



PUSHING THE LIMITS IN GAMING ENTERTAINMENT

**NET ENTERTAINMENT**  
ANNUAL REPORT 2010

## Contents

- 1 The year in brief
- 2 Net Entertainment in brief
- 4 Message from the CEO
- 6 Offering
- 10 Strategy
- 13 Responsible gaming
- 14 Market
- 20 Employees
- 22 Board of Directors and auditors
- 23 Senior executives
- 24 The share
- 26 Five-year summary
- 28 Management report
- 35 Corporate governance report
- 46 Consolidated Group's financial statements
- 50 Parent Company's financial statements
- 54 Notes to financial statements
- 68 Audit report
- 69 Annual General Meeting & other information
- 69 Addresses

## Net Entertainment in brief

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 administration tool. The games create the ultimate gaming experience for the player while the administration tool enables Net Entertainment's customers, the operators, to optimize their business and profitability. Operators are provided with a customized system solution, that is easily integrated ensuring a short time to market and a cost efficient operation.

### LEGAL DISCLAIMER

This annual report contains predictive statements, and actual results may significantly differ from what is anticipated. In addition to the factors discussed, the actual results may be affected by the development of customers, competitors, the effect of economic and trade conditions, national and transnational laws and regulations, tax laws, the effect of copyright in computer systems, technological development, exchange rate and interest rate fluctuations, and political risks.



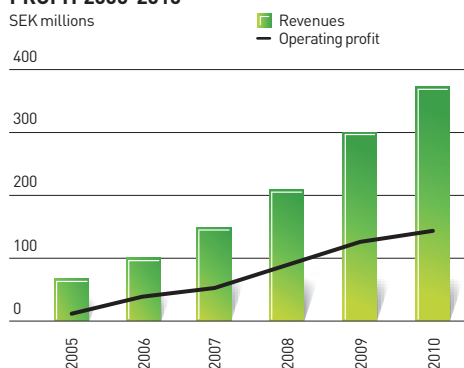
## NEW MARKETS, NEW SUCCESS

- Revenues for 2010 increased by 22.7 % to SEK 368.3 (300.1) million
- Operating profit increased by 13.5 % to SEK 136.4 (120.2) million
- Operating margin was 37.0 (40.1) %
- Profit after tax increased by 11.9 % to SEK 120.5 (107.7) million
- Earnings per share amounted to SEK 3.05 (2.72) before and after dilution
- Eleven new license agreements were signed, including Gioco Digitale/bwin.it, Interwetten, Intralot, Stan James and JAXX/Mybet, and ten new customers' casinos were launched
- Proposed transfer to shareholders is SEK 2.00 (2.00) per share

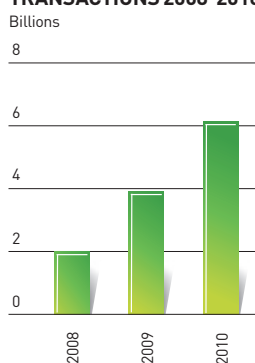
### FINANCIAL RATIOS

	2010	2009	2008
Revenues (SEK thousands)	368,280	300,050	205,573
Operating profit (SEK thousands)	136,411	120,182	87,803
Operating margin (percent)	37.0	40.1	42.7
Profit after tax (SEK thousands)	120,467	107,677	79,967
Equity/assets ratio (percent)	65.1	70.0	71.9
Earnings per share (SEK)	3.05	2.72	2.02
Equity per share (SEK)	5.05	4.40	2.95
Employees at year-end	182	133	85

### REVENUES AND OPERATING PROFIT 2005-2010



### NUMBER OF GAME TRANSACTIONS 2008-2010



Revenues in 2010 increased by

# 23%

Average annual revenue growth since 2004

# 41%

### IMPORTANT EVENTS IN 2010

- Continued strong development in new customer agreements, revenues and profitability
- Eleven new license agreements were signed during the year
- Net Entertainment signed an agreement to develop games based on properties from Universal, including some of the world's most classic film titles
- The number of game transactions amounted to 6.1 billion (3.9), an increase of 55 percent
- Net Entertainment developed four next generation games of which two are so-called "Smart Range" games that work well in markets where broadband penetration is low

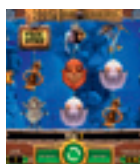
# NET ENTERTAINMENT IN BRIEF

## THE WORLD'S MOST INNOVATIVE GAMES

NUMBER OF GAMETRANSACTIONS  
INCREASED BY

55%

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 administration tool. The games create the ultimate gaming experience for the player while the administration tool 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 a short time to market and a cost efficient operation.



Slot Games

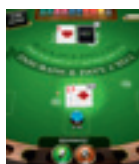
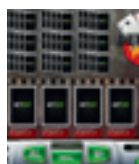
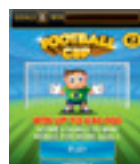


Table Games



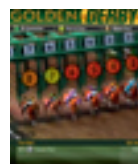
Video Poker



Mini Games



Lottery Games



Other Games

### BUSINESS MODEL

The delivery of the casino means the beginning of a long-term partnership where Net Entertainment helps create and maintain a successful casino business. The operator pays a percentage of their casino revenues to Net Entertainment, a royalty fee based on how much revenue the gaming system generates. Net Entertainment always endeavors

to deliver the best games with maximum gaming entertainment. This includes developing games that match the player's profile and preferences. The key to success, both for Net Entertainment and the operator, is to focus on the player in all parts of the business. This common interest creates a partnership model that is both unique and successful.





## Success factors

### FIRST-CLASS ENTERTAINMENT

Net Entertainment's games create first-class entertainment and maximize the experience for the player. This helps to attract new players and increases the loyalty of existing players.

### OPTIMIZATION OF THE BUSINESS

The platform and administration tool enables the operators to optimize the casino and therefore profitability. With bonuses and tournaments, the operators can further improve the entertainment value and increase player activity.

### KNOWLEDGE IS SUCCESS

Business intelligence provides information about the players' behaviour which increases both understanding of what drives revenue and profitability for the operator. Using this information as a base, Net Entertainment can create the perfect casino game and an efficient administration tool.

## Business model

The business model is based on licenses for gaming operators who pay a royalty-based license fee. This creates a strong incentive to always develop new games and functions.



## History

Net Entertainment was founded in 1996 by one of the world's leading casino companies, and the company became one of the pioneers in online gaming. The company was founded in response to the growing online market with the purpose of operating casinos online. Since no suitable commercial casino solutions were available, it was decided to internally develop the necessary software.

- 2010 First platinum game is launched
- 2009 Listing on Nasdaq OMX Stockholm
- 2008 20 new customer contracts are signed
- 2007 Spin-off from the Cherry Companies to NGM Equity
- 2005 The company becomes a pure gaming and platform developer
- 2002 The Net Entertainment Casino™ is launched
- 2000 The first casino is launched
- 1996 Net Entertainment is founded



**Net Entertainment  
has a clear goal  
where we intend to  
continue to develop  
the best games  
and thereby secure  
continued growth.**



## GREATER POTENTIAL THAN EVER

Net Entertainment is one of the world's largest suppliers of casino software to the online industry and the demand for our products is greater than ever. 2010 was an eventful year, permeated by continued growth, the launch of several groundbreaking games and the establishment in two of Europe's largest markets for online casino – Italy and the UK.

Revenues increased by 23 percent (37 percent in Euros) in a market which according to external evaluators grew by 12 percent, despite affects of both a negative currency development as well as the regulation of online gaming in France, which affected several of our larger customers negatively.

The number of game transactions, which is a measure of player activity, increased by 55 percent to 6.1 billion which corresponds to an average of 195 game transactions every second! During the same period, players wagered SEK 112 billion, an increase of 24 percent.

### Products

We continue to focus on developing high quality games, offering first-class gaming entertainment. Early in 2010 our first platinum game named "Gonzo's Quest" was launched, which has generated great interest among players. In addition, we launched our so-called "smart range" game concept which is based on games optimized for markets with low broadband capacity. The smart range games have also been well received by the players. The development of our first game based on a well known brand, Frankenstein, was initiated during the second half of 2010 and the result has received much praise and expectations are high for the release in mid 2011. Our cornerstones in games development are uniqueness, entertainment value, first-class graphics and well-balanced mathematics with high pay-

out. This has made Net Entertainment one of the absolute leaders in our industry which caters for continued success. To ensure a market leading position in the future we have initiated development of mobile terminals and the first products are scheduled to be launched during the second half of 2011.

### Regulation

Several countries choose to regulate online gaming and thus creating a coherent framework to adhere to and at the same time securing a source for tax revenues. In general, the industry welcomes regulation as it creates coherent game rules whilst at the same time giving a foundation for continued growth and reduced political risk.

Regulation of online gaming in Italy, which from the outset was expected to open during the second quarter 2010, is now expected to open around mid-year 2011. The adaptation of both our product and organization to the regulatory requirements in for example Italy generates costs for the company which is affecting the profitability until a launch can take place. At the same time we see great potential through the license agreements we have signed whereby we have secured a significant share of the market for online gaming in Italy.

### Market

Casino games expect to have generated a gross gaming yield of approximately USD 110 billion in 2010 of which only about 5.5 percent was directly attributable to online gaming which is the part of the market that Net Entertainment service. Growth for online gaming was approximately 12 percent for the full year. Of the various game segments, casino games are expected to be the fastest growing. France introduced new online regulation in June 2010 which excluded casino games.

This affected several of our larger customers negatively and thus also Net Entertainment as we license our software based on revenue share.

### Customers

Our focus on large operators has been successful even though the sales cycles have been significantly longer. A total of 11 new customers were signed up during 2010 of which four are defined as so-called Tier 1 operators, e.g. larger and more influential companies. This change in our customer base with additions of new large operators has drastically reduced the company's historic dependence to a few customers.

### Organization

We strengthened our organization with 49 employees during 2010 fairly evenly distributed throughout the organization. In total, we have representation from 13 nationalities which creates a fantastic dynamic company. The Malta organization is growing steadily through the addition of more and larger customers but also by moving more functions closer to the market and our customers. As a result we recently moved to a new office in Malta with space for further expansion.

The continued success that our company has experienced is the result of the dedicated and devoted efforts of our staff that made a fantastic contribution during 2010. Net Entertainment has a clear goal to continue to develop the best games based on the latest technology and best employees thereby securing continued growth.

Stockholm, March 10, 2011

**Johan Öhman,**  
President and CEO



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OFFERING

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# PUSHING THE LIMITS IN GAMING ENTERTAINMENT



# OFFERING

Others say that our casino games are the most innovative in the world. We are proud of this. But that doesn't mean we just sit back. Every day we strive to deliver new first-class games.



# OFFERING

## PUSHING THE LIMITS IN GAMING ENTERTAINMENT

Casino games have been popular since roulette was invented in the 18th century. Since the Internet became a necessity in people's homes, online games have become bigger and more popular than ever. Casino games are all about entertainment and excitement, some play for fun and relaxation while others play for the chance to win money. Today, Net Entertainment is one of the world leaders in games and system development for online casino.

The company has many of the world's largest gaming operators as customers. Responsiveness to the market and a high level of creativity in the daily work is the core of Net Entertainment's business. The pursuit of innovation has paid off. Among other things, the company's casino games were nominated as the world's most innovative by EGR awards in London in 2010.

The Net Entertainment Casino™ includes more than

100 games, along with a powerful platform that can handle millions of game transactions per day. The administration tool included in the offering is designed to handle daily operation and optimize the operator's business. Through constant product releases with new games and functions, Net Entertainment and the operator together create incentives for the player to stay with the operator.

### The Net Entertainment Casino™

The games portfolio can be divided into six categories: Slot games, Table games, Video poker, Mini games, Lottery games and Other games. The games are designed to create maximum entertainment and excitement for the player. Maximum profitability is the result for the operator. Factors that determine this are graphics and mathematics.

The ambition is to lead games development, an ambition that is supported by advanced technology and expertise from the traditional computer gaming industry, among other things. The games are becoming more complex. From two-dimensional graphics to three-dimensional animations, where the characters in the game can now jump, run, dance, and even talk. Opportunities for innovation are endless and limited only by the imagination. How successful a game is depends on many factors. Extensive analysis of player data is continuously undertaken by Net Entertainment as a part of research and development. Graphics, animations, and sound in the games contribute to the ultimate entertainment, and mathematics adjust the excitement in the form of how often a player wins and how big the winnings are. Finding an equilibrium in the mathematics, combined with high-

### NET ENTERTAINMENT'S ADMINISTRATION TOOL

#### Statistics

- Information about the most active players
- Player demographics
- The most popular games

#### Administration

- Quick and intuitive management of bonus programmes and tournaments
- Detailed information on each game transaction
- Monitoring and analysis of the players' activity

#### Real-time reporting

- Casino profit for the operator
- Automatic notification of special events
- Information about the number of players

Total amount wagered 2010

112 000 000 000 SEK

Number of game transactions 2010

6 100 000 000



Mega Fortune



Jack Hammer



Roulette

quality entertainment, is the key to the perfect casino game. By recruiting the best talent within graphics and design, combined with highly educated mathematicians, Net Entertainment has created a foundation for continued success. Net Entertainment also offers a jackpot network where the company pools the liquidity from several operators in order to create very large jackpots. Over the years, hundreds of millions SEK have been paid out and the biggest winnings this year, approximately four million Euros, went to a lucky winner in Sweden.

## Net Entertainment's platform and administration tool

The Net Entertainment Casino™ contains a powerful platform designed to manage large quantities of game transactions and an advanced administration tool. The platform is the foundation of the company's system, and creates conditions for stable and reliable operation, around the clock, all year round. The purpose of the administration tool is that the operator will be able to optimize operation of the casino and thus create conditions for maximum entertainment. Among other things, the tool allows the operator to monitor their casino in real time and analyse the players' behaviour and preferences. With this information, the casino can then target special offers and bonuses to the players to further enhance entertainment value and player activity.

## Service

Net Entertainment prioritizes the highest possible service and support to the operators. The delivery of the casino means the beginning of a long-term partnership where Net Entertainment helps create and maintain a successful casino business. The company makes use of a broad

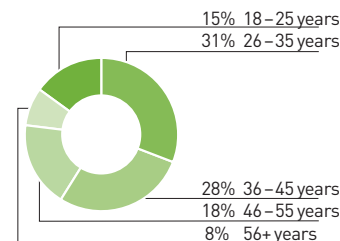
approach and works on all levels to assist the operators.

The account managers actively work in close cooperation with the operators to ensure that the casino gets a good start. With extensive experience, Net Entertainment provides the operator with invaluable tips, recommendations, and training to contribute to more effective marketing, evaluation of the players' behaviour, and regular monitoring, among other things. The goal is to help the operator take maximum advantage of the casino's full potential.

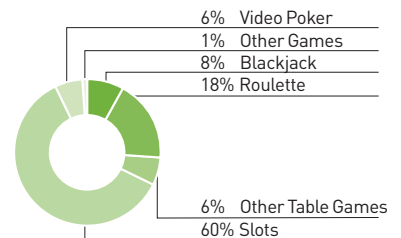
## Business intelligence

In order to better understand what drives the players, Net Entertainment continually undertakes analyses of player data. By understanding the players' behaviour and preferences, games can be developed that provide the optimal experience for each player segment. When the players' demands are met, conditions are created for good growth and profitability for the operator, and thus for Net Entertainment.

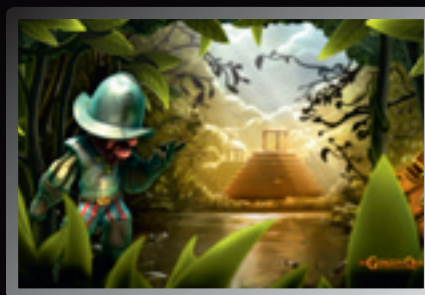
### AGE DISTRIBUTION, PLAYERS ON THE NET ENTERTAINMENT CASINO™



### GAME DISTRIBUTION ON THE NET ENTERTAINMENT CASINO™



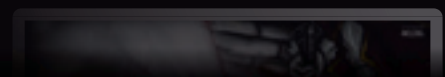
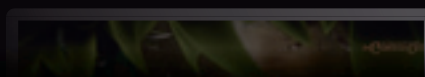
Dead or Alive



Gonzo's Quest



Blood Suckers



# STRATEGY

Net Entertainment's success is based on the operator's success. And the philosophy is as simple as the driving force: With perceptiveness and creativity, we continue to deliver first-class games.

## BUSINESS MODEL – AS UNIQUE AS IT IS SUCCESSFUL

### Business model

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

### Financial objective

Net Entertainment's objective is to grow faster than the market.

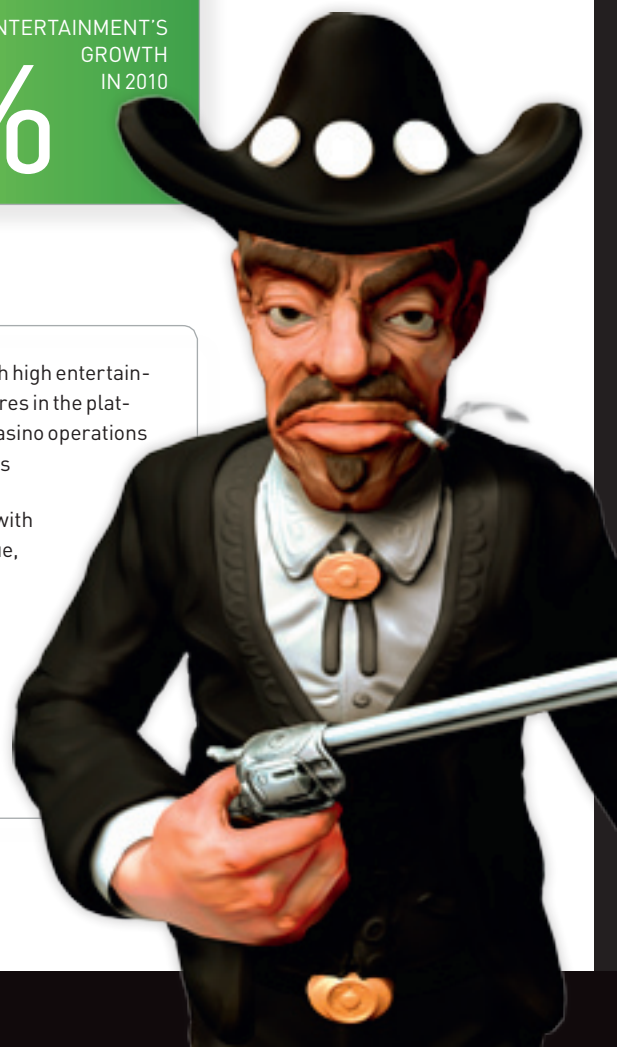
Global online gaming market: 12% growth in 2010

**23%** NET ENTERTAINMENT'S  
GROWTH  
IN 2010

### Strategy

To achieve its financial objectives Net Entertainment must

- Continuously analyze the development of trends and gaming behaviour in the gaming market
- Aim to sign more license agreements with major, well-established so-called Tier 1 operators
- Maintain long-term customer relationships and close collaboration to better serve the needs and wishes of existing customers
- Increase product offerings to increase sales and attract new customers
- With new and unique games with high entertainment value and innovative features in the platform, support the customers' casino operations to increase attraction and profits
- Be the brand that is associated with quality, high entertainment value, innovation, and reliability
- Retain and develop industry-related expertise to provide market-leading games and features







The business model is based on licenses for gaming operators who pay a royalty-based license fee. This gives us strong incentive to always develop new games and functions:

## Business model

Constant focus on the player is an obvious course for both Net Entertainment and the operators. A partnership model that is both unique and successful.

Several of the world's most successful gaming operators use the Net Entertainment Casino™. The growth of the company is generated by the existing operators' growth and by new agreements being signed. The operator pays a royalty fee to Net Entertainment based on how much revenues the casino games generate. The operators grow when new players visit their website.

Net Entertainment always endeavours to deliver games and functions that the players demand, this constitutes the main driving force behind growth. The key to success, both for Net Entertainment and the operator, is to focus on the player in all parts of the business. This common interest allows for a partnership model that is both unique and successful.

Several external factors contribute to existing customers growing and new major operators wanting to use the Net Entertainment Casino™:

### NEW GAMES AND FUNCTIONS

Net Entertainment continually releases new high-quality games that attract new players and create incentives for existing players to stay with the operator and continue playing.

### REGULATION

Deregulation and reregulation of national gaming laws is taking place in many European countries. This results in new markets opening up for online gaming, which contributes both to existing customers' growth and new agreements being signed. Net Entertainment can more easily adapt to local regulation than others, due to its technical architecture

### MIGRATION FROM LAND-BASED CASINOS

Online gaming currently represents 8.5 percent of the total gaming market<sup>1</sup>. This proportion is steadily increasing, and more players are moving from land-based casinos to play online instead.

### NEW COMPANIES ENTERING

Larger companies who have the resources required to be able to compete in the race for the players see the potential in online gaming. With millions of daily visitors, more social media companies could offer online games and become dominant in one day. Also, reregulation in various countries is increasing interest among new companies, since there are good opportunities to take part in the high growth and profitability.

### DEMOGRAPHIC CHANGES

The percentage of women who used the Internet in Europe in 2009 amounted to about 48 percent<sup>2</sup>. For online games, the corresponding figure is only 24 percent.

<sup>1</sup>H2 Gambling Capital, januari 2011  
<sup>2</sup>Eurostat 2009



## Constant focus on the player



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# RESPONSIBLE GAMING

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Even though Net Entertainment does not have any direct contact with the players, active efforts are carried out to prevent gambling-related problems. Online gaming is about entertainment, excitement, and can also be profitable. At the same time, there is a risk that people lose control, which can lead to unpleasant consequences.

## ENTERTAINMENT, EXCITEMENT AND RESPONSIBILITY

Net Entertainment takes an active roll in the prevention of gambling-related problems and fulfils the special requirements set by the Maltese gaming authority, Lotteries and Gaming Authority (LGA). All new games are approved by LGA before they are put into operation. These accreditations create credibility and trust, which ultimately also benefits Net Entertainment's customers. In October 2010, Net Entertainment also obtained a license from the Alderney Gambling Control Commission.

### Regulatory consumer protection

- Protects minors and vulnerable people
- Protects the players' rights
- Promotes responsible gaming in a safe environment
- Ensures reliability of games and game units
- Keeps online games free from criminal activities

The company has no direct contact with the players, but The Net Entertainment Casino™ is designed with functions that enable the gaming operators to allow the end users to limit their gambling to a certain maximum amount, or by turning off certain functions, such as autoplay. The system can also be configured to require a certain period of time between two gaming sessions. In all Net Entertainment's games, there is also a clock that makes it easier for the players to maintain their sense of time.

The players should feel assured that their money is in good hands, that there is total randomness in games on an operator's website, and that it is possible to win. Net Entertainment's games and platform are tested

for randomness, among other things, by an accredited independent testing institute. eCOGRA is another professional organization that every year examines Net Entertainment's development environment, checks and ensures that the software is maintained and operated in a safe and reliable manner, and that the company continually implements randomness testing by independent testing institutes.



