

# Risk factors

Specified below are some of the business- and industry-related risk factors that could have consequences for NetEnt's future development. The risk factors are not arranged in order of importance or potential financial impact on the company's revenues, profit or financial position. For financial risk factors that affect the company's business, see Note 26.

## Political decisions

### Risks

NetEnt's business is highly dependent on the legal landscape for online casino games, primarily in the EU since most of the company's customers are based in Europe. In recent years, a number of countries have deregulated or reregulated online gaming. Through the EU Court's latest legal precedents, the member states have been given greater opportunities to secure tax revenues provided that the licensing systems create sound competitive conditions and are formally open to all operators

that meet certain basic criteria.

Due to ongoing legal developments in the different member states, in combination with an emerging set of precedents in the EU Court, NetEnt operates in a relatively unpredictable legal environment, at least with regards to the EU market. This means that it is difficult to quantify the risk that NetEnt's business could be negatively affected by future political decisions.

### Management

It is difficult to predict how the legal landscape in the EU will develop in the future, and thus affect the commercial condi-

tions for gaming operators and game developers like NetEnt. NetEnt is legally based in the EU, which gives the company constitutional protection for business activities that follow from national law, EU law and the overarching WTO system. As NetEnt expands geographically, the revenue base is becoming more diversified and dependency on political decisions in individual countries becomes smaller. In Sweden, NetEnt is a member of the industry association for online gaming, BOS, which represents gaming companies and suppliers. In the next few years, the most important task for BOS is to promote new, sustainable gaming legislation in Sweden.

## Operational disruptions

### Risks

NetEnt is responsible for operating customer systems through its operation centers in Malta, Gibraltar, Alderney, Costa Rica and Denmark. Like other online services, the systems can sometimes suffer from operational disturbances. The reasons for these can be both within and beyond NetEnt's control. If operational disturbances occur, the company's product could be entirely or partially unavailable to the end users, which affects the gaming operator's revenues and therefore also NetEnt's revenues. Any operational disturbance or technical problem in the company's servers could therefore result in lost revenues, loss of confidence in the company and possible claims for damages.

## Regulated operations and compliance (sustainability)

### Risks

NetEnt holds licenses in the following jurisdictions: Malta, Alderney, Gibraltar, the UK, Belgium, Romania and Spain. The company also has a temporary permit for operations in New Jersey that will eventually be replaced by a complete license. Furthermore, NetEnt's products are certified in Denmark, Italy, Estonia, Latvia, Bulgaria, Portugal and Isle of

Man. It is of vital importance for NetEnt's business that the above licenses and certifications are maintained and extended.

### Management

An important part of NetEnt's strategy is to grow in regulated markets. In recent years, the company has invested in technology and expertise to adapt the organization to

regulated markets. NetEnt undergoes audits and inspections as licenses are obtained and extended. The license on Malta was obtained for a period of five years and was extended in 2015. In Alderney and Gibraltar, the licenses are extended annually. The UK licenses are continuous and inspections are carried out regularly by the regulator.

### Management

NetEnt invests continuously in IT infrastructure and staff to ensure high technical security in its systems and to minimize the risks for operational disturbances.



## Responsible gaming (sustainability)

### Risks

Although NetEnt does not offer gaming services directly to players, people suffering from gambling addiction could sue companies in the NetEnt Group in their capacity as games and systems supplier. Even if such

claims appear to be unfounded, and would most likely be rejected by a court of law, they could involve considerable expenses and loss of confidence for NetEnt, which could ultimately lead to reduced revenues.

### Management

NetEnt works actively and in close collaboration with other entities in the market to prevent gambling-related problems. NetEnt's product design strives to help the operators promote responsible gaming.

This means that the games are designed with functions that enable the operators to offer players good control over their gaming.

## Dependency on skills and expertise (sustainability)

### Risks

NetEnt's success depends on the ability to recruit and retain skilled employees in all functions in the locations where NetEnt conducts operations. This includes commercial experience, understanding of operator and player prefer-

ences and expertise in game development and technology. The business is also dependent on key personnel at the management level. Due to the high pace of change in the gaming industry, the loss of experienced personnel in business-critical areas could have a temporary negative impact on the company's profits and financial performance.

### Management

NetEnt actively works to be an attractive employer with dedicated and loyal employees

by developing the corporate culture and by offering competitive remuneration. In addition, the company offers opportunities for professional development, advancement in the organization as well as a healthy lifestyle through activities and wellness benefits.

## Competition

### Risks

NetEnt competes with a few, well-established companies. But the market is highly attractive and new competitors are constantly attempting to enter. If NetEnt is not successful in fending off competition, this could have a negative impact on the company's profits and financial position.

### Management

The barriers to entry in the market for game development are relatively high and are rising further as the share of regulated markets increases. NetEnt's ambition is to maintain and advance its position as a world-leading provider of digitally distributed gaming systems and to be a respected participant in the market. Through a continued focus on development of high quality games with high entertainment value, in combination with a powerful administrative tools and related services, NetEnt hopes to defend and strengthen its market position.



### Risk factors

#### Dependency on major customers

##### Risks

The loss of any of the company's major customers could have a negative impact on NetEnt's revenues and profits.

