

# Q4

EARNINGS REPORT 2017  
QUARTERLY REPORT  
OCTOBER–DECEMBER 2017



\* 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.

**NETENT**  
BETTER GAMING™

# Q4

## YEAR-END REPORT 2017 QUARTERLY REPORT OCTOBER-DECEMBER 2017

### Fourth quarter 2017

- Revenues for the fourth quarter increased by 4.7% to SEK 419 (400) million
- Operating profit amounted to SEK 150 (156) million, a decrease of 3.9%
- Operating margin was 35.8 (39.0)%
- Profit after tax amounted to SEK 152 (150) million, an increase of 1.5%
- Earnings per share amounted to SEK 0.63 (0.62) before and after dilution
- 8 new customer agreements were signed and 11 new customers' casinos were launched

### Full year 2017

- Revenues for the full year increased by 11.7% to SEK 1,625 (1,455) million
- Operating profit amounted to SEK 587 (536) million, an increase of 9.5%
- Operating margin was 36.1 (36.8)%
- Profit after tax amounted to SEK 552 (504) million, an increase of 9.5%
- Earnings per share amounted to SEK 2.30 (2.10) before and after dilution
- 37 new customer agreements signed and 35 new customers' casinos launched
- Proposed cash distribution to shareholders of SEK 2.25 (2.25) per share

### Important events in the fourth quarter

- Customer agreement signed with Caliente in Mexico
- New digital marketing service launched with Ve Global
- The games *Planet of the Apes™* and *Finn and the Swirly Spin™* were released
- Live Casino Black Jack for mobile was launched

### Quote from Per Eriksson, President and CEO

- "2017 was another eventful year with profitable growth for NetEnt, even though we had expected a much better outcome. In 2018, we are increasing our commercial focus and optimizing our organization to make sure that revenues grow more than costs. I look forward to a new year with more game releases and product news than ever for NetEnt."*

Summary in figures (kSEK)	Oct-Dec 2017	Oct-Dec 2016	Jan-Dec 2017	Jan-Dec 2016
Operating revenues	419,260	400,294	1,624,982	1,455,101
Operating expenses	-269,308	-244,328	-1,037,884	-919,152
<b>Operating profit</b>	<b>149,952</b>	<b>155,966</b>	<b>587,098</b>	<b>535,949</b>
<i>Operating margin</i>	<i>35.8%</i>	<i>39.0%</i>	<i>36.1%</i>	<i>36.8%</i>
Cash flow from operating activities	297,555	158,824	666,061	624,213
Cash flow for the period	235,556	81,244	-113,901	79,122
Cash and cash equivalents at end of period	387,035	494,497	387,035	494,497

## Comments by Per Eriksson, President and CEO

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2017 was another eventful year with profitable growth for NetEnt, even though we had expected a much better outcome. Revenues for the full year 2017 increased by 11.7 percent to SEK 1,625 million and the operating profit increased by 9.5 percent to SEK 587 million. The operating margin was 36.1 (36.8) percent. Our strategy to grow on regulated markets remains in place and during 2017 we terminated deliveries of games to operators in Australia, Poland and Czechia, which affected revenues negatively by three percentage points in the fourth quarter.

In the fourth quarter, revenues increased by 4.7 percent in SEK compared to the fourth quarter in 2016 and the operating profit amounted to SEK 150 million, corresponding to a margin of 35.8 (39.0) percent. The lower-than-expected revenue growth in Q4 resulted in a lower operating margin compared to the previous year as we continued to make growth-enabling investments to strengthen our product and sales organization, enhance our Live Casino offering and moved to new, larger offices in Malta. In 2018, we are increasing our commercial focus and optimizing our organization to make sure that revenues grow more than costs.

In the fourth quarter we signed license agreements with eight new customers and launched online casinos for 11 new customers. The business continues to generate solid cash flows and the proposed cash return to shareholders for 2017 is SEK 540 million, or SEK 2.25 per share.

We continued to invest in market-leading mobile games for online casino and in November we released *Finn and the Swirly Spin™*, a ground-breaking game with a new type of game mechanic, developed to offer the ultimate mobile gaming experience. So far the game has been very well received by players. Further, we introduced a mobile version of Black Jack Live Casino. Mobile games accounted for 54 percent of our revenues in the fourth quarter.

Having just returned from the annual gaming exhibition ICE in London I can say that our roadmap for new games in 2018 looks very exciting. We are planning to release at least 20 new games, compared to 14 in 2017, including two branded games, *Jumanji™* and *Vikings™*. A third branded game that was unveiled at ICE is based on the popular Netflix-series *Narcos™* and expected to be released in Q1 2019. For Live Casino we presented a new concept based on exclusively branded, customized solutions that use innovative 3-D graphics to create a fully immersive live casino experience where players can see other tables and players. The first such bespoke Live product is available with our customer Mr Green and is called *Live Beyond Live*.

The global market for online gaming continues to grow, supported by digitalization and the mobile development. We are challenging the traditional gaming industry with our digital business model and see that the migration to online from offline continues unabated. Only five percent of all casino gaming globally takes place online, the rest still occurs in land-based gaming environments. The online casino penetration is higher in our core markets in Europe where we have high market shares and we have experienced slower growth in the Nordics, especially in Norway, while growth has remained strong in re-regulated markets like Italy, Spain, Britain and New Jersey.

At NetEnt we believe in corporate social responsibility and are committed to promoting a sustainable development of our business. An important area within sustainability is diversity and gender equality. We see that diversity and gender equality are important factors to drive innovation and strengthen the culture at NetEnt. A key part of our employee strategy is the objective to achieve a 50/50 gender balance in the Company. For the third year in a row, NetEnt was among the finalists when the Allbright foundation rated all companies listed on the Stockholm Stock Exchange based on gender equality.

For 2018, we see conditions for profitable growth, supported by a large pipeline of new games, growing revenues from regulated markets, the mobile channel and new customers to be launched. I look forward to a new year with more game releases and product news than ever for NetEnt.