# MARKET





The market for online gaming is constantly changing. New markets are opened, the games are becoming more complex, and players are increasing in numbers. There are many opportunities and Net Entertainment's potential has never been greater.

## MORE OPPORTUNITIES THAN EVER

Net Entertainment is one of the world's biggest and most successful suppliers of online casino, and has many of the world's biggest gaming operators as customers. The gross gaming yield for online games, which corresponds to the operators' revenues after deduction for player winnings, is estimated at USD 30 billion during 2010.<sup>1</sup> Since 2004, the annual average market growth has been 18 percent. The corresponding growth of Net Entertainment during the same period amounts to 41 percent.

The online market covers a wide range of types of games, where betting, casino, and poker constitute the largest segments. Net Entertainment focuses on casino games that historically display both good growth and good profitability. Casino games currently represent just over 21 percent of the total online market. In 2010, the estimated gross gaming revenues for online casino in real terms amounted to USD 6.2 billion, an increase of 13 percent compared with 2009<sup>1</sup>.

### Future growth and trends

Market growth is driven by a series of different factors: migration from land-based casinos to online casinos, increasing broadband penetration and reregulation of

markets. In addition, social media also make it possible to reach a larger target group than was previously possible. New methods and new technology for game development, combined with experience, also allow Net Entertainment to develop more entertaining games.

Many countries, both in and outside the EU, are in the process of regulating the online gaming market, which is creating more opportunities for the industry at large.

A growing number of companies are also directing their attention to the market for mobile terminals. With the latest generation of mobile terminals, users can now play online games wherever they are, whenever they want. This not only contributes to greater market potential, it also leads to different consumer behaviour.

The demand for entertainment and excitement is steadily increasing, and the games are becoming more complex. Not only are the graphics becoming more advanced, but also the underlying mathematics. The requirements for both operators and suppliers are steadily increasing in terms of system stability and availability. The expectations from the end users of online games are currently comparable to the requirements placed on tv and telephony.

### DRIVING FORCES FOR ONLINE GAMING

Increased broadband penetration

New technology for games and system development

New channels in the form of social media lead to larger target groups

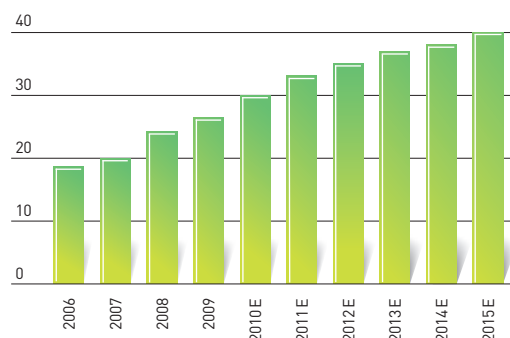
Migration from land-based casinos to online

New player groups

Regulation

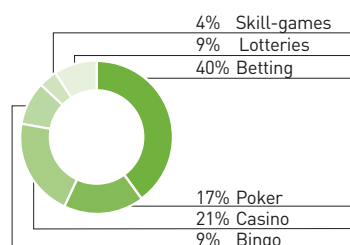
### THE ONLINE GAMING MARKET<sup>1</sup>

Global gross gaming yield online 2006 – 2015 • USD billion



### GAME SEGMENTS<sup>1</sup>

The game segments estimated share of the online market in 2010

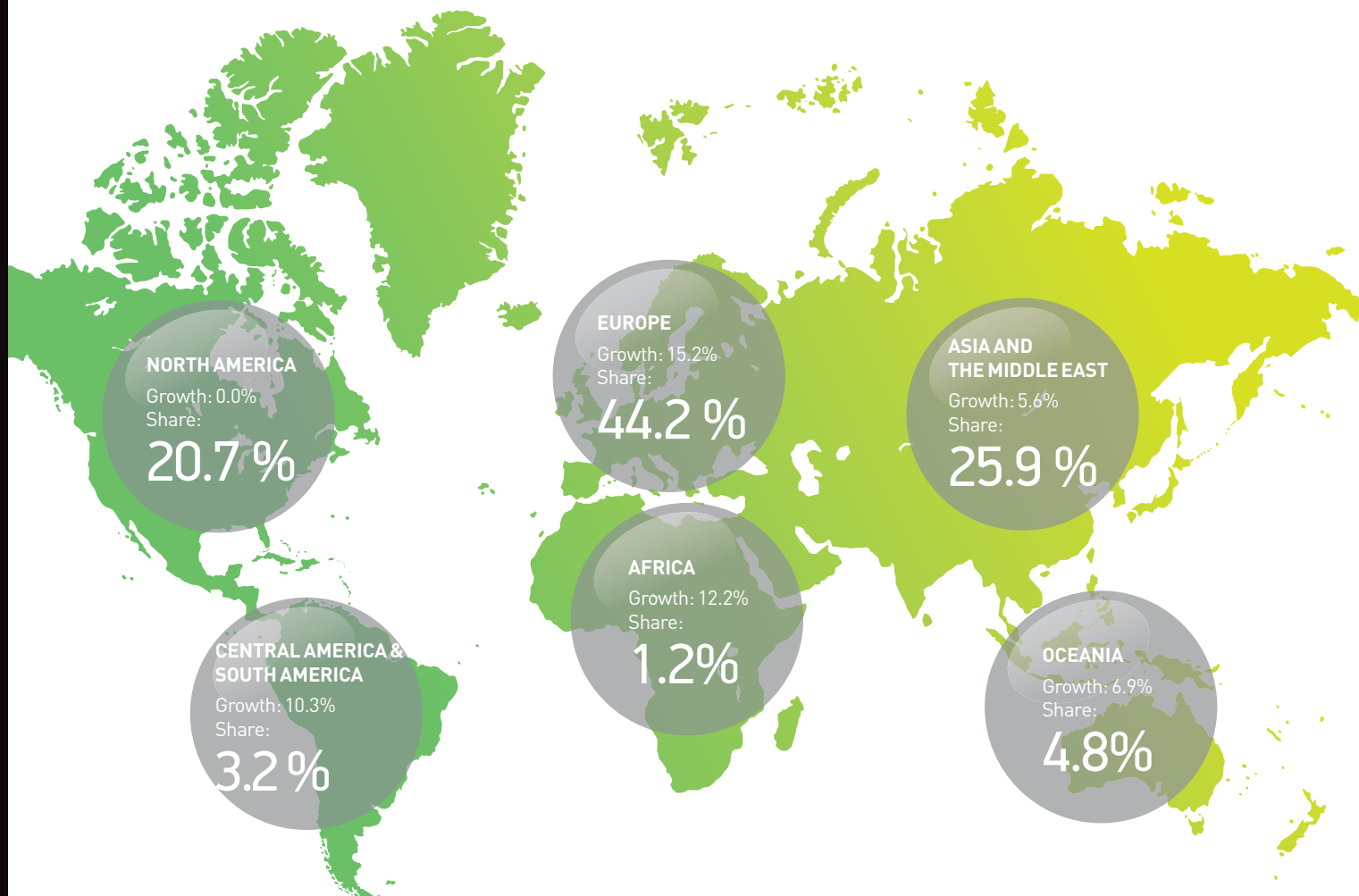


<sup>1</sup> Source: H2 Gambling Capital, January 2011

# MARKET

## Geographic distribution 2010 and expected growth 2010-2011

Online gaming is a global phenomenon, showing high growth in most regions.<sup>1</sup>



Europe is the single largest gaming market, and also the market that is expected to grow the most during 2011. In 2010, Europe represented 44 percent of the total gross gaming yield from online games.<sup>1</sup> It is also where the majority of Net Entertainment's customers, the operators, are based. However, players can be located all over the world.

Besides Europe, the biggest markets for online gaming are Asia and

the Middle East, followed by North America.<sup>1</sup> North America has historically been the second largest market, but has shown weak growth as a result of restrictive legislation in the USA introduced in the fall of 2006. Currently, efforts are being made to open up the North American market for online games. These activities are still in their infancy, so it is difficult to predict the outcome. Asia and the Middle East are

less developed in terms of online gaming partly due to cultural differences compared with the western world. Meanwhile, online gaming is becoming more common in these regions, which is why positive development is predicted in the coming years. Africa, Central America, and South America are expected to be the biggest growth markets until 2015, albeit from historically low levels.<sup>1</sup>

In practice, there are few barriers for expanding to new markets. These mainly consist of legal restrictions and expenses for compliance with local regulations. Expansion to new markets also places high demands on both suppliers and operators to develop new interesting games, adapted to cultural conditions.



**Europe is the single largest gaming market, and also the market expected to grow the most during 2011<sup>1</sup>**

<sup>1</sup> Source: H2 Gambling Capital, January 2011

## Online casino stronger than ever

In absolute figures, betting is the biggest segment in online gaming, but casino, which is Net Entertainment's main market, is expected to grow the fastest in 2011.<sup>1</sup>

Increase in gross gaming yield for online casino 2010<sup>1</sup>

# 13%

Casino games share of the total online gaming market 2010<sup>1</sup>

# 21%

The casino market is expected to generate USD 6.2 billion in gross gaming yield during 2010, an increase of 13 percent compared with 2009.<sup>1</sup> Net Entertainment's objective is to grow faster than the market. With the quality that the company's casino offers, Net Entertainment is well positioned to succeed at this.

### New distribution channels

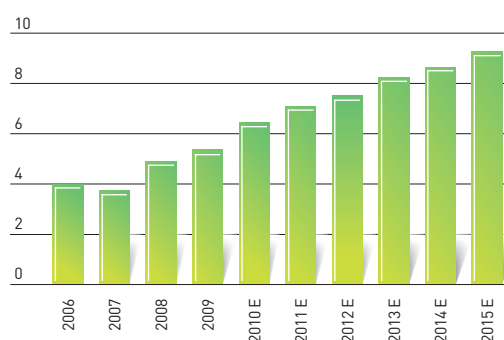
Historically, the obvious distribution channels for online games have been

gaming operators' websites, available through a standard PC and the Internet. In recent years, the mobile market has made great technological advances, and the use of smart phones and portable Internet devices is sharply increasing. Net Entertainment initiated the development of mobile terminals in the fourth quarter of 2010.

<sup>1</sup> Source: H2 Gambling Capital, January 2011

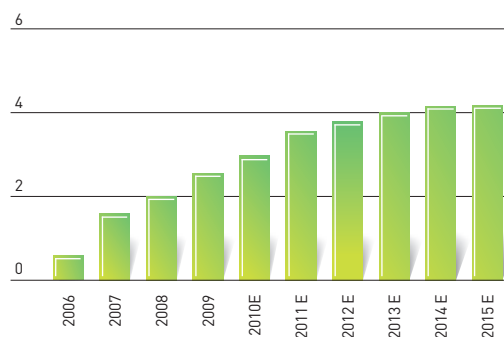
### THE GLOBAL CASINO MARKET ONLINE<sup>1</sup>

Global gross gaming yield online casino 2006–2015  
USD billion



### ONLINE CASINO IN EUROPE<sup>1</sup>

Gross gaming yield online casino in Europe 2006–2015  
USD billion



# MARKET

## Regulation creates opportunities

Several countries have indicated that they intend to regulate the market for online gaming with a licensing procedure. This will give operators permission to operate online gaming business if they meet certain conditions.

Global gross gaming yield 2010 for online gaming<sup>1</sup>

**30** USD billion

Net Entertainment's share of the online casino market in Europe

**19%**

Regulation creates new opportunities for the industry and for Net Entertainment. The diagram below shows the expected gross gaming yield for online casino in Europe in 2015 compared to 2010. The expected developments in Italy, Spain, and Denmark are the result of the regulation of these markets, which creates new opportunities for Net Entertainment.

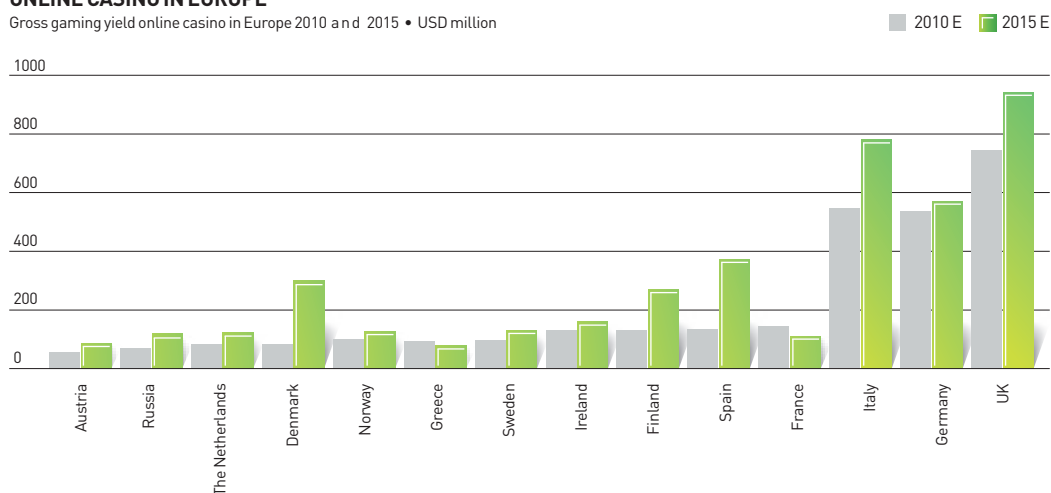
### Competition

The casino market is characterized by both high profitability and good growth, and is dominated by a small

number of companies. Net Entertainment is basically only focused on casino. Most competitors offer a broader product portfolio. Therefore, the competitive situation is not entirely clear. Casino is about entertainment, and is a commonly known form of gaming, which makes it easier to attract new players. The company's main competitors are currently Playtech and Microgaming. These are full service suppliers, and thus offer poker, casino, betting, and bingo while simultaneously running their own operator business.

### ONLINE CASINO IN EUROPE<sup>1</sup>

Gross gaming yield online casino in Europe 2010 and 2015 • USD million



### THE GLOBAL ONLINE MARKET 2010<sup>1</sup>

Growth on the global online market amounted to 12 percent in 2010. Casino is expected to grow the fastest in 2011.

### ONLINE CASINO<sup>1</sup>

The online casino market represents approximately 21 percent of the global online market.

### NET ENTERTAINMENT'S SHARE OF ONLINE CASINO

The market share is an estimate based on the gaming volume from Net Entertainment's customers in relation to the global online casino market.

**30** USD billion

**6.2** USD billion

**8%**



## Regulation

Deregulation and reregulation of national gaming laws is taking place in many European countries. The development of national licensing systems is partly driven by rulings in the European Court of Justice which have given the member states a somewhat larger freedom to implement limitations regarding the offering of remote gaming across borders. EU member states are now given increased opportunities to secure tax revenues provided the licensing systems create good competitive conditions that are formally open for all operators who meet certain requirements.

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 product. Good products and an effective product development secure the conditions for new deals. By extending the product portfolio, Net Entertainment can target a wider market and broaden its customer base.



### ITALY

Italy is today a regulated market with sports and horse betting, tournament poker, skill games, and scratch tickets available online via licensed operators. Work is ongoing to extend concessions to also include cash game poker, bingo and casino games. In the beginning of February the authorities published the final decree for the games that are subject to the regulation.



### NORWAY

Norway has widened its ban against promotion of foreign arranged games during 2010, by not allowing payment services regarding games via credit and debit cards.



### GREECE

A new legislative proposal regarding regulation and licensing of online games will be presented to the parliament during 2011.



### GERMANY

The State Treaty from 2008 is creating a state monopoly system for sports games and lotteries. States that joined the treaty introduced a total ban for all types online games. The EU court rulings in the Carmen Media case basically ruled that the German games monopoly is not in-line with EU law which has led to that all states have had to reconsider its monopoly law.



### FRANCE

In France, operators who fulfill the requirements are awarded licenses, allowing them to offer betting on sporting events, horse racing, and poker on the Internet. This system, that does not include casino, is somewhat less attractive to private operators primarily due to high taxation and other restrictions.



### SPAIN

A temporary provisional federal gambling law took effect in December 2010 to implement the European Court's most recent rulings. This has been carried out to pave the way for liberalization. A challenge for the government in Madrid is that the competence to decide on the gaming laws lies with the autonomous regions. Spain is expected to decide on a federal proposal regarding online games during the summer 2011. It is however uncertain what impact this will have on the nation.



### DENMARK

Denmark is in the process of introducing a licensing system. It is unclear when it will take effect.



### USA

In 2006 online gaming was forbidden, aimed at private individuals in the USA. This legislation imposes severe limits on the ability of gaming operators to conduct gaming operations and of banks to process payment transactions to gaming operators online. The development has recently changed somewhat as several states in the US have announced they intend to regulate online gaming.

# EMPLOYEES

Net Entertainment is present in an exciting industry in a unique phase of its development. We face great challenges as well as great opportunities. In order to achieve first-class results, we need to attract and retain the best skills.

## WHERE THE ACTION IS!

We always want to offer employees a stimulating workplace with a lot of variation. Everyone should have a chance to develop, both in their work, and as individuals. Creativity is one of Net Entertainment's most important guiding principles, and reflects the company's corporate culture. New ideas are welcome, and it is only through the right combination of skills and a strong team spirit that the company can continue to deliver positive results.

### Team spirit

Working as a team is self-explanatory at Net Entertainment, regardless if you work as a developer, tester, mathematician or as a graphics designer. Our strength is built on the employees combined skills. Learning from each other is important for an individual's development. At Net Entertainment it is important that the employees enjoy their roll, feel commitment and a team spirit and contribute to the company's success.



**One advantage of hiring from different industries is that Net Entertainment is constantly broadening its skills base and abilities.**

### Creativity and innovation

The ambition is to develop the world's most entertaining games and the latest within system technology. This ambition is permeated throughout the organization. To have fun at work, present your own ideas and responsibility is what has made Net Entertainment to one of the worlds' most successful and innovative companies within online gaming.

### Leadership

For Net Entertainment, leadership means that managers, along with other employees, drive the company forward and simultaneously understand and convey Net Entertainment's vision, goals, and strategy, both externally and internally. As Net Entertainment grows, the responsibility of the managers and their roles become more and more important.

## Values

### GOOD IS NOT GREAT

Net Entertainment has experienced fantastic growth so far and our goals for the coming years are ambitious indeed. We will have to surpass ourselves to achieve them. Everyone contributes in creating an environment that is permeated by success. Together we are building a power house for new ideas and creativity.

### NEVER PASS THE BUCK

Every employee makes a difference. Our employees are totally committed to our spirit of high ambition. We deeply care about what we do and how we do it. We seek information if we are missing it. We never pass on decisions to someone else. We share our success as a tight and well-matched team.

### WHERE THE ACTION IS

We are a unique company in many ways. We are in a unique business and we are in a unique phase of our development that will probably never come again. The years ahead of us might turn out to become the most rewarding experience in our professional lives. It will be an adventure, and we are in it together.

# EMPLOYEES



## A broad range of skills

Net Entertainment recruits from different industries, but primarily from the banking and financial sectors for platform development, and from the video game industry for game development. The system must be reliable and secure, and simultaneously characterized by creativity. This requires a balanced combination of skills.

One advantage of hiring from different industries is that Net Entertainment is constantly broadening its skills base and abilities. The innovation and the experience from different organizations and working styles that new employees bring with them positively contribute to the company's development in a variety of ways.

## A career that makes a difference

Net Entertainment endeavours to attract people with a high level of skill who enjoy an international environment with a high workplace. As an employee you will:

- Work at one of the world's biggest and most successful suppliers of online gaming
- Work in an international environment with employees from over 13 nationalities
- Receive great opportunities to develop where personal responsibility and own initiatives are encouraged
- Work with the latest technology that contributes to both the employees' development and Net Entertainment's success
- Experience the culture and atmosphere of Net Entertainment that is imbued with creativity, cohesion and involvement

## 13 NATIONALITIES WITH NET ENTERTAINMENT

- India
- China
- England
- Ireland
- Italy
- Greece
- Holland
- Malta
- Finland
- Pakistan
- Canada
- Sweden
- Australia

# 49

Number of people who strengthened the organisation in 2010

# 35

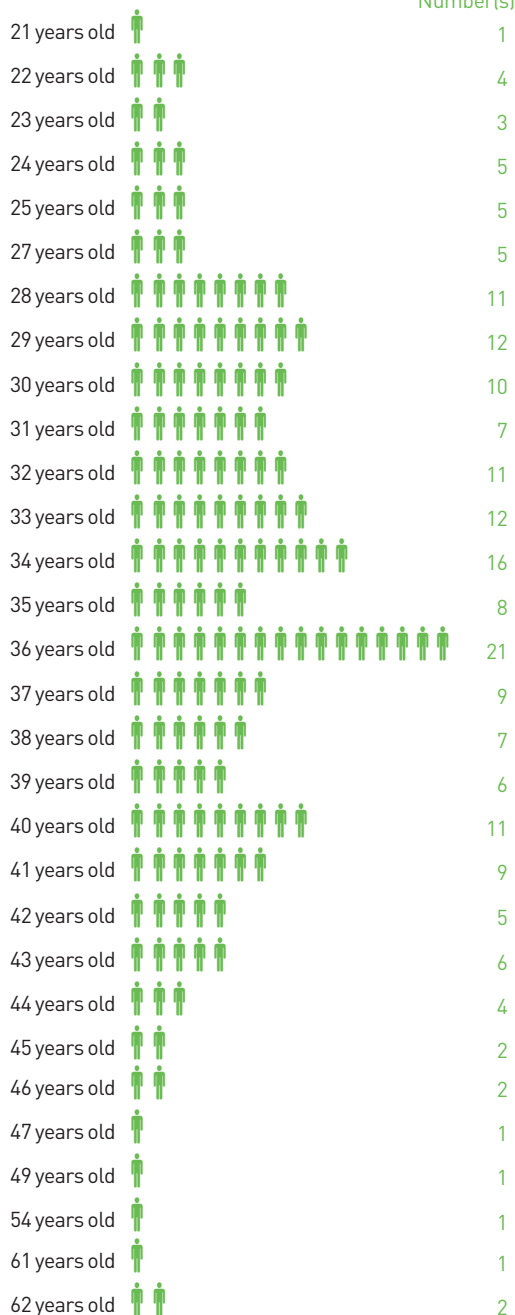
years

Average age at Net Entertainment

## AGE DISTRIBUTION OF EMPLOYEES

Number

Number(s)



# BOARD OF DIRECTORS & AUDITORS

## ROLF BLOM

Chairman of the Board  
Born 1957  
Elected 2007

Independent in relation to the company, senior executives and owners.

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

Shareholding<sup>1</sup>: 430,000 B shares

## NICLAS ERIKSSON

Board Member  
Born 1964  
Elected 2008

Independent in relation to the company, senior executives and owners.

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

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

## MIKAEL GOTTSCHLICH

Board Member  
Born 1961  
Elected 2008

Independent in relation to the company, senior executives and owners.

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

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

## FREDRIK ERBING

Board Member  
Born 1967  
Elected 2008

Independent in relation to the company, senior executives and owners.

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

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

## VIGO CARLUND

Board Member  
Born 1946  
Elected 2008

Independent in relation to the company, senior executives and owners.

