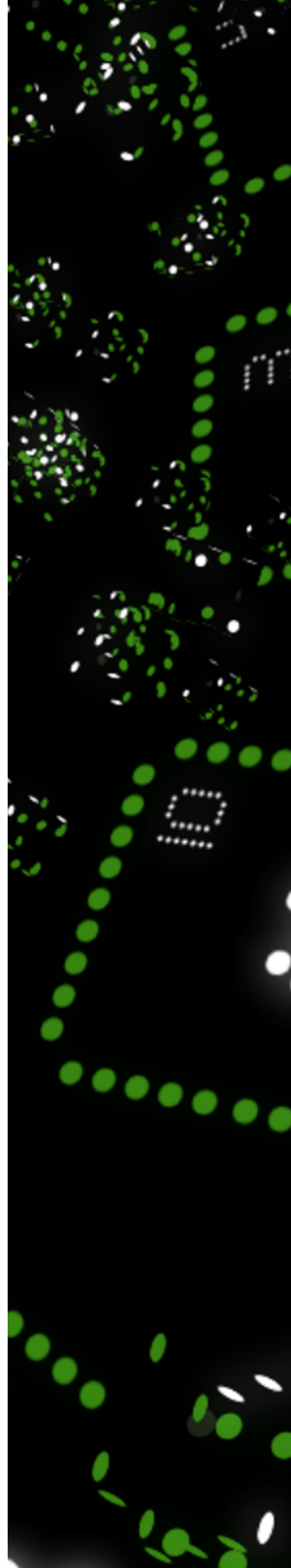




Second quarter report 2007



Net Entertainment NE AB (publ)

Net Entertainment interim report for second quarter 2007

January - June 2007

- Net sales increased by 40% to 62,9 (45,0) MSEK.
- Result after taxes increased by 77% to 22,3 (12,6) MSEK
- Net profit margin was 35,3 (28,1) %
- Profit per share amounted to SEK 0,56 (0,32)
- 8 new license agreements for CasinoModule™ were signed

April - June 2007

- Net sales increased by 28% to 29,7 (23,2) MSEK.
- Result after taxes increased by 98% to 10,9 (5,5) MSEK
- Net profit margin was 36,6 (23,6) %
- Profit per share amounted to SEK 0,27 (0,14)
- 6 new license agreements for CasinoModule™ were signed

Comments from Johan Öhman, CEO

“Net Entertainment continues to sell successfully and eight new licensing agreements for CasinoModule™ were signed during the first half of the year. Bingos.com, one of the world’s largest bingo sites, was one of the operators who, after extensive evaluation, chose CasinoModule™ to complement its existing operation.

Online players are fickle and they gradually place increasing expectations on the operators’ product offerings. It is becoming therefore more and more important in the struggle for market share for the operators to provide top of the line products. Through its domain expertise and rapid development speed, Net Entertainment ensures its leading position in game and platform development and also increases the competitive strength of its licensees.

The introduction of a new development method has been very successful and resulted in both an increase in production rate and flexibility. Despite the games gradually becoming more complex and offers a better and better gaming experience, 6-8 new games are still produced each development cycle (12 weeks).

During the first six months of 2007 there were several new appointments, which are central for the company's continued growth. A young, dynamic working environment combined with a fast tempo and technical innovation make Net Entertainment an attractive employer”.

About Net Entertainment

Net Entertainment NE AB (Parent company with corporate identification number 556532-6443) and its subsidiary Net Entertainment Malta Ltd (together, the Group) is a leading supplier of digitally distributed software. The company was established in 1996 and has a customer base of about 45 international gaming companies. Revenues consist of royalties based on the revenues generated by the company's products and other sales revenues. Net Entertainment is a pure development company and therefore does not operate any gaming sites of its own. The company is internationally recognized as a vendor of innovative, high quality products and services.

The Group has its head office in Stockholm where all technical development is undertaken, and an office in Malta where all commercial operations including sales, marketing and product management is conducted.

