



NET ENTERTAINMENT ANNUAL REPORT 2012



Driving the through

Online Casino Market Better Games

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Please note that this is a translation for information purposes only – in case of any discrepancies between this version and the Swedish, the Swedish version shall prevail.



Clear values for continued success



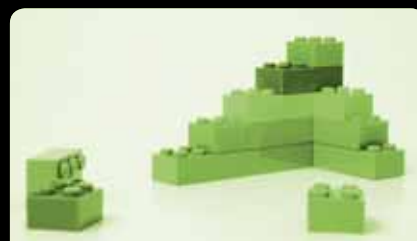
Think ahead, be ahead



Passion for Gaming



We act speedsmart



Simplicity in all we do



Together we win

A world-class

Net Entertainment is a leading developer of online games used by many of the world's most successful gaming operators. Net Entertainment offers a complete gaming system (Net Entertainment Casino™), which includes a complete setup 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 every year. Net Entertainment also delivers an advanced administration tool that lets the Company's customers – the operators – optimize their business and profitability while Net Entertainment can launch its product portfolio efficiently.

Net Entertainment has approximately 70 customers, among the world's largest gaming operators. The Company employs over 400 people, including external resources, and operates in Sweden, Malta, Ukraine, Gibraltar and Alderney. Net Entertainment also has a business partner in India.

Increasing market share in a growing sector

Net Entertainment operates on the global market for online gaming, specializing in casino games, a market segment with good growth where major regulatory changes are expected. The market for online gaming is estimated to have amounted to approximately 26.2 billion euros in 2012 and casino gaming represents approximately 22 percent of the total online gaming market. Net Entertainment's market share of the European online casino market in 2012 was approximately 27 percent, which represents an increase of approximately 23 percent compared with 2011.¹

More than 70 customers – a selection



History

Net Entertainment has its roots in the traditional casino world. When online gaming started to take off in the mid-90s, there was no commercial casino solution on the market. With an objective to claim this position, Net Entertainment was formed in 1996, then a part of Cherryföretagen. Net Entertainment became one of the pioneers within online casino gaming, and the first casino was able to launch four years later. In 2005 the

Company was spun off and was listed on NGM Equity and in 2009 the Company moved to the main market, NASDAQ OMX Stockholm. The ability to collaborate with the biggest and the best gaming operators in Europe and understand what makes a successful game was, is, and will continue to be a critical key factor in Net Entertainment's successful journey.

gaming developer

Outperforming the market is the objective

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

Net Entertainment's success is built on understanding the customers and end users, innovative quality games, an effective administration tool and a powerful technical platform that handles several billion gaming transactions every year. In order to maintain strong growth and good profitability, Net Entertainment will:

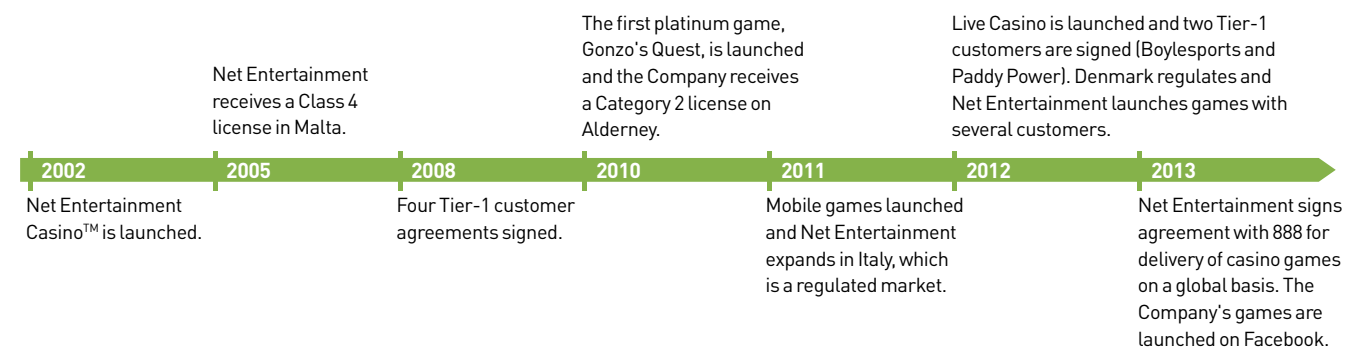
- Continuously develop its product portfolio
- Act with a high level of customer appreciation and business focus
- Maintain a forefront position in technology, innovation and quality
- Participate in re-regulation of the gaming market and expand globally into regulated markets – primarily in Europe
- Invest in order to create organizational readiness for new business opportunities
- Attract, preserve and develop core expertise
- Continuously work for optimal efficiency in all parts of the business



The market is growing fast – and Net Entertainment is growing even faster.



A game portfolio combining graphics and mathematics



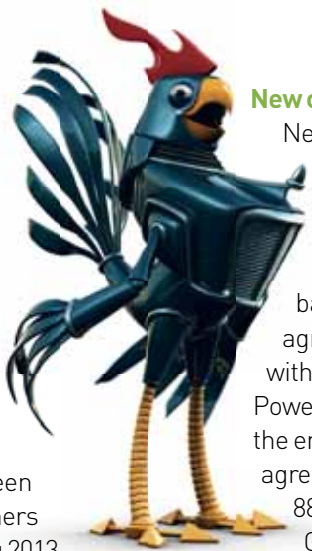
¹Market share is based on gross gaming yield earned by NetEntertainment's customers in relation to the global- and European online casino market, as estimated by H2 Gambling Capital in December 2012.

A year of new records

2012 was another year in which Net Entertainment surpassed previous successes and results.

New games

One of the Company's largest projects thus far is Live Casino, which was launched in November in a beta test together with two important customers. So far agreements have been signed with eleven customers for a gradual launch during 2013.



New customers

Net Entertainment continues to reap successes and sign new important operators to its customer base. During the year agreements were signed with Boylesports and Paddy Power, among others. After the end of the fiscal year an agreement was signed with 888 and also with Bonza Gaming for facebook.



at the end of the year, along with the establishment into the UK market.

New records

Net Entertainment's slot game Mega Fortune™ reached new record levels in 2012 and in January 2013 Net Entertainment paid out the world's biggest online jackpot to date of 17.8 million euros!

Net Entertainment was named one of Sweden's 30 best employers for 2012.

New markets

With an increasing number of regulations come new opportunities, and Net Entertainment intends to be in the right place at the right time if the conditions are right. During 2012 the Company saw very positive developments in Italy, which continues to grow and is now the Company's third-largest market. Another important step was the final certification for the Danish market



2012

January – March

- Five new licensing agreements, two new customers launched.
- New legislation in Denmark makes it possible for operators to offer online gaming through licensing. Net Entertainment was quick to respond and initially launched four operators.
- Eleven contracts for mobile gaming were signed during the quarter.
- G. Matica was launched in Italy.
- Per Eriksson took over as new CEO in March.

April – June

- Two new license agreements were signed, including Boylesports, and four new customers were launched.
- Continued progress in Denmark and Italy with three new agreements each during the quarter.
- A restructure of the organization was carried out to create more efficient decision paths.

July – September

- One new license agreement signed, five new customers launched.
- Recruitment of studio personnel for Live Casino started and agreement for beta-testing signed with two customers.
- The Italian market is performing positively, along with mobile gaming.
- Quarterly results were significantly affected by currency fluctuations.

October – December

- Live Casino enters beta-testing with two customers.
- Agreement signed and launched with Paddy Power.
- Net Entertainment launched slot games on the Italian market.
- Final certification for the Danish market completed.



The number of gaming transactions reached a new record amounting to twelve billion three hundred million transactions – this is 244 times the number of share trades on the Stockholm stock exchange.

12,300,000,000

Net Entertainment's revenues increased by

23%

Average annual growth since 2006

32%

The number of gaming transactions increased by

43%

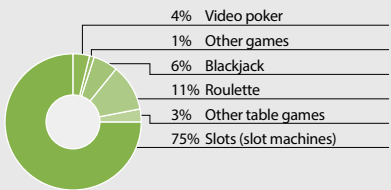
The market share in Europe amounted to

27%

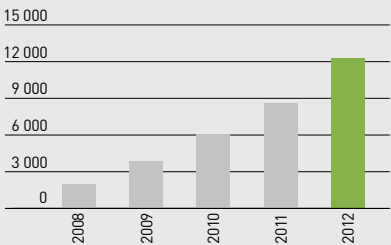
- Revenues increased by 23.2 percent to SEK 526.7 (427.6) million
- Operating profit amounted to SEK 153.1 million (129.7 million)
- The operating margin was 29.1 (30.3) percent
- Profit after tax amounted to SEK 133.3 (115.6) million
- Earnings per share amounted to SEK 3.37 (2.92) before and after dilution
- Proposed transfer to shareholders of SEK 2.25 (2.00)

Key financial data	2012	2011	2010
Revenues (KSEK)	526,671	427,618	368,280
Operating profit (KSEK)	153,057	129,713	136,411
Operating margin (percent)	29.1	30.3	37.0
Profit after tax (KSEK)	133,255	115,614	120,467
Equity/assets ratio (percent)	52.3	53.8	65.1
Earnings per share (SEK)	3.37	2.92	3.05
Equity per share (SEK)	7.30	6.02	5.05
Employees at year-end	301	231	182

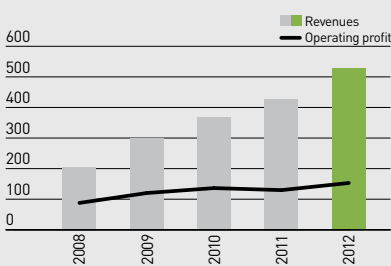
¹Source: H2 Gambling Capital, December 2012
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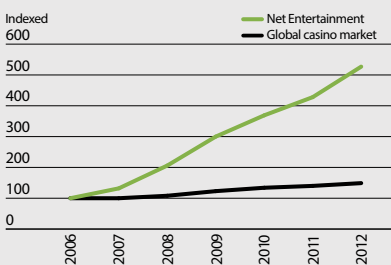
Net Entertainment's revenue split per game, 2012¹



Net Entertainment's number of game transactions, 2012¹



Revenues and operating profit, 2006–2012



Net Entertainment's growth compared with the global online casino market 2006–2012¹

The global online market 2012

26.2 EUR billion

The global online casino market 2012

5.7 EUR billion

11% of which constitutes Net Entertainment's market share

The European online casino market 2012

2.3 EUR billion

27% of which constitutes Net Entertainment's market share

Net Entertainment and the market²

Said and done: High growth rate, strengthened corporate culture and more efficient processes

Looking back on my first year as CEO of Net Entertainment, I am immensely proud of all my colleagues and what we have achieved together. It's been hard work, but also great fun. At the outset of 2012, we faced a series of tough challenges – establishment in new, exciting geographical markets, delivering new, important product initiatives, and key discussions with major potential customers. The fact is that we succeeded in just about everything we set our sights on.

For my own part, I had my sights set on three important objectives when I took on the CEO position – a sustained high growth rate, strengthened corporate culture and more efficient internal processes. While this cannot be achieved overnight, we have already made great progress. The entire organization has formulated and established five core values which guide us in our day-to-day work. We have also initiated a common employee development programme and conducted training programmes for employees in leading positions. I am firm in my conviction that a strong corporate culture that promotes self-directed employees, and efficient processes, are crucial to sustained rapid growth. This is particularly true for a Company like Net Entertainment, which operates in a fast-moving market and whose employees represent 19 nationalities with high levels of energy and creativity.

Growth in several channels

Fundamentals for further growth are in place. First of all, the market in itself is growing. We are in the entertainment industry, and more and more people are choosing gaming as an exciting form of recreation over cinemas, eating out or other forms of entertainment. Secondly, online gaming is growing at a higher

rate than land-based casinos. This trend will continue for many years to come, because availability of online gaming is constantly on the rise, primarily via mobile phones and tablets, and because Internet usage is rising with generation shifts and greater broadband penetration.

Nonetheless, our major growth potential derives from continuing to gain market shares, and we are not losing momentum. In 2012 our market share grew significantly with respect to casino gaming in Europe from 22 to 27 percent. We signed contracts with 16 new customers during the year and put 13 new customers into operation. We made a serious entrance on two major and important markets – Italy and the UK – and through a new initiative in the newly regulated Danish market, we have now achieved final certification. Italy, a market that was regulated in 2011, shows excellent

” Growth fundamentals are in place – we continue to invest in developing the market's best games. We know where the potential is, and what we need to do.

promise, with slot games – our strongest product – being permitted by the authorities since December 2012. In 2013 the Italian market has risen up the ranks to become our third largest market, and in 2013 Italy will gradually grow further as our customers launch more of our games.

In the UK, which is Europe's largest gaming market, we signed agreements with Boylesports and Paddy Power, and with 888 in early 2013. We therefore now work with four of the UK's ten largest gaming operators, as we had already signed an agreement with BSKyB. These initiatives are expected to generate

significant revenues for the Company, although not expected until towards the end of 2013. We have relatively high initial investments for adaptations to and integration with the UK operators, which generally have complex platform architecture.

The best games on the market

An important reason for our success in signing agreements with several major operators is the recent break in the market trend. Operators are no longer as interested in signing exclusive agreements with one game supplier, so several suppliers can compete side by side on the operator's website. We believe that this benefits Net Entertainment because our games are often superior to those of competitors in terms of experience and excitement.

Our motto – “Driving the online market through better games” – is undeniably driving

us forward. We continue to invest in developing the best games on the market, and our gaming platform, which is highly appreciated by our partners and by far one of the best administration tools on the market.

This year, our mobile gaming initiative really took off, with ten games launched during the year. Mobile revenues are growing rapidly, albeit from low levels, and thus far we see nothing to indicate that mobile gaming will cannibalise traditional computer gaming.

Perhaps the most interesting initiative of the year was our Live Casino, which was launched with two customers for beta testing

in November. So far, we have signed eleven agreements for gradual delivery in 2013. The live broadcasting studio was built as an extension of our Malta office. We are initially offering roulette, but blackjack development is in full swing and scheduled for completion in mid-2013. While this initiative naturally provides Net Entertainment with tremendous potential, revenues will come gradually here too, and we have further investments to make before volumes reach desired levels. The fact is that Net Entertainment is generally well set today. We have all the pieces in place for further rapid growth, although return in the form of higher operating margins from the Company's initiatives in 2012, and which are continuing in 2013, are not expected to become visible until towards the end of 2013 and onwards.

Last year also brought a few unwelcome surprises. A fairly sharp appreciation of the Swedish krona had a negative effect. At the end of the year, the Swedish Tax Agency announced a decision to impose additional taxes of SEK 92 million on the Company. We believe that we have complied with legislation and regulations where we conduct our operations, and are now appealing the decision.

Further major potential

Although we may feel proud of the Company's performance in 2012, we cannot be complacent. Our market offers so many attractive growth opportunities, creating the happy problem of having to prioritise correctly. Our ambition is to consolidate our position

as the leading supplier in Europe. In 2013, we aim to venture into at least one more regulated market. Spain, Germany, Belgium and the Netherlands, where regulation of the online casino market is approaching, are all of interest. Regulation is a major focus area for us, and we carefully monitor the potential on markets undergoing regulation. Regulation creates opportunities for increased volumes, because our customers reach more players. We have both the requisite expertise and the financial strength, and each new market we enter brings valuable lessons. We are also following developments in the US with great interest, and want to be ready to act when the time is right once the market reopens some day. Only a few months of 2013 have passed, and we are off to an excellent start. We know where the potential is and what we need to do.

Per Eriksson
CEO





Together we win

Net Entertainment's customers – the gaming operators – should actually be considered more as business partners, since their gross revenues are shared with Net Entertainment through a royalty model. The operator's success becomes Net Entertainment's success. Together both parties have a mutual interest – to entertain the player.

Close cooperation begins immediately after signing a partnership agreement. Net Entertainment then adapts the casino product according to the gaming operator's technical platform so that it can be naturally integrated on the operator's gaming site. Net Entertainment trains the operator in the game's various functions and shows how it can be optimally managed through the administration tool. The games are then launched. But the cooperation continues in a strong symbiosis even from this point onwards. Net Entertainment not only provides the operator with regular upgrades of the game; new games are also launched to continue to entertain the player and attract new customers. The administration tool provides the operator with important statistics and at the same time delivers important information for the development of new games.

One concrete example of how Net Entertainment interacts with its customers and actively participates in their success is the jackpot network that is offered. Net Entertainment pools the revenue streams of multiple operators to create jackpots. Over the years, hundreds of millions have been paid out to players this way. In 2011, SEK 107 million was paid out in one jackpot through Net Entertainment's slot game Mega Fortune, which is one of the world's largest jackpots ever and is now also included in the Guinness Book of World Records. In 2013, it was time for a new record: SEK 154 million! The jackpot network is just one of several concrete examples of how close partnership between Net Entertainment and their customers can make a difference for the players.

The business model is simple:

We achieve success when our customers are successful – and our customers achieve success with our games.

THE BUSINESS

The operator's success is fundamental to Net Entertainment's success, and Net Entertainment's ability to drive game development, launch new games and manage operations of existing games is a determining factor for operator success. Through a long-term partnership with close cooperation and clear division of roles, Net Entertainment develops the market's best games for the market's many players for the market's leading operators.

The key is staying close to the customer and market insight

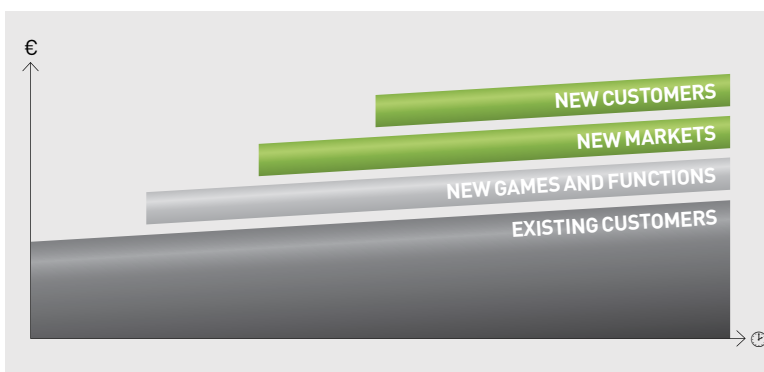
Net Entertainment and the Company's customers – the gaming operators – work from a partnership model in which the player is always central. Net Entertainment makes the highest possible level of service and customer support its priority, since over time the Company both contributes to- and profits from customer success. The delivery of a casino means the beginning of a long-term partnership where Net Entertainment's goal is to help create a successful casino business for the customer.

The actual revenue model is built on the operator's payment of an initial setup fee to Net Entertainment, followed by a royalty – a percentage of the operator's gross revenues generated via Net Entertainment's gaming system.

Net Entertainment is always striving to optimize the customer's business and maximize entertainment for the player. With a high level of insight of player profiles and preferences, combined with a high level of understanding of customer expectations of the market, Net Entertainment can optimally customize its products. The Company operates widely on many levels in order to provide operators the support they need. This may mean development of tools for more effective marketing, assessment of player behaviour or regular follow-up.

Having quality games that are appreciated by the player creates value for both the operator and Net Entertainment. The Company's platform is built to manage several billion gaming transactions a year, and features an advanced administration tool that offers the operator the possibility to develop a successful and effective casino operation. Operation and system monitoring are handled by Net Entertainment for most customers, which means they can focus on their own core business.

Growth strategy



Business model

Net Entertainment delivers quality games that are appreciated by the player, creating value for both the operator and Net Entertainment.



