paid	-63	-46	-289	35	254
Interest tax/paid	-2,204	-1,261	-16,007	-6,222	-6,060
<b>Cash flows from operating activities before changes in working capital</b>	<b>50,657</b>	<b>46,066</b>	<b>151,060</b>	<b>114,278</b>	<b>169,300</b>
Changes in working capital	-2,591	-335	-2,329	32,184	,33,951
<b>Cash flows from operating activities</b>	<b>48,066</b>	<b>45,731</b>	<b>148,731</b>	<b>146,462</b>	<b>203,251</b>
Capitalized intangible assets	-19,948	-16,846	-71,125	-54,633	-77,539
Acquisition of property, plant, and equipment	-6,849	-5,185	-16,321	-12,403	-21,505
<b>Cash flows from investing activities</b>	<b>-26,798</b>	<b>-22,031</b>	<b>-87,446</b>	<b>-67,036</b>	<b>-99,044</b>
Transfer to shareholders	-	-	-79,107	-79,107	-79,107
Received premium for share option rights	-	-	720	2,542	2,542
<b>Cash flows from financing activities</b>	<b>-</b>	<b>-</b>	<b>-78,387</b>	<b>-76,565</b>	<b>-76,565</b>
<b>Cash flow for the period</b>	<b>21,268</b>	<b>23,700</b>	<b>-17,102</b>	<b>2,861</b>	<b>27,642</b>
Cash and cash equivalents at beginning of period	36,546	26,109	74,234	47,034	47,034
Exchange rate differences in cash and cash equivalents	-358	231	324	145	-442
<b>Cash and cash equivalents at end of period</b>	<b>57,456</b>	<b>50,040</b>	<b>57,456</b>	<b>50,040</b>	<b>74,234</b>

**CONDENSED CONSOLIDATED CHANGES IN EQUITY**

2011	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
Opening equity 2011-01-01	1,191	38,362	-6,558	166,850	199,845
Total income for the period Jan-Mar	-	-	-528	22,888	22,360
<b>Closing equity 2011-03-31</b>	<b>1,191</b>	<b>38,362</b>	<b>-7,086</b>	<b>189,738</b>	<b>222,205</b>
Transfer to shareholders	-	-	-	-79,107	-79,107
Premium received for share option rights	-	2,542	-	-	2,542
Total income for the period Apr-Jun	-	-	2,959	25,137	28,096
<b>Closing equity 2011-06-30</b>	<b>1,191</b>	<b>40,904</b>	<b>-4,127</b>	<b>135,768</b>	<b>173,736</b>
Total income for the period Jul-Sep	-	-	2,295	30,953	33,248
<b>Closing equity 2011-09-30</b>	<b>1,191</b>	<b>40,904</b>	<b>-1,832</b>	<b>166,722</b>	<b>206,985</b>
Total income for the period Oct-Dec	-	-	-5,637	36,636	30,999
<b>Closing equity 2011-12-31</b>	<b>1,191</b>	<b>40,904</b>	<b>-7,469</b>	<b>203,357</b>	<b>237,983</b>

2012	Aktie kapital	Övrigt tillskjutet kapital	Reserver	Balanserade vinstmedel	Summa eget kapital
Opening equity 2012-01-01	1,191	40,904	-7,469	203,357	237,983
Total income for the period Jan-Mar	-	-	-694	34,636	33,942
<b>Closing equity 2012-03-31</b>	<b>1,191</b>	<b>40,904</b>	<b>-8,163</b>	<b>237,993</b>	<b>271,925</b>
Transfer to shareholders	-	-	-	-79,107	-79,107
Premium received for share option rights	-	720	-	-	720
Total income for the period Apr-Jun	-	-	-1,838	36,737	34,899
<b>Closing equity 2012-06-30</b>	<b>1,191</b>	<b>41,624</b>	<b>-10,001</b>	<b>195,622</b>	<b>228,437</b>
Total income for the period Jul-Sep	-	-	-7,880	30,817	22,397
<b>Closing equity 2012-09-30</b>	<b>1,191</b>	<b>41,624</b>	<b>-17,881</b>	<b>226,440</b>	<b>251,374</b>

Det finns inget minoritetsintresse i koncernen. Allt eget kapital är således hänförligt till moderbolagets aktieägare.

**CONSOLIDATED KEY DATA AND FIGURES**

	Jul-Sep 2012	Jul-Sep 2011	Jan-Sep 2012	Jan-Sep 2011	Jan-Dec 2011
Operating revenues (SEK thousands)	122,472	111,434	381,994	306,522	427,618
Operating euro based revenues (EUR thousands)	14,565	12,166	43,750	33,967	47,281
Operating margin (percent)	29.5	30.5	30.3	28.5	30.3
Profit margin (percent)	27.9	31.1	29.8	29.0	30.2
EBITDA margin (percent)	45.0	41.6	44.3	38.7	41.0
Return on shareholders' equity (percent)	56.1	53.8	56.1	53.8	52.8
Equity/assets ratio (percent)	56.5	59.7	56.5	59.7	53.8
Quick ratio (percent)	122.5	125.5	122.5	125.5	126.6
Net interest-bearing liabilities (SEK thousands) <sup>1</sup>	-57,456	-50,040	-57,456	-50,040	-74,234
Net debt/equity ratio (multiple)	-0.2	-0.2	-0.2	-0.2	-0.3
Average number of employees	251	228	244	217	220
Employees at period's end	265	225	265	225	231
Employees and external resources at period's end	376	313	376	313	324
Earnings per share before and after dilution	0.78	0.78	2.58	2.00	2.92
Equity per share (SEK)	6.38	5.23	6.38	5.23	6.02
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	39,573,407	39,553,716	39,553,716	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	39,906,816	39,553,716	39,906,816	39,553,716	39,553,716