*Per Eriksson,  
President and CEO*

## New agreements and customers

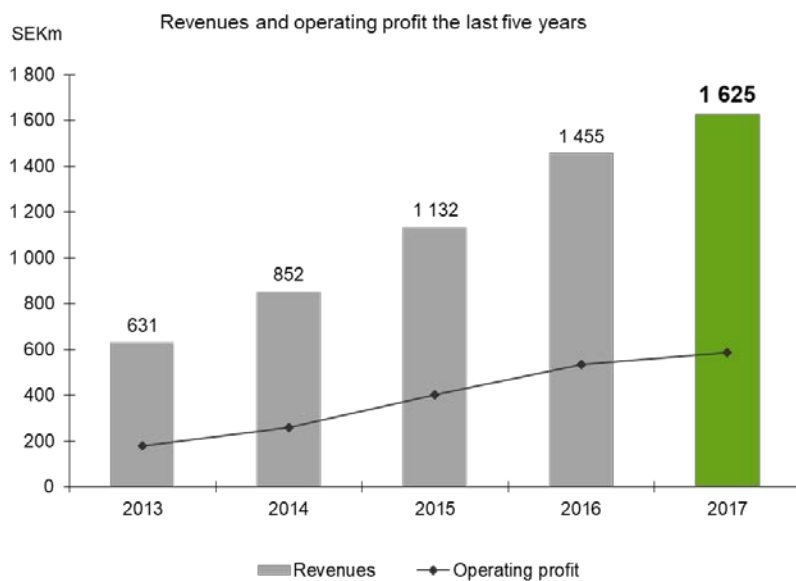
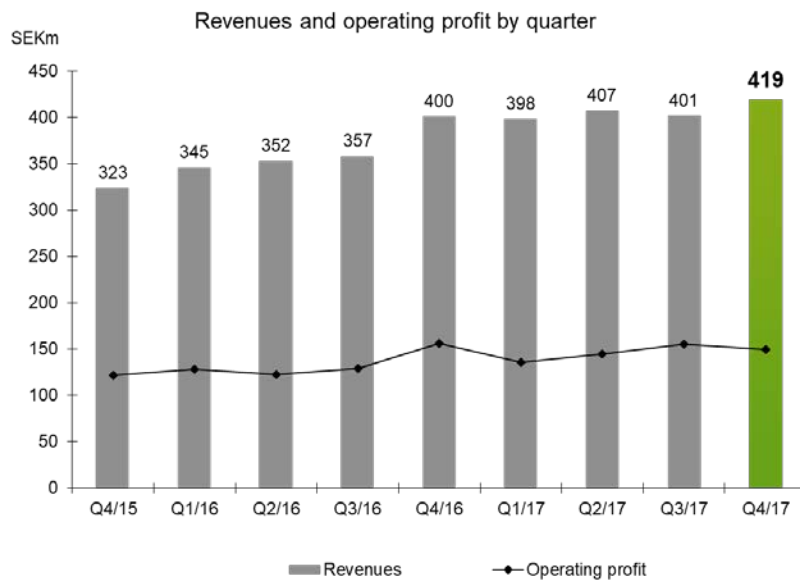
In the fourth quarter, eight (13) new license agreements were signed and 11 (12) new customers' casinos were launched. At the end of 2017, NetEnt had 203 (168) active customers.

### Customers to be launched

At the end of 2017, NetEnt held agreements with 30 (31) new customers that had not yet been launched.

## Revenues and profitability

Revenues and operating profit by quarter and in the past five years are shown in the chart below.



### **Revenues – volume, price and currency development in the fourth quarter**

Total revenues amounted to SEK 419.3 (400.3) million in the fourth quarter, an increase of 4.7 percent compared to the corresponding period in 2016 (4.2 percent in euro terms). The revenue increase was driven by a combination of growth from existing customers and revenues from new customers. 8 (13) new customer agreements were signed and 11 (12) new customers were launched during the quarter.

The number of game transactions amounted to 11.2 billion in the fourth quarter, representing an increase of 18.1 percent compared to same quarter of the previous year. The difference in growth rates for revenues and game rounds can be explained by decreasing average bet size per transaction in our games over the past years, driven by an increasing player base as well as a change in regional mix. The average bet size per transaction is generally higher in Scandinavia and the difference compared to other markets is particularly large for mobile games.

Nearly all the Company's revenues consist of royalty fees, which are calculated and charged as a percentage of game win (player bets minus wins) generated by NetEnt's games for its customers. The average royalty level remained unchanged in the fourth quarter compared to the same period in the previous year.

Slot games represented 90 percent of game win (player bets minus player wins) in the fourth quarter.

Revenues are affected by the development of the Swedish krona in relation to other currencies, particularly EUR and GBP. The main part of revenues is invoiced and accounted for in euros, then translated and reported in Swedish krona. A weaker SEK has a positive effect on reported revenues. During the fourth quarter of 2017, the Swedish krona weakened by 0.3 percent against the euro compared to the same period in 2016 and by 2.5 percent compared to the previous quarter. The British pound weakened by 1.7 percent against the krona compared to the same quarter of last year and by 3.7 percent compared to the previous quarter.

### **Costs and profitability in the fourth quarter**

Operating profit in the fourth quarter decreased by 3.9 percent to SEK 150.0 (156.0) million. Operating expenses increased by 10.2 percent compared to the fourth quarter of 2016 due to expansion and strengthening of the organization. The cost increase supports growing revenues for NetEnt going forward. Personnel expenses increased by 14.3 percent compared to the same quarter last year. Other operating expenses increased by 4.6% in the fourth quarter compared to the corresponding quarter last year while depreciation and amortization increased by 13.7%. The personnel increase can be explained by hiring of new Live Casino dealers and a gradual shift away from consultants at NetEnt. The costs for consultants are reported under other costs. The number of consultants and the cost for these decreased during the period.

Depreciation and amortization are affected by the development of SEK versus EUR as they are booked in EUR and then translated to SEK for the Group's financial reporting. Except for depreciation and amortization, the main part of the Group's costs occurs in SEK but the share of costs reported in other currencies represented 44 percent in the fourth quarter of 2017.

The operating margin was 35.8 percent in the fourth quarter compared to 39.0 percent in the corresponding period of the previous year.