The parent company has been listed on Nordic Growth Market (NGM) Equity since April 5, 2007.

Comments to the quarter's development

Net sales increased to SEK 29.7 (23.2) million, an increase of 28% compared to Q2 2006. The operating margin amounted to 41.0 (35.6) percent. Six new license agreements to supply CasinoModule™ were signed.

The company strengthened its organisation in both Stockholm and Malta with several new employees. In Malta, sales and marketing resources were added, giving a total of nine employees of Net Entertainment Malta at the end of the period. An agreement has been signed for a larger office in Malta, with occupancy beginning in Q3.

During the quarter, five new casinos were launched. These casinos will generate licensing revenues in coming periods.

The legal situation in Turkey remains unchanged, which resulted in reduced gaming revenues for some of the company's customers. This has negatively affected the company's revenues. Aside from the licensing revenues from casino operations in Turkey, licensing revenues increased during the quarter by slightly more than five percent compared to Q1 2007.

The dividend of SEK 0.25 per share that was determined at the annual general meeting on 21 May 2007 was carried out during May, which resulted in outgoing payments of SEK 9.9 million.

The market

The market for online gaming has displayed strong growth during the past five years with an annual future expected growth rate of 20%. Total sales for online gaming as a whole is expected to exceed USD 20 billion during 2007¹.

Net Entertainment view the conditions for continued market expansion as good. The market for online gaming is maturing with clear indications of a consolidation phase emerging. As a result, the market will, moving forward, be dominated by a few increasingly large operators which will increase demand for best-of-breed solutions. At the same time, online operators are gradually extending their product range by adding new products, thereby turning into gaming portals. This helps attract new players and increasing revenues from existing customers through cross-sales. All in all, this development benefits Net Entertainment and the company will take an active role in the market restructuring.

¹) Christiansen Capital Advisor's Global Internet Gambling Revenues Estimates and Projections 2001-2010, 2005.

The company's customers consist primarily of sport betting sites whose average end user are males, 25-35 years of age. At the same time, according to eCogras's report² from January 2007, women form a growing player segment that sport betting sites generally do not address. New operators emerging that address new target groups (for instance bingo sites) therefore constitute an interesting market segment. Net Entertainment actively works to develop games that address the preferences of different types of players.

Legal developments within the EU gives increasing opportunities for Net Entertainment's customers to conduct their business. The European Court of Justice has in a series of rulings, most recently in the Placanica case, displayed a consistent negative standpoint towards the gaming monopolies. The impact on a national level has so far however been modest. It is the company's assessment that, over time, we will see a regulated gaming market giving completely new possibilities for the operators whilst also introducing new requirements. Net Entertainment is well equipped for this development. For instance, CasinoModule™ already support the standards for player protection set by the organisation G4.

Competitors

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

Net Entertainment has chosen to focus on casino games as a well-defined market segment and therefore develops casino solutions of the highest class. This has proven to be a very successful strategy. The management's assessment is that the company has a market share of about 10%, based on Net Entertainment as supplier of casino games to around 10 of the 100 largest sport betting sites.

Pricing

The license fees for casino solutions have risen in absolute terms during recent years. This trend is driven by the operators' increasing business volumes. During the same period, the royalty level decreased somewhat but this trend seems to have stabilised.

New agreements and customers

During the quarter, new agreements for delivery of CasinoModule™ were signed with six operators: Tower Gaming, Wauw Gaming, Begawin, Bingos, GoldBet and Fun City Casino. These casinos will all be launched during autumn 2007.

Net sales and profit/loss for H1

The Group's net sales for H1 amounted to SEK 62.9 (45.0) million, an increase of 40% compared to H1 2006. Operating profit for H1 increased 31% to SEK 24.7 (18.9) million. Profit/loss after tax amounted to SEK 22.3 (12.6) million, which corresponds to SEK 0.56 (0.32) per share.

