



## NET ENTERTAINMENT ANNUAL REPORT 2013



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**The history of gaming can be traced to as far back as 2500 BC, but gaming experience has never been so readily available as it is today, and for this entertainment industry, with sales overshooting EUR 25 billion, the future is bright. The rapid online evolution enables an increasing number of gamers to play anytime, anywhere they wish. The winner will be the players supplier that can quickly establish itself on new markets, gain the confidence of players and deliver the best entertainment in the right place, at the right time.**

# Driving the online casino market

Net Entertainment is a world-leading developer and supplier of online casino games used by some of the world's most successful gaming operators. Its attractive game portfolio and advanced administration tool enable gaming operators – the Company's customers, to optimize their operations and profitability while, at the same time, Net Entertainment can efficiently launch its product portfolio.

Net Entertainment offers a comprehensive gaming system (Net Entertainment CasinoModule™), which includes a full suite of high-quality casino games and a powerful platform. The games create the ultimate gaming experience for the player while the platform manages billions of gaming transactions annually. Net Entertainment's games are available in 25 different languages today.

The Company was founded in 1996 and has its roots in the traditional casino world, (then a part of Cherryföretagen). The Company became a pioneer when online gaming started to take off in the mid-1990s. Since then, sales growth has been strong. The Company's market capitalization exceeds SEK 5 billion today, and its share is listed on the NASDAQ OMX Stockholm.

## Net Entertainment and the market

The global online gaming market 2013

25.8 EUR billion

The global online casino market 2013

5.3 EUR billion

Of which 14% is Net Entertainment's market share\*

European online casino market 2013

2.4 EUR billion

Of which 31% is Net Entertainment's market share\*

\*The market share is based on the gross gaming yield among Net Entertainment's customers in relation to the European online casino market, which was estimated by H2 Gambling Capital in January 2014. The underlying data has been adjusted because in 2013, H2 Gambling Capital performed a reclassification which has now been excluded to be comparable with 2012.

**A casino portfolio  
that combines  
graphics and  
mathematics**

**Live Casino, Roulette,  
Black Jack, Lotteries  
Mini Games, Mobile  
Games, Slot Games  
Video Poker**

# through better games

## Objectives

Net Entertainment's overall objectives are to further strengthen its position as a leading global online casino supplier, drive the development and grow faster than the market.

## Strategy

- Act with great customer proximity and business focus, and invest so as to stand prepared for new business opportunities
- Continually develop the product portfolio to be at the cutting edge in terms of technology, innovation and quality
- Constantly optimize efficiency in all parts of the operations
- Participate in the re-regulation of the gaming market and expand globally on regulated markets.
- Attract, preserve and develop core expertise

## More than 80 customers – a selection

betsson  
WHAT'S YOUR THRILL?

BetClic

betsafe.com

Boylegames.com

bwin

Interwetten.com

comeon!

Paddy Power  
BOOKMAKER

William HILL  
THE HOME OF BETTING

GTECH

paf

888  
.com

mr.  
green

CasinoEuro.com

Ladbrokes

StanJames.com

bet365

BETVICTOR

UNIBET

## Success factors

The ability to collaborate with the biggest and best gaming operators in Europe and understand what makes a game successful remains a crucial key factor for Net Entertainment's future growth.

- Understanding customers and market knowledge – the key to success.
- Game development of the highest quality – combining innovation and mathematics
- Administration tool – optimizes customers' operations
- Casino Module™ – Full solution for service and IT-operations



Knowledge



Innovation



Optimization



Technology

# A year of strong growth and

2013 was a fantastic year. Sales/revenues grew 19.8 percent to SEK 631 million, thus reaching record levels, while at the same time Net Entertainment started to see the effect of several investments from 2012, with higher operating profit as a result.

## New customers

In terms of new contracts, Net Entertainment reached a new record with 27 new customer agreements signed in 2013, of which five were with large operators (Tier 1 contracts).

## New games

One of the Company's most successful initiatives was casino games for mobile devices. Mobile games will continue to grow for Net Entertainment, and increase its importance for the casino industry going forward. Besides mobile games, Live Casino was the latest addition to the product portfolio. Net Entertainment signed agreements with 30 operators in total for Live Casino, 14 of which had launched the product by the end of 2013.

## New markets

Europe is by far the biggest gaming market and is expected to account for

close to half of the global gross gaming yield in the next few years. Deregulation and re-regulation of national gaming laws is occurring in many European countries. Net Entertainment closely monitors developments in all markets subject to regulation, and believes the prerequisites for future expansion are good.

## New records

In January 2013 Net Entertainment paid out the world's biggest online-based jackpot to date of EUR 17.8 million. For the full-year 2013, the number of gaming transactions increased 32 percent to SEK 16.2 billion.

## Events during the year



### Jan 3

Net Entertainment signs a partnership agreement with 888, one of the biggest, most renowned gaming operators in the world.

### Feb 5

Net Entertainment's games are made available on Facebook for real-money gaming through a partnership with Bonza Gaming.

### Feb 16

Live Casino is launched. At the end of the first quarter, a total of five customers had signed agreement for Live Casino.

### April 25

First quarter interim report. Revenues increase by 16.7 percent to SEK 148.8 million (127.5) and the Company continues to display solid profitability. During the quarter, six new customer agreements are signed and the number of contracts in Live Casino and mobile games continues to increase. At the same time, the Company maintains its focus on investing in the organization, systems and product development.

### July 1

Net Entertainment signs a license agreement with Lottomatica Scommesse for the regulated Italian online market. Lottomatica is owned by GTECH SpA, a market leader in the Italian gaming industry and one of the biggest lottery operators globally.

### July 12

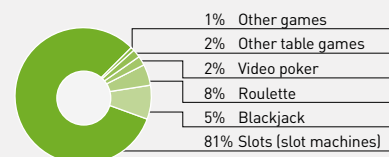
January–June interim report. Revenues for the second quarter increased by 12.6 percent to SEK 148.7 (132.0) million and the company has solid sales outlook in both the UK and the rest of Europe and overall, market position is strong.

### July 26

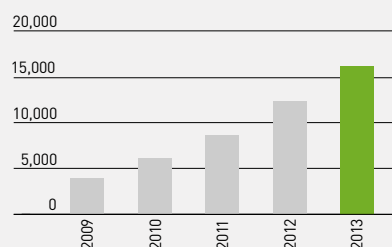
Net Entertainment signs a partnership agreement with one of the world's leading gaming and betting companies, Ladbrokes, for a selection of Net Entertainment's mobile- and desktop-based casino games.

# important agreements

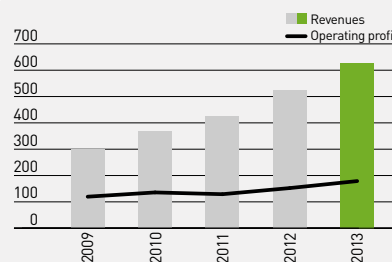
Key figures	2013	2012	2011
Revenues (SEK thousand)	630,746	526,671	427,618
Operating profit (SEK thousand)	179,748	153,057	129,713
Operating margin (percent)	28.5	29.1	30.3
Profit after tax (SEK thousand)	167,139	133,255	115,614
Equity/assets ratio (percent)	71.4	52.3	53.8
Earnings per share (SEK)	4.23	3.37	2.92
Equity per share (SEK)	9.62	7.30	6.02
Number of employees at year end	461	403	324



Net Entertainment's breakdown of revenues by game, 2013



Net Entertainment's gaming transactions, 2013



Revenues and operating profit, 2009–2013

## Sept 24

Net Entertainment signs a global framework agreement with GTECH, which is a world leader in the regulated WLA operator segment. The framework agreement is an effective way of reaching a new market segment that fits in with Net Entertainment's growth strategy.

## Oct 11

Net Entertainment signs a collaboration agreement with one of the biggest, most renowned online gaming operators globally, William Hill PLC, regarding mobile- and desktop-based casino games.

## Oct 22

Third quarter interim report. Net Entertainment displays growth of 25 percent with revenues of SEK 153.1 million (122.5) and a successful quarter of many new customer agreements.

## Nov 13

Lottomatica launches Net Entertainment's mobile- and desktop-based casino games, based on the agreement signed earlier during the year.

## Dec 2

Ladbrokes launches Net Entertainment's casino games, based on the agreement signed earlier during the year.

## Dec 20

Net Entertainment signs an agreement with bet365, one of the world's leading companies in online-based casino games. According to the agreement, Net Entertainment will deliver a number of its top casino games in bet365's channels.





# A fantastic year for Net Entertainment

2013 was a fantastic year for Net Entertainment. We have started to see the effect of several investments made in 2012, and revenues reached record highs. The Company signed 27 license agreements with new customers, including some of the largest operators in the world. Our recipe for success is simple – our games, our platform and our ability to adapt to different market circumstances outstrip competitors’.


When I look back at last year’s successes, three areas in particular come to mind. First – mobile games, in which we are seeing rapid progress. Adaptation to HTML5 is in full swing, and is expected to generate economies of scale ahead. At the same time, we will continue to invest in mobile games in the coming year. Second – we launched traditional Black Jack in the framework of Live Casino, and we therefore offer a full, unparalleled product in this game category. We are already seeing a rise in revenues thanks to this and expect further growth ahead. While we were late to enter the market, this has in fact benefited us because it enabled us to go straight in using the latest technology, giving us an advantage over existing market participants. Last – but absolutely not least – we have made an exceptional breakthrough into the UK, Europe’s biggest gaming market, in a very short time. With just a few exceptions, we have signed contracts with all major British operators in the past year, providing a stable basis for future growth. This has already had some effect on our revenue, and we see major long-term potential.

## Award-winning product portfolio

The key to our success can primarily be attributed to our competitive portfolio of innovative, entertaining games. We are in an unparalleled position on the market in terms of quality and have a unique ability to constantly renew our offering. The fact that Net Entertainment was honored with a series of prestigious awards during the year was testimony to this.

In spring 2013 we received no fewer than three awards at the EGR Awards – Innovation in slot provision, Innovation in mobile, and Mobile supplier of the year. We are very proud to have been honored with these awards. We were also named Innovator of the year at the International Gaming Award Ceremony at the beginning of 2014 – an award we are particularly proud of.

In 2013 we also launched the hit game South Park based on the TV show with the same name, and 2014 kicked off with one of our biggest new games of the year, Aliens™ – a new slot game based on the cult science fiction film with the same name. Aliens™ was launched before a packed audience at the ICE Totally Gaming trade fair in London in February, and will be Net Entertainment’s first casino game with real-time 3D graphics. Aliens™ will be a strong complement to Net Entertainment’s portfolio of branded games, which includes Scarface™ and Frankenstein™.

 **I am confident that we can maintain good growth with good profitability**

## We continue to gain market share

Gaming as a form of entertainment is an intensifying trend, while at the same time online gaming is growing faster than land-based casinos, largely due to generation shifts and increased broadband penetration. Our major growth opportunity nevertheless lies in continuing to gain market share, and our sustained ambition is to strengthen our position as the leading supplier in Europe. In 2013 our market share grew significantly for casino games in Europe from 27 to 31 percent. The most important reason for our success in signing agreements with several major operators is mainly in our strong offering. Another reason is the break in the trend we have witnessed on the market, with the major operators allowing

several game suppliers to compete in parallel on their websites. This trend persists, and we believe it is to our advantage because our games are often superior to those of competitors.

We invest not only in our games but also in increased geographic presence on selected markets, when the circumstances are right. In 2012 and 2013, considerable focus was on increasing our market share in the UK, and also in Italy – a re-regulated market that is now Net Entertainment’s third thanks to major successes in 2013. During the year, one agreement we signed was with gaming operator Lottomatica, member of the World Lottery Association (WLA) and a market leader on the Italian market. The partnership with Lottomatica also opened the door to an important framework agreement with GTECH – an operator and supplier of game-related technology for regulated gaming markets worldwide, which could enable solid revenue opportunities for Net Entertainment on the

WLA market in time. Spain and the Netherlands are interesting countries, in which regulation of the online gaming market is close at hand. The Netherlands will be next up. It is introducing new legislation in January 2015 and Net Entertainment is preparing to step into that market. Becoming a certified participant in a regulated market is both complicated and time consuming, but affords a major advantage for Net Entertainment which, thanks to its size, can cope with this type of adjustment. Italy, which was regulated recently, is a good example of how Net Entertainment’s market share increased in these new circumstances. We are also following developments on the US market with great interest.



**A corporate culture that stimulates growth**

An important success factor is our corporate culture. A strong corporate culture that promotes self-directed employees and efficient processes is crucial to sustained rapid growth. We operate in an international, rapidly changing industry that places stringent demands on creativity, innovation, ability to cooperate and technical specialist expertise. During the year, we therefore conducted several training programs and developed tools that promote our corporate culture in daily work. We are also eager to bring to light people who represent our shared values in a good way. Adding to that, the ability to find, develop and keep new, skilled employees is one of our top priorities. Competition for specialists is fierce and we must constantly develop to maintain our attractiveness as an employer.

**An eventful year ahead**

We see stable underlying growth in our products and have, in recent years, made a series of strategic investments that started to bear fruit in 2013, but that are mainly expected to increase revenues in the coming years, and our ambition is to achieve healthy revenue growth in 2014. However, our cost base is expanding in line with growth as we reinforce the organization in areas such as sales, product management, development and operations, while at the same time we are continuing to develop more games, improve the platform and adapt the Company to newly regulated markets. In light of this, the ambition is for the operating margin in 2014 to remain at around the same level as in 2013.

Net Entertainment has an eventful year ahead, with many exciting projects and challenges. I am convinced that we can further bolster our position on the market and maintain solid growth with sound profitability.

Per Eriksson  
President and CEO



Net Entertainment's success is built on a sound understanding of its customers and the players, innovative quality games, an efficient administration tool and a powerful technical platform that manages several billion gaming transactions each year.

# Game development close to the customer is the core of the business model

## History

Net Entertainment has its roots in the traditional casino world. When online gaming started to take off in the mid-1990s, there was no commercial online-based casino solution on the market. In light of this, Net Entertainment (then a part of Cherryföretagen) was formed in 1996. Net Entertainment became a pioneer in online casino, and the first casino was launched into operation four years later. In 2005 the Company was spun off from Cherryföretagen and listed on NGM Equity. In 2009, the shares were re-listed onto the NASDAQ OMX Stockholm instead. The ability to collaborate with the biggest and best gaming operators in Europe and understand what makes a successful game, has been, is, and will continue to be a crucial key factor in Net Entertainment's successful journey.

## Business model

Net Entertainment and the Company's customers – the gaming operators – work according to a partnership model in which the player is always central. Net Entertainment prioritizes the highest possible level of customer service and support because, over time, the Company both contributes to and benefits from the success of its customers. The operator pays an initial integration fee to Net Entertainment and subsequently regular royalties – a percentage of the operator's revenues generated through Net Entertainment's gaming system.

The delivery of a casino is the beginning of a long-term partnership in which Net Entertainment's goal is to help create a successful casino operation for its customers. Net Entertainment always strives to optimize its customers' operations and maximize player entertainment. With a high degree of knowledge about player profiles and preferences, combined with in-depth understanding of

## A selection of milestones

### 2002

Net Entertainment Casino™ is launched.

### 2005

Net Entertainment receives a Class 4 license in Malta.



### 2008

Four Tier 1 customers are signed up.

### 2010

The first platinum game, Gonzo's Quest, is launched and the Company receives a Category 2 license on Alderney.



### 2011

Mobile games are launched and Net Entertainment expands in Italy – a newly regulated market.

### 2012

An initial beta version of Live Casino is launched and two Tier 1 customers are signed up (Boylesports and Paddy Power). The Danish market is regulated and Net Entertainment launches games with several customers.



### 2013

Net Entertainment signs agreements including with gaming operators 888, Ladbrokes, Lottomatica, Bet365 and William Hill PLC regarding casino games, and a framework agreement with GTECH. Additionally, Live Casino is fully launched by multiple customers, as well as a large number of mobile games. In total, the company receives 27 new customer contracts and 20 new contracts were launched during the year.



**Mission** – Creating value by providing leading edge online casino solutions that enable the ultimate entertainment experience

**Vision** – Driving the Online Casino Market through Better Games

the customer's market circumstances, Net Entertainment can customize its products in the best possible way. The Company operates on a broad front to provide operators with the support they need at many different levels. This may mean developing tools for more effective marketing, player behavior evaluation or regular follow-up. Quality games that are appreciated by the player create value for both the operator and Net Entertainment. The Company's platform is built to manage several billion gaming transactions each year, and features an advanced administration tool enables the operator to develop a successful and effective casino operation. With Net Entertainment's management of operation and system monitoring, customers can focus on their core business.

#### Organization

Net Entertainment is currently established in five countries, but operations are conducted primarily from Malta and Stockholm. Product development takes place in Sweden by order of the operations in Malta, while the data centers are in Malta, Gibraltar, Costa Rica and Alderney. Other business-critical and strategic functions such as product strategy, sales, market strategy, customer support and the Live Casino studio are located in Malta. This is a natural choice of location because Malta has developed into the gaming industry's European "capital" and the majority of the Company's customers operate there.

Malta is an important gaming jurisdiction and European hub for Net Entertainment, because the Maltese gaming authority, through regulation and bilateral agreements with other EU/EEA member states, enables the gaming industry to consolidate the supply of service from Maltese territory, not just to participants licensed in Malta, but also to those that are primarily regulated by foreign gaming authorities such as Italy and Denmark. In addition, employees who are experts in the industry gravitate towards the country. Net Entertainment has a so-called Class 4 license in Malta.

#### Growth strategy



#### Business model

**Net Entertainment and the Company's customers – the gaming operators – work according to a partnership model in which the player is always central.**



## Understanding customers and market knowledge – the key to success

In-depth knowledge about players and regulatory market conditions lead to credibility in new customer projects and establishment on new markets. Many, longstanding and close customer relationships, combined with a sound understanding of the circumstances of customers, support developing the best games on the market.



TM & © 2013 South Park Digital Studios

### Knowledge

#### Understanding customers and market knowledge – the key to success

In-depth knowledge about players and regulatory market conditions instills a high degree of credibility in new customer projects and establishment on new markets. Many, longstanding and close customer relationships, combined with a sound understanding of the circumstances of customers, support developing the best games on the market.

Number of new agreements in 2013

27

### Innovation

#### Game development of high quality – combining innovation and mathematics

Maximizing player experience is a key element in Net Entertainment's brand, and is always the starting point for game development. Advanced games of high quality strengthen the loyalty of existing players, increase gaming activity and attract new players. Game development is driven by the tough demands of players and is conducted in parallel for different channels such as tablets, PCs or mobile phones.

Number of new launched customer contracts in 2013

20

### Optimization

#### Administration tool – optimizes customers' operations

Net Entertainment's administration tool enables the operator to optimize its casino operation and hence earnings. The operator can monitor its casino in real time, analyze player behavior and preferences, and provide directed offers and bonuses to players to further increase entertainment value and gaming activity.

Number of transactions using Net Entertainment's platform in 2013

billion 16.2

### Technology

#### Technical platform – a powerful solution through CasinoModule™

Net Entertainment provides a full solution for IT-operations, security and service to its customers, and currently delivers system availability of over 99 percent. Net Entertainment's CasinoModule™ is the foundation of the casino system, and managed a full 16.2 billion gaming transactions in 2013. As the gaming industry matures, Net Entertainment endeavors to accommodate and exceed increasing capacity demands of players.

System availability in 2013

>99%





” Net Entertainment  
has helped us strengthen  
our brand further ”

Dominic Bourke – Casino & Games Director, Betclie Everest Group

## Success factor 1: Understanding customers is the key to success

Net Entertainment’s unique customer understanding gives it an advantage over competitors in terms of game development, ahead of launches and, not least, when expanding into new markets.

Ongoing analyses of the transactions flowing through the Company’s gaming platform provide invaluable knowledge about player preferences and gaming behavior. Combined with extensive experience from earlier projects and solid knowledge about the legal requirements in

various markets, Net Entertainment is in the best possible position when launching both new products on existing markets, and the existing gaming portfolio on new markets.

**Customer opinion:** “Betclie Everest Group has been enjoying a great relationship with Net Entertainment for a long time. We have become accustomed to recurring deliveries of the best, most unique games with a high entertainment value. The game based on TV show South Park was among those we most looked forward to last year. The high relevance of brand to our primary target group, combined with our

confidence in the quality constantly delivered by Net Entertainment, has helped us further strengthen our own brand.”



Knowledge



## Product development entertainment in 200 ways

Net Entertainment's offering of entertainment and games includes close to 200 games in ten categories. 2013 saw the launch of 26 new games, featuring the Company's initiatives in mobile games and Live Casino. Demand for mobile games remains high on the market, increasingly contributing to Net Entertainment's growth. Further investments in distribution channels are in store, such as cell phones and tablets, in order to further strengthen Net Entertainment's leading position on the market.

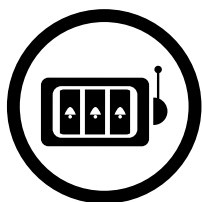
Live Casino was launched at the beginning of the year, followed by a new, unique version of Live Casino blackjack in the summer – Common Draw Blackjack™ – in which each table can have an unlimited number of simultaneous players. Towards the end of the year, Net Entertainment was also able to offer traditional Live Casino blackjack. When Live Casino reaches its full capacity it is expected to generate solid revenues for the Company.

Branded games, often based on a popular TV show or film, have been successful so far for Net Entertainment and will continue to help make the game portfolio more unique.

One of Net Entertainment's major new games in 2014 is Aliens™ – a new video slot game based on the cult science fiction film with the same name. Aliens™ will be Net Entertainment's first casino game with real-time 3D graphics, and the game was launched before a packed audience at the gaming fair ICE Totally Gaming in London on February 4. The game will be a strong complement to Net Entertainment's portfolio of branded games, which includes South Park™, Scarface™ and Frankenstein™.

## Game portfolio

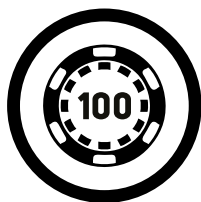
Excellence and diversity in an attractive mix



### Classic Slots

**Examples of games:** Jackpot 6000, Mega Joker, Lucky 8 Line.

**Category characteristics:** Classic slots are the same as one-arm bandits or slot games. Three, five or more spinning wheels give winning combinations.



### Table Games

**Examples of games:** Roulette Pro, Roulette French Pro, Blackjack Pro and European Roulette.

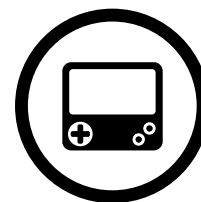
**Category characteristics:** Online table games work in the same way as at a land-based casino, but with the ability to play many more rounds faster.



### Video Poker

**Examples of games:** Jacks or Better, Joker Wild and Deuces Wild.

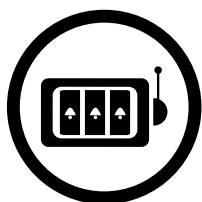
**Category characteristics:** Slot games with a gaming concept based on card combinations that occur in poker.



### Mini Games

**Examples of games:** Mini Blackjack, Mini Goooooal, Cash Bomb and Starburst Mini.

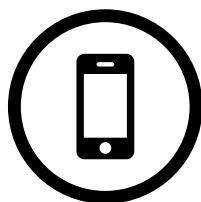
**Category characteristics:** Intended to be exposed on sites other than operators' casino sections.



### Video Slots

**Examples of games:** Starburst, Blood Suckers, Gonzos Quest, Thief, Space Wars, Eggomatic, Reel Rush, Magic Portals, South Park, Secret of the Stones and Twin Spin.

**Category characteristics:** The most popular online category. It is an enhancement of classic slot games with a high level of gaming experience and often graphically advanced production.



### Touch

**Examples of games:** Starburst, Jack Hammer, Gonzos Quest, Fruit Shop Touch, Lucky Angler Touch, Roulette Touch, Disco Spins Touch, Fisticuffs Touch, South Park Touch, Magic Portals Touch, Mega Fortune Touch and Reel Rush Touch.

**Category characteristics:** Net Entertainment's most popular games adapted for mobile phones and tablets with small screens and a touchscreen interface.