Financial items amounted to SEK -0.1 (4.2) million for the fourth quarter and mainly consist of exchange rate effects on cash and cash equivalents, financial receivables and financial liabilities consisting primarily of intercompany transactions, as well as the interest earned on cash and cash equivalents. Exchange rate fluctuations periodically also lead to effects on inter-company balances that are included in the financial items.

The Group had an effective tax rate of -2.1 (6.4) percent in the fourth quarter. The effective tax rate mainly depends on in which of the countries where the Company operates that profit is generated and this can vary between reporting periods. The reason for the reported tax income in the fourth quarter is a revaluation of deferred tax due to temporary differences in Malta.

### **Seasonal variations**

The first and second quarters are normally not characterized by any seasonal effects. The third quarter is usually affected by vacations, which often leads to somewhat lower increases in both revenues and personnel costs,

while historically the fourth quarter has featured higher sales volumes. The seasonal effect in Q4 2017 was less positive than in previous years.

## Investments

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The Group's investments in intangible assets amounted to SEK 40.2 (41.9) million while investments in property, plant, and equipment totaled SEK 21.8 (35.4) million in the fourth quarter.

Investments in intangible assets consist of development of new games for mobile units and desktop, technical adjustments of the platform such as new functionality, increased capacity, adjustments related to regulatory requirements and software licenses. Notable larger development projects in the fourth quarter were the ongoing platform enhancement and new games development, including projects related to Live Casino.

The growing number of customers and new markets also requires investments in hardware. Investments in property, plant and equipment are primarily made up of servers and other computer hardware to meet new technical standards and sustain capacity and performance as the business expands and new products are being introduced. Investments also include new IT equipment to meet the organizational expansion.

## Cash and cash equivalents, financing and financial position

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The Group's cash flow from operating activities amounted to SEK 297.6 (158.8) million in the fourth quarter. The cash flow in the reporting period was positively affected by a planned tax refund in Malta related to the dividend from Malta to Sweden in connection with the year-end 2016, in accordance with Maltese tax rules.

Cash flow from investing activities amounted to SEK -62.0 (-77.3) million in the fourth quarter. Further details about the investing activities can be found in the section about investments above.

The Group's cash and cash equivalents amounted to SEK 387.0 (494.5) million at the end of the period. The Group's available credit lines were SEK 50 (50) million of which none had been utilized at the end of the period. Cash held on behalf of licensees was SEK 82.5 (92.4) million on December 31, 2017.

## Summary of the full year 2017

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Revenues during the period of January-December 2017 amounted to SEK 1,625.0 (1,455.1) million, an increase of 11.7 percent (9.8 percent in euros) compared to 2016. Operating profit amounted to SEK 587.1 (535.9) million and the operating margin was 36.1 (36.8) percent. The revenue increase was driven by higher volumes, supported by several successful game releases, mobile growth and new markets. NetEnt signed 37 (45) new license agreements during the period and 35 (34) new customers' casinos were launched.

Operating costs increased by 12.9 percent during the period compared to the previous year, due to expansion and strengthening of the organization within areas such as sales, product management, development and operations. Further, NetEnt's growing presence on regulated markets also leads to increasing costs. Personnel expenses increased by 13.3 percent, other operating costs increased by 12.2 percent, and depreciation and amortization increased by 13.8 percent compared to the previous year, as several large development projects were completed, for example related to Live Casino and platform development.

The Group's acquisitions of intangible assets amounted to SEK 156.4 (154.3) million for the year. Investments in property, plant, and equipment amounted to SEK 86.9 (79.9) million.

The Group's cash flow from operating activities for the year amounted to SEK 666.1 (624.2) million.

Cash flow from financing activities amounted to SEK -536.7 (-311.0) million and the main item was ordinary cash distribution to shareholders. At the end of May, SEK 540.3 million was distributed to shareholders through an automatic redemption program.

The Annual General Meeting on April 21, 2017, resolved to introduce a long-term incentive program intended for all employees within the NetEnt Group. A total of 722,000 options were issued, with the right to subscribe to an equal number of new shares in NetEnt AB. The options were issued at SEK 5.05 per option, the fair market value based on Black-Scholes, which resulted in an increase in Group equity by SEK 3.6 million. The strike price of the options was determined at SEK 92.40 and subscription of shares can be made during the period August 1 to October 1, 2020. In the case of full subscription at the given terms, the Parent Company's equity would increase by SEK 66.7 million. More information about the incentive program can be found on NetEnt's corporate website, at [www.netent.com/agm](http://www.netent.com/agm).

## Events after the end of the period

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On January 16, NetEnt announced that the operating profit for the fourth quarter would be below analyst estimates at the time due to lower-than-expected revenues. In January, NetEnt was awarded the prize for *Casino Platform Supplier* at EGR Nordic Awards and in February, the Company was named *Online Casino Supplier of the Year* at Global Gaming Awards in London. At the gaming exhibition ICE in February, NetEnt announced two new branded games titles to be produced, for the popular TV-series *Narcos* and *Vikings*, as well as a new concept for customized Live Casino solutions.

## Market

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The online gaming market has shown growth in recent years. The global game win for online gaming, including all game segments, has been estimated at EUR 40.5 billion for 2017, an increase of 9 percent compared to the previous year. The corresponding size for the global online casino market has been estimated at EUR 10.6 billion in 2017, an increase of 9 percent for the year (source: *H2 Gambling Capital, February 2018*).

Europe is by far the largest gaming market and is expected to represent close to half of the gross gaming yield in the coming years. Deregulation and reregulation of national gaming laws is taking place in many European countries. NetEnt closely monitors the development on all markets that are undergoing regulation. NetEnt has a local license in the Great Britain since 2015. It is the largest gaming market in Europe and new regulation was introduced in 2014. As a result, all operators offering gaming services to British players need to have a British gaming license and pay gaming taxes in Britain, regardless of where the operator is based. In Italy, all NetEnt's game traffic now takes place through licensed operators. The market in Denmark was regulated in 2012 and NetEnt's games are offered through several operators, including Danske Spil. Online gaming is regulated in Spain, where NetEnt holds a gaming license and its games have been available with several customers since 2015. The online gaming markets have recently been regulated in Portugal, Romania, Bulgaria and Czechia. In Romania, NetEnt obtained a gaming license and launched its games with several operators during 2016. In Bulgaria and Portugal, NetEnt's games were certified and launched with customers in 2016. New gaming legislation is expected in the Netherlands towards the end of 2018. In Sweden, the gaming commission presented its proposal for new gaming legislation in March 2017 and according to the government, the new legislation shall be introduced in the beginning of 2019.