Vigo Carlund is Chairman of the Board of Korsnäs AB, Los Naranjos S.L and a member of the Board of Investment AB Kinnevik and AcademicWork Solutions AB.

Shareholding<sup>1</sup>: -

## PETER HAMBERG

Board Member  
Born 1973  
Elected 2009

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

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

Shareholding<sup>1</sup>: 121,000 B shares

## AUDITORS

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

<sup>1</sup> Shareholdings include holdings through families and companies, and are as of December 31, 2010. In addition to these holdings there are holdings in endowment insurance where Board members and senior executives are beneficiaries. The total number of shares in such endowment insurances amounted to 2,531,914 B shares.

From the left:  
Mikael, Rolf, Fredrik, Niclas, Peter, Vigo





# SENIOR EXECUTIVES

## JOHAN ÖHMAN

President and CEO  
Born 1969  
CEO since 2006

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

Shareholding<sup>1</sup>: -  
Share option rights: 200,000

## BERTIL JUNGMAR

CFO  
Born 1961  
Employed since 2008

Bertil Jungmar has a solid financial background with a wide industry experience and knowledge of the capital market. After 14 years' experience of auditing, accounting and business advising at Deloitte and PricewaterhouseCoopers in Sweden and the USA, Bertil was CFO at Karo Bio, listed on Nasdaq OMX Stockholm, and PAN Vision. Bertil has a B.Sc. in Business Economics from the University of Stockholm.

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

## CLAES TELLMAN

Communications Director  
Born 1956  
Employed since 2011 and consultant since 2010

Claes Tellman has more than 20 years experience within communication and marketing. Claes has previously worked as communications director at Svenska Spel and Coca-Cola and as the CEO of Casino Cosmopol. Claes has an MBA from Stockholm School of Economics.

Shareholding<sup>1</sup>: -  
Share option rights: -

## SVEN GRIP

Product Director  
Born 1963  
Employed since January 2011 and consultant since 2009.

Sven Grip has many years of experience, mainly from the telecom industry where he has worked as a project manager in several projects, predominantly in the Ericsson Group. Sven holds a Master of Engineering from the Royal Institute of Technology in Stockholm.

Shareholding<sup>1</sup>: -  
Share option rights: -

## BJÖRN KRANTZ

Managing Director  
Net Entertainment Malta Ltd  
Born 1970  
Employed since 2009

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

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

## MARIA ZFURENMO

HR-Director  
Born 1964  
Employed since 2011

Maria has extensive experience from HR related work within growth companies and change management within larger companies. Maria has previously worked as HR director at Nordnet, Post-

Net, Torgate.se, Cell Network and most recently at Outokumpu. Maria holds a B.Sc. in Business Administration and a degree in Human Resources from the University of Stockholm.

Shareholding<sup>1</sup>: 500 B-shares  
Share option rights: -

## LUDVIG KOLMODIN

Acting CTO  
Born 1972  
Employed since 2009 and acting CTO since January 2011

Ludvig Kolmodin has 14 years international experience from system development, IT-operations and project leading. Ludvig has had numerous leading positions, mainly within the telecom industry as head of IT-operations on mobile operator 3 and also within the bank sector. Ludvig has a master in system science.

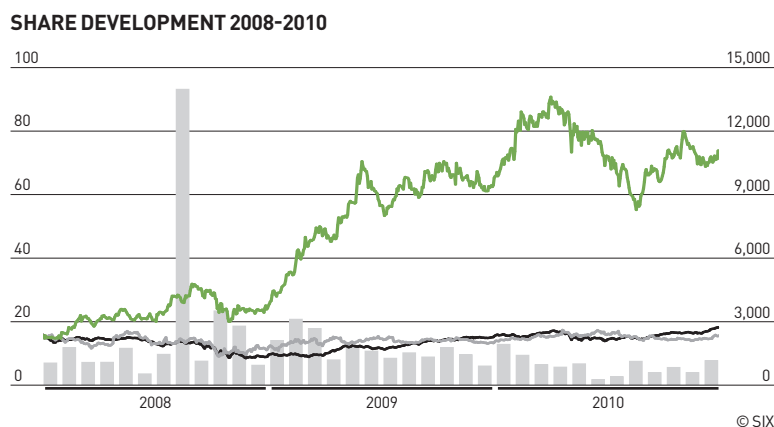
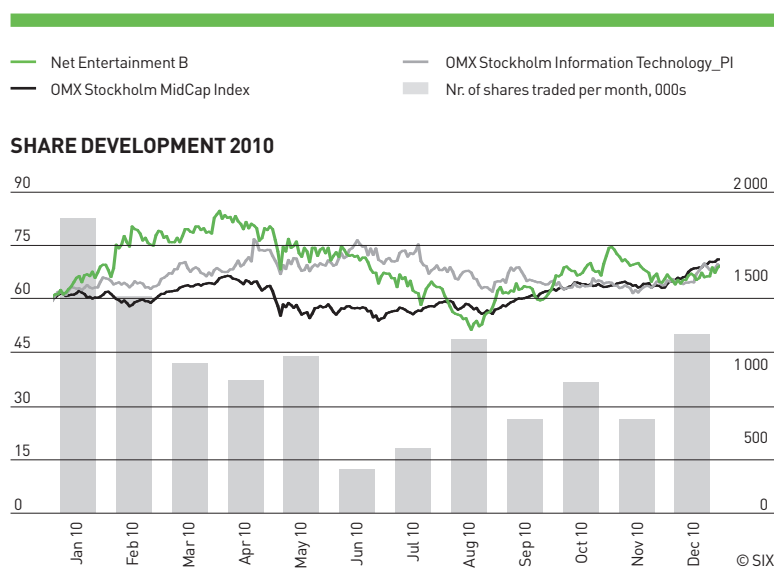
Shareholding<sup>1</sup>: -  
Share option rights: 20,000

From the left:  
Björn, Maria, Claes, Johan, Bertil, Sven,  
Ludvig



# THE SHARE

During 2010, the share price increased by 15.2 percent. This, despite the fact that the online gaming industry went through a negative share price development overall. During the year, Net Entertainment participated in several investor relations activities, and in May, the company held its first Capital Markets Day at the main office in Stockholm. In 2010, there was also a considerable focus on increasing the capital markets' awareness of the company outside Sweden, primarily in the UK and in the USA.



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

## Share price performance and turnover

In 2010, the share price increased from SEK 60.75 to SEK 70.00, an increase of 15.2 percent. Nasdaq OMX Stockholm Mid Cap\_PI-index increased by 21.1 percent. OMX Stockholm Information Technology\_PI index increased by 17.4 percent.

Net Entertainment's market capitalization, i.e. the value of all outstanding shares, amounted to SEK 2,769 (2,403) million as of 31 December 2010. In 2010, 10.8 million shares were traded, which resulted in an average daily turnover of about 43,000 shares.

## Investor relations

Net Entertainment views communication and transparency as very important to maintaining good relations with shareholders, potential investors, and analysts. The company puts great emphasis on investor relations with the purpose of informing the capital market of Net Entertainment's activities, development, and financial position in order to increase knowledge and interest in the Company, but also to obtain a fair valuation.

Net Entertainment takes part in many investor relations activities such as seminars and investor presentations in Europe and the USA. The company also held its first Capital Markets Day at the main office in Stockholm in May 2010. In addition, Net Entertainment participates in all major gaming trade shows such as EIG in Copenhagen and ICE in London.

## Share option rights program

At the end of 2010, the total outstanding share option rights amounted to 586,225 corresponding to the same number of shares. In the case of full subscription of these share option rights the parent company's equity will increase by SEK 42.0 million.



# THE SHARE

The share option rights were issued at market value determined to SEK 7.10 which generated SEK 4.2 million to equity for the group. The strike price for the shares amounts to SEK 71.70 which represents 130 percent of the average share price during the measurement period in May 2009. Subscription of shares can be made during the period May 15 to July 15, 2012. 43,000 share option rights have been cancelled in 2010.

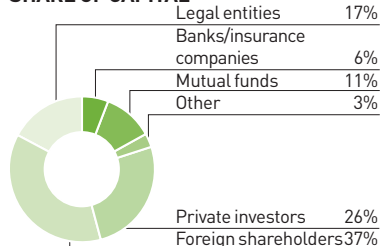
## Dividend policy and proposed dividends 2010

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

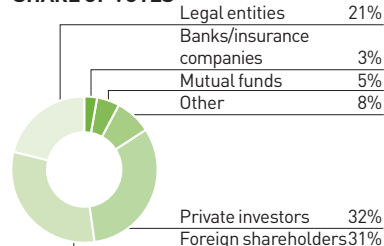
The Board of Directors proposes that no dividend is paid for the fiscal year 2010. The Board proposes to the Annual General Meeting to allocate SEK 79.1 (79.1) million to shareholders, which corresponds to SEK 2.00 (2.00) per share through a share redemption program. The record date for the share redemption program is scheduled to 21 April 2011. The complete proposal and an information folder will be available three weeks prior to the annual general meeting. The information will be available for shareholders at the Company and on the website [www.netent.com](http://www.netent.com) as from 23 March 2011. The information will also be sent free of charge to those shareholders who so request and provide their postal address.

ABG Sundal Collier, Stockholm Martin Arnell  
Carnegie Investment Bank, Stockholm Daniel Ek  
Danske Bank, Stockholm Bile Daar  
Erik Penser, Stockholm Mikael Holm  
Handelsbanken Capital Markets, Stockholm Rasmus Engberg  
Redeye, Stockholm Dawid Myslinski  
Remium, Stockholm Henrik Bark & Johan Biehl  
SEB Enskilda, Stockholm Johanna Ahlqvist

## DISTRIBUTION OF SHAREHOLDERS, SHARE OF CAPITAL



## DISTRIBUTION OF SHAREHOLDERS, SHARE OF VOTES



## TEN LARGEST SHAREHOLDERS ACCORDING TO EUROCLEAR SWEDEN AB AS OF 31 DECEMBER 2010

Shareholders	A-shares	B-shares	Holdings	Votes
Per Hamberg	1 700 000	1 823 478	8.9%	20.9%
Rolf Lundström	1 152 500	1 432 191	6.5%	14.4%
Lars Kling	797 000	541 810	3.4%	9.5%
Svenska Handelsbanken SA	700 000	30	1.8%	7.8%
Bill Johan Bertil Lindwall	561 000	0	1.4%	6.2%
EFG Private Bank	360 000	1 992 876	6.0%	6.2%
Banque Carnegie Luxembourg	339 500	116 000	1.2%	3.9%
Knutsson Holding AB	0	2 600 000	6.6%	2.9%
SIX SIS AG, W8IMY	0	1 978 296	5.0%	2.2%
Swiss Life	0	1 905 000	4.8%	2.1%
Total, ten largest shareholders	5 610 000	12 389 681	45.5%	76.1%
Other shareholders	0	21 554 035	54.5%	23.9%
<b>Total</b>	<b>5 610 000</b>	<b>33 943 716</b>	<b>100.0%</b>	<b>100.0%</b>

Share holdings indicated include holdings by family and companies.

## KEY DATA FOR NET ENTERTAINMENT'S SHARES

	2010	2009	2008
Earnings per share	3.05	2.72	2.02
Transfer to shareholders <sup>1</sup>	2.00	2.00	1.25
Transfer to shareholders as % of after-tax profits	66	74	62
Shares outstanding at year-end, millions	39.6	39.6	39.6
Average number of shares outstanding, millions	39.6	39.6	39.6
Share price at closing day, SEK	70.00	60.75	24.20
Direct return <sup>2</sup>	2.9	3.3	5.2
Total return, Net Entertainment shares as % <sup>3</sup>	18.5	156.2	55.9
P/E ratio	23.1	22.3	12.0
Number of shares traded per year, millions	10.8	19.3	26.4
Turnover rate	27.4	48.8	66.9
Market value at year-end, SEK millions	2 768.8	2 402.9	957.2
Number of shareholders	3 408	3 745	3 011

<sup>1</sup> The Board's proposal for 2010

<sup>2</sup> Transfer to shareholders divided by the share price at year-end

<sup>3</sup> Closing price for 2010 plus transfer to shareholders paid in 2010 divided by the closing price paid on the final day of trading in 2010

# FIVE-YEAR SUMMARY

## CONDENSED CONSOLIDATED INCOME STATEMENTS

SEK thousands	2006	2007	2008	2009	2010
Operating revenues	99,773	132,020	205,573	300,050	368,280
Operating profit before depreciation/amortization	45,208	58,419	103,316	142,480	167,370
Depreciation/amortisation	-4,407	-7,839	-15,513	-22,298	-30,959
<b>Profit after depreciation/amortization</b>	<b>40,801</b>	<b>50,580</b>	<b>87,803</b>	<b>120,182</b>	<b>136,411</b>
Net financial income/expense	-958	224	-1,850	-2,966	-4,972
<b>Profit after financial income/expense</b>	<b>39,843</b>	<b>50,804</b>	<b>85,953</b>	<b>117,216</b>	<b>131,439</b>
<b>Profit after tax</b>	<b>28,482</b>	<b>45,911</b>	<b>79,967</b>	<b>107,677</b>	<b>120,467</b>

## CONDENSED CONSOLIDATED BALANCE SHEETS

SEK thousands	2006	2007	2008	2009	2010
<b>ASSETS</b>					
<b>Non-current assets</b>	<b>24,298</b>	<b>30,124</b>	<b>42,202</b>	<b>79,674</b>	<b>131,492</b>
Current receivables	19,210	42,055	54,679	63,999	128,343
Cash and cash equivalents	13,053	25,915	65,132	105,009	47,034
<b>Total current assets</b>	<b>32,263</b>	<b>67,970</b>	<b>119,811</b>	<b>169,008</b>	<b>175,377</b>
<b>TOTAL ASSETS</b>	<b>56,561</b>	<b>98,094</b>	<b>162,013</b>	<b>248,682</b>	<b>306,869</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Shareholders' equity</b>	<b>16,090</b>	<b>53,145</b>	<b>116,493</b>	<b>174,018</b>	<b>199,845</b>
Long-term liabilities	835	2,195	1,676	-	-
Current liabilities	39,636	42,754	43,844	74,664	107,024
<b>Total liabilities</b>	<b>40,471</b>	<b>44,949</b>	<b>45,520</b>	<b>74,664</b>	<b>107,024</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>56,561</b>	<b>98,094</b>	<b>162,013</b>	<b>248,682</b>	<b>306,869</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

SEK thousands	2006	2007	2008	2009	2010
Cash flows from operating activities	36,382	35,879	89,073	150,042	119,629
Cash flows from investing activities	-18,561	-13,439	-23,414	-62,136	-93,822
Cash flows from financial activities	-9,889	-9,889	-29,665	-45,280	-79,107
<b>Cash flow for the year</b>	<b>7,932</b>	<b>12,551</b>	<b>35,994</b>	<b>42,626</b>	<b>-53,300</b>
Liquid assets at the beginning of the year	5,535	13,053	25,915	65,132	105,009
Exchange rate differences in cash and cash equivalents	-414	311	3,223	-2,749	-4,675
<b>Liquid assets at the end of the year</b>	<b>13,053</b>	<b>25,915</b>	<b>65,132</b>	<b>105,009</b>	<b>47,034</b>



## KEY FIGURES

Group	2006	2007	2008	2009	2010
Operating margin (percent)	40.9	38.3	42.7	40.1	37.0
Profit margin (percent)	39.9	38.5	41.8	39.1	35.7
Interest coverage ratio (multiple)	2,491	273	297	2,494	4,533
Equity/assets ratio (percent)	28.4	62.4	71.9	70.0	65.1
Quick ratio (percent)	65.1	184.0	273.3	226.4	163.9
Net interest-bearing liabilities (SEK thousands)	-13,053	-25,915	-65,132	-105,009	-47,034
Net Debt/equity ratio (multiple)	-0.8	-0.5	-0.6	-0.6	-0.2
Average number of employees	43	60	70	110	152
Employees at year-end	53	67	85	133	182
Employees and consultants at year-end	63	77	132	187	284
Earnings per share	0.72	1.16	2.02	2.72	3.05
Shareholders' equity per share	0.41	1.34	2.95	4.40	5.05
Dividends per share (proposed for 2010)	0.25	0.75	1.25	2.00	2.00
Average number of outstanding shares	39,553,716	39,553,716	39,553,716	39,553,716	39,553,716
Number of shares at year-end	39,553,716	39,553,716	39,553,716	39,553,716	39,553,716

## Definitions

**OPERATING MARGIN**

Operating profit in relation to revenues.

**PROFIT MARGIN**

Profit after financial items divided by revenues.

**INTEREST COVERAGE RATIO (MULTIPLE)**

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

**EQUITY/ASSETS RATIO**

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

**QUICK RATIO**

Current assets divided by current liabilities.

**NET INTEREST-BEARING LIABILITIES**

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

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

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

**AVERAGE NUMBER OF EMPLOYEES**

Average number of employees converted into full-time equivalents.

**NUMBER OF EMPLOYEES AT YEAR-END**

Number of employees during the year.

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

Number of employees and subcontractors at year-end.

**EARNINGS PER SHARE**

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

**SHAREHOLDERS' EQUITY PER SHARE**

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

**DIVIDEND PER SHARE**

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

**AVERAGE NUMBER OF OUTSTANDING SHARES**

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

**NUMBER OF SHARES OUTSTANDING**

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

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# MANAGEMENT REPORT

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## OPERATIONS

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.

All technical development is carried out at the Group's Stockholm office and all commercial operations: sales, marketing, and product management are carried out from the Malta office. The company also has an office in Gibraltar. Development is also carried out in 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 using a tiered scale as a percentage of the gross gaming yield generated by the casino. It is therefore in the interest of both the operator and Net Entertainment to increase the operator's gaming revenues. Through the launch of new and unique games with high entertainment value and different kinds of bonus and loyalty schemas, players are stimulated to stay on the operator's site.

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

## Important events during the year

- Continued strong development in signing new customer agreements, revenues and profitability
- Eleven new license agreements signed during the year, including Gioco Digitale/bwin.it, Interwetten, Intralot, Stan James and JAXX/Mybet
- Net Entertainment has signed agreements with a number of operators in Italy, together representing a significant share of the market for online gaming
- In the beginning of February the authorities published the final decree for the games that are subject to the regulation
- The Company received a license on Alderney which enables Net Entertainment to offer its leading casino solution to operators in the UK
- Net Entertainment signed an agreement to develop games based on properties from Universal which includes some of the world's most classic movie titles
- The number of game transactions in 2010 amounted to 6.1 billion (3.9), an increase by 55 percent
- Net Entertainment developed four next generation games in 2010, of which two are so called "Smart Range" games which work well in markets where broadband penetration is lower

## Market

The online gaming market has shown strong growth in recent years. Growth continued during 2010 albeit at a somewhat lower pace. The global gross gaming yield for online gaming is estimated to amount to USD 32.6 billion in 2011 compared to USD 30.0 billion in 2010, an increase by 9.0 percent. 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. Italy has created a working licensing system that has however not become operational yet regarding casino and cash poker. France has during 2010 introduced a licensing system that includes certain games segments. The development of national licensing systems is partly driven by rulings in the European Court of Justice which have given the member states a somewhat larger freedom to implement limitations regarding the offering of remote gaming across borders. EU member states are now given increased opportunities to secure tax revenues provided

the licensing systems create good competitive conditions that are formally open for all operators who meet certain requirements.

However, it is important to highlight that the European Court of Justice has through a number of rulings in September confirmed the principle that companies legally established within EU also have the right to offer and provide online gaming. Any restrictions imposed by a member state shall be continuous, systematic and coherent. National restrictions must always be proportionate to the purpose that justifies the restriction.

The gross gaming yield for online casino in Italy is expected to amount to USD 794 million year 2015 compared to USD 348 million in 2010<sup>1</sup>. Italy is today a regulated market with sports and horse betting, tournament poker, skill games, and scratch tickets available online via licensed operators. Work is ongoing to extend concessions to also include cash game poker, bingo and casino games. In the beginning of February the authorities published the final decree for the games that are subject to the regulation. Two additional decrees remain, the process for license application and a technical addition for regulation of bonuses among others. Launch of cash game poker, bingo and casino games are estimated around midyear. The launch of slot games is further delayed.

In France, operators who fulfill the requirements are awarded licenses, allowing them to offer betting on sporting events, horse racing, and poker on the Internet. This system, that does not include casino, is somewhat less attractive to private operators primarily due to high taxation and other restrictions.

Denmark is also in the process of introducing a licensing system. It is unclear when it will take effect.

Norway has widened its ban against promotion of foreign arranged games since June 2010 by not allowing payment services regarding games via credit and debit cards.

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 product. Good products and an effective product development secure the conditions for new deals. By extending the product portfolio, Net Entertainment can target a wider market and broaden its customer base.

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 markets, Asia and USA in particular which are estimated to show high growth for online gaming in the future. Recent development in the US where several states have announced a potential regulation of online gaming could also create great opportunities for Net Entertainment if it becomes a reality.

### New agreements and customers

During 2010 eleven new license agreements signed, including Gioco Digitale/bwin.it, Stan James, INTRALOT Interactive, Interwetten and JAXX/Mybet.

JAXX/Mybet is a European investment company with a strong presence through investments in several gaming operators. Under the terms of the agreement Net Entertainment will be JAXX Group's preferred casino partner of choice for both download and instant play casino games. Founded in 1998, the JAXX Group is one of the pioneers in online gaming and has through their gaming sites [www.jaxx.com](http://www.jaxx.com) and [www.mybet.com](http://www.mybet.com), established a significant presence in Europe. JAXX SE has been listed on the German Stock Exchange since 1999, and has more than one million registered players. JAXX Group's revenues for 2009 were 114.5 million Euros.

bwin is the world's leading listed online gaming operator with over 20 million registered users. bwin is through Gioco Digitale and bwin.it the leading operator in the Italian market offering online poker, sports betting and lotteries with a significant market share. The agreement is to deliver Net Entertainment Casino™ to Gioco Digitale as well as to bwin's Italian web site bwin.it.

Stan James is a global gaming operator who has been one of the market leaders within sports betting since 1973. With more than one million registered players, Stan James is known for pioneering industry innovation, and providing the best customer service in the industry. Stan James has a strong position in the UK which is Europe's largest market for online casino. Stan James's casino was launched in November.

INTRALOT Interactive is a newly established online gaming subsidiary within the INTRALOT Group for online gaming that focuses both on providing its pioneering technology to lotteries and state organizations worldwide and on seeking licensing opportunities for operating in the new liberalized environment, where responsible gaming becomes even more important. INTRALOT is a leading supplier of integrated gaming and transaction processing systems, innovative game content and sports betting management, to state-licensed gaming organizations worldwide. The agreement is to deliver online casino games in Italy under the brand INTRALOT.

Interwetten, founded in 1990 in Vienna, is one of Europe's larger sports books having over one million customers in more than 100 countries. Interwetten have historically focused on betting and focuses primarily on Central Europe. Interwetten's casino was launched in June.

Agreements were terminated with smaller customers who did not generate the minimum turnover that the Company requires.