Cash and cash equivalents, financing and financial position for H1

The Group's cash flow from operating activities during H1 amounted to SEK 15.5 (11.9) million. Cash flow from investing activities was negative in an amount of SEK 6.0 (negative 5.6) million. Cash flow from financing activities was negative in an amount of SEK 9.9 million. The Group's cash and cash equivalents amounted to SEK 12.9 million at June 30, 2007.

²) An Exploratory Investigation into the Attitudes and Behaviours of Internet Casino and Poker Players, commissioned by eCOGRA (e-Commerce and Online Gaming Regulation and Assurance), January, 2007.

Investments during H1

The Group's net investments in intangible assets during the period amounted to SEK 4.6 (3.8) million, and property, plant, and equipment amounted to SEK 1.3 (1.8) million.

Personnel and organisation

At the end of the period, the Group had 59 (36) employees of which 27 (22) percent were women. Including subcontractors, the total head-count was 73 persons. Personnel costs during the period amounted to SEK 9.4 (6.6) million.

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

Parent company

The parent company's revenues for the quarter amounted to SEK 21.3 million compared with SEK 22.6 million for 2006. The corresponding numbers for the six month period is SEK 41.2 million, compared with SEK 44.3 million. Operating profit for the quarter amounted to SEK 5.1 (negative 0.9) million for the first six months to SEK 6.5 (10.4) million. Profit after taxes for the quarter amounted to SEK 3.6 (negative 1.1) million and for the first six months to SEK 4.7 (6.7) million. Cash and cash equivalents in the parent company amounted to SEK 3.2 million on June 30, 2007.

Decreased revenues in the parent company result from Net Entertainment currently having a higher share of revenues in Malta where the company's customers are located.

Events after the end of the quarter

CasinoModule version 3.8 was released July 16, and included five new games and extended management functionality. The new games have been very well received.

Outlook ahead

Net Entertainment view market developments as positive, and it is the company's assessment that the current market situation will not change during 2007. The company has a strong customer base that includes several leading operators. Having a market-leading product and strong service offering improves competitiveness for existing customers whilst it also attracts new operators.

Net Entertainment's financial objective is that sales growth shall be higher than the market average (in respect of comparative companies) and that the operating margin on EBIT-level shall exceed 35%.

Accounting principles

Preparation of the report

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and follows the provisions of the Swedish Financial Accounting Standards Council's recommendation RR31 Interim Financial Reporting for Groups. The parent company's report has been prepared in accordance with the Swedish Annual Accounts Act and RR 32 Accounting for Legal Entities. The same accounting principles and definitions for key ratio and calculation methods have been used as in the previous annual report. All figures are given in SEK thousands if not indicated otherwise.

Segment reporting

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

Risks

Net Entertainment is exposed to certain risks in its operation that can affect the result to a smaller or larger extent. These can be divided into industry/operational risks, and financial risks. The management's general view of the risks that may affect operations has not changed significantly compared with the description given in the most recently published annual report. The description below is a summary. For a detailed description of the risk profile, see Net Entertainment's annual report 2006, pages 10-11 and page 32.

Industry and operational risks

As specific industry-related operational risks it is noted that since gaming is regulated by law on most national markets, Net Entertainment as casino game supplier and its customers are dependent on the legal situation of the gaming industry, and can be significantly affected by political decisions and legal changes. Net Entertainment has a class 4 license in Malta, which means that the company is permitted to operate hosting for its customers. It is crucial that this license is maintained and extended. Net Entertainment since 2005 is also a member of the organisation G4, which works to prevent gaming addiction (despite the fact that the company itself does not have any gaming operations) and CasinoModule™ has been adapted to follow the guidelines given.

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

Net Entertainment is not insensitive to market swings, but they do not significantly affect the company.

Financial risks

The Group's results are exposed to changes in exchange rates as the majority of its sales are in Euro, and costs (transaction exposure) are mostly in Swedish kronor. Net Entertainment does not currently hedge this portion.