Today, the majority of NetEnt's customers are in Europe and the Company will continue to focus on the European market, but expansion into North America is also expected to contribute to long-term growth. In the US, a few states have opened for online gaming: Nevada (poker), Delaware (all games) and New Jersey (all games). Political steps towards reregulation have also been taken in other states, for example in Pennsylvania. NetEnt has applied for a license in New Jersey and has been granted transactional waivers to launch games with several operators in the state, while its full license application is being reviewed. NetEnt is continuously monitoring developments in other US states that are close to regulating and the Company intends to launch its products on these markets if the conditions are right. In Canada, the market is regulated and open for online casino in several provinces such as Ontario, British Columbia and Quebec. As a first step to enter Canada, NetEnt has applied for and obtained a license in British Columbia.

## About NetEnt

NetEnt AB (publ) is a leading digital entertainment company, providing premium gaming solutions to the world's most successful online casino operators. Since its inception in 1996, NetEnt has been a true pioneer in driving the

market with thrilling games powered by a cutting-edge platform. NetEnt is committed to helping customers stay ahead of the competition, is listed on Nasdaq Stockholm (NET-B) and employs more than 1,000 people in Malta, Stockholm, Gothenburg, Gibraltar, Kiev, Krakow and New Jersey. For more information, please visit [www.netent.com](http://www.netent.com).

### Personnel and organization

At the end of the period, the number of employees was 810 (680). Including external resources such as dedicated staff with contract suppliers and subcontractors, NetEnt employed 1,013 (892) persons. These numbers are defined as the number of full-time employee equivalents for the period.

### Parent Company

Revenues in the Parent Company come from services provided to subsidiaries. Product development costs are not capitalized in the Parent Company as the development projects are ordered and owned by subsidiaries in Malta.

The Parent Company's revenues amounted to SEK 207.2 (203.2) million and operating profit was SEK 12.3 (19.2) million in the fourth quarter. The operating margin was 5.9 (9.4) percent. Operating profit is primarily affected by the proportion of the Parent Company's costs that are billed to other Group companies and the intercompany pricing applied. The price level is controlled by independent comparative studies of similar services and can vary over time if the general price level on the market has changed. Financial items include currency effects on inter-company transactions and dividends. Profit after tax was SEK 449.6 (505.0) million for the quarter.

Investments in property, plant and equipment for the Parent Company amounted to SEK 5.7 (23.9) million and investments in intangible assets were SEK 0.3 (0.9) million for the period, the latter primarily consisting of software investments. Cash and cash equivalents in the Parent Company amounted to SEK 111.9 (345.7) million at the end of the period.

### Accounting policies

NetEnt prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS) as approved by the European Union. The new and revised standards, which have been applied as of 2017, have not affected the financial statements of the Group. *IFRS 9 Financial Instruments* and *IFRS 15 Revenue from Contracts with Customers* will be applied starting from January 1, 2018. In the financial statement for 2016 disclosure was made to the fact that IFRS 9 would not have a material effect on the Group's financial statements as well as an analysis and preliminary assessment of the impact of IFRS 15. During 2017, the Company finalized the analysis of the effects of IFRS 9 and IFRS 15 and the conclusion is that IFRS 9 will not have a material impact on the financial reporting of the Company. The introduction of IFRS 15 will affect the timing of revenue and cost recognition in relation to set-up fees, which as of 2018 will be accrued according to the length of each contract. As set-up fees account for a minor part of total revenues, this effect will not be material. NetEnt will apply IFRS 15 retrospectively for 2017. The Parent Company applies the same accounting principles as the Group, with the addition of considering the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities. The same accounting and valuation principles have been applied as in the 2016 annual report. For further information on the principles, please see the annual report at [www.netent.com](http://www.netent.com). Amounts are expressed in kSEK (thousands of Swedish kronor) unless otherwise indicated. Amounts or figures in parentheses indicate comparative figures for the corresponding period last year. SEKm stands for millions of Swedish kronor.

### Risks and uncertainties

NetEnt's operations are exposed to certain risks that could have a varying impact on earnings or financial position. These can be divided into industry, operational, and financial risks. The management's general view of the risks that may affect operations has not changed compared to the description given in the most recently published annual report. For a detailed description of the risk profile, see NetEnt's 2016 annual report, pages 58-61 and pages 98-99.



### Nominating Committee

In accordance with the decision by the Annual General Meeting, the members of the nominating committee of NetEnt shall be appointed by the three shareholders/owner groups controlling the largest number of votes in NetEnt at the end of August, which desire to appoint a representative. In addition, the Chairman of the Board of Directors shall be a member of the nominating Committee. The current nomination committee consists of John Wattin, (Chairman, appointed by the Hamberg family), Christoffer Lundström (appointed by the Lundström family), Fredrik Carlsson (appointed by the Knutsson family) and Vigo Carlund (Chairman of the Board of Directors). The proposal from the nominating committee will be made public in the summons to the AGM.

### Annual General Meeting

The next Annual General Meeting will be held in Stockholm on April 25, 2018.

### Presentation of earnings report

On Thursday, February 15, 2017, at 9.00 a.m. the earnings report will be presented by CEO Per Eriksson live via webcast. The presentation can be followed in real-time on NetEnt's website, the link to the webcast is: <https://tv.streamfabriken.com/netent-q4-2017>.

### Financial information

NetEnt intends to distribute financial reports on the dates below.

Web publication of annual report for 2017	April 3, 2018
Interim report January – March 2018	April 24, 2018
Annual General Meeting 2018	April 25, 2018
Interim Report January – June 2018	July 13, 2018
Interim report January – September 2018	October 25, 2018
Earnings report and report for the fourth quarter 2018	February 12, 2019

Financial reports, press releases, and other information are available from the date of publication on NetEnt's website [www.netent.com](http://www.netent.com).