Mission – Providing leading edge gaming solutions enabling the ultimate entertainment experience

Vision – Driving the Online Casino Market through Better Games

Success factors

Customer understanding and market awareness – the basis for success

Solid knowledge of the player and market conditions means that Net Entertainment holds a high level of understanding of customer expectations and the ability to develop the best games on the market. Many long-term and close customer relationships create confidence in new customer projects and new markets.

High quality game development – combining innovation and mathematics

Graphics, animations and sound are obvious skills for many game developers and in combination with underlying random number generators and advanced mathematical algorithms, these factors add to both entertainment and excitement. Net Entertainment develops advanced games of high quality, which serves to strengthen loyalty among existing players, increase activity, and attract new players. Maximizing the experience for the player – finding the right graphics and mathematics for the right game and player – this is always the starting point when Net Entertainment develops games.

Net Entertainment's trademark is associated with quality, and the Company drives development of innovative quality games. The strategy is to meet the high demands from players and closely follow game development for various channels. The Company offers, among other things, casino gaming via mobile phones or tablets, where the experience is the same as on a computer – if that is where the player chooses to play. The Company develops games to fit various types of players. Net Entertainment's games are currently available in 24 languages.

The administration tool – optimizing customer business

Net Entertainment's administration tool allow operators to optimize their casino operations and thereby boost their profitability. Net Entertainment's administration tool mean that the operator can monitor their casino in real time and analyze the players' behaviour and preferences. This information allows the customer to then target special offers and bonuses towards players to further enhance entertainment value and player activity.

Net Entertainment continuously works to develop this tool, freeing up the operator to focus on their gaming business.

Technical platform – a turnkey solution for service and operations

Net Entertainment offers its customers a turnkey solution for operations and service. The Company's technical platform is the foundation of the entire system – the brain and engine that managed 12.3 billion game transactions in 2012. This is the equivalent of 244 times the number of share trades on NASDAQ OMX Stockholm for the same year. The platform allows interaction between operations, security, games, the operator and gamers, which is crucial to a functioning and successful casino system.

As the gaming industry matures, player demands also increase and downtime is unacceptable. Net Entertainment therefore places major emphasis and focus on stability, availability and capacity to make operations even more reliable from our current level of uptime – already very high at 99 percent.

An international Company with two strong foundations in Sweden and in Malta

Net Entertainment currently operates in five countries, but business is conducted primarily from Malta and Stockholm. The Company's business-critical and strategic functions are based in Malta, a natural choice of location since Malta has developed into the gaming industry's European "capital" and the majority of the Company's customers are based there. The gaming authority in Malta is an important nexus for the European gaming industry, as it works for bilateral agreements with countries and markets crucial to Net Entertainment. In addition, personnel with industry insight cluster in this country, where Net Entertainment also has a gaming license – a so-called class 4 license. This gaming license is a necessity for business since Net Entertainment often manage the hosting of the casino solutions that the Company sells to its customers. While the Company's sales-marketing – and product strategic functions and customer support and a large part of the hosting and the Company's Live Casino studio are located in Malta, the group has chosen to seat certain functions – most notably product development – in Sweden.

The business in Malta acts as a customer of the games developed within the group. Senior executives are based in Stockholm and Malta. Net Entertainment's hosting centres are located in Malta and Alderney.

Fast-paced product development, with many milestones achieved

2012 was an eventful year for Net Entertainment in many respects. The Company's product development maintained a fast pace with deliveries of new games to several key customers – deliveries entailing new and demanding requirements in terms of both innovation and integrated specifications regarding game security, as a number of deliveries were made to customers in newly regulated markets, such as Denmark and Italy. No less than a total of 25 games were launched during the year. The development of slot games which still account for the majority of Net Entertainment's revenues, was intensive, with one newly developed game per month.

Development of games adapted for mobiles and tablets also continued in 2012, and towards the end of the year totaled ten games.

Said and done – milestones 2012

Development of one slot game per month

Launch of a "branded" game "Scarface"

Launch of Live Casino

Increased number of launched mobile games to 10

Certification of game and platform in Denmark, which has been regulated

Further improvements to flexibility of gaming platform

Opening of two new offices – in Kiev and Gothenburg

Collaboration with more Tier 1 customers

A total of 25 new games

Net Entertainment's game portfolio

SLOTS

Slot games are Net Entertainment's most popular games. Big game titles such as Gonzo's Quest, Jack Hammer, Scarface and Frankenstein are currently among the world's most recognized casino games online, created by Net Entertainment.

TABLE GAMES

Table games are also very popular among players, especially Blackjack and Roulette, which have been played for several hundred years.

VIDEO POKER

Video poker is similar to a slot game which is often appreciated among poker players. A classic five-card poker game that is popular in Italy and Scandinavia.

MINI-GAMES

Net Entertainment's mini-games are smaller versions of slot games and table games. These games are often placed on other parts of the customer's website; e.g. the sports section or among poker games. This allows Net Entertainment to reach more players.

LOTTERY GAMES

Net Entertainment has several varieties of scratch cards that have been well received by players. Scratch cards have grown offline and have recently become popular online as well.

OTHER GAMES

In addition to the classic casino games, Net Entertainment also offers games such as horse racing and Keno. These games are based on the same underlying random number generators and mathematical algorithms and are suitable for gamers who want something other than the classic casino games.

MOBILE GAMES

Casino games on mobile devices are relatively new to Net Entertainment's portfolio. Now players can play casino games wherever they are; on the subway, on the bus or at home on the couch. The experience is comparable to what one would experience on an ordinary computer.

LIVE CASINO

Live Casino is the latest product in Net Entertainment's game portfolio. This game format, which is strongly growing in popularity, combines digital casino gaming with real croupiers broadcast live online.



Live Casino is a product that has been on the game market for a number of years. Net Entertainment made the strategic decision not to be first in this specific product segment, but rather chose to first monitor developments on the market carefully before taking the decision to develop a Live Casino product of our own.

Live Casino falls within the Company's niche casino strategy – even if the game differs in many respects from previously developed products –and is becoming an important element sought out by customers. In Live Casino the players can play casino online against real so-called croupiers who are playing before a camera in a physical studio environment. One of Net Entertainment's core values is "Passion for Gaming" and from the start it was obvious that a custom-developed Live Casino would offer one of the highest-quality experiences. The result was a unique casino solution not previously available on the market with innovative functionality in HD quality. This development started with an analysis phase in which the market for Live Casino was charted, along with the internal resource – and skill requirements the Company would face for the investment. One important condition was also that Live Casino should be fully integrated with the Company's existing platform. This was

followed by a development phase that consisted of a number of steps including, among other things, moduling, design, system development, testing, platform adaptation, documentation and final verification. The actual studio for Live Casino, where the croupiers act before the camera, was built in Malta. During a so-called beta-period, Live Casino was test-launched together with two select customers for a limited number of players to ensure quality and operational security. The beta period was started in November 2012 and lasted 10 weeks. Following this, both operators successively began to market the product, and are expected to launch fully during the spring. Net Entertainment has noticed a high level of interest from a number of customers regarding this product, which will be successively launched in 2013. So far Net Entertainment has signed 11 agreements.

Net Entertainment's market is undergoing multidimensional expansion. Online gaming is growing and game accessibility is growing thanks to smartphones and tablets. New geographic markets are opening up, but also on existing markets the possibilities are increasing.

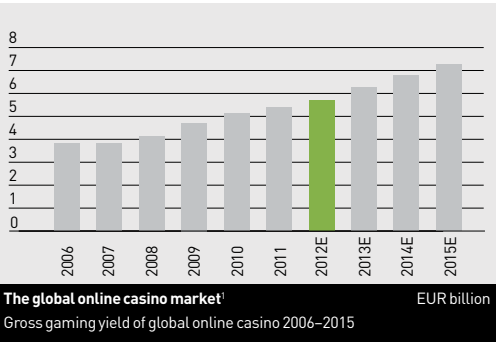
Net Entertainment's market – good conditions for continued growth

The market for all types of gaming is estimated to have climbed to 321 billion euros in 2012. Online gaming accounts for eight percent of this market, but this percentage is continuously gaining pace as broadband penetration increases. In later years, the possibility of playing on mobile phones has also increased significantly, as an ever greater number of people are using so-called smartphones. Although mobile-based gaming is quickly increasing, this still represents a small part of revenue streams; but over the long term this segment could become a significant revenue factor. The Internet market overall includes a broad selection of game forms where betting, casino and poker constitute the largest game segments. The online gaming market is composed of three groups of stakeholders – suppliers (game and system developers such as Net Entertainment), gaming operators (the supplier's customers) and end-users (players).

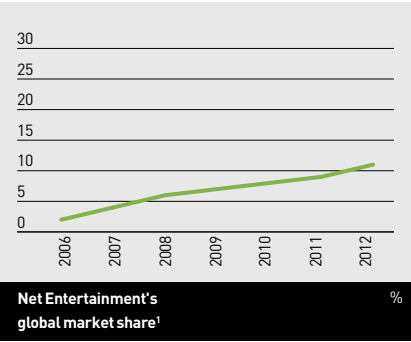
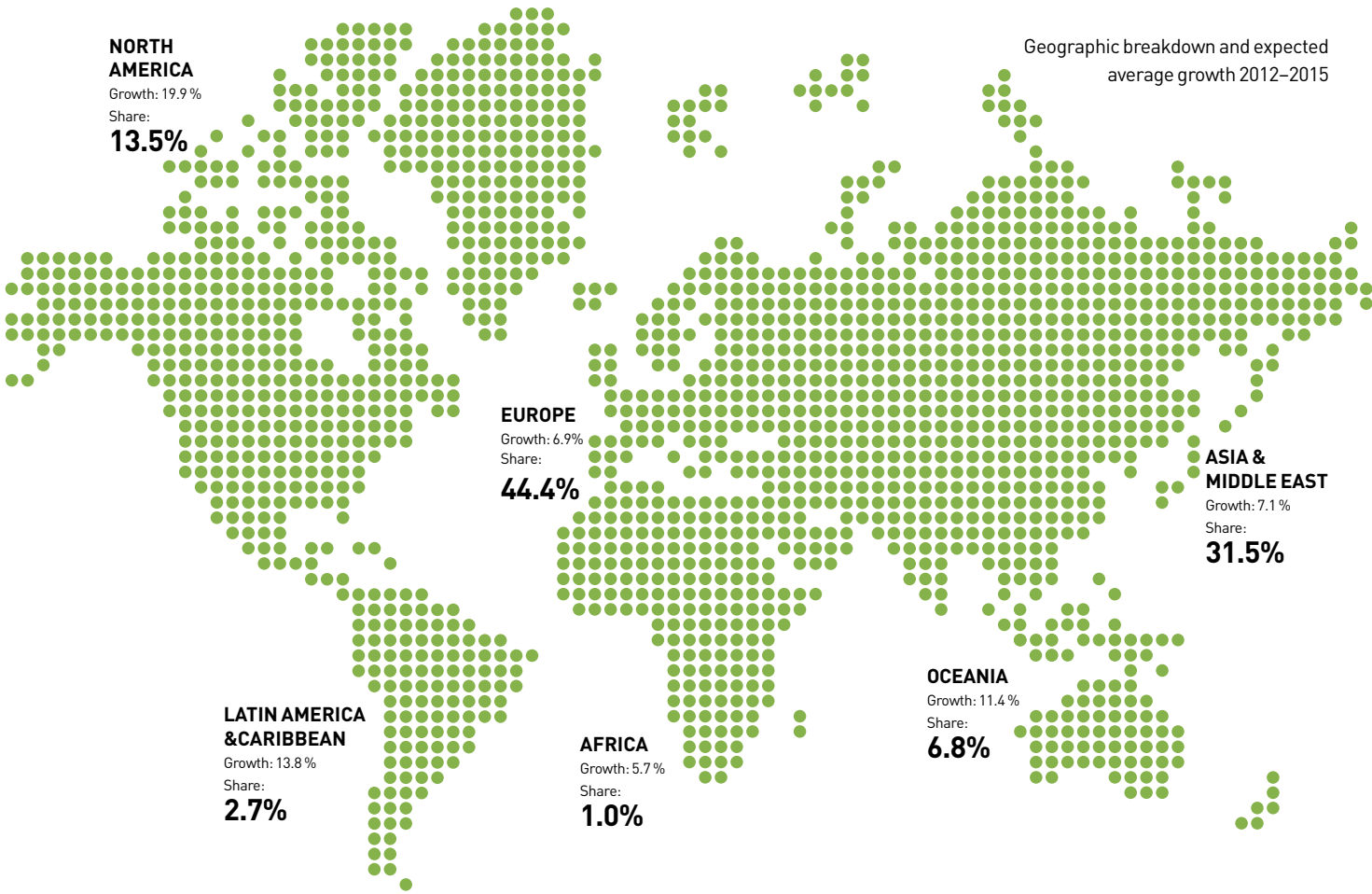
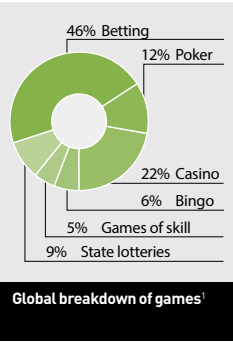
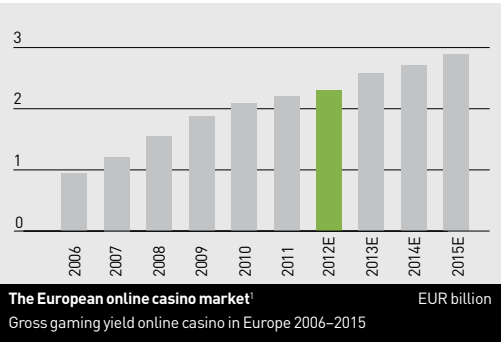
Net Entertainment's market and strategy entail focus on online casino games, a segment that has

demonstrated solid growth and profitability. The Company is currently one of the world's largest and most successful suppliers within this segment, counting many of the world's largest gaming operators among its customers. In 2012 the gross gaming yield for online casino is globally estimated to have reached six billion euros, representing an increase of approximately six percent compared with 2011. Casino represents approximately 22 percent of the total online gaming market.

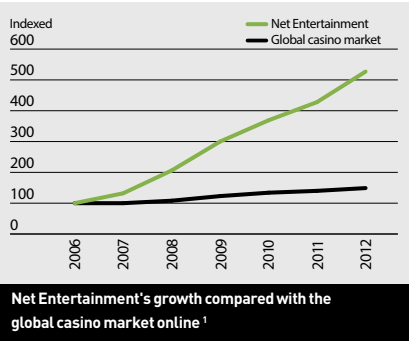
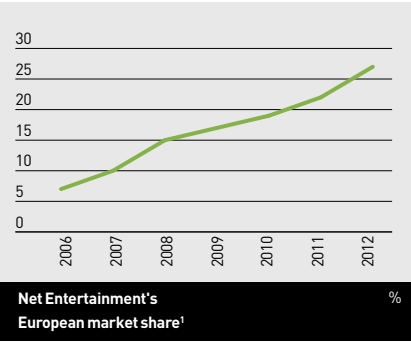
Net Entertainment's growth rate has traditionally outpaced the market. Over the last six years the Company has quadrupled its turnover, while the casino market in Europe has grown by 90 percent during the same period. The Company sees solid opportunities to win market shares going forward as well. New markets, new customers, new distribution channels, smartphones, tablets and Live Casino in combination with a continuously increasing player base will enable continued growth into the future as well.



¹Source: H2 Gambling Capital, December 2012



¹Market share is based on gross gaming yield by NetEntertainment's customers in relation to the global- and European online casino market, as estimated by H2 Gambling Capital in December 2012.



A market in change presents greater demands – but Net Entertainment has the means necessary



In the United States discussions concerning regulation of online gaming are underway, and some states have already implemented some form of regulation. This entails interesting possibilities for Net Entertainment.

A global market in change

The market for online casinos is constantly changing with new opportunities. Historically, growth has primarily been affected by increased broadband penetration and the fact that players are migrating from land-based casinos to play online instead. These factors remain, but new growth factors continue to emerge, such as the re-regulation of geographic markets and new distribution methods, such as gaming on mobile phones and tablets.

Since the United States prohibited playing with real money online, so-called "real money gaming", in 2006, Europe has been the single largest market, with a 44 percent share of the total gross gaming yield for 2012. Internet gaming is a global phenomenon where growth is expected to be solid in most regions. Africa, Latin America and the Caribbean are expected to be the fastest growing markets by 2015, albeit from historically lower levels.

In the United States, political initiatives are underway on the state level to introduce new regulations for Internet gaming that may in the future open the way for games such as casinos and poker. The states Nevada and Delaware have already regulated Internet gaming in some form, and more states are actively working to

introduce new gaming laws. Both American land-based operators and their suppliers have over the course of the year started to position themselves against the Internet industry with a number of acquisitions and collaborations. European gaming operators have started to seek their way towards American shores over the year through cooperation with American stakeholders.

Discussions are underway in several European countries regarding potential re-regulation and markets such as Denmark, Italy and Spain have already re-regulated to various extents. Additional countries may see regulation in 2013, and Net Entertainment is following these discussions carefully.

Asia and the Middle East are less developed than Europe in terms of online gaming; partly due to cultural differences with the western world and because of low broadband penetration. Online gaming is nonetheless becoming more common in these regions, which is why positive growth is predicted over the coming years.

The possibilities of expanding into new markets have changed, growing more complicated with the on-going regulation in Europe. Net Entertainment has the means required, both financially and organizationally speaking, to establish itself on regulated markets.

New distribution methods, such as gaming over mobiles and tablets, are becoming increasingly important growth factors on the global gaming market.



Regulation of Europe means new opportunities, a more stable business environment and increased revenue possibilities long-term

New regulation of national gaming legislation is taking place in a large number of European countries. These changes mean, simply put, that gaming operators can apply for – and receive gaming licenses in the regulated country based on various requirements and criterias. In other words, higher requirements are set on the business, but at the same time this results in a more stable business environment with clearer guidelines from the authorities and increased long-term revenue possibilities for stakeholders in the gaming industry.

In particular, the development of a national licensing system was prompted by the European Court's recent case, which gives member states greater freedom to introduce limitations on offers of international gaming services. EU member states now also have increased opportunities to secure tax revenue, provided that the licensing system creates good conditions for competition, and is formally open to all operators who meet certain basic conditions.

Regulatory changes provide greater opportunities for the gaming industry and Net Entertainment. Accessibility to new players, combined with broader marketing channels makes for greater potential and revenue streams. From a competitive perspective, regulation also

means increased barriers to entry, which can benefit a player such as Net Entertainment, since the Company has the know-how and resources to adapt relatively quickly to a more complex environment. In addition, the Company has already invested in both games and platforms in conjunction with the establishment in Italy and Denmark. This is expected to create synergy for several upcoming establishments, even if each new market will require investments in the form of adjustments of the games to specific requirements for that particular market.

Before establishing in a newly regulated market, the Company's products, services, organization and internal audit systems and processes undergo a full review by the gaming authority for the region in question. Games are certified by independent testing companies to ensure compliance with set requirements. Once the certification has been received, it is attached to the operator's application for a gaming license, which is submitted to the gaming authority for the market in question. Net Entertainment's good reputation and leading position as a game supplier naturally facilitates discussions with both clients and authorities in an establishment phase – along with the Company's accreditations, verifications and licenses from authorities and testers.

Europe's share of the total gross gaming yield for online gaming in 2012.

44%

Examples of interesting markets that have been re-regulated or where regulation may come into view

DENMARK

In January 2012, the Danish market for online games was regulated. The regulation covers game forms including sports betting, online casino and poker games. Casino games include blackjack, roulette, slots machines (slots), baccarat and punto banco.

ITALY

In July 2011, the Italian online gaming market was regulated. Legislation concerning online casino gaming for end customers was initially limited to table games only. In December 2012, however, the Italian authorities approved so-called slots gaming – an important and positive event

for Net Entertainment, as this category is one of the Company's strengths.