### Lottery and other

**Examples of games:** Triple Wins, The Lost Pyramid, Seven Gold Scratch, Bonus Keno, Golden Derby and Bingo.

**Category characteristics:** Scratch cards, Keno and Bingo.



### Live Casino

**Examples of games:** Live Roulette, Live Blackjack Common Draw and Live Roulette Auto.

**Category characteristics:** Unlike most online casinos, Live Casino uses real dealers over videolink across the table, instead of only having a random generator.



## Developments during the year

### Breakthrough on Europe's largest gaming market

#### New customers

In 2013, Net Entertainment signed 27 new customer agreements and the Company has reinforced its position further, especially on the UK market, which is the largest in Europe.

Multiple agreements were signed, including Ladbrokes and William Hill, two of the largest gaming operators globally. Ladbrokes, founded as early as in 1886, is one of the world's leading betting and gaming companies. The company is the market-leading bookmaker in the UK, Ireland, Belgium and Spain, with over 2,700 betting shops. William Hill, founded in 1934, is one of the world's largest betting and gaming companies and a market leader in online betting and gaming in Europe.

Net Entertainment already had an agreement in place with Paddy Power. Within this agreement, some games have been launched, and more are under way. Other agreements also signed during the year included those with 888 and bet365. 888 is one of the world's largest, most renowned gaming operators, with casino accounting for around half of sales. The company is licensed by the gaming authority in Gibraltar and is listed on the London Stock Exchange. bet365 is one of the world's leading companies in online casino games. According to the agreement, Net Entertainment will deliver a number of its high-quality casino games over bet365's network for gaming both on mobile phones and computers.

#### Strategic successes

Besides the UK, Italy is one of Net Entertainment's most important markets, and the company is constantly bolstering its position there. In the summer, Net Entertainment entered an agreement with the market leader Lottomatica Scemesse, which is wholly owned by GTECH, regarding a broad range of casino games for the regulated Italian online operation through Lottomatica.it and Totosi.it. During the year, an important framework agreement was also signed with GTECH, which is one of the leading suppliers globally of gaming platforms to WLA (World Lottery Association) operators. The global framework agreement enables Net Entertainment to offer its casino product through GTECH's WLA network. Each individual WLA operator is, however, managed in separate tendering processes in which Net Entertainment participates when it suits the Company commercially and strategically.

Net Entertainment also signed an agreement with Bonza Gaming regarding supplying a broad range of slot games and other casino games for real-money gaming on Facebook through its first application, Bonza Slots. Bonza Gaming is a joint venture between social gaming issuer Plumbee and online gaming operator Unibet.

Net Entertainment thus became one of the first suppliers to offer real-money casino games on Facebook – a new, exciting distribution channel in which gaming has historically proven to be highly popular.

#### Investments and development projects

Throughout the year, Net Entertainment continued to strengthen its organization to accommodate its expanding customer base, greater gaming volumes, higher expectations on service reliability and heightened demands from regulated markets. In line with the Company's expansion and growing amount of major customers, complexity in the integration phase increases, as do operating expenses in the form of, for example, license fees, bandwidth and hardware purchasing. The Live Casino studio in Malta also affects costs. Major development projects during the year included the establishment in the UK and projects in Live Casino and game adaptation for the mobile market. Investments also continued in the Company's technical platform Casino-Module™ and internal systems to enhance the efficiency of development and distribution processes. All investments were made with a view to enabling future growth.

#### Awards

In spring 2013 the Company was honored with no fewer than three awards at the EGR Awards – Innovation in Slot Provision, Innovation in Mobile and Mobile Supplier of the Year. The Company was also proudly named Innovator of the Year at the International Gaming Award Ceremony at the beginning of 2014.



**Major development projects during the year included the establishment in the UK and projects in Live Casino and game adaptation for the mobile market.**





“ We are seeing a strong mobile gaming trend ”

Simon Hammon – Chief Product Officer, Net Entertainment



## Success factor 2: High-quality game development

Developing attractive games is at the core of Net Entertainment’s operations, and developing new games always starts with maximizing gamer experience. The work is driven by stringent demands from both gaming operators and end users, in terms of both innovation and greater availability through tablets and cell phones.

“Our customers constantly request new, successful games, such as Starbust, which was a hit in 2013. This is without a doubt one of our strengths – developing, certifying and launching innovative, exciting and entertaining games in a short space of time,” comments Simon Hammon, Chief Product Officer at Net Entertainment.

He emphasizes that the dialog with the gaming operators is key in developing new games, with

operators increasingly wanting games to appeal to players in a specific geographic market. In Italy, for instance, the entertainment factor is more important, while players in the UK want a classic casino environment with high volatility in gaming outcome.

Games based on famous films or TV shows are also in demand because such already established brands generate attention and help the gaming operator in its marketing. Net Entertainment’s South Park game, based on the popular TV show, was a great hit last year.

“In 2014 we are launching the game Alien™ based on the film with the same name, and both we and our customers have high hopes for it,” says Simon Hammon.

At the same time, the mobile gaming initiative is being broadened substantially and more games, both new and old, will be adapted to channels beyond desktop, such as mobile phones and tablets.

“We are witnessing a sharply rising trend in mobile gaming, which is clear both to us and our customers,” continues Simon Hammon.

Ongoing further development of the new product Live Casino will be in focus too this year. The organization has also been further strengthened in these focus areas for 2014.



The market for all game segments is expected to amount to EUR 321 billion in 2014. Online gaming accounts for 8 percent of this market, but the share is growing steadily thanks to greater broadband penetration, new distribution channels and increasing familiarity with technology in society. Regulation and the opening up of markets that used to be closed, and the re-regulation of existing markets, new customers and greater availability, enable sustained growth for a long time ahead.

## Everything points towards continued growth for a long time ahead

The online gaming market consists of three groups of participants – suppliers (game and system developers such as Net Entertainment), operators (the suppliers' customers), and end users (the players).

Ahead of establishing operations on a newly regulated market, the gaming authority in the region in question performs a comprehensive review of the gaming company's products, services, organization, internal control systems and processes. Games are certified by

an independent testing company, to meet the set requirements. Once certification is received, it is appended to the operator's application for a gaming license, which is submitted to the gaming authority of the market in question. On certain markets, however, such as Gibraltar, the UK and US, licensing of the supplier is also required, and sometimes even personal licenses for senior executives and other key individuals.

### The process



## Four different license classes in Malta

### Class 1

Remote Gaming  
License for online  
games such as casino  
games and lotteries.

### Class 2

Remote Gaming  
License for online  
betting such as odds  
and pool betting.

### Class 3

License for charging  
commission for  
marketing games.  
For example: poker  
networks and  
gaming portals.

### Class 4

License for providing  
gaming operators  
with LGA-approved  
game products.

In 2013 the gaming market  
amounted to

# 321

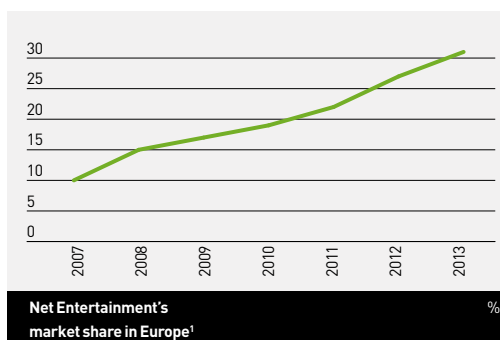
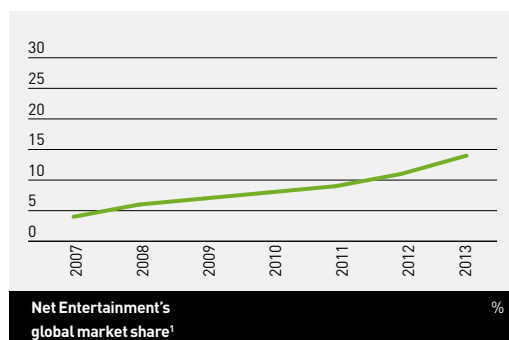
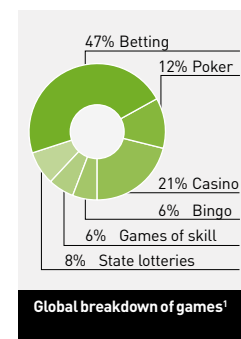
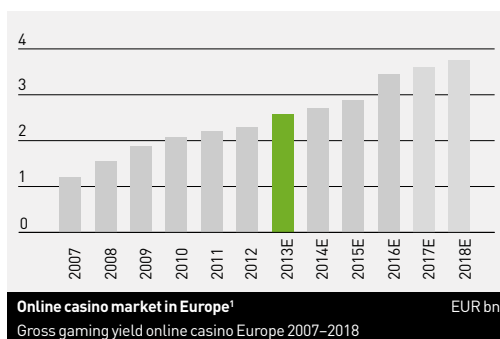
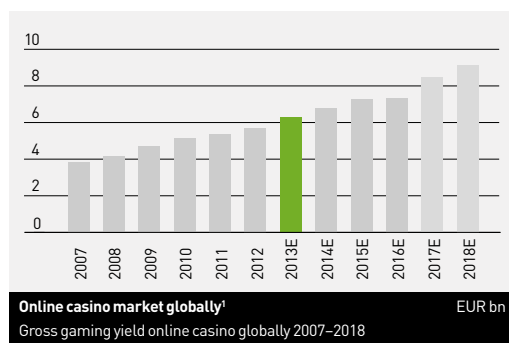
billion EUR

Share of online gaming

# 8%

As gaming is regulated on more markets, demands increase on how operations are conducted, while at the same time a more stable business environment with clearer guidelines from authorities and rising long-term revenue opportunities benefit gaming industry participants. Since Malta joined the EU in 2004, this small island has established itself as Europe's gaming center, offering the most competitive business conditions out of the countries that issue gaming licenses.

In April 2004, the Maltese gaming authority, Lotteries & Gaming Authority (LGA) published a comprehensive regulatory instrument – "Remote Gaming Regulations" (LN176/2004). The legislation comprises many different game categories and game platforms. Its purpose is to help achieve a more secure environment for both online players and gaming companies. There are four different license categories in Malta, and these are sought for periods of at least five years.



<sup>1</sup> The market share is based on the gross gaming yield from Net Entertainment's customers in relation to the European online casino market in 2013 which has been estimated by H2 Gambling Capital in January 2014. The underlying data has been adjusted as H2 Gambling Capital in 2013 made a re-classification which has now been excluded to be comparable with year 2012.

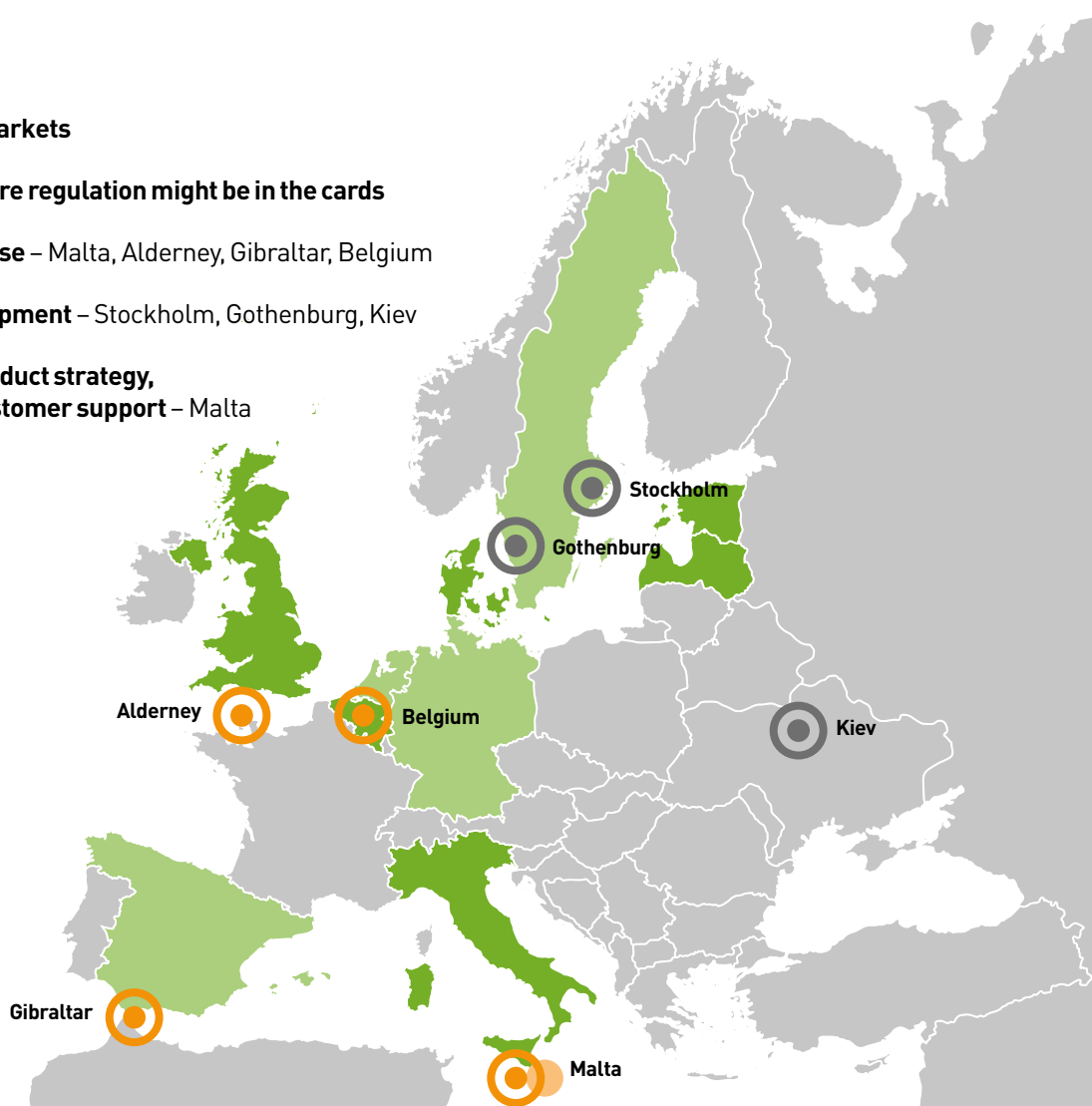
■ Regulated markets

■ Markets where regulation might be in the cards

○ Gaming license – Malta, Alderney, Gibraltar, Belgium

● Game development – Stockholm, Gothenburg, Kiev

● Market & product strategy, sales and customer support – Malta



### Examples of attractive markets that have been re-regulated or where regulation might be in the cards

#### SPAIN

Spain has introduced federal gaming legislation. At the same time, the various autonomous regions can adopt their own gaming legislation for online gaming. The first licenses were issued in June 2012, with the exception of online-based slot games, which are not currently permitted. However, in spring 2013, the government announced its intention to also permit slot games in the future. This process has started but the government has not yet announced when slot games will be introduced.

#### THE UK

As early as in 2012, the UK announced its intention to amend gaming legislation from being based on from where the games are distributed, to where they are consumed. Operators that can currently offer games to British players from foreign jurisdictions will thus need a British gaming license and will pay game tax in the UK. The amendment is expected to be introduced no later than in December 2014.

#### GERMANY

In Germany the state of Schleswig-Holstein has adopted gaming legislation approved by the EU Commission for betting and casino games. However, after a period of gaming policy friction between Schleswig-Holstein and Germany's other 15 states, the new political leadership of Schleswig-Holstein has decided, after the 2012 election, to attempt to revoke the newly adopted gaming legislation and endorse the more restrictive federal legislation. The situation has given rise to uncertainty about the future legal situation for gaming in Germany.

#### SWEDEN

In Sweden, the government has, following criticism from the Swedish National Audit Office, announced that it is preparing amendments to its gaming policy so that the latter more adequately protects consumers from gambling addiction. The government has however announced that a new bill is not likely before 2015.

#### THE NETHERLANDS

The Netherlands has published a new bill with liberal gaming legislation, that is expected to be introduced in January 2015.

#### BELGIUM

Belgium currently has gaming legislation that limits the number of online operators to those already in possession of a land-based license for the same products. A number of online operators are now offering games online through partnerships with land-based operators.



## An evolving market

New potential, a more stable business environment and greater revenue opportunities in the long term

### Industry developments

Internet gaming is a global phenomenon with solid growth expected in most regions ahead. Global gross gaming yield for online games, including all game segments, is estimated to amount to EUR 29 billion in 2014 – an increase of 12 percent from 2013. The regulation of Europe involves fresh potential, a more stable business environment and greater revenue opportunities in the long term for companies that can harness opportunities arising in an evolving market.

Europe is by far the biggest gaming market and is expected to account for close to half of global gaming yield in the next few years. New markets are opening up to regulation on an ongoing basis, while at the same time re-regulation is under way in already regulated countries. Expansion opportunities into new markets have, however, changed and become more complex with the regulation in progress, due to national license systems, which provide EU member states with slightly more freedom to secure tax revenues and limit cross-border gaming services.

The US prohibited real-money gaming online in 2006, but political initiatives are now under way at state level to introduce new regulation of online gaming, which could open up for games like casino and poker in future. Several states have already regulated online gaming – the US Virgin Islands (all game segments), Nevada (poker) and Delaware (all game segments). In November, New Jersey

opened up the market to online games (all game segments). Discussions are also in progress in Illinois and California to introduce new gaming laws. During the course of the year, both US land-based gaming operators and their suppliers started to position themselves against the online industry with a number of acquisitions and partnerships. European gaming operators have also started to seek their way towards the US through partnerships with US companies.

The online gaming market in Asia and the Middle East lags that of Europe, mainly due to cultural differences and low broadband penetration. However, the situation is moving forward in these regions too, and they are hence expected to show solid growth in the years to come. Africa, Latin America and the Caribbean are, however, expected to be the fastest-growing markets until 2015, although from historically low levels.

### Net Entertainment's market strategy

Net Entertainment focuses on online casino games, a segment that has shown solid growth and profitability. Over the last six years, the Company has increased its sales by over 400 percent, while the casino market in Europe has grown by 90 percent in the same period. The future of online gaming looks bright, and Net Entertainment has solid fundamentals for gaining fresh market share.



**In the last seven years, Net Entertainment has increased revenues by over 400 percent while the casino market in Europe has grown 90 percent.**

### Technological synergies

In connection with re-regulation in Italy and Denmark, with Net Entertainment being one of the first game suppliers globally to obtain certification, the Company has invested in both games and platforms to meet the complex requirements of the authorities. This is expected to generate cost synergies in future re-regulation in Europe. At the same time, each new market requires further adaptation to the requirements of that specific market.

### Strong position and reputation

Discussions with customers and authorities in an establishment phase are made easier by Net Entertainment's strong reputation and leading position as a game supplier, and by the Company's accreditations, certifications and licenses from other authorities and testing companies.

### First-rate offering and high availability

Net Entertainment's strong commitment to and close collaboration with its customers, combined with a sense and understanding of what players appreciate, are the reason for the Company's increased market share. In the annual customer survey, customers have consistently given the Company the highest scores for game innovation and good availability, service and support.



## Market challenges

### – our driving forces

Number of gaming transactions 2013, billion

# 16.2

Number of gaming transactions 2012, billion

# 12.3

#### An expansive market

Access to entirely new groups of players is constantly on the rise thanks to increased broadband penetration, new distribution channels and growing familiarity with technology in society. The trend is clear – people are spending an increasing amount of time online, with a growing share of their disposable income going to forms of online entertainment, including casino games. It is an expansive market for Net Entertainment. As the market expands, however, so too does competition, both from large companies and small game developers targeting a niche or geographic submarket. Nevertheless, Net Entertainment continues to gain market share. This is because the company is one of few that can meet the heightening market demands.

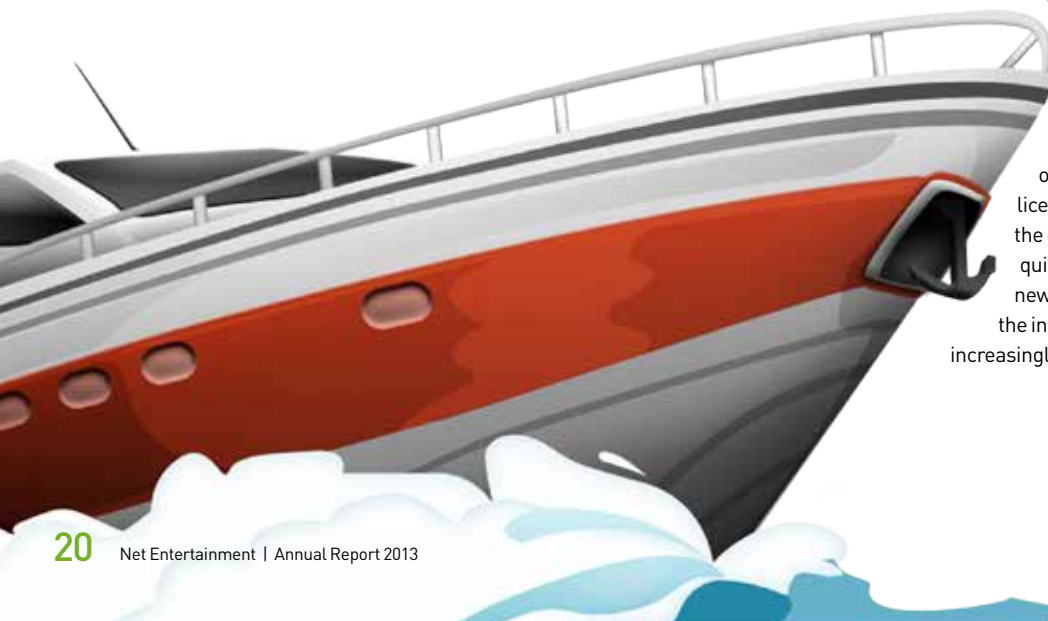
#### New technology for game and system development

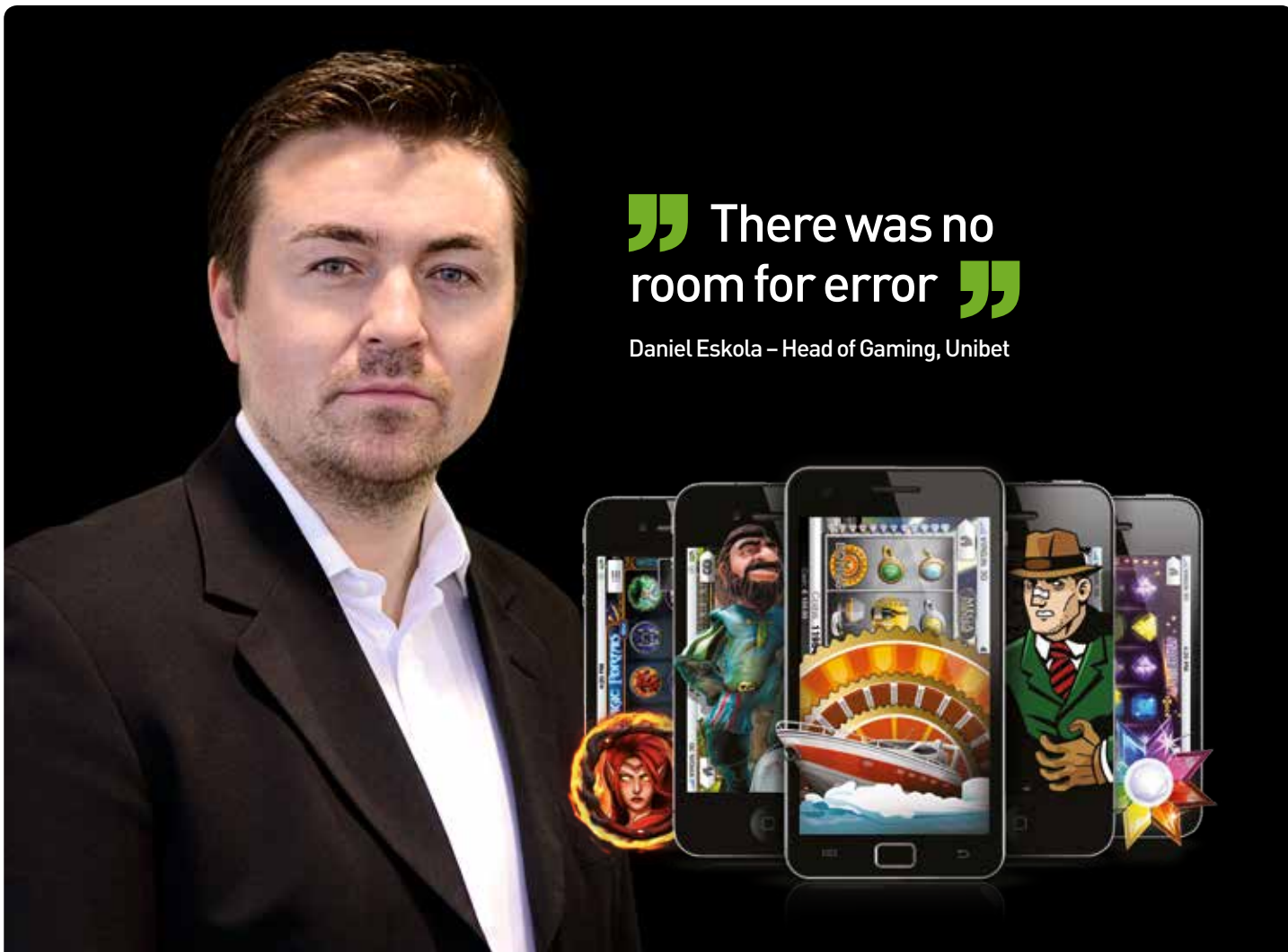
The growing market places greater demands on better games, increased availability, higher system security and improved stability. Expectations on online gaming today are comparable with demands on TV and telephony, and players expect operators and suppliers to live up to expectations. In turn, this drives technical game and system development forward. New technology enables the development of more complex games, in terms of both graphics and underlying mathematics, which can be used to reach new markets and broaden the customer base further. Net Entertainment's strategy is to be at the cutting edge of game and system development. This is cost-intensive initially when the organization and technical systems must be adapted to increasingly complex

processes. For example, games for mobile phones and tablets require a different technology than desktop. For mobile devices, games are developed in HTML5, while the quality of this format is not yet sufficiently good for desktop games, for which the older flash format is used instead. Demand for mobile games requires, for instance, HTML5 expertise, which poses a challenge in recruitment. Because of this, Net Entertainment currently develops games in two parallel formats, instead of switching entirely to HTML5. Once the shift in technology is eventually fully complete, this will make game development more efficient.