The Board of Directors and the CEO certify that the report gives a true and fair view of the operations, position, and results of the Group and Parent Company and describes principal risks and uncertainties facing NetEnt and its group companies.

Stockholm, February 14<sup>th</sup>, 2018

Vigo Carlund  
Chairman of the Board

Fredrik Erbing  
Board Member

Maria Hedengren  
Board Member

Peter Hamberg  
Board Member

Michael Knutsson  
Board Member

Pontus Lindwall  
Board Member

Maria Redin  
Board Member

Jenny Rosberg  
Board Member

Per Eriksson  
President and CEO

Questions may be directed to

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This earnings and quarterly report has not been subject to special review by the Company's auditor.

### **Publication**

This information is information that NetEnt AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, at 7:30 CET on February 15, 2018.

### **Legal disclaimer**

Certain statements in this report are forward-looking and the actual outcomes may be materially different. In addition to the factors discussed, other factors could have an impact on actual outcomes. Such factors include developments for customers, competitors, the impact of economic and market conditions, national and international legislation and regulations, fiscal regulations, the effectiveness of copyright for computer systems, technological developments, exchange rates fluctuations and interest rates and political risks.

## Condensed consolidated income statement and statement of total income for the Group (kSEK)

<b>INCOME STATEMENT</b>	<b>Oct-Dec 2017</b>	<b>Oct-Dec 2016</b>	<b>Jan-Dec 2017</b>	<b>Jan-Dec 2016</b>
Revenues	417,563	399,581	1,619,455	1,452,158
Other revenues	1,697	713	5,527	2,943
<b>Total operating revenues</b>	<b>419,260</b>	<b>400,294</b>	<b>1,624,982</b>	<b>1,455,101</b>
Personnel expenses	-123,110	-107,740	-463,322	-409,014
Depreciation, amortization and impairments	-41,665	-36,644	-158,019	-138,894
Other operating expenses	-104,533	-99,944	-416,543	-371,244
<b>Total operating expenses</b>	<b>-269,308</b>	<b>-244,328</b>	<b>-1,037,884</b>	<b>-919,152</b>
<b>Operating profit</b>	<b>149,952</b>	<b>155,966</b>	<b>587,098</b>	<b>535,949</b>
Financial income	3,482	7,809	18,882	35,739
Financial expense	-3,564	-3,658	-20,575	-26,161
<b>Financial items</b>	<b>-81</b>	<b>4,151</b>	<b>-1,693</b>	<b>9,578</b>
<b>Profit before tax</b>	<b>149,871</b>	<b>160,117</b>	<b>585,404</b>	<b>545,527</b>
Tax on the period's profit	2,311	-10,174	-32,969	-41,115
<b>Profit for the period</b>	<b>152,182</b>	<b>149,943</b>	<b>552,436</b>	<b>504,412</b>
Earnings per share before dilution (SEK)	0,63	0,62	2,30	2,10
Earnings per share after dilution (SEK)	0,63	0,62	2,30	2,10
Average number of shares outstanding				
- before dilution	240 130 860	240,130,860	240,130,860	240,130,860
- after dilution	240,130,860	240,130,860	240,130,860	240,198,134
Profit for the period attributable to Parent Company shareholders	152,182	149,943	552,436	504,412

### STATEMENT OF TOTAL INCOME

<b>Profit for the period</b>	<b>152,182</b>	<b>149,943</b>	<b>552,436</b>	<b>504,412</b>
<b>Other total income</b>				
<b>Other total income Items that may be reclassified to net income</b>				
Exchange differences arising from the translation of foreign operations	18,687	-5,968	17,654	15,345
<b>Sum of other total income for the period, net after tax</b>	<b>18,687</b>	<b>-5,968</b>	<b>17,654</b>	<b>15,345</b>
<b>Total income for the period</b>	<b>170,869</b>	<b>143,975</b>	<b>570,090</b>	<b>519,757</b>

## Condensed consolidated balance sheets (kSEK)

<b>ASSETS</b>	<b>Dec. 31, 2017</b>	<b>Dec. 31, 2016</b>
Intangible assets	318,208	253,495
Property, plant, and equipment	151,345	120,546
Other long-term receivables	15,166	9,567
<b>Total non-current assets</b>	<b>484,719</b>	<b>383,608</b>
Accounts receivable	55,786	44,306
Current tax receivables	-	1,748
Other receivables	74,843	89,379
Prepaid expenses and accrued revenues	210,422	213,247
Funds held on behalf of licensees	82,535	92,398
Cash and cash equivalents	387,035	494,497
<b>Total current assets</b>	<b>810,621</b>	<b>935,575</b>
<b>TOTAL ASSETS</b>	<b>1,295,340</b>	<b>1,319,183</b>
<b>EQUITY AND LIABILITIES</b>	<b>Dec. 31, 2017</b>	<b>Dec. 31, 2016</b>
Share capital	1,205	1,205
Other capital contributed	93,812	90,189
Reserves	24,550	6,897
Retained earnings including profit for the period	836,928	824,785
<b>Total equity</b>	<b>956,495</b>	<b>923,076</b>
Deferred tax liability	11,341	14,269
<b>Total long-term liabilities</b>	<b>11,341</b>	<b>14,269</b>
Accounts payable	44,421	99,700
Current tax liabilities	25,628	25,034
Other liabilities	145,811	164,947
Accrued expenses and prepaid revenues	111,644	92,157
<b>Total current liabilities</b>	<b>327,504</b>	<b>381,838</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,295,340</b>	<b>1,319,183</b>

