



NET ENTERTAINMENT

## Third quarter report 2007



## Net Entertainment NE AB (publ)

### Net Entertainment interim report for Q3 2007

#### Q1 2007 - Q3 2007

- Net sales increased 39% percent to SEK 95.7 (68.8) million.
- Result after taxes increased by 75 percent to SEK 32.1 (18.3) million.
- Net profit margin was 33.5 (26.6) percent.
- Profit per share amounted to SEK 0.81 (0.46).
- 13 new license agreements for CasinoModule™ were signed.

#### Q3 2007

- Net sales during Q3 increased 36% percent to SEK 32.4 (23.8) million.
- Result after taxes increased by 73% percent to SEK 9,76 (5,64) million.
- Net profit margin was 30.1 (23.7) percent.
- Profit per share amounted to SEK 0.25 (0.14).
- 5 new license agreements for CasinoModule™ were signed.

### Comments from Johan Öhman, CEO

*"The online gaming market continues to show good growth. During the third quarter, our sales increased nine percent compared to the previous quarter. Adjusted for a change in the calculation principles for casino results (see "Comments to the quarter's development" below), the revenue increase was a total of 14%. The growth is driven by a strong product that is well received by the end user, combined with favourable external factors such as a relatively early autumn, which has positively affected gaming activity. The operating margin during the quarter was negatively affected by non-reoccurring costs and somewhat higher consultancy costs compared to the previous quarter.*

*So far this year, 13 new licensing agreements have been signed, including five during the third quarter. Two underlying reasons for continued impressive sales growth are continual investments in product development and regular product releases. Net Entertainment offers a wide variety of unique games, including several specifically developed for local markets. This gives us an important competitive advantage that is becoming more and more important as operators increase their geographic coverage.*

*The market for online gaming is constantly changing, which is accentuated by the rise of new market and player segments that will contribute to the industry's continued growth. Net Entertainment's active, continuous product development ensures that our products meet changes in demand. This will not only further increase our competitive strength and the profitability of our licensees, but also increase demand for Net Entertainment's products."*

## 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 50 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.

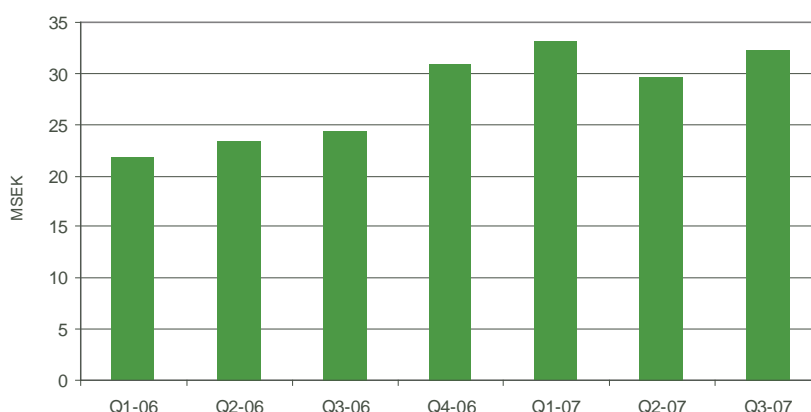
The Group has its head office in Stockholm where all technical development is undertaken, and an office in Malta where all commercial operations including sales, marketing and product management is conducted.

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 32.4 (23.8) million, an increase of 36 percent compared to Q3 2006. Operating margin amounted to 32.9 (38.9) percent, a decrease resulting from non-recurring costs, temporarily high expenses for external services, and a change in calculation principles (see below). Five new license agreements for CasinoModule™ were signed.

### Net sales 2006 & 2007



Starting with the CasinoModule 3.8 release (July 26), the principle for calculating the basis of the licensing fee (casino result) was changed. Allocations for jackpots, which are made continually in a number of games, are no longer included in the casino result. The basis for this change is a trend toward larger and larger jackpots, which under the previous calculation principle could strongly affect a casino's result for an individual month. The change eliminates this effect, resulting in a more stable revenue stream for both Net Entertainment and our licensees. Compared to Q2 2007, this change reduced licensing revenues by approximately 5 percent.

During the first half of the year, Net Entertainment launched a jackpot-based game where several licensees contribute to the jackpot together. This arrangement allows a significantly larger expected value for the jackpot, which creates a more attractive offering. Net Entertainment manages the administration of the jackpot allocations for this game, which is shown as cash and cash equivalents and funds held for a licensee in the report.