#### Online gaming regulation

Gaming for money has been a controversial political matter in the past, and still is in the modern era. The emergence and evolution of the internet in the past two decades has introduced the possibility for operators to offer games on a cross-border and global basis. This made it difficult for various countries and authorities to establish the jurisdiction of the games. National state gaming monopolies were therefore exposed to competition, which forced a legislative review process. The trend is headed towards the introduction of national license requirements and game tax for marketing games. In Europe, legislative amendments and the introduction of gaming licenses have progressed to varying degrees from country to country. However, regulatory changes provide greater opportunities for the gaming industry and Net Entertainment. Access to new players combined with broader marketing channels makes for greater potential and revenue streams, while at the same time growth is of course cost-intensive. From the point of view of competition, the regulation also presents higher entry barriers. Far from all companies have the required capacity, either in terms of resources or organization, to obtain a license. Net Entertainment, however, has both the expertise and resources to adapt relatively quickly to a more regulated environment. The new market regulation is also positive in that the industry is viewed less controversially, and increasingly as an entertainment industry.





” There was no room for error ”

Daniel Eskola – Head of Gaming, Unibet

### Success factor 3: Technical platform is crucial for the customer

Net Entertainment doesn't just provide games to its customers, but a holistic solution with a system and servers for the operation and monitoring (hosting) of gaming transactions. The platform is comparable to a stock exchange system for trading in shares, for instance. Many employees in the operations department have their professional backgrounds in stock exchange operations, telecommunications or other transaction-intensive environments.

The company provides a holistic undertaking of operation, security and service to its customers, and currently delivers system availability of over 99 percent thanks to a great focus on stability, availability and capacity. The technological

platform is the foundation of the casino system and managed 16.2 billion gaming transactions in 2013. The platform provides Net Entertainment with a competitive advantage in operators' tendering processes for suppliers. This is the case not least on newly regulated markets, in which more stringent demands are also placed on certified games and functions that, for instance, ward off gambling addiction.

**Customer opinion:** "When we selected a partner for our entry onto the regulated Danish market, it was important to choose a supplier that could offer a product standard that our players expect, but also one that could deliver in terms of technology and certification too. The Danish project was time-critical and carried out under high pressure with little or no room for error. In light of our longstanding past relationship with Net Entertainment, we felt confident

in being able to reach our targets, and once more they met our ambitious expectations. Net Entertainment offers one of the best game portfolios on the Danish market and has shown a will and commitment to maintain this level. We expect more Net Entertainment titles during the year and feel secure in the knowledge that the company will add to our sustained growth on this important market." Daniel Eskola, Unibet.



Technology

The gaming industry is under constant development with new markets, new technology, and ever-growing demand for new, complex and groundbreaking solutions. To accommodate these requirements, a dynamic and opportunity-focused corporate culture is needed that oozes creativity, innovation and a passion for games. With the right mix of expertise, a strong team spirit and shared values, Net Entertainment can continue to deliver world-leading gaming experiences.

# Opportunity-focused corporate culture

Net Entertainment safeguards its unique corporate culture, which is characterized by creativity, quality and passion for entertainment and gaming – in which shared values are a determining factor. Employees share the qualities of being driven, decisive and curious with a forward-looking approach and an open mind, who thrive in a fast-growing, international work environment.

Employees from around 20 countries work at Net Entertainment and most have backgrounds in areas ranging from the computer gaming and the IT industries to the telecom and financial sectors. Performance, development, responsibility and team spirit are focus areas at Net Entertainment. Innovation and experience from different organizations and cultures contribute positively to the Company's development. Many employees make a career out of growing with the Company, and internal recruitment is often prioritized.

Remaining the world's most successful casino supplier requires extensive expertise and experience. The Company still has a major need to recruit skilled employees and is also witnessing an increase in the number of applications as the Company becomes more visible and successful. A great deal of the Company's operations are in Malta, which is where many of the world's leading game developers and operators are domiciled. Expert individuals with valuable experience from the industry worldwide are attracted to the region. While this benefits recruitment, competition is fierce. However, Net Entertainment copes well in the competition thanks to its solid reputation as an employer and well-established contacts with schools and universities.

### Five core values

In the last five years, five core values have crystallized through work that has engaged – and continues to engage – employees in all parts of the Company.

- **Think ahead, be ahead**
- **Passion for gaming**
- **We act speedsmart**
- **Simplicity in all we do**
- **Together we win**

These core values permeate all of the Company's decision-making processes – as an instrument of management, in progress reviews and in recruitment. For example, job interviews are based on the Company's core values and thus take account of expertise and experience, but also attitude and personality to an increasing extent. This has been reflected in fewer terminated trial employment periods than before.

### Focus on leadership

For Net Entertainment, leadership is about responsibility for propelling the operations forward based on the Company's vision, goals and strategy. Net Entertainment has managers of varying age and experience with a shared ambition and interest for developing both themselves and their leadership, and their employees. In September 2012, the first manager training program started based on the Company's values.

Employee satisfaction index at Net Entertainment

77%

Percentage of women in management at Net Entertainment

50%

The average age of Net Entertainment

35<sub>year</sub>

Absenteeism in Net Entertainment

2.8%

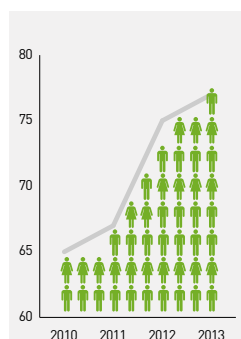




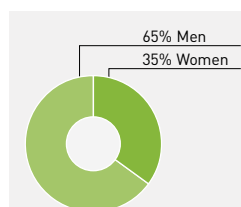
**The ability to combine innovation and experience makes Net Entertainment a world-leading game supplier.**

Employees  
with 19 nationalities

19



Employee Satisfaction  
Index



Gender breakdown in Net  
Entertainment, 31 Dec 2013

After an initial phase of internal focus, work is now in progress to strengthen the brand and increase awareness of Net Entertainment as an employer.

The year featured a high rate of recruitment at all offices, and the introduction phase for new employees. The battle for talent internationally and locally will intensify further in 2014. In parallel with recruitment, the activities of the leadership program and the NetEnt Academy continued, accounting for a substantial part of Net Entertainment's training and development initiative. The NetEnt Academy reinforces the organization through talks and workshops designed to increase understanding and knowledge of all parts of the operations. The 2013 employee survey gave Net Entertainment high scores as an employer, and indicated a high level of wellbeing and satisfaction, and solid results for the leadership initiative.

In the scope of the NetEnt Academy, in 2013 an initial pilot round of Net Entertainment's ambassador program was conducted, with ten selected participants from three of Net Entertainment's five offices. The ambassadors are trained in the Company's core values and presentation technique and communication in order to act as role models and spokespersons for the Company. The program forms part of efforts to constantly strengthen the internal corporate culture, and also the external brand as an employer – for instance at employer presentation days at universities and colleges, and at industry days and in market activities. In 2014, the program is planned to restart with 12 participants.

## Net Entertainment's core values



**Think ahead, be ahead**



**Passion for Gaming**



**We act speedsmart**



**Simplicity in all we do**



**Together we win**

Online casino games are about entertainment and excitement, but also about stakes that can be multiplied or lost. Games and gaming involve a risk of undesirable consequences. Net Entertainment works actively to promote responsible gaming.

## Exciting games in a safe environment

Although Net Entertainment has no direct contact with the individual player, the Company works actively and in close cooperation with other market participants to address and prevent gaming-related problems. Many of Net Entertainment's games could be considered relatively fast, in which the time lapse between placing a bet and winning is short.

Net Entertainment has a class 4 license in Malta and thus meets all requirements set by the Lotteries and Gaming Authority (LGA). The Company also has a license issued by the Alderney Gambling Control Commission. All new games are approved by the LGA and the Alderney authority prior to release.

Net Entertainment is also part of the organization G4 (Global Gambling Guidance Group). By developing responsible gaming software and training programs for the employees of gaming companies, and by offering help lines and personal counseling, G4 endeavors to minimize the damage and problems that ensue from gambling addiction. Net Entertainment's casino offers support based on the organization's guidelines.

### Consumer protection in G4 regulation

- Protecting minors and vulnerable individuals
- Protecting players' rights
- Promoting responsible gaming in a safe environment
- Ensuring the reliability of games and gaming devices
- Keeping online casino games free from criminal activity, such as money laundering

Net Entertainment's gaming system is designed with functions that enable operators to allow end user – players – to limit their gaming. This might mean setting an upper limit on betting or the ability to disable certain functions, such as autoplay. All of Net Entertainment's games also feature a prominent clock that makes it easier for the player to maintain an accurate sense of time. The system can also be configured so that a certain amount of time must pass between two game sessions.

A player can feel secure that the game meets set requirements, is random, and possible to win. At the same time, each player should also be aware that it is also possible to lose. Net Entertainment's games and platforms are tested for randomness by independent accredited testing agencies, which is one of the requirements set by the gaming authorities in the markets where the Company operates. Net Entertainment is verified by the international testing agency eCOGRA (e-Commerce and Online Gaming Regulation and Assurance), which is a London-based industry organization that works to promote fair and responsible gaming. Each year eCOGRA examines Net Entertainment's development environment, verifies and ensures that the software is securely and reliably maintained and operated, and that the Company is continually tested by other independent agencies.





**“ We are delighted to have built a long-term relationship with Net Entertainment ”**

Mr George Zenzefilis – General Director of Intralot Interactive

#### **Success factor 4: The administration tool optimizes and increases revenues**

Thanks to Net Entertainment’s successful administration tool, gaming operators can optimize their casino operation and hence strengthen both earnings and market position. Italian operator Intralot is one of several operators that sees major benefits in Net Entertainment’s administration tool.

For example, Intralot gained access to a system solution included an overarching “wallet” per player, which enhanced the efficiency of the operator’s back office operation, while the number of queries received by Intralot’s help desk decreased. Thanks to the administration

tool, Intralot could also trace all the necessary information needed to respond to various queries from players. In addition, the system integrates traditional desktop-based games, Live Casino games and mobile games into a single solution, which reduces complexity and increases traceability. Thanks to the integration with Net Entertainment’s games and systems, Intralot has strengthened its market position and, on a number of occasions, the operator has testified to Net Entertainment’s professionalism and expertise with respect to market regulation.

**Customer opinion:** “We are delighted to have established a fruitful, long-term relationship with Net Entertainment. Intralot was one of the first companies in Italy to evaluate Net

Entertainment’s interactive content, and in 2011 we launched its online casino on the highly competitive Italian market. Today, the casino is a successful and profitable part of our established Italian operation.”



**Optimization**



## BOARD OF DIRECTORS AND AUDITORS



### MICHAEL KNUTSSON

Board Member  
Born 1961  
Elected in 2012

Independent in relation to the Company, senior executives and its major owners.

Michael Knutsson is or has been Board Member, leading/managing decision maker or partner in, among others, Knutsson Holdings AB, Pata-Pata AB, Tangi-amo AB, Solidicon AB, TCS John Huxley Ltd. and Sponsio Ltd.

Shareholding\*: 2,610,000 B shares.  
Shareholding in endowment insurance\*): –

### MIKAEL GOTTSCHLICH

Board Member  
Born 1961  
Elected in 2008

Independent in relation to the Company, senior executives and its major owners.

Chairman of the Board for Sentat Asset Management AB and Board Member in CKT Capital, including subsidiaries, O'Learys Trademark AB and Interoc AB (publ). Former CEO of MG Instrument AB, Arkivator AB and LGP Telecom.

Shareholding\*): 300,000 B shares.  
Shareholding in endowment insurance\*): –

### VIGO CARLUND

Chairman of the Board  
Born 1946  
Elected in 2008

Independent in relation to the Company, senior executives and its major owners.

Chairman of Los Naranjos S.L and Board Member of Investment AB Kinnevik and Zettle AB.  
Shareholding\*): –  
Shareholding in endowment insurance\*): 506,000 B shares.

### PETER HAMBERG

Board Member  
Born 1973  
Elected in 2009

Independent in relation to the Company and senior executives, but related to one of the Company's major shareholders.

CEO and Board Member of Hamberg Förvaltnings AB and Board Member of Solporten Fastighets AB, C-Rad AB and Pamir A Intressenter AB (Schoolsoft). Peter has a Bachelor's degree in international business administration from San Francisco State University, USA.

Shareholding\*): 121,000 B shares.  
Shareholding in endowment insurance\*): 4,000 B shares.

### MARIA REDIN

Board Member  
Born 1978  
Elected in 2012

Independent in relation to the Company, senior executives and its major owners.

Previous experience from the online gaming industry, including as CEO and CFO of Bet24, and Controller for MTG's pay-TV operation in Sweden, and currently serving as Head of Group Finance & Controlling for Modern Times Group MTG.

Shareholding\*): 1,500 B shares  
Shareholding in endowment insurance\*): –

### PONTUS LINDWALL

Board Member  
Born 1965  
Elected in 2011

Independent in relation to senior executives and major owners, but Chairman of the Board in Betsson AB, a customer and former Parent Company of Net Entertainment.

Chairman of the Board of Betsson AB (publ) and a Board Member of Solporten Fastighets AB and Mostphotos AB. Holds a Master's of Engineering from the Royal Institute of Technology in Stockholm.

Shareholding\*): 840,000 B shares.  
Shareholding in endowment insurance\*): 339,500 A shares and 120,070 B shares.

### FREDRIK ERBING

Board Member  
Born 1967  
Elected in 2008

Independent in relation to the Company, senior executives and its major owners.

Works as Vice President and Business Unit Manager at Acando AB. Holds a Master's of Engineering from the Royal Institute of Technology in Stockholm.

Shareholding\*): 20,000 B shares.  
Shareholding in endowment insurance\*): 20,000 B shares.

### AUDITORS

At the annual meeting held on 25 April 2013, Deloitte AB was elected as auditor for the period until the Annual General Meeting in 2014, with Therése Kjellberg [authorised public accountant and member of FAR SRS] as the chief auditor.

\* The specified shareholdings include holdings through families and companies as at December 2013.



## SENIOR EXECUTIVES



### **BJÖRN KRANTZ**

CEO Net Entertainment Malta Ltd  
Born 1970  
Employed since 2009

More than 15 years of international experience in sales and marketing in the telecommunications industry with, among others, Swedia Networks in London and for Ericsson in Sweden, London, USA and Austria, most recently as head of sales and business development for Ericsson, Central Europe. Holds a degree in Mechanics & Electronics and has also studied at the IHM Business School.

Shareholding\*): 10,000 B-shares.  
Share option rights: 25,000.

### **MARIA Z FURENMO**

HR director  
Born 1964  
Employed since 2011

Extensive experience from HR-related work within growth companies and change management within larger companies. Former HR director for Outokumpu, Nordnet, Post-Net, Torget.se and Cell Network. B.Sc. in Business Administration and a degree in Human Resources from Stockholm University.

Shareholding\*): 500 B-shares.  
Share option rights: 50,000.

### **LUDVIG KOLMODIN**

Chief Information Officer  
Born 1972  
Employed since 2009

More than 15 years of international experience in system development, IT operation and project management, primarily within the telecom industry as head of IT operations for the mobile operator 3, as well as within the banking sector. MA in systems analysis and design from Mid Sweden University.

Shareholding\*): 1,000 B-shares.  
Share option rights: -

### **PER ERIKSSON**

President and CEO  
Born 1961  
Employed since 2012

Active in IT for over 27 years. Former President and CEO of the Dustin Group and Head of Dell EMC in Europe, the Middle East, and Africa, and the CEO of Dell Nordic. B.Sc. in Business Administration from the Stockholm University. Per is also Chairman of Memnon Networks AB. No other assignments.

Shareholding\*): 10,000 B-shares.  
Share option rights: 60,000.

### **ANNA LAGERBORG**

Chief Development Officer  
Born 1966  
Employed since 2011

15 years of experience in software development and management of development departments in, among other areas, games and social media, as well as telecom and communications. Bachelor's in computer science from Stockholm University.

Shareholding\*): -  
Share option rights: -

### **MARIA HEDENGREN**

CFO  
Born 1970  
Employed since 2011

Maria has extensive experience from various finance positions, mainly within the IT industry. Former CFO for Resco AB (publ) and auditor at Arthur Andersen in Sweden and the United States and has held several senior positions at Lawson Software and IBS. Studied at the University of Gothenburg, School of Business, Economics and Law.

Shareholding\*): 1,500 B-shares.  
Share option rights: 12,000.

### **SIMON HAMMON**

Chief Product Officer  
Born 1983  
Employed since 2011

Solid knowledge of the gaming industry from having been business and product development manager of his own Company and experience in platform – and game development, network operations and affiliate management in the bingo – and casino segment. Simon is a LLB in Law from the University of Durham.

Shareholding\*): -  
Share option rights: -

### **ELISABETH LENNHEDE**

Communications Director  
Born 1961  
Employed during 2013, employment ended January 2014

Solid international experience from leading roles in communications and PR for SEB, the mobile operator 3 and Intenia. A degree in Merchandising/Marketing from FIDM, CA, USA and studies at Berghs School of Communication. Shareholding\*): -  
Share option rights: -

\* The specified shareholdings include holdings through families and companies as at December 2013.

In 2013, world stock markets surged. Yet, Net Entertainment's share outperformed its benchmark indexes, and at the end of the year the Company's market capitalization had overshot SEK 5 billion.

# Another year with a surge in share price

## Analysts who monitor Net Entertainment

**ABG Sundal Collier,**  
Stockholm  
Anders Hillerborg

**Carnegie Investment Bank,**  
Stockholm  
Christian Hellman

**Danske Bank,**  
Stockholm  
Bile Daar

**Handelsbanken  
Capital Markets,**  
Stockholm  
Rasmus Engberg

**Nordea,**  
Stockholm  
Daniel Djurberg

**SEB Enskilda,**  
Stockholm  
Stefan Nelson

Net Entertainment's share is listed on the NASDAQ OMX Stockholm on the Mid Cap list, and is traded under the ticker NET B.

## Share capital

Net Entertainment's share capital amounts to SEK 1,190,566.85 distributed across 5,610,000 A shares and 33,943,716 B shares with a quotient value of 3.01 öre per share. All shares have equal rights to the Company's assets and profit.

## Trade in shares

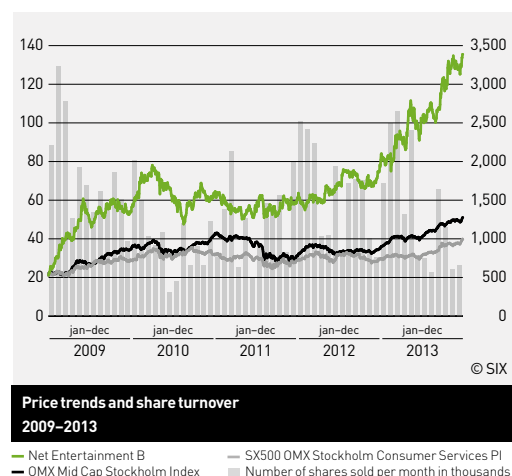
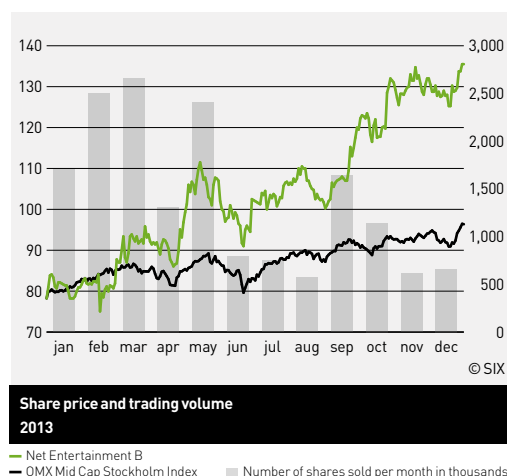
The last price paid on December 31, 2013, which was the final business day of the year, was SEK 135.50, putting Net Entertainment's market capitalization at SEK 5,360 million. The total trading volume was 16,564,245 shares in 2013, equaling a value of around SEK 1,653 million. The average number of shares traded per trading day was 66,257. The share price gained SEK 55.5, or 69 percent, during the year. The share price peak of the year was SEK 135.50, and the trough was SEK 76.75.

At the same time, the NASDAQ OMX Stockholm Mid Cap PI index gained 44.7 percent, and NASDAQ OMX Stockholm Consumer Services PI gained 34.7 percent. Net Entertainment's share is also traded on equity trading venues outside of the NASDAQ OMX Stockholm.

## 2012–2015 program

At the end of 2013, a total of 114,994 share options, equaling as many shares, were outstanding. In the event of full subscription occurring based on such share options, SEK 9.9 million will be contributed to Parent Company equity. The share options were issued at market price, which was set at SEK 6.26, contributing SEK 0.7 million to Group equity. The strike price for the share was set at SEK 85.83, which represents 130 percent of the average share price during the measurement period in May 2012. Subscription for shares can occur during the period 1 August – 1 October, 2015.

To stimulate participation in the program, the board intends to provide loyalty remuneration to be paid out one month prior to maturity of the share options. Remuneration will only be paid out subject to participants still being em-



played by the Group on the payout date and certain other criteria being met. The net cash remuneration can amount to a maximum of 50 percent of the premium paid, equaling a total of SEK 0.9 million including social security expenses paid by the Company. A provision for this commitment is made on an ongoing basis in the accounts with due consideration for anticipated employee turnover and interest.

### 2011-2014 program

At the end of 2013, a total of 353,100 share options, equaling as many shares, were outstanding. In the event of full subscription occurring based on such share options, SEK 24.8 million will be contributed to Parent Company equity. The share options were issued at market price, which was set at SEK 7.20, contributing SEK 2.5 million to Group equity. The strike price for shares was set at SEK 70.20, which represents 130 percent of the average share price during the measurement period in May 2011. Subscription for shares can occur during the period 1 August – 1 October, 2014.