<sup>1</sup>Source: H2 Gaming Capital, January 2011

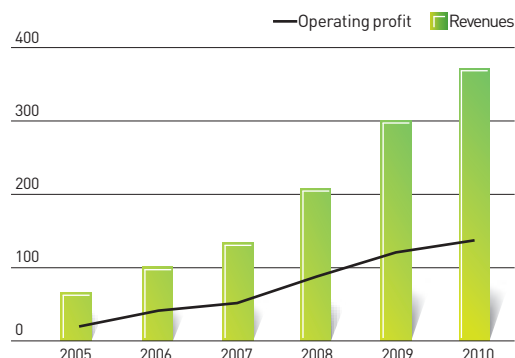
# MANAGEMENT REPORT

## REVENUES AND OPERATING PROFIT

Revenues for 2010 increased by SEK 68.2 million to SEK 368.3 million from SEK 300.1 million, an increase of 22.7 percent. Operating profit increased to SEK 136.4 million from SEK 120.2 million and the operating margin was 37.0 percent versus 40.1 percent the previous year. The licensing system that was introduced in France in June allows betting on sporting events, horse racing and poker but not casino games which affected revenues negatively. However, the lost revenues have been compensated during the year both from increased revenues in other markets and from new customers.

Revenues and operating profit for the most recent six years are presented in the diagram below.

Revenues and operating profit 2005–2010  
SEK million



## 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 are affected by the development of the Swedish currency in relation to other currencies. The majority of revenues, 97.5 (97.5) percent, are invoiced in Euros, but also in British pounds, 1.5 (1.9) percent) and US dollars, 1.0 (0.6) percent). Revenues are reported in Euros and then translated into Swedish currency for the Group's reporting.

The number of gaming transactions continues to grow and amounted to 6.1 (3.9) billion in 2010, which is an increase of 55 percent. This is 139 times more transactions than the share trading on Nasdaq OMX Stockholm.

The development during the year was the result of continued market growth. Net Entertainment's revenue increase compared to 2009 is a combination of existing customers' growth and revenues from the launch of new customers. In 2010, ten new customer's casinos were launched.

Royalty revenues in 2010 were positively affected by significantly higher volumes compared to previous years. The average royalty level has increased. The reason for this is among other different pricing structure in new agreements, reflecting the increased complexity in games and systems. Revenues increased 22.7 percent for 2010 compared the previous year. In Euros, revenues increased by 37.1.

Currency fluctuations have been significant since the end of 2008. Since the second quarter 2009 the Krona has strengthened. For 2010 the Krona was 10.2 percent stronger compared to 2009.

## Profitability

Operating profit for 2010 increased 13.5 percent to SEK 136.4 (120.2) million. Operating expenses increased compared to the previous year due to the Company's expansion and strengthening of the organization within areas such as sales, development, and IT operations. The expansion of the organization is enabled through own personnel as well as through external recourses in the form of out-sourcing both within and outside Europe and consultants. The increased development pace for games and platform leads to increased capitalized development costs as well as higher operating expenses to the extent development costs are not capitalizable. Increased complexity and demands regarding IT operations as well as development also affect the cost structure. Preparations for the launch of the Italian market has also affected expenses as the organization and systems have been prepared for launch.

The operating margin was 37.0 percent compared to 40.1 percent the previous year. The margin is affected by the currency development's impact on revenues as well as the effect on operating expenses from the strengthened organization and whether development costs are capitalized or not.

The financial net amounted to SEK -5.0 (-3.0) million and consists of the return on cash and cash equivalents, and exchange rate effects on cash and cash equivalents, and financial receivables and liabilities. The volatility in the Swedish currency has periodically led to significant effects on inter-company balances which are items included in the financial net.

The Group had an effective tax rate of 8.3 (8.1) percent in 2010. The Group's effective tax rate is affected by the distribution of profit between Sweden and the countries in which the Group conducts operations.

## CAPITAL INVESTMENTS

The Group's expenditure for capitalized development projects as intangible assets amounted to SEK 67.5 (33.2) million. Investments in property, plant, and equipment amounted to SEK 26.2 (29.0) million.



The increased investment in intangible assets is due to intensified product development in combination with greater complexity in the games recently developed. Larger projects currently being capitalized are new functionality in the technical platform and adjustments for increased capacity, new games, and adjustments of the systems to the regulatory framework in Italy. Among larger development projects for games, Boom Brothers is noticeable as an example.

Capital investments 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. During the year investments for the hosting facility in Alderney have been made, amounting to SEK 7.4 million.

#### **CASH AND CASH EQUIVALENTS, FINANCING AND FINANCIAL POSITION**

In the third quarter a change in procedure regarding funds held on behalf of licensees for pooled jackpots was made which are no longer included in Net Entertainment's cash and cash equivalents. View note 2, Accounting and valuation principles on page 54 for more information. The change reduced both operating cash flows and cash and cash equivalents by SEK 34.8 million in the third quarter.

The Group's cash flow from operating activities amounted to SEK 119.6 (150.0) million. The decline is mainly attributable to the changed procedure regarding funds held on behalf of licensees. Cash flow from investing activities amounted to SEK -93.8 (-62.1) million.

Cash flow from financing activities amounted to SEK -79.1 (-45.3) MSEK and consist of transfer to shareholders by SEK -79.1 million which was decided at the annual general meeting on 14 April 2010.

The Group's consolidated cash and cash equivalents amounted to SEK 47.0 (105.0) million on December 31, of which SEK 0 (33.2) million refers to funds held on behalf of licensees for pooled jackpots. The decline in cash and cash equivalents is mainly attributable to the changed procedure regarding funds held on behalf of licensees. Furthermore, larger transfer to shareholders 2010 compared to 2009 and investments financed with own funds contributes to lower cash and cash equivalents.

#### **PERSONNEL AND ORGANIZATION**

At the end of the period, the number of employees amounted to 182 versus 133 people one year ago. Including external recourses such as dedicated persons with contract suppliers and consultants, Net Entertainment employed 284 (187) persons.

Sven Grip was employed as Chief of Product and Strategy starting in January 2011 and Maria Z. Furenmo as HR director starting in March 2011.

#### **PARENT COMPANY**

The parent company's revenues were SEK 248.9 million compared to SEK 154.1 million. Operating profit amounted to SEK 22.4 (13.3) million. Anticipated dividend from subsidiaries and currency effects on inter-company transactions are included in the financial items. Profit after tax amounted to SEK 81.9 (81.1) million.

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

Cash and cash equivalents in the parent company at the end of the period amounted to SEK 33.8 (54.3) million.

#### **RISK FACTORS**

Specified below are some of the business and industry related risk factors that could have consequences for Net Entertainment's future development. The risk factors are not arranged in order of importance or potential economic impact on the Company's income, profit, or financial position. Neither should these be seen as exhaustive, but merely as constituting illustrative starting points. For financial risk factors that affect the company's business, see note 29.

##### **Political decisions**

Net Entertainment is a supplier of digitally distributed gaming systems, which means that the business is strongly dependent on the legal situation regarding these types of games. Since most of the Company's customers are active in Europe, the legal situation in the EU is of particular interest.

Net Entertainment is legally established in the EU. This provides the company with constitutional protection for business activities that observe national rights, EU rights, and the overarching WTO system. Despite this, business is dependent on the legal and political conditions that apply to customers, i.e. purchasers of digitally distributed gaming systems. The development of the EU legal protection that customers have against protectionist national monopoly systems is of particular importance.

In principle, the market for all types of gaming services is regulated by national legislation that determines how gaming activities may be conducted. Since Net Entertainment is a subcontractor without its own operator business, the company is only affected indirectly by the regulations that apply to the gaming market. Changes in the customers' circumstances can also change Net Entertainment's conditions for growth, profitability, and how products are designed.

The European Court has dealt with national gaming regulations in a variety of rulings. Currently, EU law al-

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## MANAGEMENT REPORT

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allows its member countries relatively free choice in regulating gaming. However, the regulations must meet EU law's requirements for proportionality and non-discrimination. They must meet the basic requirements of consistency and structure. For example, national regulation must not exclude private foreign agents on public health grounds if the state allows comprehensive promotion of public gaming companies with the purpose of strengthening the Public Treasury. Those who argue against gaming monopolies argue that gaming monopolies cannot be justified for health or safety reasons when they are operated for profit.

In recent years, the European Court and national courts have made important rulings that affect the market for entertainment gaming. Some rulings have contributed to opening up markets for private operators, while other decisions have been more protectionist oriented. In 2009, the European Court gave member states increased flexibility to maintain protectionist monopoly systems. Through a series of rulings in September 2010, the European Court has confirmed the principle that in EU law, established companies also have the right to offer and provide online gaming. Any limitations imposed by a member state must be cohesive, systematic, and consistent. National restrictions must always be proportional in relation to the purpose that motivates the restriction.

It may be noted that the gaming market has not been the subject of specific harmonization measures within the EU. Some legal documents in the form of directives, regulations, or decisions have not been adopted by EU political institutions.

Currently, there are 15 processes underway in the European Court that all consist of preliminary rulings from courts in member states. In addition, the European Commission has launched "infringement cases" against Sweden, Finland, Denmark, Germany, France, the Netherlands, Hungary, Austria, Greece, and Italy. The European Commission is currently considering whether to take these states before the European Court.

Deregulation and reregulation of national gaming laws is taking place in many European countries. Italy has created a working licensing system that has however not become operational yet regarding casino and cash poker. France has during 2010 introduced a licensing system that includes certain games segments. The development of national licensing systems is partly driven by rulings in the European Court of Justice which have given the member states a somewhat larger freedom to implement limitations regarding the offering of remote gaming across borders. EU member states are now given increased opportunities to secure tax revenues provided the licensing systems create good competitive conditions that are formally open for all operators who meet certain requirements.

Net Entertainment has a "class 4 license" in Malta that covers delivery and technical operation of casino games for gaming operators licensed in Malta. Malta is a member of the EU, and thus governed by European law. Malta is one of the few countries in the EU that chose to allow the gaming sector to be exposed to competition through a national licensing system.

Political decisions and court rulings in the EU area with the purpose of making it difficult for private gaming operators on the national market, primarily in Sweden, Malta, and the UK, as well as Norway outside the EU, can dramatically affect Net Entertainment's customers' business, and thus the Company's business, in a negative way. A liberalisation of the gaming market in these markets might also have a positive impact on Net Entertainment's customers, and thus for Net Entertainment.

In the current situation, it is difficult to predict how the legal situation in the EU will develop, and thus impact the commercial conditions for gaming operators, and ultimately game developers such as Net Entertainment. Therefore, it must be particularly noted that the current legal developments in the various member states, in combination with an emerging practice in EU law, means that Net Entertainment seems, at least in the case of the EU market, in a relatively unpredictable legal environment, meaning that there is a difficult to quantify risk that Net Entertainment's business may be negatively affected by legal developments in the future.

In October 2006, a law came into effect in the USA that forbids enabling gaming for people in the USA. The law has had a big impact on the ability of operators to conduct gaming business in the USA, and has also been a barrier to banks and other financial institutions to provide payment transactions for Internet-based gaming. In connection with the law coming into effect, Net Entertainment ceased cooperation with operators targeting players on the American market, in order to avoid legal risks associated with this market. Net Entertainment does not offer its products or services to gaming operators who in turn offer games to players in the USA. In 2009, a political discussion was started to abolish the ban and allow casino games online. In the state of New Jersey, there is a bill that, if approved, gives licensed land-based casinos in Atlantic City the opportunity to offer casino games online within the state and outside the USA.

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

By order of the Maltese lottery inspection (Lotteries and Gaming Authority, LGA), Net Entertainment's subsidiary Net Entertainment Malta Ltd holds a "class 4 license", which means that the company can offer gaming systems under the license, and that Net Entertainment and its products are approved by LGA. It is of very great impor-

tance for Net Entertainment's business that the permit is maintained and extended. Extension for another five years was obtained in November 2010.

Net Entertainment also has a license to offer their casino solutions to gaming operators that are licensed by the gaming authority in Alderney, or by other well-respected gaming authorities. The maintenance of this license is also of great importance for the Company.

Certain member states in the EU, including Sweden, have bans against promoting lottery that is organised from a foreign country. "Promotion" is considered a broad concept, and thus can include a wide variety of activities. That Net Entertainment's activities, namely delivering software and providing hosting for gaming operators, should be able to be considered "promotion" seems far-fetched, but how far this "promotion" extends is unclear. This constitutes an example of how Net Entertainment operates in an unpredictable legal environment, as mentioned above.

#### **Service disruptions**

Net Entertainment is responsible for the operation of the licensed customer system through the Company's various operation centres in different places in the world. Like all Internet-based services, the system can sometimes suffer from operational interruptions. These can be caused for 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. Any operational interruption or technical problem with the Company's servers could therefore result in lost income, loss of confidence in the Company, and possible claims for damages. The Company is constantly working to minimize the risk of operational interruptions by ensuring high technical security in the system, among other things. Net Entertainment provides no product guarantee in the customer contract, which also contains clauses that limit the Company's liability for damages in case of an operational interruption.

#### **Gambling addiction**

Despite the fact that Net Entertainment does not conduct any gaming operator activities, people who are suffering from gambling addictions could sue companies within the Net Entertainment corporation in their capacity as a supplier of the underlying software and enabler of gaming. Even if such claims appear to be unfounded, and would likely be refused by a court, they can result in substantial expenses and loss of confidence in Net Entertainment, which could ultimately lead to reduced income.

#### **Dependence on key personnel and skilled employees**

Net Entertainment's success is dependent on the ability to maintain a high level of technical skills with staff, and to be able to retain and recruit staff with extensive knowledge in game development and technology in the communities where Net Entertainment conducts business. In addition, the business is dependent on certain key people at the management level. Because of the high rate of development, the loss of certain key people or staff within game development and technology may temporarily have a negative impact on the Company's profit and financial development. Net Entertainment actively works to acquire an engaged and loyal staff through continuing education and opportunities for advancement within the organisation, among other things.

#### **Dependence on large customers**

The loss of some of the Company's customers may have a negative impact on Net Entertainment's income and profit. As the number of large customers increases, the dependence on individual large customers gradually decreases.

#### **Competition**

The company competes with a number of agents with much greater financial and operational resources than Net Entertainment. The market is very attractive, and new agents may come to establish themselves. However, the threshold for becoming established on the market for game development is high. If Net Entertainment cannot successfully respond to such competition, this may negatively impact the Company's profit and financial position. The Company's goal is to maintain and develop its position in the market as a world-leading supplier of digitally distributed gaming systems, and as a respected agent on the market. By continuing to focus on the development of games with high entertainment value, in combination with a powerful administrative tool and related services, Net Entertainment hopes to be able to retain existing customers and attract new ones.

#### **Intellectual property rights**

Net Entertainment's most important intellectual property rights mainly consist of the copyrights for the software, in particular Net Entertainment Casino™, and related materials that are developed and continue to be developed within the corporation. Therefore, it is very important that anything developed within the corporation remains Net Entertainment's property. Through contracts with employees and consultants, it is ensured that the copyright for developed products falls to Net Entertainment. Along with Net Entertainment's success, the Company has at various times been sued for allegedly infringing on intel-

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# MANAGEMENT REPORT

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lectual property rights. Although the Company has not lost in any such claim, there is a risk of negative impact in the future if a court rules against the Company. Each case involves varying degrees of expenses for legal advisors.

## **Exchange rate fluctuations**

The corporation's profit and financial position are exposed to exchange rate fluctuations, since most of the income is in Euros (EUR) and most of the expenses are in Swedish kronor (SEK). Net Entertainment's current policy is not to hedge changes in value in exchange rates. A strengthening in the value of SEK in relation to EUR negatively impacts the Company's profit. The fulfilment of Net Entertainment's financial goals may be affected by future changes in exchange rates.

Profit is also affected by changes in exchange rate when profit from foreign subsidiaries is converted to Swedish kronor. Furthermore, the corporation's equity is affected by changes in exchange rates when assets and liabilities of foreign subsidiaries are converted to Swedish kronor.

## **Tax situation**

The corporation's tax expenses are primarily affected by how the profit is divided between Sweden and the countries in which the corporation conducts business, and by the tax regulations in each country. Comprehensive assessments are required to be able to establish the appropriation for income tax. There are many transactions and calculations where the final tax is uncertain at the time when the transactions and calculations are implemented. With the help of legal experts, the Company has assessed how tax regulations affect the business in order to ensure a correct tax situation. This also applies to indirect taxes. The Company reports and pays to the tax authorities the amount of tax that the Company considers correct. However, these figures may prove to be inadequate in the event that the tax authorities interpret the tax rules more restrictively than the assessment the Company has made and believes is correct.



# CORPORATE GOVERNANCE REPORT

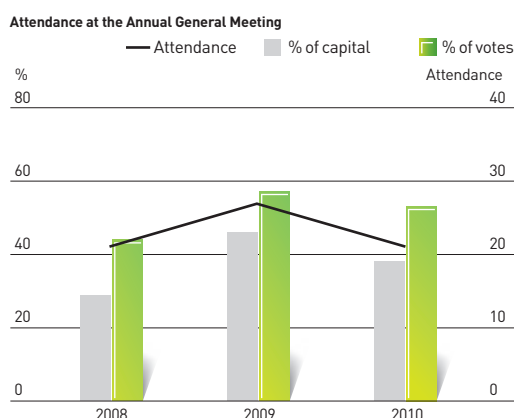
Net Entertainment NE AB is a Swedish public limited liability company listed on Nasdaq OMX Stockholm. The basis for the company's management, leadership, and control by shareholders, the Board of Directors, and the CEO are applicable external laws and rules, as well as internal regulations such as policies and instructions. The most prominent laws and regulations are the Swedish Companies Act, the Swedish Code of Corporate Governance ("the Code"), Nasdaq OMX Stockholm's listing requirements as specified in "Rules for issuers". Also, the articles of association have a central role in the corporate governance by defining the company's name, the domicile of the Board of Directors, business direction, information concerning share capital and voting rights for shares, as well as how conversion of A-shares to B-shares may occur.

Due to legislative amendments, a corporate governance report is a legal requirement for all Swedish companies whose shares are traded on the Swedish regulated market and whose fiscal years begin after 28 February 2009, i.e. Net Entertainment from the fiscal year 2010. The company's auditor shall review the corporate governance report. An additional legal requirement is that the audit committee shall have an independent member who also has accounting or auditing skills.

The Swedish Companies Act contains basic rules about a limited liability company's organisation. The Code has the purpose of providing guiding rules for good corporate governance, and supplementing the legislation in a number of areas. The Annual Accounts Act places requirements on how corporate governance reports shall be created. The Code allows for companies to deviate from these rules if, in individual cases, it can be considered as leading to better corporate governance for the company (according to the principle "comply or explain"). If a company finds that a certain rule or recommendation in the Code is not appropriate to comply with in regards to the company's special circumstances, the company may deviate from this rule, provided that the deviation is reported and justified, and that the chosen alternative solution is specified

## ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is Net Entertainment's highest governing body, in which shareholders exercise their influence in the company. The AGM shall be held within six months after the end of the fiscal year. Time and place is announced in connection with the third quarterly report at the latest. Information on how a shareholder can have an issue raised at the meeting, and by when such a request must be received by the company in order to make



sure it is brought up on the meeting, is shown on the company's website announced at the latest by the third quarterly report. Summon to the AGM is announced at least four weeks prior to the meeting, and will then be available on the website.

At the AGM, there will be information about the company's development over the past year, and resolutions will be made on a number of central issues. The AGM approves the annual accounts for the previous fiscal year, decides on discharge from liability for the Board of Directors and CEO, elects the Board of Directors and auditors, decides on compensation for the Board of Directors and auditor, decides how the nominating committee shall be appointed, and handles other formal issues such as any changes in the articles of association. Special General Meetings may be held when warranted.

In order to have the right to vote for their shares at the AGM, the shareholders must be registered in the share register maintained by Euroclear Sweden on the day established by the Board of Directors, as well as give notice of participation to the Company no later than the day established by the Board of Directors. The shareholders that can't attend personally have the option of participating through a representative.

Resolutions at the AGM are normally made by a simple majority of votes. However, in certain resolutions at the AGM, the Swedish Companies Act dictates that a proposal shall be approved by a greater proportion of the shares represented and votes cast.

Each A-share carries ten votes and each B-share carries one vote. Each voting shareholder in Net Entertainment may vote for the full number shareholder-owned and represented shares without limitations in voting rights.

# MANAGEMENT REPORT

## Corporate Governance Report

### AGM 2010

The AGM 2010 was held on 14 April in Konferens Spårvagnshallarna in Stockholm. At the meeting, 52.9 percent of all votes and 37.5 percent of all shares were represented. The AGM was attended by all members of the Board of Directors, the company's auditor, the CEO, and all other senior executives. Of the four members of the nominating committee, three were present.

At the AGM, resolutions were made on the usual issues, and also on a share split and automatic redemption procedure concerning a transfer to the shareholders of SEK 2.00 per share, authorization for the Board of Directors to decide on repurchase and transfer of their own shares, with the purpose of providing the company with flexibility when financing acquisitions of companies or businesses, as well as authorisation for the Board of Directors to decide on a new issue of at most 4,300,000 shares of series A and/or series B, with the purpose of increasing the company's financial flexibility, as well as the ability to make payments with its own financial instruments in connection with any company acquisitions and acquisitions of businesses that the company may come to implement. For more information, see the website.

The website contains all required documents for the meeting, as well as minutes from the meeting and the articles of association.

### AGM 2011

The AGM 2011 will take place 13 April at Stockholms Konserthus. Summons to the AGM is shown on the company's website at [www.netent.com/agm](http://www.netent.com/agm), where the required documents are also available before the meeting.

Net Entertainment's ten largest shareholders according to Euroclear Sweden AB at December 31 2010	Percent of capital	Percent of votes
Per Hamberg	8,9%	20,9%
Rolf Lundström	6,5%	14,4%
Lars Kling	3,4%	9,5%
Svenska Handelsbanken SA	1,8%	7,8%
Bill Johan Bertil Lindwall	1,4%	6,2%
EFG Private Bank	6,0%	6,2%
Banque Carnegie Luxembourg	1,2%	3,9%
Knutsson Holding AB	6,6%	2,9%
SIX SIS AG, W8IMY	5,0%	2,2%
Swiss Life	4,8%	2,1%

1) Shareholdings include holdings through families and companies.

### NOMINATING COMMITTEE

The AGM decides on how the nominating committee shall be appointed.

At the AGM in April 2010, it was decided that the Chairman of the Board of Directors, Rolf Blom, shall convene a nominating committee consisting of a representative from each of the three largest shareholders as of 31 Au-

gust 2010, who, together with the Chairman of the Board, shall be members of the nominating committee for the AGM 2011. In September 2010, Per Hamberg (appointed by the Hamberg family), Anna-Maria Thörnblom Lundström (Provobis Invest AB) and Emil Sunvisson (the Kling family) were appointed as members of the nominating committee. The composition of the nominating committee is based on the list of registered shareholders provided by Euroclear Sweden, and other reliable ownership information as of the last business day in August.