The cost base increased somewhat during Q3, primarily from somewhat increased consultancy costs intended to maintain a high production rate. During Q4 the number of consultants has been significantly reduced as a result of successful recruiting in Q3.

The company strengthened the organisation during the quarter with additional employees - a necessity to ensure the company's continued growth. The majority of these began their employment near the end of the quarter. In September, the company opened a new office on Malta. A total of 10 people were employed there at the end of the quarter. In addition, the company received access to additional office space to continue expansion of its head office in Stockholm.

During the quarter, four new casinos were launched. These casinos will generate licensing revenues henceforth.

The legal situation in Turkey remains unchanged, which affected the previous quarter's result negatively. Revenues from gaming in Turkey were unchanged during Q3 compared to Q2.

### *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 2007<sup>1</sup>.

Net Entertainment views 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 means to take an active role in the market restructuring.

The company's customers consist primarily of sport betting sites whose average end users are males, 25-35 years of age. At the same time, according to eCogras's report<sup>2</sup> 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 give increasing opportunities for Net Entertainment's customers to conduct their business. The European Court of Justice continues to act against state gaming monopolies, and in the long term the company believes there will be a regulated gaming market. This will open new possibilities for the operators on the market while introducing new requirements. Net Entertainment is well equipped for this development. For instance, CasinoModule™ already supports 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.

<sup>1</sup> Christiansen Capital Advisor's Global Internet Gambling Revenues Estimates and Projections 2001-2010, 2005.

<sup>2</sup> 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.

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 proved 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 five operators: BetSafe, DanBook, VIX Casino, Europlay and BestGames.

### **Net sales and profit/loss for the first three quarters**

The Group's net sales for the first nine months amounted to SEK 95.7 (68.8) million, an increase of 39 percent compared to the same period 2006. Operating profit increased 25.6 percent to SEK 35.4 (28.2) million. Profit/loss after tax amounted to SEK 32.1 (18.3) million, which corresponds to SEK 0.81 (0.46) per share.

### **Cash and cash equivalents, financing and financial position for January-September**

The Group's cash flow from operating activities during the first nine months amounted to SEK 29.3 (20.1) million. Cash flow from investing activities was negative in an amount of SEK 9.5 (negative 9.4) 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 23.1 (16.1) million at September 30, 2007.

### **Investments in January-September**

The Group's investments in intangible assets during the first nine months amounted to SEK 6.7 (7.0) million, and property, plant, and equipment amounted to SEK 2.8 (2.5) million.

### **Personnel and organisation**

At the end of the period, there were 65 (37) employees in active duty within the Group. Women comprised 23 (24) percent. Including subcontractors, the total head-count was 79 persons at the end of the period. Personnel costs during the period amounted to SEK 11.45 (5.91) million.

At the end of the quarter, ten 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 Q3 amounted to SEK 21.3 million compared with SEK 22.1 million for Q3 2006. Corresponding numbers for January-September 2007 are SEK 62.5 million, compared with SEK 65.5 million for the same period 2006. Operating profit for Q3 amounted to SEK 1.9 (3.8) million, and for the first nine months to SEK 8.4 (13.3) million. Profit after taxes for the quarter amounted to SEK 1.3 (2.6) million and for the first nine months to SEK 6.0 (8.6) million. Cash and cash equivalents in the parent company amounted to SEK 3.0 million on September 30, 2007.

Decreased revenues in the parent company compared with the previous year 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 release 3,9 was rolled out to the licensees on October 16<sup>th</sup> comprising four new games and an entirely new bonus function. The response from the end users has been very positive.

### Outlook ahead

Net Entertainment view market developments as positive and it is the company's assessment that the current market situation will remain. The company has a strong customer base that includes several leading operators. Having a market-leading product and a strong service offering improves competitiveness for existing customers whilst it also attracts new operators.

The fourth quarter is developing well and Net Entertainment believes that both sales and EBIT will be higher than in the third quarter.

During the first quarter 2008 the company aims to initiate a production line in Ukraine which will result in more cost efficient product development and increased production capacity.

### 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.

### *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 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 definite 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.

### **Composition of nomination committee**

In accordance with the decision by the Annual General Meeting on 21 May 2007, the members of the Nomination Committee have been elected.