SPAIN

Spain has also introduced a federal gaming legislation. The first licenses were awarded in June of 2012. At the same time, the autonomous regions may admit a different gaming legislation for online gaming. Net Entertainment has so far chosen to wait with a Spain entry, partly because slots are not permitted there.

UK

In 2012 Great Britain communicated that they intend to change gaming legislation from being based on where the game is

distributed from to where the game is consumed. This means that the operators that can currently offer games to British players from foreign jurisdictions will need a British gaming license and will have to pay gaming tax in Great Britain. This change is expected to be introduced no later than December 2014.

SWEDEN

In Sweden the government has stated that they are preparing changes after criticism from the Swedish National Audit Office that the government's gaming policy does not sufficiently protect consumers against gaming addiction. The aim is to have a law proposed before the mandate period ends. It is not

currently known whether this will mean more liberal or restrictive legislation.

GERMANY

In Germany, the state of Schleswig-Holstein has adopted a legislation approved by the EU-commission concerning betting and casino gaming. After a period of gaming policy opposition in the country, the new political management in Schleswig-Holstein after the 2012 election decided to try to recall the newly introduced gaming regulation and subject it to more restrictive federal legislation. This situation has created uncertainty with respect to the future legal situation of gaming in Germany.

USA

In USA political initiatives are currently underway on state level to introduce new regulations on Internet gaming. State-level activity in 2012 has presumably been affected by the fact that the Department of Justice has changed its position with respect to interpretation of the Wire Act of 1961, to now include only the game form Sports Betting, which could open the way for other types of gaming, such as casino and poker. Nevada and Delaware have already regulated Internet gaming in some form, while the US Virgin Islands, New Jersey and California are also trying to introduce new gaming laws.



We act speedsmart

In 2012, investments in the Danish and Italian markets, as regulated markets, were two very important events for Net Entertainment.

With the exception of France, these two markets were the first to be re-regulated as part of the wave of regulations now expected to sweep through the European gaming industry. There is talk in the gaming world of a clear trend where Internet games are transformed from global websites (.com) to national gaming sites (such as .dk or .it).

In July 2011 Internet gaming was regulated on the Italian market and Net Entertainment was on-site from day one with several new customer agreements. However, it was not until December 2012 that the Italian authorities opened up for slot games in the regulated environment – a significant event for Net Entertainment since over 70 percent of the Company’s revenue is generated from this game category. As early as 3 December 2012, the Company released a number of games, and additional launches are expected in 2013.

In the beginning of 2012, the Danish gaming market officially opened after regulation, and Net Entertainment was immediately on-site here, as well, through a series of customer agreements with well-established stakeholders. In the beginning of 2012, the Company fulfilled the regulation’s initial requirements, and during the majority of 2012, the Company worked to fully adapt the games to the regulated conditions, and succeeded in doing this before the deadline set by the authorities ran out.

The establishments in Italy and Denmark clearly demonstrate that the Company can act quickly under demanding circumstances – completely in keeping with one of the Company’s core values: “We act speedsmart”.

Net Entertainment has the resources and technical skill needed for adaptations both in the games and platform in order to meet the more complex terms and conditions set on a regulated market. This is a clear competitive advantage and thereby a growth opportunity for the Company going forward. A number of additional European markets are probably going to see regulation, and it is part of Net Entertainment’s strategy to act on these markets. But the conditions also need to be right. In Spain, for example, the market has been partly regulated. Up to this point Net Entertainment has chosen not to enter the Spanish market because the business conditions have not yet been considered propitious, partly because slot games are not currently permitted in the country. Acting quickly [speed] has no value unless the action is strategically correct [smart].

Regulations, accessibility and new channels driving continued growth

Net Entertainment considers the conditions for continued expansion to be good primarily for two reasons: the market for online gaming has good growth conditions and the Company had good conditions to win new market shares.

The growing market is driven by continually expanding broadband penetration, new distribution channels such as smartphones and tablets, as well as regulations of an increasing number of countries. The increased accessibility of Internet gaming is driving the shift and migration of land-based casinos to the Internet. This increased accessibility also means that new player groups can be reached. A parallel driving force is naturally the successively increasing technological habits prevalent in society. Market growth is also driven by regulation of multiple markets since Internet gaming is thereby sanctioned by respective authorities and facilitates increased marketing.

The main reason that Net Entertainment will also be able to continue to win new market share is that the Company continues to deliver first-class products. Good products and effective product development ensure the conditions for being able to win new customer contracts. By continuously expanding the product selection,

Net Entertainment can reach new markets and further broaden its customer base – such as through new products such as mobile gaming and Live Casino. In addition, new technology, combined with experience, allows Net Entertainment to develop more complex and more entertaining games. It is not only graphics that are becoming more advanced, but also the underlying mathematics. In combination with Net Entertainment’s strong engagement towards- and close cooperation with its customers, along with a feel for – and understanding of what customers want, the explanation as to the Company’s increased market share becomes clear. The Company gets high marks for good accessibility, service and support.

The requirements for both operators and suppliers are steadily increasing in terms of system stability and availability. Expectations from the end users of Internet gaming are currently comparable with requirements set on TV and telephony. With the latest generation mobile games, users can now play online games wherever they are, whenever they want. This not only contributes to greater market potential, it also leads to different consumer behaviour.

The drivers of online games

Increased broad-band penetration

New technology for game and system development

New distribution channels, such as smartphones and tablets

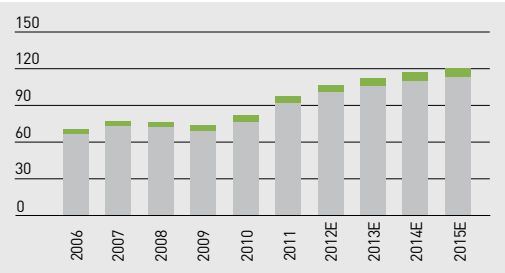
Migration from land-based casinos to online

New player groups

Regulation of online games

Number of game transactions 2011

8,600,000,000 GT

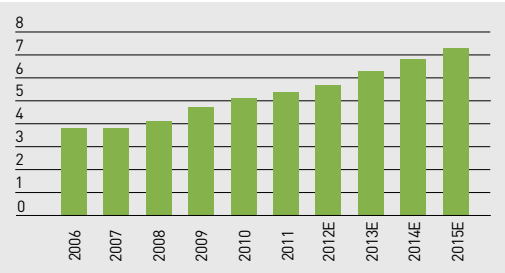


The casino market offline/online (Internet)
Global gross gaming yield 2006 – 2015

Source: H2 Gambling Capital, December 2012

Number of game transactions 2012

12,300,000,000 GT



The online casino market
Global gross gaming yield 2006 – 2015

Source: H2 Gambling Capital, December 2012

Online Casino is about entertainment and excitement, but also about winning and losing. In conjunction with gaming, there is a risk that playing will have unintended consequences. Net Entertainment actively works to promote responsible playing.

With players' best interests in focus

Even though Net Entertainment has no direct contact with the individual player, the Company works actively and in close cooperation with other stake holders on the market to address and prevent gaming-related problems. Several of Net Entertainment's games can be considered relatively fast games, where time between play and winning is short, and is therefore considered to be a game form where the risk of developing addiction is higher than in other games.

Net Entertainment has a class 4 license in Malta and thus meets all requirements set by the gaming authority, 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 authorities before they are released.

Net Entertainment is also part of the organization G4 (Global Gambling Guidance Group). By developing responsible gaming software and training programmes for employees of gaming companies, and by offering help lines and personal counseling, G4 endeavours to minimize the damage and problems that may arise as a result of gaming addiction. Net Entertainment's casino fully supports the organization's guidelines.

Regulatory consumer protection

- Protecting minors and at-risk 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 make it possible for game operators to allow end users – the players – to limit their playing. 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 clock that makes it easier for the player to maintain a correct 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 that it is possible to win. At the same time the player should also be aware that it is possible to lose. Net Entertainment's games and platform are tested for randomness by independent accredited testing agencies, which is one of the requirements set by the gaming authorities on the markets where the Company is active. One international test institute that audits Net Entertainment is the London-based industry organization eCOGRA (e-Commerce and Online Gaming Regulation and Assurance), which works for fair and responsible gaming. Every year they examine Net Entertainment's development environment, check and ensure that the software has been maintained and operated in a secure and reliable manner and that the Company continually carries out tests for randomness with other independent testing institutes.



In Net Entertainment plans for an internal forum for training and professional development began to take shape in September 2012. The idea was to take care of the Company's talents and create interesting development programs of high quality.

Marie Lärka is responsible for Net Entertainment's expanded training initiatives. She is herself a clear example of how the Company works to have its employees develop with responsibility and new challenges. Marie started at Net Entertainment in summer of 2008 as a project manager within games and platform development, and then after one year changed over to work as an offshore manager to oversee the start-up of business in Ukraine and India. In September of 2012 she was placed in charge of the newly created NetEnt Academy.

"During my maternity leave the decision was made to invest more in training our employees, to increase our visibility as an interesting employer and to consolidate all of our business-directed training under one umbrella. My new task was to be responsible to structuring and developing the Company's training initiatives in NetEnt Academy", says Lärka.

Today there are several training programmes underway, and two development programmes, with a slightly different orientation, are completely new.

The NetEnt Value Driven Leadership Program aims to create a joint management structure aimed at the quickly growing environment in which the Company is active. For a growth Company it is especially important to get all individuals to be self-directed – something which demands inclusive management. The training initially included all managers, who quickly finished the first round. In January 2013 a new group started with a broader selection of employees with some form of managerial role, such as team leader or project manager.

The other programme – **The NetEnt Ambassador Program** – is aimed at employees who want to develop in their role as ambassadors and spokespersons for Net Entertainment. This training focuses on areas in

communication and presentation techniques for one year, both in group- and individual coaching.

"This is a pilot training programme for us, and we started the first round in January with ten participants. The objective was to strengthen our 'employer brand' internally and externally. Since we are in the advantaged position of constantly looking for new talent, it is important for us to appear interesting, relevant and effective when we represent the Company at career days and job fairs.

NetEnt Academy has many more training programmes of various types and lengths. There are training programmes within the category "General Business Competence", where, for example, all new employees come together for the purpose of gaining increased understanding of how all departments at Net Entertainment coordinate to achieve our vision. There are various types of "Special skills training", such as business English, Swedish or motivational talks.

"We are always trying to think- and keep one step ahead and continuously assess how training needs look right now and how they will look tomorrow. In the spring we are starting our first Casino School, an online training that can create greater knowledge of our business and our industry, our customers, challenges and products", concludes Marie.

With a strong corporate culture and a foundation of core values, Net Entertainment systematically works to develop as an attractive employer and promote growth. Comprehensive work aimed at developing management has continued over the course of the year.

Management based on strong values

For one of the world's most renowned software developers in online casino gaming, the need for talent and skill is enormous. In 2012 Net Entertainment recruited a hundred new employees and about twenty employees were given new positions within the Company.

Right values

Net Entertainment's success largely depends on how effectively the Company is at finding and developing the right expertise. In order to manage continued strong growth, Net Entertainment promotes its special corporate culture, which is characterized by creativity, quality and passion for entertainment and gaming - where shared values are a determining factor.

Over the past year Net Entertainment has worked systematically to formulate and clarify shared values for the business and the Company's employees. Five core values have crystallized through work that has engaged and continues to engage - employees in all parts of the Company.

In January 2012, the core values started to be implemented in all of the Company's decision processes - such as recruiting and competence dialogues, but also in the management approach. All managers have been put through training and all employees have participated in workshops to understand how each and every one of them can help contribute to Net Entertainment's common values.

This work has meant, for example, a changed attitude when new employees are recruited - employment interviews are now based on the Company's core values and thereby observe competence and experience - but also attitude and personality to an ever-increasing degree. A clear and direct effect of this is, among other things, that the number of probationary recruitments not reaching fulfilment was lower in 2012 than in previous years.

Own initiative a new idea

The gaming industry is undergoing constant development; new markets, new technology and players set ever high demands for complex and ground-breaking game solutions. This in turn places requirements on Net Entertainment as a dynamic and make-it-happen workplace. Net Entertainment has a culture that is permeated with creativity and passion for gaming, where innovation, new ideas and personal initiative are welcome.

Aside from on-going dialogue via intranet and personal meetings, all employees are brought together in an annual joint kick-off day - The Net Ent Day - which is then subject to follow-up throughout the year.

With the right combination of skills, strong team spirit and common values, the Company can continue to be a leader in both technology and game development.

Focus on leadership

For Net Entertainment, leadership means a responsibility to drive the Company ahead and at the same time that all managers understand and communicate the Company's vision, goals and strategy. As the Company grows, responsibility among managers and their roles become increasingly more important. Net Entertainment therefore puts extensive effort into developing its managers - and those who will be managers in the future. This year saw the launch of Net Ent Academy - read more on page 20.

Net Entertainment has managers of different ages and levels of experience, but with the common trait that they have a high level of ambition and interest in developing themselves, their leadership and their employees. In September 2012, the first manager training programme started on the basis of the Company's values.

Employee satisfaction index at Net Entertainment

75%

percentage of women in management at Net Entertainment

50%

The average age of Net Entertainment

35 years

Absenteeism in Net Entertainment

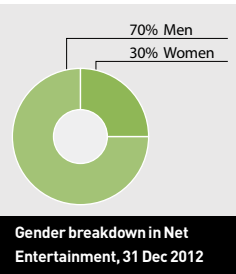
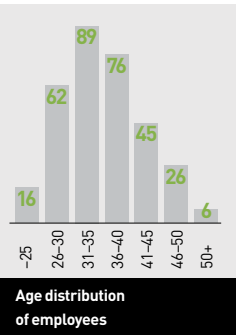
2%



Net Entertainment was listed as one of Sweden's 30 best employers for 2012. This is a good mark of quality to work from in the Company's continued ambition and need to recruit the best employees in the industry.

Employees with 19 nationalities

India	Pakistan
China	Canada
England	Sweden
Ireland	Australia
Italy	USA
Ukraine	Spain
Greece	Germany
Netherlands	Iran
Malta	France
Finland	



After an initial phase focusing on internal work, Net Entertainment is now turning evermore outward to strengthen its trademark and increase awareness of Net Entertainment as an employer. The Company still has a major need to recruit skilled employees and is also seeing the number of applications increase as the Company has become more visible and as our successful track record continues.

A broad spectrum of expertise from 19 countries

A broad range of competence and experience is required in order to be able to continue to deliver successful casino games, a stable technical platform with high capacity and, and continue being the world's leading casino supplier. Many employees make their careers by growing with the Company, and recruiting from within is often prioritized.

Employees from 19 nationalities work at Net Entertainment and the majority have backgrounds ranging from computer games and the IT industry to the telecom and finance sectors. Innovation and experience from different organizations and cultures contribute positively to the Company's development in a variety of ways. Performance, development, responsibility and team spirit are focus areas in Net Entertainment.





BOARD OF DIRECTORS AND AUDITORS

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.	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. 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*: 17,734 B shares.	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 Korsnäs AB, Los Naranjos SL and Board Member of Investment AB Kinnevik, Academic Work Solutions AB and Zettle AB. Shareholding*: – Shareholding in endowment insurance*: 500,000 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 Group Controller for Modern Times Group MTG. Shareholding*: 1,000 B shares Shareholding in endowment insurance*: –	MICHAEL KNUTSSON Board Member Born 1961 Elected in 2012 Independent in relation to the Company, senior executives and its major owners. Extensive experience from the casino industry, including as a Board Member in TCS John Huxley Ltd. which manufactures and distributes casino equipment, and as a former Board Member in Sponsio Ltd, which ran Ladbrokes Norden. Present or former Board Member, leading/managing decision maker or partner in, among others, Knutsson Holdings AB, Tangiamo AB, Solidicon AB, TCS John Huxley Ltd. and Sponsio Ltd. Shareholding*: 10,000 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 and PROACT AB (publ). Former CEO of MG Instrument AB, Arkivator AB and LGP Telecom. Shareholding*: 300,000 B shares. Shareholding in endowment insurance*: –
AUDITORS At the annual meeting held on 10 April 2008, Deloitte AB was elected as auditor for the period until the Annual General Meeting in 2013, with Therése Kjellberg (authorised public accountant and member of FAR SRS) as the chief auditor.						

*The specified shareholdings for board Members and senior executives include holdings through families and companies as at March 2013.



SENIOR EXECUTIVES

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. A graduate of the University of Gothenburg, School of Business, Economics and Law. Shareholding*: 1,500 B shares. Share option rights: 12,000.	ELISABETH LENNHEDE Communications Director Born 1961 Employed since 2013 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:	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. Shareholding*: 1,000 B shares. Share option rights:	PER ERIKSSON President and CEO Born 1961 Employed since 2012 Active in IT for over 26 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. Shareholding*: 10,000 B shares. Share option rights: 60,000.	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*: 70,000 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.	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: –	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: –
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*The specified shareholdings for board members and senior executives include holdings through families and companies as at March 2013.

The world's stock markets increased in 2012, despite continued economic turbulence both in Europe and beyond. Net Entertainment's share developed stronger than its comparative index and at the end of the year the Company's share value increased to just above SEK 3 billion.

Stronger development than the stock market – again

Analysts who monitor Net Entertainment

- ABG Sundal Collier,** Stockholm
Martin Arnell
Anders Hillerborg
- Carnegie Investment Bank,** Stockholm
Christian Hellman
- Danske Bank,** Stockholm
Bile Daar
- Handelsbanken Capital Markets,** Stockholm
Rasmus Engberg
- Nordea,** Stockholm
Johan Grabe
- SEB Enskilda,** Stockholm
Johanna Ahlqvist

Net Entertainment's share is listed on NASDAQ OMX Stockholm, the mid-cap list, and traded under NET B.

Share capital

Share capital in Net Entertainment totals SEK 1,190,566.85 divided into 5,610,000 A-shares and 33,943,716 B-shares with a quota value of 3.01 öre per share. All shares give equal right to share in the Company's assets and profits.

Trading

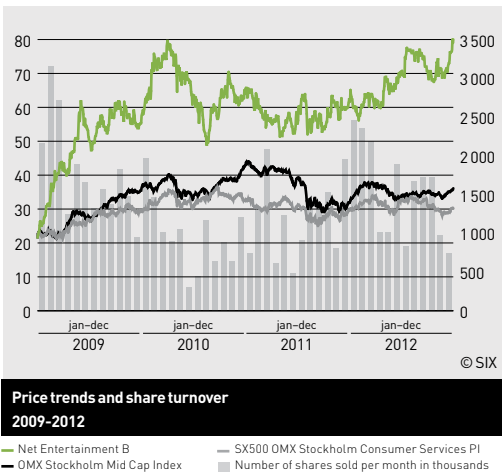
The closing share price on December 28 2012, which was the last trading day of the year, was SEK 80.00, resulting in a market value for Net Entertainment of SEK 3,165 million. A total of 17,145,477 shares were traded in 2012, equivalent to a market value of approximately SEK 1,240 million. The average number of shares traded per trading day was 68,582. The share price increased over the year by SEK 16, equivalent to 25 percent. The highest share price for the year was SEK 80.00 SEK and the lowest was SEK 57.75.



NASDAQ OMX Stockholm Mid Cap PI-index increased at the same time by 11.9 percent, and NASDAQ OMX Stockholm Consumer Services_PI fell by 0.7 percent. Net Entertainment's share is also traded on trading sites outside NASDAQ OMX Stockholm. During financial year 2012 this trading accounted for 7.5 percent of the turnover in the Company's share.