The nominating committee has prepared a proposal to be submitted to the AGM 2011 for resolutions regarding the Chairman of the Meeting, the Chairman of the Board and other members of the Board of Directors, auditors in appropriate cases, remuneration to the Board of Directors and the auditors, as well as principles for appointment of the nominating committee. The nominating committee's mandate period runs until the new nominating committee is appointed in accordance with the resolution on selection of the nominating committee for the AGM 2011.

The composition of the nominating committee meets the Code's requirements for independent members.

In its work, the nominating committee has participated in the assessment of the Board of Directors and its work, as well as the Chairman of the Board's report on the company's activities, goals, and strategies, in order to make correct assessments in issues regarding composition of the Board of Directors. In addition, the nominating committee has analyzed the skills and experience of the members of the Board of Directors, and compared them with the needs that have been identified. The nominating committee has noted that the members of the Board of Directors hold a wide range of extensive experience in business activities, technology, the gaming industry, and financial markets, etc. The nominating committee has met on five occasions.

The nominating committee's proposal, its justified opinion to proposed Board of Directors, and supplementary information regarding the nominated members of Board are announced in connection with the summons to the AGM, and are presented at the AGM 2011 together with a report of the nominating committee's work.

#### Members of the nominating committee

Per Hamberg (appointed by the Hamberg family),  
Anna-Maria Thörnblom Lundström (Provobis Invest AB)  
Emil Sunvisson (Kling family),  
Rolf Blom, Chairman of the Board

### THE BOARD OF DIRECTORS

The Board of Directors is elected by the shareholders at the AGM with a mandate period from the AGM until the end of the next AGM. The Board of Directors manages the shareholders' interests by establishing goals and strategies for

the business, evaluating the operational management, and securing systems for monitoring and control of established goals. It is also the task of the Board of Directors to ensure that there is sufficient control over the company's compliance with laws and other rules that apply to the company's business, that the necessary ethical guidelines are established for the company's conduct, and to ensure that the company's communications are open, as well as accurate, relevant, and reliable.

Between AGMs, the Board of Directors is the company's highest governing body.

According to the articles of association, Net Entertainment's Board of Directors shall consist of three to nine members and no deputies. The AGM decides the exact number of members.

The members of the Board of Directors shall devote their time and attention to Net Entertainment, and acquire the necessary knowledge to defend the company and its shareholders.

At the AGM in April 2010, six members were elected: Rolf Blom, Vigo Carlund, Fredrik Erbing, Niclas Eriksson, Mikael Gottschlich and Peter Hamberg. For further description of the members, refer to page 22.

All members are independent in relation to the Company and its management, and five members to larger shareholders. The evaluation of the members of the Board of Directors' independence is based on the Code's rules, which apply from 1 February 2010.

At the Board meetings, all members were present except for Mikael Gottschlich, who was absent at one meeting.

### **The Chairman of the Board of Directors**

The Chairman of the Board of Directors is appointed by the AGM. Rolf Blom was appointed again as the Chairman of the Board of Directors by the AGM 2010.

The Chairman organizes the work of the Board of Directors so that it is conducted efficiently, and such that the Board of Directors fulfils their commitments. This also includes organizing and leading the work of the Board of Directors in order to create the best possible conditions for the work, ensuring that new members of the Board of Directors go through the necessary introductory training, that the Board regularly updates and deepens their knowledge of the company, the industry, and its development, is responsible for contacts with the owners, and communicates the opinions of the Board of Directors. The Chairman also ensures that the Board of Directors receives sufficient information and support for decisions in its work, and, in consultation with the CEO, establishes proposals for the agendas of the Board meetings. The Chairman of the Board of Directors checks that the Board's decisions are implemented, and is responsible for the Board of Directors' being annually evaluated, and that the nominating

committee is informed of the evaluation. The Chairman is also a support for the CEO.

### **The work of the Board of Directors**

The Board of Directors is regulated by the rules of procedure, in addition to laws and recommendations. The rules of procedure are established by the Board of Directors and reviewed annually through Board decisions.

The rules of procedure are divided into different sections in order to clarify and regulate the Board of Directors' work and tasks. The parts consist of the Board of Directors' rules of procedure and instructions to the CEO and audit committee. The remuneration committee is composed of the entire Board of Directors.

The rules of procedure describe which items shall be found on the agenda at each Board meeting, the annual cycle of items over the business year, and the agenda for statutory Board meetings. The rules of procedure include the Board's general duties, distribution of work within the Board, how Board meetings shall be recorded, and provision of information to the Board of Directors before the Board meeting and between Board meetings.

Before each Board meeting, the members receive written material about the issues to be discussed at the Board meeting. Also, each month, a monthly report is distributed with operational and financial development.

In 2010, the Board of Directors held twelve meetings, including the constituting meeting, three for the approval of interim reports, and two additional Board meetings. In connection with the Board meeting in June, a strategy meeting was held, in which the management presented an in-depth analysis of the industry development and the proposed strategic direction for continued growth and development. This meeting was held in Italy. A visit to the Italian lottery inspection, AAMS, was conducted in order to gain a deeper understanding of the development on the Italian market, and the re-regulation that is taking place there.

The key points at the Board meeting in 2010 were issues concerning strategy, acquisitions, taxes, approval of business plans and budgets, forecasts, key policies, annual report, earnings report and interim reports, and investments. Among investment issues, most notable is the establishment of operational facilities in Alderney. Other issues addressed by the Board of Directors were financial goals, vision, and mission, as well as financial policy.

Also present at the Board meeting were CEO Johan Öhman and CFO Bertil Jungmar, who also took the minutes for the meeting. The CEO reports on the operational development at each ordinary Board meeting, and the CFO reports on the financial development. In addition, various senior executives were present for presentations on different issues.

At the Board meeting in February 2011, the main audi-

# MANAGEMENT REPORT

## Corporate Governance Report

tor, Therese Kjellberg, Deloitte, reported her conclusions from the audit for 2010. During the meeting, the members of the Board had the opportunity to ask the auditor questions without company management being present.

The Chairman of the Board of Directors annually evaluates the work of the Board through a systematic and structured process, with the purpose of developing the Board's work and efficiency. The Board of Directors continually evaluates the CEO's work, and the Board addresses this issue annually, without anyone from the company management being present.

Attendance, meetings 2010	Board of Directors	Audit committee	Remuneration committee
Rolf Blom	12 of 12	3 of 4	1 of 1
Vigo Carlund	12 of 12	-	1 of 1
Fredrik Erbing	12 of 12	4 of 4	1 of 1
Niclas Eriksson	12 of 12	-	1 of 1
Mikael Gottschlich	11 of 12	2 of 4	1 of 1
Peter Hamberg	12 of 12	-	1 of 1

### Audit committee

The Board of Directors has established an audit committee, which, since April 2009, has consisted of Fredrik Erbing (Chairman), Rolf Blom, and Mikael Gottschlich, from having previously consisted of the entire Board. CFO Bertil Jungmar is an adjunct to the committee, and functions as its secretary. The company's auditors attend the committee's meetings for presentations and debriefing.

The audit committee is responsible for monitoring and quality assurance of the Company's financial reporting. In terms of financial reporting, the audit committee monitors the efficiency of the Company's internal controls and risk management. The committee keeps itself informed of the auditing and annual accounts, and the consolidated annual accounts, reviews and monitors the auditor's impartiality and independence, and pays special attention if the auditor provides the company with services other than auditing services. The committee is also responsible for the Board's ongoing communication with the Company's auditors, establishing guidelines for what services may be procured by the auditors in addition to auditing, evaluation of the auditing process, counselling the nominating committee when preparing proposals to the auditors, and auditing fees. In addition, the committee has established an annual plan for its work, an updated risk analysis for the business with special focus on financial reporting, approved the auditor's auditing plan, read and evaluated the auditor's review, evaluated the internal controls and the amendment work performed by the company in that regard, considered the finance policy, and discussed the risks and connection to internal control and accounting issues. During the year, special attention has been devoted to principles and methods for capitalisation of develop-

ment expenditures, and a model for testing of intangible assets for impairment.

The audit committee met four times in 2010. At the meetings, Mikael Gottschlich was absent for two occasions and Rolf Blom for one occasion. The auditor attended all meetings.

### Remuneration committee

The remuneration committee consists of all six members of the Board of Directors. The Chairman of the Board of Directors is the Chairman of the committee.

The remuneration committee deals with issues concerning remuneration and benefits for senior executives, including the CEO. The remuneration committee prepares issues for decision by the Board concerning the CEO's remuneration and benefits, as well as issues of principle for all senior executives. The committee makes decisions on issues of remuneration concerning other senior executives, and issues of lesser importance. The Board of Directors also decides on issues of principle concerning remuneration to senior executives and salary for the CEO. The Board of Directors has established guidelines for remuneration to senior executives that are presented to and approved by the AGM. The guidelines for remuneration to senior executives are monitored and evaluated annually, including programs that are ongoing, and that ended during the year, for variable remuneration for the company management. The current remuneration policy is attached to the minutes from the AGM, which is available on the website.

The remuneration committee met once in 2010, and once in February 2011. All members participated in both meetings.

### Instructions for the CEO

The Board of Directors has prepared and established instructions regarding the CEO's tasks and responsibilities, as well as obligations to the Board of Directors. The CEO is responsible for managing and developing the Company and dealing with the ongoing management of the Company's business affairs within the framework of the Swedish Companies Act, the Company's business plan, instructions for the CEO, and guidelines and instructions announced by the Board. In the internal work, the CEO shall monitor that the Company's organisation is businesslike and efficient, ensure that the internal controls are effective and efficient, implement the Company's strategy and goals, and process and suggest qualitative and quantitative goals for the Company's various business units. For the Board of Directors, the CEO shall continuously and before each ordinary Board meeting create, compile, and present data that the Board of Directors requests for assessment of the Company's economic situation, such as reports, key figures and comments, proposals for busi-



ness plan, marketing plan, budgets, forecasts, financial statements, interim reports, and annual reports.

### REMUNERATION TO THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

#### Remuneration to the Board of Directors

Remuneration to the Board of Directors is proposed by the nominating committee and decided by the AGM, and is paid to members of the Board of Directors who are not employed by the company.

Monetary data regarding remuneration distributed to the Board of Directors per fiscal year is shown in note 6 on page 59.

#### REMUNERATION TO THE BOARD OF DIRECTORS 2008-20010, KSEK

Decided at the AGM	2010	2009	2008
Chairman of the Board of Directors	650	500	400
(including fees for assignments in foreign )	(100)	-	-
Members of the Board of Directors	220	200	180
Chairman of the audit committee	50	-	-

#### Remuneration to senior executives

In order to achieve good long-term value growth for shareholders, Net Entertainment seeks to offer its employees a competitive remuneration and attractive workplace that makes it possible to recruit and retain the right employees. For senior executives, the Board of Directors has prepared guidelines for remuneration as outlined below. The Board of Directors has with reference to the third sentence in the preamble to the guidelines deviated from the guidelines for remuneration to senior executives as regards variable salary. There are special grounds for this that relate to the Company's success as regards customer acquisition on the Italian market.

Monetary data regarding remuneration distributed to employees and senior executives is shown in note 6 on page 59.

#### Guidelines adopted by the AGM 2010

These guidelines shall be applied for the CEO of Net Entertainment NE AB ("the Company") and other senior executives of the Company. The principles in these guidelines are relevant for employment contracts entered into after the annual general meeting and in such cases amendments are made in existing contracts after the annual general meeting. The Board of Directors must be able to deviate from the guidelines provided that there are special grounds in a specific case.

It is of fundamental importance for the Company and its shareholders that the principles for remuneration and other conditions of employment of senior executives from

both a short-term and long-term perspective are competitive and create good conditions for retaining and motivating skilled employees and attracting new employees when needed. In order to achieve this, it is important that the Company has fair and internally balanced conditions, while maintaining market competitiveness. The employment conditions for senior executives should contain a well-balanced combination of fixed and variable salary, share-based incentive programs, retirement benefits, and conditions of termination of employment.

Remuneration should be based on performance, and should therefore contain a combination of fixed and variable salary, such that variable remuneration constitutes an appropriately large part of the total remuneration. The fixed salary shall be competitive, individual, and based on the individual's responsibility, role, skills, and experience in relevant positions. An annual variable salary shall be measured and paid on an annual basis. The annual variable salary shall be capped at 100 percent of the fixed salary, and based on actual outcomes in relation to the established financial and operational goals. Goals for variable salary are determined annually by the Board of Directors with regards to variable salary for the CEO, and by the CEO with regards to variable salary for other people in senior management, in order to ensure that they are in line with the Company's business strategy and objectives. The conditions for variable salary shall include the minimum level of performance in relation to goals, for which no variable salary is received.

In order to ensure long-term commitment, continued employment, and competitive remuneration from an international perspective, annual variable salary may be supplemented with long-term cash incentive programs with deferred payment between 12 and 24 months. Such incentive programs are used selectively and are based on objectives related to the current fiscal year. Long-term cash incentive programs require continued employment until a pre-agreed date in order for payment to be made. Long-term cash incentive programs shall be capped at 50 percent of the annual fixed salary, and shall otherwise follow the same principles that apply to the Company's annual variable salary as above.

Persons within the sales organisation may have variable remuneration in the form of commissions based on successful sales. In certain situations, when a particularly good sales result was achieved, the commission may add up to an amount that exceeds 100 percent of the fixed salary. For persons with commission remuneration, the variable salary according to the two preceding paragraphs is limited to 50 and 25 percent of the fixed salary.

Senior executives and key employees are invited to participate in an ongoing share-based program to motivate long-term work. In order to strengthen loyalty to the company, a share-based incentive program in the form of

share option rights may be issued under competitive conditions combined with a cash remuneration, which is payable in connection with the use of share option rights to employees who are still employed at the time of redemption. Such remuneration may not exceed 50 percent, net after tax, of the premium paid for the share option rights.

Retirement benefits for the CEO and other persons in the Company's management shall be competitive and shall be based on defined benefit pension plans, where the premium shall be capped at 33 percent of the pensionable salary. Other benefits, such as company car, remuneration for health insurance, etc. shall constitute a minor part of the total remuneration, and be consistent with what is competitive.

The CEO and other persons in the Company's management have a notice period of six months. Severance pay, including dismissal pay, shall not exceed 18 months' salary.

#### **Guidelines determined by the Board of Directors and proposed to the AGM 2011**

These guidelines shall be applied for the CEO of Net Entertainment NE AB ("the Company") and other senior executives of the Company. The principles in these guidelines are relevant for employment contracts entered into after the annual general meeting and in such cases amendments are made in existing contracts after the annual general meeting. The Board of Directors must be able to deviate from the guidelines provided that there are special grounds in a specific case.

It is of fundamental importance for the Company and its shareholders that the principles for remuneration and other conditions of employment of senior executives from both a short-term and long-term perspective are competitive and create good conditions for retaining and motivating skilled employees and attracting new employees when needed. In order to achieve this, it is important that the Company has fair and internally balanced conditions, while maintaining market competitiveness. The employment conditions for senior executives should contain a well-balanced combination of fixed and variable salary, share-based incentive programs, retirement benefits, and conditions of termination/severance pay.

Remuneration should be based on performance, and should therefore contain a combination of fixed and variable salary, such that variable remuneration constitutes an appropriately large part of the total remuneration.

The fixed salary shall be competitive, individual, and based on the individual's responsibility, role, skills, and experience in relevant positions.

An annual variable salary shall be measured and paid on an annual basis. The annual variable salary shall be capped at 100 percent of the fixed salary, and based on actual outcomes in relation to predetermined established

measurable financial and operational goals. Goals for variable salary are determined annually by the Board of Directors with regards to variable salary for the CEO, and by the CEO with regards to variable salary for other people in senior management, in order to ensure that they are in line with the Company's business strategy and objectives. The conditions for variable salary shall include the minimum level of performance in relation to goals, for which no variable salary is received.

In order to ensure long-term commitment, continued employment, and competitive remuneration from an international perspective, annual variable salary may be supplemented with long-term cash incentive programs with deferred payment between 12 and 24 months. Such incentive programs are used selectively and are based on objectives related to the current fiscal year. Long-term cash incentive programs require continued employment until a pre-agreed date in order for payment to be made. Long-term cash incentive programs shall be capped at 50 percent of the annual fixed salary, and shall otherwise follow the same principles that apply to the Company's annual variable salary as above.

Persons within the sales organisation may have variable remuneration in the form of commissions based on successful sales. In certain situations, when a particularly good sales result was achieved, the commission may add up to an amount that exceeds 100 percent of the fixed salary. For persons with commission remuneration, the variable salary according to the two preceding paragraphs is limited to 50 and 25 percent of the fixed salary.

The Board of Directors shall be entitled to recover variable compensation which has been paid on the bases that later proved to be clearly inaccurate.

Senior employees are invited to participate in an ongoing share-based program to motivate long-term work and promote greater community of interest with the Company's shareholder. In order to strengthen loyalty to the company, a share-based incentive program in the form of share option rights may be issued under competitive conditions combined with a cash remuneration, which is payable in connection with the use of share option rights to employees who are still employed at the time of redemption. Such remuneration may not exceed 50 percent, net after tax, of the premium paid for the share option rights.

Retirement benefits for the CEO and other persons in the Company's management shall be competitive and shall be based on defined benefit pension plans, where the premium shall be capped at 33 percent of the pensionable salary. Other benefits, such as company car, remuneration for health insurance, etc. shall constitute a minor part of the total remuneration, and be consistent with what is competitive.

The CEO shall have a notice period of six months.

Other persons within the Company's management shall have a notice period between three to six months. Severance pay, including dismissal pay, shall not exceed 18 months' salary.

### AUDIT

Auditors are elected by the AGM, and review the Company's accounts and management on behalf of the AGM. According to the articles of association, Net Entertainment shall have one or two auditors. Deloitte AB were elected as auditors at the AGM in April 2008 for the period until the AGM 2012. Therese Kjellberg was appointed chief auditor.

The auditor has presented her conclusions of the synoptic review of the interim report for January - September 2010, the audit for the entire year 2010, and internal control for the audit committee and the Board of Directors. The auditor also met with the Board of Directors and the audit committee without anyone from the company management present.

In addition to the audit, the auditor has had a limited number of other tasks for Net Entertainment. These have been audit-related services concerning accounting and reporting, and well as assisting with establishing the company's tax returns. In the previous year, tasks concerning the stock exchange listing for 2009 have taken place. Remuneration to the auditor is stated in note 27 on page 65.

### INTERNAL CONTROL: THE BOARD'S DESCRIPTION OF THE MOST IMPORTANT ELEMENTS IN THE COMPANY'S SYSTEM FOR INTERNAL CONTROL AND RISK MANAGEMENT REGARDING FINANCIAL REPORTING

The Board's responsibility for internal governance and control is regulated in the Swedish Companies Act, the Annual Accounts Act, and the Code. In the Annual Accounts Act, it is required that the company annually describe the company's system for internal control and risk management regarding financial reporting. The Board of Directors has overall responsibility for financial reporting. The Board's and the committee's division of labour is regulated in the Board's rules of procedure.

The audit committee has an important role in preparing the Board of Directors' work to ensure the quality of financial reporting. The preparation involves issues on internal control and compliance, control of reported values, estimates, assessments, and other material that could affect the quality of the financial reports. The committee also has continuous contact with the auditor.

Net Entertainment applies the established framework for internal control COSO (Committee of Sponsoring Organizations of the Treadway Commission). The principles of COSO consist of five interrelated components: control

environment, risk assessment, control activities, information and communication, and review process.

The Board of Directors' rules of procedure specify which reports and what information of a financial nature shall be distributed to the Board of Directors at each ordinary Board meeting, and in between. The CEO ensures that the Board of Directors receives the reports required in order for the Board to be able to continuously assess Net Entertainment's economic position.

The quality of the external financial reporting is ensured through a number of measures and procedures. All interim reports are subject to processing by the Board before being released, along with the earnings report and annual report. The CEO is responsible for all information provided, such as press releases, presentations for meetings with analysts, media, and owners and investors. In addition to the annual report, the auditor also reviews interim report for the third quarter.

Internal control refers to the process that is influenced by the Board of Directors, the company managements, and other staff, and is designed to provide a reasonable assurance that the goals of the company are achieved with regards to

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

The basis of the internal controls related to the financial reporting consists of the overall control environment that the Board of Directors and the management have established and communicated. The Board of Directors and the management operate based on this, which creates discipline and structure for other parts in the process. These parts include risk assessment, control activities, including both general and more specific controls with the purpose of preventing, detecting, and correcting errors and discrepancies, systems for internal and external information and communication, and monitoring from the Board of Directors and the company management and further down in the organization in order to ensure the quality of the process. An important part of control environment is that organisational structure, decision making, and authority are clearly defined and communicated in the form of regulatory documents and internal policies, guidelines, manuals, and valuations.

### Control environment

In the development of processes, Net Entertainment has considered the control environment and the risk assessment performed. A well-designed internal control not only creates conditions for reliable financial reporting, but probably contributes to a healthy and sustainable business with greater prof-

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# MANAGEMENT REPORT

## Corporate Governance Report

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itability as a result. Work on the design of internal processes and monitoring of these is continuously ongoing within Net Entertainment, and is becoming increasingly important as the company grows. This is especially important regarding the systems Net Entertainment develops and operates on behalf of licensees.

The Board of Directors has prepared and established instructions for the CEO and instructions for financial reporting to the Board of Directors in Net Entertainment regarding the ongoing work with internal control that is delegated to the CEO. In turn, the CEO delegates authority to the people that report to him, both directly and through established guidelines and manuals within the company. The company's corporate values are an important element here, that provide guidance for daily operations.

The company's finance function reports to the audit committee and to the company's Chief Financial Officer, and works to develop and improve the internal control regarding financial reporting in the company, both proactively with a focus on the internal control environment, and by reviewing how the internal control works. Constant development of internal control is important for a rapidly growing company like Net Entertainment. In 2010, a controlling function was created that works with financial planning and monitoring. A number of processes have been documented with regards to risks and controls, in which identified weaknesses have been strengthened, with the overall purpose of strengthening controls and minimising risks. The company has also targeted recruitment of persons with special responsibility for regulatory compliance, as well as quality and processes. Here, regulatory compliance also refers to industry specific regulation from gaming authorities in different countries.

Internal governance instruments for financial reporting primarily consist of the company's Finance Policy, Information Policy, Economic Handbook, and authorisation instructions that define accounting and reporting rules, as well as the company's definition of processes and minimum requirements for good internal control regarding financial reporting. In addition to this, the company has developed policies regarding trading of company shares, IT Policy, dividend policy, drug and gambling policy, and more.

### Risk assessment

Risks regarding the financial reporting are evaluated and monitored by the Board of Directors through the audit committee. Net Entertainment has implemented a structured risk assessment in order to enable identification of the significant risks that affect the internal control regarding financial reporting, as well as identification of the risks that exist. During risk assessment, particular

attention has been paid to the risk of irregularities and favouritism by other parties at the company's expense and risk of loss or misappropriation of assets. At the same time, risk assessment has a greater focus on key processes and items.

Matters are prepared by the audit committee before consideration by the Board of Directors. A number of items on the income statement and balance sheet have been identified, in which there is an increased risk of error. These risks primarily involve legal matters that regulate the business, development expenses, and taxes, as well as the company's significant cash resources.