Participants still employed by the Group at the end of the program have the possibility of receiving loyalty remuneration according to the same terms as for the 2012–2015 program. The maximum cost for loyalty remuneration linked to the 2011–2014 program is SEK 0.8 million including social security expenses.

### Shareholders

The number of shareholders in Net Entertainment on December 31, 2013 was 4,624 (3,408) according to Euroclear. Net Entertainment's ten largest owners held shares equaling 50.3 percent of votes and capital in the Company. Institutional ownership amounted to 22.9 percent.

### Investor relations

Net Entertainment views communication and transparency as highly important for 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 operations, development and financial position in order to increase knowledge of and interest in the Company, and also to obtain a fair valuation.

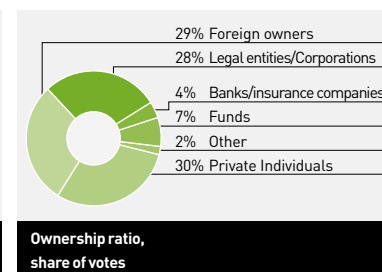
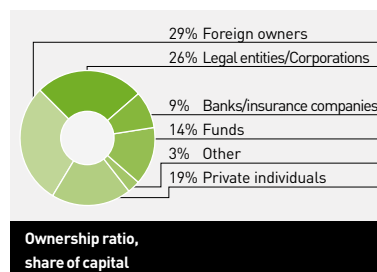
Net Entertainment participates in many investor relations activities, such as seminars and investor presentations both in Europe and beyond. In addition, Net Entertainment participates in all major gaming exhibitions such as EIG, which is held in Milan, and ICE in London.

### Dividend policy

The Board's ambition is for Net Entertainment's ordinary dividend to grow in line with the Company's earnings per share. However, the ambition is for dividend to amount to a minimum of 50 percent of net profit after tax, with account taken of the Company's long-term capital requirement.

### Proposed dividend for 2013

The Board proposes that the Annual General Meeting resolves to distribute SEK 118.7 (89.0) million to shareholders, equaling SEK 3.00 (2.25) per share. The Board intends to propose that such distribution occurs through a share redemption program. The complete proposal will be presented well in advance of the meeting.



Shareholders	A shares	B shares	Holdings	Holdings	Votes
Per Hamberg	1,700,000	836,400	2,536,400	6.4%	19.8%
Rolf Lundström	1,152,500	1,432,191	2,584,691	6.5%	14.4%
Lars Kling	797,000	500,000	1,297,000	3.3%	9.4%
Svenska Handelsbanken SA	700,000	17,200	717,200	1.8%	7.8%
Berit Anita Lindwall	561,000	122,595	683,595	1.7%	6.4%
BP2S Paris/EFG Bank AG	360,000	1,475,466	1,835,466	4.6%	5.6%
Lannebo Fonder		4,203,579	4,203,579	10.6%	4.7%
Banque Carnegie Luxembourg SA	339,500	135,043	474,543	1.2%	3.9%
Livförsäkrings AB Skandia (Publ)	0	2,977,116	2,977,116	7.5%	3.3%
Knutsson Holdings AB	0	2,600,000	2,600,000	6.6%	2.9%
Ten largest shareholders in total	5,610,000	14,299,590	19,909,590	50.3%	78.2%
Other shareholders	0	19,644,126	19,644,126	49.7%	21.8%
<b>In total</b>	<b>5,610,000</b>	<b>33,943,716</b>	<b>39,553,716</b>	<b>100.0%</b>	<b>100.0%</b>

The specified holdings include holdings by families and companies.

### Ten largest shareholders according to Euroclear Sweden AB as at 31 December 2013

	2013	2012	2011
Earnings per share, SEK	4.23	3.37	2.92
Transfer to shareholders, SEK per share <sup>1</sup>	3.00	2.25	2.00
Transfer to shareholders in % of profit after tax	71%	67	68
Outstanding shares at the end of the year, millions	39.6	39.6	39.6
Average number of outstanding shares, millions	39.6	39.6	39.6
Closing share price, SEK	135.50	80.00	64.00
Direct return in % <sup>2</sup>	2.2%	2.8	3.1
Total return, Net Entertainment shares in % <sup>3</sup>	72.2%	28.1	-5.7
Stock price divided by earnings per share	32.0	23.7	21.9
Number of shares sold per year, millions	16.6	18.4	13.9
Turnover rate in %	41.9	46.4	35.0
Stock market value at the end of the year, MSEK	5,359.5	3,164.3	2,531.4
Number of shareholders	4,624.0	3,408	3,131

<sup>1</sup> The Board's proposals for 2013

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

<sup>3</sup> Percentage change in closing price 2012 plus unpaid transfers in 2012 compared to the closing price on the last trading day of 2012

### Key data for Net Entertainment's shares



# Five-year summary

## CONDENSED CONSOLIDATED INCOME STATEMENTS

SEK thousands	2013	2012	2011	2010	2009
Operating revenues	630,746	526,671	427,618	368,280	300,050
<b>Operating profit before depreciation/amortization</b>	<b>282,888</b>	<b>227,314</b>	<b>175,536</b>	<b>167,370</b>	<b>142,480</b>
Depreciation/amortization	-103,140	-74,257	-45,823	-30,959	-22,298
<b>Operating profit</b>	<b>179,748</b>	<b>153,057</b>	<b>129,713</b>	<b>136,411</b>	<b>120,182</b>
Net financial income/expense	2,950	-1,794	-719	-4,972	-2,966
<b>Profit before tax</b>	<b>182,698</b>	<b>151,263</b>	<b>128,994</b>	<b>131,439</b>	<b>117,216</b>
<b>Profit for the year</b>	<b>167,139</b>	<b>136,142</b>	<b>117,584</b>	<b>121,470</b>	<b>107,677</b>

## CONDENSED CONSOLIDATED BALANCE SHEETS

SEK thousands	2013	2012	2011	2010	2008
<b>ASSETS</b>					
Non-current assets	257,391	216,375	183,554	131,492	79,674
Current receivables	169,665	254,216	184,630	128,343	63,999
Cash and cash equivalents	105,829	81,230	74,234	47,034	105,009
<b>Total current assets</b>	<b>275,494</b>	<b>335,446</b>	<b>258,864</b>	<b>175,377</b>	<b>169,008</b>
<b>Total assets</b>	<b>532,885</b>	<b>551,821</b>	<b>442,418</b>	<b>306,869</b>	<b>248,682</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Shareholders' equity</b>	<b>380,666</b>	<b>294,194</b>	<b>240,875</b>	<b>200,792</b>	<b>174,018</b>
Long-term liabilities	7,478	3,513	481	158	50
Current liabilities	144,741	254,114	201,062	105,919	74,614
<b>Total liabilities</b>	<b>152,219</b>	<b>257,627</b>	<b>201,543</b>	<b>106,077</b>	<b>74,664</b>
<b>Total equity and liabilities</b>	<b>532,885</b>	<b>551,821</b>	<b>442,418</b>	<b>306,869</b>	<b>248,682</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

SEK thousands	2013	2012	2011	2010	2009
Cash flow from operating activities	249,930	195,422	203,251	119,629	150,042
Cash flow from investing activities	-136,357	-111,577	-99,044	-93,822	-62,136
Cash flow from financing activities	-90,870	-76,513	-76,565	-79,107	-45,280
<b>Cash flow for the year</b>	<b>22,703</b>	<b>7,332</b>	<b>27,642</b>	<b>-53,300</b>	<b>42,626</b>
Liquid assets at the beginning of the year	81,230	74,234	47,034	105,009	65,132
Exchange rate differences in cash and cash equivalents	1,896	-336	-442	-4,675	-2,749
<b>Liquid assets at close of year</b>	<b>105,829</b>	<b>81,230</b>	<b>74,234</b>	<b>47,034</b>	<b>105,009</b>



## KEY FIGURES

GROUP	2013	2012	2011	2010	2009
Operating margin (percent)	28.5	29.1	30.3	37.0	40.1
Profit margin (percent)	29.0	28.7	30.2	35.7	39.1
Interest coverage ratio (multiple)	303	276	778	4,533	2,494
Equity/assets ratio (percent)	71.4	53.3	54.4	65.4	70.0
Quick ratio (percent)	190.3	132.0	128.7	165.6	226.5
Net interest-bearing liabilities (SEK thousands) <sup>1</sup>	-105,829	-79,356	-74,234	-47,034	-105,009
Net Debt/equity ratio (multiple)	-0.3	-0.3	-0.3	-0.2	-0.6
Average number of employees	328	257	220	152	110
Employees at year-end	356	301	231	182	133
Employees and consultants at year-end	461	403	324	284	187
Earnings per share before dilution (SEK)	4.23	3.44	2.97	3.07	2.72
Earnings per share after dilution (SEK)	4.21	3.44	2.97	3.07	2.72
Shareholders' equity per share (SEK)	9.62	7.44	6.09	5.08	4.40
Dividends per share (proposed for 2013)	3.00	2.25	2.00	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

<sup>1</sup> Negative numbers mean that the Company has a net balance (positive balance and no interest-bearing debts).

## 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 after taxes in relation to 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 dividends. "Dividend" here also refers to transfer to shareholders.

**AVERAGE NUMBER OF OUTSTANDING SHARES**

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

**NUMBER OF SHARES OUTSTANDING**

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

# Management report

The Board of Directors and the CEO of Net Entertainment AB (publ), 556532-6443, may hereby submit the annual report for the financial year 2013.

## ABOUT NET ENTERTAINMENT

Net Entertainment is a world leading supplier of digitally distributed gaming systems used by some of the world's most successful online gaming operators. The Net Entertainment Casino™ is a complete gaming system comprising a full suite of high quality games and a powerful management platform. The games create the ultimate gaming experience for the player while the management platform enables Net Entertainment's customers, the operators, to optimize their business and profitability. Operators are provided a customized system solution that is easily integrated ensuring short time to market and a cost efficient operation. Revenues consist of royalties based on revenues generated by the Company's products to the operators and setup fees when new agreements are signed. Net Entertainment is a pure development Company and thus does not conduct any gaming operations of its own. The Company's brand is internationally recognized and associated with innovation, service, and quality.

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

## BUSINESS MODEL AND OBJECTIVES

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

The gaming operators pay a monthly license fee calculated as a percentage of the gross gaming yield generated by the casino. It is therefore in the interest of both the

operator and Net Entertainment to increase the operator's gaming revenues. Through the launch of new and unique games with high entertainment value and different kinds of bonus and loyalty schemas, players are stimulated to stay on the operator's site.

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

## IMPORTANT EVENTS IN THE FOURTH QUARTER

- 27 license agreements were signed with new customers, including 888, Lottomatica, Ladbrokes, William Hill and bet365. 20 new customers' casinos were launched
- Net Entertainment launched Live Casino
- Global framework agreement signed with GTECH, a platform supplier of gaming content to so called WLA operators (World Lottery Association)
- Net Entertainment's jackpot game Mega Fortune paid out SEK 17.4 million and became the world's largest jackpot ever online.

## MARKET

The online gaming market has shown positive growth in recent years. The global gross gaming yield for online gaming, including all game segments, is expected to amount to EUR 29 billion in 2014, an increase of 12 percent compared to year 2013. Europe is by far the largest gaming market and is expected to represent close to half of the gross gaming yield in coming years.<sup>1</sup>

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

Spain has introduced a federal gaming legislation. The first licenses were awarded in June 2012. Online slot games are however not allowed. The different states can admit their own gaming legislation for online gaming. The government announced during the spring of 2013 that they intend to allow slot games in the future. This process has started but the government has not yet announced when slot games will be introduced.

<sup>1</sup> H2 Gaming Capital January 2014

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

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

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

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

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

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

In the US political initiatives are ongoing on a state level to introduce a new regulation of online gaming. Several states have already regulated online gaming; US Virgin Islands (all games), Nevada (poker) and Delaware (all games). In November, New Jersey opened up for online gaming (all game forms). Illinois and California are discussing a potential regulation.

Net Entertainment believes that the conditions for continued expansion are good. The key reason for this is that the Company can continue to gain market share by delivering first-class products in combination with continued strong customer closeness. Good products and an effective product development secure the conditions for new deals. By extending the product portfolio, Net Entertainment can target a wider market and broaden its customer base.

The majority of Net Entertainment's customers are located in Europe, which is the largest geographical market for online gaming. The Company will continue to focus on the European market, but at the same time monitor new potential markets outside Europe. Net

Entertainment carefully follow the development on markets that are about to regulate and intends to launch products on these markets if the prerequisites are right.

### NEW AGREEMENTS AND CUSTOMERS

During 2013, 27 agreements were signed with new customers, including 888, Lottomatica, Ladbrokes, William Hill and bet365.

A number of agreements were terminated with smaller customers that did not obtain the minimum revenue requirement that Net Entertainment demands.

### Customers to be launched

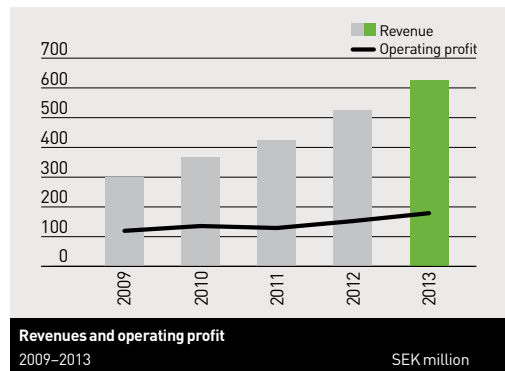
At the end of 2013, the Company held agreements with 15 new customers that have not yet launched, including Sky Betting & Gaming and bet365.

bet365 is one of the world's leading gaming companies online with over 10 million customers globally. The Company has more than 2000 employees.

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

### REVENUES AND PROFITABILITY

Revenues and operating profit for the most recent five years is presented below.



### Revenues – volume, price and currency development

Revenues amounted to SEK 630.7 (526.7) million, an increase of 19.8 percent (20.5 percent in euros) compared to 2012. Net Entertainment's revenue increase compared with the corresponding period the previous year comes from a combination of existing customers' growth, launch of new games and revenues from the launch of new customers. During 2013, revenues were positively affected by increased volumes from existing customers but also due to setup fees in conjunction with several new agreements that were signed in the quarter. The Company has signed 27 new license agreements during 2013 which has generated setup fees. 20 new customers were launched.

The number of game transactions amounted to 16.2 billion in 2013 which is an increase of approximately 32 percent compared to previous year. The increase in the number of game transactions is primarily a result of increased activity among the players but also due to what game type is the most popular. Slot games represented approximately 81 percent of game win (player bet minus player win) in 2013 quarter which in general mean more transactions as players bet less per round but play more rounds compared to other casino games. In addition, games through mobile units show a similar pattern in terms of the number and size of the transactions. Mobile games is an area which has increased significantly during 2012 and 2013. This also means that the revenue increase does not correlate with the increase in the number of game transactions.

Revenues are affected by the development of the Swedish currency in relation to other currencies. The majority of revenues are invoiced in Euros, but also in British pounds and US dollars. Revenues are accounted for in Euros and then translated into the Swedish Krona for the Group's reporting. During 2013 the Swedish Krona strengthened by 0.6 percent versus the Euro compared to 2012. In Euros, revenues increased by 20.5 percent.

#### **Costs and profitability**

Operating profit amounted to SEK 179.7 (153.1) million for 2013. Operating expenses have increased compared to last year due to the Company's expansion and strengthening of the organization within areas such as sales, product management, development and operations. In addition the re-regulation of the online gaming add new demands that the Company must meet which affect cost, as do new initiatives such as Live Casino and the establishment in Britain. The cost for Live Casino is primarily driven by the studio in Malta which requires more personnel to operate compared to traditional online games. Depreciation has increased compared to last year as several new development projects have been completed, such as Live Casino, new larger platform projects and games for mobile units and PC.

The operating margin amounted to 28.5 percent in 2013 compared to 29.1 percent in 2012.

The financial net amounted to SEK 3.0 (-1.8) million in 2013 and primarily consists of exchange rate effects on cash and cash equivalents, financial receivables and financial liabilities as well as the return on cash and cash equivalents. The volatility in the Swedish Krona has periodically led to effects on inter-company balances which are items included in the financial net.

The Group had an effective tax rate of 8.5 (10.0) percent in 2013. The effective tax rate is mainly affected by in which country where the Group conducts operations where the profit is generated and can vary between

reporting periods. During the fourth quarter 2013 Net Entertainment has adjusted the reporting of deferred tax relating to the Group's Maltese operations retroactively. The Company therefore takes into consideration that 6/7 of deferred tax relating to tax on dividend from the Maltese subsidiaries will be refunded by the Maltese authorities. Previously the deferred tax was calculated based on the tax rate applicable to undistributed profits. Prior period's reported financial result and financial position have been re-calculated. This means that the 2012 effective tax rate was 10.0 percent instead of 11.9 percent as previously reported. The adjustment has resulted in deferred tax liabilities per December 31 2012 has decreased by SEK 5.6 million, deferred tax expense decreased by SEK 2.9 million and shareholder's equity increased by SEK 5.6 million.

#### **INVESTMENTS**

The Group's investment in intangible assets amounted to SEK 102.5 (91.0) million. Investments in intangible assets consist of development of new games, technical adjustments in the platform such as new functionality, increased capacity, adjustments for requirements on regulated markets and software licenses. Among larger development projects in the fourth quarter, further development of Live Casino, games for mobile units and for PC and certain platform projects.

Investments in property, plant, and equipment amounted to SEK 33.9 (20.6) million. Investments in property, plant, and equipment are primarily servers and other computer equipment to meet new technical requirements and maintain capacity and performance in conjunction with new platform releases. Investments have also been made in the Company's new Live Casino studio.

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

The Group's cash flow from operating activities amounted to SEK 249.9 (195.4) million. The increase compared to previous year is primarily due to an improved operating profit.

Cash flow from investing activities amounted to SEK -136.4 (-111.6) million. Further description of the investing activities can be viewed in the section Investments above.

Cash flow from financing activities amounted to SEK -90.9 (-76.5) million and mainly consisted of transfer to shareholders.

The Group's cash and cash equivalents amounted to SEK 105.8 (81.2) million on December 31. The Group's available credit lines amounted to SEK 50.0 million of which none had been used on December 31.



## PERSONNEL AND ORGANIZATION

At the end of the period, the number of employees amounted to 356 [301]. Including external recourses such as dedicated persons with contract suppliers and subcontractors, Net Entertainment employed 461 [403] persons.

## PARENT COMPANY

The parent company's revenues for the full year amounted to SEK 393.5 [371.1] million. Operating profit amounted to SEK 31.2 [39.3] million and the operating margin was 7.9 [10.6] percent. Profit after tax amounted to 95.8 [87.0] million for the full year 2013.

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

Cash and cash equivalents in the parent company at the end of the period amounted to SEK 55.5 [1.2] million.

Investments in property, plant and equipment amounted to SEK 10.1 [11.5] million for the period January – December 2013.

The parent company's investments in intangible assets amounted to SEK 17.3 [1.5] million for the period January – December 2013 and primarily consist of software and development related to the new ERP system.

## 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 revenue, 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 25.

### Political decisions

Net Entertainment is a supplier of digitally distributed gaming systems for casino games online. 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 condi-

tions 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 allows its member countries relatively free choice in regulating gaming. However, the regulations must meet EU law's requirements for proportionality and nondiscrimination. 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.

Deregulation and reregulation of national gaming laws is taking place in many European countries where Italy, France and Denmark has recently regulated online gaming. 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. Net Entertainment also has a category 2 license on Alderney.

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 liberalization 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. At the moment, Net Entertainment does not offer its products or services to gaming operators who in turn offer games to players in the USA. In the US, political initiatives are ongoing on a state level to introduce a new regulation for online gaming.

#### **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 importance 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 category 2 license on Alderney which enables the Company to offer its casino solution to gaming operators that are licensed by the gaming authority on Alderney. The Alderney license is valid until further notice. This license is also of great importance to maintain for the Company. The gaming authority in Alderney, AGCC, performs regular audits of Net Entertainment's business. If AGCC find that Net Entertainment no longer fulfills the license requirements the authority can cancel the license.

Certain member states in the EU, including Sweden, have bans against promoting lottery that is organized from another country. "Promotion" is considered a broad concept, and thus can include a number of different activities. That Net Entertainment's business, namely delivering software and providing hosting for gaming operators from another country where the business is licensed and legal, could be considered "promotion" seems farfetched, but how far this "promotion" extends is unclear.

Games authorities in different countries can also adopt a restrictive approach to what markets licensed gaming operators and gaming system vendors makes the games available to, for example, if the authorities believe that a country is not applying adequate measures to prevent money laundering and terrorist financing.

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 centers 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 revenues and thus the

license revenues for Net Entertainment. Any operational interruption or technical problem with the Company's servers could therefore result in lost revenues, 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.

### Players

Despite the fact that Net Entertainment does not conduct any gaming operator activities, people who play Net Entertainment's games could sue companies within the Net Entertainment Group, being 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 revenues.

### Dependence on key personnel and skilled employees

Net Entertainment's success is dependent on the ability to recruit and maintain personnel with high knowledge and skill within all business areas such as commercial experience and understanding of operator and player preferences, game development and technology in the cities 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 market change, the loss of experienced personnel within business critical areas 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, company culture and opportunities for advancement within the organization.

### Dependence on large customers

The loss of some of the Company's customers may have a negative impact on Net Entertainment's revenues and profit. As the number of large customers' increases, the dependence on individual large customers gradually decreases. None of Net Entertainment's customer represent more than 19% (22%) of the Company's revenues in 2013. See Note 4 on page 62.

### 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 high quality games with high entertainment value, in combination with a powerful administration 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 intellectual 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. Lawsuits often lead to costs of different size for the Company in the form of for example legal fees, even if the lawsuit in the end will not lead to a court matter.

### Exchange rate fluctuations

The corporation's profit and financial position are exposed to exchange rate fluctuations, since most revenues are in Euros (EUR) and the majority 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 fulfillment of Net Entertainment's financial goals may be affected by future changes in exchange rates.

The Groups consolidated result, equity, assets and liabilities are also affected by changes in exchange rate when profit from foreign subsidiaries is converted to Swedish kronor for the Group's consolidated financial reporting.

**Tax situation**

The Group's tax expense is affected by in which country where the Group conducts operations where the profit is generated and tax laws in each respective country. 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, Net Entertainment has assessed how tax regulations affect the business in order to ensure a correct tax situation. This also applies to indirect taxes. Net Entertainment reports and pays to the tax authorities the amount of tax that Net Entertainment and hired external experts considers correct. However, these figures may prove to be inadequate in the event that the tax authorities do a different interpretation of the tax rules than the assessment Net Entertainment has made and believes is correct.

After a tax audit in Net Entertainment NE AB concerning fiscal years 2007 - 2010, the Swedish Tax Agency has announced its decision to impose additional taxes on Net Entertainment in the amount of approximately 92.1

MSEK. The Swedish Tax Agency states in its' decision that the transfer pricing that has been applied between the Swedish based parent company Net Entertainment NE AB and the Malta-based operations is not motivated. Thus, the Swedish Tax Agency gives certain agreements between companies within the Net Entertainment Group a different legal interpretation and economic substance than what Net Entertainment and its' expert advisors do. Net Entertainment disputes the assessment that the Swedish Tax Agency has done and consequently also the amounts as it relates to the income tax adjustment and the tax surcharges. Net Entertainment insists that it has followed applicable laws for taxation of its operations, which is also supported by the experts that the Company has consulted on the subject. The Company is now in the process of an appeal of the Swedish Tax Agency's decision to the Administrative Court. Net Entertainment does not currently see grounds to make a provision in the accounts for possible additional taxes related to this matter. The amount of SEK 92.1 million is reported as a contingent liability. See note 27.



# 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"), and Nasdaq OMX Stockholm's listing requirements as specified in "Rules for issuers". The Company has not committed any violations of the rules on the exchange where its shares are admitted to trade or of generally accepted principles in the market.

Also, the Articles of Association have a central role in corporate governance in that they define the Company's name, the domicile of the Board of Directors, business orientation, information concerning share capital and voting rights for shares, as well as how conversion of A-shares to B-shares may occur. The Company's Articles of Association do not contain any specific rules regarding amendments to the Articles of Association.