Profit/loss and equity are also affected by changes in exchange rates when foreign subsidiaries' results as well as assets and liabilities are translated to SEK (translation exposure). Foreign subsidiaries' equity is not currently hedged. The foreign companies are financed mainly through shareholders' equity and intra-group loans in the parent company's national currency. The Group's operation in Malta has until now been exempted from VAT. The Maltese authorities are currently reviewing their regulations on foreign gaming companies, but it is not currently possible to gain a clear understanding of possible pending regulatory changes. If portions of the company's operations become subject to VAT, it will most likely affect the result negatively.

Future reporting

The quarterly report for the period July - September 2007 will be published November 5, 2007.

The Board of Directors and CEO assure that the H1 interim report gives a true overview of the company and Group's operations, position and result, as well as describes significant risks and instability factors that affect the company and Group members.

Stockholm, 13 August 2007.

Johan Öhman
Chief Executive Officer

Pontus Lindwall
Chairman of the Board

Ann-Catrine Appelquist
Board Member

Rolf Blom
Board Member

John Wattin
Board Member

Einar Gunnar Gudmundsson
Board Member

This interim report has not been subject to review by the company's auditor.

Questions may be directed to:

Johan Öhman

Chief Executive Officer

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Website: www.netent.com

Income statement summary for the Group

	April-June 2007	April-June 2006	Jan-June 2007	Jan-June 2006	Jan-Dec 2006
Revenues	29 697	23 246	62 861	45 013	99 475
Other revenue	-28	0	461	19	298
Capitalized work for own use	2 393	2 284	4 620	3 340	6 600
Other external expenses	-8 777	-8 867	-18 846	-14 084	-33 915
Personnel expenses	-9 400	-6 564	-20 611	-12 437	-26 007
Depreciation	-1 748	-1 245	-3 740	-2 266	-4 407
Other operating expenses	36	-581	-47	-668	-1 243
Operating profit	12 173	8 273	24 698	18 917	40 801
Financial revenue	239	-7	238	0	237
Financial expense	-132	-631	-136	-1 119	-1 195
Profit before tax	12 280	7 635	24 800	17 798	39 843
Tax	-1 411	-2 139	-2 464	-5 159	-11 361
Profit for the period	10 869	5 496	22 336	12 639	28 482
<i>Attributable to:</i>					
Parent company's shareholders	10 869	5 496	22 336	12 639	28 482
Earnings per share (before/after dilution, SEK)	0.27	0.14	0.56	0.32	0.72

Income statement summary for the parent company

	April-June 2007	April-June 2006	Jan-June 2007	Jan-June 2006	Jan-Dec 2006
Revenues	21 253	22 607	41 238	44 331	110 022
Other revenue	-28	2	461	46	293
Capitalized work for own use	2 393	1 818	4 620	3 340	6 600
Other external expenses	-8 090	-7 831	-16 806	-12 870	-43 976
Personnel expenses	-9 262	-6 604	-20 338	-12 443	-25 963
Depreciation	-1 204	-1 245	-2 675	-2 266	-4 275
Other operating expenses	0	-9 598	-1	-9 721	-1 127
Operating profit	5 062	-851	6 499	10 415	41 574
Financial revenue	122	23	122	30	193
Financial expense	-132	-661	-136	-1 149	-1 253
Profit before tax	5 052	-1 489	6 485	9 297	40 514
Appropriations					-1 702
Tax	-1 414	416	-1 816	-2 604	-10 885
Profit for the period	3 638	-1 073	4 669	6 693	27 927

Balance sheet summary for the Group

ASSETS	June 30, 2007	June 30, 2006	Dec 31, 2006
Intangible assets	21 877	10 528	19 534
Property, plant, and equipment	4 723	2 389	4 722
Other long-term receivables	31	79	42
Total non-current assets	26 631	12 996	24 298
Accounts receivable	6 095	6 186	5 386
Prepaid expenses and accrued revenues	10 961	6 844	7 889
Current income tax recoverable	1 875	174	-
Other receivables	387	1 568	5 935
Cash and cash equivalents	12 901	11 810	13 053
Total current assets	32 219	26 582	32 263
TOTAL ASSETS	58 850	39 578	56 561