The risk assessment results in control goals that support the basic requirements of financial reporting being fulfilled. The risk assessment is updated annually, and the results are reported to the audit committee and the Board of Directors.

### Control activities

The most significant risks identified regarding financial reporting are managed through the control structures of processes. Control activities are designed and documented at the process level, and include both general and more specific controls with the purpose of preventing, detecting, and correcting errors and discrepancies. When designing control activities, it is ensured that they are performed correctly and on time. So-called general IT controls are designed for the system that supports the processes that affect internal control regarding financial reporting. The design of processes and control activities within IT is also affected by regulations specified by the gaming authorities, such as Lotteries and Gaming Authority of Malta (LGA), and external reviews in connection with control of such regulatory compliance. Such reviews are implemented both by certified auditing agencies for certification in relation to requirements from authorities, and by the Company's external auditors. Control activities include the review and monitoring of performance outcomes for specific account reconciliations.

Areas that are covered by control activities are, for example:

- proper authorisation of business transactions
- business systems that affect the financial reporting, including verification management
- the accounting process, including year-end reports and consolidated annual accounts and their compliance with applicable regulations in the form of generally accepted accounting principles, applicable laws and regulations, and requirements for listed companies, but also in order to ensure proper decision making for the Board of Directors and management



- significant and unusual or complicated business transactions, as well as business transactions or valuations of assets or liabilities that contain significant elements of judgement.

### Information and communication

Information and communication about internal governance instruments for financial reporting are available for all affected employees on the company intranet. Net Entertainment has information and communication channels with the purpose of promoting completeness and accuracy of financial reporting. Important guidelines and manuals relevant to financial reporting are updated and communicated continuously to affected employees. There are both formal and informal information channels for the company management and the Board of Directors for important information from employees. For external communication, there are guidelines that ensure that the company complies with the high requirements placed on correct and relevant information to the market. Once a year, the Board of Directors establishes an information policy for the company that specifies the guidelines for contacts with analysts and media, among other things.

### Review process

The Board of Directors continuously evaluates the information that the company management provides. The review process includes both monitoring of monthly financial reports for budget and goals, and reporting to Board meetings. There is a process for continuous monitoring and evaluation of compliance with internal policies, guidelines, manuals, and codes, as well as of the appropriateness and functionality in established control activities, and the appropriateness of these. The audit committee's work includes, among other things, ensuring that measures are taken regarding errors and proposals for measures that emerge via internal control activities and the external audit.

The company's CFO has reported the results of the work with internal control as a recurring point on the agenda for the audit committee's meetings. The results of the audit committee's work in the form of observations, recommendations, and proposals for decisions and measures are continuously reported to the Board of Directors.

### Internal audit

In companies that do not have a separate review function (internal audit), according to the Code, the Board of Directors shall annually evaluate the need for such a function, and justify the position in the description of the internal control. There is no such separate review function in Net Entertainment. The responsibility for further development and management of the system for internal

control occurs in the organisation together with existing functions for quality, processes, and regulatory compliance. It is the Board of Directors' assessment that there is no need to create a separate review function.

### THE SHARE

Share capital in Net Entertainment amount to SEK 1,190,566.85 divided into 5,610,000 shares of series A, with ten votes per share, and 33,943,716 shares of series B, with one vote per share. Owners of shares of series A have the right to convert one or more shares of series A to shares of series B, through written request to the Board of Directors, within the framework for the maximum number of shares of series B that may be issued according to the articles of association. In the event of liquidation, the shareholders have the right to a portion of the surplus in relation to the number of shares that the shareholder owns. Shareholders can vote for the full number of shares represented at the AGM. As far as the company knows, there are no limitations that prohibit the transfer of the company's shares, either legal or agreements between shareholders.

Net Entertainment has not issued convertible debt instruments.

As of 31 December 2010, Per Hamberg owned, directly or indirectly, 8.9 percent of the shares, and 20.9 percent of the votes, and Rolf Lundström owned 6.5 percent of the shares, and 14.4 percent of the votes.

### Share option rights

At the end of 2010, there were a total of 586,225 share option rights outstanding representing the same number of shares. In the event that full subscription occurs based on these share option rights, MSEK 42.0 will be contributed to the parent company's equity. The share option rights were issued within the framework of an incentive program, and were subscribed at a market price established at SEK 7.10, of which MSEK 4.2 is contributed to equity for the corporation. The subscription price for shares was established at SEK 71.70, which constitutes 130 percent of the average share market price during the period of 12–26 May 2009. Subscription of shares may occur during the period of 15 May–15 July 2012. 43,000 share option rights have been cancelled in 2010.

With the purpose of stimulating participation in the program, the Board of Directors has decided to submit a loyalty remuneration to be paid no later than 15 July 2012 to the participants in the program who, at the time of payment, are still employees of Net Entertainment and have not resigned. The remuneration may add up to an amount that corresponds to a maximum of 50 percent, net after tax, of the premium paid for the share option rights or total MSEK 4.3 including social expenses as paid

by the Company. This commitment is accrued for in the accounts on an ongoing basis considering forecasted employee turnover and interest.

### **Mandate for new share issue**

At the AGM 2010, the Board of Directors was authorised, on one or more occasions before the next AGM, with or without deviation from the shareholders' preferential rights, to decide on issuance of new shares, convertibles and/or share option rights that entail the issuance of, conversion to, or new subscription of a total of at most 4,300,000 shares of series A and/or series B (corresponding to an increase of about 10 percent of the capital) for cash payment and/or with provision of capital contribution, set-off, or otherwise with conditions. The use of the authorisation may not lead to the proportion of shares of series A exceeding 14.2 percent of the total number of shares.

The purpose of the authorisation is to increase the company's financial flexibility and to be able to make payments with its own financial instruments in connection with any acquisitions of companies or businesses that the company may come to implement. In the event of issuance without preferential rights for the shareholders, the basis of the established issue price shall be the shares' market value at the time of issue, subject to market-based issue discount.

### **Authorisation for repurchase and disposal of own shares**

At the AGM 2010, the Board of Directors was authorised, before the next AGM, on one or more occasions, to make the decision to acquire as many shares of series B such that the company's holdings never exceed 10 percent of all shares in the company.

Acquisitions shall occur on Nasdaq OMX Stockholm, and may only occur at a price within the always-applicable current price interval, meaning the interval between the highest purchase price and lowest sale price, or through an acquisition offer targeted at all shareholders, whereby the acquisition shall occur at a price that corresponds to at least the applicable stock market price and at most to 150 percent of the applicable share market price.

In addition, the Board of Directors was authorised, before the next AGM, on one or more occasions, to decide on divestment with deviation from the shareholders' preferential rights of all or part of the company's holdings of

its own shares of series B as payment for acquisition of companies or businesses at a price corresponding to the share market price at the time of transfer. Divestment of all or part of the company's holdings of its own shares of series B shall also be able to occur, on one or more occasions, in order to finance such acquisitions, in which sale of shares shall occur on Nasdaq OMX Stockholm at a price within the always-applicable current price interval.

The authorisation is intended to provide the company with flexibility when financing acquisitions of companies and businesses. No repurchases of its own shares were made during the year.

### **EVENTS AFTER THE END OF THE PERIOD**

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

### **FUTURE OUTLOOK**

The company's existing customer base combined with the regulation of the online market, not least Italy where a significant market share has been ensured, and the new business opportunities that are now being discussed create a positive future outlook for the Company. New products being developed become more appreciated among players which is a result of extensive research and analysis. An increasingly pleased player base lead to higher revenues for the operators and in turn Net Entertainment. The costs for doing business increase gradually and is driven by several factors where regulatory adjustments is one of them. The strategic investments the company is making create significant opportunities but may in the short run affect profitability negatively.

### **PROPOSED DIVIDEND**

The Board of Directors proposes that no dividend is paid for the fiscal year 2010.

The Board proposes to the AGM to allocate SEK 79.1 (79.1) million to shareholders, which corresponds to SEK 2.00 (2.00 and 1.25 respectively) per share through a share redemption program. The record date for the share redemption program is scheduled to 21 April 2011.

The complete proposal will be available three weeks prior to the AGM as well as an information folder. The information will be available for shareholders at the Company and on the website [www.netent.com](http://www.netent.com) as from 23 March 2011. The information will also be sent free of charge to those shareholders who so request and provide their postal address.

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

#### The following profits are at the disposal of the AGM (SEK):

Opening profit brought forward	17,279,447
Share premium reserve	3,473,500
Profit/loss for the year	81,934,714
	<b>102,687,661</b>

#### The Board of Directors proposes:

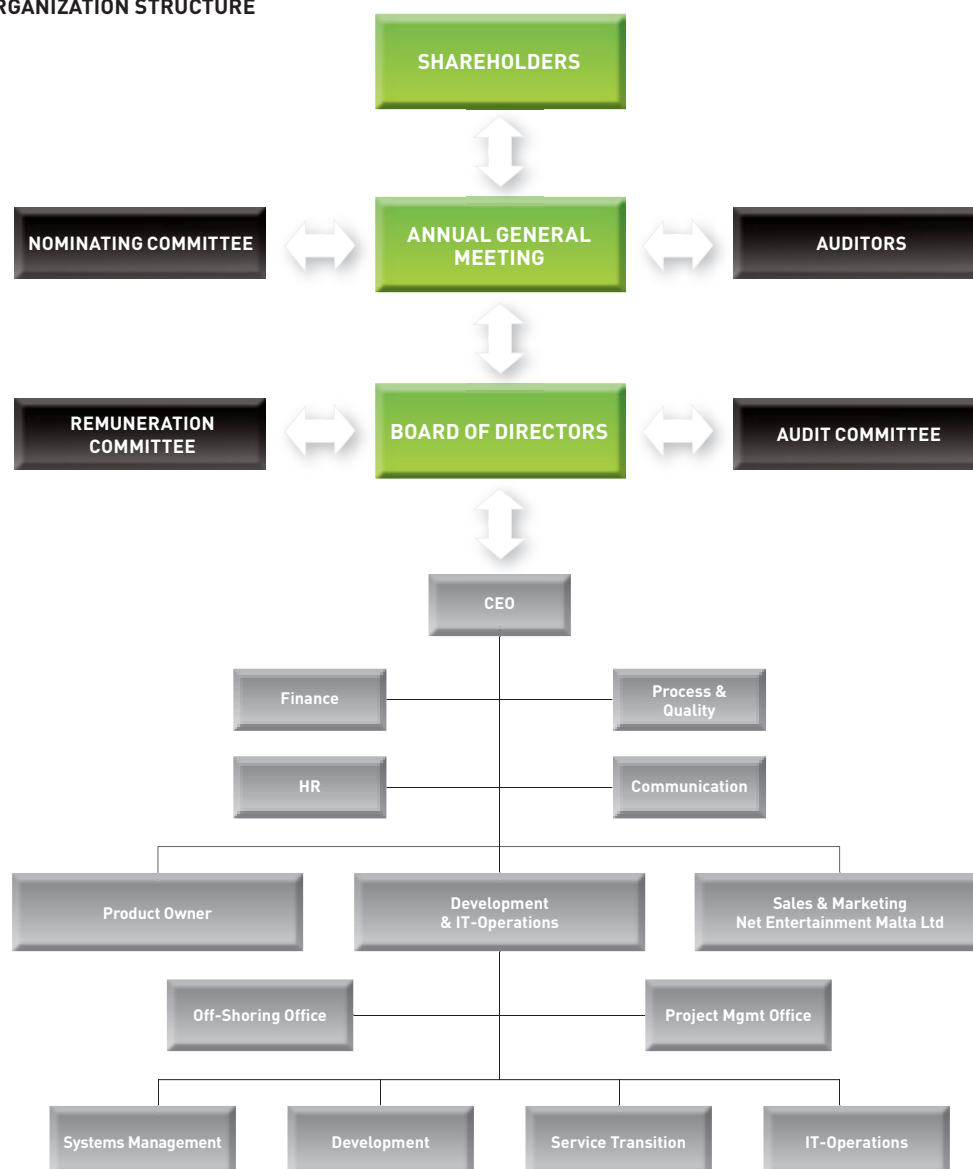
That the following amount should be carried forward	102,687,661
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#### Proforma after transfer to the shareholders

Opening profit brought forward incl. profit/loss for the year	102,687,661
Transfer to the shareholder	-79,107,432
	<b>23,580,229</b>

The Group's and the company's result and position are shown in the following income statements and balance sheets, cash flow statements and equity statements and related notes and supplementary information which form an integrated part of this annual report.

### ORGANIZATION STRUCTURE



# INCOME STATEMENTS AND STATEMENTS OF TOTAL INCOME

Group

SEK thousands	Note	2010	2009	2008
Revenues	3,4	368,170	299,722	204,602
Other revenues	5	110	328	971
<b>Total operating revenues</b>		<b>368,280</b>	<b>300,050</b>	<b>205,573</b>
<b>OPERATING EXPENSES</b>				
Personnel expenses	6	-98,219	-71,242	-52,630
Depreciation/amortization	12,13	-30,959	-22,298	-15,513
Other operating expenses	27	-102,691	-86,328	-49,627
<b>Total operating expenses</b>		<b>-231,869</b>	<b>-179,868</b>	<b>-117,770</b>
<b>Operating profit</b>		<b>136,411</b>	<b>120,182</b>	<b>87,803</b>
<b>FINANCIAL ITEMS</b>				
Financial income	8	1,270	11,739	2,757
Financial expense	9	-6,242	-14,705	-4,607
<b>Total financial items</b>		<b>-4,972</b>	<b>-2,966</b>	<b>-1,850</b>
<b>Profit before tax</b>		<b>131,439</b>	<b>117,216</b>	<b>85,953</b>
Income tax	10	-10,972	-9,539	-5,986
<b>Profit for the year</b>		<b>120,467</b>	<b>107,677</b>	<b>79,967</b>
Earnings per share before dilution (SEK)	11	3.05	2.72	2.02
Earnings per share after dilution (SEK)	11	3.05	2.72	2.02
<b>Number of shares at period's end</b>		39,553,716	39,553,716	39,553,716
<b>Average number of shares</b>		39,553,716	39,553,716	39,553,716
<b>Effective tax rate</b>		8.3%	8.1%	7.0%
<b>Periodens resultat hänförligt till:</b>				
Moderbolagets aktieägare		120,467	107,677	79,967
<b>Statement of total income – Group</b>		<b>2010</b>	<b>2009</b>	<b>2008</b>
Profit for the period		120,467	107,677	79,967
<b>OTHER TOTAL INCOME</b>				
Exchange differences arising from the translation of foreign operations		-15,532	-4,872	13,046
Sum of other total income for the period, net after tax		-15,532	-4,872	13,046
<b>Total income for the period</b>		<b>104,935</b>	<b>102,805</b>	<b>93,013</b>
Proposed/implemented transfer to shareholders/dividend per share		2.00	2.00	1.25

# BALANCE SHEETS

## Group

SEK thousands	Note	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008
<b>ASSETS</b>				
<b>FIXED ASSETS</b>				
Intangible fixed assets	12	87,021	47,732	31,409
Tangible fixed assets	13	44,471	31,942	10,788
Other long-term receivables	15	-	-	5
<b>TOTAL FIXED ASSETS</b>		<b>131,492</b>	<b>79,674</b>	<b>42,202</b>
<b>CURRENT ASSETS</b>				
Accounts receivable	16	5,473	3,841	11,254
Prepaid expenses and accrued income	17	47,111	54,176	30,040
Current tax assets		-	-	9,641
Other receivables	19	75,759	5,982	3,744
Cash and cash equivalents	20	47,034	105,009	65,132
<b>TOTAL CURRENT ASSETS</b>		<b>175,377</b>	<b>169,008</b>	<b>119,811</b>
<b>TOTAL ASSETS</b>		<b>306,869</b>	<b>248,682</b>	<b>162,013</b>

SEK thousands	Note	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008
<b>EQUITY AND LIABILITIES</b>				
<b>SHAREHOLDERS' EQUITY</b>				
	21			
Share capital		1,191	1,191	1,191
Other capital contributed		38,362	38,362	34,200
Reserves		-6,558	8,975	13,847
Retained earnings incl. profit for the year		166,850	125,490	67,255
<b>TOTAL EQUITY</b>		<b>199,845</b>	<b>174,018</b>	<b>116,493</b>
<b>LONG-TERM LIABILITIES</b>				
Deferred tax liabilities	18	-	-	1,676
<b>TOTAL LONG-TERM LIABILITIES</b>		<b>-</b>	<b>-</b>	<b>1,676</b>
<b>CURRENT LIABILITIES</b>				
Accounts payable		19,458	12,007	9,541
Current tax liabilities		11,262	8,828	-
Other liabilities	23	49,845	37,657	17,147
Accrued expenses and deferred income	24	26,459	16,172	17,156
<b>TOTAL CURRENT LIABILITIES</b>		<b>107,024</b>	<b>74,664</b>	<b>43,844</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>306,869</b>	<b>248,682</b>	<b>162,013</b>
<b>Pledged assets</b>				
<b>Contingent liabilities</b>	25	<b>None</b>	<b>None</b>	<b>None</b>



# CASH FLOW STATEMENTS

Group

SEK thousands	Note	2010	2009	2008
<b>OPERATING ACTIVITIES</b>				
Profit after financial items		136,411	120,182	85,953
Adjustments for non-cash items				
– Depreciation/amortization	12, 13	30,959	21,161	15,513
– Interest received		167	311	–
– Interest paid		–29	–47	–
– Other		–4,922	–1,938	5,803
Income taxes paid		–8,538	7,342	–24,988
<b>Cash flow from operating activities before changes in working capital</b>		<b>154,048</b>	<b>147,011</b>	<b>82,281</b>
Increase / decrease in accounts receivable		–1,631	7,412	–110
Increase / decrease in other receivables		–62,713	–26,373	–16,062
Increase / decrease in trade payables		7,450	2,466	4,802
Increase / decrease in other current liabilities		22,475	19,526	18,162
<b>Cash flows from operating activities</b>		<b>119,629</b>	<b>150,042</b>	<b>89,073</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of intangible assets	12	–67,645	–33,154	–16,867
Acquisition of tangible fixed assets	13	–26,177	–28,982	–6,560
Disposal of other financial fixed assets		–	–	13
<b>Cash flow from investing activities</b>		<b>–93,822</b>	<b>–62,136</b>	<b>–23,414</b>
<b>FINANCING ACTIVITIES</b>				
Transfer to shareholders		–79,107	–49,442	–29,665
Received premium for share option rights		–	4,162	–
<b>Cash flows from financing activities</b>		<b>–79,107</b>	<b>–45,280</b>	<b>–29,665</b>
<b>CASH FLOW FOR THE YEAR</b>		<b>–53,300</b>	<b>42,626</b>	<b>35,994</b>
Cash and liquid assets at beginning of period		105,009	65,132	25,915
Exchange rate differences in cash and cash equivalents		–4,675	–2,749	3,223
<b>Cash and liquid assets at end of period*</b>	20	<b>47,034</b>	<b>105,009</b>	<b>65,132</b>
*Closing cash and cash equivalents include funds held on behalf of licensees with				
		–	33,216	12,152

# CHANGES IN EQUITY

## Group

SEK thousands	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
<b>2008</b>					
<b>Opening equity Jan 1, 2008</b>	<b>1,191</b>	<b>34,200</b>	<b>801</b>	<b>16,953</b>	<b>53,145</b>
Profit for the year	-	-	-	79,967	79,967
Exchange differences arising from the translation of foreign operations	-	-	13,046	-	13,046
<b>Total income for 2008</b>	-	-	13,046	79,967	93,013
Transfer to shareholders	-	-	-	-29,665	-29,665
<b>Closing equity Dec 31, 2008</b>	<b>1,191</b>	<b>34,200</b>	<b>13,847</b>	<b>67,255</b>	<b>116,493</b>

SEK thousands	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
<b>2009</b>					
<b>Opening equity Jan 1, 2009</b>	<b>1,191</b>	<b>34,200</b>	<b>13,847</b>	<b>67,255</b>	<b>116,493</b>
Profit for the year	-	-	-	107,677	107,677
Exchange differences arising from the translation of foreign operations	-	-	-4,872	-	-4,872
<b>Total income for 2009</b>	-	-	-4,872	107,677	102,805
Premium received for share option rights	-	4,162	-	-	4,162
Transfer to shareholders	-	-	-	-49,442	-49,442
<b>Closing equity Dec 31, 2009</b>	<b>1,191</b>	<b>38,362</b>	<b>8,975</b>	<b>125,490</b>	<b>174,018</b>

SEK thousands	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
<b>2010</b>					
<b>Opening equity Jan 1, 2010</b>	<b>1,191</b>	<b>38,362</b>	<b>8,975</b>	<b>125,490</b>	<b>174,018</b>
Profit for the year	-	-	-	120,467	120,467
Exchange differences arising from the translation of foreign operations	-	-	-15,532	-	-15,532
<b>Total income for 2010</b>	-	-	-15,532	120,467	104,935
Transfer to shareholders	-	-	-	-79,107	-79,107
<b>Closing equity Dec 31, 2010</b>	<b>1,191</b>	<b>38,362</b>	<b>-6,558</b>	<b>166,850</b>	<b>199,845</b>

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

# INCOME STATEMENTS AND STATEMENTS OF TOTAL INCOME

## Parent Company

SEK thousands	Note	2010	2009	2008
Revenues	3,4	248,754	153,889	111,005
Other revenues	5	109	215	249
<b>Total operating revenues</b>		<b>248,863</b>	<b>154,104</b>	<b>111,254</b>
<b>OPERATING EXPENSES</b>				
Personnel expenses	6	-118,521	-80,965	-57,276
Depreciation/amortization	12,13	-8,094	-7,269	-8,869
Other operating expenses	27	-99,821	-52,603	-42,849
<b>Total operating expenses</b>		<b>-226,436</b>	<b>-140,837</b>	<b>-108,994</b>
<b>Operating profit</b>		<b>22,427</b>	<b>13,267</b>	<b>2,260</b>
<b>FINANCIAL ITEMS</b>				
Profit/loss from interests in Group companies	7	68,506	74,195	52,830
Interest and similar income	8	518	10,680	1,951
Interest and similar expense	9	-4,157	-13,182	-1,427
<b>Total financial items</b>		<b>64,867</b>	<b>71,693</b>	<b>53,354</b>
Appropriations	22	-	-	2,982
<b>Profit before tax</b>		<b>87,294</b>	<b>84,960</b>	<b>58,596</b>
Tax	10	-5,359	-3,817	-905
<b>Profit for the year</b>		<b>81,935</b>	<b>81,143</b>	<b>57,691</b>
Earnings per share before dilution (SEK)	11	2.07	2.05	1.46
Earnings per share after dilution (SEK)	11	2.07	2.05	1.46
<b>Number of shares at period's end</b>		<b>39,553,716</b>	<b>39,553,716</b>	<b>39,553,716</b>
<b>Average number of shares</b>		<b>39,553,716</b>	<b>39,553,716</b>	<b>39,553,716</b>
<b>Effective tax rate</b>		<b>6.1%</b>	<b>4.5%</b>	<b>1.5%</b>
<b>Statement of total income – Parent company</b>		<b>2010</b>	<b>2009</b>	<b>2008</b>
Profit for the period		81,935	81,143	57,691
<b>OTHER TOTAL INCOME</b>				
Sum of other total income for the period, net after tax		-	-	-
<b>Total income for the period</b>		<b>81,935</b>	<b>81,143</b>	<b>57,691</b>
Proposed/implemented transfer to shareholders/dividend per share		2.00	2.00	1.25