A corporate governance report is now a statutory 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. since the 2010 fiscal year for Net Entertainment. 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 organization. The purpose of the Code is to provide guiding rules for sound corporate governance, and to supplement the legislation in a number of areas. The Annual Accounts Act places requirements on how corporate governance reports shall be prepared. The Code allows for companies to deviate from these rules if, in individual cases, it can be considered to result in better corporate governance for the company (according to the "comply or explain" principle). If a company finds that compliance with a certain rule or recommendation in the Code is not appropriate with respect to that company's special circumstances, the company may deviate from such a rule, provided that the deviation is disclosed and justified, and that the chosen alternative

solution is specified. The Company adheres to the Code without deviations.

## ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is Net Entertainment's highest governing body at which shareholders exercise their influence in the Company. The AGM is superior to the Board and the Chief Executive Officer. To be entitled to vote shares at the AGM, shareholders must be recorded in the share register five days before the meeting, and notify the Company of their participation no later than the day stated in the notice of the meeting. Shareholders who cannot attend personally can participate through a representative. Decisions at the meeting are normally made by a simple majority of votes. However, certain types of resolutions require sanctioning by a higher proportion of the votes and shares represented at the AGM, pursuant to the Swedish Companies Act.

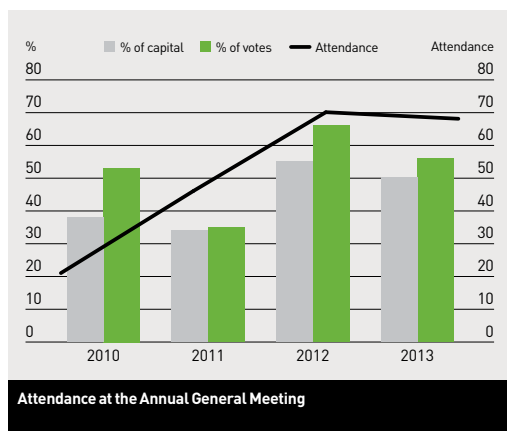
The AGM shall be held within six months after the end of the fiscal year. Time and location are announced no later than in connection with the third quarter earnings report. Information on how a shareholder can have a matter raised at the meeting, and by when such a request must be received by the Company in order to ensure it is brought up in the AGM, is announced on the Company's website by the time of the third quarter earnings report at the latest. Notice of the AGM is announced at least four weeks prior to the meeting, and will then be available on the Company's website.

At the AGM, a presentation of the Company's performance over the past year is given, and resolutions are made on a number of key matters. The AGM approves the annual accounts for the previous fiscal year, decides on discharging the Board of Directors and CEO from liability, elects the Board of Directors and auditors, decides on remuneration for the Board of Directors and auditor, decides how the Nominating Committee shall be appointed, and addresses other formal matters such as any changes in the Articles of Association. Extraordinary General Meetings may be held when warranted.

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

### ANNUAL GENERAL MEETING 2013

The AGM 2013 was held on April 25th at Spårvagnshal-larna in Stockholm. 56.1 percent of the total number of votes and 50.1 percent of the total number of shares were represented at the AGM. All members of the Board of Directors, the Company's auditor, the CEO, a number of the senior management team members and one member of the Nominating Committee were present. At the AGM, decisions were taken on a number of routine subjects as well as the transfer of 2.25 Swedish kronor per share to the shareholders through a share redemption program. For further information, please refer to the Company's website at [www.netent.com/investor/corporate-governance/annual-general-meeting/agm-2013/](http://www.netent.com/investor/corporate-governance/annual-general-meeting/agm-2013/), where the required documents and minutes from the AGM are available.



### ANNUAL GENERAL MEETING 2014

The AGM 2014 will take place April 24th at Spårvagnshal-larna in Stockholm at 3 p.m.. Notice of the AGM is provided on the Company's website at <http://www.netent.com/investor/corporate-governance/annual-general-meeting/arsstamma-2014/>, where the required documents will be available before the meeting.

### NOMINATING COMMITTEE

The AGM decides on how the Nominating Committee shall be appointed.

At the AGM in April 2013, it was decided that the Chairman of the Board of Directors, Vigo Carlund, shall convene a Nominating Committee consisting of a representative from each of the three largest shareholders as of August 31, 2013 who, together with the Chairman of the Board, shall be members of the Nominating Committee for the AGM 2014. In September 2013, Per Hamberg (appointed by the Hamberg family), Christoffer Lundström (Provobis Invest AB) and Martin Wattin (the Kling family)

were appointed members of the Nominating Committee. Per Hamberg was appointed Chairman 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 per the final business day of August.

The Nominating Committee has prepared a proposal to be submitted to the AGM 2014 for resolutions regarding the Chairman of the Meeting, the Chairman of the Board and other members of the Board of Directors, auditors where appropriate, remuneration for the Board of Directors and the auditors, as well as principles for appointing the Nominating Committee. The Nominating Committee's mandate period runs until the new Nominating Committee is appointed in accordance with the resolution on selecting the Nominating Committee at the AGM 2014.

The composition of the Nominating Committee meets the Code's requirements for independent members.

In its work, the Nominating Committee has evaluated 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 concerning the 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, as well as the gender balance, and compared them with identified needs. 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, financial markets, and from different geographical markets. The Board of Directors presently consists of one female member and six male members. The Nominating Committee strives to achieve a sound gender balance in the Board. When a new member of the Board is next to be elected, the Nominating Committee will actively seek to further improve the gender balance. Since the Annual General Meeting 2013, the Nominating Committee has met on two occasions.

The Nominating Committee's proposal, its justified opinion on the proposed Board of Directors, and supplementary information regarding the nominated members of the Board of Directors are announced in connection with the notice of the AGM, and will be presented at the AGM 2014 together with a report on the Nominating Committee's work.

### Members of the Nominating committee

Per Hamberg (representing the Hamberg family)  
Christoffer Lundström (Provobis Invest AB)  
Martin Wattin (representing the Kling family)  
Vigo Carlund, Chairman of the Board of Directors

## THE BOARD OF DIRECTORS

The Board of Directors is elected by the shareholders at the AGM with a mandate period extending from the AGM until the end of the following AGM. The Company's Articles of Association do not contain specific provisions on the appointment and dismissal of Board members. The Board of Directors manages shareholder interests by establishing business goals and strategies, evaluating the executive management, and securing systems for monitoring and control of established goals. It is incumbent upon the Board of Directors to ensure that there is sufficient control over the Company's compliance with laws and other regulations applicable to the Company's business, that necessary ethical guidelines are established for the Company's conduct, and that the Company's communications are transparent, 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 comprise 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 safeguard the Company and its shareholders.

At the AGM in April 2013, seven members were elected: Vigo Carlund, Fredrik Erbing, Maria Redin, Mikael Gottschlich, Peter Hamberg, Michael Knutsson and Pontus Lindwall. For a further description of the members, see page 26.

All but one member are independent in relation to the Company and its management, and six members in relation to major shareholders. Peter Hamberg is not independent in relation to the shareholders because he is a close relative of one of the Company's largest shareholders. Pontus Lindwall is not independent in relation to the Company because he is the Chairman of the Board of Betsson AB – a customer to and previously the parent company of Net Entertainment. The evaluation of the Board members' independence is based on the Code's rules, which apply from February 1st, 2010.

At Board meetings, Vigo Carlund, Peter Hamberg, Fredrik Erbing, Michael Knutsson and Pontus Lindwall attended all meetings. Maria Redin was absent from one meeting and Mikael Gottschlich was absent from two.

Meeting attendance 2013	Board of Directors	Audit Committee	Remunera- tion Committee
Vigo Carlund	13 out of 13	–	2 out of 2
Pontus Lindwall	13 out of 13	–	2 out of 2
Fredrik Erbing	13 out of 13	6 out of 6	2 out of 2
Maria Redin	12 out of 13	6 out of 6	2 out of 2
Mikael Gottschlich	11 out of 13	5 out of 6	1 out of 2
Peter Hamberg	13 out of 13	–	2 out of 2
Michael Knutsson	13 out of 13	–	2 out of 2

## The Chairman of the Board of Directors

The Chairman of the Board of Directors is appointed by the AGM. Vigo Carlund was appointed Chairman of the Board of Directors by the AGM 2013.

The Chairman organizes the work of the Board of Directors so that it is conducted efficiently, and such that the Board of Directors fulfills its commitments. This 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 Board members undergo the necessary introductory training; ensuring that the Board regularly updates and deepens its knowledge of the Company, the industry, and its performance; and assuming responsibility for contacts with the owners and communicating the opinions of the latter to 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 Board meeting agendas. The Chairman of the Board of Directors verifies that the Board's decisions are implemented, and is responsible for the annual evaluation of Board of Directors' work, and for informing the Nominating Committee of such evaluation. The Chairman also provides the CEO with support.

## 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 duties. The sections 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 on the agenda at each Board meeting, the annual cycle of items over the financial 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 the

provision of information to the Board of Directors before the Board meeting and between Board meetings.

Before each Board meeting, members receive detailed documentation about the matters to be discussed at the Board meeting. Also, each month, a monthly report is distributed on operational and financial performance.

In 2013, the Board of Directors held 13 meetings, including the inaugural meeting, three for the approval of interim reports, two extra Board meetings and one meeting per capsulam. In connection with the Board meeting in June, a strategy meeting was held, at which the executive management presented an in-depth analysis of the industry trend and the proposed strategic direction for continued growth and development.

The key points at the Board meetings in 2013 were matters concerning strategy, taxes, the business risk management process, approval of business plans and budgets, forecasts, key policies such as for anti-bribery, annual report, earnings report and interim reports and investments. During the year, the Board hired an external consulting company to conduct a technical IT audit of the Company's operations with a focus on strategy, platform architecture and efficiency. Other matters addressed by the Board of Directors were financial goals, vision, and mission, as well as financial policy. Also present at Board meetings were the CEO and the CFO, who also recorded the minutes. The CEO reports on operational performance at each ordinary Board meeting, and the CFO reports on financial performance. In addition, various senior executives participated in presentations on various agenda items.

At the Board meeting in February 2014, the chief auditor, Therese Kjellberg, Deloitte, reported her conclusions from the audit for 2013. At the meeting, the members of the Board had the opportunity to ask the auditor questions without the presence of Company management.

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 evaluation without the presence of Company management members.

#### **Audit Committee**

The Board of Directors has established an Audit Committee which, since April 2013, has consisted of Fredrik Erbing (Chairman), Maria Redin and Mikael Gottschlich. CFO Maria Hedengren 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 audit of the annual accounts and the consolidated financial statements, 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 which services may be procured by the auditors in addition to the regular audit, evaluation of the audit process, advising the Nominating Committee when preparing proposals to the auditors, and audit fees. In addition, the Committee has: established an annual plan for its work and an updated risk analysis for the business with a special focus on financial reporting and the link to internal controls; approved the auditor's audit plan; read and evaluated the auditor's ongoing review including the IT systems review; evaluated the internal controls and the process improvement work performed by the Company in that regard; and considered the Finance policy, the Financial handbook, and accounting issues. During the year, special attention was devoted to the implementation of a new ERP system and the business risk management process.

The Audit Committee met six times in 2013. The auditor attended five such meetings.

#### **Remuneration Committee**

The Remuneration Committee consists of all seven members of the Board of Directors. The Chairman of the Board of Directors is the Chairman of the Committee. All members were independent in relation to the Company except for Pontus Lindwallas, who is the Chairman of the Board of Betsson AB, a customer to and the former parent company of Net Entertainment. Pontus Lindwall did however not participate in any decisions in which he could be considered biased.

The Remuneration Committee deals with matters concerning remuneration and benefits for senior executives, including the CEO. The Remuneration Committee prepares matters for decision by the Board concerning the CEO's remuneration and benefits, as well as matters of principle for all senior executives. The Board of Directors also decides on matters of principle concerning remuneration for senior executives and salary for the CEO. The Board of Directors has established guidelines for senior executive remuneration that are presented to and approved by the AGM. The guidelines for senior executive remuneration are monitored and evaluated annually, including variable remuneration programs for



the Company management that are in progress and that ended during the year. The current remuneration policy is appended to the AGM minutes, available on the website.

The Remuneration Committee held two meetings in 2013 and one in early 2014, at which all Board members were present.

## INSTRUCTIONS FOR THE CEO

The Board of Directors has prepared and established instructions regarding the CEO's duties and responsibilities, as well as obligations towards 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 operations 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 to ensure that the Company's organization is professional and efficient; ensure that internal controls are appropriate 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, prepare, compile, and present data requested by the Board of Directors for assessing the Company's financial situation, such as reports, key figures and comments, proposals for the business plan, marketing plan, budgets, forecasts, financial statements, interim reports, and annual reports.

## BOARD AND SENIOR EXECUTIVE REMUNERATION

### Board remuneration

Remuneration for the Board of Directors is proposed by the Nominating Committee and decided by the AGM, and is paid to Board members who are not employed by the Company.

Monetary data regarding remuneration distributed to the Board of Directors by fiscal year is shown in note 6 on page 63.

### Remuneration for the board of directors

#### 2011–2013, SEK thousand

Decided at the AGM	2013	2012	2011
Chairman of the Board of Directors	590	580	550
(including fees for assignments in foreign subsidiaries)	–	–	–
Chairman of the Audit Committee	310	300	270
Members of the Board of Directors	240	240	220

### Senior executive remuneration

In order to achieve attractive long-term value growth for shareholders, Net Entertainment seeks to offer its employees competitive remuneration and an attractive

workplace that enable recruiting and retaining the right employees. For senior executives, the Board of Directors has prepared guidelines for remuneration, as outlined below.

Monetary data regarding remuneration distributed to employees and senior executives is shown in note 6 on page 63.

### Guidelines adopted by the AGM 2013

These guidelines shall be applied for the CEO of Net Entertainment NE AB 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 to existing contracts after the Annual General Meeting. The Board of Directors shall be able to diverge 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 remuneration principles and other employment terms for senior executives are, in both a short-term and long-term perspective, competitive and create sound conditions for retaining and motivating skilled employees and attracting new ones when needed. In order to achieve this, it is important that conditions at the Company are fair and well-balanced, while at the same time competitiveness on the market is maintained. Employment terms for senior executives should contain a well-balanced combination of fixed and variable salary, share-based incentive programs, retirement benefits, and terms and conditions for employment termination.

Remuneration should be performance-based, and therefore contain a combination of fixed and variable salary, such that variable remuneration constitutes an appropriate proportion of total remuneration.

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

Annual variable salary shall be measured and paid on an annual basis. Annual variable salary shall be capped at 50 percent of fixed salary, and be based on actual achievements in relation to established financial and operational goals. Goals for variable salary are determined annually by the Board of Directors in terms of variable salary for the CEO, and by the CEO in terms of variable salary for other executives, in order to ensure that they are in line with the Company's business strategy and objectives. Variable salary terms shall include a 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 predetermined date in order for payment to be made. Long-term cash incentive programs shall be capped at 50 percent of annual fixed salary, and shall otherwise follow the same principles that apply to the Company's annual variable salary as above.

The Board is entitled to reclaim variable pay disbursed on the basis of information that later proved to be evidently erroneous.

Key employees are invited to participate in an ongoing share-based incentive program in the form of share option rights or other share-based incentive programs issued at market price to motivate long-term engagement and better align their interests with those of shareholders. In order to strengthen loyalty to the Company, share-based incentive programs in the form of share option rights issued based on market conditions can be combined with cash remuneration, which is payable, in connection with the exercise 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 members of Company's management shall be competitive and based on defined contribution pension plans, in which the premium shall be capped at 33 percent of pensionable salary. Other benefits, such as company cars, health insurance, etc. shall constitute a minor part of total remuneration, and be in line with market conditions.

The CEO can have a maximum notice period of twelve months. Other members of senior management can have a notice period of a maximum of six months. In addition to notice periods, terms of severance pay can occur. Salary during the notice period and severance pay shall in total not, however, exceed the equivalent of 18 months' salary.

#### **Guidelines determined by the Board of Directors and proposed to the AGM 2014**

For the AGM 2014, the Board has proposed to adopt the same guidelines for remunerations to CEO and other senior management with the following changes and clarifications;

The 2013 remuneration guidelines state that, in order to strengthen loyalty to the Company, share-based incentive programs in the form of share option rights issued on market conditions can be combined with cash remuneration, which is payable in connection with the exercise 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. To avoid ambiguity, the guidelines are proposed to state "...cash remuneration, which is payable in connection with the vesting period during which the share option rights can be exercised..." instead of "...in connection with the exercise of share option rights..." since such remuneration is payable regardless of whether or not share options are exercised. No other changes to the guidelines will be proposed.

#### **AUDIT**

Auditors are elected by the AGM and review the Company's accounts and administration on behalf of the AGM. According to the Articles of Association, Net Entertainment shall have one or two auditors. Deloitte AB was elected auditor at the AGM in April 2013 for the period until the AGM 2014. Therese Kjellberg was appointed chief auditor. At the AGM 2014, the auditor for the period until the AGM 2015 will be appointed.

The auditor has presented her conclusions of the synoptic review of the interim report for January–September 2013, the audit for the 2013 full year, 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 the presence of anyone from the Company management.

In addition to the audit, the auditor has had a limited number of other assignments for Net Entertainment. These have been audit-related services concerning accounting and reporting, assistance regarding the preparation of the Company's tax returns and assistance regarding investigation of tax procedures in Malta. In the previous year, an assignment relating to the initial public offering in 2009 took place. Remuneration for the auditor is stated in note 23 on page 67.

#### **INTERNAL CONTROL: THE BOARD'S DESCRIPTION OF THE MOST IMPORTANT ELEMENTS OF THE COMPANY'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN 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. The Annual Accounts Act requires the Company to annually describe its internal control and risk management system in financial reporting. The Board of Directors has overall responsibility for financial reporting. The Board's and the committees' division of duties 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 matters on internal control and compliance, control of carrying

amounts, estimates, assessments, and other matters that could affect the quality of the financial reports. The Committee also has ongoing contact with the auditor.

Net Entertainment applies the established framework for internal control COSO (Committee of Sponsoring Organizations of the Treadway Commission). COSO principles are applied with 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 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 required reports in order for the Board to be able to continuously assess Net Entertainment's financial position.

The quality of 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 the third quarter interim earnings report.

Internal control refers to the process that is influenced by the Board of Directors, Company management, and other staff, and is designed to provide reasonable assurance that the goals of the Company are achieved in terms of

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

The basis of the internal controls related to financial reporting consists of the overall control environment established and communicated by the Board of Directors and management. The Board of Directors and management operate based on this, which provides discipline and structure for other parts of the process. Such parts include risk assessment, control activities (including both general and more specific controls with the purpose of preventing, detecting, and correcting errors and discrepancies), internal and external information and communication systems, and monitoring by the Board of Directors, Company management and individuals further down in the organization to ensure process quality. An important part of the control environment is that organizational 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 developing processes, Net Entertainment has considered the control environment and the risk assessment performed. Soundly devised internal control not only creates conditions for reliable financial reporting, but probably contributes to a healthy and sustainable business with greater profitability as a result. Work on the design of internal processes and monitoring thereof is a constant process at Net Entertainment, and is becoming increasingly important as the Company grows. This is particularly important in terms of the systems that 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 for the Board of Directors of Net Entertainment regarding ongoing internal control work delegated to the CEO. In turn, the CEO delegates authority to the people reporting to him, both directly and through established guidelines and manuals within the Company. The Company's corporate values are an important element in this respect, providing guidance for the 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 internal control in financial reporting at the Company, both proactively with a focus on the internal controls environment, and by reviewing how the internal controls work. Constant development of internal controls is important for a rapidly growing company like Net Entertainment. In 2013, work to further develop internal control continued. For example, the Company implemented a new, modern ERP system to provide traditional accounting process support, electronic invoice management, procurement process support, and employee administration, thus further enhancing internal controls by reducing manual processes. A new group consolidation system was also implemented, as was a tool for financial planning and analysis. A review of processes with an impact on financial reporting and internal controls was also conducted in connection with the implementation of the new systems. Moreover, the Group has a department with special responsibility for regulatory compliance, as well as quality and processes. Regulatory compliance in this respect refers to industry-specific gaming regulation governing the Company in different countries.

Internal governance instruments for financial reporting primarily consist of the Company's Finance Policy, Information Policy, Economic Handbook, and authorization instructions that define accounting and reporting rules, as well as the Company's definition of processes and minimum requirements for sound internal control in financial reporting. Guidelines for financial reporting are updated when there are changes in legal requirements,

listing requirements and/or accounting standards of relevance to the Company. In addition, the Company has policies regarding, for example, trade in the Company's shares, IT and information security, dividend, anti-bribery, prevention of money laundering and terrorist financing, drugs and gambling.

#### **Risk assessment**

Risks in financial reporting are evaluated and monitored by the Board of Directors through the Audit Committee. Net Entertainment has an annual structured risk assessment procedure for the identification of significant risks affecting internal controls in financial reporting, and the identification of prevalent risks. These risks are mainly attributed to areas such as regulated activity, the billing process, development expenditure and taxes, and the Company's substantial liquid funds. During the risk assessment, particular attention has been paid to the risk of irregularities and partiality of other parties at the Company's expense, and the risk of loss or misappropriation of assets. At the same time, the risk assessment has a greater focus on key processes and factors.

Matters are prepared by the Audit Committee before consideration by the Board of Directors. The risk assessment results in control objectives that support meeting basic financial reporting requirements. The risk assessment is updated annually by the Company, and the results are reported to the Audit Committee.

Moreover, the Company has a business risk management process designed to constantly identify, prioritize, and manage significant business risks in general. The risk map is similar to that relating to financial reporting, but includes other risks such as the availability of competent staff and political decisions. The Audit Committee is responsible for continually supervising the risk management process and reports regularly to the Board of Directors. For a complete description of the Company's risks, please see the chapter Risk Factors on page 35.

#### **Control activities**

The most significant risks identified in terms of 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 rectifying errors and discrepancies. When designing control activities, accurate and timely performance thereof is ensured. So-called general IT controls are designed for the system that supports the processes affecting internal controls for financial reporting. In the operations department, the casino system is supervised 24 hours a day, seven days a week. Anomalies and changes in gaming patterns are investigated. The design

of processes and control activities within IT are also affected by regulations specified by the gaming authorities, such as Lotteries and Gaming Authority of Malta (LGA), Alderney Gambling Control Commission (AGCC) 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 include:**

- due authorization of business transactions
- business systems that affect 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, prevailing laws and regulations, and requirements for listed companies. The process is also designed 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 judgment.

#### **Information and communication**

Information and communication about internal governance instruments for financial reporting are available for all employees concerned on the Company's internal network. Net Entertainment has information and communication channels with the purpose of promoting the completeness and accuracy of financial reporting. Only a limited number of people in the functions Finance, IR, and CEO staff have access to information that is considered confidential such as budgets, forecasts, economic outcome reporting, Board material, and remuneration. Access to such confidential information is in accordance with the powers bestowed upon the Company's staff in the organization. Important guidelines and manuals of importance to financial reporting are updated and communicated to those concerned in connection with the introduction of new employees and, in the event of potential changes, to all affected staff. There are both formal and informal communication channels to senior executives and the Board of Directors for information from employees. Employees can also contact the Board of Directors by e-mail, and be anonymous to senior executives if they so wish, as part of the Company's whistleblowing policy. For external communication, there are guidelines for the



Company with stringent demands on accurate and relevant information to the market. The Board of Directors annually establishes an information policy for the Company, which includes guidelines for contacts with analysts and media. In connection with the introduction of new employees, the latter are informed of the guidelines and laws applicable to the Company regarding for example managing insider information and trade in the Company's shares. Prior to each quarterly earnings report, a reminder is sent about the share trading rules to all staff.

#### **Review process**

The Board of Directors continuously evaluates the information provided by Company management. The review process includes both monitoring of monthly financial reports for budget and goals, and reporting at the Board meetings. Through the Audit Committee, the Board of Directors reviews and assesses the internal control's organization and function. The Audit Committee's work includes ensuring that measures are taken to rectify deficiencies, and proposals for measures identified through internal control activities and the external audit. The Company's policies and instructions are evaluated and updated annually or more often as needed.