The members of the Nomination Committee for the AGM in 2008 are:

- Emil Sunvisson, Scandcap, representing Straumur Burdardas Investment Bank
- Per Hamberg, representing the Hamberg and Kling families
- Niclas Eriksson, representing Vasastaden Holding, the Lundström family and the Knutsson family
- Pontus Lindwall, Chairman of the Board for Net Entertainment NE AB

The Nomination Committee is composed of representatives of the largest owners of Net Entertainment NE AB, and represents more than 70 percent of the voting rights in the company.

The Nomination Committee will prepare proposals for the coming 2008 AGM, including proposals for auditor and the auditor's fee, the number of board members to be elected at the AGM, fees to Board members, the composition of the Board, the Chairman of the Board, and the Chairman of the AGM. In addition, the Nomination Committee will propose the composition of the Nomination Committee for the AGM in 2009.

Shareholders who wish to submit proposals to the Nomination Committee should send an email to: [valberedning@netent.com](mailto:valberedning@netent.com)

## Future reporting

The year-end report for 2007 will be published 18 February 2008.

Stockholm, November 2<sup>nd</sup>, 2007

Johan Öhman  
Chief Executive Officer  
**Net Entertainment NE AB**

### **REVIEW REPORT**

*I have reviewed the report for the period 1 January 2007 - 30 September 2007 for Net Entertainment AB (publ). The Board of Directors and CEO are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 and the Annual Accounts Act. My responsibility is to express a conclusion about this interim financial information based on my review.*

*I conducted our review in accordance with the Standard on Review Engagements SÖG 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by FAR. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different emphasis and a substantially smaller scope than an audit conducted in accordance with the Swedish auditing standard, RS, and other generally accepted auditing practices. The procedures performed in a review do not enable me to obtain a level of assurance that would make me aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.*

*Based on my review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not, in all material respects, prepared in accordance with IAS 34 and the Annual Accounts Act.*

Stockholm, November 2<sup>nd</sup>, 2007

Gunnar Liljedahl  
Authorized Public Accountant

Questions may be directed to:  
Johan Öhman  
Chief Executive Officer  
Phone: 08-556 967 00  
[johan.ohman@netent.com](mailto:johan.ohman@netent.com)

Website: [www.netent.com](http://www.netent.com)



## Income statement summary for the Group

	July-Sep 2007	July-Sep 2006	Jan-Sep 2007	Jan-Sep 2006	Helår 2006
Revenues	32 256	24 295	95 117	69 308	99 475
Other revenue	121	-513	583	-494	298
Capitalized work for own use	2 049	1 336	6 669	4 676	6 600
Other external expenses	-10 558	-9 648	-29 403	-23 732	-33 915
Personnel expenses	-11 447	-5 914	-32 058	-18 351	-26 007
Depreciation	-1 771	-977	-5 511	-3 243	-4 407
Other operating expenses	18	668	-30	0	-1 243
<b>Operating profit</b>	<b>10 668</b>	<b>9 247</b>	<b>35 366</b>	<b>28 164</b>	<b>40 801</b>
Financial revenue	63	1	300	1	237
Financial expense	-47	-166	-183	-1 285	-1 195
<b>Profit before tax</b>	<b>10 683</b>	<b>9 082</b>	<b>35 483</b>	<b>26 880</b>	<b>39 843</b>
Tax	-923	-3 440	-3 387	-8 599	-11 361
<b>Profit for the period</b>	<b>9 760</b>	<b>5 642</b>	<b>32 096</b>	<b>18 281</b>	<b>28 482</b>
<i>Attributable to:</i>					
Parent company's shareholders	9 760	5 642	32 096	18 281	28 482
Earnings per share (before/after dilution, SEK)	0.25	0.14	0.81	0.46	0.72

## Income statement summary for the parent company

	July-Sep 2007	July-Sep 2006	Jan-Sep 2007	Jan-Sep 2006	Jan-Dec 2006
Revenues	21 284	22 101	62 522	65 483	110 022
Other revenue	108	130	568	133	293
Capitalized work for own use	0	1 336	4 620	4 676	6 600
Other external expenses	-7 931	-12 632	-24 737	-34 764	-43 976
Personnel expenses	-10 420	-5 935	-30 758	-18 378	-25 963
Depreciation	-1 172	-977	-3 847	-3 243	-4 275
Other operating expenses	0	-182	0	-642	-1 127
<b>Operating profit</b>	<b>1 869</b>	<b>3 841</b>	<b>8 368</b>	<b>13 265</b>	<b>41 574</b>
Financial revenue	29	30	151	60	193
Financial expense	-47	-195	-183	-1 345	-1 253
<b>Profit before tax</b>	<b>1 851</b>	<b>3 676</b>	<b>8 336</b>	<b>11 980</b>	<b>40 514</b>
Appropriations					-1 702
Tax	-518	-1 029	-2 334	-3 354	-10 885
<b>Profit for the period</b>	<b>1 333</b>	<b>2 647</b>	<b>6 002</b>	<b>8 626</b>	<b>27 927</b>