# BALANCE SHEETS

## Parent Company

SEK thousands	Note	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008
<b>ASSETS</b>				
<b>FIXED ASSETS</b>				
<b>Intangible fixed assets</b>	12			
Games and gaming systems		-	986	5,212
<b>Total intangible fixed assets</b>		-	<b>986</b>	<b>5,212</b>
<b>Tangible fixed assets</b>	13			
Equipment and fittings		23,136	20,593	4,226
<b>Total tangible fixed assets</b>		<b>23,136</b>	<b>20,593</b>	<b>4,226</b>
<b>Financial fixed assets</b>				
Participating interests in Group companies	14	512	512	183
Other long-term receivables	15	-	-	5
<b>Total financial fixed assets</b>		<b>512</b>	<b>512</b>	<b>188</b>
<b>TOTAL FIXED ASSETS</b>		<b>23,648</b>	<b>22,091</b>	<b>9,626</b>
<b>CURRENT ASSETS</b>				
<b>Current receivables</b>				
Accounts receivable	16	2	1,265	-
Receivables from Group companies	28	235,068	294,651	61,225
Current tax assets		-	-	985
Other receivables	19	5,980	5,982	3,744
Prepaid expenses and accrued income	17	3,762	3,872	1,972
<b>Total current receivables</b>		<b>244,812</b>	<b>305,770</b>	<b>67,926</b>
Cash and bank balances	20	33,760	54,297	14,598
<b>TOTAL CURRENT ASSETS</b>		<b>278,572</b>	<b>360,067</b>	<b>82,524</b>
<b>TOTAL ASSETS</b>		<b>302,220</b>	<b>382,158</b>	<b>92,150</b>

SEK thousands	Note	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008
<b>EQUITY AND LIABILITIES</b>				
<b>SHAREHOLDERS' EQUITY</b>				
<b>Restricted equity</b>	21			
Share capital		1,191	1,191	1,191
Statutory reserve		38	38	38
<b>Total restricted equity</b>		<b>1,229</b>	<b>1,229</b>	<b>1,229</b>
<b>Unrestricted equity</b>				
Share premium reserve		3,473	3,473	-
Retained earnings		17,279	15,244	6,995
Profit for the year		81,935	81,143	57,691
<b>Total unrestricted equity</b>		<b>102,687</b>	<b>99,860</b>	<b>64,686</b>
<b>TOTAL EQUITY</b>		<b>103,916</b>	<b>101,089</b>	<b>65,915</b>
<b>Untaxed reserves</b>	22	-	-	-
<b>CURRENT LIABILITIES</b>				
Accounts payable		16,789	10,312	9,078
Liabilities to Group companies	28	149,417	252,219	89
Tax liabilities		5,928	1,571	-
Other liabilities	23	2,501	1,939	1,024
Accrued expenses and deferred income	24	23,669	15,028	16,044
<b>TOTAL CURRENT LIABILITIES</b>		<b>198,304</b>	<b>281,069</b>	<b>26,235</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>302,220</b>	<b>382,158</b>	<b>92,150</b>
<b>Pledged assets</b>		<b>None</b>	<b>None</b>	<b>None</b>
<b>Contingent liabilities</b>		<b>None</b>	<b>None</b>	<b>None</b>

# CASH FLOW STATEMENTS

## Parent Company

SEK thousands	Note	2010	2009	2008
<b>OPERATING ACTIVITIES</b>				
Profit after financial items		22,427	13,267	55,614
Adjustments for non-cash items				
– Depreciation/amortization	12,13	8,094	7,269	8,869
– Other		–3,731	–2,641	-
Interest received/paid		92	139	-
Income taxes paid		–1,001	–1,262	–8,302
Cash flow from operating activities before changes in working capital		25,881	16,772	56,181
Increase / decrease in accounts receivable		1,261	–1,263	-
Increase / decrease in other receivables		169,866	–163,368	–33,601
Increase / decrease in trade payables		6,477	1,234	4,575
Increase / decrease in other current liabilities		–135,264	252,027	6,630
<b>Cash flow from operating activities</b>		<b>68,221</b>	<b>105,402</b>	<b>33,785</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of intangible fixed assets	12	-	-	-
Acquisition of tangible fixed assets	13	–9,651	–19,410	–2,560
Disposal of tangible fixed assets		-	-	543
Acquisition of shares and participating interests	14	-	–329	-
Disposal of shares and participating interests	14	-	-	33
Change in long-term receivables		-	5	-
<b>Cash flow from investing activities</b>		<b>–9,651</b>	<b>–19,734</b>	<b>–1,984</b>
<b>FINANCING ACTIVITIES</b>				
Received premium for share option rights		-	3,473	-
Transfer to shareholders/dividend		–79,107	–49,442	–29,665
<b>Cash flow from financing activities</b>		<b>–79,107</b>	<b>–45,696</b>	<b>–29,665</b>
<b>CASH FLOW FOR THE YEAR</b>		<b>–20,537</b>	<b>39,699</b>	<b>2,136</b>
Cash and cash equivalents at beginning of year		54,297	14,598	12,462
<b>Cash and cash equivalents at year-end</b>	20	<b>33,760</b>	<b>54,297</b>	<b>14,598</b>
<b>ADDITIONAL DISCLOSURES</b>				
Interest paid during the period amounted to		24	30	255
Interest received during the period amounted to		116	169	488



# CHANGES IN EQUITY

## Parent Company

SEK thousands	Share capital	Other capital contributed	Share premium reserve	Reserves	Retained earnings	Total equity
<b>Opening equity Jan 1, 2008</b>	<b>1,191</b>	<b>38</b>	<b>-</b>	<b>3,650</b>	<b>33,010</b>	<b>37,889</b>
Profit for the year	-	-	-	-	57,691	57,691
<b>Total income</b>	<b>1,191</b>	<b>38</b>	<b>-</b>	<b>3,650</b>	<b>90,701</b>	<b>95,580</b>
Allocation adopted by Annual General Meeting	-	-	-	3,345	-33,010	-29,665
<b>Closing equity Dec 31, 2008</b>	<b>1,191</b>	<b>38</b>	<b>-</b>	<b>6,995</b>	<b>57,691</b>	<b>65,915</b>
<b>Opening equity Jan 1, 2009</b>	<b>1,191</b>	<b>38</b>	<b>-</b>	<b>6,995</b>	<b>57,691</b>	<b>65,915</b>
Profit for the year	-	-	-	-	81,143	81,143
<b>Total income</b>	<b>1,191</b>	<b>38</b>	<b>-</b>	<b>6,995</b>	<b>138,834</b>	<b>147,058</b>
Received premium for share option rights	-	-	3,473	-	-	3,473
Allocation adopted by Annual General Meeting	-	-	-	8,249	-57,691	-49,442
<b>Closing equity Dec 31, 2009</b>	<b>1,191</b>	<b>38</b>	<b>3,473</b>	<b>15,244</b>	<b>81,143</b>	<b>101,089</b>
<b>Opening equity Jan 1, 2010</b>	<b>1,191</b>	<b>38</b>	<b>3,473</b>	<b>15,244</b>	<b>81,143</b>	<b>101,089</b>
Profit for the year	-	-	-	-	81,935	81,935
<b>Total income</b>	<b>1,191</b>	<b>38</b>	<b>3,473</b>	<b>15,244</b>	<b>163,078</b>	<b>183,023</b>
Allocation adopted by Annual General Meeting	-	-	-	2,036	-81,143	-79,107
<b>Closing equity Dec 31, 2010</b>	<b>1,191</b>	<b>38</b>	<b>3,473</b>	<b>17,279</b>	<b>81,935</b>	<b>103,916</b>

# NOTES

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 GENERAL INFORMATION

Net Entertainment NE AB (Parent Company, corporate registration number 556532-6443) and its subsidiaries (together, the Group or the Company) 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.

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

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

This annual report was approved for publication by the Board of Directors on March 11, 2011. The Statements of Income and Balance Sheets shall be adopted at the Annual General Meeting on April 13, 2011.

### NOTE 2 ACCOUNTING AND VALUATION PRINCIPLES

#### Preparation of the report

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the statements of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU Commission for application within the EU. The Group has also adopted the Swedish Financial Reporting Board's recommendation RFR 1 "Supplementary Accounting Rules for Groups".

The accounting policies have been adopted in the reporting for all companies within the Group and in the consolidation for each time period which is presented in the Group's reports.

#### Preparation of the Group's financial reports

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

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

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

The most important accounting principles in the preparation of these consolidated financial statements are stated below. These principles have been applied consistently for all the years presented, unless otherwise stated.

The parent company applies the same principles as the Group, with the exception that the parent company's report has been prepared in accordance with RFR 2.1 Accounting for Legal Entities. This results in certain differences caused by the requirements of the Annual Accounts Act or by tax considerations. The accounting principles for the parent company are stated below in the section 'Parent Company Accounting Principles'.

#### Standards, amendments, and interpretations that came into effect in 2010

The following are new and revised standards and interpretation statements that came into effect in 2010, and that affect the corporation's financial reports;

IFRS 3 (revised) and the subsequent amendments in IAS 27 apply to acquisitions and transactions that occur on 1 January 2010 or later. The amendments in these standards mean, among other things, that transactions with minority shareholders who have decisive influence shall be reported as transactions between owners (within equity). In addition, the rules for reporting contingent considerations are changed, so that the acquisition value for a business acquisition is reported at a point in time. Subsequent adjustments of the acquisition value affect the income statement. Acquisition related expenses may not be included in the acquisition value for a business acquisition without being reported as an expense in the income statement.

The approach to reporting successive acquisitions has changed, which means that at the time of the transaction (when controlling influence is obtained) the actual value of the previously owned share is calculated. The acquisition expense thereby consists of the actual value of the previously owned share, plus the purchase price of the newly acquired share. Any changes in value for the previously owned share are reported as a gain or loss on the income statement. The corporation will apply this to any future acquisitions.

#### Standards, amendments to existing standards that have not yet come into effect, and that have not been previously applied by the Corporation

Below are the new standards and statements that shall be applied during the calendar year of 2011 or later, and are expected to influence the corporation's financial reports.

IFRS 9, "Financial instruments" (published in November 2009). This standard is the first step in the process of replacing IAS 39, "Financial instruments: valuation and classification". IFRS 9 introduces two new requirements for valuation and classification of financial assets. The standard is not applicable until the fiscal year beginning 1 January 2013,

but is available for early application. However, the standard has not yet been adopted by the EU.

The corporation's initial assessment is that it probably would not significantly affect the corporation's reporting of financial assets, but since it is not yet adopted, the full impact on the financial reports has not been fully evaluated.

## CLASSIFICATIONS

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

## CONSOLIDATED STATEMENTS

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

## Principles of consolidation

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

Subsidiaries' revenue, expenses, assets and liabilities are included in the consolidated financial statements from the date on which control arises (acquisition date) until and including the date on which control ceases. Intra-group receivables and liabilities, and transactions among group companies and any associated gains, are eliminated in their entirety.

## Translation of foreign operations

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

## Revenues

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

Net Entertainment Casino™ generates license revenues according to a royalty model and the amount is determined by the earnings gener-

ated by the product for the customer and is recognised for the period the customer uses the product.

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

## Other revenues

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

## Financial income/expenses

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

## Other external expenses

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

## Segment reporting

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

## Pooled Jackpots

During 2010 the procedure for pooled jackpots has changed which has affected the accounting for these. Previously, the funds were separated to specific bank accounts that have been included in Net Entertainment's reported cash and cash equivalents. The new procedure entails a different type of bank account that is excluded from the Company's cash and cash equivalents. In the balance sheet the funds are now reported as current receivables. As before, a corresponding amount is reported under liabilities in the balance sheet as other current liabilities. In the cash flow statement, jackpot funds and payment of winnings are included in changes in working capital. As this is not a change in accounting policies, historical comparable figures have not been affected.

## Cash flow statement

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

## Intangible assets

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

# NOTES

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

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

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

## Property, plant and equipment

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

## Depreciation/amortization and impairment

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

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

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

## Financial instruments

Financial assets can be classified in the following categories:

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

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

## Loan receivables and accounts receivable

Loan receivables and accounts receivable are financial assets that are not derivatives with fixed payments or payments that can be defined and are not listed in an active market. They are included in current assets with

the exception of items with an expiry date of more than 12 months from the closing date, which are classified as fixed assets. In this category, Accounts receivable as well as Cash or cash equivalents are recognized in the balance sheet (see notes 16 and 20).

## Accounts receivable

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

## Cash and cash equivalents

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

## Shareholders' equity

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

## Accounts payable

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

## Other financial liabilities

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

## Financial investments

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

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

## Hedge accounting

Net Entertainment does not regularly hedge the risk exposure in terms of exchange rate fluctuations from future cash flows with financial instruments. By way of exception, hedging can occur for identified flows, which was carried out in 2010. During 2008 parts of future cash flows

was hedged through currency forward contracts. Later the same year it was decided to discontinue hedging and all hedging contracts expired in 2008. No currency forward contracts exist at the end of each fiscal year.

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

## Taxes

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

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

Tax effects of items recognized via total income against equity or directly against equity, are recognized against other total income or against equity.

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

## Leases

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

## Dividends

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

## Employee benefits

### Pension costs and pension commitments

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

## Remuneration after termination of employment

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

## Termination benefits

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

## Bonus plans

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

## Provisions

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

## Contingent liabilities

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

## PARENT COMPANY ACCOUNTING PRINCIPLES

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

Interests in subsidiaries are reported at acquisition value with deductions for possible depreciation. Acquisition-related expenses for the subsidiaries, which are expensed in the consolidated financial statements, are included as part of the acquisition value for shares in subsidiaries.

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

All leasing agreements are recognised as operating leasing.

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

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



# NOTES

The amendments in RFR 2 Accounting for legal entities, which has come into effect and applies to the fiscal year 2010, has resulted in changed formats for the parent company. The parent company's income and expenses that were previously reported in equity and that did not involve transactions with owners are now presented in a report of comprehensive income directly after the parent company's income statement. Items in comprehensive income shall be presented separately from transactions with owners in the parent company's report of changes in equity.

## KEY ESTIMATES AND ASSUMPTIONS

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

## Taxes

The Group's tax expense is primarily affected by the distribution of profit between Sweden and the countries in which the Group conducts operations 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 tax authorities the tax amounts the Company 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.

## Impairment tests

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

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

## NOTE 3 REVENUES

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
- License revenues, royalties	368,170	299,722	204,602	15,592	13,158	9,441
- Consulting revenues	-	-	-	231,297	135,853	98,991
- Invoiced expenses	-	-	-	1,865	4,878	2,573
<b>Total</b>	<b>368,170</b>	<b>299,722</b>	<b>204,602</b>	<b>248,754</b>	<b>153,889</b>	<b>111,005</b>

## NOTE 4 SEGMENT REPORTING

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

Segments are defined as it can generate revenue and incur expenses. Defined segments within the Group are used for follow-up purposes to make strategic decisions. In its reporting to the chief operating decision maker, the Group has identified one reportable segment. The segment that has been identified is the system for casino games. The CEO assesses the business performance based on the operating segment.

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

## GEOGRAPHICAL BREAKDOWN

	2010	2009	2008
<b>Revenue</b>			
Sweden	-	-	-
Malta	82%	84%	90%
Other Countries	18%	16%	10%
<b>Fixed Assets</b>			
Sweden	18%	28%	23%
Malta	76%	72%	77%
Alderney	6%	-	-

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

## CUSTOMERS

	2010	2009	2008
Customer I	24%	26%	26%
Customer II	15%	18%	25%
Customer III	13%	14%	8%

## NOTE 5 OTHER REVENUES

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
- Bad debts recovered	-	-	82	-	-	-
- Exchange differences, operations	-	328	517	-	215	-
- Other	110	-	372	109	-	249
<b>Total</b>	<b>110</b>	<b>328</b>	<b>971</b>	<b>109</b>	<b>215</b>	<b>249</b>

**NOTE 6 EMPLOYEE BENEFITS****AVERAGE NUMBER OF EMPLOYEES**

	2010		2009		2008	
	Average number of employees	Of which men	Average number of employees	Of which men	Average number of employees	Of which men
Sweden	139	79%	101	78%	61	76%
Malta	13	74%	9	63%	9	61%
<b>Group total</b>	<b>152</b>	<b>78%</b>	<b>110</b>	<b>77%</b>	<b>70</b>	<b>75%</b>

Januari 1–December 31	PARENT COMPANY		
	2010	2009	2008
Total sickness absence – employees' total standard working hours	3.06%	2.94%	2.40%
Share of sickness absence pertaining to absence exceeding 60 consecutive days; proportion of long-term absence	19.94%	17.47%	8.90%
– Sickness absence, women	5.29%	5.67%	3.10%
– Sickness absence, men	2.43%	2.14%	2.20%
– Sickness absence, employees under 30*	2.49%	2.52%	2.00%
– Sickness absence, employees 30–49*	3.24%	3.09%	2.20%
– Sickness absence, employees over 49*	–	–	–

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

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

**REMUNERATION TO SENIOR EXECUTIVES**

	2010	2009	2008
<b>Members of the board, current</b>			
Rolf Blom, Chairman of the Board	654	644	332
Vigo Carlund	220	265	131
Fredrik Erbring	270	265	131
Niklas Eriksson	220	265	131
Mikael Gottschlich	220	265	131
Peter Hamberg	220	200	50 <sup>11</sup>
<b>Members of the board, previous</b>			
Pontus Lindwall, former Chairman of the Board	–	–	83
John Wattin	–	–	42
Ann-Catrine Appelquist	–	–	42
Einar-Gunnar Gudmundsson	–	–	42
<b>Total</b>	<b>1 804</b>	<b>1 904</b>	<b>1 115</b>

<sup>11</sup> Refers to remuneration as a deputy Board member

The table shows the remuneration paid in each fiscal year.

**SALARIES AND SOCIAL SECURITY EXPENSES**

	2010		2009		2008	
	Salaries	Social security expenses (of which pension costs)	Salaries	Social security expenses (of which pension costs)	Salaries	Social security expenses (of which pension costs)
Board of Directors and the CEO	6,437	2,981 [1,191]	4,833	2,417 [825]	3,859	1,791 [729]
Other employees Sweden	68,360	29,336 [8,682]	51,019	20,790 [7,077]	31,438	12,829 [2,726]
<b>Total Parent Company</b>	<b>74,797</b>	<b>32,317</b> <b>[9,873]</b>	<b>55,852</b>	<b>23,207</b> <b>[7,902]</b>	<b>35,297</b>	<b>14 620</b> <b>[3,455]</b>
Other employees Malta	8,740	715 [242]	5,645	788 [145]	3,362	1,183 [217]
<b>Total Group</b>	<b>83,537</b>	<b>33,032</b> <b>[10,115]</b>	<b>61,497</b>	<b>23,995</b> <b>[8,047]</b>	<b>38,659</b>	<b>15,803</b> <b>[3,672]</b>

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

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

	2010			2009			2008		
	No. of men	No. of women	Women	No. of men	No. of women	Women	No. of men	No. of women	Women
Board of Directors	6	0	0%	6	0	0%	5	0	0%
Other senior executives	5	0	0%	5	0	0%	6	0	0%
<b>Total Group Board of Directors and senior executives</b>	<b>11</b>	<b>0</b>	<b>0%</b>	<b>11</b>	<b>0</b>	<b>0%</b>	<b>11</b>	<b>0</b>	<b>0%</b>

# NOTES

## REMUNERATION TO THE BOARD OF DIRECTORS

Remuneration to the Board of Directors are approved by the Annual General Meeting. At the Annual General Meeting April 13, 2010 it was resolved, for the period up until the end of the next Annual General Meeting 2010, that remuneration would be paid of SEK 1,800 thousand of which SEK 650 thousand to the Chairman of the Board and SEK 220 thousand to each Board member and an addition of SEK 50 thousand to the Chairman of the Audit committee.

## REMUNERATION TO SENIOR EXECUTIVES

During 2010 the remuneration to the CEO amounted to SEK 4,633 (2,930 and 2,744, respectively) thousand, of which SEK 1,570 (830 and 1,064, respectively) thousand was variable compensation, and pension costs of SEK 1,191 (825 and 729, respectively) thousand. Other benefits, such as health care insurance amounted to SEK 7 (7 and 6, respectively) thousand.

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

During 2010 the remuneration to the deputy CEO amounted to SEK 946 (938) thousand, of which SEK 40 (105) was variable compensation, and pension costs of SEK 185 (124) thousand. As the deputy CEO took office during 2009, information for year 2008 is included among other senior executives.

Remuneration for other senior executives during 2010 amounted to SEK 2,698 (3,513 and 3,762, respectively) thousand, of which SEK 344 (356 and 1,249 respectively) thousand was variable compensation, and pension costs of SEK 614 (668 and 391, respectively) thousand. Senior executives consisted of 6 (8 and 6, respectively) persons during 2010, of which several only for a portion of the year. During the time February to December 2010, one senior executive has been commissioned from a consultancy firm. The remuneration to this consultancy firm amounted to SEK 2,402 thousand and is not included in the amounts above.

The notice period for other senior executives is mutually six months. Other benefits, regarding health insurance, amounted to SEK 7 (74 and 6, respectively) thousand.