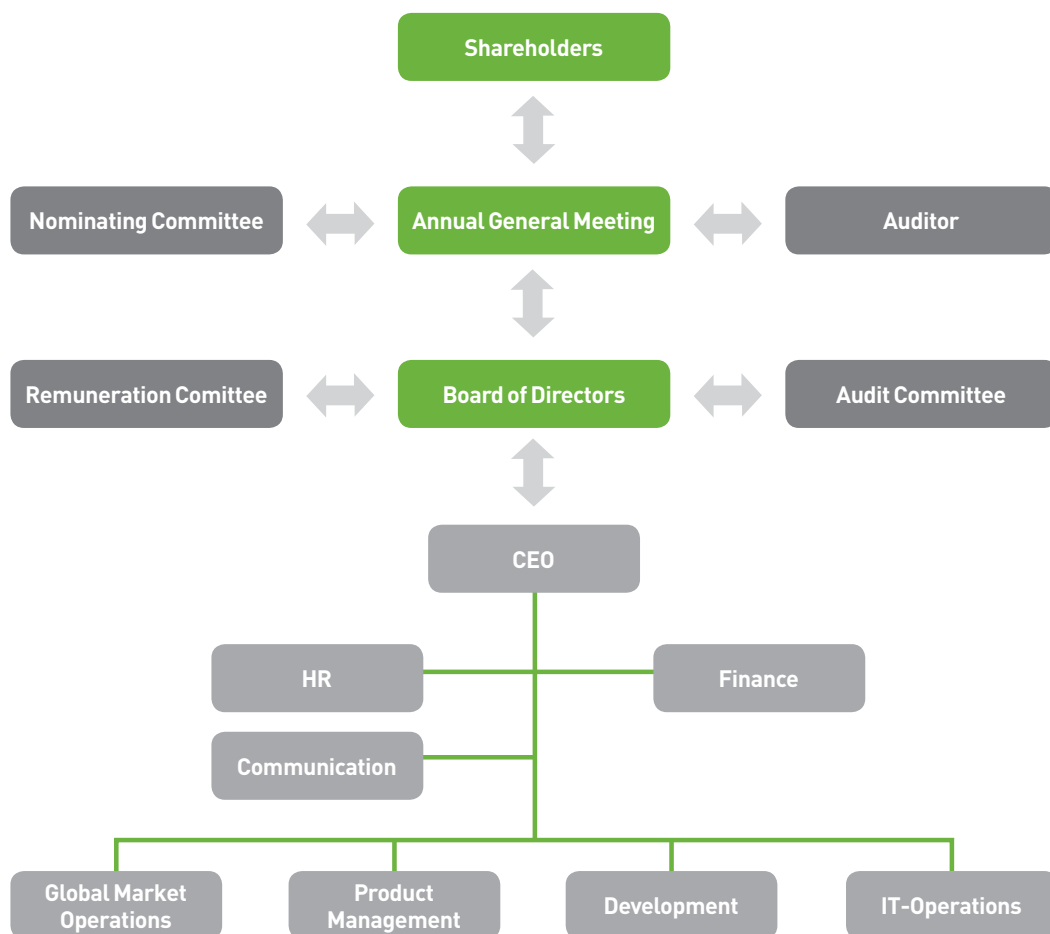
The Company's CFO presents the results of the work with internal controls as a standing agenda item at Audit Committee meetings. The results of the Audit Committee's work in the form of observations, recommendations, and proposals for decisions and measures are continuously reported to the Board of Directors.

#### **Internal audit**

According to the Code, in companies that do not have a separate review function (internal audit), the Board of Directors shall annually evaluate the need for such a function, and justify the conclusion in the internal control description. There is no such separate review function at Net Entertainment. The responsibility for further development and management of the internal control system occurs in the organization together with existing functions for quality, processes, and regulatory compliance. The Board of Directors is of the opinion that there is no need to create a separate review function due to the limited scope and complexity of the business. The extent is limited to 461 people employed at the end of 2013 and operations mainly located in Malta, Stockholm, and four other countries. To ensure adequate risk management, governance, ethics, quality, compliance, and efficiency, the finance function is utilized with the support of external specialists in specific matters. The Audit Committee has a standing agenda item at meetings to obtain statements from the CFO on how work is progressing on the improvement of internal controls in financial reporting,

and places requirements on improvements based on factors such as the risk analysis and dialog with the Company's auditors. Moreover, the Company has a compliance department that reports its observations on a regular basis directly to the CEO, and which meets with the Audit Committee at least once a year without the presence of Company management. The compliance department's purpose is to secure constant improvement of the Company's processes and routines for industry-specific regulatory compliance and procedures to, for example, prevent money laundering.

## NET ENTERTAINMENT CORPORATE GOVERNANCE MODEL

**THE SHARE**

The share capital in Net Entertainment amounts 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. All classes of shares have equal rights to Net Entertainment's assets and earnings. 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 2013, Per Hamberg owned, directly or indirectly, 6.4 percent of the shares, and 19.8 percent of the votes, and Rolf Lundström owned 6.5 percent of the shares, and 14.4 percent of the votes.

**Program 2012 – 2015**

At the end of 2013, a total of 114,994 share options, equaling as many shares, were outstanding. In the event of full subscription occurring based on such share options, SEK 9.9 million will be contributed to Parent Company equity. The share options were issued at market price, which was set at SEK 6.26, contributing SEK 0.7 million to Group equity. The strike price for the share was set at SEK 85.83, which represents 130 percent of the average share price during

the measurement period in May 2012. Subscription for shares can occur during the period 1 August – 1 October, 2015.

To stimulate participation in the program, the board intends to provide loyalty remuneration to be paid out one month prior to maturity of the share options. Remuneration will only be paid out subject to participants still being employed by the Group on the payout date and certain other criteria being met. The net cash remuneration can amount to a maximum of 50 percent of the premium paid, equaling a total of SEK 0.9 million including social security expenses paid by the Company. A provision for this commitment is made on an ongoing basis in the accounts with due consideration for anticipated employee turnover and interest.

#### 2011-2014 program

At the end of 2013, a total of 353,100 share options, equaling as many shares, were outstanding. In the event of full subscription occurring based on such share options, SEK 24.8 million will be contributed to Parent Company equity. The share options were issued at market price, which was set at SEK 7.20, contributing SEK 2.5 million to Group equity. The strike price for shares was set at SEK 70.20, which represents 130 percent of the average share price during the measurement period in May 2011. Subscription for shares can occur during the period 1 August – 1 October, 2014.

Participants still employed by the Group at the end of the program have the possibility of receiving loyalty remuneration according to the same terms as for the 2012-2015 program. The maximum cost for loyalty remuneration linked to the 2011-2014 program is SEK 0.8 million including social security expenses.

#### Events after the end of the period

No important events to report after the end of the period.

#### FUTURE OUTLOOK

##### Growth

The Company sees a solid underlying growth in Net Entertainment's products and has several investments that have been carried out in 2012 and 2013, which from a revenue perspective are expected to become visible during 2014 onwards. With this in mind it is Net Entertainment's ambition to achieve good sales growth in 2014.

##### Costs and investments

Net Entertainment's cost base increases as the Company grows. To adapt the resource base and meet an increasing number of customers and a higher demand for the Company's products there is a continued need to increase the number of resources in the Company during 2014. Furthermore Net Entertainment continue to

develop more games, develop the platform and adapt the Company to newly regulated markets which lead to an increased need to invest in development projects and IT-related equipment. This also leads to increased depreciation and amortization during 2014. With this in mind it is Net Entertainment's ambition that the operating margin for the full year 2014 shall amount to around the same level as in 2013.

#### PROPOSED DIVIDEND

The Board of Directors proposes that no dividend is paid for the fiscal year 2013. The Board of Directors proposes to the AGM to allocate SEK 118.7 (89.0) million to shareholders, which corresponds to SEK 3.00 (2.25) per share through a share redemption program. The record date for the share redemption program is scheduled to 5 May 2014.

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) from April 3 2014. The information will also be sent free of charge to those shareholders who 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	23,825,981
Share premium reserve	6,735,632
Profit/loss for the year	95,756,960
	<b>126,318,573</b>
The Board of Directors proposes	
That the following amount should be carried forward	126,318,573
Proforma after transfer to the shareholders	
Opening profit brought forward incl. profit/loss for the year	126,318,573
Transfer to shareholders	-118,661,148
	<b>7,657,425</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.

# Income statements and statements of comprehensive income

## Group

SEK thousands	Note	2013	2012
<b>REVENUES</b>			
Revenues	3, 4	628,961	525,518
Other revenues	5	1,785	1,153
<b>Total operating revenues</b>		<b>630,746</b>	<b>526,671</b>
<b>OPERATING EXPENSES</b>			
Personnel expenses	6	-193,104	-161,225
Depreciation/amortization	12, 13	-103,140	-74,257
Other operating expenses	24	-154,754	-138,132
<b>Total operating expenses</b>		<b>-450,998</b>	<b>-373,614</b>
<b>Operating profit</b>		<b>179,748</b>	<b>153,057</b>
<b>FINANCIAL ITEMS</b>			
Financial income	8	30,334	46,041
Financial expenses	9	-27,384	-47,835
<b>Total financial items</b>		<b>2,950</b>	<b>-1,794</b>
<b>Profit before tax</b>		<b>182,698</b>	<b>151,263</b>
Income tax	10	-15,559	-15,121
<b>Profit for the year</b>		<b>167,139</b>	<b>136,142</b>
Earnings per share before dilution (SEK)	11	4,23	3,44
Earnings per share after dilution (SEK)	11	4,21	3,44
<b>Number of shares at period's end</b>		39,553,716	39,553,716
<b>Average number of shares</b>		39,553,716	39,553,716
<b>Effective tax rate</b>		8.5%	10.0%
<b>Profit for the period attributable to:</b>			
Parent Company shareholders		167,139	136,142
<b>Statement of comprehensive income – Group</b>			
Profit for the period		167,139	136,142
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be reversed to profit</b>			
Exchange differences arising from the translation of foreign operations		8,328	-4,437
Sum of other comprehensive income for the period, net after tax		8,328	-4,437
<b>Comprehensive income for the year</b>		<b>175,467</b>	<b>131,705</b>
Proposed/conducted distribution to shareholders/dividend per share		3.00	2.25



# Balance sheets

## Group

SEK thousands	Note	Dec 31, 2013	Dec 31, 2012
<b>ASSETS</b>			
<b>FIXED ASSETS</b>			
Intangible fixed assets	12	197,596	167,246
Tangible fixed assets	13	59,795	49,129
<b>TOTAL FIXED ASSETS</b>		<b>257,391</b>	<b>216,375</b>
<b>CURRENT ASSETS</b>			
Accounts receivable	15	8,102	16,818
Other receivables	17	52,995	59,666
Prepaid expenses and accrued income	16	83,330	63,698
Funds held on behalf of licensees		25,238	114,034
Cash and cash equivalents	18	105,829	81,230
<b>TOTAL CURRENT ASSETS</b>		<b>275,494</b>	<b>335,446</b>
<b>TOTAL ASSETS</b>		<b>532,885</b>	<b>551,821</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	19	1,191	1,191
Other capital contributed		41,624	41,624
Reserves		-3,659	-11,987
Retained earnings incl. profit for the year		341,510	263,366
<b>TOTAL EQUITY</b>		<b>380,666</b>	<b>294,194</b>
<b>LONG-TERM LIABILITIES</b>			
Deferred tax liabilities	10	7,478	3,514
<b>TOTAL LONG-TERM LIABILITIES</b>		<b>7,478</b>	<b>3,514</b>
<b>CURRENT LIABILITIES</b>			
Liabilities to credit institutions		–	1,874
Accounts payable		31,270	28,650
Current tax liabilities		6,604	9,537
Other liabilities	20	63,619	172,357
Accrued expenses and deferred income	21	43,248	41,696
<b>TOTAL CURRENT LIABILITIES</b>		<b>144,741</b>	<b>254,114</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>532,885</b>	<b>551,821</b>
<b>Pledged assets</b>			
Pledged assets		None	None
<b>Contingent liabilities</b>			
Contingent liabilities	27	92,100	92,100

# Cash flow statements

## Group

SEK thousands	Note	2013	2012
<b>OPERATING ACTIVITIES</b>			
Operating profit/loss		179,748	153,057
Adjustments for non-cash items			
– Depreciation/amortization	12, 13	103,140	74,257
– Other		-811	-1,550
– Interest received		346	204
– Interest paid		-605	-552
Income tax paid		-14,729	-17,187
<b>Cash flow from operating activities before changes in working capital</b>		<b>267,089</b>	<b>208,229</b>
Increase / decrease in accounts receivable		9,046	-13,138
Increase / decrease in other receivables		81,384	-56,448
Increase / decrease in trade payables		2,455	-4,848
Increase / decrease in other current liabilities		-110,044	61,627
<b>Cash flow from operating activities</b>		<b>249,930</b>	<b>195,422</b>
<b>INVESTING ACTIVITIES</b>			
Recognized expenses for intangible assets	12	-102,481	-90,980
Acquisition of tangible fixed assets	13	-33,876	-20,597
<b>Cash flow from investing activities</b>		<b>-136,357</b>	<b>-111,577</b>
<b>FINANCING ACTIVITIES</b>			
Use of overdraft facility		-1,874	1,874
Transfer to shareholders		-88,996	-79,107
Received premium for share option rights		–	720
<b>Cash flow from financing activities</b>		<b>-90,870</b>	<b>-76,513</b>
<b>CASH FLOW FOR THE YEAR</b>		<b>22,703</b>	<b>7,332</b>
Cash and liquid assets at beginning of period		81,230	74,234
Exchange rate differences in cash and cash equivalents		1,896	-336
<b>Cash and cash equivalents at year-end</b>	18	<b>105,829</b>	<b>81,230</b>

# Changes in equity

## Group

SEK thousands	Share capital	Other capital contributed	Reserves	Retained earnings incl. profit for the year	Total equity
<b>2012</b>					
<b>Opening equity 1 Jan. 2012</b>	<b>1,191</b>	<b>40,904</b>	<b>-7,469</b>	<b>203,357</b>	<b>237,983</b>
Correction regarding changed management of deferred tax	-	-	-82	2,974	2,893
<b>New opening equity 1 Jan 2012</b>	<b>1,191</b>	<b>40,904</b>	<b>-7,551</b>	<b>206,331</b>	<b>240,876</b>
Profit for the year	-	-	-	136,142	136,142
Exchange differences arising from the translation of foreign operations	-	-	-4,437	-	-4,437
<b>Comprehensive income for 2012</b>	-	-	<b>-4,437</b>	<b>136,142</b>	<b>131,706</b>
Premium received for share option rights	-	720	-	-	720
Transfer to shareholders	-	-	-	-79,107	-79,107
<b>Closing equity 31 Dec 2012</b>	<b>1,191</b>	<b>41,624</b>	<b>-11,987</b>	<b>263,366</b>	<b>294,194</b>

SEK thousands	Share capital	Other capital contributed	Reserves	Retained earnings incl. profit for the year	Total equity
<b>2013</b>					
<b>Opening equity 1 Jan 2013</b>	<b>1,191</b>	<b>41,624</b>	<b>-11,987</b>	<b>263,366</b>	<b>294,194</b>
Profit for the year	-	-	-	167,139	167,139
Exchange differences arising from the translation of foreign operations	-	-	8,328	-	8,328
<b>Comprehensive income for 2013</b>	-	-	<b>8,328</b>	<b>167,139</b>	<b>175,467</b>
Transfer to shareholders	-	-	-	-88,996	-88,996
<b>Closing equity 31 Dec 2013</b>	<b>1,191</b>	<b>41,624</b>	<b>-3,659</b>	<b>341,510</b>	<b>380,666</b>

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

# Income statements and statements of comprehensive income

## Parent Company

SEK thousands	Note	2013	2012
<b>REVENUES</b>			
Revenues	3, 4	392,560	370,399
Other revenues	5	938	702
<b>Total operating revenues</b>		<b>393,498</b>	<b>371,101</b>
<b>OPERATING EXPENSES</b>			
Personnel expenses	6	-209,977	-182,957
Depreciation/amortization	12, 13	-13,524	-12,153
Other operating expenses	23	-138,827	-136,707
<b>Total operating expenses</b>		<b>-362,328</b>	<b>-331,817</b>
<b>Operating profit</b>		<b>31,170</b>	<b>39,284</b>
<b>FINANCIAL ITEMS</b>			
Profit/loss from interests in Group Companies	7	78,944	67,851
Interest and similar income	8	2,635	45,493
Interest and similar expense	9	-789	-46,407
<b>Total financial items</b>		<b>80,790</b>	<b>66,937</b>
<b>Profit after financial items</b>		<b>111,960</b>	<b>106,221</b>
<b>APPROPRIATIONS</b>			
Provisions to accrual fund		-7,658	-9,547
Accelerated depreciation		-3,369	-2,149
<b>Total appropriations</b>		<b>-11,027</b>	<b>-11,696</b>
<b>Profit before tax</b>		<b>100,933</b>	<b>94,525</b>
Tax	10	-5,176	-7,533
<b>Profit for the year</b>		<b>95,757</b>	<b>86,992</b>
Earnings per share before dilution (SEK)	11	2.42	2.20
Earnings per share after dilution (SEK)	11	2.41	2.20
<b>Number of shares at period's end</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>Effective tax rate</b>		<b>4.6%</b>	<b>7.1%</b>
<b>Statement of comprehensive income – Parent Company</b>		<b>2013</b>	<b>2012</b>
Profit for the period		95,757	86,992
<b>OTHER COMPREHENSIVE INCOME</b>			
Sum of other comprehensive income for the period, net after tax		–	–
<b>Comprehensive income for the period</b>		<b>95,757</b>	<b>86,992</b>
Proposed/implemented transfer to shareholders		3.00	2.25



# Balance sheets

## Parent Company

SEK thousands	Note	Dec 31, 2013	Dec 31, 2012
<b>ASSETS</b>			
<b>FIXED ASSETS</b>			
<b>Intangible fixed assets</b>	12		
Licences and business system		15,855	846
<b>Total intangible fixed assets</b>		<b>15,855</b>	<b>846</b>
<b>Tangible fixed assets</b>	13		
Inventory and equipment		24,761	26,528
<b>Total tangible fixed assets</b>		<b>24,761</b>	<b>26,528</b>
<b>Financial fixed assets</b>			
Shares in Group companies	14	1,678	1,669
<b>Total financial fixed assets</b>		<b>1,678</b>	<b>1,669</b>
<b>TOTAL FIXED ASSETS</b>		<b>42,294</b>	<b>29,043</b>
<b>CURRENT ASSETS</b>			
<b>Current receivables</b>			
Accounts receivable	15	9	9
Receivables from Group companies	24	103,649	583,918
Other receivables	17	8,700	6,999
Prepaid expenses and accrued income	16	7,714	7,274
<b>Total current receivables</b>		<b>120,072</b>	<b>598,200</b>
Cash and bank balances	18	55,507	1,174
<b>TOTAL CURRENT ASSETS</b>		<b>175,579</b>	<b>599,374</b>
<b>TOTAL ASSETS</b>		<b>217,873</b>	<b>628,417</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>	19		
<b>Restricted equity</b>			
Share capital		1,191	1,191
Statutory reserve		38	38
<b>Total restricted equity</b>		<b>1,229</b>	<b>1,229</b>
<b>UNRESTRICTED EQUITY</b>			
Share premium reserve		6,735	6,735
Retained earnings		23,826	25,830
Profit for the year		95,757	86,992
<b>Total unrestricted equity</b>		<b>126,318</b>	<b>119,557</b>
<b>TOTAL EQUITY</b>		<b>127,547</b>	<b>120,786</b>
<b>UNTAXED RESERVES</b>			
Periodisation reserves		17,206	9,547
Accelerated depreciation		5,517	2,149
<b>TOTAL UNTAXED RESERVES</b>		<b>22,723</b>	<b>11,696</b>
<b>CURRENT LIABILITIES</b>			
Liabilities to credit institutions		–	1,874
Accounts payable		26,241	24,107
Liabilities to Group companies	24	1,535	428,818
Tax liabilities		–	1,375
Other liabilities	20	3,372	3,696
Accrued expenses and deferred income	21	36,455	36,065
<b>TOTAL CURRENT LIABILITIES</b>		<b>67,603</b>	<b>495,935</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>217,873</b>	<b>628,417</b>
<b>Pledged assets</b>		<b>None</b>	<b>None</b>
<b>Contingent liabilities</b>	27	<b>94 728</b>	<b>94,394</b>

# Cash flow statements

## Parent Company

SEK thousands	Note	2013	2012
<b>OPERATING ACTIVITIES</b>			
Operating profit/loss		31,170	39,284
Adjustments for non-cash items			
– Depreciation/amortization	12, 13	13,524	12,153
– Other		2,224	-608
Interest received		41	36
Interest paid		-419	-339
Income taxes paid		-3,186	-12,285
<b>Cash flow from operating activities before changes in working capital</b>		<b>43,354</b>	<b>38,241</b>
Increase / decrease in accounts receivable		–	19
Increase / decrease in other receivables		554,925	-335,059
Increase / decrease in trade payables		2,134	-4,666
Increase / decrease in other current liabilities		-428,434	366,808
<b>Cash flow from operating activities</b>		<b>171,979</b>	<b>65,342</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of subsidiary	14	-9	-1,157
Recognized expenses for intangible assets	12	-16,662	-167
Acquisition of tangible fixed assets	13	-10,105	-11,381
<b>Cash flow from investing activities</b>		<b>-26,776</b>	<b>-12,705</b>
<b>FINANCING ACTIVITIES</b>			
Use of overdraft facility		-1,874	1,874
Premium received for share option rights		–	720
Transfer to shareholders/dividends		-88,996	-79,107
<b>Cash flow from financing activities</b>		<b>-90,870</b>	<b>-76,513</b>
<b>CASH FLOW FOR THE YEAR</b>		<b>54,333</b>	<b>-23,876</b>
Cash and cash equivalents at beginning of year		1,174	25,050
<b>Cash and cash equivalent at year-end</b>	18	<b>55,507</b>	<b>1,174</b>

# Changes in equity

## Parent Company

SEK thousands	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Year's earnings	Total equity
<b>Opening equity 1 Jan 2012</b>	<b>1,191</b>	<b>38</b>	<b>6,015</b>	<b>20,107</b>	<b>84,831</b>	<b>112,182</b>
Profit for the year	–	–	–	–	86,992	86,992
<b>Comprehensive income for 2012</b>	–	–	–	–	<b>86,992</b>	<b>86,992</b>
Received premium for share option rights	–	–	720	–	–	720
Allocation adopted by Annual General Meeting	–	–	–	5,723	-84,831	-79,107
<b>Closing equity 31 Dec 2012</b>	<b>1,191</b>	<b>38</b>	<b>6,735</b>	<b>25,830</b>	<b>86,992</b>	<b>120,786</b>

SEK thousands	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Year's earnings	Total equity
<b>Opening equity 1 Jan 2013</b>	<b>1,191</b>	<b>38</b>	<b>6,735</b>	<b>25,830</b>	<b>86,992</b>	<b>120,786</b>
Profit for the year	–	–	–	–	95,757	95,757
<b>Comprehensive income for 2013</b>	–	–	–	–	<b>95,757</b>	<b>95,757</b>
Allocation adopted by Annual General Meeting	–	–	–	-2,004	-86,992	-88,996
<b>Closing equity 31 Dec 2013</b>	<b>1,191</b>	<b>38</b>	<b>6,735</b>	<b>23,826</b>	<b>95,757</b>	<b>127,547</b>

# Notes to 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 gaming operators. Net Entertainment's casino is a comprehensive 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 operations and profitability. Operators are provided with a customized system solution that is quickly and easily integrated, ensuring cost-efficient operation and minimizing installation-to-operation times. Revenues consists of royalties determined by the revenues generated by the Company's products, and setup fees when new agreements are signed. Net Entertainment is a pure operational and 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.

The Group's parent company is located in Stockholm, where a certain degree of development takes place, while sales, product management, customer support, Live Casino operations and marketing are managed from Malta. The Company also has offices in Gothenburg, Kiev in Ukraine, and Gibraltar, and IT operations on Alderney. A certain amount of development is conducted through a partner in India.

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 26, 2014. The income statement and balance sheet will be adopted at the Annual General Meeting on April 24, 2014.