## Balance sheet summary for the Group

ASSETS	Sep 30 2007	Sep 30 2006	Dec 31 2006
Intangible assets	22 541	12 878	19 534
Property, plant, and equipment	5 804	3 021	4 722
Other long-term receivables	31	79	42
<b>Total non-current assets</b>	<b>28 377</b>	<b>15 978</b>	<b>24 298</b>
Accounts receivable	6 878	8 456	5 386
Prepaid expenses and accrued revenues	13 897	8 188	7 889
Current income tax recoverable	0	262	-
Other receivables	2 430	1 642	5 935
Cash and cash equivalents	23 056*	16 095	13 053
<b>Total current assets</b>	<b>23 205</b>	<b>34 643</b>	<b>32 263</b>
<b>TOTAL ASSETS</b>	<b>51 580</b>	<b>50 621</b>	<b>56 561</b>

EQUITY AND LIABILITIES	Sep 30 2007	Sep 30 2006	Dec 31 2006
Share capital	1 191	1 021	1 187
Statutory reserve	34 200	34 204	34 204
Retained earnings	-303	-283	-232
Profit for the period	3 138	-4 815	-19 069
<b>Total equity</b>	<b>38 226</b>	<b>30 127</b>	<b>16 090</b>
Deferred tax liabilities	835	359	835
	<b>835</b>	<b>359</b>	<b>835</b>
Accounts payable	11 906	6 090	3 159
Current tax liabilities	8 079	8 599	5 172
Other liabilities	6 582	656	21 047
Accrued expenses and prepaid revenue	9 008	4 790	10 258
<b>Total current liabilities</b>	<b>35 576</b>	<b>20 135</b>	<b>39 636</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>74 636</b>	<b>50 621</b>	<b>56 561</b>

\*Of which SEK 5.457 million refer to funds held on behalf of licensees.

## Balance sheet summary for the parent company

ASSETS	Sep 30 2007	Sep 30 2006	Dec 31 2006
Intangible assets	13 991	10 772	11 921
Property, plant, and equipment	2 773	3 021	4 722
Shares in subsidiaries	216	138	142
Other long-term receivables	42	42	42
<b>Total non-current assets</b>	<b>17 022</b>	<b>13 973</b>	<b>16 827</b>
Accounts receivable	20 047	-	2 965
Receivables from Group companies	6 668	9 217	15 528
Prepaid expenses and accrued revenues	2 005	8 167	4 528
Current income tax recoverable	-	262	-
Other receivables	2 211	1 630	5 935
Cash and cash equivalents	2 959	12 599	6 127
<b>Total current assets</b>	<b>33 890</b>	<b>31 875</b>	<b>35 083</b>
<b>TOTAL ASSETS</b>	<b>50 912</b>	<b>45 848</b>	<b>51 910</b>
EQUITY AND LIABILITIES	June 30, 2007	June 30, 2006	Dec 31, 2006
Share capital	1 190	1 021	1 187
Statutory reserve	38	204	38
Retained earnings	3 650	9 904	-14 385
Profit for the period	6 002	8 626	27 927
<b>Total equity</b>	<b>10 880</b>	<b>19 755</b>	<b>14 767</b>
Deferred tax liabilities	2 982	1 280	2 982
Deferred tax liabilities	-	-	-
<b>Total non-current liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
Accounts payable	10 947	6 090	3 159
Liabilities to Group companies	10 770	9 943	377
Current tax liabilities	7 040	3 354	5 172
Other liabilities	899	693	21 048
Accrued expenses and prepaid revenue	7 394	4 733	4 405
<b>Total current liabilities</b>	<b>37 050</b>	<b>24 813</b>	<b>34 161</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>50 912</b>	<b>45 848</b>	<b>51 910</b>

