

Risks and risk management

Uncertainty about future events is a natural feature of all business operations. Future events can have a positive impact on the business, enabling increased value creation, or be negative, through risks with a potential negative impact on NetEnt's operations and earnings.

NetEnt's Board of Directors is responsible before the owners for the Company's risk management. Matters regarding risks associated with business development and long-term strategic planning are prepared in Group management, and decided by the Board of Directors. Group management continually reports risk-related issues, such as the Group's financial status and compliance with the

Group finance policy, to the Board of Directors. A number of key policies form the basis for operational risk management in the organization. NetEnt works continually on assessing and evaluating the risks to which the Group is or could become exposed. Critical risks in NetEnt's business environment are managed strategically through product and business development, and

operationally through daily purchasing and selling activities.

The tables below present some of the risks that could have implications for the Company's future development. The risks are not arranged by order of importance or potential financial impact on the Company's profit or financial position. For financial risk factors that affect the Company's business, see Note 26.

Strategic risks

Risk

Management

Unsustainable reregulation of key markets

If unsustainable regulations were introduced on NetEnt's key markets, with high taxes and extensive product limitations, it would be difficult to continue to run a profitable business.

As NetEnt expands geographically, the revenue base becomes more diversified and dependency on political decisions in individual countries decreases. NetEnt is in continual dialog with authorities and legislators on key markets regarding new or amended regulations, to assist in devising sustainable regulations in line with customer demand and the reality prevailing on the cross-border digital market.

Competition

NetEnt's market is highly attractive and competitive. It is crucial for the Company to be able to successfully respond to competition.

The Company works to constantly improve the product offering in order to remain at the forefront among competition. Also, the Company works strategically so as to reinforce its market position in different ways.

Operational risks

Operational disruptions

Risk

NetEnt is responsible for operating licensed client systems through the Company's hosting centers. Like other online services, the systems can sometimes suffer from operational disruptions. The reasons for these can be both within and beyond the Company's control. Any operational disruption or technical problems in the Company's servers imply loss of revenues, a risk of a drop in confidence in the Company and, in some cases, a risk of claims for damages.

Management

NetEnt invests continuously in IT infrastructure and staff to ensure high technical security in its systems and to minimize risks of operational disruptions.

Compliance and regulated operations (sustainability risk)

NetEnt holds licenses in the jurisdictions Malta, Alderney, Gibraltar, the UK, Belgium, Romania, British Columbia (Canada) and Spain. The Company has a temporary permit for operations in New Jersey, USA, that will be replaced by a full license in the near future. In addition, NetEnt's products are certified in Denmark, Italy, Estonia, Latvia, Bulgaria, Portugal, Isle of Man, Serbia and the Czech Republic. It is crucial for NetEnt's business for licenses and certifications to be maintained and extended.

In recent years, the Company has invested in technology and expertise to adapt the organization to regulated markets. NetEnt is regularly examined in connection with license extension, and the operations are continually adapted in order to fulfill new or amended rules.

Responsible gaming (sustainability risk)

Although NetEnt does not have direct contacts with players in its operations, there is a risk of people who suffer a gambling addiction bringing legal proceedings against companies in the NetEnt Group in its capacity of game supplier. Although such claims appear unfounded, at worst it could lead to considerable costs for and a drop in confidence in NetEnt.

NetEnt works actively and in close collaboration with other entities in the market to prevent gambling-related problems. NetEnt's product design helps the operators to promote responsible gaming through functions that enable the operators to offer players sound control over their gaming.

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

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.

NetEnt has zero tolerance and clear guidelines against money laundering (AML policy) and against corruption (*anti-bribery policy*), as well as a handbook counteracting money laundering and terrorist financing (*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.

Operational risks

Dependence on expertise (sustainability)

Risk

NetEnt's success relies on the ability to recruit and retain key employees.

Management

The risks are mitigated by identifying key people and ensuring that NetEnt remains an attractive employer, so that key staff stay on in the Group, and so as to facilitate the recruitment of new expertise.

Dependence on large customers

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

As NetEnt grows and the number of customers increases, dependence on individual large customers gradually decreases.

Product faults and safety

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 thus lower revenues for NetEnt's games, or give rise to legal expenses because products fail to function as prescribed by product descriptions and certifications. The existence of technical faults could also eventually harm 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.

NetEnt applies industry practice in systems and processes in order to maintain a high level of 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 a prioritised area in which the Company continuously invests resources to enhance and adapt its protection to the latest technological developments.

Intellectual property rights

NetEnt's most important intellectual property rights consist of the copyrights for the software and the games developed by the Company. Therefore, it is crucial that the assets developed in the Group remain NetEnt's property. There is no guarantee that the Company's rights will not infringe on those of competitors, or that NetEnt's rights will not be breached or contested by competitors. The prospect cannot be ruled out either of legal action being lodged against NetEnt by competitors for alleged infringement on competitors' rights, both in Europe and 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 know-how and it cannot be ruled out that competitors could develop equivalent knowledge or that NetEnt could fail to effectively protect its know-how.

Through contracts with employees and subcontractors, we ensure that the copyright for developed products accrues to NetEnt. Furthermore, the Company continuously protects its intellectual property rights through, for instance, 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.

Operational risks

Risk

Management

Exchange rate fluctuations

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. An appreciation of the SEK vs. the EUR negatively affects the Company's reported profit.

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

NetEnt's tax expense is affected by the countries where its operations generate profits and the tax laws in those 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.

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. Tax issues do not govern the operations, but tax is a factor taken into consideration in important business decisions or changes to the operations.

The business cycle

In the past, NetEnt's revenues have not been negatively affected by a weaker economy. However, the online gaming industry is affected to a certain extent by the general state of the economy. A recession can lead to a reduction in the disposable income of consumers and consequently in demand for digital entertainment, including online casino games. It cannot be ruled out that NetEnt's revenues and profit could be negatively affected in a future recession.

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