<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**

	2012				2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Operating revenues (SEK millions)	122.5	132.0	127.5	121.1	111.4	99.9	95.2	99.6	91.6
Operating eurobased revenues (EUR millions)	14.6	14.9	14.3	13.3	12.2	11.1	10.7	10.8	9.8
Operating profit (SEK million)	36.1	39.6	40.1	42.2	34.0	27.2	26.3	33.8	34.1
Operating margin (percent)	29.5	30.0	31.4	34.9	30.5	27.2	27.6	33.9	37.2
EBITDA-margin (percent)	45.0	43.4	44.5	46.9	41.6	37.2	37.0	43.2	45.9
Growth total revenue in SEK vs prior yr (percent)	9.9	32.2	33.9	21.6	21.7	12.0	8.3	16.6	20.8
Growth eurobased revenue vs prior yr (percent)	19.7	34.2	32.7	23.1	24.1	19.9	21.3	31.7	35.1
Growth in SEK vs previous quarter (percent)	-7.3	3.5	5.3	8.7	11.6	4.8	-4.4	8.8	2.7
Growth in EUR vs previous quarter (percent)	-2.1	3.9	7.6	9.3	9.8	3.4	-0.8	10.2	6.0
Cash and cash equivalents (excl. funds held on behalf of licensees)	57.5	36.5	84.9	74.2	50.0	26.1	71.7	47.0	40.8
Funds held on behalf of licensees	87.7	24.8	36.4	87.7	25.4	57.5	26.2	46.4	34.8
Equity/assets ratio (percent)	56.5	63.1	67.1	53.8	59.7	53.2	69.4	65.1	63.8
Return on shareholders' equity (percent)	56.1	58.8	57.2	55.0	53.8	55.8	60.5	66.9	71.4
Net debt/equity ratio (multiple)	-0.2	-0.2	-0.3	-0.3	-0.2	-0.2	-0.3	-0.2	-0.2
Earnings per share	0.78	0.93	0.88	0.93	0.78	0.64	0.58	0.73	0.76
Equity per share (SEK)	6.36	5.78	6.87	6.02	5.23	4.39	5.62	5.05	4.36
Average number of employees	251	244	239	229	228	223	200	179	155

## 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**

<b>INCOME STATEMENTS</b>	<b>Jul-Sep 2012</b>	<b>Jul-Sep 2011</b>	<b>Jan-Sep 2012</b>	<b>Jan-Sep 2011</b>	<b>Jan-Dec 2011</b>
Operating revenues	80,389	76,577	259,620	231,221	308,129
Other external expenses	-30,318	-24,365	-100,171	-79,311	-109,469
Personnel expenses	-41,032	-43,822	-132,848	-124,721	-167,148
Depreciation and amortization	-3,015	-2,314	-9,028	-6,446	-8,957
<b>Operating profit</b>	<b>6,024</b>	<b>6,076</b>	<b>17,574</b>	<b>20,743</b>	<b>22,555</b>
Financial items	-1,793	462	-1,945	1,367	68,501
<b>Profit after financial items</b>	<b>4,231</b>	<b>6,538</b>	<b>15,629</b>	<b>22,110</b>	<b>91,056</b>
Tax on the period's profit	-1,346	-2,158	-4,527	-6,122	-6,225
<b>Profit for the period</b>	<b>2,885</b>	<b>4,380</b>	<b>11,102</b>	<b>15,988</b>	<b>84,831</b>

**STATEMENT OF TOTAL INCOME**

<b>Profit for the period</b>	<b>2,885</b>	<b>4,380</b>	<b>11,102</b>	<b>15,988</b>	<b>84,831</b>
<b>Other total income</b>	-	-	-	-	-
<b>Sum of other total income for the period. net after tax</b>	-	-	-	-	-
<b>Total income for the period</b>	<b>2,885</b>	<b>4,380</b>	<b>11,102</b>	<b>15,988</b>	<b>84,831</b>

**CONDENSED PARENT COMPANY BALANCE SHEET**

<b>ASSETS</b>	<b>2012-09-30</b>	<b>2011-09-30</b>	<b>2011-12-31</b>
Intangible assets	28,149	26,019	27,983
Property, plant, and equipment	1,669	512	512
<b>Shares in subsidiary</b>	<b>29,818</b>	<b>26,531</b>	<b>28,495</b>
Total non-current assets	59	-	28
Accounts receivable	368,102	273,405	180,224
Receivables from Group companies	7,533	5,837	6,580
Prepaid expenses and accrued revenues	5,266	5,816	8,476
Other receivables	7,757	11,863	25,050
<b>Cash and cash equivalents</b>	<b>388,716</b>	<b>296,921</b>	<b>220,358</b>
<b>TOTAL ASSETS</b>	<b>418,534</b>	<b>323,452</b>	<b>248,853</b>

<b>EQUITY AND LIABILITIES</b>	<b>2012-09-30</b>	<b>2011-09-30</b>	<b>2011-12-31</b>
Share capital	1,191	1,191	1,191
Statutory reserve	38	38	38
Share premium reserve	6,735	6,015	6,015
Retained earnings	25,830	20,107	20,107
Profit for the period	11,102	15,988	84,831
<b>Total equity</b>	<b>44,896</b>	<b>43,339</b>	<b>112,182</b>
Accounts payable	19,401	19,600	28,773
Liabilities to Group companies	316,278	218,387	69,181
Current tax liabilities	293	5,671	6,127
Other liabilities	3,217	2,879	3,177
Accrued expenses and prepaid revenues	34,449	33,576	29,413
<b>Total current liabilities</b>	<b>373,638</b>	<b>280,113</b>	<b>136,671</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>418,534</b>	<b>323,452</b>	<b>248,853</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 Evolution™ and Beach™.