## NOTE 7 EARNINGS FROM SHARES IN SUBSIDIARIES

	PARENT COMPANY		
	2010	2009	2008
Anticipated dividend from subsidiaries	68,506	66,880	52,830
Dividend from subsidiaries	-	7,315	-
<b>Total</b>	<b>68,506</b>	<b>74,195</b>	<b>52,830</b>

## NOTE 8 FINANCIAL INCOME

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
Interest income	167	311	1,259	117	169	488
Exchange rate differences	1,103	11,428	1,498	402	10,511	1,463
<b>Total</b>	<b>1,270</b>	<b>11,739</b>	<b>2,757</b>	<b>518</b>	<b>10,680</b>	<b>1,951</b>

## NOTE 9 FINANCIAL EXPENSES

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
Interest expense	-29	-47	-290	-24	-30	-255
Exchange rate differences	-6,213	-14,658	-4,317	-4,133	-13,152	-1,172
<b>Total</b>	<b>-6,242</b>	<b>-14,705</b>	<b>-4,607</b>	<b>-4,157</b>	<b>-13,182</b>	<b>-1,427</b>

## NOTE 10 INCOME TAX

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
<b>CURRENT TAX</b>						
Sweden	5,359	3,817	905	5,359	3,817	905
Outside Sweden	4,465	5,722	5,534	-	-	-
<b>Total current tax</b>	<b>9,824</b>	<b>9,539</b>	<b>6,439</b>	<b>5,359</b>	<b>3,817</b>	<b>905</b>
<b>DEFERRED TAX</b>						
Sweden	-	-	-835	-	-	-
Outside Sweden	1,148	-	382	-	-	-
<b>Total deferred tax</b>	<b>1,148</b>	<b>-</b>	<b>-453</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total tax expense</b>	<b>10,972</b>	<b>9,539</b>	<b>5,986</b>	<b>5,359</b>	<b>3,817</b>	<b>905</b>

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
<b>Difference between actual tax expense and tax expense based on present tax rate</b>						
Recognised profit before tax	131,439	117,216	85,953	87,294	84,960	55,614
Tax according to present tax rate 26.3% (26.3% 28%)	34,568	30,828	24,067	22,958	22,344	15,572
Difference in tax rates in foreign operations	-23,926	-22,275	-18,206	-	-	-
Tax effect from non-taxable items	-	-	-	-18,017	-19,513	-14,792
Tax attributable to prior years	1	797	-47	90	797	-47
Tax effect from non-deductible items	328	189	172	328	189	172
<b>Recognised tax expense</b>	<b>10,972</b>	<b>9,539</b>	<b>5,986</b>	<b>5,359</b>	<b>3,817</b>	<b>905</b>
<b>Specification of deferred tax expense</b>						
Tax on appropriations	-	-	-835	-	-	-
Tax on temporary differences	1,148	0	382	-	-	-
	<b>1,148</b>	<b>0</b>	<b>453</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

## NOTE 11 EARNINGS PER SHARE

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
Profit after tax attributable to Parent Company shareholders (SEK thousand)	120,467	107,677	79,967	81,935	81,143	57,961
No. of shares	39,554	39,554	39,554	39,554	39,554	39,554
Earnings per share (SEK)	3.05	2.72	2.02	2.07	2.05	1.46

Earnings per share is calculated based on the average number of shares. The number of shares have been calculated in accordance with IAS 33 Earnings per share.

At the end of 2010 the total outstanding share option rights amounted to 586,225, corresponding to the same number of shares. The Annual General Meeting April 29, 2009 resolved to introduce a long-term incentive program. The potential shares the issue of the share option rights are considered, when calculating the number of shares and earnings per share after dilution, to the extent they affect dilution in accordance with IAS 33 Earnings per share. As the share price on the closing day is below the strike price of SEK 71.70 the potential shares have no dilutive effect and are therefore not included in the number of shares after dilution.

**NOTE 12 INTANGIBLE ASSETS**

Group	Gaming products, systems and platforms	Gaming contracts and licenses	Trademarks	Total
<b>2008</b>				
Opening acquisition value	38,015	1,615	147	39,777
Capitalized development expenses for the year	16,867	–	–	16,867
Translation difference	4,432	–	–	4,432
Closing accumulated acquisition value	59,314	1,615	147	61,076
Opening amortization	13,814	1,615	102	15,531
Amortization during the year	13,007	–	45	13,052
Translation difference	1,084	–	–	1,084
Closing accumulated amortization	27,905	1,615	147	29,667
<b>Closing residual value according to plan Dec 31, 2008</b>	<b>31,409</b>	<b>0</b>	<b>0</b>	<b>31,409</b>
<b>2009</b>				
Opening acquisition value	59,314	1,615	147	61,076
Capitalized development expenses for the year	33,154	–	–	33,154
Translation difference	–2,590	–	–	–2,590
Closing accumulated acquisition value	89,878	1,615	147	91,640
Opening amortization	27,905	1,615	147	29,667
Amortization during the year	14,937	–	–	14,937
Translation difference	–696	–	–	–696
Closing accumulated amortization	42,146	1,615	147	43,908
<b>Closing residual value according to plan Dec 31, 2009</b>	<b>47,732</b>	<b>0</b>	<b>0</b>	<b>47,732</b>
<b>2010</b>				
Opening acquisition value	89,878	1,615	147	91,640
Capitalized development expenses for the year	67,645	–	–	67,645
Translation difference	–12,364	–	–	–12,364
Closing accumulated acquisition value	145,159	1,615	147	146,921
Opening amortization	42,146	1,615	147	43,908
Amortization during the year	19,477	–	–	19,477
Translation difference	–3,485	–	–	–3,485
Closing accumulated amortization	58,138	1,615	147	59,900
<b>Closing residual value according to plan Dec 31, 2010</b>	<b>87,021</b>	<b>0</b>	<b>0</b>	<b>87,021</b>
<b>Parent company</b>				
<b>2008</b>				
Opening acquisition value	24,433	1,615	147	26,195
Closing accumulated acquisition value	24,433	1,615	147	26,195
Opening amortization	11,822	1,615	102	13,539
Amortization during the year	7,399	–	45	7,444
Closing accumulated amortization	19,221	1,615	147	20,983
<b>Closing residual value according to plan Dec 31, 2008</b>	<b>5,212</b>	<b>0</b>	<b>0</b>	<b>5,212</b>
<b>2009</b>				
Opening acquisition value	24,433	1,615	147	26,195
Closing accumulated acquisition value	24,433	1,615	147	26,195
Opening amortization	19,221	1,615	147	20,983
Amortization during the year	4,226	–	–	4,226
Closing accumulated amortization	23,447	1,615	147	25,209
<b>Closing residual value according to plan Dec 31, 2009</b>	<b>986</b>	<b>0</b>	<b>0</b>	<b>986</b>

# NOTES

Parent company	Gaming products, systems and platforms	Gaming contracts and licenses	Trademarks	Total
<b>2010</b>				
Opening acquisition value	24,433	1,615	147	26,195
Closing accumulated acquisition value	24,433	1,615	147	26,195
Opening amortization	23,447	1,615	147	25,209
Amortization during the year	986	-	-	986
Closing accumulated amortization	24,433	1,615	147	26,195
<b>Closing residual value according to plan Dec 31, 2010</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## NOTE 13 TANGIBLE FIXED ASSETS

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
<b>EQUIPMENT AND FITTINGS</b>						
Opening acquisition value	42,240	18,843	11,181	24,687	10,133	8,117
Acquisitions for the year	24,149	24,126	6,560	7,624	14,554	2,560
Translation differences	-3,224	-729	1,102	-	-	-
Sales and disposals	-	-	-	-	-	-544
<b>Closing accumulated acquisition value</b>	<b>63,165</b>	<b>42,240</b>	<b>18,843</b>	<b>32,311</b>	<b>24,687</b>	<b>10,133</b>
Opening depreciation	15,024	8,055	5,321	8,820	5,907	4,482
Sales and disposals	-	-	-	-	-	-
Depreciation during the year	10,582	6,113	2,461	6,210	2,913	1,425
Write-down	-	1,118	-	-	-	-
Translation differences	-1,057	-262	273	-	-	-
<b>Closing accumulated depreciation</b>	<b>24,549</b>	<b>15,024</b>	<b>8,055</b>	<b>15,030</b>	<b>8,820</b>	<b>5,907</b>
<b>Closing residual value according to plan</b>	<b>38,616</b>	<b>27,216</b>	<b>10,788</b>	<b>17,281</b>	<b>15,867</b>	<b>4,226</b>

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
<b>LEASEHOLD IMPROVEMENTS</b>						
Opening acquisition value	4,856	-	-	4,856	-	-
Acquisitions for the year	2,028	4,856	-	2,028	4,856	-
<b>Closing accumulated acquisition value</b>	<b>6,884</b>	<b>4,856</b>	<b>-</b>	<b>6,884</b>	<b>4,856</b>	<b>-</b>
Opening depreciation	130	-	-	130	-	-
Depreciation during the year	899	130	-	899	130	-
<b>Closing accumulated depreciation</b>	<b>1,029</b>	<b>130</b>	<b>-</b>	<b>1,029</b>	<b>130</b>	<b>-</b>
<b>Closing residual value according to plan</b>	<b>5,855</b>	<b>4,726</b>	<b>-</b>	<b>5,855</b>	<b>4,726</b>	<b>-</b>



**NOTE 14 PARTICIPATING INTERESTS IN GROUP COMPANIES**

Parent Company	Corp. Reg. No.	Reg. HQ	Share %	No. of shares	Carrying amount 2010	Carrying amount 2009	Carrying amount 2008
<b>Name</b>							
Mobile Entertainment ME AB	556185-1758	Stockholm	100%	1,000	89	89	89
– Net Entertainment Malta Holding Ltd.		Malta	0.01%	1			
– Net Entertainment Malta Ltd.		Malta	0.01%	1			
– Net Entertainment Malta Services Ltd.		Malta	0.03%	1			
– Net Entertainment International Ltd		Malta	0.08%	1			
– Merit Media Marketing Ltd		Malta	0.08%	1			
Net Entertainment Malta Holding Ltd.	C 37769	Malta	99.99%	3,999	423	423	94
– Net Entertainment Malta Ltd.		Malta	99.99%	3,999			
– Net Entertainment Malta Services Ltd.		Malta	99.97%	2,999			
– Merit Media Marketing Ltd		Malta	99.92%	1,199			
– Net Entertainment International Ltd		Malta	99.92%	1,199			
NE Services Ltd	97 195	Gibraltar	100%	2,000			
– Net Entertainment Alderney Ltd		Alderney	100%	1,200			
<b>Total</b>					<b>512</b>	<b>512</b>	<b>183</b>

	PARENT COMPANY		
	2010	2009	2008
<b>Changes in participations in Group companies</b>			
Opening acquisition value	512	183	216
Increase in share capital	-	329	-
Divestment of companies to subsidiaries	-	-	-33
<b>Closing carrying amount</b>	<b>512</b>	<b>512</b>	<b>183</b>

**NOTE 15 LONG-TERM RECEIVABLES**

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
Long-term portion of deposits	-	-	5	-	-	5
<b>Total</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>5</b>

**NOTE 16 ACCOUNTS RECEIVABLE**

The carrying amounts for accounts receivable comply with the fair values and corresponds to nominal amounts. No receivables have been placed as security for liabilities or contingent liabilities.

On December 31, 2010, accounts receivable due totaled SEK 4,463 (3,430, 3,028 respectively) thousand with no indication of impairment identified. This applies to a number of independent customers that have not previously had payment difficulties. Acknowledged bad debts during the period and an age analysis of consolidated accounts receivable are presented below. The analysis of bad debt only contains receivables in which no impairment have been identified. Credit risks are detailed in note 29.

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
Per January 1	-	213	285	-	-	-
Provision for bad debt	2,629	1,421	336	-	-	3
Customer losses in the income statement	-	-1,634	-326	-	-	-3
Reversed unused amounts	-	-	-82	-	-	-
Per December 31	2,629	-	213	-	-	-
<b>Age analysis accounts receivable</b>						
0–30 days	3,309	3,054	8,226	2	1,265	-
30–60 days	2,164	369	2 406	-	-	-
Older than 60 days	-	418	622	-	-	-
<b>Total</b>	<b>5,473</b>	<b>3,841</b>	<b>11,254</b>	<b>2</b>	<b>1,265</b>	<b>0</b>

# NOTES

## NOTE 17 PREPAID EXPENSES AND ACCRUED INCOME

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
Accrued license/royalty income	34,928	29,627	26,767	-	-	-
Prepaid IT-services	5,633	7,548	-	-	-	-
Prepaid rent	2,234	2,002	1,146	1,993	1,958	1,146
Prepaid license fees	1,126	883	524	749	481	524
Other prepaid expenses	3,190	2,863	1,603	1,020	1,433	302
<b>Total</b>	<b>47,111</b>	<b>42,923</b>	<b>30,040</b>	<b>3,762</b>	<b>3,872</b>	<b>1,972</b>

## NOTE 18 DEFERRED TAX LIABILITY

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
<b>Provisions for taxes</b>						
- Deferred tax on temporary differences	-	-	1,676	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,676</b>	<b>-</b>	<b>-</b>	<b>-</b>

## NOTE 19 OTHER RECEIVABLES

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
VAT	5,266	4,700	3,687	5,181	4,700	3,687
Receivables from operator	23,266	11,253	-	-	-	-
Other	819	1,282	57	799	1,282	57
Receivables from Group companies	-	-	-	235,068	294,651	-
<b>Total</b>	<b>29,351</b>	<b>17,235</b>	<b>3,744</b>	<b>241,048</b>	<b>300,633</b>	<b>3,744</b>

## NOTE 20 CASH AND CASH EQUIVALENTS

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
Cash and bank balances	47,034	105,009	65,132	33,760	54,297	14,598
<b>Total</b>	<b>47,034</b>	<b>105,009</b>	<b>65,132</b>	<b>33,760</b>	<b>54,297</b>	<b>14,598</b>

Of the Groups' balance SEK 0 [33,216 respectively 12,152] thousand refers to funds held on behalf of licensees on December 31, 2010. The parent company has no funds held on behalf of licensees.

## NOTE 21 SHAREHOLDERS' EQUITY

	2010		2009		2008	
	No. of shares	Share capital	No. of shares	Share capital	No. of shares	Share capital
<b>Share capital distribution</b>						
Shares, series A [10 votes per share]	5,610,000	168	5,610,000	168	5,610,000	168
Shares, series B [1 vote per share]	33,943,716	1,023	33,943,716	1,023	33,943,716	1,023
<b>Total number of shares</b>	<b>39,553,716</b>	<b>1,191</b>	<b>39,553,716</b>	<b>1,191</b>	<b>39,553,716</b>	<b>1,191</b>

Par value per share SEK 0.003

### GROUP

#### Other capital contributed

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

### RESERVES

#### Translation reserve

The translation reserve comprises all exchange-rate differences that arise from the translation of financial statements from foreign operations that have prepared their financial statements in a currency other than the currency in which the consolidated financial statements are presented. At year end, the accumulated translation differences were SEK -6,558 [8,975 and 13,847 respectively] thousand.

Specification reserves	Translation difference
Opening balance Jan 1, 2008	801
Translation differences for the year	13 046
Closing balance Dec 31, 2008	13 847
Translation differences for the year	-4 872
Closing balance Dec 31, 2009	8 975
Translation differences for the year	-15 532
Closing balance Dec 31, 2010	-6 558

### RETAINED EARNINGS INCL. PROFIT FOR THE YEAR

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

### PROPOSED/COMPLETED TRANSFER TO SHAREHOLDERS

The Board of Directors proposes that no dividend is paid for the fiscal year 2010.

The Board proposes to the Annual General Meeting to allocate SEK 79.1 [79.1, 49.4 respectively] million to shareholders, which corresponds to SEK 2.00 [2.00, 1.25 respectively] per share. The Board intends to propose that the transfer be handled through a share redemption program.

**NOTE 22 UNTAXED RESERVES, APPROPRIATIONS**

	PARENT COMPANY		
	2010	2009	2008
<b>BALANCE SHEET</b>			
Accumulated accelerated depreciation	-	-	-
<b>Total untaxed reserves</b>	-	-	-
Deferred tax in untaxed reserves amounts to	-	-	-
<b>INCOME STATEMENT</b>			
Difference between recognised depreciation and depreciation according to plan	-	-	2,982
<b>Total appropriations</b>	-	-	<b>2,982</b>

**NOTE 23 OTHER CURRENT LIABILITIES**

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
<b>Other current liabilities</b>						
Processed Jack-Pot	46,409	33,216	12,795	-	-	-
Personnel's tax	2,886	3,252	3,150	2,501	1,939	1,024
Other	550	1,189	1,202	-	-	-
Liabilities to Group companies	-	-	-	149,417	252,219	-
<b>Total</b>	<b>49,845</b>	<b>37,657</b>	<b>17,147</b>	<b>151,918</b>	<b>254,158</b>	<b>1,024</b>

**NOTE 24 ACCRUED EXPENSES AND DEFERRED INCOME**

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
Accrued wages and salaries	4,893	2,829	7,984	3,732	2,400	7,680
Vacation pay liability	6,243	3,775	2,781	6,054	3,460	2,479
Social security contributions	4,105	2,766	1,760	4,105	2,766	1,760
Payroll tax	1,826	1,353	838	1,826	1,353	838
Other	9,392	5,450	3,793	7,952	5,049	3,287
<b>Total</b>	<b>26,459</b>	<b>16,172</b>	<b>17,156</b>	<b>23,669</b>	<b>15,028</b>	<b>16,044</b>

**NOTE 25 CONTINGENT LIABILITIES**

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

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

**NOTE 26 LEASING**

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

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
Expensed lease payments and rental charges	8,940	7,445	5,562	8,003	6,974	4,956
<b>Total</b>	<b>8,940</b>	<b>7,445</b>	<b>5,562</b>	<b>8,003</b>	<b>6,974</b>	<b>4,956</b>

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

	GROUP		PARENT COMPANY	
	2010	2009	2010	2009
Within one year		9,635		8,279
Two to five years		32,137		29,967
After five years		7,380		7,380
<b>Total</b>		<b>49,152</b>		<b>45,626</b>

**NOTE 27 AUDITORS' FEES**

Deloitte AB were elected auditors by the 2008 Annual General Meeting for a period of four years. Deloitte AB are auditors for Net Entertainment NE AB and the Swedish subsidiaries. In addition to the auditing assignment, Net Entertainment has also used Deloitte AB for consultation on taxation, VAT and accounting matters and analyses.

	GROUP			PARENT COMPANY		
	2010	2009	2008	2010	2009	2008
<b>Deloitte</b>						
Auditing assignments	909	720	505	559	530	505
Other assignments than the auditing assignment	83	21	273	83	21	273
Tax consultations	133	-	-	20	-	-
Other service	27	255	-	27	255	-
<b>Total</b>	<b>1,152</b>	<b>996</b>	<b>778</b>	<b>689</b>	<b>806</b>	<b>778</b>
<b>Ernst &amp; Young</b>						
Auditing assignments	-	-	148	-	-	148
Other assignments than the auditing assignment	-	-	30	-	-	30
Tax consultations	-	-	-	-	-	-
Other services	-	-	-	-	-	-
<b>Total</b>	<b>0</b>	<b>0</b>	<b>178</b>	<b>0</b>	<b>0</b>	<b>178</b>
<b>Mahoney</b>						
Auditing assignments	-	-	82	-	-	-
Other assignments than the auditing assignment	-	-	-	-	-	-
Tax consultations	-	-	-	-	-	-
Other services	-	-	-	-	-	-
<b>Total</b>	<b>0</b>	<b>0</b>	<b>82</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>1,152</b>	<b>996</b>	<b>1,038</b>	<b>689</b>	<b>806</b>	<b>956</b>

# NOTES

## NOTE 28 RELATED PARTY TRANSACTIONS

	PARENT COMPANY		
	2010	2009	2008
<b>Purchase of services from related parties</b>			
Purchase from subsidiaries	-	-	-
- share of total operating expenses	-	-	-
<b>Sale of services to related parties</b>			
Sales to subsidiaries	248,754	153,877	111,005
- share of total revenue	99.96%	99.85%	99.78%
<b>Liability to related parties</b>			
Liability to subsidiaries	149,417	252,219	89
<b>Receivable from related parties</b>			
Receivable from subsidiaries	235,068	294,651	61,225

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

Until April 2008 there were members of the Board in Net Entertainment that were also Board members and owners in the former parent company Betsson.

Net Entertainment has license revenues from the Betsson Group.

For remuneration to board members and senior executives, see note 6.

The foreign subsidiaries are related to WH Law, as the Board Member in these subsidiaries, Dr. Olga Finkel, is also Managing Partner at WH Law. Remuneration to WH Law has amounted to SEK 2,040 (1,756 and 698 respectively) thousand.

## NOTE 29 FINANCIAL RISKS

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

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

### MARKET RISK

Group earnings are exposed to changes in exchange rates since most sales are in Euros, and expenses are in SEK (transaction exposure). Earnings are also affected by exchange rate fluctuations when foreign subsidiaries' earnings are translated to SEK (translation exposure). Moreover, exchange rate movements affect Group equity when assets and liabilities in foreign subsidiaries are translated to SEK (translation exposure). At the present time there is no hedging of equity in foreign subsidiaries.

If the SEK had weakened/strengthened by 10 percent in relation to the Euro with all other variables constant, earnings for the year as of December 31, 2010, would have been SEK 29,6 (10.1 and 14.8 respectively) million higher/lower. Of the Group's total costs 2010, 85 percent is in SEK.

Net Entertainment does not regularly hedge the risk exposure in terms of exchange rate fluctuations from future cash flows with financial instruments. By way of exception, hedging can occur for identified flows

### INTEREST RATE RISKS

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

### CREDIT RISK

The Group does not have any significant concentration of credit risks. The Group has set guidelines for safeguarding the sale of services to customers with a suitable credit background. No credit limits were exceeded during the reporting period and management does not expect any material losses resulting from failed payments from these other parties. Through short lead time and credit term, which gives a short customer credit time, the credit risk is further reduced.

Maximum credit risk exposure corresponds to the reported value of financial assets.

### LIQUIDITY RISK

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

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

### CAPITAL RISK MANAGEMENT

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

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

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

The net debt/equity ratio (multiple) at the end of the reporting period amounted to -0.2 (-0.6 and -0.6, respectively) whilst the quick ratio amounted to 164 (226 and 273, respectively) percent.

## NOTE 30 EVENTS AFTER THE END OF THE FISCAL YEAR

No significant events have occurred after the end of the fiscal year.

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

Stockholm March 10, 2011

Rolf Blom  
Chairman of the Board

Vigo Carlund  
Member of the Board

Fredrik Erbing  
Member of the Board

Niclas Eriksson  
Member of the Board

Mikael Gottschlich  
Member of the Board

Peter Hamberg  
Member of the Board

Johan Öhman  
President and CEO

Our audit report was submitted on March 14, 2011

Deloitte AB

Therese Kjellberg  
Authorized Public Accountant



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# AUDIT REPORT

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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Net Entertainment NE AB for the year 2010. The annual accounts and the consolidated accounts of the company are included in the printed version of this document on pages 28-67. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

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

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

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

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

Stockholm March 14, 2011

Deloitte AB

Therese Kjellberg  
Authorized Public Accountant

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# ANNUAL GENERAL MEETING AND OTHER INFORMATION

## ANNUAL GENERAL MEETING

Net Entertainment NE AB will hold its Annual General Meeting on Wednesday 13 April 2011 at 16.00 CET in Stockholms Konserthus, Aulinsalen, Hötorget 12, Stockholm, Sweden.

Notification of the Annual General Meeting is published on Net Entertainment's website [www.netent.com/agm](http://www.netent.com/agm).

## RIGHT OF ATTENDANCE AND REGISTRATION

Shareholders wishing to attend the Annual General Meeting must be recorded in the register of shareholders maintained by Euroclear Sweden AB on Thursday 7 April 2011, and also notify Net Entertainment of their intention to attend no later than Thursday 7 April 2011.

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

## SHARE REGISTRATION

Shareholders whose shares are registered in the name of a nominee must temporarily register their shares in their own names to be entitled to participate in the Meeting. Such registration must be affected no later than 7 April 2011. This means that shareholders must notify their nominee well in advance of that date.

## OTHER INFORMATION

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

Annual General Meeting 2011	April 13, 2011
Interim report: January–March 2011	April 28, 2011
Interim report: April–June 2011	July 15, 2011
Interim report: July–September 2011	October 27, 2011
Earnings report 2011 and quarterly report for the fourth quarter	February 9, 2012

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

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

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