EQUITY AND LIABILITIES	June 30, 2007	June 30, 2006	Dec 31, 2006
Share capital	1 191	1 021	1 187
Other capital contributions	34 200	34 204	34 204
Reserves	-181	-298	-232
Retained earnings including profit/loss for the year	-6 622	-10 457	-19 069
Total equity	28 588	24 470	16 090
Deferred tax liabilities	835	359	835
Total non-current liabilities	835	359	835
Accounts payable	6 488	4 006	3 159
Current tax liabilities	7 408	5 159	5 172
Other liabilities	6 943	488	21 047
Accrued expenses and prepaid revenue	8 588	5 096	10 258
Total current liabilities	29 427	14 749	39 636
TOTAL EQUITY AND LIABILITIES	58 850	39 578	56 561

Balance sheet summary for the parent company

ASSETS	June 30, 2007	June 30, 2006	Dec 31, 2006
Intangible assets	14 893	10 033	11 921
Property, plant, and equipment	1 745	2 389	4 722
Shares in subsidiaries	216	138	142
Other long-term receivables	43	43	42
Total non-current assets	16 897	12 603	16 827
Accounts receivable		1 326	2 965
Receivables from Group companies	24 599	2 067	15 528
Prepaid expenses and accrued revenues	819	6 832	4 528
Current income tax recoverable	1 875	1 692	-
Other receivables	33	3 567	5 935
Cash and cash equivalents	3 204	10 798	6 127
Total current assets	30 530	26 282	35 083
TOTAL ASSETS	47 427	38 885	51 910
EQUITY AND LIABILITIES	June 30, 2007	June 30, 2006	Dec 31, 2006
Share capital	1 191	1 021	1 187
Statutory reserve	38	204	38
Retained earnings	3 650	9 904	-14 385
Profit for the period	4 669	6 693	27 927
Total equity	9 548	17 822	14 767
Deferred tax liabilities	2 982	1 280	2 982
Total non-current liabilities	-	-	-
Accounts payable	6 488	3 472	3 159
Liabilities to Group companies	10 778	8 057	377
Current tax liabilities	6 756	2 603	5 172
Other liabilities	5 444	555	21 048
Accrued expenses and prepaid revenue	5 431	5 096	4 405
Total current liabilities	34 897	19 783	34 161
TOTAL EQUITY AND LIABILITIES	47 427	38 885	51 910

The Group's key business ratios

	April-June 2007	April-June 2006	Jan-June 2007	Jan-June 2 006	Jan-Dec 2006
Sales (SEK thousands)	29 669	23 246	63 323	45 032	99 773
Operating profit (SEK thousands)	12 173	8 273	24 698	18 917	40 801
Profit before tax (SEK thousands)	12 280	7 635	24 800	17 798	39 843
Profit/loss for the period (SEK thousands)	10 869	5 496	22 336	12 639	28 482
Operating margin (percent)	41.0	35.6	39.0	42.0	40.9
EBIT margin (percent)	41.8	35.6	39.4	42.0	41.1
Profit margin (percent)	41.4	32.8	39.2	39.5	39.9
Net profit margin (percent)	36.6	23.6	35.3	28.1	28.6
Return on investment on shareholders' equity (percent)	38.62	25.27	99.99	69.07	201.9
Equity/assets ratio (percent)	48.6	61.8	48.6	61.8	28.4
Quick ratio (percent)	109.5	180.2	109.5	180.2	65.1
Net interest-bearing liabilities (SEK thousands)	-12 901	-11 810	-12 901	-11 810	-13 053
Net debt/equity ratio (times)	-0.5	-0.7	-0.5	-0.7	-0.8
Average number of employees	60	37	60	35	43
Number of employees at period's end	59	36	59	36	53
Profit/loss per share	0.27	0.14	0.56	0.32	0.72
Shareholders' equity per share (SEK)	0.72	0.62	0.72	0.62	0.41
Cash flow per share (SEK)	0.29	-0.09	0.00	0.16	0.19
Average number of outstanding shares	39 553 716	39 553 720	39 553 716	39 553 720	39 553 720
Number of outstanding shares at the period's end	39 553 716	39 553 720	39 553 716	39 553 720	39 553 716