## NOTE 2 ACCOUNTING AND VALUATION PRINCIPLES

### Basis of preparation of the financial statements

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

The accounting principles have been consistently applied by all Group companies in their reporting, and in consolidation during all periods of time presented in the consolidated financial statements.

### Conditions for preparing the consolidated financial statements

The Parent Company's functional currency is the Swedish krona, which is also the reporting currency for the Parent Company and the Group. The financial statements are thus presented in SEK.

All figures are expressed in kSEK (thousand Swedish kronor) unless otherwise stated. MSEK million is an abbreviation for million Swedish kronor. Amounts and figures in brackets refer to comparable figures for the same period of the previous year.

Assets and liabilities are recognized at historical cost, apart from some financial assets and liabilities which are measured at fair value.

The most important accounting principles applied 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 of Parent Company financial statements having been prepared in accordance with RFR 2 "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 provided below in the section "Parent Company Accounting Principles".

In 2013, Net Entertainment retroactively adjusted the recognition of deferred tax regarding the Maltese operations. Account is thus taken of the fact that 6/7ths of the deferred tax accruing to taxed dividends from the Maltese subsidiaries will be paid back by the Maltese authority. Previously, deferred tax was calculated according to the tax rate applicable to non-distributed profits. The financial result and position of previous periods have been restated.

### Standards, amendments and interpretations effective for 2013

The following new and amended standards and interpretations have come into effect and apply for 2013:

#### Standards

- Amendments to IAS 1 Presentation of Financial Statements require further disclosure in other comprehensive income, such that items in other comprehensive income are grouped into two categories: 1) items that will not be recycled to profit/loss and b) items that will be recycled to profit/loss if certain criteria are met. The current name of "statement of comprehensive income" has changed names to "statement of profit or loss and other comprehensive income".
- Amendments to IFRS 13 Fair Value Measurement specifies a set of rules for fair value measurement where so required by other standards. The standard is applicable in the fair value measurement of both financial and non-financial items. Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date' ('exit price'). IFRS 13 also requires several quantitative and qualitative disclosures regarding fair value measurement.

The above new, amended or revised standards and interpretations have not had any material effect on the consolidated financial statements. However they might affect the recognition of future transactions and events.

### Standards, amendments to standards in issue not yet effective and not adopted early by the Group

The International Accounting Standards Board (IASB) has issued the following new and amended standards that are not yet effective: IFRS 10 Consolidated Financial Statement, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests and Other Entities, Amendments to IFRS 10, IFRS 11, IFRS 12 (Transitional provisions, Amendments to IFRS 27 Separate Financial Statement, Amendments to IFRS 28 Investments in Associates and Joint Ventures, Investment Entities [Amendments to IFRS 10, IFRS 12 and IAS 27], Amendments to IAS 32 Financial Instruments: Classification (Offsetting financial assets and financial liabilities), Amendments to IAS 36 Impairment of Assets (Recoverable Amount Disclosures for Non-Financial Assets), Amendments to IAS 39 Financial Instruments: Recognition and Measurement (Novation of derivatives and continuation of hedge accounting). These amendments come into effect on or after January 1, 2014. The following amendments start to apply on or after July 1, 2014: Improvements to IFRSs 2010–2012 cycle, Improvements to IFRSs 2011–2013 cycle, Amendments to IAS 19 Employee Benefits (Defined-Benefit Plans).

The IFRS Interpretations Committee has also published a new interpretation (IFRIC), which has not yet entered into effect: IFRIC 21 Levies

In the opinion of Company management, other new or revised standards and interpretations not yet effective in 2013 are not expected to have any material effect on the consolidated financial statements for the period to which they are initially applied.

## 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 non-current assets. Liabilities are classified as current liabilities if they are expected to be settled in the Company's normal operating cycle, if they are held primarily for trading purposes, if they are expected to be settled within twelve months after the balance sheet date or if the Company lacks an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. All other liabilities are classified as non-current liabilities.

## CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the Parent Company and companies in which the Parent Company directly or indirectly has more than half of the voting rights or otherwise has control.

### Principles of consolidation

The consolidated financial statements were prepared in accordance with the purchase method. Acquisition-related costs are expensed in the periods in which they arise. 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 historical cost of the shares and the fair value at the time of acquisition of the Group's share of the identifiable net assets acquired is recognized as consolidated goodwill. If the difference is negative, the amount is immediately recognized as revenues in the income statement.

Subsidiaries' income and expense, and assets and liabilities, are included in the consolidated financial statements from the date on which control arises (acquisition date) through the date on which it 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 that do not have the Sweden krona as their functional currency are translated to SEK as follows. 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 in translation – translation differences – are recognized through comprehensive income in equity. Foreign operations are sold at their accumulated translation differences, less any currency hedging in the consolidated income statement.

### Revenues

Net Entertainment's revenues largely comprises the licensing of online gaming products/services, and consists of the fair value of what has been received or will be received for services sold in the Group's operating activities. Revenue is recognized excluding VAT and discounts, and after elimination of intra-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 generated by the product for the customer and is recognized in the period during which the customer uses the product.

The Group recognizes revenue when its amount can be reliably measured and it is probable that future financial benefits will accrue to the Company. The amount of revenue cannot be reliably measured until all sales commitments are fulfilled or have expired. The Group bases its assessments and estimates on historical outcomes and thus observes the type of customer, type of transaction and particular circumstances in each individual case. If any circumstances arise that might change the original assessment of the amount of revenue, the estimates are reviewed. Such reviews can result in increases or decreases of estimated income or expense and affect revenues during the period in which the circumstances that caused the change became known to Company management.

### Other revenues

Revenues from activities not included in the ordinary operations are recognized as other revenues. This item mainly includes recovered amortized receivables, exchange gains from operations and profit from the sale of non-current assets.

### Financial income/expenses

Interest income and interest expense are reported as distributed over their maturity with application of the effective interest method. Effective interest is the interest that makes the present value of all future incoming and outgoing payments during the fixed-interest period equal to the carrying amount of the receivable or liability.

### Other external expenses

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

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting submitted to the chief operating decision maker. The chief operating decision maker is the function responsible for allocation of resources and performance assessment of the operating segments. In the Group, this function has been identified as the Group Executive Committee who makes strategic decisions. The Company's only product (and thus segment) is systems for casino games.

### Pooled Jackpots

Funds for pooled jackpots are recognized in the balance sheet as current receivables and funds held on behalf of licensees. A corresponding amount is recognized in liabilities in the balance sheet as other current liabilities. In the cash flow statement, the build-up of jackpot funds and outgoing payment of winnings are included in changes in working capital. The funds relating to pooled jackpots are managed by a type of bank account excluded from the Company's cash and cash equivalents. The pooled jackpot procedure was changed in 2010, affecting recognition. Previously, the funds were included in Net Entertainment's recognized cash and cash equivalents. Since this was not a change in accounting principles, historical comparable figures were not affected.

### Cash flow statement

The cash flow statement was prepared using the indirect method. The recognized cash flow only covers transactions that involve 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 generate future financial benefits. Only expenditure arising in the development phase of online gaming products, gaming systems and gaming platforms are capitalized and recognized as an asset from the date on which the decision is made to complete the project, and when circumstances permit 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.

In the balance sheet, recognized development expenditure is entered at historical cost, less deductions for accumulated amortization and impairment losses. Regular assessments are made of the projects' revenue-generating capacity in order to identify any need for impairment. Intangible assets also include acquired gaming agreements, software licenses, concessions and trademarks. These intangible assets are recognized in the balance sheet at historical cost, less accumulated amortization and impairment losses.

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

## Property, plant, and equipment

Property, plant and equipment are recognized as assets in the balance sheet when it is probable that future financial benefits will accrue to the Company and the cost of the asset can be reliably measured. Property, plant and equipment are recognized at historical cost less accumulated depreciation and any impairment losses. Repairs and maintenance are recognized as expenses in the period incurred.

## Depreciation/amortization and impairment

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

- Trademarks, domain names, licenses 2–5 years.
- Gaming agreements and concessions, 3–5 years.
- Capitalized development expenditure for games, gaming systems and gaming platforms is based on class of asset and amounts 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 there is any indication that the carrying amounts of property, plant and equipment, intangible fixed assets or financial assets in the Group are excessive, an analysis is performed in which the recoverable amount of individual or naturally related types of assets is established 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 amount. When a previously recognized impairment loss is no longer warranted, it is reversed. A reversal may not be higher than an amount that does not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized.

## Financial instruments

Financial assets can be classified into the following categories:

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

The classification of the financial assets is determined in initial accounting. The Group does not have any assets that fall into the categories (a) or (c). The

Company's financial liabilities all pertain to the category Financial liabilities recognized at amortized cost.

For all financial assets and liabilities, the carrying amount is considered to be a good approximation of fair value.

## Loans receivable and accounts receivable

Loans receivable and accounts receivable are financial assets that are not derivatives with determined or determinable payments, and are not listed on an active market. They are included in current assets with the exception of items falling due more than 12 months following the closing date, which are classified as non-current assets. In this category, accounts receivable as well as cash and certain other receivables are recognized in the balance sheet (see notes 15, 17 and 18).

## Accounts receivable

Accounts receivable are initially measured at fair value and then at amortized cost with application of the effective interest method, less any provision for impairment. A provision for impairment of accounts receivable is made when there is objective evidence of the inability of the Group to obtain all the amounts due under the original terms of the receivable. The size of a provision is determined by the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted by the original effective interest rate, and the adjustment is recognized in the income statement in selling expenses. When accounts receivable cannot be collected, they are completely written off from accounts receivable.

## Cash and cash equivalents

Cash and cash equivalents include cash, bank balances and other current investments maturing within three months of the acquisition date.

## Shareholders' equity

Shareholders' equity consists of registered share capital, other contributed capital, translation reserves, retained earnings and profit for the year. Ordinary shares are classified as equity. Transaction expenses that can be directly attributed to issues of new shares or options are recognized, net after tax, in equity as a deduction from the issue proceeds. Other than the shares' quotient value, other capital contributed refers to amounts received from new share issues, shareholder contributions, amounts received from issuing options, and Group contributions. Translation reserve refers to translation differences attributable to the translation of foreign subsidiary operations into Net Entertainment's reporting currency.

## Accounts payable

Accounts payable are initially recognized at fair value and subsequently at amortized cost using the effective interest method.

## Other financial liabilities

Financial liabilities not held for trading are initially measured at fair value and subsequently at amortized cost. Amortized cost is determined based on the effective interest calculated when the liability was recognized. Surplus and deficit values and transaction expenses are hence distributed over the term of the liability.

## Financial investments

Financial investments are either financial assets or current investments, depending on the purpose of the holding. If their maturity or expected period of ownership exceeds one year, they are financial assets, and if it is less than one year they are current 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. In measurement at fair value in the income statement, any changes in value are recognized in net financial income/expense.

### **Hedge accounting**

As a rule, Net Entertainment does not hedge risk exposure in terms of exchange rate fluctuations from future cash flows with financial instruments. By way of exception, identified flows can be hedged. Hedging last took place in 2010. No currency forward contracts exist at the end of each fiscal year.

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

### **Taxes**

Tax in the income statement 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 measured at their nominal amounts and according to the tax regulations and tax rates decided or announced and which are highly likely to be adopted. For items recognized in the income statement, related tax effects are thus also recognized in the income statement. Tax effects of items recognized through comprehensive income in equity or directly in equity, are recognized in other comprehensive income or equity.

Deferred tax is calculated using the balance sheet method based on temporary differences arising between the carrying amounts and values for tax purposes of assets and liabilities, applying the tax rates and regulations decided or announced at the balance sheet date and which are expected to apply when the deferred tax receivable concerned is realized or the deferred tax liability is settled. Temporary differences are not considered in consolidated goodwill or in differences attributable to participations in subsidiaries and associates that are not expected to be taxed within the foreseeable future. In legal entities, untaxed reserves including deferred tax liabilities are recognized. Deferred taxes receivable relating to deductible temporary differences and loss carry-forwards are only recognized to the extent that it is probable they will be utilized and result in lower future tax payments.

In 2013, Net Entertainment retroactively adjusted the recognition of deferred tax regarding the Maltese operations. Previously, deferred tax was calculated according to the tax rate applicable to non-distributed profits. The financial result and position of previous periods have been restated. The adjustment is not due to any change in accounting principle.

### **Leases**

Leases are classified in the consolidated financial statements either as finance or operating leases. Leases of non-current assets for which the Group is essentially exposed to the same risks and rewards as in direct ownership are classified as finance leasing. The leased asset is recognized in non-current assets and the corresponding rent liability falls under interest-bearing liabilities. Leases of assets for which the lessor essentially remains the owner of the asset are classified as operating leasing and the leasing charge is expensed on a straight-line basis over the term of the lease. The scope of operating leases and rental agreements are provided in note 22.

### **Dividends**

Dividends are recognized as a liability after they are approved by the Annual General Meeting.

### **Employee benefits**

#### **Pension expenses and pension commitments**

The Group has various pension plans in different countries. The pension plans are 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 expensed in the period in which the employees performed the services to which the charge relates.

#### **Benefits after termination of employment**

The Group has no obligations to employees after they have retired or their employment with the Company is at an end.

#### **Severance benefits**

Severance remuneration is payable when an employee's position is terminated by Net Entertainment before the normal date of retirement, or when an employee voluntarily departs in exchange for such remuneration. The Group recognizes 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 ensuing from an offer made to encourage voluntary departure.

#### **Bonus plans**

The Group recognizes a liability and an expense for bonus based on various qualitative and quantitative measures. The Group makes a provision for earned 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 an existing legal or informal obligation owing to a past event, and an outflow of financial resources will probably be required to settle the obligation and the amount can be reliably estimated. In a situation where the effect of the point in time at which the payment takes place is important, provisions are calculated by discounting expected future cash flows at an interest rate before tax that reflects current market assessments of the time value of the money and, if applicable, the risks associated with the liability. A restructuring provision is recognized when the Group has defined a detailed, formal restructuring plan and the restructuring has either commenced or has been officially announced. No provision is made for future operating expenses.

#### **Contingent liabilities**

A contingent liability is recognized when there is a possible obligation arising from past events and its existence is confirmed only by one or more uncertain future events, or when there is an obligation which is not recognized as a liability or a provision due to the improbability of an outflow of resources being required to settle it.

### **PARENT COMPANY ACCOUNTING PRINCIPLES**

The Parent Company complies with the same accounting principles as the Group, with the exceptions stated below.

Participations in subsidiaries are recognized at historical cost less any impairment losses. Acquisition-related expenses for the subsidiaries, which are expensed in the consolidated financial statements, are included as part of the historical cost of participations in subsidiaries.

Shareholder contributions are recognized directly in the equity of the recipient and capitalized in the contributor's shares and participations. These assets are subsequently subject to impairment testing. Group contributions paid or received for the purpose of minimizing the Group's total tax are recognized as financial income after deducting their current tax effect.

## NOTES

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

The Parent Company recognizes the deferred tax liability on untaxed reserves as part of the untaxed reserves because of the connection between accounting and taxation.

The amendments to RFR 2 have not had any material effect on the Parent Company's financial statements.

### KEY ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions about the future. The resulting estimates used for accounting purposes will, by definition, rarely match the actual outcome. The estimates and assumptions that entail a considerable risk of substantial adjustments in the carrying amounts of assets and liabilities in the next financial year are outlined 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 prevailing circumstances.

### Taxes

The Group's tax expense is primarily affected by the distribution of profit between Sweden and the countries in which the Group operates and the tax regulations of each country. Extensive assessments are required to establish the provision for income tax. There are many transactions and calculations for which the final tax is uncertain at the time when the transactions and calculations are conducted. The Company has, alongside legal experts, assessed how tax regulations affect the operations in order to ensure an accurate tax situation. This also applies to indirect taxes. The company recognizes and pays to the tax authorities the tax amounts that the Company deems accurate. However, these amounts may prove insufficient if tax authorities apply a more restrictive interpretation of tax regulations than the assessment made by the Company and which the latter considers to be accurate. In 2013, the Group retroactively changed the recognition of deferred tax regarding its Maltese operations. The financial result and position of previous periods have been restated. More information is provided in the section "Conditions for preparing the consolidated financial statements".

### Impairment testing

Each year, Group assets are impairment tested according to IAS 36. The Group has invested considerable amounts in the development of gaming platforms and their carrying amounts are compared with expected future discounted cash flows calculated on present values.

In the balance sheet, recognized development expenditure is entered at historical cost, less deductions for accumulated amortization and impairment losses. Regular assessments are made of the projects' revenue-generating capacity in order to identify any impairment requirements (see note 12).

### NOTE 3 REVENUES

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
- License revenues, royalties	628,962	525,518	33,765	24,317
- Consulting revenues	-	-	358,795	344,100
- Invoiced expenses	-	-	-	1,982
<b>Total</b>	<b>628,962</b>	<b>525,518</b>	<b>392,560</b>	<b>370,399</b>

### NOTE 4 SEGMENT REPORTING

The chief operating decision maker is the function responsible for allocation of resources and performance assessment of the operating segment. In the Group, this function has been identified as Group management.

Segments are defined by their ability to generate income and incur expenses. Defined segments within the Group are used for follow-up purposes to make strategic decisions. In its reporting to the chief decision maker, the Group has identified one segment for follow-up.

The identified segment is casino game systems.

Group management assesses the operations based on the operating segment. With respect to geographic breakdown of operations, Net Entertainment's customers (gaming operators) offer games to their customers (players) in many different countries. The domicile of Net Entertainment's direct customers (the websites) is determined by reasons completely different to proximity to the local market, such as applicable gaming legislation or other reasons. The advantage of the internet is that it is a global, cross-border form of distribution, whereby the owner of a gaming site can be domiciled anywhere in the world and still serve many local markets around the world.

The operations of the Net Entertainment Group are geographically diversified based on legal requirements, regulations and strategic decisions.

The geographical information provided below regarding revenues and assets has been broken down based on the countries in which the Group's customers are domiciled, and where the Group's assets are.

### GEOGRAPHIC BREAKDOWN

	2013	2012
<b>Revenue</b>		
Sweden	-	-
Malta	63.9%	71.0%
Other Countries	36.1%	29.0%
<b>Fixed assets</b>		
Sweden	15.8%	12.7%
Malta	79.7%	83.8%
Alderney	1.6%	3.4%
Gibraltar	2.7%	-
Ukraine	0.2%	0.2%

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

### CUSTOMERS (BREAKDOWN OF REVENUE)

	2013	2012
Customer I	19%	22%
Customer II	11%	13%
Customer III	5%	7%

### NOTE 5 OTHER REVENUE

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
- Exchange differences, operations	1,602	1,104	773	653
- Other	183	49	165	49
<b>Total</b>	<b>1,785</b>	<b>1,153</b>	<b>938</b>	<b>702</b>

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

	2013		2012	
	Average number of employees	Of which men	Average number of employees	Of which men
Sweden	253	75%	232	76%
Malta	67	46%	25	65%
Ukraine	6	67%	–	–
Gibraltar	2	100%	–	–
<b>Group total</b>	<b>328</b>	<b>69%</b>	<b>257</b>	<b>75%</b>

**REMUNERATION TO THE BOARD**

	2013	2012
<b>Current Board of Directors</b>		
Vigo Carlund, chairman	587	567
Fredrik Erbing	307	293
Mikael Gottschlich	240	233
Peter Hamberg	240	233
Pontus Lindwall	240	233
Michael Knutsson	240	160
Maria Redin	240	160
<b>Previous board members</b>		
Niklas Eriksson, former board member	–	73
<b>Total</b>	<b>2,094</b>	<b>1,952</b>

**SALARIES AND SOCIAL SECURITY EXPENSES**

	2013		2012	
	Salaries	Social security expenses (of which pension costs)	Salaries	Social security expenses (of which pension costs)
Board of Directors and CEO	5,376	2,093 (528)	4,553	1,784 (473)
Other employees Sweden	134,450	60,674 (15,689)	117,463	51,879 (10,143)
<b>Total Parent Company</b>	<b>139,825</b>	<b>62,766</b> (16,217)	<b>122,016</b>	<b>53,663</b> (10,616)
Other employees Malta	25,152	1,258 (176)	18,468	711 (121)
Other employees Ukraine	1,716	406 (56)	–	–
Other employees Gibraltar	1,312	42 (13)	–	–
<b>Total Group</b>	<b>168,006</b>	<b>64,472</b> (16,462)	<b>140,484</b>	<b>54,374</b> (10,737)

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

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

	2013			2012		
	No. of men	No. of women	Women	No. of men	No. of women	Women
Board of Directors	6	1	14%	6	1	14%
Other senior executives	4	4	50%	4	3	43%
<b>Total Group</b>						
<b>Board of Directors and senior executives</b>	<b>10</b>	<b>5</b>	<b>33%</b>	<b>10</b>	<b>4</b>	<b>29%</b>

**BOARD REMUNERATION**

Remuneration to the Board of Directors is determined by the Annual The Annual General Meeting determines remuneration for Board members. At the Annual General Meeting on April 25, 2013, it was resolved, for the period until the 2014 Annual General Meeting, that Board fees would be paid to a total amount of SEK 2,100 thousand, of which SEK 590 thousand to the Chairman of the Board and SEK 240 thousand each to other Board members, with an addition of SEK 70 thousand for the Chairman of the Audit Committee.

**SENIOR EXECUTIVE REMUNERATION**

In 2013, CEO remuneration totaled SEK 3,282 (2,600) thousand, of which SEK 125 (94) thousand was variable remuneration, and pension benefits of SEK 834 (731) thousand. Of pension benefits, SEK 306 (258) thousand refers to payments into a company-owned endowment policy for pension commitments for the present and former CEO, see note 27 for further information. Other benefits pertaining to health insurance totaled SEK 15 (3) thousand.

The notice period for the CEO is six months on the part of the CEO and 12 months on the part of the Company.

Remuneration for other senior executives in 2013 totaled SEK 12,212 (10,711) thousand, of which SEK 637 (1,020) thousand was variable remuneration and pension benefits totaling SEK 1,395 (1,508) thousand. Senior executives consisted of 8 (10) different individuals.

The notice period for other senior executives varies between 3–6 months and is mutual. In one case, severance pay equaling an additional two months' salary applies, which is deductible against salary from new employment. Other benefits pertaining to health insurance totaled SEK 23 (86) thousand.

**NOTE 7 EARNINGS FROM SHARES IN SUBSIDIARIES**

	PARENT COMPANY	
	2013	2012
Anticipated dividend from subsidiaries	78,944	67,851
<b>Total</b>	<b>78,944</b>	<b>67,851</b>

**NOTE 8 FINANCIAL INCOME**

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Interest income	346	204	41	36
Exchange rate differences	29,988	45,837	2,594	45,457
<b>Total</b>	<b>30,334</b>	<b>46,041</b>	<b>2,635</b>	<b>45,493</b>

**NOTE 9 FINANCIAL EXPENSES**

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Interest expenses	605	552	419	339
Exchange rate differences	26,779	47,283	370	46,068
<b>Total</b>	<b>27,384</b>	<b>47,835</b>	<b>789</b>	<b>46,407</b>

## NOTES

### NOTE 10 INCOME TAX

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
<b>Current tax</b>				
Sweden	5,176	7,533	5,176	7,533
Outside Sweden	6,499	4,031	-	-
<b>Total current tax</b>	<b>11,675</b>	<b>11,564</b>	<b>5,176</b>	<b>7,533</b>
<b>Deferred tax</b>				
Sweden	2,426	3,076	-	-
Outside Sweden	1,458	481	-	-
<b>Total deferred tax</b>	<b>3,884</b>	<b>3,557</b>	<b>-</b>	<b>-</b>
<b>Total tax expense</b>	<b>15,559</b>	<b>15,121</b>	<b>5,176</b>	<b>7,533</b>

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
<b>Difference between actual tax expense and tax expense based on present tax rate</b>				
Recognized profit before tax	182,698	151,263	100,933	94,525
Tax according to present tax rate 26.3%	40,194	39,782	22,205	24,860
Difference in tax rates in foreign operations	-23,012	-25,137	-	-
Effect from changed tax rate	-	-503	-	-
Non-tax items	-	-	-17,368	-17,845
Tax attributable to prior years	-	-	-	-
Tax effect from non-deductible items	-1,623	979	339	518
<b>Recognized tax expense</b>	<b>15,559</b>	<b>15,121</b>	<b>5,176</b>	<b>7,533</b>

#### Specification of deferred tax expense

Tax on appropriations	2,426	3,076	-	-
Tax on temporary differences	1,458	481	-	-
<b>Reported deferred tax expense</b>	<b>3,884</b>	<b>3,557</b>	<b>-</b>	<b>-</b>

#### Specification of deferred tax expense

Tax on appropriations	4,999	2,573	-	-
Tax on temporary differences	2,479	3,696	-	-
<b>Reported deferred tax liabilities</b>	<b>7,478</b>	<b>6,269</b>	<b>-</b>	<b>-</b>

In November 2012 the Swedish Parliament resolved to reduce the tax rate from 26.3% to 22.0%. The lower tax rate applies for financial years beginning on or after 1 January 2013. When calculating deferred tax on temporary differences at December 31, 2012 with respect to Swedish companies, the reduced rate of 22% has been applied.