## The Group's key business ratios

	July-Sep 2007	July-Sep 2006	Jan-sep 2007	Jan-sep 2006	Helår 2006
Sales (SEK thousands)	32 377	23 782	95 700	68 814	99 773
Operating profit (SEK thousands)	10 668	9 247	35 366	28 164	40 801
Profit before tax (SEK thousands)	10 683	9 082	35 483	26 880	39 843
Profit/loss for the period (SEK thousands)	9 760	5 642	32 096	18 281	28 482
Operating margin (percent)	32.9	38.9	37.0	40.9	40.9
EBIT margin (percent)	33.1	38.9	37.3	40.9	41.1
Profit margin (percent)	33.0	38.2	37.1	39.1	39.9
Net profit margin (percent)	30.1	23.7	33.5	26.6	28.6
Return on investment on shareholders' equity (percent)	29.22	20.67	118.18	86.52	201.9
Equity/assets ratio (percent)	51.2	59.5	51.2	59.5	28.4
Quick ratio (percent)	65.2	172.1	65.2	172.1	65.1
Net interest-bearing liabilities (SEK thousands)	-23 056	-16 095	-23 056	-16 095	-13 053
Net debt/equity ratio (times)	-0.6	-0.5	-0.6	-0.5	-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	0.25	0.14	0.81	0.46	0.72
Shareholders' equity per share (SEK)	0.97	0.76	0.97	0.76	0.41
Cash flow per share (SEK)	0.54	0.02	0.25	0.27	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			-71		-71
<b>Total changes in value recognized directly in equity, excl. transactions with company owners</b>			-71		-71
Profit/loss for the year				32 096	32 096
<b>Total changes in value, excl. transactions with company owners</b>			-71	32 096	32 025
Stock dividend	4	-4			
Dividend				-9 889	-9 889
Closing equity 31 March 2007	1 191	34 200	-303	3 138	38 226

	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			-283		-283
<b>Total changes in value recognized directly in equity, excl. transactions with company owners</b>			-283		-283
Profit/loss for the year				18 281	18 281
<b>Total changes in value, excl. transactions with company owners</b>			-283	18 281	17 998
Closing equity 30 June 2007	1 021	34 204	-283	-4 815	30 127

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-sep 2007	Jan-sep 2006	Jan-dec 2006
Cash flows from operating activities before changes in working capital	40 230	21 459	43 723
Changes in working capital	-10 964	-1 378	-7 341
<b>Cash flow from operating activities</b>	<b>29 266</b>	<b>20 081</b>	<b>36 382</b>
Acquisition of intangible assets	-6 669	-7 002	-14 560
Acquisition of property, plant, and equipment	-2 793	-2 496	-4 461
Sales of property, plant, and equipment	-	129	190
Divestment of shares and participating interests, subsidiary	-	-	-
Divestment of other financial assets	-	-	-8
Change in long-term receivables	-	-37	278
<b>Cash flow from investing activities</b>	<b>-9 462</b>	<b>-9 406</b>	<b>-18 561</b>
Dividends paid	-9 888	-	-9 889
<b>Cash flows from financing activities</b>	<b>-9 888</b>	<b>-</b>	<b>-9 889</b>
Exchange rate differences	88	0	-414
<b>Cash flow for the period</b>	<b>10 002*</b>	<b>10 675</b>	<b>7 518</b>

\*Of which SEK 5,457 million refer to funds held on behalf of licensees.

## Definitions

**Acid test ratio**

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

**EBIT margin**

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

**Profit margin**

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

**Net profit margin**

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

**Return on investment on shareholders' equity**

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

**Equity/assets ratio**

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

**Acid test ratio**

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

**Net interest-bearing liabilities**

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

**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.

**The number of employees converted into full-time equivalents.****Number of employees at end of year**

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

**Profit/loss per share**

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

**Shareholders' equity per share**

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

**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.

**Outstanding number of shares**

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



## Products and services

### Casino

The company's core product, CasinoModule™, is a complete gaming platform consisting of more than 50 casino games and a powerful administration 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.

### Service

Net Entertainment offers a number of secondary services including technical support, hosting, account management and system surveillance, making it possible for 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 a number of new games and functions in the admin system. The licensees receive the new releases within the framework of the existing license agreement.

Two of the new games released with CasinoModule™ 3.9 (October 16) were a new version of Let it Ride and Pacific Attack.