Stock Option Programme 2012-2015

At the end of 2012, there was a total of 114,994 share option rights, representing the same number of outstanding shares. In the event that full subscription occurs, based on these share option rights, SEK 9.9 million will be contributed to the parent Company's equity. The share option rights were issued at market price, which is established at SEK 6.26, which brought SEK 0.7 million to equity for the corporation. The strike price for the shares was set at SEK 85.83, which constitutes 130 percent of the average share price during the measurement period in May 2012. Subscription of



shares can take place during the period from 1 August to 1 October 2015.

Stock Option Program 2011-2014

At the end of 2012, there was a total of 353,100 share option rights, representing the same number of outstanding shares. In the event that full subscription occurs based on these share option rights, SEK 24.8 million will be contributed to the parent Company's equity. The stock option rights were issued at market price, which was set at SEK 7.20, which brought SEK 2.5 million to equity for the corporation. The strike price for the shares was set at SEK 70.20, which constitutes 130 percent of the average share price during the measurement period in May 2011. Subscription of shares can take place during the period from 1 August to 1 October 2014.

Shareholders

The number of shareholders in Net Entertainment as per 28 December 2012 totaled 3,408 (3,131) according to Euroclear. Net Entertainment's ten largest owners hold shares equivalent to 51.5 percent of votes and capital in the Company. Institutional ownership amounted to 26 percent.

Investor relations

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

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

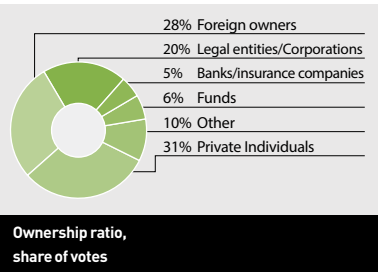
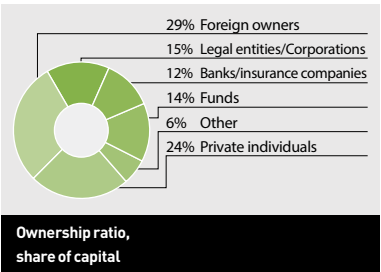
Dividend policy

The Board's goal is for Net Entertainment's general dividends to grow along with the Company's earnings per share. However, the goal is for dividends to reach at least 50 percent of net profit after tax, after taking into account the Company's long-term capital needs.

Proposed dividends 2012

The Board of Directors proposes to the annual meeting that no dividend be paid for the financial year 2012. The Board proposes to the annual meeting to allocate SEK 89.0 (79.1) million to shareholders, equivalent to SEK 2.25 (2.00) per share through a share redemption program. The record date for the share redemption

program is scheduled to 6 May 2013. The complete proposal will be available three weeks before the annual general meeting, and also in an information brochure. Information will be available to shareholders from the Company and on the website www.netent.com from 4 April 2013 and also sent, at no cost, to the shareholders who so request and submit their postal address.



Shareholders	A shares	B shares	Holdings	Holdings	Votes
Per Hamberg	1,700,000	1,823,478	3,523,478	8.9%	20.9%
Rolf Lundström	1,152,500	1,432,191	2,584,691	6.5%	14.4%
Lars Kling	797,000	286,810	1,083,810	2.7%	9.2%
Svenska Handelsbanken SA	700,000	510,000	1,210,000	3.1%	8.3%
Berit Anita Lindwall	561,000	122,595	683,595	1.7%	6.4%
BP2S Paris/No Convention	360,000	1,491,716	1,851,716	4.7%	5.7%
Banque Carnegie Luxembourg SA	339,500	70,000	409,500	1.0%	3.8%
LivförsäkringsAB Skandia (PUBL)	0	3,398,506	3,398,506	8.6%	3.8%
Lannebo Fonder	0	2,834,835	2,834,835	7.2%	3.1%
Handelsbanken Fonder AB RE JPMEL	0	2,776,395	2,776,395	7.0%	3.1%
Ten largest shareholders in total	5,610,000	14,746,526	20,356,526	51.5%	78.7%
Other shareholders	0	19,197,190	19,197,190	48.5%	21.3%
In total	5,610,000	33,943,716	39,553,716	100.0%	100.0%

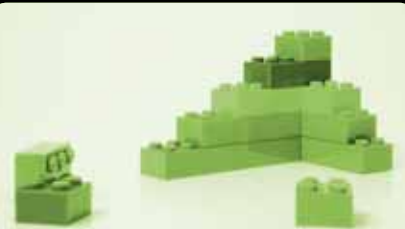
The specified holdings include holdings by families and companies.

Ten largest shareholders according to Euroclear Sweden AB as at 31 December 2012

	2012	2011	2010
Earnings per share, SEK	3.37	2.92	3.05
Transfer to shareholders, SEK per share ¹	2.25	2.00	2.00
Transfer to shareholders in % of profit after tax	67	68	66
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	80.00	64.00	70.00
Direct return in % ²	2.8	3.1	2.9
Total return, Net Entertainment shares in % ³	28.1	-5.7	18.5
Stock price divided by earnings per share	23.7	21.9	23.1
Number of shares sold per year, millions	18.4	13.9	10.8
Turnover rate in %	46.4	35.0	27.4
Stock market value at the end of the year, MSEK	3,164.3	2,531.4	2,768.8
Number of shareholders	3,408	3,131	3,408

¹ The Board's proposals for 2012
² Transfer to shareholders divided by share price at year-end
³ Percentage change in closing price 2012 plus unpaid transfers in 2012 compared to the closing price on the last trading day of 2011

Key data for Net Entertainment's shares



Simplicity in all we do

Net Entertainment is a fast growing Company and aims to remain one. One condition for continued growth is for the Company to have rapid internal paths to decision making and for employees to have the possibility and drive to make an impact, take responsibility and initiative.

While the Company successively becomes larger and takes on many more employees, the ability to remain flexible and agile is still a critical factor for the Company. In order for this to work, solutions and structures must be clear and uncomplicated – Simplicity in all we do. It must be made easy to be able to change one's position and it should be easy to know what is expected by employees. It also has to be easy to become – and remain one of Net Entertainment's customers.

One extremely important factor to make things simpler for customers is a well-functioning gaming platform that is itself the foundation in Net Entertainment's "ecosystem". The platform is the brain and the engine in the system and manages all games that the players take part in every day. The platform handled 12.3 billion transactions in 2012, which is 244 times the number of share trades on NASDAQ OMX Stockholm for the same year.

Through the platform and its administration tool, the gaming operators can optimize their casino business and monitor security in real time while also analyzing the player's behaviour and preferences. This information allows the operators to give the player new offers and bonuses in order to further expand the gaming experience. The significance of the platform in facilitating and simplifying the operator's ability to run a successful casino business cannot be emphasised enough. Net Entertainment has made significant investments in platform improvements in 2012 – an effort that will continue in 2013 and onwards. This is an investment in expanded competitiveness and increased revenues for the operator and for Net Entertainment. The strong platform simplifies and improves the gaming operator's business, and in the end, also the player's experience.

In recent years, market development of mobile phones has exploded as so-called smartphones have been introduced to the market. Over time, a shift in gaming is expected from traditional desktop and laptop computers to more gaming on tablets and mobile phones. Net Entertainment's trademark is associated with quality. The strategy is to meet the high demands of the players and offer casino games via mobile and tablet platforms where the experience is every bit what it would be on a PC.

Today's mobile individuals play wherever they go

Five-year summary

CONDENSED CONSOLIDATED INCOME STATEMENTS

SEK thousands	2012	2011	2010	2009	2008
Operating revenues	526,671	427,618	368,280	300,050	205,573
Operating profit before depreciation/amortization	227,314	175,536	167,370	142,480	103,316
Depreciation/amortization	-74,257	-45,823	-30,959	-22,298	-15,513
Profit after depreciation/amortization	153,057	129,713	136,411	120,182	87,803
Net financial income/expense	-1,794	-719	-4,972	-2,966	-1,850
Profit after financial income/expense	151,263	128,994	131,439	117,216	85,953
Profit after tax	133,255	115,614	120,467	107,677	79,967

CONDENSED CONSOLIDATED BALANCE SHEETS

SEK thousands	2012	2011	2010	2009	2008
ASSETS					
Non-current assets	216,375	183,554	131,492	79,674	42,202
Current receivables	254,216	184,630	128,343	63,999	54,679
Cash and cash equivalents	81,230	74,234	47,034	105,009	65,132
Total current assets	335,446	258,864	175,377	169,008	119,811
Total assets	551,821	442,418	306,869	248,682	162,013
EQUITY AND LIABILITIES					
Shareholders' equity	288,550	237,983	199,845	174,018	116,493
Long-term liabilities	9,157	3,373	1,104	50	1,676
Current liabilities	254,114	201,062	105,920	74,614	43,844
Total liabilities	263,271	204,435	107,024	74,664	45,520
Total equity and liabilities	551,821	442,418	306,869	248,682	162,013

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

SEK thousands	2012	2011	2010	2009	2008
Cash flow from operating activities	195,422	203,251	119,629	150,042	89,073
Cash flow from investing activities	-111,577	-99,044	-93,822	-62,136	-23,414
Cash flow from financing activities	-76,513	-76,565	-79,107	-45,280	-29,665
Cash flow for the year	7,332	27,642	-53,300	42,626	35,994
Liquid assets at the beginning of the year	74,234	47,034	105,009	65,132	25,915
Exchange rate differences in cash and cash equivalents	-336	-442	-4,675	-2,749	3,223
Liquid assets at close of year	81,230	74,234	47,034	105,009	65,132

KEY FIGURES

GROUP	2012	2011	2010	2009	2008
Operating margin (percent)	29.1	30.3	37.0	40.1	42.7
Profit margin (percent)	28.7	30.2	35.7	39.1	41.8
Interest coverage ratio (multiple)	276	778	4,533	2,494	297
Equity/assets ratio (percent)	52.3	53.8	65.1	70.0	71.9
Quick ratio (percent)	132.0	128.7	165.6	226.5	273.3
Net interest-bearing liabilities (SEK thousands) ¹	-79,356	-74,234	-47,034	-105,009	-65,132
Net Debt/equity ratio (multiple)	-0.3	-0.3	-0.2	-0.6	-0.6
Average number of employees	257	220	152	110	70
Employees at year-end	301	231	182	133	85
Employees and consultants at year-end	403	324	284	187	132
Earnings per share	3.37	2.92	3.05	2.72	2.02
Shareholders' equity per share	7.30	6.02	5.05	4.40	2.95
Dividends per share (proposed for 2012)	2.25	2.00	2.00	2.00	1.25
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

¹ 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

ABOUT NET ENTERTAINMENT

Net Entertainment is a world leading developer of on-line gaming systems used by some of the world’s most successful online gaming operators. Net Entertainment offers a complete gaming system (Net Entertainment Casino™) comprising a full suite of high quality games and a powerful platform. The games create the ultimate gaming experience for the player while the platform manages billions of transactions annually. Net Entertainment also offer an advanced administration tool which enables Net Entertainment’s customers, the operators, to optimize their business while Net Entertainment can launch their product portfolio efficiently. Revenues consist of royalty which is based on revenues generated by the Company’s products and setup fees when new agreements are signed. Net Entertainment is a pure development company and 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 consists of a number of companies with operations in Sweden, Malta, Ukraine, Gibraltar and Alderney. The main part of development is carried out in Sweden in the parent company. Development is also carried out in Ukraine and in India through consultants. The Company has its sales, marketing and product strategic functions, customer support and the majority of hosting in Malta. Net Entertainment has a license in Malta and Alderney. The parent company, Net Entertainment NE AB, 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 unique

games and different kinds of bonus and loyalty programs the gaming experience is further enhanced.

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

Important events during 2012

- 16 customer agreements were signed with new customers, including Boylesports and Paddy Power Games and 13 new customers’ casinos were launched during the year
- The number of gaming transactions increased by 43 percent to 12.3 billion
- Net Entertainment launched slot games on the Italian market
- Live Casino was launched with two beta customers
- The Swedish Tax Agency announced its decision to impose additional taxes on Net Entertainment, amounting to a total of 92.1 MSEK. Net Entertainment find that the Tax Agency’s view is unfounded and will appeal the decision
- Net Entertainment completed the certification in Denmark which has been re-regulated

MARKET

The online gaming market has shown positive growth in recent years. The global gross gaming yield for online gaming, including all game segments, is estimated to amount to EUR 26.2 billion in 2012, an increase of 6.7 percent compared to year 2011. In coming years, Europe is expected to represent close to half of the global gross gaming yield, making it the single largest gaming market.

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.

In July 2011 the Italian online gaming market was regulated. The legislation for casino games to end users was initially limited to table games. However, in December 2012 the Italian authorities approved slot games.

In January 2012 the Danish market for online gaming was regulated. The legislation includes sports betting, casino and poker. The casino games include blackjack, roulette, slots, baccarat and punto banco.

Spain has introduced a federal gaming legislation. The first licenses were awarded in June 2012. The different states can however admit their own gaming legislation for online gaming. Slots are not yet included in the federal legislation but the gaming authority has started to investigate the operators view on whether slots should be included.

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 tax for the games in Great Britain instead. The change is expected to be approved no later than in December 2014.

In Germany the state Schleswig-Holstein (SH) has admitted a gaming legislation approved by the EU-commission for sports betting and casino games. After a time of political debate between SH and the other 15 states, SH 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 objective is to propose a legislation before the mandate period ends. It is today unknown if this will mean a more liberal or restrictive legislation.

Holland is expected to admit a new liberal gaming legislation during 2013, but the process has been delayed somewhat due to the shift in government during 2012.

Online gaming was regulated in Greece during 2011 with the purpose to improve Greece finances. Focus during 2012 has therefore been to get the operators to pay tax but it is still not possible to apply for a license in the new regulation. Some operators have agreed to pay a retroactive tax from 2010 and may therefore act under a temporary permission. The new gaming legislation has been criticized by the EU-commission.

Belgium presently has a gaming legislation that limits the number of gamin 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. State activity during 2012 has likely been affected by the Department of Justice that have changed their view regarding the Wire Act of 1961 to now only include sports betting which could open up for other types of games such as casino and poker. Nevada and Delaware have already regulated online gaming in some form but also US Virgin Islands, New Jersey and California are trying to introduce new gaming laws.

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

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

NEW AGREEMENTS AND CUSTOMERS

During 2012, 16 new agreements were signed with new customers, including Paddy Power Games and Boylesports.

Paddy Power is an international operator within betting and games with a large presence in Ireland and the UK. Paddy Power offers over 260 games within online betting, blackjack, roulette, video poker and jackpot games. The company is listed on the London Stock Exchange and Irish Stock Exchange and had revenues amounting to EUR 499 million in 2011.

Boylesports is Ireland’s largest independent bookmaker and offers online betting, casino, poker and bingo.

A number of agreements were terminated with smaller customers that did not generate the minimum turnover which the Company requires.

Customers to be launched

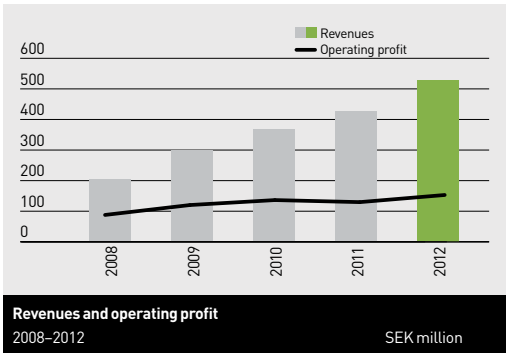
At the end of 2012, the Company held agreements with eight new customers that have not yet launched, including Sky Betting & Gaming.

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

¹ H2 Gaming Capital, December 2012

REVENUES AND PROFITABILITY

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



Revenues – volume, price and currency development

Net Entertainment’s revenues are affected by changes in volume, price (royalty levels and mix), and currency. The volume is affected by both existing customers’ growth as well as the launch of new customers. The largest part of revenues is derived from royalty revenues and a smaller part from setup-fees as new customer agreements are signed as well as revenues for managing pooled jackpots. Revenues amounted to SEK 526.7 (427.6) million during 2012 which was an increase of 23.2 percent. 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 2012 thirteen new customers have been launched. Royalty revenues were positively affected by higher volumes compared to last year. The average royalty level has also increased during 2012 compared to the previous year.

Revenues are affected by the development of the Swedish currency in relation to other currencies. The majority of revenues are invoiced in Euros, but also in British pounds and US dollars. Revenues are accounted for in Euros and then translated into the Swedish Krona for the Group’s reporting. During 2012 the Krona was 3.6 percent stronger than in 2011. In Euros, revenues increased by 28.0 percent in 2012.

The number of game transactions amounted to 12.3 billion transactions which is an increase of 43 percent. The increase of the number of game transactions has primarily been within the slot games. Since the bet per transaction is lower for slot games compared to other casino games the revenues do not follow a corresponding development as the number of game transactions.

Costs and profitability

Operating profit increased by 18.0 percent to SEK 153.1 (129.7) million. The operating margin was 29.1 percent during 2012 compared to 30.3 percent the previous year. Operating expenses have increased during 2012 compared to previous year due to the Company’s expansion and strengthening of the organization to meet increased demands from the market and authorities and Live Casino. The strengthening of the organization is enabled mainly through own personnel but also through external recourses in the form of subcontractors and outsourcing outside Europe. The increase of personnel, game transactions, the number of markets and customers affect e.g. certification of new games on regulated markets, hosting costs, license costs and hardware purchases. The establishment in Kiev, Gothenburg and the Live Casino studio in Malta also affect the cost levels, as do increased depreciation and amortization. Depreciation, amortization and impairments increased by 62.1 percent during 2012 compared to 2011 which is primarily a natural result of the increased investment pace during recent years. During 2012 impairments amounted to a total of SEK 1.3 million which is attributable to a number of games that were terminated. Amortization of development projects are linear with equal amounts each month from the launch date while revenues increase gradually which means that the positive margin effect from primarily larger projects within new markets such as Italy and Denmark and new products such as mobile games and Live Casino can take some time. The financial net amounted to SEK -1.8 (-0.7) million which 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 11.9 (10.4) percent in 2012. Of the total tax for the year amounting to SEK 18.0 million, SEK 5.9 million refers to deferred tax expense. 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.

INVESTMENTS

The Group’s expenditure for capitalized development projects as intangible assets amounted to SEK 91.0 (77.5) million. Investments in property, plant, and equipment amounted to SEK 20.6 (21.5) million.

Investments in intangible assets consist of development of new games, technical adjustments in the platform such as new functionality, increased capacity and

adjustments for requirements on regulated markets. Among larger development projects, the Live Casino project, establishment on the British and Danish market and adjustments of games for the mobile market were noticeable to mention a few examples.

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

CASH AND CASH EQUIVALENTS, FINANCING AND FINANCIAL POSITION

The Group’s cash flow from operating activities in 2012 amounted to SEK 195.4 (203.3) million, which is a decrease of SEK 7.8 million. During 2011, the date at which the transfer of accrued jackpot balance from the Group’s own cash to the client fund account occurs was postponed which had a positive non-recurring impact on cash flow of SEK 33.5 million in 2011. Excluding this non-recurring effect, cash flow from operating activities was thus improved during 2012 by SEK 25.6 million.

Cash flow from investing activities amounted to SEK -111.6 (-99.0) million. Further development of the mobile platform, Live Casino and the entry on the British and Danish market were some of the contributing factors to the increased investing activities compared to previous year.

Cash flow from financing activities was SEK -76.5 (-76.6) million during 2012 and mainly consisted of transfer to shareholders amounting to SEK 79.1 million according to decision made on the Annual General Meeting on April 18, 2012.

The Group’s cash and cash equivalents amounted to SEK 81.2 (74.2) million on December 31. The Group’s available credit lines amounted to SEK 40.0 million of which SEK 1.9 million had been used on December 31.