## Condensed consolidated cash flow statements

(kSEK)	Oct-Dec 2017	Oct-Dec 2016	Jan-Dec 2017	Jan-Dec 2016
Operating profit	149,952	155,966	587,098	535,949
<i>Adjustment for items not included in cash flows:</i>				
Depreciation, amortization and impairments	41,665	36,644	158,019	138,894
Other	-4,399	836	-4,666	-4,155
Interest received	-	29	12	30
Interest paid	-82	-452	-1,292	-1,072
Income tax paid (1)	151,105	-24,552	-40,879	-47,889
<b>Cash flow from operating activities before changes in working capital</b>	<b>338,240</b>	<b>168,471</b>	<b>698,292</b>	<b>621,757</b>
Changes in working capital	-40,685	-9,647	-32,230	2,456
<b>Cash flow from operating activities</b>	<b>297,555</b>	<b>158,824</b>	<b>666,061</b>	<b>624,213</b>
Acquisition of intangible assets	-40,189	-41,876	-156,363	-154,277
Acquisition of property, plant, and equipment	-21,781	-35,398	-86,900	-79,862
<b>Cash flow from investing activities</b>	<b>-61,970</b>	<b>-77,274</b>	<b>-243,262</b>	<b>-234,139</b>
Received premium for share option rights	-	-	3,647	9,528
Repurchase of warrants	-29	-306	-52	-306
Transfer to shareholders	-	-	-540,294	-320,174
<b>Cash flow from financing activities</b>	<b>-29</b>	<b>-306</b>	<b>-536,700</b>	<b>-310,952</b>
<b>Cash flow for the period</b>	<b>235,556</b>	<b>81,244</b>	<b>-113,901</b>	<b>79,122</b>
Cash and cash equivalents at beginning of period	144,652	412,776	494,497	402,058
FX differences in cash and cash equivalent:	6,827	477	6,438	13,317
<b>Cash and cash equivalents at end of period</b>	<b>387,035</b>	<b>494,497</b>	<b>387 035</b>	<b>494,497</b>

(1) Includes a tax refund in accordance with the tax rules in Malta of kSEK 142 158, which NetEnt received in October 2017.

## Condensed consolidated changes in equity (kSEK)

	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
<b>2016</b>					
Opening equity Jan. 1, 2016	1,205	80,856	-8,448	640,548	714,161
Received premium for share option rights	-	9,333	-	-	9,333
Cash distribution to shareholders	-	-	-	-320,174	-320,174
Total income for the period Jan-Dec	-	-	15,345	504,412	519,757
<b>Closing equity Dec. 31, 2016</b>	<b>1,205</b>	<b>90,189</b>	<b>6,897</b>	<b>824,785</b>	<b>923,076</b>

	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
<b>2017</b>					
Opening equity Jan. 1, 2017	1,205	90,189	6,897	824,785	923,076
Received premium for share option rights	-	3,623	-	-	3,623
Cash distribution to shareholders	-	-	-	-540,294	-540,294
Total income for the period Jan-Dec	-	-	17,654	552,436	570,090
<b>Closing equity Dec. 31, 2017</b>	<b>1,205</b>	<b>93,812</b>	<b>24,550</b>	<b>836,928</b>	<b>956,495</b>

There is no minority interest in the Group. Thus, all equity is attributed to the Parent Company's shareholders.

The Company presents some financial measures in this interim report, which are not defined by IFRS. The Company believes that these measures provide valuable additional information to investors and management for evaluating the Company's financial performance and financial position. It should be noted that these measures, as defined, may not be comparable to similarly titled measures used by other companies. These non-IFRS measures should not be considered as substitutes to financial reporting measures prepared in accordance with IFRS. The tables below show some measures that are not defined by IFRS.

## Consolidated key data and figures for the Group

	Oct-Dec 2017	Oct-Dec 2016	Jan-Dec 2017	Jan-Dec 2016
<b><u>Financial measures defined by IFRS:</u></b>				
Operating revenues (kSEK)	419,260	400,294	1,624,982	1,455,101
Earnings per shares before dilution (SEK)	0.63	0.62	2.30	2.10
Earnings per shares after dilution (SEK)	0.63	0.62	2.30	2.10
Average number of outstanding shares before dilution	240,130,860	240,130,860	240,130,860	240,130,860
Average number of outstanding shares after dilution	240,130,860	240,130,860	240,130,860	240,198,134
Number of outstanding shares at period's end before dilution	240,130,860	240,130,860	240,130,860	240,130,860
Number of outstanding shares at period's end after dilution	243,232,540	242,563,940	243,232,540	242,563,940
<b><u>Alternative Performance Measures:</u></b>				
Operating revenues (kEUR)	42,834	41,112	168,696	153,647
Operating margin (percent)	35.8	39.0	36.1	36.8
EBITDA margin (percent)	45.7	48.1	45.9	46.4
Effective tax rate (percent)	-1.5	6.4	5.6	7.5
Return on equity, rolling 12 months (percent)	64.3	63.1	64.3	63.1
Equity/assets ratio (percent)	73.8	70.0	73.8	70.0
Quick ratio (percent)	247.5	245.0	247.5	245.0
Net interest-bearing liabilities (kSEK) (1)	-387,035	-494,497	-387,035	-494,497
Net debt/equity ratio (multiple)	-0.4	-0.5	-0.4	-0.5
Equity per share before dilution (SEK)	3.98	3.84	3.98	3.84
Equity per share after dilution (SEK)	3.93	3.84	3.93	3.84
Average number of employees	789	674	750	618
Employees at period's end	810	680	810	680
Employees and external resources at period's end	1,013	892	1,013	892

(1) A negative figure means that the Group has a net cash position (cash in excess of interest-bearing liabilities).