In 2013, Net Entertainment retroactively adjusted the recognition of deferred tax regarding the Group's Maltese operations. Account is thus taken of the fact that 6/7ths of the deferred tax accruing to taxed dividends from the Maltese subsidiaries will be paid back by the Maltese authority. Previously, deferred tax was calculated according to the tax rate applicable to non-distributed profits. The financial result and position of previous periods have been restated. The adjustment has entailed a reduction in the deferred tax liability at December 31, 2012 of SEK 5.6 million, and a reduction in deferred tax expense of SEK 2.9 million

### NOTE 11 EARNINGS PER SHARE

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Profit after tax attributable to Parent Company shareholders (SEK thousand)	167,139	136,142	95,757	86,992
Average number of shares (thousand)	39,554	39,554	39,554	39,554
Average number of shares (thousand), diluted	39,691	39,559	39,691	39,559
Earnings per share (SEK)	4.23	3.44	2.42	2.20
Earnings per share (SEK), diluted	4.21	3.44	2.41	2.20

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

At the end of 2013, there were a total of 468,094 share options, equaling as many outstanding shares. The share options were issued as part of two long-term incentive programs in accordance with the decisions taken at the Annual General Meetings on 13 April 2011 and 26 April 2012. The potential shares entailed by the share options are considered when calculating the number of shares and earnings per share (diluted), to the extent they involve dilution in accordance with IAS 33 Earnings per share. The average share price during the year was SEK 104.82, which exceeds the subscription price for both incentive programs of SEK 70.20 and SEK 85.38, respectively. The potential shares thus have a dilution effect and are thus included in the diluted number of shares. Share options were acquired at market price.

### NOTE 12 INTANGIBLE ASSETS

GROUP		Gaming products, systems and platforms	Gaming contracts and licenses	Trade-marks	Total
<b>2012</b>					
Opening acquisition value	221,167	1,615	147	222,929	
Capitalized development expenses for the year	89,433	-	1,547	90,980	
Translation difference	-6,139	-	-	-6,139	
<b>Closing accumulated acquisition value</b>	<b>304,461</b>	<b>1,615</b>	<b>1,694</b>	<b>307,770</b>	
Opening amortization	88,025	1,615	147	89,787	
Amortization during the year	52,908	-	701	53,609	
Translation difference	-2,872	-	-	-2,872	
<b>Closing accumulated amortization</b>	<b>138,061</b>	<b>1,615</b>	<b>848</b>	<b>140,524</b>	
<b>Closing residual value according to plan 31 Dec 2012</b>	<b>166,401</b>	<b>0</b>	<b>845</b>	<b>167,246</b>	
<b>2013</b>					
Opening acquisition value	304,461	1,615	1,694	307,770	
Capitalized development expenses for the year	85,819	-	16,662	102,481	
Translation difference	12,877	-	-	12,877	
<b>Closing accumulated acquisition value</b>	<b>403,157</b>	<b>1,615</b>	<b>18,356</b>	<b>423,128</b>	
Opening depreciation	138,061	1,615	848	140,524	
Amortization during the year	76,456	-	1,652	78,108	
Translation difference	6,900	-	-	6,900	
<b>Closing accumulated amortization</b>	<b>221,417</b>	<b>1,615</b>	<b>2,500</b>	<b>225,532</b>	
<b>Closing residual value according to plan 31 Dec 2013</b>	<b>181,741</b>	<b>0</b>	<b>15,855</b>	<b>197,596</b>	



## PARENT COMPANY

	Gaming products, systems and platforms	Gaming contracts and licenses	Trade- marks	Total
<b>2012</b>				
Opening acquisition value	24,433	1,615	147	26,195
Investments during the year	–	–	167	167
Reclassification	–	–	1,380	1,380
<b>Closing accumulated acquisition value</b>	<b>24,433</b>	<b>1,615</b>	<b>1,694</b>	<b>27,742</b>
Opening amortization	24,433	1,615	147	26,195
Amortization during the year	–	–	3	3
Reclassification	–	–	699	699
<b>Closing accumulated depreciation</b>	<b>24,433</b>	<b>1,615</b>	<b>849</b>	<b>26,897</b>
<b>Closing residual value according to plan 31 Dec 2012</b>	<b>0</b>	<b>0</b>	<b>845</b>	<b>845</b>
<b>2013</b>				
Opening acquisition value	24,433	1,615	1,694	27,742
Investments during the year	–	–	16,662	16,662
<b>Closing accumulated acquisition value</b>	<b>24,433</b>	<b>1,615</b>	<b>18,356</b>	<b>44,404</b>
Opening amortization	24,433	1,615	849	26,897
Amortization during the year	–	–	1,652	1,652
<b>Closing accumulated depreciation</b>	<b>24,433</b>	<b>1,615</b>	<b>2,501</b>	<b>28,549</b>
<b>Closing residual value according to plan 31 Dec 2013</b>	<b>0</b>	<b>0</b>	<b>15,855</b>	<b>15,855</b>

## NOTE 13 TANGIBLE FIXED ASSETS

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
<b>Inventory and equipment</b>				
Opening acquisition value	94,607	76,541	47,397	38,253
Acquisitions for the year	33,854	19,730	10,083	9,144
Translation differences	3,093	-1,665	–	–
<b>Closing accumulated acquisition value</b>	<b>131,554</b>	<b>94,607</b>	<b>57,480</b>	<b>47,397</b>
Opening depreciation	56,613	38,397	32,004	22,537
Depreciation during the year	22,230	18,650	9,070	9,467
Translation differences	1,271	-434	–	–
<b>Closing accumulated depreciation</b>	<b>80,114</b>	<b>56,613</b>	<b>41,074</b>	<b>32,004</b>
<b>Closing residual value according to plan</b>	<b>51,440</b>	<b>37,994</b>	<b>16,406</b>	<b>15,393</b>
	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
<b>Leasehold improvement</b>				
Opening acquisition value	15,612	14,745	15,612	14,745
Acquisitions for the year	22	867	22	867
<b>Closing accumulated acquisition value</b>	<b>15,634</b>	<b>15,612</b>	<b>15,634</b>	<b>15,612</b>
Opening depreciation	4,476	2,478	4,476	2,478
Amortization during the year	2,802	1,998	2,802	1,998
<b>Closing accumulated depreciation</b>	<b>7,278</b>	<b>4,476</b>	<b>7,278</b>	<b>4,476</b>
<b>Closing residual value according to plan</b>	<b>8,355</b>	<b>11,135</b>	<b>8,355</b>	<b>11,135</b>

## NOTE 14 PARTICIPATING INTERESTS IN GROUP COMPANIES

PARENT COMPANY	Corporate reg. no.	Main office	Ownership %	No. of shares	Carrying value 2013	Carrying value 2012
<b>Name</b>						
Mobile Entertainment ME AB	556185-1758	Stockholm	100%	1,000	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
– 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		Gibraltar	100%	2,000		
Net Entertainment Alderney Ltd		Alderney	100%	1,000	9	9
Net Entertainment Ukraine LLC	380 906 40	Ukraine	100%	–	1,157	1,157
<b>Total</b>					<b>1,678</b>	<b>1,678</b>

	PARENT COMPANY	
	2013	2012
<b>Changes in shareholding in Group companies</b>		
Opening acquisition value	1,678	521
Acquisition of Net Entertainment Ukraine LLC	–	1,157
<b>Closing carrying value</b>	<b>1,678</b>	<b>1,678</b>

## NOTES

### NOTE 15 ACCOUNTS RECEIVABLE

The carrying amounts for accounts receivable coincide with the fair values and are matched by nominal amounts. No receivables have been pledged as collateral for liabilities or contingent liabilities.

At December 31, 2013, accounts receivable amounting to SEK 6,133 (3,864) were due with no indication of impairment identified. This applies to a number of independent customers that have not previously had payment difficulties. Confirmed bad debt losses during the period and an age analysis of consolidated accounts receivable are presented below. The age analysis only contains accounts receivable for which no impairment requirement has been identified. Credit risks are described in more detail in note 25.

SEK thousands	GROUP		PARENT COMPANY	
	31-12-2013	31-12-2012	31-12-2013	31-12-2012
<b>Maturity analysis of non-impaired accounts receivable</b>				
1-30 days	5,339	3,774	-	-
31-90 days	768	29	-	-
91-180 days	17	61	-	9
Over 181 days	9	-	9	-
<b>Total</b>	<b>6,133</b>	<b>3,864</b>	<b>9</b>	<b>9</b>
<b>Provision for uncertain receivables</b>				
Per January 1	91	372	-	-
Provision for bad debt	-	-	-	-
Customer losses in the income statement	-91	-281	-	-
<b>Closing reserves</b>	<b>0</b>	<b>91</b>	<b>-</b>	<b>-</b>

### NOTE 16 PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		PARENT COMPANY	
	31-12-2013	31-12-2012	31-12-2013	31-12-2012
Accrued license/royalty revenues	65,544	51,057	-	-
Prepaid IT services	2,442	3,986	553	1,174
Prepaid rent	4,196	4,057	3,704	3,682
Prepaid license fees	1,700	1,180	1,700	664
Other prepaid expenses	9,448	3,418	1,757	1,754
<b>Total</b>	<b>83,330</b>	<b>63,698</b>	<b>7,714</b>	<b>7,274</b>

### NOTE 17 OTHER RECEIVABLES

	GROUP		PARENT COMPANY	
	31-12-2013	31-12-2012	31-12-2013	31-12-2012
VAT	21,465	6,042	7,618	6,042
Receivables from operators	30,435	52,299	-	-
Other	1,095	1,325	1,082	957
<b>Total</b>	<b>52,995</b>	<b>59,666</b>	<b>8,700</b>	<b>6,999</b>

### NOTE 18 CASH AND CASH EQUIVALENTS

	GROUP		PARENT COMPANY	
	31-12-2013	31-12-2012	31-12-2013	31-12-2012
Cash and bank balances	105,829	81,230	55,507	1,174
<b>Total</b>	<b>105,829</b>	<b>81,230</b>	<b>55,507</b>	<b>1,174</b>

Credit available to the Group amounted to SEK 50,000 thousand, none of which had been utilized at December 31, 2013. The Group does not apply a so-called cash pool with automatic transfer of the Group's liquidity to the Parent Company, which leads to short-term utilization of overdraft facilities potentially occurring in the Parent Company, despite the liquidity of the Group as a whole being generally sound.

### NOTE 19 SHAREHOLDERS' EQUITY

	DEC 31, 2013		DEC 31, 2012	
	Number of shares	Share capital	Number shares	Share capital
<b>Share capital distribution</b>				
Shares, series A (10 votes per share)	5,610,000	169	5,610,000	169
Shares, series B (1 vote per share)	33,943,716	1,022	33,943,716	1,022
<b>Total number of shares</b>	<b>39,553,716</b>	<b>1,191</b>	<b>39,553,716</b>	<b>1,191</b>

Quota value per share 3.01 öre

#### GROUP

#### Other capital contributed

This pertains to shareholders' equity contributed by previous owners through shareholder contributions and Group contributions, and premiums for issued share options.

#### RESERVES

#### Translation reserve

The translation reserve comprises all exchange-rate differences arising 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, accumulated translation differences were SEK -3,659 (-11,987) thousand.

Specification reserves	Translation difference
<b>Opening balance 31 Dec 2011</b>	<b>-7,551</b>
Translation differences for the year	-4,437
<b>Closing balance 31 Dec 2011</b>	<b>-11,987</b>
<b>Opening balance 31 Dec 2013</b>	<b>-11,987</b>
Translation differences for the year	8,328
<b>Closing balance 31 Dec 2012</b>	<b>-3,659</b>

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

Retained earnings including profit for the year includes earned profits in the Parent Company and its subsidiaries, as well as the part of untaxed reserves attributable to shareholders' equity.

#### PROPOSED/CONDUCTED DISTRIBUTION TO SHAREHOLDERS

The Board proposes to the Annual General Meeting that no dividend be paid for the 2013 financial year.

The Board proposes to the Annual General Meeting to distribute SEK 118.7 (89.0) to shareholders, equaling SEK 3.00 (2.25) per share, through a share redemption program.

**NOTE 20 OTHER CURRENT LIABILITIES**

	GROUP		PARENT COMPANY	
	31-12-2013	31-12-2012	31-12-2013	31-12-2012
<b>Other current liabilities</b>				
Processed Jack-Pot	59,932	168,653	–	–
Employee income tax withheld	3,687	3,704	3,372	3,696
Other	–	–	–	–
<b>Total</b>	<b>63,619</b>	<b>172,357</b>	<b>3,372</b>	<b>3,696</b>

**NOTE 21 ACCRUED EXPENSES AND DEFERRED INCOME**

	GROUP		PARENT COMPANY	
	31-12-2013	31-12-2012	31-12-2013	31-12-2012
Accrued wages and salaries	10,156	8,168	8,421	6,816
Vacation pay liability	11,330	9,833	10,411	9,328
Social security contributions	6,605	6,349	6,605	6,338
Payroll tax	3,589	5,958	3,589	5,958
Other	11,568	11,389	7,429	7,626
<b>Total</b>	<b>43,248</b>	<b>41,696</b>	<b>36,455</b>	<b>36,065</b>

**NOTE 22 LEASES**

Rents for premises and other rented equipment, and that are included in the concept of operating leases, amounted to:

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Expensed lease payments and rental charges	16,120	17,206	13,097	14,769
<b>Total</b>	<b>16,120</b>	<b>17,206</b>	<b>13,097</b>	<b>14,769</b>

Future minimum lease charges for non-terminable operating leases and rental agreements are expected to be as follows:

	GROUP	PARENT COMPANY
Within one year	17,100	14,018
Two–five years	28,143	26,749
After five years	0	0
<b>Total</b>	<b>45,243</b>	<b>40,767</b>

There are no finance leases in the Group.

**NOTE 23 AUDITOR REMUNERATION**

Deloitte AB was elected auditor to the Company by the 2008 Annual General Meeting. Deloitte AB conducts the audit of Net Entertainment NE AB and its subsidiaries. In addition to the auditing assignment, Net Entertainment has also appointed Deloitte AB for consultation on taxation, VAT, accounting matters and analyses.

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
<b>Deloitte</b>				
Auditing assignments	976	728	462	649
Other assignments than the auditing assignment	114	63	114	63
Tax advising	625	204	34	34
Other services	11	98	11	99
<b>Total</b>	<b>1,726</b>	<b>1,093</b>	<b>621</b>	<b>845</b>

**NOTE 24 TRANSACTIONS WITH RELATED PARTIES****RELATIONS****Group**

The Company's largest shareholder, Per Hamberg, controls around 20 percent of the votes in Net Entertainment, and thus has a controlling influence in the Company. Per Hamberg is also board member of and the largest shareholder in Betsson AB, a customer to Net Entertainment, in which Board member of the Company Pontus Lindwall is also the chairman.

One of the board members of the Maltese subsidiaries at which operating activities are conducted is Dr. Olga Finkel. Olga is also Managing Partner at WH Law, and WH Law is thus considered to be a related party of the Group.

Information about Board members and Company management of Net Entertainment is provided on pages 26–27.

**Parent Company**

The subsidiaries over which the Parent Company exercises controlling influence are described in note 14 Participations in Group companies.

**TRANSACTIONS AND OUTSTANDING BALANCES****Group**

The Group's transactions with Betsson AB comprise license revenues for CasinoModule and the transactions are priced in line with the market. Remuneration to WH Law has been paid in the amount of SEK 1,361 (974) thousand, and the transactions are priced in line with the market.

Remuneration for the Board and Group management is described in note 6.

	PARENT COMPANY	
	2013	2012
<b>Purchase of services from related parties</b>		
Purchases from subsidiaries	6,349	–
– share of total operating expenses	1.75%	–
<b>Sales of services to related parties</b>		
Sales to subsidiaries	392,560	370,399
– share of total revenue	99.76%	99.81%
<b>Liability to related parties</b>		
Liability to subsidiaries	1,535	428,818
<b>Receivable from related parties</b>		
Receivable from subsidiaries	103,649	583,918

**NOTE 25 FINANCIAL RISKS**

The Group's financial activities are conducted on the basis of a low-risk finance policy as established by the Board of Directors. Financial activities and the management of financial risks are coordinated through the Parent Company Net Entertainment NE AB, which is also responsible for the investment of excess liquidity. According to the finance policy, cash and cash equivalents can be invested to maturities up to six months with no more than 25 percent of the excess liquidity tied up for longer than three months.

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

**MARKET RISK**

Group earnings are exposed to fluctuations in exchange rates since most sales are in euro, and the majority of the expenses are in Swedish kronor (transaction exposure). Earnings are also affected by exchange rate fluctuations when foreign subsidiaries' earnings are translated into Swedish kronor (translation exposure). Moreover, exchange rate fluctuations affect Group equity when assets and liabilities in foreign subsidiaries are translated into Swedish kronor (translation exposure). At present, equity in foreign subsidiaries is not hedged.

If the SEK had depreciated/appreciated by 10 percent in relation to the euro, with all other variables constant, earnings for the year as at December 31, 2013, would have been SEK 43.6 (38.6) million higher/lower. Of the Group's total expenses, 80 (71) percent are in Swedish kronor. As a rule, Net Entertainment does not hedge risk exposure in terms of exchange rate fluctuations from future cash flows with financial instruments. By way of exception, identified flows can be hedged.

**INTEREST RATE RISKS**

At December 31, zero (SEK 1.9 million) of total available credit lines of SEK 50 million had been utilized. The interest rate risk to which the Group's revenues and cash flow are exposed is low. Changes in interest rates affect return on cash and cash equivalents obtained by the Group. The risk in such changes is deemed negligible.

**CREDIT RISK**

The Group does not have any significant concentration of credit risks. The Group has set guidelines for ensuring sales of services to customers with a suitable credit background. No credit limits were breached during the reporting period and management does not expect any material losses resulting from failed payments from these counterparties. Through short lead times and credit terms, providing a short customer credit term, the credit risk is further reduced. Maximum credit risk exposure is matched by the carrying amount of financial assets.

**LIQUIDITY RISK**

Liquidity risk is managed by means of the Group holding sufficient cash and cash equivalents to finance the operations. Management also carefully monitors rolling forecasts for the Group's liquidity reserve, which consists of cash and cash equivalents (note 18) on the basis of expected cash flows. Group financial liabilities essentially consist of accounts payable, for which the contractual due date falls within 12 months.

Accounts payable usually have a 30-day term of credit.

**NOTE 26 EVENTS AFTER THE END OF THE PERIOD**

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

**NOTE 27 CONTINGENT LIABILITIES**

	GROUP		PARENT COMPANY	
	31-12-2013	31-12-2012	31-12-2013	31-12-2012
Pension commitments	–	–	2,628	2,294
Swedish Tax Agency's decision on additional taxation, including tax surcharges and assessed interest	92,100	92,100	92,100	92,100
<b>Total</b>	<b>92,100</b>	<b>92,100</b>	<b>94,728</b>	<b>94,394</b>

Pension commitments regard provisions for direct pensions for the current and previous CEOs. These commitments have not been included in the balance sheet and are covered by the value of Company-owned endowment policies. The Company has no capital value risk in such commitments.

After a tax audit of Net Entertainment NE AB concerning fiscal years 2007–2010, the Swedish Tax Agency decided to impose additional taxes on Net Entertainment in the amount of approximately SEK 92.1 million. The Swedish Tax Agency states in its decision that the transfer pricing used by the Group between the Sweden-based Parent Company Net Entertainment NE AB and the Malta-based operations is not justified. Thus, the Swedish Tax Agency attributes certain intra-Group agreements and the organization of the Group with a different civil-law interpretation and financial implication than do Net Entertainment and its external experts. Net Entertainment disputes the opinion drawn by the Swedish Tax Agency and thus also the consequences in terms of the amounts regarding revenue adjustment and additional tax. Net Entertainment maintains that it has complied with applicable laws for taxation of its operations, which is also supported by the experts appointed by the Company on the matter. The Company is now in the process of appealing the Swedish Tax Agency's decision to the Administrative Court. Net Entertainment currently sees no grounds for making any provisions for potential additional taxes ensuing from this matter.

The Board of Directors and the CEO ensure that the annual accounts and consolidated accounts have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and good accounting practice, and provide a just picture of the Group's and the Company's position and results, and that the Group management report and management report provide an accurate overview of the development of the Group's and the Company's business, position and results, and describes significant risks and uncertainty factors with which the companies within the Group are faced.

Stockholm 26 March 2014

Vigo Carlund  
Chairman of the  
Board of Directors

Fredrik Erbing  
Member of the  
Board of Directors

Maria Redin  
Member of the  
Board of Directors

Michael Knutsson  
Member of the  
Board of Directors

Mikael Gottschlich  
Member of the  
Board of Directors

Peter Hamberg  
Member of the  
Board of Directors

Pontus Lindwall  
Member of the  
Board of Directors

Per Eriksson  
President and CEO

Our audit report was submitted on 26 March 2014

Deloitte AB

Therése Kjellberg  
Authorised Public Accountant



# Auditor's report

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

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Net Entertainment NE AB (publ) for the financial year 2013-01-01 – 2013-12-31. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 32–69.

### Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors [and the Managing Director], as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts

Act. A corporate governance statement has been prepared. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Net Entertainment NE AB (publ) for the financial year 2013-01-01 – 2013-12-31.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

### Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors [or the Managing Director] is liable to the company. We also examined whether any member of the Board of Directors [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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated 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, 26 March 2014  
Deloitte AB

Therése Kjellberg  
Authorized Public Accountant

# Annual General Meeting and other information

## ANNUAL GENERAL MEETING

Net Entertainment NE AB will hold its Annual General Meeting on Thursday 24 April 2014 at 3:00 p.m. CET at Spårvagnshallarna, Birger Jarlsgatan 57A, Stockholm, Sweden. Notification of the Annual General Meeting is published on Net Entertainment's website [www.netent.com/agm](http://www.netent.com/agm).

### Right of attendance and registration

Shareholders wishing to attend the Annual General Meeting must be recorded in the register of shareholders maintained by Euroclear Sweden AB on Wednesday 16 April 2014, and also notify Net Entertainment of their intention to attend no later than Wednesday 16 April 2014.

Shareholders must send written notice of attendance with their name, personal/corporate identity number, address, telephone number, email address and number of shares to

Net Entertainment NE AB, Att: Annual General Meeting, Luntmakargatan 18, no. 3, 111 37 Stockholm, by e-mail to [arsstamma@netent.com](mailto:arsstamma@netent.com) or via Net Entertainment's website at [www.netent.com/stamma](http://www.netent.com/stamma).

### Share registration

Shareholders who have their shares administratively registered through a banks notary department or through some other administrator must, in order to be entitled to vote in the meeting, temporarily register the shares in their own name. Such registration must be affected no later than 16 April 2014. 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 2014	24 April 2014
Interim report: January – March 2014	23 April 2014
Interim report: April – June 2014	11 July 2014
Interim report: July – September 2014	23 October 2014
Earnings report 2014 and Q4 report	12 February 2015

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 e-mail. 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 Per Eriksson, CEO, or Maria Hedengren, CFO, tel (46) 8-57 85 45 00, or by e-mail: [investor@netent.com](mailto:investor@netent.com).



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