PERSONNEL AND ORGANIZATION

At the end of the period, the number of employees amounted to 301 versus 231 people one year ago. Including external recourses such as dedicated persons with contract suppliers and subcontractors, Net Entertainment employed 403 (324) persons. During 2012, Per Eriksson started as the new President and CEO of Net Entertainment. Per most recently served as CEO at Dustin Group AB. Prior to that, Per has had a long career within Dell, where he left as Head of Dell EMC, EMEA (Europe, Middle East and Africa).

PARENT COMPANY

The parent company’s revenues during 2012 amounted to SEK 371.1 (308.1) million. Operating profit amounted to SEK 39.3 (22.6) million. The operating margin was 10.6 (7.3) percent. Currency effects on inter-company transactions are included in financial items. Profit after tax was SEK 87.0 (84.8) million for 2012.

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

Cash and cash equivalents in the parent company at the end of the period amounted to SEK 1.2 (25.1) million. On December 31 available credit lines amounted to SEK 40.0 million of which SEK 1.9 (-) million had been used. 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 use of credit lines may occur in the parent company, although the liquidity of the Group as a whole is generally good.

Investments in property, plant and equipment amounted to SEK 11.5 (13.8) million for the period January – December 2012.

RISK FACTORS

Specified below are some of the business and industry related risk factors that could have consequences for Net Entertainment’s future development. The risk factors are not arranged in order of importance or potential economic impact on the Company’s income, profit, or financial position. Neither should these be seen as exhaustive, but merely as constituting illustrative starting points. For financial risk factors that affect the Company’s business, view 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 conditions that apply to customers, i.e. purchasers of digitally distributed gaming systems. The development of the EU legal protection that customers have against protectionist national monopoly systems is of particular importance.

In principle, the market for all types of gaming services

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

The European Court has dealt with national gaming regulations in a variety of rulings. Currently, EU law 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 far-fetched, 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 income and thus the license income for Net Entertainment. Any operational interruption or technical problem with the Company's servers could therefore result in lost income, loss of confidence in the Company, and possible claims for damages. The Company is constantly working to minimize the risk of operational interruptions by ensuring high technical security in the system, among other things. Net Entertainment provides no product guarantee in the customer contract, which also contains clauses that limit the Company's liability for damages in case of an operational interruption.

Gambling addiction

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

Dependence on key personnel and skilled employees

Net Entertainment's success is dependent on the ability to 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 income and profit. As the number of large customers' increases, the dependence on individual large customers gradually decreases.

Competition

The Company competes with a number of agents with much greater financial and operational resources than Net Entertainment. The market is very attractive, and new agents may come to establish themselves. However, the threshold for becoming established on the market for game development is high. If Net Entertainment cannot successfully respond to such competition, this may negatively impact the Company's profit and financial position. The Company's goal is to maintain and develop its position in the market as a world leading supplier of digitally distributed gaming systems, and as a respected agent on the market. By continuing to focus on the development of 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 of the income is 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 external experts that the Company has consulted on the subject.

The Company has initiated an appeal of the Swedish Tax Agency’s decision. 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 for 2012. View 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”), 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 the Company’s shares are admitted to trade or of generally accepted principles in the market.

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

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

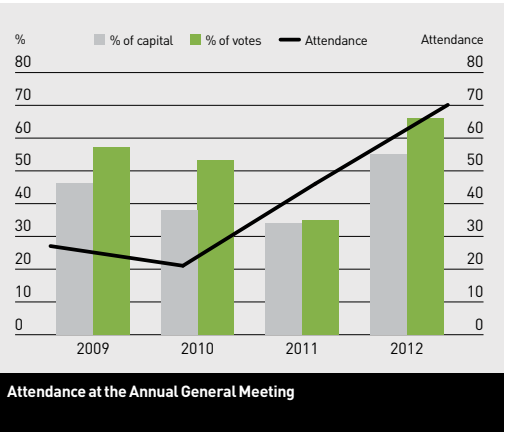
The Swedish Companies Act contains basic rules about a limited liability company’s organization. The purpose of the Code is to provide guiding rules for good corporate governance, and supplementing the legislation in a number of areas. The Annual Accounts Act places requirements on how corporate governance reports shall be created. The Code allows for companies to deviate from these rules if, in individual cases, it can be considered to result in better corporate governance for the Company (according to the principle “comply or explain”). If a company finds that a certain rule or recommendation in the Code is not appropriate to comply with in regards to the Company’s special circumstances, the Company may deviate from this rule, provided that the deviation is disclosed and justified, and that the chosen alterna-

tive solution is specified. The Company follows the Code without deviations.

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is Net Entertainment’s highest governing body, in which shareholders exercise their influence in the Company. The AGM has a senior position in relation to the Board and the Chief Executive Officer. To be entitled to vote for ones shares at the AGM, a shareholder must be recorded in the share register five days before the meeting, and announce their participation to the Company no later than the day which is stated in the summons. 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 sanction by a higher proportion of the votes and shares represented at the AGM as dictated by the Swedish Companies Act.

The AGM shall be held within six months after the end of the fiscal year. Time and place is announced in connection with the third quarter earnings report at the latest. 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 make sure it is brought up in the AGM, is announced on the Company’s website at the latest by the third quarter earnings report. Summon to the AGM is announced at least four weeks prior to the meeting, and will then be available on the website.



At the AGM, a presentation of the Company's development over the past year is held, and resolutions will be made on a number of central matters. The AGM approves the annual accounts for the previous fiscal year, decides on discharge from liability for the Board of Directors and CEO, elects the Board of Directors and auditors, decides on compensation for the Board of Directors and auditor, decides how the Nominating Committee shall be appointed, and handles other formal 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 for the full number of owned and represented shares without limitations in voting rights.

ANNUAL GENERAL MEETING 2013

The AGM 2013 will take place 25 April at Spårvagnshal-larna in Stockholm at 15.00. Summons to the AGM is shown on the Company's website at www.netent.com/agm, where the required documents are also available before the meeting.

NOMINATING COMMITTEE

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

At the AGM in April 2012, it was decided that the Chair-man of the Board of Directors, Vigo Carlund, shall con-vene a Nominating Committee consisting of a represen-tative from each of the three largest shareholders as of 31 August 2012, who, together with the Chairman of the Board, shall be members of the Nominating Committee for the AGM 2013. In September 2012, Per Hamberg (ap-pointed by the Hamberg family), Christoffer Lundström (Provobis Invest AB) and Martin Wattin (the Kling family) were appointed as members of the Nominating Commit-tee. Per Hamberg was appointed Chairman of the Nomi-nating Committee. The composition of the Nominating Committee is based on the list of registered shareholders provided by Euroclear Sweden, and other reliable owner-ship information as of the last business day in August.

The Nominating Committee has prepared a proposal to be submitted to the AGM 2013 for resolutions regard-ing the Chairman of the Meeting, the Chairman of the Board and other members of the Board of Directors, au-ditors in appropriate cases, remuneration to the Board of Directors and the auditors, as well as principles for appointment of the Nominating Committee. The Nomi-nating Committee's mandate period runs until the new Nominating Committee is appointed in accordance with the resolution on selection of the Nominating Committee for the AGM 2013.

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

In its work, the Nominating Committee has partici-pated in the assessment of the Board of Directors and its work, as well as the Chairman of the Board's report on the Company's activities, goals, and strategies, in order to make correct assessments concerning the composi-tion of the Board of Directors. In addition, the Nominating Committee has analysed the skills and experience of the members of the Board of Directors, and compared them with the needs that have been identified. The Nominat-ing 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 as well as from different geographi-cal markets. Since the Annual General Meeting 2012 the Nominating Committee has met on two occasions.

The Nominating Committee's proposal, its justified opinion to proposed Board of Directors, and supplemen-tary information regarding the nominated members of the Board of Directors are announced in connection with the summons to the AGM, and will be presented at the AGM 2013 together with a report of the Nominating Com-mittee'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 from the AGM until the end of the next AGM. The Company's Articles of As-sociation does not contain specific provisions on the ap-pointment and dismissal of board members. The Board of Directors manages the shareholders' interests by es-tablishing goals and strategies for the business, evalu-ating the executive management, and securing systems for monitoring and control of established goals. It is also the task of the Board of Directors to ensure that there is sufficient control over the Company's compliance with laws and other regulations that apply to the Company's business, that the necessary ethical guidelines are es-tablished for the Company's conduct, and to ensure that the Company's communications are open, as well as ac-curate, relevant, and reliable.

Between AGMs, the Board of Directors is the Com-pany's highest governing body.

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

The members of the Board of Directors shall devote their time and attention to Net Entertainment, and ac-

quire the necessary knowledge to defend the Company and its shareholders.

At the AGM in April 2012, seven members were elect-ed: Vigo Carlund, Fredrik Erbing, Maria Redin, Mikael Gottschlich, Peter Hamberg, Michael Knutsson and Pontus Lindwall. For further description of the members, refer to page 24.

All but one member are independent in relation to the Company and its management, and six members to larger shareholders. Pontus Lindwall is not independ-ent in relation to the Company as he is the Chairman of the Board of Betsson AB, customer and previous parent company of Net Entertainment. The evaluation of the members of the Board of Directors' independence is based on the Code's rules, which apply from 1 February 2010.

At the Board meetings, Vigo Carlund, Peter Hamberg, Fredrik Erbing and Maria Redin have been present on all meetings, Pontus Lindwall was absent from one meet-ing and Michael Knutsson och Mikael Gottschlich were absent from three meetings each.

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 2012.

The Chairman organizes the work of the Board of Di-rectors so that it is conducted efficiently, and such that the Board of Directors fulfils their commitments. This also includes organizing and leading the work of the Board of Directors in order to create the best possible conditions for the work, ensuring that new members of the Board of Directors go through the necessary intro-ductory training, that the Board regularly updates and deepens their knowledge of the Company, the industry, and its development, is responsible for contacts with the owners, and communicates their opinions 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 the agendas of the Board meet-ings. The Chairman of the Board of Directors verifies that the Board's decisions are implemented, and is responsi-ble for the Board of Directors' work is evaluated annually, and that the Nominating Committee is informed of the evaluation. The Chairman is also a support for the CEO.

The work of the Board of Directors

The Board of Directors is regulated by the Rules of pro-cedure, in addition to laws and recommendations. The Rules of procedure are established by the Board of Di-rectors and reviewed annually through Board decisions.

The Rules of procedure are divided into different sec-tions in order to clarify and regulate the Board of Direc-

tors' work and tasks. The parts consist of the Board of Directors' Rules of procedure and instructions to the CEO and Audit Committee. The Remuneration Committee is composed of the entire Board of Directors.

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

Before each Board meeting, the members receive de-tailed documentation about the matters to be discussed at the Board meeting. Also, each month, a monthly report is distributed containing operational and financial devel-opment.

In 2012, the Board of Directors held 14 meetings, in-cluding the constituting meeting, three for the approval of interim reports, and four extra Board meetings. In con-nection with the Board meeting in June, a strategy meet-ing was held, in which the executive management pre-sented an in-depth analysis of the industry development and the proposed strategic direction for continued growth and development. This meeting was held in Sweden.

The key points at the Board meeting in 2012 were mat-ters concerning strategy, taxes, the development of the euro currency and contingency planning in relation to the same, approval of business plans and budgets, forecasts, key policies, annual report, earnings report and interim reports and investments. Examples of investment mat-ters includes adaption to various geographic markets and the investment in a Live Casino product and evalu-ation of a new ERP system. Other matters addressed by the Board of Directors were financial goals, vision, and mission, as well as financial policy. On one occation the Board held meeting in Malta, where an important part of the Company's business is located, where the Board also visited the Maltese Lotteries and Gaming Authority (LGA).

Also present at the Board meetings are the CEO and the CFO who also took the minutes for the meetings. The CEO reports on the operational development at each or-dinary Board meeting, and the CFO reports on the finan-cial development. In addition, various senior executives participated in presentations on different agenda items.

At the Board meeting in February 2013, the head audi-tor, Therese Kjellberg, Deloitte, reported her conclusions from the audit for 2012. During the meeting, the mem-bers of the Board had the opportunity to ask the auditor questions without Company management being present.

The Chairman of the Board of Directors annually evaluates the work of the Board through a systematic and structured process, with the purpose of developing the Board's work and efficiency. The Board of Directors

continually evaluates the CEO's work, and the Board addresses this evaluation without anyone from the Company management being present.

Audit Committee

The Board of Directors has established an Audit Committee, which, since April 2012, 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 what services may be procured by the auditors in addition to regular audit, evaluation of the audit process, counselling the Nominating Committee when preparing proposals to the auditors, and audit fees. In addition, the Committee has established an annual plan for its work, an updated risk analysis for the business with special focus on financial reporting, approved the auditor's audit plan, read and evaluated the auditor's ongoing review including IT systems review, evaluated the internal controls and the process improvement work performed by the Company in that regard, considered the Finance policy, and discussed the risks and its connection to internal control and accounting issues. During the year, special attention has been devoted to further development of the Finance department and controlling function as well as the evaluation of a new ERP system.

The Audit Committee met five times in 2012. The auditor attended all 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 Lindwall as he is the Chariman of the Board of Betsson AB, customer and former parent company of Net Entertainment. Pontus Lindwall did however not participate in any decisions where he could be considered biased.

The Remuneration Committee deals with matters concerning remuneration and benefits for senior execu-

tives, 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 Committee makes decisions on matters of remuneration concerning other senior executives and other matters of lesser importance. The Board of Directors also decides on matters of principle concerning remuneration to senior executives and salary for the CEO. The Board of Directors has established guidelines for remuneration to senior executives that are presented to and approved by the AGM. The guidelines for remuneration to senior executives are monitored and evaluated annually, including programs that are ongoing, and that ended during the year, for variable remuneration for the Company management. The current remuneration policy is attached to the minutes from the AGM, which is available on the website.

The Remuneration Committee met twice in 2012 and once during early 2013 where all members of the Board were present.

INSTRUCTIONS FOR THE CEO

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

REMUNERATION TO THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

Remuneration to the Board of Directors

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

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

Remuneration to the board of directors

2010-2012, SEK thousand

Decided at the AGM	2012	2011	2010
Chairman of the Board of Directors	580	550	650
(including fees for assignments in foreign)	-	-	(100)
Chairman of the Audit Committee	300	270	270
Members of the Board of Directors	240	220	220

Remuneration to senior executives

In order to achieve good long-term value growth for shareholders, Net Entertainment seeks to offer its employees a competitive remuneration and attractive workplace that makes it possible to recruit and retain the right employees. For senior executives, the Board of Directors has prepared guidelines for remuneration as outlined below.

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

Guidelines adopted by the AGM 2012

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 in existing contracts after the Annual General Meeting. The Board of Directors shall be able to deviate from the guidelines provided that there are special grounds in a specific case.

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

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

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

An annual variable salary shall be measured and paid on an annual basis. The annual variable salary shall be capped at 50 percent of the fixed salary, and based on

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

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

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

The Board has the right to reclaim variable pay paid on the basis of information that later proved to be evidently erroneous.

Leading employees are invited to participate in an ongoing share-based incentive program in form of share option rights or other share based incentive programs issued at market price to motivate long-term engagement and promote an increased common interest with the 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 a cash remuneration, which is payable in connection with the use of share option rights to employees who are still employed at the time of redemption. Such remuneration may not exceed 50 percent, net after tax, of the premium paid for the share option rights.

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

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

Guidelines determined by the Board of Directors and proposed to the AGM 2013

For the AGM 2013 the Board has proposed the following changes to the guidelines for remuneration to senior executives;

The 2012 remuneration guidelines states that persons within the sales organization may have variable compensation in the form of commission based completed sales. Provision for sales persons can amount to a maximum of 100 percent of the fixed salary, which can be obtained through particularly good sales performance. For the Annual General Meeting 2013 it is proposed that this section on commission based remunerations to sales men is removed since the main purpose of the guidelines is to govern remuneration to senior executives and also to remove any possible incentive for the sales men to delay contract negotiations if the current financial year cap has been reached. No other changes to the guidelines will be proposed.

AUDIT

Auditors are elected by the AGM, and review the Company's accounts and management on behalf of the AGM. According to the articles of association, Net Entertainment shall have one or two auditors. Deloitte AB were elected as auditors at the AGM in April 2012 for the period until the AGM 2013. Therese Kjellberg was appointed chief auditor. On the AGM 2013 auditor for the period up until the AGM 2014 will be appointed.

The auditor has presented her conclusions of the synoptic review of the interim report for January - September 2012, the audit for the entire year 2012, and internal control for the audit committee and the Board of Directors. The auditor also met with the Board of Directors and the audit committee without anyone from the Company management present.

In addition to the audit, the auditor has had a limited number of other tasks for Net Entertainment. These have been audit-related services concerning accounting and reporting, and well as assisting with establishing the Company's tax returns. In the previous year, assignment relating to the initial public offering in 2009 has taken place. Remuneration to the auditor is stated in note 23 on page 67.

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

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

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

Net Entertainment applies the established framework for internal control COSO (Committee of Sponsoring Organizations of the Treadway Commission). The principles of COSO is 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 what information of a financial nature shall be distributed to the Board of Directors at each ordinary Board meeting, and in between. The CEO ensures that the Board of Directors receives the reports required in order for the Board to be able to continuously assess Net Entertainment's economic position.

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

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

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

The basis of the internal controls related to the financial reporting consists of the overall control environment that the Board of Directors and the management have established and communicated. The Board of Directors and the management operate based on this, which creates discipline and structure for other parts in the process. These parts include risk assessment, control activities, including both general and more specific controls with the purpose of preventing, detecting, and correcting errors and discrepancies, systems for internal and external information and communication, and monitoring from the Board of Directors and the Company management and further down in the organization in order to ensure the quality of the process. An important part of control environment is that 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 the development of processes, Net Entertainment has considered the control environment and the risk assessment performed. A well-designed internal control not only creates conditions for reliable financial reporting, but probably contributes to a healthy and sustainable business with greater profitability as a result. Work on the design of internal processes and monitoring of these is continuously ongoing within Net Entertainment, and is becoming increasingly important as the Company grows. This is especially important regarding the systems Net Entertainment develops and operates on behalf of licensees.

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

The Company's finance function reports to the Audit Committee and to the Company's Chief Financial Officer, and works to develop and improve the internal control regarding financial reporting in the Company, both proactively with a focus on the internal 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. During 2012 the work to further develop the internal control has continued. The Company conducted a review of the internal controls design during the year with respect to how well the controls addresses the specific inherent risks that had been identified to increase clarity and to ensure adequate controls in relation to financial

reporting. Another example of the continuous work to improve and rationalise the routines and controls was a prestudy that was conducted during the year to evaluate a new ERP system and a new group consolidation system. Competence development within the Finance department is conducted continuously as well as review of the organization. An example of this is the expansion of the Finance department in Malta during 2012. 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 regulation from gaming authorities in different countries.

Internal governance instruments for financial reporting primarily consist of the Company's Finance Policy, Information Policy, Economic Handbook, and authorisation instructions that define accounting and reporting rules, as well as the Company's definition of processes and minimum requirements for good internal control regarding financial reporting. Guidelines for financial reporting are updated when there are changes in the legal requirements, listing requirements and / or accounting standards that are relevant to the Company. In addition, the Company has prepared policies regarding trading of company shares, IT- and information security, dividend, drugs and gambling, and more. The Company also has a process for background screening of new staff before employing them.