## Consolidated key data and figures by quarter for the Group

	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4
<b>Financial measures defined by IFRS:</b>									
Operating revenues (kSEK)	419.3	401.2	406.6	397.9	400.3	357.4	352.1	345.4	323.1
Cash and cash equivalents (SEKm) (3)	387.0	144.7	168.9	573.5	494.5	412.8	275.4	486.5	402.1
Funds held on behalf of licensees (SEKm)	82.5	43.7	130.0	86.0	92.4	102.9	63.9	2.0	24.6
<b>Alternative Performance Measures:</b>									
Operating revenues (EURm)	42.8	42.0	42.0	41.9	41.1	37.5	38.0	37.0	34.7
Operating profit (SEKm)	150.0	155.9	145.0	136.2	156.0	129.4	122.4	128.1	121.8
Operating margin (percent)	35.8	38.9	35.7	34.2	39.0	36.2	34.8	37.1	37.7
EBITDA margin (percent)	45.7	48.8	45.4	43.5	48.1	45.9	44.4	46.8	48.8
Growth in SEK vs prior year (percent)	4.7	12.3	15.5	15.2	23.9	27.7	29.8	33.7	34.0
Growth in EUR vs prior year (percent)	4.2	11.9	10.5	13.0	18.5	26.6	30.2	34.5	33.0
Growth in SEK vs prior quarter (percent)	4.5	-1.3	2.2	-0.6	12.0	1.5	1.9	6.9	15.5
Growth in EUR vs prior quarter (percent)	2.0	0.1	0.3	1.8	9.5	-1.1	2.5	6.8	17.0
Equity/assets ratio (percent)	73.8	73.8	61.5	74.6	70.0	68.9	68.9	79.2	74.0
Return on equity rolling 12 months (percent)	64.3	64.6	62.0	59.6	63.1	63.1	63.7	63.2	61.2
Net debt/equity ratio (multiple)	-0.4	-0.2	-0.3	-0.5	-0.5	-0.5	-0.4	-0.6	-0.6
Share price at end of period (2)	56.50	63.20	73.65	72.00	70.30	78.50	83.00	76.40	82.42
Earnings per share after dilution (SEK) (2)	0.63	0.59	0.56	0.52	0.62	0.50	0.47	0.51	0.48
Book equity per share (SEK) (2)	3.98	3.27	2.70	4.36	3.84	3.25	2.70	3.49	2.97
Cash flow from operations per share (SEK) (2)	1.24	0.13	0.77	0.63	0.66	0.74	0.66	0.54	0.58
Average number of employees	789	746	741	717	674	641	604	551	516

## Reconciliation to IFRS

(SEKm)	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4
<b>EBITDA</b>									
Profit for the period	152.2	142.4	133.8	124.0	150.0	119.2	113.5	121.7	115.7
Tax on profit for the period	-2.3	11.7	13.2	10.4	10.2	10.4	10.0	10.6	7.3
Financial items	0.1	-1.8	-2.1	1.9	-4.2	-0.2	-1.1	-4.2	-1.2
Depreciation & Amortization	41.7	39.8	39.6	37.0	36.6	34.7	33.9	33.6	36.0
<b>EBITDA</b>	<b>191.7</b>	<b>195.7</b>	<b>184.6</b>	<b>173.2</b>	<b>192.6</b>	<b>164.2</b>	<b>156.3</b>	<b>161.8</b>	<b>157.8</b>
<b>Net interest-bearing liabilities</b>									
Interest-bearing provisions	-	-	-	-	-	-	-	-	-
Interest-bearing liabilities	-	-	-	-	-	-	-	-	-
Cash and cash equivalents (3)	-387.0	-144.7	-168.9	-573.5	-494.5	-412.8	-275.4	-486.5	-402.1
<b>Net interest-bearing liabilities (1)</b>	<b>-387.0</b>	<b>-144.7</b>	<b>-168.9</b>	<b>-573.5</b>	<b>-494.5</b>	<b>-412.8</b>	<b>-275.4</b>	<b>-486.5</b>	<b>-402.1</b>
<b>Quick ratio</b>									
Total current assets	810.6	616.9	618.2	984.5	935.6	776.3	605.2	756.9	679.2
Total current liabilities	327.5	265.0	392.1	342.1	381.8	339.5	281.2	208.7	239.2
<b>Quick ratio (percent)</b>	<b>247.5</b>	<b>232.8</b>	<b>157.6</b>	<b>287.8</b>	<b>245.0</b>	<b>228.6</b>	<b>215.3</b>	<b>362.8</b>	<b>284.1</b>

- (1) A negative figure means that the Group has a net cash position (cash in excess of interest-bearing liabilities).  
(2) Adjusted for split 6:1 that occurred in May 2016.  
(3) Excluding funds held on behalf of licensees.



## Definitions

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### **Operating profit**

Operating revenues minus operating costs. Measures the Company's operating result before interest and taxes. Commonly used by investors, analysts and management to evaluate the profitability of the Company.

### **Operating margin**

Operating profit in relation to operating revenues. This is a measure of profitability commonly used by investors, analysts and management to evaluate the profitability of the Company.

### **EBITDA-margin**

Operating profit excluding depreciation and amortization in relation to operating revenues. This is a measure of profitability commonly used by investors, analysts and management to evaluate the profitability of the Company.

### **Growth in SEK compared to prior year**

Percentage change of operating revenues in SEK, compared to the previous year. Commonly used by investors, analysts and management to evaluate the growth of the Company.

### **Growth in EUR compared to prior year**

Percentage change of operating revenues in EUR, compared to the previous year. Commonly used by investors, analysts and management to evaluate the growth of the Company. The Company aims to grow faster than the market.

### **Growth in SEK compared to prior quarter**

Percentage change of operating revenues in SEK, compared to the previous quarter. Commonly used by investors, analysts and management to evaluate the growth of the Company.

### **Growth in EUR compared to prior quarter**

Percentage change of operating revenues in EUR, compared to the previous quarter. Commonly used by investors, analysts and management to evaluate the growth of the Company.

### **Average shareholders' equity**

Calculated as shareholders' equity at the start of the year, plus outgoing equity at the end of the year, divided by two.

### **Return on equity**

Period's profit/loss (rolling twelve months) in relation to average shareholder equity for last twelve months. This is a measure of capital returns that is commonly used by investors, analysts and management to evaluate the Company's ability to generate returns on the capital provided by its shareholders.

### **Financial items**

Calculated as financial income minus financial expenses, adjusted for currency effects.

### **Equity/assets ratio**

Equity at the end of period as a percentage of total assets at the end of period. This is a measure commonly used by investors, analysts and management to evaluate the capital structure of the Company and its ability to meet its short- and long-term obligations.

### **Quick ratio**

Current assets in relation to current liabilities. This is a measure commonly used by investors, analysts and management to evaluate the short-term liquidity of the Company.

### **Net interest-bearing liabilities**

Net of interest-bearing provisions and liabilities less financial assets and cash and cash equivalents. This is a measure commonly used by investors, analysts and management to evaluate the financial position of the Company and its ability to return cash to shareholders.

***Net debt/equity ratio (multiple)***

Net of interest-bearing earnings and liabilities minus financial assets and cash and cash equivalents, divided by shareholder's equity. This is a measure commonly used by investors, analysts and management to evaluate the financial position of the Company and its ability to return cash to shareholders.