##### Management

As NetEnt grows and the number of customers increases, this is gradually reducing dependency on individual major customers.

#### Product faults and safety

##### Risks

There is no guarantee that NetEnt's games cannot contain technical faults that could be exploited by players and lead to poorer game outcomes and consequently lower revenues for NetEnt's games, or give rise to legal expenses linked to the company's liability for product functionality according to the product descriptions and

certifications. The existence of technical faults could also eventually damage confidence in the company's products. Moreover, it cannot be ruled out that NetEnt's customers or the company could be targeted by hacking or similar types of cybercrime.

##### Management

NetEnt applies industry standards in its systems and pro-

cesses so as to maintain high IT security. The company continuously monitors the gaming transactions in its systems to detect any irregularities and take swift action if needed. IT security and operations are an important area where the company continuously invests resources to enhance and adapt its protection to the latest technological developments.

#### Intellectual property rights

##### Risks

NetEnt's most important intellectual property rights consist of the copyrights for the software and the games that the company has developed and continuously develops. It is therefore crucial that the assets developed in the Group remain NetEnt's property. There is no guarantee that NetEnt's rights will not infringe on those of competitors or that NetEnt's rights will not

be breached or contested by competitors. Furthermore, it cannot be ruled out that legal action could be taken against NetEnt by competitors for alleged infringement on competitors' rights, both in Europe and in North America. If this happened, there would be a risk of the company suffering from substantial legal expenses and damage claims, which would have a negative impact on the company's conditions

for conducting business. In addition, NetEnt is dependent on specific knowhow and it cannot be ruled out that competitors could develop equivalent knowhow or that NetEnt could fail to effectively protect its knowhow.

##### Management

Through contracts with employees and subcontractors, NetEnt ensures that the copyright for developed

products accrues to NetEnt. Furthermore, the company continuously protects its intellectual property rights for example by registering pattern protection and trademarks. In certain cases, NetEnt can also enter agreements to ensure that the company's products do not risk infringing on any other company's patent rights.

#### Exchange rate fluctuations

##### Risks

The Group's profits and financial position are affected by exchange rate fluctuations, since the main part of revenues are invoiced in EUR while the costs largely arise in SEK. Appreciation of the SEK in relation to the EUR has a negative impact on the compa-

ny's profit. The attainment of NetEnt's financial targets may be affected by future exchange rate fluctuations. Consolidated profit, equity, assets and liabilities are likewise affected by exchange rate fluctuations when the profits and net assets of foreign subsidiaries are translated to SEK for the

Group's consolidated financial reporting.

##### Management

NetEnt's current policy is not to hedge revenues and expenses. NetEnt has a strong balance sheet and its operations generate healthy cash flows. In general, the company

is well equipped to handle exchange rate fluctuations. As the company expands its operations outside Sweden, the cost base is also becoming more diversified.



## Tax status

### Risks

NetEnt's tax expense is affected by the countries where its operations generate profits and the tax laws in these countries. New laws, taxes or rules could give rise to limitations in operations or place new and higher requirements. There is also a risk that NetEnt's interpretation of the applicable tax laws, tax agreements and regulations

will not correspond to the interpretations made by the tax authorities.

### Management

Together with external experts, NetEnt has assessed how different tax rules affect its operations, to ensure an accurate tax status. This also applies to indirect taxes. NetEnt reports and pays tax to the tax authorities in the

amounts that NetEnt and its advisors deem correct. After a tax audit of NetEnt AB (publ) for the financial years 2007–2010, the Swedish Tax Agency decided to impose additional taxes on the company for a total of approximately SEK 92.1 million. In its decision, the Swedish Tax Agency found that the transfer pricing used by the Group between the Sweden-based Parent

Company and the Malta-based operation were not justified. However, NetEnt contested the Swedish Tax Agency's ruling and in March 2016 the Swedish Court of Appeal ruled in favor of NetEnt and reversed the Administrative Court's earlier ruling and the Swedish Tax Agency's review decision in this case.

## Anti-corruption and anti-money laundering (sustainability)

### Risks

Corruption and money laundering are major problems worldwide and are unfortunately also found in the gaming industry. The existence of these in NetEnt's operations could seriously damage the company's ability to conduct its business. Not only would the company's reputation be negatively affected, but the company would also risk losing gaming licenses and certifications that are essential for its operations.

### Management

NetEnt has zero tolerance and clear guidelines when it comes to money laundering (AML policy) and corruption (anti-bribery policy), and has a handbook to deal with money laundering and financing of terrorism (handbook for AML/CFT). All employees are given training in anti-corruption and anti-money laundering. NetEnt's compliance function supports the organization in matters related to business risks, laws, regulations, directives and compliance with the company's policies.

## The business cycle

### Risks

Historically, NetEnt's revenues have not been negatively affected by a weaker business cycle. However, the online gaming industry is affected by the business cycle to a certain extent. A downturn in the economy could lead to a decrease in consumers' disposable income and therefore also lower demand for digital entertainment, including

online casino games. It cannot be ruled out that NetEnt's revenues and profits could be negatively impacted in the event of a future economic downturn.

### Management

NetEnt's products are distributed in a large number of markets that do not follow the same business cycle, which reduces cyclical risk.