Risk assessment

Risks regarding the financial reporting are evaluated and monitored by the Board of Directors through the Audit Committee. Net Entertainment has implemented a structured risk assessment process in order to enable identification of the significant risks that affect the internal controls regarding financial reporting, as well as identification of the risks that exist. These risks are mainly attributed to the areas such as regulated activity, the billing process, development expenditure and taxes and the Company's significant liquid funds. During the risk assessment, particular attention has been paid to the risk of irregularities and favouritism by other parties at the Company's expense and risk of loss or misappropriation of assets. At the same time, the risk assessment has a greater focus on key processes and items.

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

Control activities

The most significant risks identified regarding financial reporting are managed through the control structures of processes. Control activities are designed and documented at the process level, and include both general and more specific controls with the purpose of preventing, detecting, and correcting errors and discrepancies. When designing control activities, it is ensured that they are performed correctly and on time. So-called general IT controls are designed for the system that supports the processes that affect internal control regarding financial reporting. In the Operations department, the casino system is supervised 24 hours seven days a week. Anomalies and changes in gaming patterns are investigated. The design of processes and control activities within IT is also affected by regulations specified by the gaming authorities, such as Lotteries and Gaming Authority of Malta (LGA), 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 are, for example:

- proper authorisation of business transactions
- business systems that affect the financial reporting, including verification management
- the accounting process, including year-end reports and consolidated annual accounts and their compliance with applicable regulations in the form of generally accepted accounting principles, applicable laws and regulations, and requirements for listed companies, but also in order to ensure proper decision making for the Board of Directors and management
- significant and unusual or complicated business transactions, as well as business transactions or valuations of assets or liabilities that contain significant elements of judgement.

Information and communication

Information and communication about internal governance instruments for financial reporting are available for all affected employees on the Company's internal network. Net Entertainment has information and communication channels with the purpose of promoting completeness and accuracy of financial reporting. Only a limited number of persons within 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 compensation.

Access to such confidential information is in accordance with the powers which the Company's personnel has been awarded in the organization. Important guidelines and manuals of importance for the financial reporting is updated and communicated to affected employees in connection with introduction of new employees and on possible changes to all affected personnel. There are both formal and informal communication channels to senior executives and the Board of Directors for information from employees. The employees can also contact the Board of Directors via e-mail and be anonymous to senior executives if they so wish, a so called whistle blower policy. For external communication there are guidelines for the Company with high standards for accurate and relevant information to the market. The Board of Directors annually establishes an information policy for the Company which among other things provides guidelines for contacts with analysts and media. In connection with the introduction of new employees the employees are informed of the guidelines and laws that apply to the Company regarding for example managing insider information and trading with the Company's shares. Prior to each quarterly earnings report a reminder is sent about the share trading rules.

Review process

The Board of Directors continuously evaluates the information that the Company management provides. The review process includes both monitoring of monthly financial reports for budget and goals, and reporting 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, among other things, ensuring that measures are taken regarding deficiencies and proposals for measures that are 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 recurring point on the agenda for the Audit Committee's meetings. The results of the Audit Committee's work in the form of observations, recommendations, and proposals for decisions and measures are continuously reported to the Board of Directors.

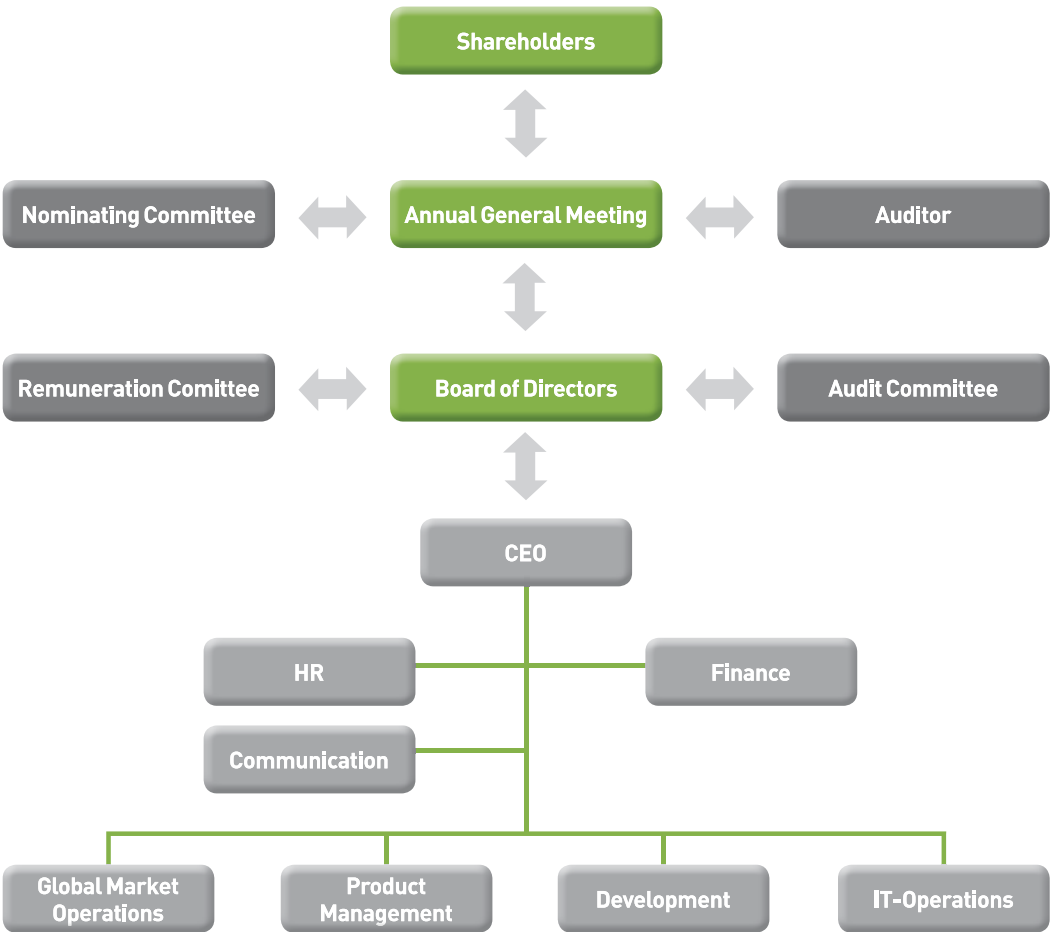
Internal audit

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 description of the internal control. There is no such separate review function in Net Entertainment. The responsibility for further development and management of the system for internal

control occurs in the organization together with existing functions for quality, processes, and regulatory compliance. It is the Board of Directors' assessment that there is no need to create a separate review function due to the limited scope and complexity of the business. The extent is limited to 403 persons employed at the end of 2012 and operations mainly located in Malta and Stockholm and business is also conducted in Kiev, Ukraine, in Gibraltar and in Alderney. To ensure adequate risk management, governance, ethics, quality, compliance and efficiency the finance function is used with the support from external specialists in specific matters. The Audit Committee has a recurring point on the agenda for its meetings to get

statements from the CFO on how the work is progressing regarding improvement of internal controls over the financial reporting and places requirements on improvements based on for example the risk analysis and dialog with the Company's auditors. Moreover, the Company has a compliance department who reports their observations on a regular basis directly to the CEO and who also meet with the Audit Committee minimum once a year without the Company's management present. The compliance department's purpose is to secure continuous improvement of the Company's processes and routines for industry specific regulatory compliance and routines to 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 2012, Per Hamberg owned, directly or indirectly, 8.9 percent of the shares, and 20.9 percent of the votes, and Rolf Lundström owned 6.5 percent of the shares, and 14.4 percent of the votes.

PROGRAM 2012-2015

The Annual General Meeting on April 18, 2012 resolved to introduce a long-term incentive program intended for senior management and key employees within the Net Entertainment Group. The resolution entailed the issue of a maximum of 350,000 share option rights to personnel with permanent employment within Net Entertainment to subscribe for an equal amount of shares in Net Entertainment NE AB. 114,994 share option rights were subscribed and at the end of the fiscal year all the options outstanding corresponded to the same amount of shares.

The strike price for the shares was determined to SEK 85.83 and subscription of shares can be made during the period August 1 to October 1, 2015. In the case of full subscription based on the outstanding share option rights the parent company's equity will increase by SEK 9.9 million.

To stimulate participation in the program the board has resolved to offer a loyalty compensation which will be paid one month prior to maturity of the options to participants who are still employed at the date of payment and have not resigned and meet certain other conditions. The compensation can amount to a maximum of 50 percent of paid premium or SEK 1,0 million including social security costs paid by the Company. This commitment is accrued for in the accounts on an ongoing basis considering forecasted employee turnover and interest.

PROGRAM 2011-2014

The Annual General Meeting in April 2011 resolved to introduce a long-term incentive program intended for senior management and key employees within Net Entertainment. At the end of the year, the total outstanding share option rights amounted to 353,100 corresponding to the same number of shares. The strike price for the shares is determined to SEK 70.20 and subscription of shares can be made during the period August 1 to October 1, 2014. In the case of full subscription of these share

option rights the parent company's equity will increase by SEK 24.8 million. Further information about this program can be viewed in the annual report 2011. Like program 2012-2015, participants that are employed within the Group at the end of the program have the opportunity to receive a loyalty compensation according to the same terms as program 2012-2015. The maximum cost for the loyalty compensation connected to program 2011-2014 amounts to SEK 0.8 million.

PROGRAM 2009-2012

The Annual General Meeting in April 2009 resolved to introduce a long-term incentive program intended for management and key employees within Net Entertainment. The strike price for the shares was determined to SEK 71.70 and subscription of shares was made during the period May 15 to July 15, 2012. No shares were subscribed for during this period as the share price did not exceed the strike price and all share option rights were therefore unused. There are thus no outstanding share option rights at the end of the year for this program.

MANDATE FOR NEW SHARE ISSUE

At the AGM 2012, the Board of Directors was authorized, on one or more occasions before the next AGM, with or without deviation from the shareholders' preferential rights, to decide on issuance of new shares, convertibles and/or share option rights that entail the issuance of, conversion to, or new subscription of a total of at most 4,300,000 shares of series A and/or series B (corresponding to an increase of about 10 percent of the capital) for cash payment and/or with provision of capital contribution, set-off, or otherwise with conditions. The use of the authorization may not lead to the proportion of shares of series A exceeding 14.2 percent of the total number of shares.

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

The AGM's resolution to authorize the Board of Director's to decide on the issue of new shares, convertibles and/or share option rights is only valid if it is supported by shareholders with at least two-thirds of the votes and the shares that are represented at the AGM.

EVENTS AFTER THE END OF THE PERIOD

Net Entertainment signed an agreement in January 2013 with one of the largest and most reputable gaming operators in the world, 888 Holdings Public Limited Company

(888). Under the terms of the agreement Net Entertainment will supply a wide range of its leading online and mobile casino content to 888's global casino and bingo verticals, including the regulated Italian market. 888's B2C revenues amounted to EUR 284 million year 2011 where casino represented approximately 52 percent.

Net Entertainment signed an agreement in February 2013 with Bonza Gaming, a joint venture between social gaming publisher Plumbee and online gaming operator Sportingbet. Under the terms of the agreement Net Entertainment will deliver a wide range of slot and casino games to Bonza Gaming, who in turn will offer real money gaming to Facebook users through their first application Bonza Slots.

FUTURE OUTLOOK

Growth

Net Entertainment has several interesting product initiatives and customer deals that have been launched on the market at the end of 2012. These initiatives are expected to generate noticeable revenues for the Company, however not until they reach full capacity.

Live Casino was launched in November 2012 and was available with two operators on a very limited number of markets. Launch on additional markets and customers will take place gradually during 2013 and thereafter.

Initially, the delivery of games to UK operators is limited but additional games will be launched gradually during the year. 888 was the latest addition of operators and is expected to launch during the second half of 2013.

The Company has seen a positive development in Italy from the slot games that were launched during December but it takes some time for the players to find the games with the operators. The Company will launch additional games during 2013.

Long term the outlook for continued high growth is positive driven by both existing customers' growth and above mentioned strategic initiatives.

Costs and investments

net Entertainment's market is constantly changing and the Company has a continued need to strengthen the organization through further recruitment and investments in internal support systems to meet a growing customer base, high demand for the Company's products and demands from regulated markets. An increased number of customers and rules on different markets also set higher demands on Net Entertainment's operations to manage an increasing number of transactions and more players, which lead to increased costs.

Larger development projects during 2013 include development of blackjack for Live Casino, further platform enhancements and adjustments for certain operators in the UK that have a complex platform architecture.

Overall, the investments in the organization and product development will enable continued competitiveness and growth. An increased operating margin from the efforts made during 2012 and that will continue during 2013 is not expected to be visible until towards the fourth quarter 2013 and thereafter. Until then, the Company's operating margin is expected to remain around the same levels as in the fourth quarter 2012.

PROPOSED DIVIDEND

The Board of Directors proposes that no dividend is paid for the fiscal year 2012. The Board of Directors proposes to the AGM to allocate SEK 89.0 (79.1) million to shareholders, which corresponds to SEK 2.25 (2.00) per share through a share redemption program. The record date for the share redemption program is scheduled to 6 May 2013.

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 as from 4 April 2013. The information will also be sent free of charge to those shareholders who so request and provide their postal address.

The Board of Director's proposed allocation of profit in the parent company

The following profits are at the disposal of the AGM (SEK)	
Opening profit brought forward	25,830,031
Share premium reserve	6,735,632
Profit/loss for the year	86,991,811
	119,557,474

The Board of Directors proposes	
That the following amount should be carried forward	119,557,474

Proforma after transfer to the shareholders	
Opening profit brought forward incl. profit/loss for the year	119,557,474
Transfer to shareholders	-88,991,811
	30,561,613

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 statement of total income

Group

SEK thousands	Note	2012	2011
Revenues	3, 4	525,518	426,838
Other revenues	5	1,153	780
Total operating revenues		526,671	427,618
OPERATING EXPENSES			
Personnel expenses	6	-161,225	-146,547
Depreciation/amortization	12, 13	-74,257	-45,823
Other operating expenses	24	-138,132	-105,535
Total operating expenses		-373,614	-297,905
Operating profit		153,057	129,713
FINANCIAL ITEMS			
Financial income	8	46,041	6,640
Financial expenses	9	-47,835	-7,359
Total financial items		-1,794	-719
Profit before tax		151,263	128,994
Income tax	10	-18,008	-13,380
Profit for the year		133,255	115,614
Earnings per share before dilution (SEK)	11	3.37	2.92
Earnings per share after dilution (SEK)	11	3.37	2.92
Number of shares at period's end		39,553,716	39,553,716
Average number of shares		39,553,716	39,553,716
Effective tax rate		11.9%	10.4%
Profit for the period attributable to:			
Parent Company shareholders		133,255	115,614
Statement of total income – Group		2012	2011
Profit for the period		133,255	115,614
OTHER TOTAL INCOME			
Exchange differences arising from the translation of foreign operations		-4,301	-911
Sum of other total income for the period, net after tax		-4,301	-911
Total income for the year		128,954	114,703

Balance sheets

Group

SEK thousands	Note	Dec 31, 2012	Dec 31, 2011
ASSETS			
FIXED ASSETS			
Intangible fixed assets	12	167,246	133,142
Tangible fixed assets	13	49,129	50,412
TOTAL FIXED ASSETS		216,375	183,554
CURRENT ASSETS			
Accounts receivable	15	16,818	3,680
Other receivables	17	59,666	38,473
Prepaid expenses and accrued income	16	63,698	54,788
Funds held on behalf of licensees		114,034	87,689
Cash and cash equivalents	18	81,230	74,234
TOTAL CURRENT ASSETS		335,446	258,864
TOTAL ASSETS		551,821	442,418
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	19		
Share capital		1,191	1,191
Other capital contributed		41,624	40,904
Reserves		-11,770	-7,469
Retained earnings incl. profit for the year		257,505	203,357
TOTAL EQUITY		288,550	237,983
LONG-TERM LIABILITIES			
Deferred tax liabilities	10	9,157	3,373
TOTAL LONG-TERM LIABILITIES		9,157	3,373
CURRENT LIABILITIES			
Liabilities to credit institutions	18	1,874	–
Accounts payable		28,650	33,498
Current tax liabilities		9,537	15,139
Other liabilities	20	172,357	118,710
Accrued expenses and deferred income	21	41,696	33,715
TOTAL CURRENT LIABILITIES		254,114	201,062
TOTAL EQUITY AND LIABILITIES		551,821	442,418
Pledged assets		None	None
Contingent liabilities	27	92,100	–

Cash flow analyses

Group

SEK thousands	Note	2012	2011
OPERATING ACTIVITIES			
Operating profit/loss		153,057	129,713
Adjustments for non-cash items			
– Depreciation/amortization	12, 13	74,257	45,823
– Other		-1,550	-430
– Interest received		204	420
– Interest paid		-552	-166
Income tax paid		-17,187	-6,060
Cash flow from operating activities before changes in working capital		208,229	169,300
Increase / decrease in accounts receivable		-13,138	1,793
Increase / decrease in other receivables		-56,448	-58,080
Increase / decrease in trade payables		-4,848	14,040
Increase / decrease in other current liabilities		61,627	76,198
Cash flow from operating activities		195,422	203,251
INVESTING ACTIVITIES			
Acquisition of intangible assets	12	-90,980	-77,539
Acquisition of tangible fixed assets	13	-20,597	-21,505
Cash flow from investing activities		-111,577	-99,044
FINANCING ACTIVITIES			
Use of overdraft facility		1,874	–
Transfer to shareholders		-79,107	-79,107
Received premium for share option rights		720	2,542
Cash flow from financing activities		-76,513	-76,565
CASH FLOW FOR THE YEAR		7,332	27,642
Cash and liquid assets at beginning of period		74,234	47,034
Exchange rate differences in cash and cash equivalents		-336	-442
Cash and cash equivalents at year-end	18	81,230	74,234

Changes in equity

Group

SEK thousands	Share capital	Other capital contributed	Reserves	Retained earnings incl. profit for the year	Total equity
2011					
Opening equity 1 Jan. 2011	1,191	38,362	-6,558	166,850	199,845
Profit for the year	–	–	–	115,614	115,614
Exchange differences arising from the translation of foreign operations	–	–	-911	–	-911
Total income for 2011	–	–	-911	115,614	114,703
Premium received for share option rights	–	2,542	–	–	2,542
Transfer to shareholders	–	–	–	-79,107	-79,107
Closing equity 31 Dec 2011	1,191	40,904	-7,469	203,357	237,983

SEK thousands	Share capital	Other capital contributed	Reserves	Retained earnings incl. profit for the year	Total equity
2012					
Opening equity 1 Jan 2012	1,191	40,904	-7,469	203,357	237,983
Profit for the year	–	–	–	133,255	133,255
Exchange differences arising from the translation of foreign operations	–	–	-4,301	–	-4,301
Total income for 2012	–	–	-4,301	133,255	128,954
Premium received for share option rights	–	720	–	–	720
Transfer to shareholders	–	–	–	-79,107	-79,107
Closing equity 31 Dec 2012	1,191	41,624	-11,770	257,505	288,550

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

Income statements and statements of total income

Parent Company

SEK thousands	Note	2012	2011
Revenues	3, 4	370,399	307,623
Other revenues	5	702	506
Total operating revenues		371,101	308,129
OPERATING EXPENSES			
Personnel expenses	6	-182,957	-167,148
Depreciation/amortization	12, 13	-12,153	-8,957
Other operating expenses	23	-136,707	-109,469
Total operating expenses		-331,817	-285,574
Operating profit		39,284	22,555
FINANCIAL ITEMS			
Profit/loss from interests in Group Companies	7	67,851	68,870
Interest and similar income	8	45,493	5,492
Interest and similar expense	9	-46,407	-5,861
Total financial items		66,937	68,501
Profit after financial items		106,221	91,056
APPROPRIATIONS			
Provisions to accrual fund		-9,547	-
Accelerated depreciation		-2,149	-
Total appropriations		-11,696	0
Profit before tax		94,525	91,056
Tax	10	-7,533	-6,225
Profit for the year		86,992	84,831
Earnings per share before dilution (SEK)	11	2.20	2.14
Earnings per share after dilution (SEK)	11	2.20	2.14
Number of shares at period's end		39,553,716	39,553,716
Average number of shares		39,553,716	39,553,716
Effective tax rate		7.1%	6.8%
Statement of total income – Parent Company		2012	2011
Profit for the period		86,992	84,831
OTHER TOTAL INCOME			
Sum of other total income for the period, net after tax		-	-
Total income for the period		86,992	84,831
Proposed/implemented transfer to shareholders		2.25	2.00

Balance sheets

Parent Company

SEK thousands	Note	Dec 31, 2012	Dec 31, 2011
ASSETS			
FIXED ASSETS			
Intangible fixed assets	12		
Licences and business system		846	-
Total intangible fixed assets		846	0
Tangible fixed assets	13		
Inventory and equipment		26,528	27,983
Total tangible fixed assets		26,528	27,983
Financial fixed assets			
Shares in Group companies	14	1,669	512
Total financial fixed assets		1,669	512
TOTAL FIXED ASSETS		29,043	28,495
CURRENT ASSETS			
Current receivables			
Accounts receivable	15	9	28
Receivables from Group companies	24	583,918	180,224
Other receivables	17	6,999	8,476
Prepaid expenses and accrued income	16	7,274	6,580
Total current receivables		598,200	195,308
Cash and bank balances	18	1,174	25,050
TOTAL CURRENT ASSETS		599,374	220,358
TOTAL ASSETS		628,417	248,853
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	19		
Restricted equity			
Share capital		1,191	1,191
Statutory reserve		38	38
Total restricted equity		1,229	1,229
UNRESTRICTED EQUITY			
Share premium reserve		6,735	6,015
Retained earnings		25,830	20,107
Profit for the year		86,992	84,831
Total unrestricted equity		119,557	110,953
TOTAL EQUITY		120,786	112,182
UNTAXED RESERVES			
Periodisation reserves		9,547	-
Accelerated depreciation		2,149	-
TOTAL UNTAXED RESERVES		11,696	-
CURRENT LIABILITIES			
Liabilities to credit institutions	18	1,874	-
Accounts payable		24,107	28,773
Liabilities to Group companies	24	428,818	69,181
Tax liabilities		1,375	6,127
Other liabilities	20	3,696	3,177
Accrued expenses and deferred income	21	36,065	29,413
TOTAL CURRENT LIABILITIES		495,935	136,671
TOTAL EQUITY AND LIABILITIES		628,417	248,853
Pledged assets		None	None
Contingent liabilities	27	94,394	1,672

Cash flow analyses

Parent Company

SEK thousands	Note	2012	2011
OPERATING ACTIVITIES			
Operating profit/loss		39,284	22,555
Adjustments for non-cash items			
– Depreciation/amortization	12, 13	12,153	8,957
– Other		-608	-327
Interest received		36	123
Interest paid		-339	-166
Income taxes paid		-12,285	-6,026
Cash flow from operating activities before changes in working capital		38,241	25,116
Increase / decrease in accounts receivable		19	-26
Increase / decrease in other receivables		-335,059	76,735
Increase / decrease in trade payables		-4,666	11,983
Increase / decrease in other current liabilities		366,808	-32,149
Cash flow from operating activities		65,342	81,659
INVESTING ACTIVITIES			
Acquisition of subsidiary	14	-1,157	–
Recognized expenses for development projects	12	-167	–
Acquisition of tangible fixed assets	13	-11,381	-13,804
Cash flow from investing activities		-12,705	-13,804
FINANCING ACTIVITIES			
Use of overdraft facility		1,874	–
Premium received for share option rights		720	2,542
Transfer to shareholders/dividends		-79,107	-79,107
Cash flow from financing activities		-76,513	-76,565
CASH FLOW FOR THE YEAR		-23,876	-8,710
Cash and cash equivalents at beginning of year		25,050	33,760
Cash and cash equivalent at year-end	18	1,174	25,050

Changes in equity

Parent Company

SEK thousands	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Year's earnings	Total equity
Opening equity 1 Jan, 2011	1,191	38	3,473	17,279	81,935	103,916
Profit for the year	–	–	–	–	84,831	84,831
Total income for 2011	–	–	–	–	84,831	84,831
Received premium for share option rights	–	–	2,542	–	–	2,542
Allocation adopted by Annual General Meeting	–	–	–	2,828	-81,935	-79,107
Closing equity 31 Dec 2011	1,191	38	6,015	20,107	84,831	112,182

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

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 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 royalty, based on the gaming yield generated by the Group's customers 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)

This annual report was approved for publication by the Board of Directors on March 21, 2013. The Statements of Income and Balance Sheets shall be adopted at the Annual General Meeting on April 25, 2013.

NOTE 2 ACCOUNTING AND VALUATION PRINCIPLES

Basis of preparation

The consolidated financial statements have been 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, as adopted by the European Commission for application within the EU. The Swedish Financial Reporting Board's recommendation RFR 1 "Supplementary Accounting Rules for Groups" has also been applied.

The accounting principal have been consistently applied for all companies within the Group for reporting and in consolidation under all time periods presented Group's financial statements.

Preparation of the Group's financial reports

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

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

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

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

The Parent Company applies the same principles as the Group, with the exception that the Parent Company's report has been prepared in accordance with RFR 2 "Accounting for Legal Entities". This results in certain differences caused by the requirements of the Annual Accounts Act or by tax considerations. The accounting principles for the Parent Company are stated below in the section "Parent Company Accounting Principles".

Standards, Amendments and Interpretations effective for 2012

These new, amended or revised standards have been applied from 2012:

Standards

- Amendments to IFRS 7 Financial instruments – Expanded disclosure requirements for transfer of financial assets
- Amendments to IAS 12 Income taxes – exceptions from the general principle in IAS 12 that valuation of deferred tax liabilities and deferred tax receivables shall be based on how the Company anticipates recovering or paying the reported value for the corresponding asset or liability.

Interpretations

- No new interpretations entered into effect for financial year 2012

The above new, amended or revised standards and interpretations have not had any significant impact on the amounts presented in these financial statements. However they might affect the accounting for future transactions and events.

Standards, revised standards and interpretations in issue not yet effective that has not been early adopted by the Group

Amendments to IAS 1 Presentation of Financial Statements; Expanded requirements for disclosures in other comprehensive income so that items in other comprehensive income are grouped into two categories: a) items that will not be factored into profit and b) items that will be factored into profit if certain criteria are met. Application for financial years beginning 1 July 2012 or later.

Amendments to IAS 19 Employee benefits; Changes in reporting of defined-benefit pension plans and compensation upon termination. The most significant change regards reporting of defined-benefit commitments and plan assets. These amendments require actuarial gains and losses to be reported immediately via other total income, which means that the corridor method will be discontinued. In addition, interest expenses and expected yield on plan assets is being replaced with an "interest balance", which shall be calculated using the discount rate on the defined benefit pension liabilities or assets, net. Applies for financial years beginning 1 January 2013 or later.

IASB has also published a package with amendments not yet approved within the EU. These amendments will enter into effect on 1 January 2013 according to the IASB, but the ARC (Accounting Regulatory Committee) has recommended for the EU that they should not come into effect until financial years beginning on 1 January 2014 or later. The following amendments shall begin to apply on 1 January 2013 or later; IFRS 13 Fair Value Measurement, Improvements in IFRS 2009-2011 cycle, Amendments to IFRS 7 Financial Instruments (Offsetting financial assets and financial liabilities), The following amendments begin to apply on 1 January 2014 or later; Amendments to IAS 32 Financial instruments: Classification (Offsetting financial assets and financial liabilities), IFRS10 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 IFRS10, IFRS 12 and IAS 27). The following amendments begin to apply on 1 January 2015 or later; IFRS 9 Financial Instruments and subsequent amendments to IFRS 9 and IFRS 7.

The IFRS Interpretations Committee has also published a new interpretation (IFRIC), which has not yet entered into effect: IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine.

Company management does not estimate that other new or revised standards or interpretations not yet having entered into effect in 2012 will have any considerable effect on the Group's financial reports for the period to which they are applied for the first time.

CLASSIFICATIONS

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

CONSOLIDATED STATEMENTS

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

Principles of consolidation

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

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

Translation of foreign operations

Operations which do not have the Sweden krona as their functional currency are translated to SEK 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 during this conversion, translation differences are recognized via total income in equity. Foreign operations are sold at their accumulated translation differences, less any hedging in the consolidated financial statements.

Revenues

Net Entertainment's revenues are largely dependent on the licensing of online gaming products/services. Revenue consists of fair value of what is 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 internal Group sales. All invoicing takes place monthly in arrears.

Net Entertainment Casino™ generates license revenues according to a royalty model and the amount is determined by the earnings generated by the product for the customer and is recognized for the period the customer uses the product.

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

Other revenues

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

Financial income/expenses

Interest revenues and interest expenses are reported as distributed over their period of accrual 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 interest binding period equal to the reported value of the receivable or liability.

Other operating expenses

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

Segment reporting

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

Pooled Jackpots

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

Cash flow analysis

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

Intangible assets

Development expenses is capitalized to the extent that it is expected to generate future economic benefits. Only expenditure associated with 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 conditions allow this. The carrying amount includes direct expenditure for salaries, purchased services, materials and indirect expenses that can be reasonably and consistently attributed to the asset.

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

Tangible assets

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

Depreciation/amortization and impairment

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

- Trademarks, domain names, licenses 2–5 years.
- Gaming agreements and concessions, 3–5 years.
- Capitalized development expenses for games, gaming systems and gaming platforms are based on class of asset and amount to a maximum of 3 years.
- Computer and server equipment, 4–5 years.
- PCs (work stations for developers etc.) 1–3 years.
- Office equipment, 3–7 years.

The residual value and useful life of an asset are reviewed annually. If there is any indication that the carrying amount of tangible, intangible or financial fixed assets in the Group is excessive, an analysis is carried out in which the recoverable value 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 value. When a previously recognized impairment loss is no longer warranted, it is reversed. A reversal may not be higher than a value that does not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized.

Financial instruments

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

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

Loan receivables and accounts receivable

Loan receivables and accounts receivable are financial assets that are not derivatives with fixed payments or payments that can be defined and are not listed in an active market. They are included in current assets with the exception of items with an expiry date of more than 12 months from the closing date, which are classified as fixed assets. In this category, accounts receivable as well as cash and certain other receivables are recognized in the balance sheet (see note 15, note 17 and note 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. Provision for impairment on accounts receivable is made when there is direct evidence that the Group will not be able to collect all the amounts due under the original terms of the receivable. The amount of a provision is the difference between the asset's carrying value and the current value of assessed future cash flows, discounted using the original effective interest rate and the adjustment is recognized in the income statement in sales costs. When an accounts receivable cannot be collected, it is completely written off accounts receivable.

Cash and cash equivalents

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

Accounts payable

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

Other financial liabilities

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

Financial investments

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

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

Hedge accounting

Net Entertainment does not regularly hedge the risk exposure in terms of exchange rate fluctuations from future cash flows with financial instruments. By way of exception, hedging can occur for identified flows. The most recent currency hedging 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 as cash flow hedge, the effective portion of the changes in the fair value 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 meet the criteria for hedge accounting, and for ineffective portions of derivatives qualifying for hedge accounting, changes in fair value are recognized in the income statement as other interest income or interest expenses.

Shareholders' equity

Shareholders' equity consists of registered share capital, other paid-in capital, hedge reserves, retained earnings and profit for the year. Ordinary shares are classified as equity. 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 amount. Other than the shares' quota value, other capital contributed refers to amounts received from new share issue, shareholder contribution and Group contribution. Translation reserves relate to translation differences attributable to translation of foreign subsidiary operations into Net Entertainment's reporting currency.

Taxes

Tax expenses in the profit and loss statement consist of current tax and deferred tax. Current tax is tax (paid or received) that relates to the current year. This also includes adjustment of current tax attributable to prior periods.

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

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

Leasing

Leases are classified either as finance or operating leases in the consolidated income statement. Leasing of fixed assets where the Group is essentially exposed to the same risks and rewards as in direct ownership is classified as finance leasing. The leased asset is recognized in fixed assets and the corresponding rental liability falls under interest-bearing liabilities. Leasing of assets where the lessor essentially remains the owner of the asset is classified as operating leasing and the leasing charges are expensed on a straight-line basis over the leasing period. Details of operating leases and rental agreements are shown in note 22.

Dividends

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

Employee benefits

Pension costs and pension commitments

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

Benefits after termination of employment

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

Termination benefits

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

Bonus plans

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

Provisions

A provision is recognized in the balance sheet when the Group has an existing legal or informal obligation as a result of a past event and an outflow of resources will probably be required to settle the obligation and a reliable estimate of the amount can be made. In a situation where the effect of when the payment takes place is important, provisions are measured by discounting expected future cash flows at an interest rate before tax that reflects current market value assessments of the expenditure required to settle the amount 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 approved. 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 reported as a liability or a provision due to the fact that it is not probable that an outflow of resources will be required to settle the obligation.

PARENT COMPANY ACCOUNTING PRINCIPLES

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

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

Shareholder contributions are recognized directly in the equity of the recipient and capitalized in the contributor’s shares and participating interests. These assets are subsequently subject to impairment testing. Group contributions made or received for the purpose of minimising the Group’s total tax are recognized directly as financial income after deduction for their current tax effect.

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

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

The amendments in RFR 2 have not had any considerable effect on the Parent Company’s financial reports.

KEY ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions about the future. The resulting estimates used for reporting purposes by definition rarely match the actual results. The estimates and assumptions that entail considerable risk for significant adjustments in reported values for 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 circumstances.

Tax

The Group’s tax expense is primarily affected by the distribution of profit between Sweden and the countries in which the Group conducts operations and tax laws in each respective country. Extensive assessments are required in order to establish the provisions for income tax. There are many transactions and calculations where the final tax is uncertain at the time when the transactions and calculations are taking place. The company has assessed with legal expert consultants how tax rules affect the business to ensure a correct tax situation. This also applies to indirect taxes. The company reports and pays tax authorities the tax amounts the Company deem to be correct. However, these amounts may be insufficient if tax authorities make more restrictive interpretations of tax regulations than the Company has done and deems as correct.

Impairment tests

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

Development expenses are recognized in the balance sheet at cost, less deductions for accumulated amortization and impairment losses. Regular assessments are made of the projects’ income-generating capacity in order to identify any impairment requirements (see note 12).

NOTE 3 REVENUES				
	GROUP		PARENT COMPANY	
	2012	2011	2012	2011
– License revenues, royalties	525,518	426,838	24,317	18,697
– Consulting revenues	–	–	344,100	267,992
– Invoiced expenses	–	–	1,982	20,934
Total	525,518	426,838	370,399	307,623

NOTE 4 SEGMENT REPORTING

Company management has identified the CEO to be the chief decision maker.

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

With respect to geographic breakdown of business, Net Entertainment’s customers (gaming operators) offer gaming to their customers (players) in many different countries. The domicile of Net Entertainment’s direct customers (websites) is determined by reasons completely different to proximity to the local market, such as appropriate gaming legislation, tax-related reasons, or other reasons. The advantage of the Internet is that it is a global, cross-border form of distribution, where those owning 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 in the same manner geographically distributed for regulatory and operational reasons. The geographical information below regarding revenues and assets has been distributed based on the countries where the Group’s customers have their main offices, and where the Group has its assets.

GEOGRAPHIC BREAKDOWN		
	2012	2011
Revenue		
Sweden	–	–
Malta	71.0%	80.0%
Other Countries	29.0%	20.0%
Fixed assets		
Sweden	12.7%	15.2%
Malta	83.8%	79.2%
Alderney	3.4%	5.6%
Ukraine	0.2%	0.0%

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

CUSTOMERS (BREAKDOWN OF REVENUE)		
	2012	2011
Customer I	22%	20%
Customer II	13%	13%
Customer III	7%	9%

NOTE 5 OTHER REVENUE				
	GROUP		PARENT COMPANY	
	2012	2011	2012	2011
– Exchange differences, operations	1,104	763	653	489
– Other	49	17	49	17
Total	1,153	780	702	506

NOTE 6 EMPLOYEE BENEFIT

AVERAGE NUMBER OF EMPLOYEES				
	2012		2011	
	Average number of employees	Of which men	Average number of employees	Of which men
Sweden	232	76%	198	76%
Malta	25	65%	22	83%
Group total	257	75%	220	77%

REMUNERATION TO THE BOARD		
	2012	2011
Current Board of Directors		
Vigo Carlund, chairman	567	440
Fredrik Erbing	293	253
Mikael Gottschlich	233	220
Peter Hamberg	233	220
Pontus Lindwall	233	147
Michael Knutsson	160	–
Maria Redin	160	–
Previous board members		
Niklas Eriksson, former board member	73	220
Rolf Blom, former chairman of the board	–	200
Total	1,952	1,700

SALARIES AND SOCIAL SECURITY EXPENSES				
	2012		2011	
	Salaries	Social security expenses (of which pension costs)	Salaries	Social security expenses (of which pension costs)
Board of Directors and CEO	4,553	1,784 (473)	6,018	3,406 (1,188)
Other employees Sweden	117,463	51,879 (10,143)	101,603	45,036 (11,458)
Total Parent Company	122,016	53,663 (10,616)	107,621	48,442 (12,646)
Other employees Malta	18,468	711 (121)	11,997	459 (83)
Total Group	140,484	54,374 (10,737)	119,618	48,901 (12,729)

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						
	2012			2011		
	No. of men	No. of women	Women	No. of men	No. of women	Women
Board of Directors	6	1	14%	6	–	0%
Other senior executives	4	4	50%	6	2	25%
Total Group Board of Directors and senior executives	10	5	33%	12	2	14%

REMUNERATION TO THE BOARD OF DIRECTORS

Remuneration to the Board of Directors is determined by the Annual General Meeting. At the Annual General Meeting on 18 April 2012, it was determined, for the period until the next Annual General Meeting in 2013, that remuneration would be paid of SEK 2,080 thousand, of which SEK 580 thousand to the Chairman of the Board and SEK 240 thousand each to other Board members, with an addition of SEK 60 thousand to the Chairman of the Audit Committee.

REMUNERATION TO SENIOR EXECUTIVES

During 2012, the remuneration to the CEO amounted to SEK 2,600 (4,318) thousand, of which SEK 94 (313) thousand was variable compensation, and pension benefits of SEK 731 (1,188) thousand. Of pension benefits, SEK 258 (663) thousand regard 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 3 (2) thousand. Reserved notice-period pay at the close of 2012 totaled SEK 338 (3,985) thousand for the former CEO, including social security costs.

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

Remuneration to other senior executives during 2012 amounted to SEK 10,711 (7,823) thousand, of which SEK 1,020 (637) thousand constituted variable compensation and pension costs totalling SEK 1,508 (1,396) thousand. Senior executives consisted of 10 (11) different individuals, some of these only for a portion of the year.

The notice period for other senior executives varies between 3–6 months and is mutual. In one case, severance pay equivalent to an additional two months’ salary applies, which is deductible against salary from new employment. Other benefits pertaining to health insurance, totaled SEK 86 (16) thousand.

NOTE 7 EARNINGS FROM SHARES IN SUBSIDIARIES

	PARENT COMPANY	
	2012	2011
Anticipated dividend from subsidiaries	67,851	68,870
Total	67,851	68,870

NOTE 8 FINANCIAL INCOME

	GROUP		PARENT COMPANY	
	2012	2011	2012	2011
Interest income	204	422	36	123
Exchange rate differences	45,837	6,218	45,457	5,369
Total	46,041	6,640	45,493	5,492

NOTE 9 FINANCIAL EXPENSES

	GROUP		PARENT COMPANY	
	2012	2011	2012	2011
Interest expenses	552	166	339	166
Exchange rate differences	47,283	7,193	46,068	5,695
Total	47,835	7,359	46,407	5,861

NOTE 10 INCOME TAX				
GROUP		PARENT COMPANY		
	2012	2011	2012	2011
Current tax				
Sweden	7,533	6,225	7,533	6,225
Outside Sweden	4,031	9,431	–	–
Total current tax	11,564	15,656	7,533	6,225
Deferred tax				
Sweden	3,076	–	–	–
Outside Sweden	3,369	-2,276	–	–
Total deferred tax	6,445	-2,276	0	0
Total tax expense	18,008	13,380	7,533	6,225
GROUP		PARENT COMPANY		
	2012	2011	2012	2011
Difference between actual tax expense and tax expense based on present tax rate				
Recognized profit before tax	151,263	128,994	94,525	91,056
Tax according to present tax rate 26.3%	39,782	33,925	24,860	23,948
Difference in tax rates in foreign operations	-22,250	-22,592	–	–
Effect from changed tax rate	-503	–	–	–
Non-tax items	–	–	-17,845	-18,113
Tax attributable to prior years	–	-6	–	-6
Tax effect from non-deductible items	979	2,053	518	396
Recognized tax expense	18,008	13,380	7,533	6,225
Specification of deferred tax expense				
Tax on appropriations	3,076	–	–	–
Tax on temporary differences	3,369	-2,276	–	–
Reported deferred tax expense	6,445	-2,276	0	0
Specification of deferred tax expense				
Tax on appropriations	2,573	–	–	–
Tax on temporary differences	6,584	3,373	–	–
Reported deferred tax liabilities	9,157	3,373	0	0

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

NOTE 11 EARNINGS PER SHARE				
GROUP		PARENT COMPANY		
	2012	2011	2012	2011
Profit after tax attributable to Parent Company shareholders (SEK thousand)	133,255	115,614	86,992	84,831
No. of shares	39,554	39,554	39,554	39,554
Earnings per share (SEK)	3.37	2.92	2.20	2.14

Earnings per share is calculated based 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 2012, there were a total of 468,094 share option rights, representing the same number of outstanding shares. The share option rights have been 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 18 April 2012. The potential shares entailed in the issue of the share option rights are considered when calculating the number of shares and earnings

per share after dilution, to the extent they affect dilution in accordance with IAS 33 Earnings per share. As the average share price during the year falls below the strike price of SEK 70.20 and SEK 85.38, the potential shares have no dilutive effect and as such are not included in the number of shares after dilution. Share option rights are acquired at market price.

NOTE 12 INTANGIBLE ASSETS					
GROUP					
	Gaming products, systems and platforms	Gaming contracts and licenses	Trade- marks	Total	
2011					
Opening acquisition value	145,159	1,615	147	146,921	
Capitalized development expenses for the year	77,539	–	–	77,539	
Translation difference	-1,531	–	–	-1,531	
Closing accumulated acquisition value	221,167	1,615	147	222,929	
Opening amortization	58,138	1,615	147	59,900	
Amortization during the year	30,401	–	–	30,401	
Translation difference	-514	–	–	-514	
Closing accumulated amortization	88,025	1,615	147	89,787	
Closing residual value according to plan 31 Dec 2011	133,142	0	0	133,142	
2012					
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	
Closing accumulated acquisition value	304,461	1,615	1,694	307,770	
Opening depreciation	88,025	1,615	147	89,787	
Amortization during the year	52,908	–	701	53,609	
Translation difference	-2,872	–	–	-2,872	
Closing accumulated amortization	138,061	1,615	848	140,524	
Closing residual value according to plan 31 Dec 2012	166,401	0	845	167,246	

PARENT COMPANY				
	Gaming products, systems and platforms	Gaming contracts and licenses	Trade- marks	Total
2011				
Opening acquisition value	24,433	1,615	147	26,195
Closing accumulated acquisition value	24,433	1,615	147	26,195
Opening amortization	24,433	1,615	147	26,195
Amortization during the year	–	–	–	–
Closing accumulated depreciation	24,433	1,615	147	26,195
Closing residual value according to plan 31 Dec 2011	0	0	0	0
2012				
Opening acquisition value	24,433	1,615	147	26,195
Investments during the year	–	–	167	167
Reclassification	–	–	1,380	1,380
Closing accumulated acquisition value	24,433	1,615	1,694	27,742
Opening amortization	24,433	1,615	147	26,195
Amortization during the year	–	–	3	3
Reclassification	–	–	699	699
Closing accumulated depreciation	24,433	1,615	848	26,896
Closing residual value according to plan 31 Dec 2012	0	0	846	846

NOTE 13 TANGIBLE FIXED ASSETS					
GROUP		PARENT COMPANY			
	2012	2011	2012	2011	
Inventory and equipment					
Opening acquisition value	76,541	63,165	38,253	32,311	
Acquisitions for the year	19,730	13,648	10,524	5,942	
Translation differences	-1,665	-272	–	–	
Closing accumulated acquisition value	94,607	76,541	47,396	38,253	
Opening depreciation	38,397	24,549	22,537	15,030	
Depreciation during the year	18,650	13,908	10,165	7,507	
Translation differences	-434	-60	–	–	
Closing accumulated depreciation	56,613	38,397	32,004	22,537	
Closing residual value according to plan	37,994	38,145	15,393	15,716	
Leasehold improvement					
Opening acquisition value	14,745	6,884	14,745	6,884	
Acquisitions for the year	867	7,861	867	7,861	
Closing accumulated acquisition value	15,612	14,745	15,612	14,745	
Opening depreciation	2,478	1,029	2,478	1,029	
Amortization during the year	1,998	1,449	1,998	1,449	
Closing accumulated depreciation	4,476	2,478	4,476	2,478	
Closing residual value according to plan	11,135	12,267	11,135	12,267	

NOTE 14 PARTICIPATING INTERESTS IN GROUP COMPANIES						
PARENT COMPANY	Corporate reg. no.	Main office	Ownership %	No. of shares	Carrying value 2012	Carrying value 2011
Name						
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		
Net Entertainment Ukraine LLC	380 906 40	Ukraine	100%	–	1,157	
Total					1,669	512

PARENT COMPANY		
	2012	2011
Changes in shareholding in Group companies		
Opening acquisition value	512	512
Acquisition of Net Entertainment Ukraine LLC	1,157	–
Closing carrying value	1,669	512

NOTE 15 ACCOUNTS RECEIVABLE

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

As per 31 December 2012, accounts receivable due totaled SEK 3,864 (2,991) thousand with no indication of impairment identified. This applies to a number of independent customers that have not previously had payment difficulties. Acknowledged bad debts during the period and an age analysis of consolidated accounts receivable are presented below. The analysis of bad debt only contains receivables in which no impairment have been identified. Credit risk is described in greater detail in note 25.

SEK thousands	GROUP		PARENT COMPANY	
	31-12-2012	31-12-2011	31-12-2012	31-12-2011
Maturity analysis of non-impaired accounts receivable				
1–30 days	3,774	3,669	–	17
31–90 days	29	3	–	3
91–180 days	61	8	9	8
Over 181 days	–	–	–	–
Total	3,864	3,680	9	28
Provision for uncertain receivables				
Per January 1	372	2,629	–	–
Provision for bad debt	–	401	–	–
Customer losses in the income statement	-281	-2,658	–	–
Closing reserves	91	372	0	0

NOTE 16 PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		PARENT COMPANY	
	31-12-2012	31-12-2011	31-12-2012	31-12-2011
Accrued license/royalty income	51,057	41,218	–	–
Prepaid IT-services	3,986	5,556	1,174	825
Prepaid rent	4,057	3,976	3,682	3,654
Prepaid license fees	1,180	1,133	664	283
Other prepaid expenses	3,418	2,905	1,754	1,818
Total	63,698	54,788	7,274	6,580

NOTE 17 OTHER RECEIVABLES

	GROUP		PARENT COMPANY	
	31-12-2012	31-12-2011	31-12-2012	31-12-2011
VAT	6,042	7,659	6,042	7,659
Receivables from operators	52,299	29,995	0	–
Other	1,325	819	957	817
Total	59,666	38,473	6,999	8,476

NOTE 18 CASH AND CASH EQUIVALENTS

	GROUP		PARENT COMPANY	
	31-12-2012	31-12-2011	31-12-2012	31-12-2011
Cash and bank balances	81,230	74,234	1,174	25,050
Total	81,230	74,234	1,174	25,050

The Group's available credit lines totaled SEK 40,000 thousand, of which SEK 1,874 thousand had been used as per 31 December 2012. The Group does not apply so-called cash pool with automatic transfer of the Group's liquidity to the Parent Company, which consequently means that short-term use of overdraft facility may be utilised in the Parent Company despite the fact that the liquidity in the Group as a whole is generally sound.

NOTE 19 SHAREHOLDERS' EQUITY

	DEC 31, 2012		DEC 31, 2011	
	Number of shares	Share capital	Number shares	Share capital
Share capital distribution				
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
Total number of shares	39,553,716	1,191	39,553,716	1,191
Quota value per share 3.01 öre				

GROUP
Other capital contributed

This pertains to shareholders' equity contributed by the owners, Group contributions and premiums for issued share option rights.

RESERVES
Translation reserve

The translation reserve comprises all exchange-rate differences that arise from the translation of financial statements from foreign operations that have prepared their financial statements in a currency other than the currency in which the consolidated financial statements are presented. At year end, the accumulated translation differences were -11,770 (-7,469) kSEK.

Specification reserves	Translation difference
Opening balance 31 Dec 2011	-6,557
Translation differences for the year	-912
Closing balance 31 Dec 2011	-7,469
Translation differences for the year	-4,301
Closing balance 31 Dec 2012	-11,770

RETAINED EARNINGS INCL. PROFIT FOR THE YEAR

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

PROPOSED/COMPLETED TRANSFER TO SHAREHOLDERS

The Board proposes that no dividend be distributed for the financial year 2012.

The Board proposes to the Annual General Meeting to allocate SEK 89.0 (79.1) to shareholders, corresponding to SEK 2.25 (2.00) per share, through a share redemption program.

NOTE 20 OTHER CURRENT LIABILITIES

	GROUP		PARENT COMPANY	
	31-12-2012	31-12-2011	31-12-2012	31-12-2011
Other current liabilities				
Processed Jack-Pot	168,653	115,399	–	–
Employee income tax withheld	3,704	3,311	3,696	3,177
Other	–	–	–	–
Total	172,357	118,710	3,696	3,177

NOTE 21 ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		PARENT COMPANY	
	31-12-2012	31-12-2011	31-12-2012	31-12-2011
Accrued wages and salaries	8,168	8,153	6,816	7,131
Vacation pay liability	9,833	7,555	9,328	7,187
Social security contributions	6,349	5,200	6,338	5,200
Payroll tax	5,958	2,851	5,958	2,851
Other	11,389	9,956	7,626	7,044
Total	41,696	33,715	36,065	29,413

NOTE 22 LEASING

Leasing expenses for office space and other leased equipment falling into the category of operational leasing amounted to:

	GROUP		PARENT COMPANY	
	2012	2011	2012	2011
Expensed lease payments and rental charges	17,206	12,295	14,769	10,444
Total	17,206	12,295	14,769	10,444

Future minimum charges for non-cancellable operating leases and rental agreements are expected to fall as below:

	GROUP		PARENT COMPANY	
	2012	2011	2012	2011
Within one year		15,533		13,973
Two–five years		51,683		45,442
After five years		0		0
Total		67,216		59,415

NOTE 23 AUDITORS' FEES

Deloitte AB were elected auditors by the 2008 Annual General Meeting. Deloitte AB are auditors for Net Entertainment NE AB and its subsidiary. In addition to the auditing assignment, Net Entertainment has also used Deloitte AB for consultation on taxation, VAT, accounting matters and analyses.

	GROUP		PARENT COMPANY	
	2012	2011	2012	2011
Deloitte				
Auditing assignments	728	793	649	486
Other assignments than the auditing assignment	63	62	63	62
Tax advising	204	219	34	20
Other services	98	38	99	38
Total	1,093	1,112	845	606

NOTE 24 RELATED PARTY TRANSACTIONS

RELATIONS

Group

The company's largest shareholder, Per Hamberg, controls approximately 21% of the votes in Net Entertainment and thereby has significant influence over the Company. Per Hamberg is also a board member and the largest shareholder in Betsson AB, a customer of Net Entertainment, where one of the Company's board members, Pontus Lindwall, is chairman of the board.

One of the board members in the Maltese subsidiaries where operational business is conducted is Dr. Olga Finkel. Olga is also Managing Partner in WH Law, which means that WH Law is considered related to the Group.

Information on board members and group management for Net Entertainment is presented on pages 24–25.

Parent Company

The subsidiaries over which the Parent Company exercises decisive influence are reported in note 14 Shares in group companies.

TRANSACTIONS AND OUTSTANDING BALANCES
Group

The Group's transactions with Betsson AB consist of license revenues for CasinoModule and these transactions are priced at market terms. Remuneration to WH Law totaled 974 (1,102) kSEK, and these transactions are priced at market terms.

Compensation to board and senior executives is presented in note 6.

	PARENT COMPANY	
	2012	2011
Purchase of services from related parties		
Purchases from subsidiaries	–	–
– share of total operating expenses	–	–
Sales of services to related parties		
Sales to subsidiaries	370,399	307,623
– share of total revenue	99,81%	99,99%
Liability to related parties		
Liability to subsidiaries	428,818	69,181
Receivable from related parties		
Receivable from subsidiaries	583,918	180,224

NOTE 25 FINANCIAL RISKS

The Group’s financial activities are pursued on the basis of a low-risk financial policy as established by the Board of Directors. Financial activities and the management of financial risks are coordinated via the Parent Company Net Entertainment NE AB, which is also responsible for the investment of excess liquidity. According to the finance policy placement of cash and cash equivalents may take place with a maturity of up to six months with no more than 25 percent of the excess liquidity bound on longer terms 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 changes in exchange rates since most sales are in euros, and expenses are in SEK (transaction exposure). Earnings are also affected by exchange rate fluctuations when foreign subsidiaries’ earnings are translated to SEK (translation exposure). Moreover, exchange rate fluctuations affect Group equity when assets and liabilities in foreign subsidiaries are translated to SEK (translation exposure). At the present time there is no hedging of equity in foreign subsidiaries.

If the SEK had weakened/strengthened by 10 percent in relation to the euro, with all other variables constant, earnings for the year as at 31 December, 2012, would have been SEK 38.6 [33.3] million higher/lower. Of the Group’s total costs, 71 [77] percent is in SEK.

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

INTEREST RATE RISKS

On December 31 available credit lines amounted to SEK 40 million of which SEK 1,9 [-] million had been used. The interest risk to which the Group’s revenue and cash flow is exposed is low. Changes in the interest rate position affect the Group’s return on cash and cash equivalents. The risk in these changes is deemed immaterial.

CREDIT RISK

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

LIQUIDITY RISK

Liquidity risk is managed by means of the Group holding sufficient cash and cash equivalents in order to finance the operation. Management also monitors rolling forecasts for the Group’s liquidity reserve, which consist of cash and cash equivalents [note 18] on the basis of expected cash flows.

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

CAPITAL RISK MANAGEMENT

It is a major priority for Net Entertainment to secure the ability to continue its operations so that the Group will be able to continue to generate yields for shareholders. This is achieved by maintaining optimal capital structure and thereby keeping capital costs low.

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

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

The net debt/equity ratio (multiple) at the end of the reporting period amounted to -0.3 (-0.3) whilst the quick ratio amounted to 132 [127] percent.

NOTE 26 EVENTS AFTER THE END OF THE FISCAL YEAR

In January of 2013, Net Entertainment signed a partnership agreement with one of the largest and most renowned gaming operators in the world, 888 Holdings Public Limited Company (888). According to the agreement Net Entertainment will deliver many of the Company’s leading online- and mobile-based casino games to 888’s global casino- and bingo channels and also to the Italian market. 888 is licensed by the gaming authorities on Gibraltar, where the Company’s main office is located, and is stock-listed on the London Stock Exchange. 888s B2C’s revenues totaled 284 million euros in 2011, 52 percent of which is represented by casino gaming.

In February Net Entertainment signed an agreement with Bonza Gaming, a joint venture between the published of the social games Plumbee and the online gaming operator Sportingbet. According to the agreement, Net Entertainment will deliver a broad selection of slot games and other casino games to Bonza Gaming, which in turn will be offering games with money prizes to Facebook users through their first application, Bonza Slots.

NOTE 27 CONTINGENT LIABILITIES

	GROUP		PARENT COMPANY	
	31-12-2012	31-12-2011	31-12-2012	31-12-2011
Pension commitments	–	–	2,294	1,672
Swedish Tax Agency’s decision on additional taxation, including tax surcharges and assessed interest	92,100	–	92,100	–
Total	92,100	–	94,394	1,672

Pension commitments regard provisions for direct pension for the current and previous CEOs. These commitments have not been included in the balance sheet and are incorporated in the value of company-owned endowment policies. The company has no capital value risk in these commitments.

After completing a tax audit of Net Entertainment NE AB for the financial years 2007–2010, the Tax Agency has taken the decision to impose additional taxes on Net Entertainment totalling approximately SEK 92.1 million. In its decision, the Tax Agency claims that the internal pricing that the Group used between the Sweden-based Parent Company Net Entertainment NE AB and the Malta-based company is not justified. The Tax Agency assigns intra-Group agreements and the Group’s organizational structure another civil law interpretation and economic significance than what the Company and its external consultants do. Net Entertainment is appealing the rulings made by the tax Agency and consequently the amounts in question with respect to income adjustment and tax surcharges. Net Entertainment maintains that the Company follow applicable laws for taxation of the Company’s business, which is also supported by external consultants hired by the Company in this matter. The company has filed an appeal of the Tax Agency’s decision. Net Entertainment currently sees no reason to make any reservations for any additional taxes with respect to 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 21 March 2013		
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 21 March 2013		
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 2012-01-01 – 2012-12-31. 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 2012 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 2012 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 2012-01-01 – 2012-12-31.

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, 21 March 2013
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 25 April 2013 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.

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 Friday 19 April 2013, and also notify Net Entertainment of their intention to attend no later than Friday 19 April 2013.

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 or via Net Entertainment's website at 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 19 April 2013. 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 2013	25 April 2013
Interim report: January – March 2013	25 April 2013
Interim report: April – June 2013	12 July 2013
Interim report: July – September 2013	24 October 2013
Earnings report 2013 and Q4 report	13 February 2014

Financial reports, press releases and other information are available from the date of publication on Net Entertainment's website 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), 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.



...and, back to business!

**Parent Company
and Development**

Net Entertainment NE AB
Luntmakargatan 18
111 37 STOCKHOLM
SWEDEN

Telephone: +46 8 578 54 500
Fax: +46 8 578 54 510
E-mail: info@netent.com or ir@netent.com

Global Market Operations

Net Entertainment Malta Ltd.
The Marina Business Centre
Abate Rigord Street
Ta'Xbiex XBX 1120
MALTA

Telephone: +356 21 31 16 21
Fax: +356 227 681 00
E-mail: sales@netent.com



NET ENTERTAINMENT NE AB (PUBL)

Corporate registration number 556532-6443
Luntmakargatan 18, SE-111 37 Stockholm, Sweden
www.netent.com, info@netent.com