***Average number of employees***

The average number of employees during the period, defined as full-time equivalents.

***Number of employees at end of period***

The number of employees at the end of the period, defined as full-time equivalents.

***Number of employees and external resources at end of period***

The number of employees and external resources such as dedicated persons with contracted suppliers and subcontractors at the end of the period, defined as full-time equivalents.

***Earnings per share before dilution***

Profit for the period divided by the average number of shares outstanding during the period, before dilution from options.

***Earnings per share after dilution***

Profit for the period divided by the average number of shares outstanding during the period, after dilution from options.

***Equity per share***

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

***Cash flow from operating activities per share***

Cash flow from operating activities divided by the average number of shares outstanding after dilution for the period. This is a measure used by investors, analysts and management to evaluate the financial development of the Company and its ability to generate a positive cash flow.

***Average number of shares outstanding***

The average number of shares outstanding during the period adjusted for bonus issue and share split.

***Number of shares outstanding***

The number of shares outstanding adjusted for bonus issue and share split.

## Condensed Parent Company income statement (kSEK)

	Oct-Dec 2017	Oct-Dec 2016	Jan-Dec 2017	Jan-Dec 2016
<b>INCOME STATEMENT</b>				
Operating revenues	207,164	203,210	807,059	737,522
Other external expenses	-78,724	-80,520	-317,622	-299,541
Personnel expenses	-108,413	-96,989	-411,251	-365,037
Depreciation and amortization	-7,346	-6,526	-28,750	-26,430
<b>Operating profit</b>	<b>12,681</b>	<b>19,175</b>	<b>49,435</b>	<b>46,514</b>
Financial items	443,063	486,835	445,268	496 368
Transfer to untaxed reserves	-5,853	4,481	-5,853	4 481
<b>Profit before tax</b>	<b>449,890</b>	<b>510,491</b>	<b>488,851</b>	<b>547 363</b>
Tax on the period's profit	-320	-5,449	-9,166	-13 971
<b>Profit for the period</b>	<b>449,570</b>	<b>505,042</b>	<b>479,684</b>	<b>533 392</b>
<b>STATEMENT OF TOTAL INCOME</b>				
<b>Profit for the period</b>	<b>449,570</b>	<b>505,042</b>	<b>479,684</b>	<b>533 392</b>
Other total income	-	-	-	-
<b>Sum of other total income for the period, net after tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total income for the period</b>	<b>449,570</b>	<b>505,042</b>	<b>479,684</b>	<b>533 392</b>

## Condensed Parent Company balance sheet (kSEK)

	Dec. 31, 2017	Dec. 31, 2016
<b>ASSETS</b>		
Intangible assets	4,027	5,791
Property, plant, and equipment	71,963	51,828
Shares in subsidiaries	6,773	4,611
<b>Total non-current assets</b>	<b>82,763</b>	<b>62,230</b>
Accounts receivable	-	3
Receivables from Group companies	529,077	388,228
Current tax receivables	1,730	1,748
Other receivables	14,743	27,955
Prepaid expenses and accrued revenues	45,447	51,327
Cash and cash equivalents	111,944	345,728
<b>Total current assets</b>	<b>702,942</b>	<b>814,989</b>
<b>TOTAL ASSETS</b>	<b>785,704</b>	<b>877,219</b>

	Dec. 31, 2017	Dec. 31, 2016
<b>EQUITY AND LIABILITIES</b>		
Share capital	1,205	1,205
Statutory reserve	38	38
Share premium reserve	58,885	55,299
Retained earnings	81,197	88,098
Profit for the period	479,684	533,392
<b>Total equity</b>	<b>621,009</b>	<b>678,032</b>
<b>Untaxed reserves</b>	<b>29,021</b>	<b>23,427</b>
Accounts payable	33,413	86,976
Liabilities to Group companies	3,499	9,006
Tax liabilities	-	-
Other liabilities	7,532	6,598
Accrued expenses and prepaid revenues	91,230	73,180
<b>Total current liabilities</b>	<b>135,674</b>	<b>175,760</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>785,704</b>	<b>877,219</b>

## NetEnt's business idea

NetEnt operates in the digital entertainment industry and its business idea is to develop premium games and system solutions that enable online casino operators to offer their players the ultimate gaming experience.

## NetEnt's business model

NetEnt is a B2B company developing and distributing premium software (games and gaming solutions) to online casino operators globally. Revenues are generated according to a licensing model based on revenue-sharing with customers. Customers, the gaming operators, pay a monthly license fee to NetEnt, which is based on a certain percentage share of the gross game win that is generated in the customers' online casinos. NetEnt takes responsibility for all technical operations such as monitoring gaming transactions for its customers, known as hosting, so that the operators can focus on their core operations. NetEnt also plays an active part in the integration work for new customers.

## NetEnt's strategies

NetEnt continuously develops its offering to be at the forefront in terms of technology, innovation and quality. The Company shall be a close business partner for its customers and the growth strategy is based on growth through both existing and new customers, new products, services and new markets. NetEnt shall participate in the re-regulation of the gaming market and expand globally on prioritized markets. Europe is top priority, followed by North America and Asia. NetEnt constantly aims to optimize efficiency in all parts of the operations and shall attract, preserve and develop core expertise. The Company strives to have a corporate culture that supports fast growth and should be ready to invest in new business opportunities.

## NetEnt's products

NetEnt offers a comprehensive gaming system comprising a full suite of world-class casino games and a powerful technological platform. The games are of high quality and provide players with an ultimate gaming experience, while the platform manages over three billion transactions per month. The product also includes an advanced administration tool that enables the operator to develop successful casino operations. The gaming system is tailored to each licensee so the games form a natural, integral part of the operator's gaming site. NetEnt's game portfolio comprises almost 200 games in categories such as Video Slots, Branded Games, Live Casino, Table Games, Pooled Jackpots, Video Poker, Mini Games and Lottery/other. The games are offered in various channels such as desktop, tablets and mobile phones. Two new games released in the fourth quarter are *Planet of the Apes* and *Finn and the Swirly Spin*.