Change in equity for the period for the Group

	Share capital	Other capital contributions	Reserves	Accumulated profit/loss inc. profit/loss for the year	Total equity
Opening equity, 1 January 2007	1 187	34 204	-232	-19 069	16 090
Translation differences for the year			51		51
Total changes in value recognized directly in equity, excl. transactions with company owners			51		51
Profit/loss for the year				22 336	22 336
Total changes in value, excl. transactions with company owners			51	22 336	22 387
Stock dividend	4	-4			
Dividend				-9 889	-9 889
Closing equity 31 March 2007	1 191	34 200	-181	-6 622	28 588

	Share capital	Other capital contributions	Reserves	Accumulated profit/loss inc. profit/loss for the year	Total equity
Opening equity, 1 January 2006	1 021	34 204		-23 096	12 129
Translation differences for the year			-298		-298
Total changes in value recognized directly in equity, excl. transactions with company owners			-298		-298
Profit/loss for the year				12 639	12 639
Total changes in value, excl. transactions with company owners			-298	12 639	12 341
Closing equity 30 June 2007	1 021	34 204	-298	-10 457	24 470

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

Cash flow statement summary for the Group

	Jan-June 2007	Jan-June 2006	Jan-Dec 2006
Cash flows from operating activities before changes in working capital	26 209	14 760	43 723
Changes in working capital	-10 677	-2 908	-7 341
Cash flow from operating activities	15 532	11 852	36 382
Acquisition of intangible assets	-4 620	-3 761	-14 560
Acquisition of property, plant, and equipment	-1 331	-1 778	-4 461
Sales of property, plant, and equipment	0	-	190
Divestment of shares and participating interests, subsidiary	-	-	-
Divestment of other financial assets	-	-	-8
Change in long-term receivables	-	-37	278
Cash flow from investing activities	-5 951	-5 576	-18 561
Dividends paid	-9 888	-	-9 889
Cash flows from financing activities	-9 888	-	-9 889
Exchange rate differences	154	0	-414
Cash flow for the period	-153	6 276	7 518

Definitions

Acid test ratio

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

Average number of employees

The number of employees converted into full-time equivalents.

Cash flow per share

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

EBIT margin

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

Equity/assets ratio

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

Net debt/equity ratio (times)

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

Net interest-bearing liabilities

Net of interest-bearing earnings and liabilities minus financial assets incl. cash and cash equivalents.

Net profit margin

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

Number of employees at end of year

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

Operating margin

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

Outstanding number of shares

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

Profit margin

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

Profit/loss per share

Profit/loss after tax divided by the average number of shares outstanding during the period.

Return on investment on shareholders' equity

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

Shareholders' equity per share

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

Products and services

Casino

The company's core product, CasinoModule™, is a complete gaming platform consisting of more than 50 casino style games and a powerful management system. Games form four categories: table games, video pokers, slot machines and other games (including e.g. scratch cards and keno).

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

Multiplayer games

In 2006, Net Entertainment acquired a multiplayer platform which was used to develop a poker solution for the Turkish market. The option of developing additional games on this platform is being evaluated.

Casino Café

Casino Café is a product that allows gaming in a physical environment. A very small initial investment allows an operator to set up a mini casino using standard PCs where gaming can be operated through one-time accounts. The product will become commercially available during Q3.

Service

Net Entertainment offers a range of services to its licensees including 2nd line technical support, hosting, training, account management and system surveillance allowing the licensee to focus on their core business.

Development

The company brings out a new product release every 12th week, ensuring that licensees can continuously offer a new, exciting selection of games. Each product release includes 6-8 new games which the licensees receive within the framework of the existing license agreement.

Two of the games released with CasinoModule™ 3.8 (July 16) was a new Blackjack and Super Lucky Frog:

