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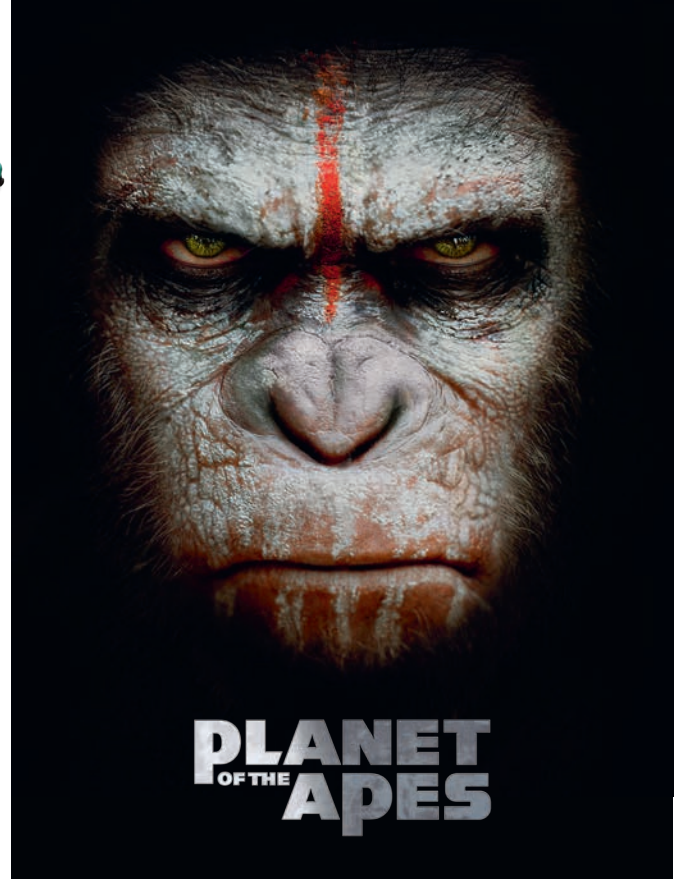
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Aloha! Cluster Pays™ is a Hawaii-inspired online slot game featuring six rows and five reels.

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The formal annual report for NetEnt AB (publ) 556532-6443 consists of the administration report and the accompanying financial statements on pages 48-101.

The annual report is published in Swedish and English. The Swedish version is the original and has been audited by NetEnt's independent auditors.

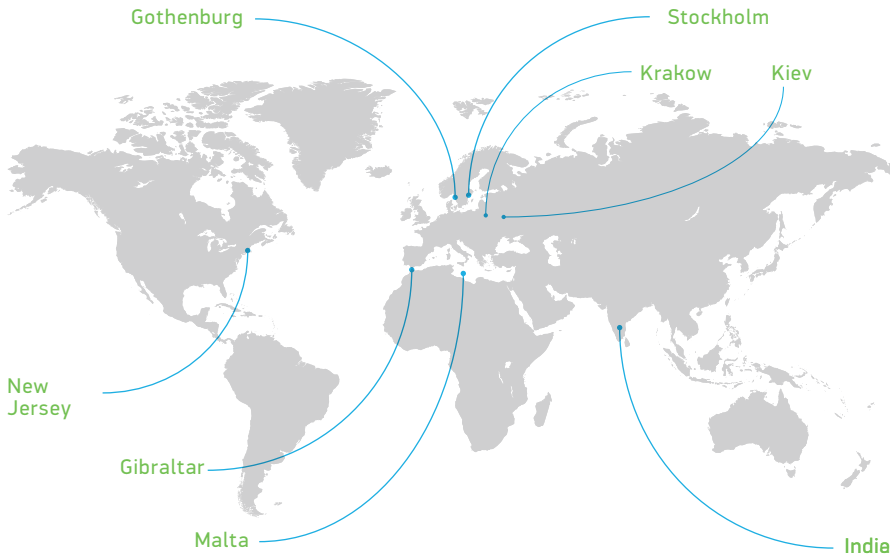


A leading provider of digital entertainment

NetEnt develops gaming and system solutions for the online casino market. The offering comprises around 200 game titles in 24 languages and a powerful technical platform with a server solution and 24/7 support, 365 days a year. NetEnt and its customers, the casino operators, work according to a partnership model, whereby NetEnt is responsible for operation and monitoring of gaming transactions through hosting. Gaming operators pay royalties to NetEnt based on a percentage of the game win¹⁾ generated by NetEnt's games.



NetEnt's global presence



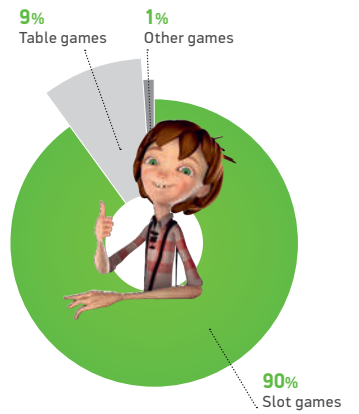
World-leading customers



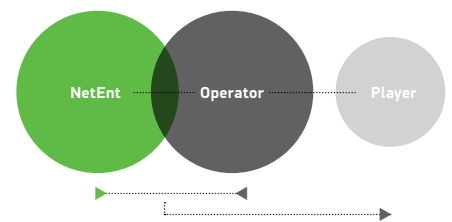
¹⁾ Game win = player bets minus player wins.



Game wins 2017



Partnership model



NetEnt's business



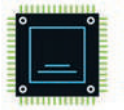
203
active customers



17
regulated markets



1,000
employees



6
data centres

Sustained growth with good profitability

Q1

- NetEnt is named Casino Content Supplier of the Year at the EGR Nordics Awards.
- The new jackpot game Divine Fortune is released, and becomes a success.
- Games are launched with Codere in Mexico.

Q3

- A deal is struck with Eurogames, in Italy, for land-based gaming machines.
- Live Rewards is launched for Live Casino.
- New features are added to the NetEnt Engage tool.

The jackpot game Divine Fortune™ brings players into the world of Greek mythology.



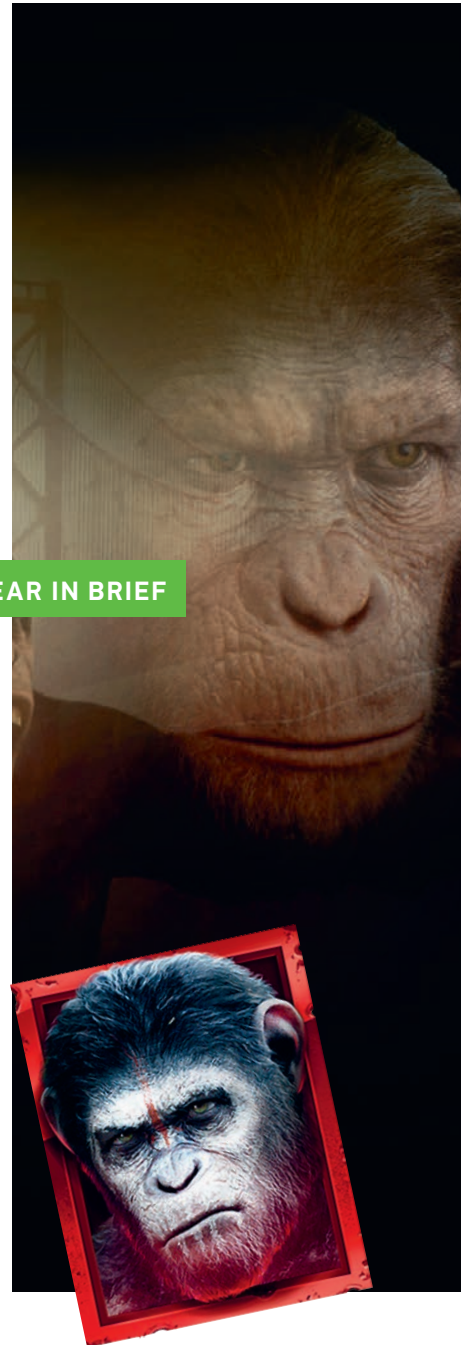
Q2

- NetEnt obtains a licence in the Canadian province of British Columbia.
- SEK 540 million is distributed to shareholders through an automatic redemption programme.
- Games are launched on the regulated market in Serbia.
- The company wins several awards at the EGR B2B Awards in London.
- Table games are introduced to the Spanish market.

Q4

- A customer agreement is signed with Caliente, a leading operator in Mexico.
- A new digital marketing solution for gaming operators is launched with Ve Global.
- Planet of the Apes™ and Finn and the Swirly Spin™ are released. Finn has been developed to provide a superior player experience on mobile devices.
- Live Casino Black Jack for mobile is released.

THE YEAR IN BRIEF



11.7%

Revenue growth

36.1%

Operating margin

The video slot Planet of the Apes™ was produced in association with 20th Century Fox Consumer Products. The game is based on the Rise and Dawn films and was released in 2017. Featuring a film series that spans over 50 years, the game appeals to all ages.



	2017	2016	2015	2014	2013
Key figures					
Revenues (SEK million) ¹⁾	1,625.0	1,455.1	1,132.4	851.7	630.7
Growth, %	11.7	28.5	33.0	35.0	19.8
Operating profit (SEK million)	587.1	535.9	401.6	261.7	179.7
Operating margin (%)	36.1	36.8	35.5	30.7	28.5
Profit after tax (SEK million) ¹⁾	552.4	504.4	374.0	243.2	167.1
Earnings per share (SEK) ^{1) 2)}	2.30	2.10	1.56	1.02	0.71
Distribution to shareholders/share (SEK) ²⁾	2.25	2.25	1.33	0.83	0.50
Cash flow before dividends (SEK million)	422.8	390.1	337.6	243.7	113.6
Return on equity (%)	64.3	63.1	61.2	52.5	49.5
Net cash position at year end (SEK million)	387.0	494.5	402.1	258.1	105.8

¹⁾ Defined according to IFRS.

²⁾ Adjusted for 6-for-1 share split in May 2016.

For definitions, see page 108.

The company continues to grow, with good profitability, but what was the most important event in 2017?

An important part of our strategy is to focus on regulated markets, and 2017 saw us reinforce our position in locations such as the UK, Spain, Italy, Denmark, and New Jersey in the USA. We also obtained a gaming licence in the Canadian province of British Columbia, and our games went live on the newly-regulated markets of Serbia and the Czech Republic. In addition, we released a number of new games that illustrate the qualities of innovation, quality and thrills for which NetEnt is renowned. The year also marked the development of new products and concepts for our mobile Live Casino offering and the launch of a digital marketing solution with Ve Global, steps which ought to generate new streams of revenue in the long term. Overall, this is further evidence of NetEnt's ability to innovate, and that we continue to drive the digital casino industry forward.

You'd been hoping for a higher profit, but growth slowed down and margins fell in the fourth quarter of 2017. Why is this?

We're not pleased, and were expecting a stronger performance in the fourth quarter. The low rate of growth was primarily linked to our withdrawal from three markets – Australia, Poland and the Czech Republic – following changes to legislation, although growth was also slower in the Nordic region, where our market share is large.

Over a long period, you've achieved better growth than the fast-growing online casino market as a whole. What's the secret?

I'm lucky enough to work alongside some fantastic people. We have a strong corporate culture that encourages us to constantly challenge ourselves to do things better and faster. Our culture and way of working combine innovation and execution discipline, ensuring that we remain at the cutting edge of an industry which is constantly evolving.

“Companies with gender equality make better decisions and are more profitable.”



9.5%

Operating profit rose by 9.5 percent, reaching SEK 587 million.

36.1%

Operating margin 2017.

Entering new markets

With continued profitable growth and strong cash flows, entry into new markets and development of market-leading games, 2017 was another eventful year at NetEnt.

You're planning to launch at least 20 new games in 2018, compared with 14 in 2017. What's behind the increase in releases and how important are new titles for the company?

Our games continue to be in great demand, and we can see that our customers want NetEnt to release more new titles. Each new release boosts our revenues and those of our customers, which is why in 2017 we invested heavily in games to be released in 2018. Among others, we're really optimistic about a selection of branded games, which are based on the film Jumanji and on the Netflix series Vikings and Narcos.

Online still accounts for just five percent of all casino gaming worldwide. What factors are driving the migration to online?

In general, the average age of those playing land-based games is high. But the younger generation do most things online, which means there's a natural transition to gaming online, a process I can see gathering pace. Conversely, there are markets developing slower than expected, the USA in particular, where land-based casino companies are lobbying hard against new regulations permitting online gaming.

Gender equality is a key element of your employee strategy, and NetEnt again featured among the finalists when the AllBright Foundation named the best companies on the Stockholm stock exchange in 2017 in the field of gender equality. Why is this issue such a high priority?

We believe that striking a balance between men and women makes a company more dynamic and innovative. In addition, there are studies which indicate that companies with gender equality make better decisions and are more profitable. So we're really proud to rank as the best large-cap company on the stock exchange in AllBright's survey.

How do you see things developing over the next few years, and what are the biggest risks and opportunities?

Re-regulation of markets presents opportunities as well as risks. There is a lot of potential in the American states, of which only three allow online gaming at present, and we are well positioned due to our operation in New Jersey. There are also big opportunities in Live Casino, where we're one of the companies challenging the biggest operators. With our new products, I believe we can get much bigger in this segment too. ●



NetEnt CEO Per Eriksson says the company continues to develop its selection of branded games, based on well-known films and tv series.



Strategies for growth

NetEnt's strategy for growth is to remain a **leading supplier of digital casino gaming** and to take strategic initiatives to drive developments in the market.



During 2017, new mobile games were launched for Live Casino, offering players more opportunities to enjoy their favourite games on mobile phones and tablets.



**STRATEGIC
DEVELOPMENT**

1. Geographical expansion

NetEnt plans geographical expansion in priority markets, with Europe the top priority, followed by North America and Asia. To continue growth, the company's focus remains on regulated markets, although it will stay in dot-com markets as long as this is commercially viable.

Find out more on page 24.

Activities and achievements in 2017

- Strong growth in regulated markets in Europe, such as the UK, Italy, Spain, Denmark and New Jersey, USA.
- NetEnt's games were launched in the regulated markets in Mexico, Serbia and the Czech Republic.
- NetEnt obtained a licence in the Canadian province of British Columbia.

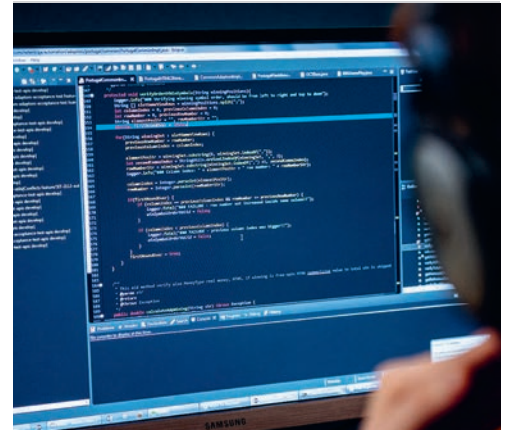
2. Innovation and quality for a premium product

Games, platforms and development within the company are to be underpinned by innovation and a commitment to consistently delivering top quality. NetEnt aims to have the best customer offering on the market, providing "Better Gaming".

Find out more on page 32.

Activities and achievements in 2017

- In 2017, NetEnt released 14 new games for all customers, two of which were branded titles.
- New bonus features were added to the NetEnt Engage™ tool.
- NetEnt won several prestigious awards for innovation and quality at the EGR B2B Awards in London.



NetEnt has a strong corporate culture, based on shared values and dedicated employees.

3. Business partner

NetEnt aims to be a close business partner and grow together with existing and new customers. Better Gaming means better business.

Find out more on page 27.

Activities and achievements in 2017

- NetEnt signed 37 new customer agreements and launched 35 new customers.
- During the year, four games were developed exclusively for some of the company's most important customers.
- In the latest customer satisfaction survey, 99 percent of all customers said that NetEnt has an excellent reputation in the industry.

4. Strong corporate culture

A strong corporate culture supports fast growth. NetEnt strives for a dynamic, creative, performance-oriented culture based on the company's shared values.

- Together We Win
- Think Ahead, Be Ahead
- We act SpeedSmart
- Passion in All We Do

Find out more on page 38.

Activities and achievements in 2017

- NetEnt hired 130 new employees, who attended an introductory programme in which the importance of the company's corporate culture was a key theme.
- Continuous improvement measures based on employee satisfaction surveys.
- During the year, several leadership training courses were held for the company's managers, in which values and culture were key components.



A VR version of *Gonzo's Quest* will be released during 2018.

FINANCIAL TARGETS

NetEnt is leading the development of gaming and system solutions for the global digital casino market. Its financial targets serve to strengthen this position.

Stronger market position

Target 1: Growth

11.7%

NetEnt's overall objectives are to further strengthen its market position, drive developments and grow faster than the market. The market is expanding structurally, with NetEnt gaining market shares.

Outcome for 2017

Since 2007, NetEnt has increased its revenues by an average of 29 percent a year, with the online casino market in Europe growing by 16 percent a year over the same period. In 2017, company revenues grew by 11.7 percent, compared to an estimated market growth of 10.7 percent in Europe. The aim is to continue growing organically together with new and existing customers by delivering the market's best gaming solutions. ●

Target 2: Dividend

SEK 2.25

NetEnt's target is for the dividend to amount to at least 60 percent of profit after tax, subject to the company's long-term capital requirement.

Outcome for 2017

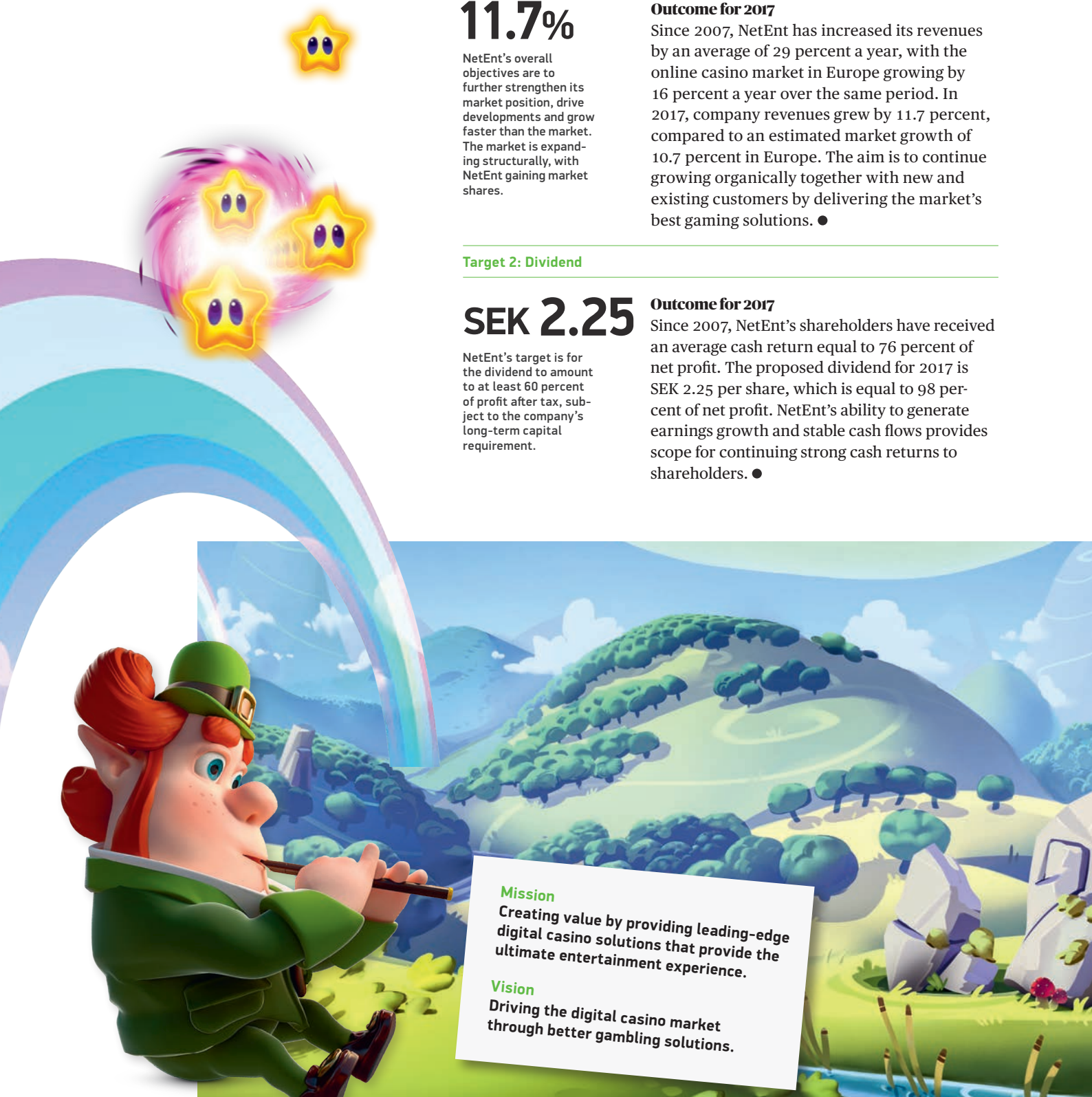
Since 2007, NetEnt's shareholders have received an average cash return equal to 76 percent of net profit. The proposed dividend for 2017 is SEK 2.25 per share, which is equal to 98 percent of net profit. NetEnt's ability to generate earnings growth and stable cash flows provides scope for continuing strong cash returns to shareholders. ●

Mission

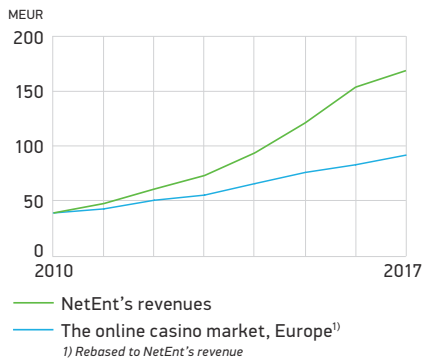
Creating value by providing leading-edge digital casino solutions that provide the ultimate entertainment experience.

Vision

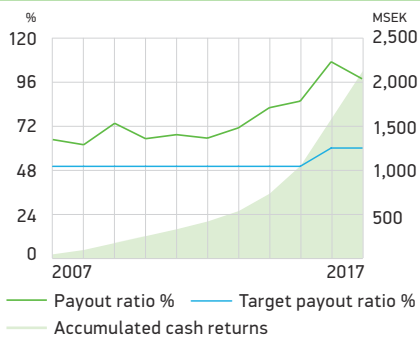
Driving the digital casino market through better gambling solutions.



Historical growth, NetEnt vs. European market



Historical cash returns



Priority targets each quarter

NetEnt's financial targets are to grow faster than the market and distribute a minimum of **60 percent** of profit after tax. NetEnt CFO Therese Hillman explains what the company is doing to achieve its targets.

What made NetEnt choose these two targets?

The target to grow faster than the market fits with NetEnt's vision to drive the development of the digital casino market. We also want to grow faster than the market average. The other target reflects our aim of maintaining a strong balance sheet, providing the flexibility required to carry out investments which drive growth, while also ensuring a large proportion of profit is distributed to NetEnt's shareholders.

How does NetEnt monitor its ongoing performance to ensure targets are actually achieved?

We're continually reviewing the company's strategy through key figures and targets to ensure we're on the right track over the year. We set a priority objective each quarter for the whole organisation, and every employee is rewarded through the All-in bonus system if the target is achieved.



Therese Hillman was recruited as CFO in 2017. She spent five years as CEO of Gymgrossisten, a subsidiary of the Qliro Group, and was previously a board member at Kindred.

What factors affected NetEnt's capacity to achieve its targets in 2017?

NetEnt achieved a good rate of growth in 2017, even though it fell in comparison with recent years. Growth was lower in the key Scandinavian markets, but we grew faster in regulated markets, such as Italy. The business continued to generate strong cash flows due to increased revenues and good profitability.

What's the best thing about working at NetEnt?

There's a lot going on in the gaming industry and the competition is fierce, so working at NetEnt is really rewarding if you like challenges and a fast-paced environment. We have to get better and better every single day. ●



How NetEnt creates value

NetEnt operates close to the customer, continually developing products and services for the online casino market. Comprising a range of games and technical platforms, its world-leading offering provides long-term value for all stakeholders.

Entertainment in a secure environment

An understanding of what makes great entertainment in a secure environment is a key ingredient of NetEnt's success. Its operations and all deliveries adhere to regulations imposed by gaming authorities all over the world. Consumer protection, responsible gaming, anti-money laundering and anti-corruption measures are paramount.

Innovation and quality

Creating entertaining and thrilling games involves creativity, precision, in-depth technical expertise and experience. Game development takes place at NetEnt's offices in Stockholm, Gothenburg, Kiev and Krakow, and through a partner in India. NetEnt is committed to always delivering gaming experiences that exceed expectations.





Close collaboration

NetEnt works closely with its customers to innovate and create added value. Under the partnership model, NetEnt earns royalties based on a percentage of the game win that is generated by its games for the operator.

Excellent operational reliability

NetEnt oversees all technical operations and monitoring of gaming transactions on behalf of its customers through its administration tool. NetEnt handled a total of 41.2 billion gaming transactions during 2017, with system uptime exceeding 99.9 percent.

Satisfied customers and shareholders

NetEnt's ability to keep its promises is a key ingredient of its success. In its annual customer survey, 99 percent of customers reported that NetEnt had an excellent reputation in the industry. NetEnt's financial target is for the dividend to amount to at least 60 percent of profit after tax, subject to the company's long-term capital needs.

Sustainable value creation

NetEnt's operations create economic value for the benefit of all stakeholders, including shareholders, suppliers, employees and society in general. In 2017, NetEnt's operations generated an economic value of SEK 2.5 billion, which was distributed among stakeholders according to the graph on the right-hand side of this page.

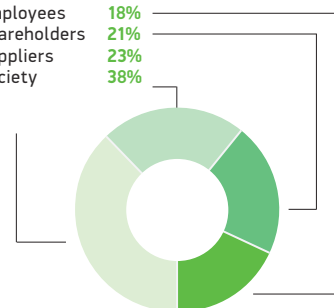


2.5 SEK billion

CREATED ECONOMIC VALUE

Value distribution 2017

Employees	18%
Shareholders	21%
Suppliers	23%
Society	38%



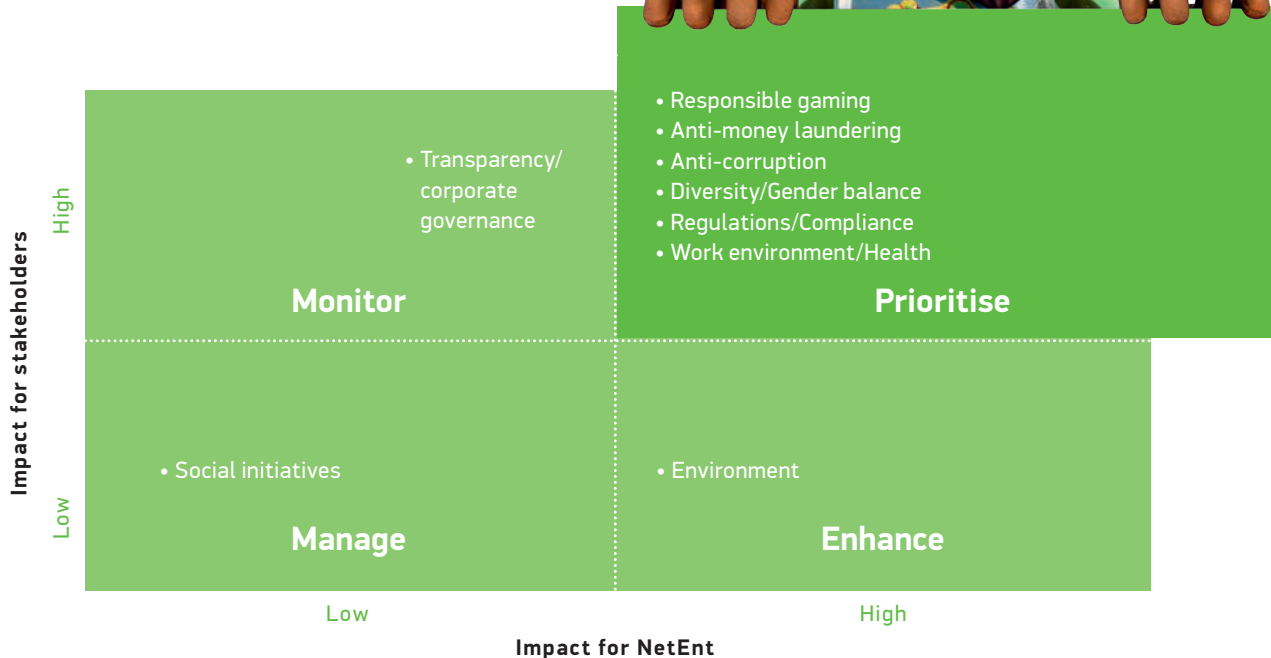
- **Suppliers:** Payment for materials and services of SEK 575 million¹⁾
- **Employees:** Salaries and benefits of SEK 463 million.
- **Shareholders:** Proposed cash distribution for 2017 of SEK 540 million.
- **Society:** Paid taxes of SEK 958 million²⁾.

¹⁾ Includes supplier costs and depreciation for the year.
²⁾ Includes corporate tax and gaming tax in NetEnt's games, calculated as the game win in regulated markets with relevant gaming taxes for each country applied.



In-depth work within priority areas

NetEnt is committed to working towards sustainable development in society. The company pursues dialogue with its key stakeholders in order to understand which areas of sustainability are considered to be material.



Strong support for the UN's global goals

In 2017, NetEnt reinforced its commitment to the UN's 17 Goals for Sustainable Development, adopted in 2015. NetEnt assessed how its operations, material areas and the support of the company can contribute to achieving the goals of the international community. The company concluded that its working methods can contribute to several

of these objectives. The sustainability strategy and related activities, indicators and targets are closely aligned to NetEnt's overall sustainability objectives. The global goals that NetEnt currently influences are shown here. The ambition is to clarify this work and integrate more global goals into the company's strategy and operations. ●





A detailed description can be found in the sustainability report on pages 71-74.

Examples of measures and communication

Stakeholders

Focus in sustainability

Customers and indirectly players

- Responsible gaming
- Product quality and service
- Secure gaming

- Regular customer surveys and dialogue
- Certification for responsible and secure gaming, according to eCOGRA and G4
- Product design with player-safety functions
- Tests by independent companies
- Internal policies and training
- Collaboration with organisations for responsible gaming
- Membership of BOS

Employees

- Roles which support development
- A stimulating work environment
- Skills development
- Physical and mental health
- Diversity and gender equality

- Regular employee surveys with follow-up and improvement measures
- Health and fitness subsidies, joint activities and health coaching
- Relocation to new, environmentally-friendly premises in central Stockholm
- Strategic focus on diversity and gender equality at all levels of the company

Shareholders and investors

- Sustainable long-term returns
- Sustainability issues in general

- Financial communication via reports, press releases, IR web and investor meetings
- Transparent dialogue in sustainability issues
- A new CSR manager was appointed in 2017

Suppliers

- Working situation for consultants and sub-contractors, such as NetEnt's business partner in India
- Promoting good business ethics and a corporate culture of gender balance

- Ongoing dialogue and evaluation
- Close collaboration with supplier in India, including support with sustainability issues
- NetEnt's partner in India is ranked highly in the country in terms of HR policy and staff retention

Society

- Support regulations
- Environmental awareness in operations and among employees
- Anti-corruption work
- Measures to combat money laundering and financing of terrorism
- Promote diversity and good business ethics
- Support community initiatives

- Internal policies and training for all employees
- Compliance unit
- Whistle-blowing routines
- Employee strategy with a focus on gender equality
- Support social initiatives with employees
- Environmental policy

Organic growth in an industry of the future

In many ways, NetEnt represents the Swedish wave of digitalisation, and in its segment has a strong market position in Europe. Organic growth and a scalable business model lay the foundations for sustained value creation.

The global growth of the internet is one of the most significant developments to have occurred in the past two decades. The internet is now a natural part of everyday life for people in most countries. This has led to major changes in many industries, with physical stores replaced by e-commerce, traditional bank accounts managed online and scheduled TV viewing declining due to the rise of streaming services. This transition is also affecting the gaming industry, with online gaming taking shares from land-based casinos and gaming machines.

NetEnt is one of a number of Swedish companies that have benefited from digitalisation, creating value for customers and shareholders alike. Behind this success lies the work of its employees, combined with a constantly evolving, attractive customer offering. NetEnt is driving market developments through an innovative approach to quality and a sustainable corporate culture.

NetEnt is a world leader in the mobile gaming segment, and its scalable business model and strong market position have enabled the company to generate organic growth, strong cash flows and high returns for its shareholders.

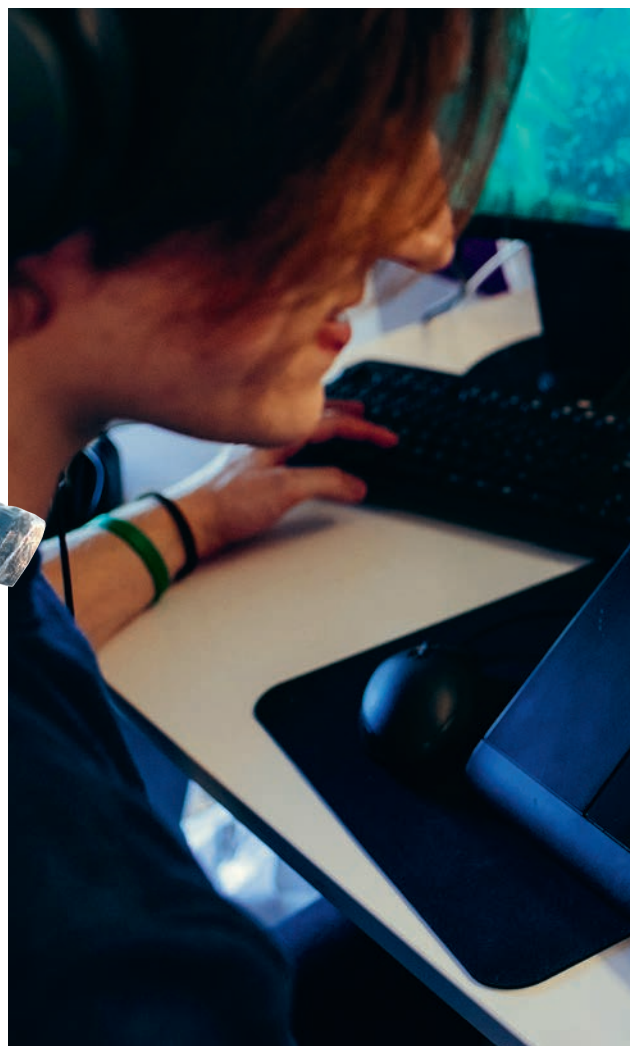
An attractive growth market

The global online gaming market is continuing to show strong growth. The underlying growth is supported by megatrends such as globalisation, digitalisation and mobile development.



SEK 70,677

SEK 1,000 invested in NetEnt in 2007, when the company was listed, would have been worth SEK 70,677 at the end of 2017.

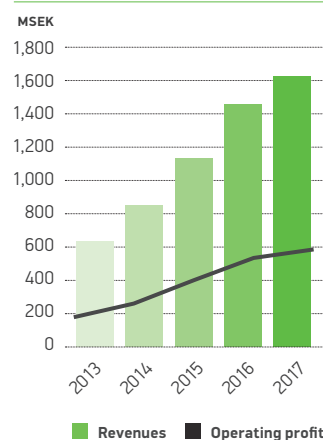


Consumption patterns are changing in favour of online games, and re-regulation is opening up new geographical markets. Online casino gaming accounts for only five percent of all casino gaming globally, while the remainder still takes place offline. The ongoing migration from offline to online supports a bright market outlook, and historically demand has not been cyclical.

Strong market position

NetEnt has been a pioneer in the digital casino market since it started in 1996, and currently has just over 200 active customers that include most of the major gaming operators in Europe. In the past 10 years, NetEnt has

Revenues and operating profit





Gaming solutions that support online casinos around the world to deliver the best gaming experience to their players.

INVESTMENT CASE

Packed with animation, Warlords™ is one of the most ambitious projects NetEnt has ever undertaken.

Innovation and quality

Innovation is at the core of NetEnt's corporate culture and is the force that drives the company forward. NetEnt's business requires cutting-edge expertise in technology, design and mathematics, but also far-reaching knowledge about regulations, the market, customers and players. With creative enthusiasm and in-depth know-how, NetEnt develops innovative product solutions with a focus on premium quality.

Business-critical functions in Malta

NetEnt's business-critical and strategic units, such as product and market strategy, sales, account management and customer support, are based in Malta. This is a logical choice of location due to Malta's position as the hub of the European gaming industry and as home to the majority of NetEnt's European customers. The organisation in Malta links customer demand and ideas in terms of game development, platform functionality and operations.

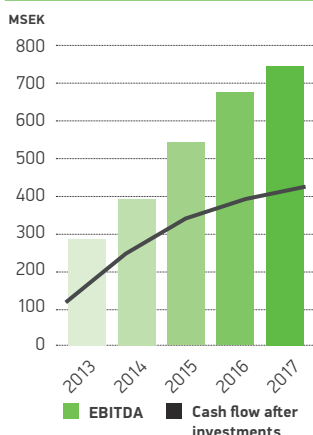
Organic growth

In 2017, NetEnt's revenues grew by 11.7 percent, compared to estimated market growth of 10.7 percent in Europe. This increase in revenue occurred organically through growth from existing customers, the launch of new games, and new customers. The aim is to continue growing organically together with existing and new customers by delivering the market's best gaming solutions.

Strong cash flows and dividends for shareholders

NetEnt's business generates strong cash flows. The company's capabilities and its focus on generating profitable growth, combined with stable and fairly predictable investments, support sustained high cash returns for shareholders. ●

EBITDA and cash flow



grown faster than the market and now has an estimated market share of 28 percent in Europe and 17 percent worldwide.

Scalable business model with barriers to entry

NetEnt's premium solutions and award-winning game portfolio for digital casino provide economies of scale and support successful business operations for gaming operators. With its experience, expertise and size, NetEnt can deliver synchronised game launches for different distribution channels and geographical markets, following schedules determined far in advance, which creates barriers to entry for new and smaller competitors.





Markets and customers

NetEnt gains market share thanks to its attractive offering to casino operators all over the world and by adapting quickly to regulated markets. As a result of investment in technology and expertise, [NetEnt currently operates in 17 regulated markets](#) in Europe and North America.



Strong growth for the digital casino market

The underlying **online casino** market continues to grow, with NetEnt gaining market share among suppliers.

In 2017, the global online casino market was estimated to be worth EUR 10.6 billion. According to statistics from H2GC, Europe accounts for the largest share of the global market - 62 percent - with the United Kingdom the largest single market by country. The online gaming market is also growing quickly, with global growth at nine percent in 2017 compared to 2016. Growth



is partially driven by macro trends such as globalisation, digitalisation and mobile development. The market is also being boosted by shifting consumption trends, to the benefit of online gaming and re-regulation, opening the door to new geographical markets.

Non-cyclical

The growth potential is considerable. Despite rapid growth, online casino gaming accounts for just five percent of all casino gaming globally, with most activity still taking place offline. The transition from offline to online is expected to continue at the same rate, with H2GC forecasting the global online casino market to grow at an average of seven percent a year until 2022. Further, the online gaming market is not greatly affected by economic cycles, with demand historically proving to be non-cyclical.

Mobile gaming is the fastest growing segment in the online gaming industry. According to H2GC, mobile gaming made up 37 percent of online gaming globally in

Historically, online gaming demand has not proven to be cyclical.

2017, and is expected to grow by an average of 14 percent annually through 2022.

Premium solutions performing best

NetEnt focuses on premium solutions for the online casino market, the segment that has shown strong growth and profitability in recent years. NetEnt has increased its turnover by an average of 24 percent annually since 2010, with the European online casino market growing by 13 percent annually over the same period.

In the mobile gaming segment, NetEnt continues to prosper in terms of volume, technical content and accessibility. Revenues from the mobile gaming segment continued to climb during the year, accounting for 54 percent of game win for NetEnt's games in the fourth quarter 2017, compared with 43 percent the year before. Four years ago, in Q4 of 2013, the corresponding figure was just nine percent.

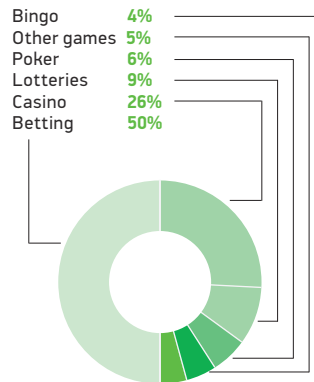
Fast adaptation to regulations

Despite growing competition linked to market expansion, NetEnt has succeeded in gaining market share, due primarily to an offering which appeals to both operators and players and by swiftly adapting to an increasingly regulated market for online casino gaming. NetEnt's current market share is around 28 percent in Europe, and 17 percent globally, based on market data from H2GC. Among suppliers, the online gaming market is dominated by a handful of companies. Many of these deliver a broader offering of products than NetEnt, which is focused on casino games. NetEnt's main competitors are Playtech and Microgaming, and there are a number of smaller competitors too. In the Live Casino segment, Evolution Gaming is NetEnt's biggest competitor. ●

Train robbery in progress! It's Wild Wild West: The Great Train Heist™.

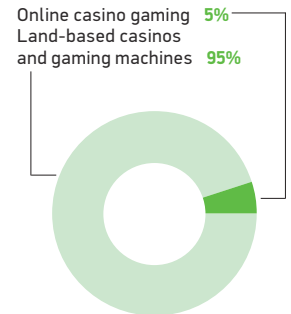


Global breakdown of online games



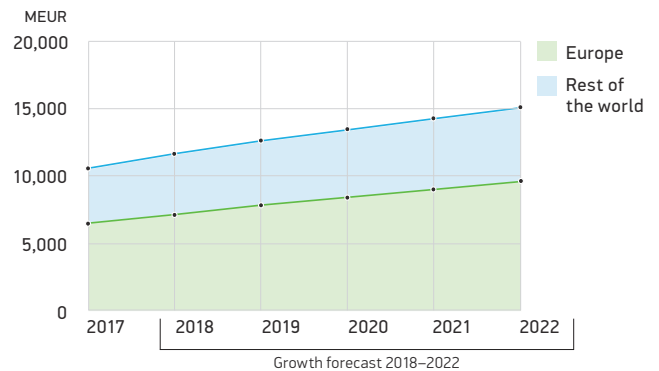
Source: H2GC, February 2018

The global casino market – NetEnt's potential



Source: H2GC, February 2018

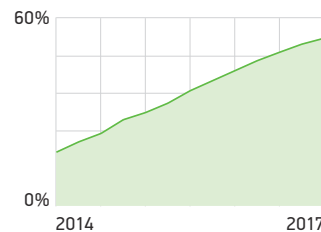
The online casino market



Source: H2GC, February 2018

Historical mobile growth for NetEnt

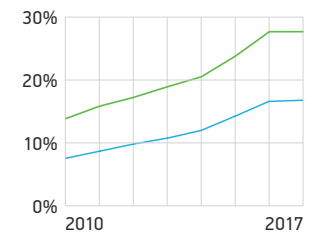
Percentage of game win from mobile



Source: NetEnt and H2GC, February 2018

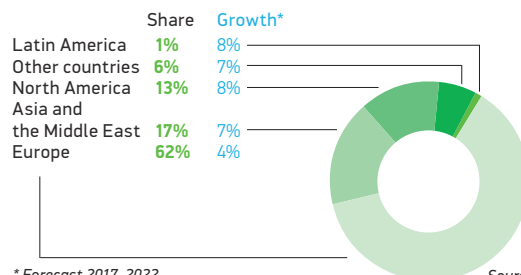
NetEnt's market shares

Europe Global



Source: NetEnt and H2GC, February 2018

Percentage of the global market and growth rates



* Forecast 2017–2022

Source: H2GC, February 2018

NetEnt leading the way on regulated markets

With the online gaming markets in Europe and North America becoming increasingly regulated, the industry landscape has shifted dramatically in recent years. Regulated markets are at the core of NetEnt's expansion strategy. Sensible regulations on consumer protection, game safety and tax not only create a clear framework for NetEnt's operations, but also provide stability which enables regulated markets to grow more quickly than their unregulated equivalents.

Over several years, NetEnt has invested in the technology, expertise and resources required to adapt to regulated markets. This investment was essential to meet the extensive demands placed on certified operators, and also to boost our competitive advantage, with regulation leading to greater barriers to entry. NetEnt currently operates on 17 regulated markets in Europe and North America, more than any other supplier in the gaming industry. This means that NetEnt holds licences and certifications in most of the European countries which have chosen to abolish their gaming monopolies and opened up to competition by introducing new gaming legislation.

Market trends

By systematically mapping the parameters affecting the industry and staying constantly up to date with developments in the field, NetEnt has also developed the ability to forecast movements in the sector, as well as the changes to regulations which apply to the various markets.

Widespread regulation of online gaming is imminent, and this is expected to be a key driver of change and development in the industry over the next few years. Europe

NetEnt prioritises **geographical expansion** in regulated markets, where the company's experience and expertise provide an important competitive edge.

continues to be at the hub of the shift towards increasingly regulated markets, a trend which could potentially encompass most of Europe's major economies.

Another clear trend is the way countries are drawing and learning from each other's experiences. Regulatory authorities in different countries are collaborating to a greater degree, paving the way for harmonisation of legislation for the European gaming industry. There's also greater focus on player and consumer protection. In the United Kingdom, for example, the regulator is once again reviewing gaming laws, which could lead to amended guidelines. More requirements are being placed on gaming companies across the board, particularly in the areas of marketing and checks intended to counteract the risk of addiction and money laundering. At the same time, regulatory authorities are working more closely with the industry to look at how regulations can be improved. This is happening in Malta, Portugal and Italy, among other nations. As a supplier, NetEnt is also affected to a certain extent.

By systematically mapping parameters, NetEnt has developed the ability to predict movements in the sector as well as relevant changes to regulations.





4 questions for Björn Krantz, Chief Commercial Officer at NetEnt

You've been employed by NetEnt since 2009. What has made you stay with the company so long?

My colleagues, without doubt. The passion and drive at NetEnt is totally unique, and we have a challenger culture which helps us to run a marathon together every day. I'm really passionate about our collective spirit.

How would you describe the corporate culture at NetEnt?

Our corporate culture is totally focused on the customer, and their needs are our top priority. There's absolute transparency here, enabling a greater overall understanding of the company's business and how you, as an individual, can influence the bigger picture.

What are the biggest challenges associated with the role of Chief Commercial Officer?

Our industry is heading towards more regulation. The balance between keeping a scalable global business model and taking local market conditions into account is a key item on my agenda.

What is NetEnt's greatest asset, if you were forced to choose a specific area?

The corporate culture, which forms the basis of all our corporate governance.

Re-regulation in Sweden

The Swedish gaming inquiry that was published in March 2017 entails liberalisation of existing legislation. The inquiry proposes a licensing system with an 18-percent tax rate on gaming companies' game win. The licence application process is expected to start in 2018.

In the USA, a number of states have re-regulated in order to permit online gaming, including Nevada, Delaware and New Jersey, where NetEnt has obtained a special licence (transactional waiver) to offer its games pending full processing of the

company's licence application. At the end of 2017, the state of Pennsylvania also decided to permit online casino gaming, with a licence application expected during 2018. Various political initiatives are also underway regarding re-regulation in other American states. Online gaming in Canada is permitted in a number of provinces, and NetEnt obtained a licence in British Columbia during 2017.

Regulation is also expected in Latin America. There is an awareness - and in some countries, a political will - to introduce new online gaming

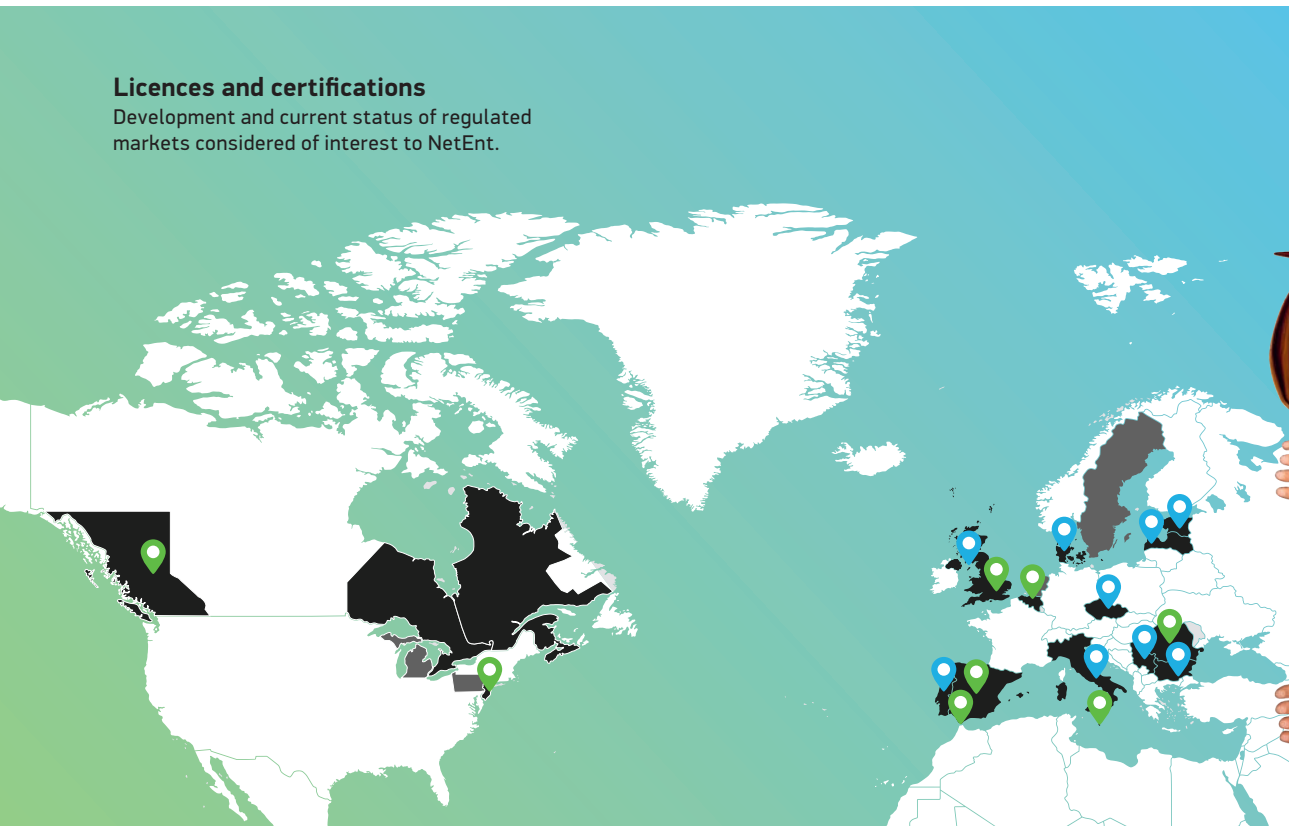
sector legislation, regarding it as a new sector with financial opportunities. The potential is substantial, particularly in the continent's fast-growing economies.

Market entries and exits

During the year, NetEnt entered three new regulated markets: Serbia and the Czech Republic in Europe, and Mexico in Latin America. At the same time, the company phased out the delivery of games to the dot-com markets in Australia and Poland, which had a somewhat negative impact on revenues. ●

Licences and certifications

Development and current status of regulated markets considered of interest to NetEnt.



Regulated markets

Markets where regulation may take place

NetEnt's licences
Malta, Gibraltar, Alderney, Belgium, United Kingdom, Spain, New Jersey¹⁾ (USA), Romania, British Columbia (Canada)

Certifications
Denmark, Italy, Estonia, Latvia, Isle of Man, Bulgaria, Portugal, the Czech Republic and Serbia

1) Special permit (transactional waiver). NetEnt was granted special authorisation from the gaming authority to launch its games with the largest operators in New Jersey, pending processing of the company's full licence application.

Close collaboration across the board

Top-quality games and reliable deliveries has made NetEnt the natural choice of long-term partner for **Kindred Group**, the online gaming company.

NetEnt has been one of Kindred Group's most important partners for more than 10 years. "We have a really close partnership and day-to-day contact about game releases, development, support and everything in between," explains Fredrik Kjell, Chief Product Officer at Kindred Group.

Kindred is one of Europe's biggest operators in the online gaming segment, with around 20 million customers and renowned brands such as Unibet and MariaCasino. Among other things, reliable deliveries are about operational capacity to handle large volumes and high rates of traffic.

"NetEnt also provides comfort, through high-quality games and high uptimes. We've always enjoyed a quick, positive dialogue with NetEnt's account management," says Kjell.

"Delivering games on schedule is another important factor. We run major campaigns when releasing new games, often in several markets simultaneously, so it's really important to stick to schedules and ensure things run smoothly. NetEnt is a highly efficient delivery machine.

"The most important thing is that NetEnt creates great games which appeal to the market."

Fredrik Kjell, Chief Product Officer at Kindred Group



The most important thing is that NetEnt creates great games which appeal to the market.

"It's about understanding players' needs, taking an innovative approach to gaming mechanics, offering a diverse game portfolio, releasing a lot of games during the year

and having games with well-known brands.

It's also really positive that NetEnt enters new markets at an early stage, and knows the rules and gaming certifications required to move into a regulated market," adds Kjell. ●



Product offering

NetEnt has around 200 titles in its gaming systems, which can be played on computers, tablets and mobiles, and in some cases physical gaming machines. While gaming operators focus on their core activities, **NetEnt takes care of the technical operation, monitoring and support**, with system uptime of over 99.9 percent.

Gonzo's
Quest™ is
NetEnt's first
virtual reality
game.



PRODUCT OFFERING

World class games

NetEnt's offering includes **200 innovative game titles** and a powerful technical platform.

We drive the industry forward through sustained development in close collaboration with our customers. Our ambition is to provide valuable

partnerships based on our renowned expertise in digital casino entertainment, a market-leading offering and a strong brand. NetEnt is continually striving to improve its gaming platform and adapt it to the demands of growing complexity. Our platform supports growing volumes, and can be seamlessly integrated with new customers and markets.

The Casino Module™ platform forms the basis for NetEnt's customer offering. The platform is integrated with each customer, ensuring that the games become a natural part of every operator's online casino. The platform also includes Back Office™, an advanced, user-friendly administrative tool which enables operators to utilize a range of specially-designed functions in order to deliver an entertaining gaming experience and run successful casino operations. NetEnt delivers Better Gaming, pure and simple.

High uptime

NetEnt also provides all technical operations, monitoring of gaming transactions and support for its customers through hosting. This allows gaming operators to focus on their core business. Customer gaming traffic is operated through NetEnt's data centers based

Hosting allows operators to focus on their core business.

in Malta, Gibraltar, Alderney, Costa Rica, Denmark and New Jersey, USA, with system uptime exceeding 99.9 per cent.

Long-term partnerships

NetEnt builds close relationships with its customers, and each new signing is the start of a long-term partnership. A key aspect of NetEnt's success is its ability to regularly release new games for its whole customer network according to schedules agreed long in advance. This gives operators the opportunity to plan their marketing activities in an effective way, which may be crucial to their success.

NetEnt and the operators work according to a partnership model, which means we earn royalties based on a percentage of the game win that our games generate for the operator.

NetEnt carefully monitors every development in the field of online gaming in order to gather new ideas and pick up the latest trends among players and operators. Through close dialogue with its customers, NetEnt transforms ideas into new games and features which find favor with players and operators alike. ●

Games offering something for everyone

NetEnt's games can be enjoyed on computers, tablets, smartphones and, in some cases, physical gaming machines. Delivering products across all platforms means operators can provide a better service to players. The wide variety of themes, graphics, audio, payout-volatility and bonus features increases the excitement and entertainment.

Attractive payout ratio

The average payout ratio for NetEnt's games is around 97 percent, significantly higher than for traditional, land-based games. NetEnt provides pooled, aggregated jackpot games which operators and players across many geographic markets can take part in. With NetEnt's pooled jackpots, each game operator can attract players with a bigger jackpot than would have been possible on their own, and with significantly lower risk.

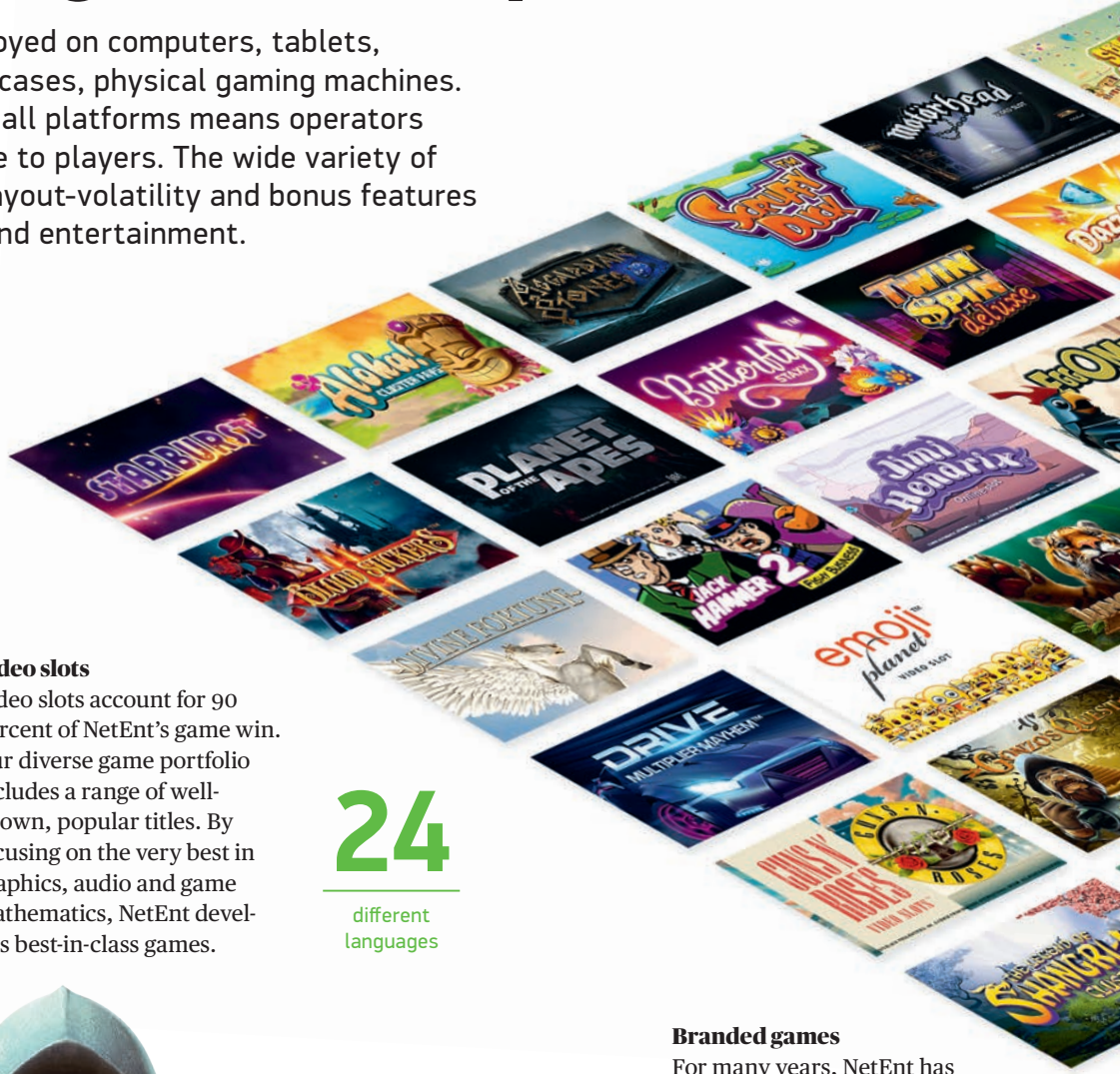
Games with pooled jackpots: Mega Fortune™, Hall of Gods™, Arabian Nights™ and Mega Fortune Dreams™.

Video slots

Video slots account for 90 percent of NetEnt's game win. Our diverse game portfolio includes a range of well-known, popular titles. By focusing on the very best in graphics, audio and game mathematics, NetEnt develops best-in-class games.

24

different languages



Released in 2010, Gonzo's Quest™ remains one of the most popular titles among Scandinavian players.



Branded games

For many years, NetEnt has been collaborating with world-leading brands in the entertainment industry, from the likes of 20th Century Fox™ and Universal™, on the development of branded games. The main objective is to reach new target groups through innovative video slot games in which we combine settings and characters from popular movies, or artists, with our unique games.

Examples of branded games: Planet of the Apes™,



Other games

NetEnt also has lottery games, mini games and scratch cards, yet these account for only a small percentage of the game win and can also be used for marketing purposes.

Examples of games: Triple Wins™, The Lost Pyramid™, Seven Gold Scratch™, Bonus Keno™, Golden Derby™, Bingo™, Mini Blackjack™, Starburst Mini™.

Guns N' Roses™, Motörhead™, The Invisible Man™, Dracula™.

Examples of games featuring our very own characters and themes: Divine Fortune™, Aloha™, Starburst™, Spiñata Grande™, Warlords™, Bloodsuckers™, Twin Spin™, Gonzo's Quest™.

Live Casino

Live Casino uses a real-time broadcast by video link, featuring actual dealers based in a studio in Malta. This is as close as you can

get to visiting a real casino. Allowing players to chat to the dealer, Live Casino offers a more social experience than other types of online casino games. The product is available on computers and mobile devices, with NetEnt strengthening and expanding its mobile offering in Live Casino during 2017.

Examples of games: Live Roulette™, Live Blackjack™, Live Blackjack Common Draw™, Live Roulette Auto™, VIP Roulette™.

The video slot Mega Fortune™ offers the biggest pooled jackpot on the online market.



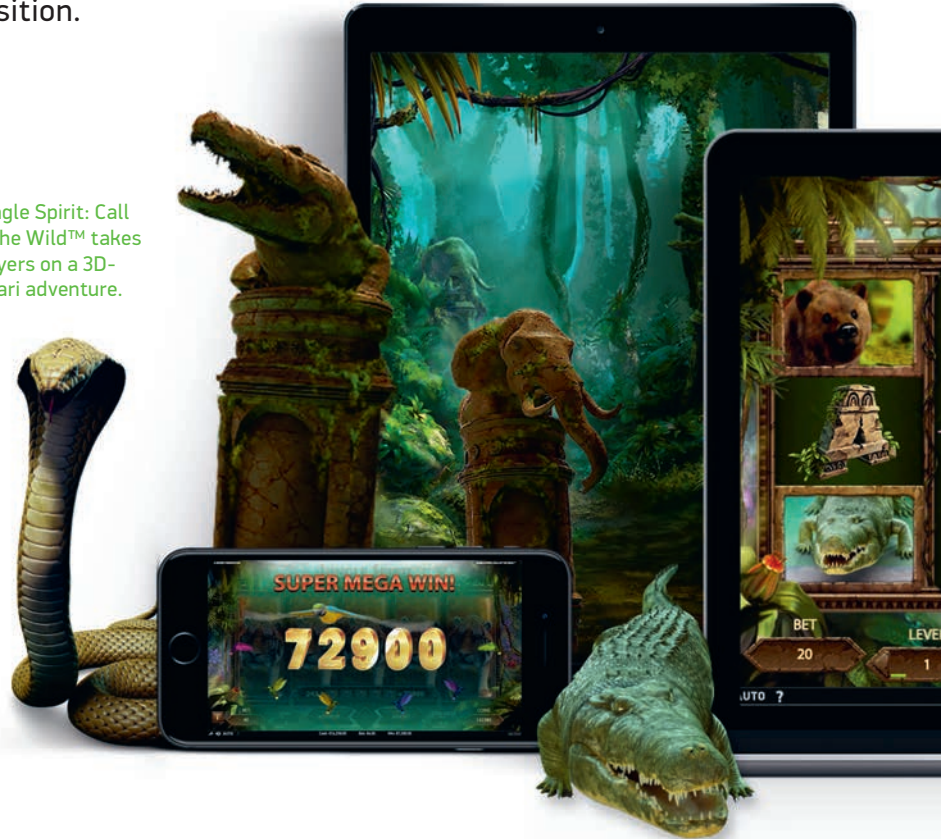
5 competitive advantages

NetEnt delivers entertaining games and gaming solutions in a stable and secure gaming environment. Here are some of the factors behind the company's strong market position.

1. Insights into operator and player needs

Creating entertaining and exciting games requires creativity, precision, extensive technical expertise and experience. Serving the needs of players, NetEnt delivers the ultimate player experience. Game development is driven by the high expectations of operators and players with regards to quality, renewal, user-friendliness and availability.

Jungle Spirit: Call of the Wild™ takes players on a 3D-safari adventure.



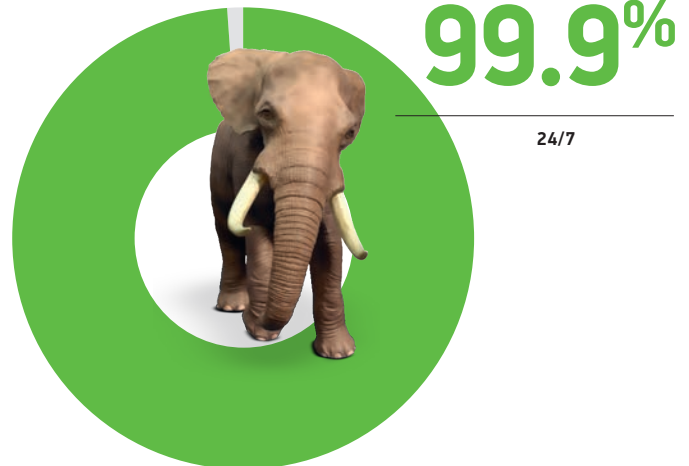
2. Comprehensive gaming systems with world-leading titles

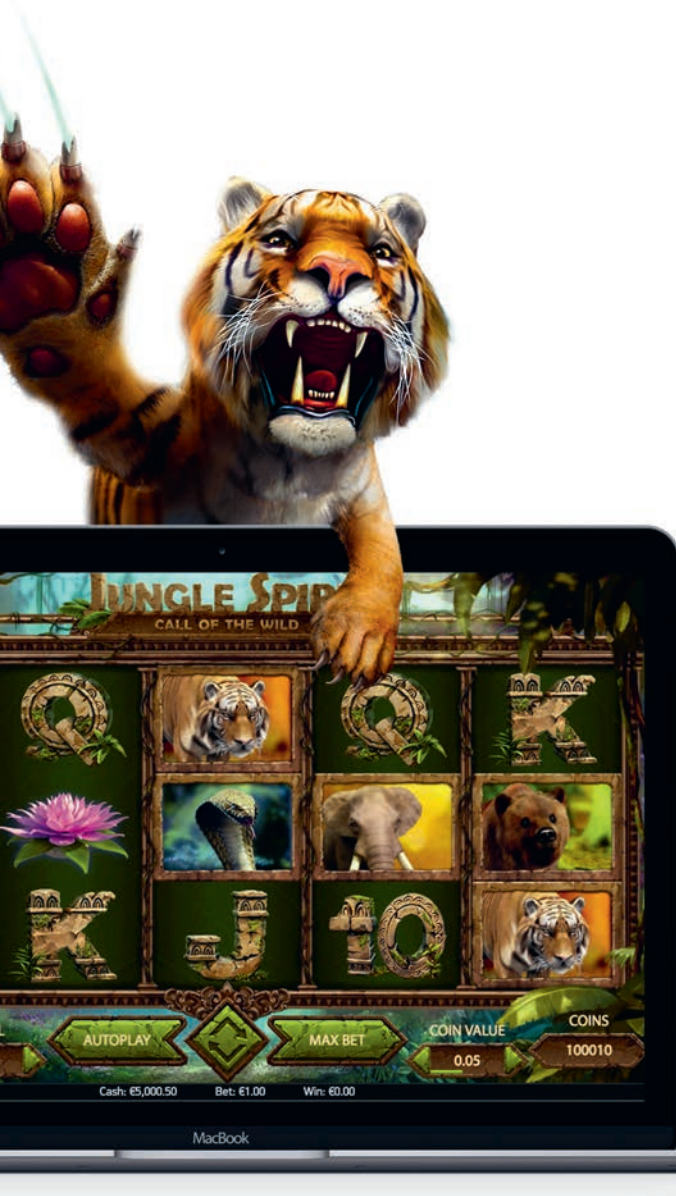
NetEnt provides a comprehensive online casino solution to gaming operators, which includes 200 innovative titles and a powerful technical platform. The platform includes Back Office™, an advanced, user-friendly administrative tool which enables operators to utilise specially-designed functions in order to boost the loyalty and commitment of players and run a successful business.

High system uptime

3. A deep understanding of the demands on regulated markets

For a number of years, NetEnt has been investing in technology and expertise enabling expansion into regulated markets. Experience and knowledge of regulated markets are among NetEnt's greatest strengths, and the company has more licences and certifications in locally regulated markets than any other supplier.





4. The best mobile games on the market

NetEnt was a front runner in creating games adapted to mobile devices, and this continues to be a key consideration when developing new titles. Released in 2017, Finn and the Swirly Spinn™ was developed to maximise the player experience on mobile devices. Last year also saw the launch of mobile games for Live Casino, with a significant part of the development process focused on providing a superior user experience for mobile players.

5. High uptime

The Back Office™ administrative tool is an important part of NetEnt's customer offering. The platform processes gaming transactions and supports operators in developing a successful business. With system uptime exceeding 99.9 percent, 24/7, the operations function constantly monitors the company's systems and provides technical support. Regular system upgrades are carried out to make sure that operators can deliver good service and availability through the latest operating systems and at any time. ●



4 questions for Piotr Gamracy, Studio Manager, NetEnt Poland

203

active customers



What are the biggest challenges in your job?

My biggest and most important task is to recruit and retain talented people. NetEnt takes its corporate culture seriously, and that means employing staff who are not only skilful and well-qualified, but have the right attitude.

Which productions have you worked on?

I've been involved in ten productions since we started the gaming studio in Poland. Twin Spin Deluxe is a particular favourite. This is a six-reel, five-row video slot with the Cluster Pays™ mechanic and synced reels on every spin.

What makes a game successful?

That's a difficult question to answer. In many cases it's about striking the right blend of theme, mechanics, graphics and audio effects, which creates excitement and a cool gaming experience.

What's the best thing about working at NetEnt?

NetEnt shows respect to its employees by sharing information, listening to our ideas and assuming we're sufficiently responsible to plan our own time. There are many internal activities aimed at collaboration around innovative solutions.



Employees and corporate culture

Unity is important here at NetEnt. The company is committed to providing gender equality, excellent leadership and the opportunity to recover to ensure that every one of its employees can thrive. **NetEnt's goal is to attract and retain the best talent in the technology and gaming industries** by providing roles with the scope for employees to take their own initiative.

A place where people develop and thrive

NetEnt strives to employ and retain the best talent in the technology and gaming industries. The aim is to provide a workplace where employees can develop and thrive.

NetEnt is a dynamic organisation with a strong sense of unity, and it's vital to retain this spirit as the company grows. The company's employees are its greatest asset, and NetEnt is committed to ensuring well-being and development opportunities in its role as employer. There is a strong correlation between profitability and a good work environment, and happy, healthy employees perform better.

NetEnt employs just over 1,000 people from 64 different countries. While the majority come from the gaming, IT, telecommunications and financial industries, some have a more varied background, for example the music industry.

Leading the way on gender equality

NetEnt strives to be a role model in the industry when it comes to gender equality, with a target of a 50/50 gender balance by 2020. At the end of 2017, the gender breakdown was 39 percent women and 61 percent men for the entire company, while the breakdown in Senior Management was 50/50. NetEnt is an inclusive organisation that spans the full spectrum of diversity. Under the company's shared values, everyone is to treat one another with dignity and respect. Working actively towards gender equality and diversity is crucial as NetEnt continues to challenge and develop the industry through new innovations.



Actively recruiting talent

There is fierce competition in the industry for attracting future talent, and NetEnt must continue to recruit extensively. This means the company has to meet the needs and preferences of potential employees. While salary is a key factor, it certainly isn't the only consideration. NetEnt employees have a lot of scope to influence their working situation. The company believes in value-based leadership, and its core values guide the decisions it makes from day to day. NetEnt employees are encouraged to be independent and take their own initiative within the scope of company values, vision, goals and strategy. In 2017, NetEnt's workforce continued to grow, with the addition of 130 full-time positions across six countries.

Kick-starting the working week

NetEnt's Employer Value Proposition has been packaged under the "Better Mondays" slogan. This is linked to "Better Gaming", the company-wide motto. The concept emphasises the benefits of working for NetEnt, both to attract new employees to the company and retain those already here. Better Mondays shines a light on the corporate culture and values, with examples of how these can be applied in practical situations. As intended, rather than offering empty promises, NetEnt's core values are meant to underpin employees' day-to-day work.

No one at NetEnt should have to suffer the Sunday night blues. The company wants everyone to look forward to the positive, exciting challenges ahead as the working week kicks off. Every Monday offers new opportunities for employees to develop in their roles. NetEnt wants to create a work environment for employees underpinned by creativity, innovation and a broad scope to pursue their own initiatives.

Leadership and development

The company has managers of varying age and experience who share a desire to develop their leadership skills, their staff and the company.



NetEnt's core values offer practical guidance for the day-to-day work:

- Together we win
- We act speedsmart
- Think ahead, be ahead
- Passion in all we do.



CORPORATE CULTURE

NetEnt puts a lot of emphasis on recruiting new managers and supporting them in their work.

NetEnt has been running three types of leadership programmes since 2015. All new recruits in management roles attend a six-day course focusing on the corporate culture, support and feedback, as well

as processes of change. In its first three years, around 100 people took part in the course. In the course evaluation, many participants responded positively to the way NetEnt demonstrated the connection between corporate culture and success through practical steps.

A further programme, for managers who lead managers, was introduced in 2017. Targeting senior managers, it emphasises the differences between becoming a manager of employees and leading managers themselves.●



4 questions for Anna Yu Chen, Game Studio Manager, NetEnt Stockholm

How have you benefited from the NetEnt leadership programme you attended?

It gave me a good overview, and highlighted various aspects of leadership that are important here at NetEnt.

Why do you like being a manager?

I like tackling complex issues and helping to realise the full potential of employees and teams, and I enjoy playing a part in driving NetEnt towards its vision and objectives.

What are the biggest challenges of game development?

Focusing on the right thing at the right time to ensure the game and gaming experience have the biggest impact. Technology and player demands are evolving at breakneck speed, which means we must always stay at the cutting edge. And we do.

What's the best thing about working at NetEnt?

I'm inspired by all the great people around me. No challenge is too big, and it feels like the sky's the limit when you work here.

Low rate of sickness absence. The rate of sickness absence at NetEnt was 2.6 percent over the year.

Five elements for sound balance

Frida Östberg has the role of raising awareness about the importance of **good health** among the NetEnt workforce.

The former football professional Frida Östberg was employed by NetEnt as health motivator at the end of 2015. Her task is to inspire employees to live a healthier life.

Taking a holistic approach to her work, she provides opportunities for individuals to influence their work-life balance. This involves five elements which must all work in harmony:

- Diet/nutrition
- Physical activity
- Mental recovery
- Work environment
- Relationships.

“It’s important that all employees feel there’s something which is right for them. While some are looking to get into better physical shape, others think mental recovery is most important. This means working with mindfulness, or the ‘recovery chairs’ located in some offices,” Östberg explains.

On employees’ terms

Frida is always available as a speaking partner, coach or motivator. A key aspect of her role is to consider the needs and initiatives of employees, something which affects their work in both the long- and short-term. Frida liaises closely with the local health

groups based in our offices.

“For me, it’s important that no one feels any pressure or expectation to become an elite athlete. What matters is providing the energy, inspiration and joy to help every employee do their best, based on their own situation,” she adds.

NetEnt looks to set up partnerships with local gyms as well as provide free-of-charge exercise in the form of yoga, mindfulness/recovery, running, cross-country skiing and hiking. Some employees also take part in external events like the Stafettvasan relay, the Blodomloppet fun run and the Halvvättern bike race.

Östberg points out that, although she’s happy to raise issues herself, employees themselves know their individual situations better than anyone. One example is the volume and duration of meetings, a source of stress for many employees.

“Even though many employees already know a lot about this area, it’s always good to reinforce the value of communicating clearly in an agenda, what is expected of the meeting and summarizing the decisions that are made. It’s important to provide clarity and confidence.”

However, she emphasizes that there’s no danger posed by stress in itself. Things become more serious when people are exposed to long-term stress without recovery. ●

Mental recovery is crucial to strike a good work-life balance.





Towards the top together

The challenge of reaching a peak in the Alps led to large numbers of job applications.

One of the biggest initiatives of 2017, “The Challenge” was launched to reinforce the corporate culture among employees and attract new talent to the company.

The project was made of two parts, a webcomic and a core value game. In the webcomic, four employees from different parts of the organization took on the challenge of climbing a mountain in the Alps. Scaling the mountain symbolizes the core values; the will to reach the peak together. The quartet’s adventures filled eight episodes, which were broadcast on NetEnt’s digital channels.

Over the period the campaign was run, job applications rose by 86 percent.

While the four employees prepared to overcome their challenge, the organization as a whole completed tasks linked to NetEnt’s core values. If the employees completed their tasks, the four climbers were given help to scale the mountain, for example, carrying items for one hour. The employees completed 17,000 tasks in total. ●

EMPLOYEES

Frida Östberg, what’s the best thing about working at NetEnt?

All the people and nationalities, and the exciting challenges. And it’s really inspiring to see a company create a culture which focuses on the person as a whole.

COMMENTS FROM THE CHAIRMAN

A long-term strategy for growth



The Board of Directors continues to strive for corporate governance that supports the sustainability of NetEnt's operations and maximises the long-term value for all shareholders. The Board's task on behalf of the shareholders is to ensure that the company is managed as efficiently as possible while at the same time complying with applicable laws and regulations. The aim of corporate governance is to create order and structures for both the Board of Directors and Management, and provide a platform for NetEnt's continued development. A clear division of responsibilities and duties ensures that management and employees are focused on achieving good results,

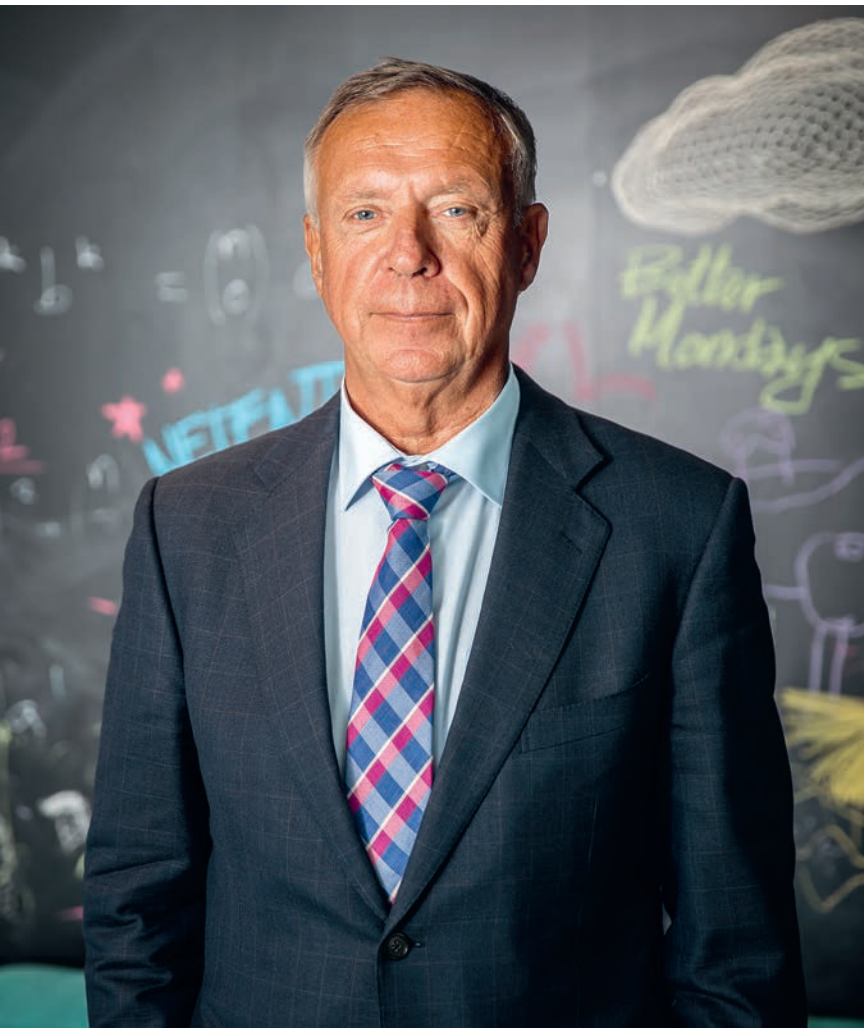
developing the business and strengthening NetEnt.

Revenues, profit and cash flow rose in 2017 and the company followed its long-term strategy for growth by entering several new regulated markets. And for the second year, the company's shares were traded on the large cap list of the Stockholm Stock Exchange, with an improvement in liquidity. I am also delighted to see that the number of shareholders in NetEnt continued to increase, reaching a total of 16,350 by the end of the year.

The Board proposes that a total of SEK 540 million be distributed to shareholders through an automatic redemption programme, which is equal to the previous year's cash return of SEK 2.25 per share. NetEnt continues to have a debt-free balance sheet, which enables investment in our future growth. I would like to extend my warm gratitude to the CEO, the Senior Management and all of NetEnt's dedicated employees for their valuable contributions in 2017. ●

Vigo Carlund
Chairman of the Board

Serving on NetEnt's Board of Directors since 2008, Vigo Carlund has been Chairman since 2011.



THE FUND MANAGER



“The company’s move into Live Casino is intriguing.”

Christian Brunlid, fund manager of Handelsbanken’s Swedish Small Cap Fund

Sound governance and a scalable business attract investors

The NetEnt share has been included in **Handelsbanken’s Swedish Small Cap Fund** since 2008, generating a 15-fold return on investment.

Christian Brunlid has been managing Handelsbanken funds for more than 10 years. He is currently at the helm of Handelsbanken’s Swedish Small Cap Fund, with managed assets of around SEK 22 billion, and a micro-cap fund with managed assets of around SEK one billion.

The small cap fund is an actively managed fund which invests in holdings in Swedish small and mid-sized companies. To be considered for the fund, a company’s market value at the time of investment may not exceed one percent

of the total value of the Swedish equity market.

Strategy and key figures analysed

In its selection process for individual holdings, Handelsbanken places a great deal of emphasis on ensuring the company’s strategy is aligned with the bank’s own assessment of what leads to good share price performance. The company’s key figures, such as earnings growth, are then evaluated in relation to market expectations.

The NetEnt share is one of those which made the grade, forming part of Christian Brunlid’s portfolio for just over nine years.

“I acquired the first shares for the fund in October 2008 at a rate equivalent to the current price of SEK 4.10 per share,” he says.

Good corporate governance

The small cap fund invested in NetEnt because of its unique combination of good owners, competent management, market-leading products in an exciting sector, and high scalability. Christian Brunlid is delighted with the way the shares have performed.

“We have to be pretty happy with a 15-fold return on our original investment. The company has genuinely succeeded in growing with the help of leading products, based on a sensible, progressive corporate culture.”

Looking ahead, Christian Brunlid will be keeping a close eye on the development of NetEnt’s competitive situation, among other things.

“The company’s move into Live Casino is interesting, as is its focus on the USA, where we hope to see more states re-regulate their online gaming markets,” he says. ●

THE SHARE

NetEnt's share has been listed on NGM Nordic and the Stockholm Stock Exchange since 2007 and is traded under the ticker

symbol NET B. As of January 2016, the share is quoted in the Large Cap segment, which includes companies with a market capitalisation of more than EUR 1 billion. Since the IPO in April 2007, the NetEnt share has generated a total return of 6,968 percent - SEK 1,000 that was invested in NetEnt on April 5, 2007, was worth SEK 70,677 at year-end 2017.

Share capital

The number of shares in NetEnt amounts to 240,130,860, of which 33,660,000 are of class A and 206,470,860 are of class B, equal to a total of 543,070,860 votes. Share capital amounts to SEK 1,205,457, with the quota value per share 0.5 öre.

Trading volume and share price performance

The last price paid on the final trading day of the year was SEK 56.5, equal to a total market capitalisation for NetEnt of SEK 13.6 billion. In 2017, a total of 167,622,359 shares were traded on the stock exchange for a combined value of SEK 11.5 billion, corresponding to 81 percent of the total number of outstanding class B shares. The average daily

volume of shares traded during the year was 665,168, equal to an average daily traded value of SEK 45.5 million.

Around 65 percent of all trading in NetEnt's share takes place on the Stockholm Stock Exchange, with other marketplaces such as CBOE BXE and CBOE CXE accounting for the remainder.

The share price declined by SEK 13.8 during the year, equal to a decrease of 19.6 percent. The highest price paid during the year was SEK 79.75 and the lowest was SEK 55.90. The OMX Stockholm PI index rose by 6.4 percent, while the OMX Stockholm Consumer Services PI, which includes many of the gaming companies, among them NetEnt, fell by 16.3 percent.

Stock option programme, 2017-2020

The Annual General Meeting on April 21, 2017 resolved to introduce a long-term incentive scheme for all employees in the NetEnt Group. A total of 722,000

The trading year for the NetEnt share

Many new shareholders and improved share liquidity.

Analysts who cover NetEnt

ABG Sundal Collier

Aksel Øverland Engebakken

Barclays

James Goodman

Carnegie

Mikael Laséen

Danske Bank

Sharish Aziz

DNB

Martin Arnell

Handelsbanken

Rasmus Engberg

Nordea

Christian Hellman

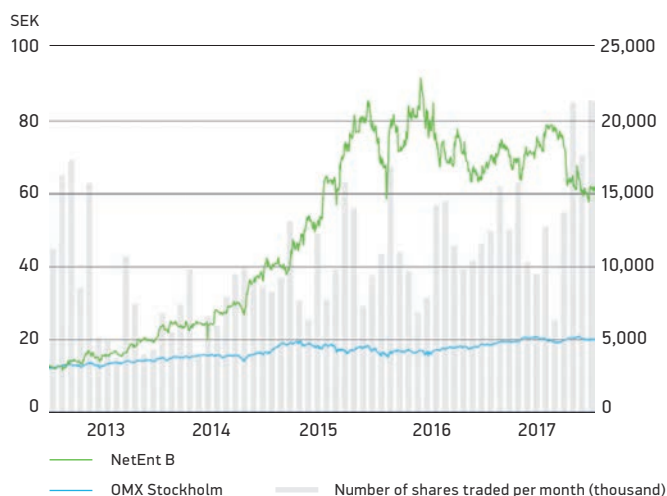
Pareto

Viktor Högberg

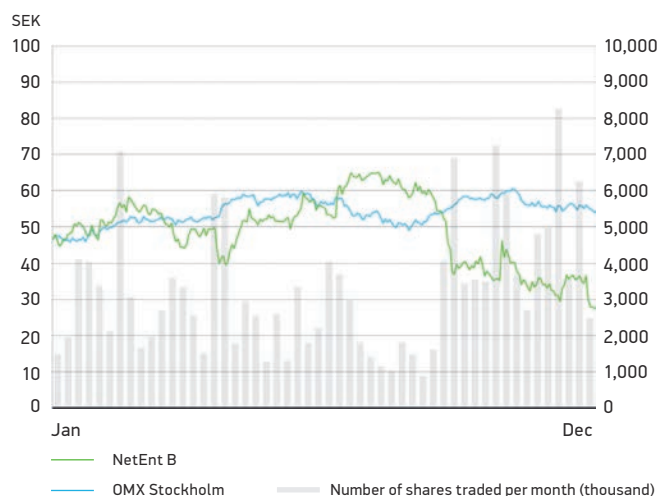
SEB

Mathias Lundberg

Share price performance and trading volume, 2013-2017



Share price performance and trading volume, 2017



NetEnt moved into new premises in the centre of Stockholm at the start of 2017.



stock options were issued, with the right to subscribe for an equal number of new shares in NetEnt AB. The stock options were issued at a market price of SEK 5.05 each (option premium) according to a valuation based on Black-Scholes. The strike price for the options was set at SEK 92.40, and subscription for shares can take place during the period from August 1 to October 1, 2020.

Shareholders

The number of shareholders in NetEnt at December 31, 2017 was 16,350 (11,617), according to Euroclear. NetEnt's ten largest shareholders owned shares corresponding to 41.0 percent of the share capital and 73.9 percent of the votes in the company. Institutional ownership amounted to 58.6 percent of the share capital.

Dividend policy

The Board's goal is for NetEnt's ordinary dividend to grow in line with the company's earnings per share. The objective is for the dividend to amount to at least 60 percent of profit after tax, subject to the company's long-term capital requirement.

Proposed dividend for 2017

The Board proposes that the Annual General Meeting resolve upon a cash distribution to the shareholders of SEK 540.3 million (540.3), equal to SEK 2.25 (2.25) per share. The Board proposes that the distribution take place through a share redemption programme. The complete proposal will be presented well in advance of the AGM. ●

List of owners at 31 December 2017, NetEnt AB

Shareholdings include holdings through family and companies.

Name	A shares	B shares	Holding	Capital, %	Votes	Votes, %
Hamberg family	10,200,000	5,018,400	15,218,400	6.3	107,018,400	19.7
Lundström family	6,915,000	8,593,146	15,508,146	6.5	77,743,146	14.3
Knutsson family	6,000,000	10,600,000	16,600,000	6.9	70,600,000	13.0
Berit Lindwall	3,624,000	735,570	4,359,570	1.8	36,975,570	6.8
Handelsbanken AB for PB	2,760,000	9,054,762	11,814,762	4.9	36,654,762	6.8
Danske Bank International	2,052,000	5,804,408	7,856,408	3.3	26,324,408	4.9
Banque Carnegie Luxembourg	2,109,000	950,000	3,059,000	1.3	22,040,000	4.1
Lannebo Fonder	-	8,840,130	8,840,130	3.7	8,840,130	1.6
JPM Chase NA	-	8,414,965	8,414,965	3.5	8,414,965	1.6
Skandia	-	6,838,054	6,838,054	2.8	6,838,054	1.3
Ten largest shareholders, total	33,660,000	64,849,435	98,509,435	41.0	401,449,435	73.9
Other shareholders	-	141,621,425	141,621,425	59.0	141,621,425	26.1
Total	33,660,000	206,470,860	240,130,860	100.0	543,070,860	100.0

Key data, NetEnt share

	2017	2016	2015
Earnings per share (SEK), diluted	2.30	2.10	1.56
Distribution to shareholders, (SEK/share ¹)	2.25	2.25	1.33
Distribution, share of profit after tax	98%	107%	86%
Shares outstanding at year-end, millions	240.1	240.1	240.1
Last price paid in 2017, SEK ¹⁾	56.50	70.30	82.42
Highest price paid in 2017, SEK ¹⁾	79.75	95.55	92.33
Lowest price paid in 2016, SEK ¹⁾	55.90	60.12	39.92
Dividend yield ²⁾	4.0%	3.2%	1.6%
Total return, NetEnt share ³⁾	-15.6%	-11.5%	89.9%
Market capitalisation at year-end, SEKm	13,567	16,881	19,791
Number of shareholders	16,350	11,617	8,589

¹⁾ Adjusted for 6-for-1 share split in May 2016.

²⁾ Cash distribution divided by share price at year-end.

³⁾ Percentage change in share price during the year, plus dividend yield.

Five-year summary

Condensed consolidated income statements

SEK thousands	2017	2016	2015	2014	2013
Operating revenues	1,624,982	1,455,101	1,132,425	851,663	630,746
Operating profit before depreciation/amortisation and impairment	745,117	674,844	539,896	390,176	282,888
Depreciation/amortisation and impairment	-158,019	-138,895	-138,285	-128,511	-103,140
Operating profit	587,098	535,949	401,611	261,665	179,748
Net financial items	-1,693	9,578	1,675	4,370	2,950
Profit before tax	585,404	545,527	403,286	266,035	182,698
Profit for the year	552,436	504,412	373,992	243,242	167,139

Condensed consolidated balance sheets

SEK thousands	2017	2016	2015	2014	2013
Assets					
Non-current assets	484,719	383,608	285,226	282,370	257,391
Current receivables	423,586	441,078	277,458	263,582	169,665
Cash and cash equivalents	387,035	494,497	402,058	258,057	105,829
Total current assets	810,621	935,575	679,516	521,639	275,494
Total assets	1,295,340	1,319,183	964,742	804,009	532,885
Equity and liabilities					
Equity	956,495	923,076	714,161	546,201	380,666
Non-current liabilities	11,341	14,269	11,418	12,390	7,478
Current liabilities	327,504	381,838	239,163	245,418	144,741
Total liabilities	338,845	396,107	250,581	257,808	152,219
Total equity and liabilities	1,295,340	1,319,183	964,742	804,009	532,885

Condensed consolidated cash flow statement

Condensed consolidated cash flow statement	2017	2016	2015	2014	2013
Cash flow from operating activities	666,061	624,213	488,761	364,897	249,930
Cash flow from investing activities	-243,262	-234,139	-151,205	-121,195	-136,357
Cash flow from financing activities	-536,700	-310,952	-185,076	-93,874	-90,870
Cash flow for the year	-113,901	79,122	152,480	149,828	22,703
Opening cash and cash equivalents	494,497	402,058	258,057	105,829	81,230
Exchange rate difference in cash and cash equivalents	6,438	13,317	-8,479	2,400	1,896
Closing cash and cash equivalents	387,035	494,497	402,058	258,057	105,829

The company presents certain financial performance measures in the annual report that are not defined according to IFRS. The company is of the opinion that these provide valuable complementary information to investors and the company's management,

since they facilitate evaluation of the company's financial development and financial position. Because not all companies calculate financial performance measures in the same way, these are not always comparable to the measures used by other companies.

These performance measures should therefore not be regarded as a replacement for measures as defined according to IFRS. Certain performance measures that are not defined according to IFRS are presented in the table below.

Key figures

Group	2017	2016	2015	2014	2013
Financial performance measures defined according to IFRS					
Operating revenues	1,624,982	1,455,101	1,132,435	851,663	630,746
Earnings per share (SEK), basic	2.30	2.10	1.56	1.02	0.70
Earnings per share (SEK), diluted	2.30	2.10	1.56	1.01	0.70
Average number of shares outstanding, basic	240,130,860	240,130,860	240,130,860	239,440,896	237,322,296
Average number of shares outstanding, diluted	240,130,860	240,198,134	240,130,860	239,797,644	238,147,044
Number of shares outstanding at year-end, basic	240,130,860	240,130,860	240,130,860	239,440,896	237,322,296
Number of shares outstanding at year-end, diluted	240,130,860	241,073,160	241,115,160	240,130,860	240,130,860
Alternative key figures*					
Revenue growth (percent)	11.7	28.5	33.0	35.0	19.8
EBITDA margin (percent)	45.9	46.4	47.7	45.8	44.8
Operating margin (percent)	36.1	36.8	35.5	30.7	28.5
Effective tax rate (percent)	5.6	7.5	7.3	8.6	8.5
Return on equity (percent)	57.8	54.6	52.4	44.5	43.9
Equity/assets ratio (percent)	73.8	70.0	74.0	67.9	71.4
Net interest-bearing liabilities (SEK thousands)	-387,035	-494,497	-402,058	-258,057	-105,829
Equity per share (SEK)	3.98	3.84	2.97	2.28	1.60
Cash flow from operating activities per share (SEK)	2.77	2.60	2.04	1.52	1.05
Cash distribution to shareholders per share (SEK)	2.25**	2.25	1.33	0.83	0.50
Average number of employees	750	618	489	401	328
Number of employees at year-end	810	680	529	456	356
Number of employees and consultants at year-end	1,013	892	718	591	461

* See definition on page 108

** Proposed for 2017

Reconciliation against IFRS, SEK thousands

EBITDA

Profit for the period	552,436	504,412	373,992	243,242	167,139
Tax on profit for the period	32,968	41,115	29,294	22,793	15,559
Net financial items	1,693	-9,578	-1,675	-4,370	-2,950
Depreciation	158,019	138,895	138,285	128,511	103,140
EBITDA	745,116	674,844	539,896	390,176	282,888

Net interest-bearing liabilities

Interest-bearing provisions	-	-	-	-	-
Interest-bearing liabilities	-	-	-	-	-
Cash and cash equivalents	387,035	494,497	402,058	258,057	105,829
Net interest-bearing liabilities	-387,035	-494,497	-402,058	-258,057	-105,829

Administration report

The Board of Directors and the CEO of NetEnt AB (publ), corporate identity number 556532-6443, hereby submit the annual report for the 2017 financial year.

Information about the operations

NetEnt is a leading supplier of digitally distributed gaming systems used by some of the world's most successful gaming operators. NetEnt Casino Module is a comprehensive gaming system comprising a full suite of high-quality games and a powerful administration tool. The games create a superior player experience for the player while the administrative tool enables NetEnt's customers - the gaming operators - to optimize their business and profitability. Operators are provided with a customized system solution that is quickly and easily integrated, ensuring cost-efficient operation and minimizing installation-to-operation times.

The Company's revenues essentially consist of royalties, which are determined as a percentage of the game win (player bets less player wins) generated by NetEnt's games for the customers. When signing new customer agreements, the customers are also invoiced for setup fees that are aimed at covering the integration and setup costs that arise for NetEnt in connection with the launch of new customers. Setup fees account for a minor share of the Company's total revenues.

NetEnt is a pure operating and development Company and thus does not conduct any gaming operations of its own. The Company's brand is internationally reputed and associated with innovation, service, and quality.

The Parent Company of the Group is based in Stockholm, where a certain amount of development and infrastructure coordination is carried out, while product management, sales, operations, customer support and marketing are managed out of Malta. Product development takes place at the Company's offices in Stockholm, Gothenburg, Kiev and Krakow, and through a subcontractor in India. Revenues in the Parent Company are attributable to services that are provided to subsidiaries. Product development is not capitalized in the Parent Company, since the development projects are ordered and owned by the subsidiary in Malta. The Company also has offices in Gibraltar and New Jersey (USA) for IT operations and sales, as well as an IT operations site in Alderney.

NetEnt holds licenses in the following jurisdictions: Malta, Gibraltar, Alderney, Belgium, the UK, Spain, New Jersey (USA) Romania and British Columbia (Canada). In addition, the Company's products are licensed in the following countries: Denmark, Italy, Estonia, Latvia, Isle of Man, Bulgaria, Portugal, Serbia and the Czech Republic.

Since 2009, the Parent Company has been listed on the Stockholm Stock Exchange (NASDAQ Stockholm) with the ticker symbol NET B.

Business concept and objectives

NetEnt is a digital entertainment company. The Company's business model is to develop games and system solutions that enable operators of online casinos to achieve success by offering their customers the ultimate gaming experience. By doing so, NetEnt shall generate sustainable profit growth and dividends for its

shareholders. The online gaming market is expected to maintain solid growth and NetEnt's objective is to grow faster than the market.

Seasonal variations

The first and second quarters do not normally feature any particular seasonal effects. The third quarter is affected by the vacation period, which often leads to a somewhat lower growth rate for both revenues and personnel expenses, while the fourth quarter has historically featured higher sales volumes.

Important events in 2017

- A license was obtained in Canadian province British Columbia
- Games were launched with Codere in Mexico
- A customer agreement was signed with gaming operator Caliente in Mexico.
- SEK 540 million was distributed to shareholders through an automatic redemption procedure
- Games were launched on the regulated market in Serbia
- An agreement was signed with Eurogames in Italy for land-based gaming machines
- A new data-based marketing service for gaming operators was launched together with Ve Global.

Market

The online gaming market has shown healthy growth in recent years. It is estimated that global gross gaming yield for online games, including all game segments, amounted to EUR 40.5 billion in 2017, an increase of 9 percent from the year before. The corresponding size of the global online casino market is

estimated at EUR 10.6 billion in 2017, representing growth of 9 percent during the year (source: H2 Gambling Capital, February 2018).

Europe is by far the largest gaming market and is expected to account for close to half of global gaming yield in the next few years. Reregulation of national gaming legislation is taking place in several European countries. NetEnt closely monitors developments on all markets that are undergoing regulation. NetEnt has held local gaming licenses in the UK since 2015. It is Europe's largest gaming market, and new gaming laws were introduced there in 2014, according to which all operators that target British players must have a local UK gaming license and pay gambling tax in the UK, irrespective of the country in which the operator is based. In Italy, all of NetEnt's operations are now conducted through licensed operators. The market in Denmark was regulated in 2012 and NetEnt's games are available with several customers there, including Danske Spil. In Spain, the online casino market is regulated - NetEnt holds a gaming license and the Company's games are available with several customers in the country since 2015. The online gaming markets were recently regulated in Portugal, Romania, Bulgaria and the Czech Republic. In Romania, NetEnt obtained a gaming license and launched its games with several operators in 2016. In Bulgaria and Portugal, NetEnt's games were certified and launched in 2016. In the Netherlands, new gaming legislation is expected to come into force at the end of 2018. In Sweden, the Gambling Inquiry presented its proposal for a new gambling law at the end of March 2017, and according to the Government, the new legislation could

come into force at the beginning of 2019.

The majority of NetEnt's customers are currently found in Europe and the Company will continue to focus on the European market, while the entry into North America will contribute to long-term growth. In the US several states have reregulated to permit online games, such as Nevada (poker), Delaware (all game types) and New Jersey (all game types). Also, positive initiatives are under way to reregulate in other states too, such as in Pennsylvania. NetEnt has applied for a license in New Jersey and was granted special authorization to launch several customers pending the processing of the Company's complete license application. NetEnt is monitoring developments in other US states for potential expansion ahead, and in Canada too. In Canada the market is regulated in several provinces such as Ontario, British Columbia and Quebec. As a first

step towards establishment in Canada, NetEnt has obtained a license in the province of British Columbia.

New agreements and customers

In 2017 NetEnt signed agreements with 37 (45) new customers and 35 (34) new customer casinos were launched. At the end of 2017 NetEnt had 203 (168) active customers and agreements with 30 customers that had not yet been launched.

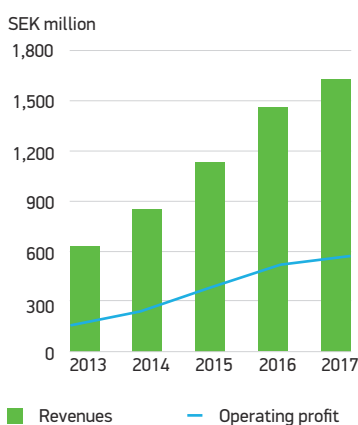
Revenues and profit

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

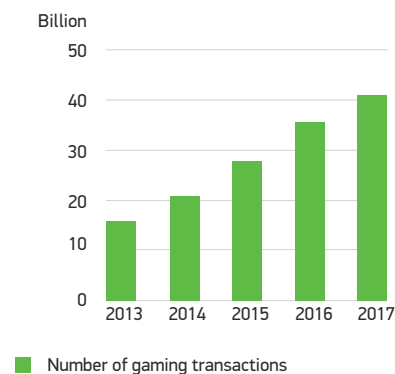
Revenue, volume, price and currency developments

Revenues for 2017 amounted to SEK 1,625.0 million (1,455.1), equal to an increase of 11.7 percent (9.8 percent in EUR) compared to 2016. This growth is attributable to higher revenues

Revenues and operating profit, NetEnt



Number of gaming transactions



from both new and existing customers. NetEnt signed 37 (45) new license agreements and launched 35 (34) new customers in 2017. The number of gaming transactions increased from the previous year by 15.3 percent to 41.2 billion. The difference in growth between revenues and transactions can be explained by the fact that bet per transaction has declined in the past few years in NetEnt's games, driven in part by a broadening of the player base, and in part by an altered regional mix. The average bet per transaction is generally higher in Scandinavia, and the difference in relation to the rest of the markets is particularly substantial for mobile games.

The average royalty level was stable compared to the previous year. The slot gaming category represented around 90 percent of the game win in NetEnt's games during 2017. In 2017, the Swedish krona weakened against the euro by an average of 1.7 percent compared to the full year 2016, which had a positive effect on revenues and profit.

Expenses and profit

Operating profit rose by 9.5 percent to SEK 587.1 million (535.9) and the operating margin was 36.1 percent (36.8). Operating expenses increased by 12.9 percent compared to the previous year as a result of expansion and strengthening of the organization in areas like sales, product management, development and IT operations. Personnel expenses rose 13.3 percent during the year. The expansion also led to increased operating and maintenance costs, such as IT expenses and costs for establishing operations on new markets. Other operating expenses rose 12.2 percent from 2016, while depreciation/amortization rose 13.8 percent.

Net financial items amounted to SEK 1.7 million (9.6) and consisted mainly of exchange rate effects on cash

and cash equivalents, financial receivables and financial liabilities consisting mainly of intra-group transactions and interest on cash and cash equivalents. Currency fluctuations affected at times intra-Group transactions and are included in net financial income/expense. The Group had an effective tax rate of 5.6 percent (7.5) in 2017.

Investments

The Group's capitalized development costs and investments in intangible assets amounted to SEK 156.4 million (154.3) in 2017, while investments in property, plant and equipment totaled SEK 86.9 million (79.9).

Investments in intangible assets consist of development of new games for mobile devices and desktop, technical adjustments to the platform such as new functionality, increased capacity, adjustments for requirements on regulated markets and software licenses. Major development projects during the year included 14 new slots games, the development of mobile versions of Live Casino games, and ongoing development of the Company's gaming platform.

Investments in property, plant and equipment are primarily servers and other computer equipment to meet new technical requirements and maintain capacity and performance in connection with new product launches. Investments are also made in office and computer equipment in line with the growing organization.

Cash and cash equivalents, financing and financial position

Consolidated cash flow from operating activities for the full year 2017 amounted to SEK 666.1 million (624.2). Cash flow from financing activities was SEK -536.7 million (-311.0) and consisted mainly of distribution to shareholders. Through an automatic redemption procedure,

SEK 540.3 million was distributed to shareholders. More information about the redemption procedure can be found on NetEnt's website, www.netent.com/en/annual-general-meeting-2017.

The Group's cash and cash equivalents amounted to SEK 387.0 million (494.5) at December 31, 2017. The Group's available credits amounted to SEK 50 million (50), none of which had been utilized at December 31, 2017. Funds held on behalf of licensees amounted to SEK 82.5 million (92.4) at year-end.

Personnel and organization

In 2017 the number of employees in the Group increased to 810 (680). Including extra resources such as dedicated staff at subcontractors and consultants, NetEnt employed 1,013 people (892), defined as full-time equivalents.

Parent Company

The Parent Company's revenues for 2017 amounted to SEK 807.1 million (737.5). Operating profit amounted to SEK 49.4 million (46.5) and the operating margin was 6.1 percent (6.3). The operating margin is mainly affected by how high a share of Parent Company expenses are invoiced onto other Group companies, and the intra-group price level applied. The price level is governed based on independent benchmark studies for similar services, and can vary over time if the general price level on the market changes. Profit before tax for the year was SEK 479.7 million (533.4).

The Parent Company's investments in property, plant and equipment in 2017 amounted to SEK 45.6 million (41.8) and investments in intangible assets amounted to SEK 1.5 million (4.5). Cash and cash equivalents in the Parent Company at the end of 2017 amounted to SEK 111.9 million (345.7). ●

The share, future outlook and appropriation of profits

The share

The share capital of NetEnt AB (publ) AB consists of A shares and B shares. One A share gives ten votes and one B share entitles to one vote when voting at the AGM. The two share classes have equal rights to the Company's assets and profit. At the AGM shareholders can vote the full number of shares represented. Holders of A shares are entitled to convert one or more A shares to B shares by written request to the Board of Directors, within the bounds of the maximum number of B shares that may be issued according to the articles of association. The number of shares in the Company totals 240,130,860, of which 33,660,000 shares are series A and 206,470,860 are series B, equaling a total of 543,070,860 votes. Share capital amounts to SEK 1,205,457. The quotient value per share is 0.5 öre.

The number of shareholders in NetEnt at December 31, 2017, was 16,351 (11,617) according to Euroclear.

The largest shareholders were the Hamberg family with 6.3 percent of the share capital and 19.7 percent of the votes, and the Lundström family with 6.5 percent of the share capital and 14.3 percent of the votes. NetEnt's ten largest owners held shares equaling 41.0 percent of capital and 73.9 percent of votes in the Company.

Incentive scheme 2017-2019 Stock options

The Annual General Meeting on April 21, 2017, resolved to introduce a new long-term incentive scheme for all employees in the NetEnt Group. A total of 722,000 stock options were issued, with the right to subscribe for an equal number of new

shares in NetEnt AB. The stock options were issued at a market price of SEK 5.05 each (option premium) according to a valuation based on Black-Scholes, which contributed to SEK 3.6 million to consolidated equity. The redemption price for the options was set at SEK 92.40 and subscription for shares can take place during the period from August 1 – October 1, 2020. If these stock options are fully subscribed, SEK 66.7 million will be contributed to Parent Company equity. More information on NetEnt's website, under www.netent.com/agm

Future outlook Growth

The Company sees conditions for profitable growth in 2018 thanks to a large pipeline of new games, growing revenues from regulated markets, mobile games and new customers to be launched.

Proposed distribution to shareholders

The Board proposes that the AGM approve a distribution to the shareholders of SEK 540.3 million (540.3), equal to SEK 2.25 (2.25) per share. The Board intends to propose that such distribution occurs through a share redemption procedure. The proposed record date for the share redemption procedure is May 9, 2018. The complete proposal and an information folder will be available at the latest three weeks prior to the AGM. The information will be available to shareholders at the Company and on the website www.netent.com as of April 1, 2018, and will be sent free of charge to those shareholders who so request and provide their postal address.

The Board of Directors' proposed appropriation of profit in the Parent Company

The following is at the disposal of the AGM (SEK)

Retained earnings	81,196,742
Share premium reserve	58,885,417
Profit for the year	479,684,301
	<u>619,766,460</u>

The Board of Directors proposes

That the following be carried forward	619,766,460
---------------------------------------	-------------

Pro forma after distribution to shareholders

Retained earnings	
incl. profit for the year	619,766,460
Distribution to shareholders	-540,294,435
	<u>79,472,025</u>

The Group's and the Company's profit and position in general are presented in the following income statements and balance sheets, cash flow statements and statements of equity with related notes and supplementary information which form an integral part of this annual report.

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

Operational risks	Risk	Management
Exchange rate fluctuations	<p>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.</p>	<p>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.</p>
Tax status	<p>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.</p>	<p>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.</p>
The business cycle	<p>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.</p>	<p>NetEnt's products are distributed to a large number of geographical markets that do not track the same business cycle, which reduces cyclical risk.</p>

Corporate governance report

NetEnt AB (publ) is a Swedish public limited liability company listed on Nasdaq Stockholm, Large Cap. NetEnt applies the Swedish Code of Corporate Governance and hereby submits its corporate governance report for 2017. NetEnt has no divergences to report. The report has been reviewed by the Company's auditor.

Corporate governance model for the NetEnt Group

Corporate governance foundation

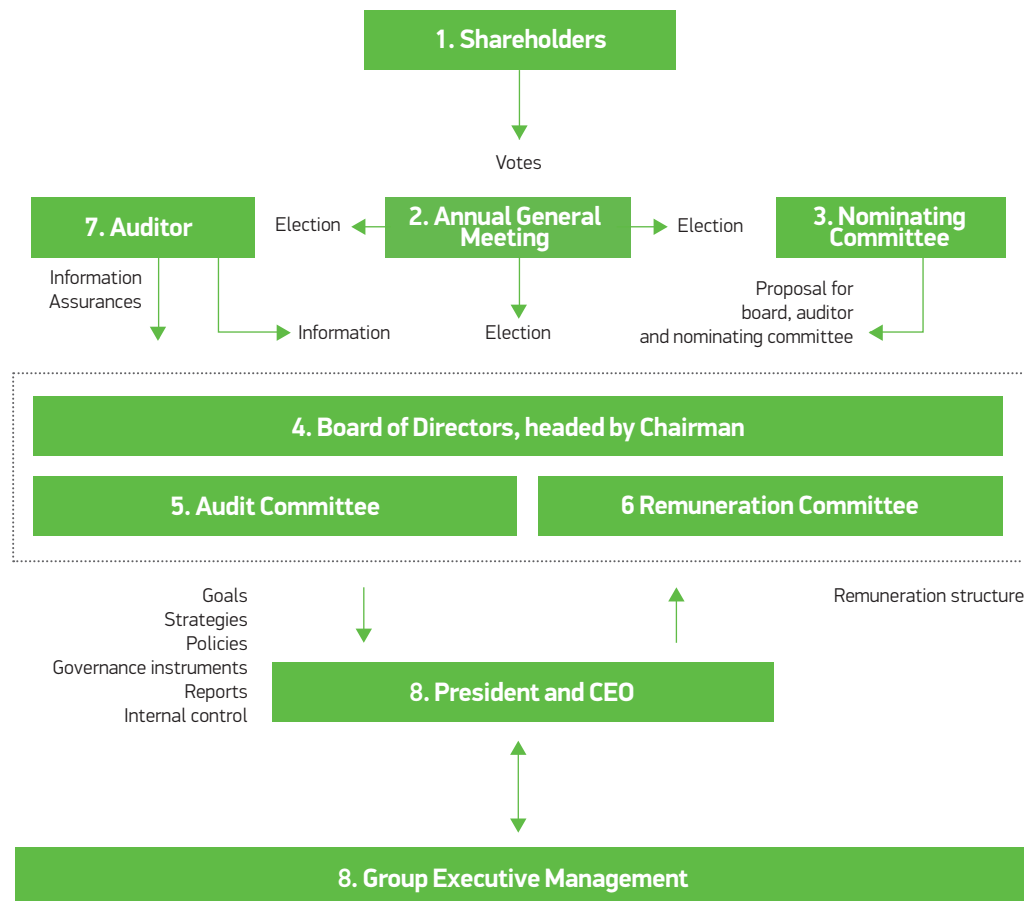
NetEnt endeavours to apply strict standards and efficient processes so that its entire operations create long-term value for shareholders and other stakeholders. This requires maintaining an efficient organisational structure, internal control and risk management systems, and transparent internal and external reporting. There have been no material changes in corporate governance from the preceding year.

Important external regulations

- The Companies Act
- The Annual Accounts Act
- The stock exchange's rules for issuers (Nasdaq Stockholm)
- The Swedish Code of Corporate Governance (the Code)
- The Securities Market Act
- The EU Market Abuse Regulation (MAR)

Important internal regulations

- Articles of association
- Rules of procedure for the Board of Directors
- Information security policy, finance policy, financial handbook, etc.
- Policies for anti-bribery, money laundering prevention, etc.
- Processes for internal control and risk management
- IR and insider policy



1. Shares and shareholders

The number of shares is 240,130,860, divided into 33,660,000 A shares and 206,470,860 B shares, equalling 543,070,860 votes in total. One A share entitles to ten votes and one B share entitles to one vote when voting at the AGM. The two share classes have equal rights to the Company's assets and profit. At the AGM shareholders can vote the full number of shares represented. Holders of A shares have the right to convert one or more A shares to B shares by written request to the Board of Directors, within the limits of the maximum number of B shares that may be issued according to the Articles of Association. At December 31, 2017, the number of shareholders was 16,350. The largest shareholders at the end of 2017 were the Hamberg family with 6.3 percent of share capital and 19.7 percent of the votes, and the Lundström family with 6.5 percent of the shares and 14.3 percent of the votes. NetEnt's ten largest owners held shares equaling 41.0 percent of share capital and 73.9 percent of votes in the Company.

2. Annual General Meeting

The Annual General Meeting (AGM) is NetEnt's highest governing body, through which the shareholders exercise their influence in the Company. The AGM of the Company is held within six months from the end of the financial year. The date, time and location are announced no later than in connection with the third quarter earnings report. Information on how a shareholder can have a matter addressed at the meeting, and by when such a request must be received by the Company in order to ensure it is brought up at the AGM, is announced on NetEnt's website no later than when the third quarter earnings report has been published. Notice of the AGM is announced at least four weeks prior to the meeting, and will subsequently be available on the Company's website.

To be entitled to vote at the AGM, shareholders must be recorded in the

share register on the fifth business day before the meeting, including Saturdays that are not Swedish public holidays, and notify the Company of their participation no later than the date stated in the notice of the meeting. Shareholders who cannot attend in person may participate through representatives.

Decisions at the meeting are normally made by a simple majority of votes. However, certain types of resolutions require sanctioning by a higher proportion of the votes and shares represented at the meeting, pursuant to the Swedish Companies Act. Extraordinary General Meetings may be held as needed.

Annual General Meeting 2017

The 2017 AGM was held on April 21 at Berns in Stockholm. The meeting was attended by shareholders representing 59.0 percent of all votes and 39.1 percent of all shares. All members of the Board of Directors, the Company's auditor, the CEO and a number of other senior executives attended the AGM. The AGM elected in a new board member, Maria Hedengren, who was CFO of NetEnt 2011–2016. The AGM also decided on customary matters as well as on a cash distribution to shareholders of SEK 2.25 per share in the form of an automatic redemption procedure. Furthermore, the AGM resolved on a new

incentive scheme with stock options for all employees of the Company - see page 63 and Note 11 for more details about the stock option scheme.

For more information about the 2017 AGM, visit NetEnt's website (www.netent.com/en/annual-general-meeting-2017), where all documents for the AGM are available, including the minutes of the meeting and the Articles of Association.

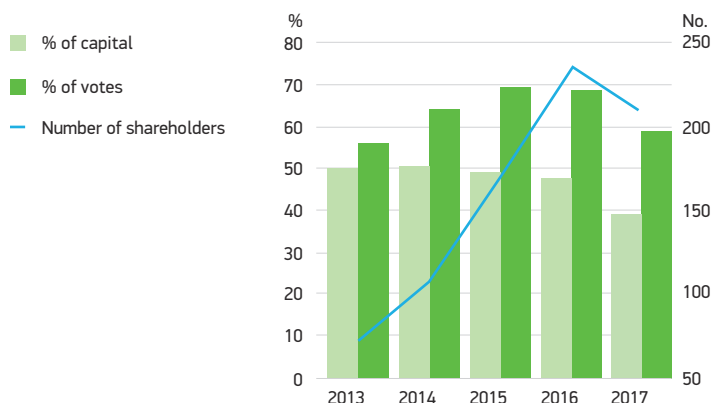
Annual General Meeting 2018

The AGM 2018 will take place on April 25 at 3 p.m. at the IVA Conference Center in Stockholm. Notice of the meeting will be provided on the Company's website (www.netent.com/agm) well ahead of the meeting, together with all required documents.

The AGM decides on:

- Adoption of the annual financial statements and consolidated financial statements
- Appropriation of profit and dividend
- Discharge from liability for the Board of Directors and CEO
- Election of Board members and, where appropriate, auditors
- Remuneration for the Board and auditors
- Guidelines for senior executive remuneration
- Any other issues (important or formal).

Participation at NetEnt's AGM



3. Nominating Committee

The AGM decides on how the Nominating Committee shall be appointed. At the AGM in April 2017, it was decided that the Chairman of the Board of Directors, Vigo Carlund, shall convene a Nominating Committee consisting of a representative from each of the three largest shareholders at August 31, 2017 who, together with the Chairman of the Board, shall be members of the Nominating Committee ahead of the AGM 2018. The composition of the Nominating Committee is based on the excerpt from Euroclear of registered shareholders, and other reliable ownership information as of the last business day in August. The new Nominating Committee was presented in a press release in September 2017 and consists of John Wattin, chairman (appointed by the Hamberg family), Christoffer Lundström (appointed by Novobis AB), Fredrik Carlsson (appointed by the Knutsson family) and Vigo Carlund (Chairman of the Board of Directors).

The Nominating Committee has prepared proposals to the 2018 AGM for resolutions regarding the chair of the meeting, the Chairman of the Board and other members of the Board of Directors, auditors where appropriate, remuneration for the Board of Directors and the auditors, as well as principles for appointing the Nominating Com-

mittee. The Nominating Committee's mandate period runs until the new Nominating Committee is appointed in accordance with the resolution on selecting the Nominating Committee at the AGM 2018. The composition of the Nominating Committee meets the Code's requirements for independent members. Following the AGM 2017 and until the end of the year, the Nominating Committee met twice.

Nominating Committee ahead of the AGM 2018

In its work, the Nominating Committee has evaluated 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 composition of the Board of Directors. In addition, the Nominating Committee has analysed the skills and experience of the members of the Board of Directors, as well as the gender balance, and compared them with identified needs. The Nominating Committee is of the opinion that the members of the Board of Directors hold a wide range of extensive experience from business activities, technology, the gaming industry and financial markets. The Board of Directors presently consists of three female members and five male members.

The Nominating Committee's proposal, its justified opinion on the proposed Board of Directors, and supplementary information regarding the nominated members of the Board of Directors are announced in connection with the notice of the AGM, and will be presented at the AGM 2018 together with a report on the Nominating Committee's work.

Members of the Nominating committee

- **John Wattin**
(appointed by the Hamberg family)
- **Christoffer Lundström**
(appointed by Novobis AB)
- **Fredrik Carlsson**
(appointed by the Knutsson family)
- **Vigo Carlund**
Chairman of the Board of Directors

The duties of the Nominating Committee include submitting proposals to the AGM regarding:

- Chair of the meeting
- Members of the Board of Directors
- Chairman of the Board of Directors
- Board fees
- Remuneration for committee work
- Amendments to the instructions for the Nominating Committee, if needed
- Auditor and audit fees when decisions are to be made on this at the following AGM.

4. Board of Directors

Board duties

The Board of Directors has overarching responsibility for NetEnt's organisation and administration by establishing business goals and strategies, evaluating the executive management and securing systems for monitoring and control of established goals. It is also incumbent upon the Board of Directors to ensure that there is sufficient control over the Company's compliance with laws and other regulations applicable to the Company's business, and that the requisite ethical guidelines are established for the Company's conduct. The Board of Directors

At the AGM in April 2017, the following members were elected

Presence at meetings in 2017		Board of Directors	Audit Committee
Vigo Carlund, Chairman	14 of 14	–	1 of 1
Pontus Lindwall	14 of 14	–	1 of 1
Fredrik Erbing	14 of 14	5 of 5	1 of 1
Maria Redin	11 of 14	5 of 5	1 of 1
Maria Hedengren	10 of 10		
Mikael Gottschlich	4 of 4	–	1 of 1
Peter Hamberg	14 of 14	–	1 of 1
Michael Knutsson	14 of 14	–	1 of 1
Jenny Rosberg	14 of 14	5 of 5	1 of 1

shall also ensure that the Company's communication is accurate, relevant, reliable and transparent. Between AGMs, the Board of Directors is the Company's highest governing body.

Board composition

The Board of Directors is elected by the shareholders at the AGM with a mandate period extending from the AGM until the end of the following AGM. NetEnt's articles of association do not contain specific provisions on the appointment and dismissal of Board members. According to the articles of association, the Board of Directors shall comprise three to nine members and no deputies. The AGM decides the exact number of members. The members of the Board of Directors shall devote requisite time and attention to NetEnt, and acquire the necessary knowledge to protect the interests of the Company and its shareholders.

Independence

The Board of Directors is considered to meet the independence requirements. Vigo Carlund, Pontus Lindwall, Fredrik Erbing, Maria Redin and Jenny Rosberg are independent in relation to the Company, executive management and major shareholders of the Company.

Peter Hamberg is independent in relation to the Company and executive management but not independent in relation to major shareholders because he is a close relative of one of the Company's largest shareholders. Michael Knutsson is independent in relation to the Company and executive management but not independent in relation to the major shareholders because he is a large shareholder of the Company. Maria Hedengren is independent in relation to the Company's owners but not independent in relation to the Company and its management because she was CFO of NetEnt from 2011 to 2016.

Board remuneration as decided by the AGM 2014-2017, SEK thousands

	2017	2016	2015
Chairman of the Board	700	630	610
Audit Committee chair	410	370	330
Audit Committee member	330	295	255
Board member	300	275	255

Rules of procedure and Board meetings

The work of the Board of Directors is regulated by the rules of procedure, in addition to laws and recommendations. The rules of procedure are adopted by the Board of Directors and reviewed annually. The rules of procedure are divided into different sections in order to clarify and regulate the Board of Directors' work and duties. The sections consist of the Board of Directors' rules of procedure and instructions for the CEO and Audit Committee. The Remuneration Committee consists of the entire Board of Directors.

The rules of procedure comprise the Board's general obligations, distribution of duties within the Board, how Board meetings shall be recorded, and provision of information to the Board of Directors before and between Board meetings. Before each Board meeting, members receive written documentation about the matters to be discussed at the Board meeting. Also, each month, a monthly report is distributed on operational and financial performance.

Chairman of the Board of Directors

The Chairman of the Board of Directors is appointed by the AGM. The Chairman organises and heads the work of the Board of Directors so that it is conducted efficiently, and such that the Board of Directors honors its obligations. Vigo Carlund was appointed Chairman of the Board of Directors by the 2017 AGM.

Board work in 2017

The Board's rules of procedure describe which items shall be on the agenda of each Board meeting, the annual cycle of items over the financial year, and the agenda for inaugural Board meetings. In 2017 the Board held 14 meetings, including the inaugural meeting, three for adoption of interim reports and one for adoption of the year-end report. Two meetings were held per capsulam.

All meetings held during the year followed an agenda which, together with the documentation for each agenda item, was provided to Board members ahead of the meetings. Also present at Board meetings are the CEO and the CFO, who also records the minutes. The CEO reports on operational performance at each ordinary Board meeting, and the CFO reports on financial performance. Also, various senior executives, and auditors if needed, deliver presentations on various specific topics.

The key points at the Board meetings in 2017 were matters concerning strategy, business risk management, and approval of business plan, budget, forecasts, key policies such as for anti-bribery, anti-money laundering, annual report, earnings report and interim reports.

Other matters addressed by the Board were an incentive scheme for employees and financial targets for the Company.

The Board addresses and decides on Group-wide matters such as:

- Primary targets, strategic focus
- Material matters pertaining to financing, investments, acquisitions and divestments
- Monitoring and control of operations, provision of information and organisational matters, including evaluation of the Group's executive management
- Choice of and, if needed, dismissal of the CEO of the Company
- Approval of financial reports and appropriation of profits
- Overall responsibility for efficient internal control and risk management systems
- Key policies, see page 56.

The Chairman's duties include ensuring that:

- new Board members undergo the necessary introductory training
- the Board regularly updates and deepens its knowledge of the Company, the industry, and its performance
- the Board of Directors discharges its duties
- the Board of Directors receives adequate information and source materials for decision-making in its work
- Board decisions are efficiently executed
- the Board conducts an evaluation of its own work and that the Nominating Committee is informed of the evaluation
- together with the CEO, the agenda of Board meetings is adopted
- contact with the owners occurs regularly and the opinions of the latter are communicated to the Board of Directors. In addition, the Chairman shall serve as support for the CEO.

Ensuring quality in financial reporting

- The rules of procedure annually resolved by the Board contain detailed instructions regarding which financial reports and financial information shall be submitted to the Board. Besides the year-end report, interim reports and annual report, the Board reviews and evaluates comprehensive financial information, pertaining both to the Group as a whole and various Group entities.

- The Board also reviews, primarily through the Board's Audit Committee, the most material accounting policies applied in the Group for financial reporting, as well as material amendments to reporting policies. Minutes are recorded at all Audit Committee meetings and the minutes are available to all Board members and to the auditors.
- At the Board meeting in February 2017, Auditor in Charge Erik Olin, from Deloitte, presented his conclusions from the 2016 audit. At the meeting, the members of the Board had the opportunity to ask the auditor questions without the presence of Company management.

Evaluation of Board work

- 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. Board evaluation includes rating the knowledge and dedication exhibited by each Board member. The Board of Directors continually evaluates the CEO's work, and the Board addresses this matter without the presence of any Company management members.

Board remuneration

- Remuneration for the Board of Directors is proposed by the Nominating Committee and decided by the AGM, and is paid to Board members who are not employed by the Company. Monetary data regarding remuneration for the Board of Directors by financial year is shown in the table on page 59.

BOARD COMMITTEES

5. Audit Committee

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 stays informed about the audit of interim reports, the annual financial statements and the consolidated financial statements, reviews and monitors the audi-

tor's impartiality and independence and evaluates the services that the auditor provides to the Company, particularly if the auditor provides the Company with services other than auditing. The Committee is also responsible for the Board's ongoing communication with the Company's auditors, establishing guidelines for which services may be procured by the auditors in addition to the audit, evaluation of the audit process, advising the Nominating Committee when preparing auditor proposals, and fees for the audit assignment.

Furthermore, the Committee has established an annual plan for its work and an updated risk analysis for the business with a special focus on financial reporting and the link to internal controls. The Committee has also approved the auditor's audit plan, read and evaluated the auditor's review, evaluated the internal controls and the process improvements carried out by the Company in that regard. In addition, the Committee has dealt with the finance policy, the financial handbook and other policies and accounting matters, including sustainability reporting, including the future application of IFRS 9 and IFRS 15.

The Audit Committee met five times during the year and the auditor took part in all meetings.

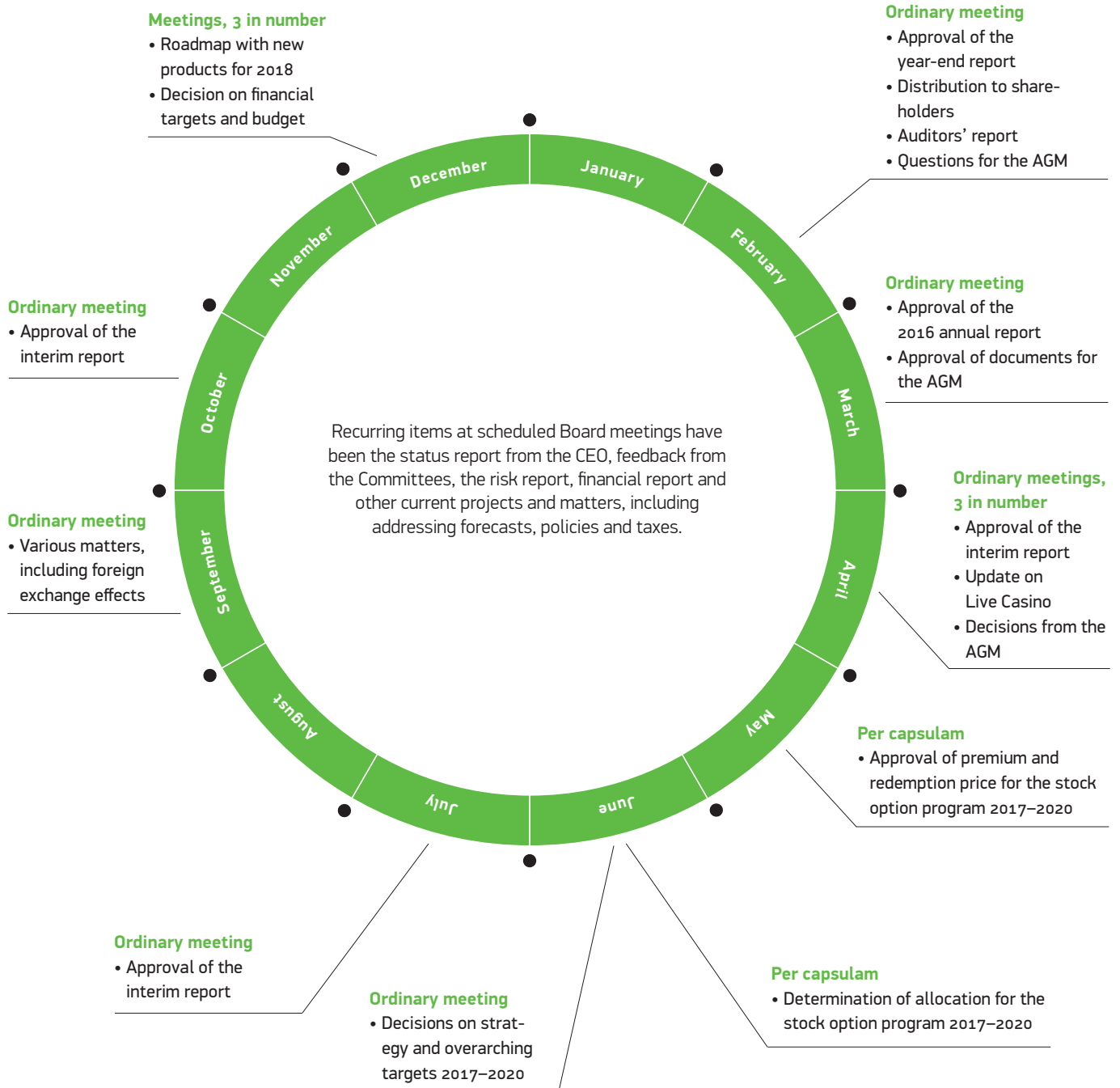
Audit Committee members:

- **Fredrik Erbing** (Chair)
- **Maria Redin**
- **Jenny Rosberg**

The duties of the Audit Committee include:

- reviewing the financial reports
- monitoring the efficiency of internal controls, including risk management, with respect to financial reporting
- keeping informed about the external audit
- reviewing and, as appropriate, granting prior approval when external auditors are appointed for assignments other than audit services
- evaluating the objectivity and independence of external auditors
- follow-up on previous matters.

Board meetings in 2017



6. Remuneration Committee

The Remuneration Committee is responsible for matters pertaining to remuneration and benefits for senior executives, including those of the CEO, and matters of principle for all senior executives. The Board of Directors establishes guidelines for senior executive remuneration that are presented to and approved by the AGM. The guidelines for senior executive remuneration are monitored and evaluated annually, including variable remuneration schemes for the Company management that are in progress and that ended during the year. The current remuneration policy is appended to the AGM minutes, which are available on the website.

The Remuneration Committee consists of all eight Board members. The Chairman of the Board of Directors is the chair of the Committee. Seven of the members were independent in relation to the Company. Maria Hedengren was not independent because she was CFO of NetEnt during 2011 to 2016. The Remuneration Committee met once in 2017.

The duties of the Remuneration Committee include:

- preparing and evaluating guidelines for remuneration to the Group Management.
- preparing and evaluating goals and policies for variable remuneration.
- preparing terms and conditions for pensions, termination of employment, severance pay and other benefits for the Company's management.
- preparing and evaluating NetEnt's long-term incentive program.

7. Audit

Auditors are elected by the AGM and review the Company's accounts and administration on behalf of the AGM. According to the Articles of Association, NetEnt AB (publ) shall have one or two auditors. Deloitte AB was elected auditor at the AGM in April 2017 for the period until the AGM 2018 and Erik Olin was appointed chief auditor. The auditor has presented his conclusions of the synoptic

review of the interim report for January to September 2017, the audit for the 2017 full year, 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 the presence of anyone from the Company management. In addition to the audit, the auditor has had a limited number of other assignments for the Company. These have included audit-related services concerning accounting and reporting, as well as assistance in preparing the Company's tax returns. Remuneration for the auditor is set out in Note 24 on page 98.

Auditors

The AGM on April 21, 2017, elected Deloitte AB as the Company's independent auditor for the period until the 2018 AGM.

• Erik Olin

Chief Auditor, born 1973

Auditor of the Company since 2015.

Authorised public accountant and member of FAR SRS.

Other audit assignments: CLX Communications, IAR Systems, Telia Sweden and Microsoft Sweden.

8. CEO and Group management

NetEnt's Group management is thoroughly experienced and works to create a platform for profitable growth, in line with NetEnt's strategy. Besides the CEO, Group management includes seven more people, four of whom are women.

A dynamic Group management team with in-depth knowledge about industry conditions is crucial for achieving profitable growth.

The CEO is appointed by and receives instructions from the Board of Directors. In turn, the CEO appoints other Group management members and is responsible for the ongoing administration of the Group's operations in accordance with the guidelines and instructions of the Board. Group management meetings are held once every two weeks to review

profit, update forecasts and plans, and to discuss strategic matters.

Instructions for the President and CEO

The Board of Directors has prepared and adopted instructions regarding the CEO's duties and responsibilities, as well as obligations towards the Board of Directors. The CEO is responsible – within the framework of the Swedish Companies Act, the Company's strategy plan, instructions for the CEO, and guidelines and instructions provided by the Board – for managing and developing the Company and running the ongoing administration of the Company's affairs. In the internal work, the CEO shall: monitor to ensure that the Company's organisation is professional and efficient; ensure that internal controls are appropriate 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, prepare, compile, and present data requested by the Board of Directors for assessing the Company's financial situation, such as reports, key figures and comments, proposals for the business plan, budgets, forecasts, year-end report, interim reports and annual reports.

Important matters addressed by the CEO and Group management in 2017 included:

- Growth strategy and new geographical markets
- Leadership development
- Risk management
- Sustainability.

Senior executive remuneration

In order to achieve attractive long-term value growth for shareholders, NetEnt seeks to offer its employees competitive remuneration and an attractive workplace that enable hiring and retaining the right expertise. For senior executives, the Board of Directors has prepared guidelines for remuneration, as outlined below. Detailed information about remuneration for employees and senior executives is provided in Note 6 on pages 90–91.

Guidelines adopted by the AGM 2017

Fundamental principles

These guidelines shall be applied for the Chief Executive Officer of NetEnt and other senior executives in the Company. The Board of Directors shall be able to diverge from the guidelines provided that there are special grounds in a specific case. Management's total remuneration consists of fixed and variable salary, share-based incentive schemes and pension benefits. The remuneration should be performance-based, and the variable component should therefore make up a significant share of the total remuneration.

Fixed and variable salary

Fixed salary shall be market-based, competitive, individual, and based on the individual's responsibility, role, skills, and experience in relevant positions. Annual variable salary shall be measured and paid on a yearly basis. The annual variable salary shall be capped at 65 percent of the fixed salary for the Chief Executive Officer and at 60 percent of the fixed salary for other members of the Group Management. It shall be based on actual outcomes in relation to financial and

operational targets. Goals for variable salary are determined annually by the Board of Directors for the CEO, while the CEO in turn determines the variable salary for the other members of the Group Management, to ensure that they are in line with the Company's business strategy and objectives. The conditions for variable salary shall include a minimum performance level in relation to the targets, for which no variable salary will be received.

The Board is entitled to reclaim variable remuneration if it has been disbursed on the basis of information that has later proved to be evidently erroneous.

Long-term incentive scheme

Key employees are invited to participate in an ongoing share-based incentive scheme in the form of stock options or other share-based incentive schemes issued at market price to motivate long-term engagement and better align their interests with those of shareholders. Share-based incentive schemes, which are issued on market terms, can be combined with cash bonuses that are payable in conjunction with the redemption periods of stock option schemes. Such payment can be made to employees who are still employed at the time of redemption and shall, net of tax, not exceed

70 percent of the premium paid for the stock options.

Retirement benefits and employment termination

Pension benefits of the CEO and other members of the Company's management shall be competitive and based on defined contribution pension plans, in which the premium shall be capped at 35 percent of the pensionable salary. Other benefits, such as company cars, health insurance, etc, shall constitute a minor part of total remuneration, and be in line with market conditions.

The CEO can have a maximum notice period of twelve months. Other members of the Company's management can have a maximum notice period of six months. In addition to salary during the notice period, termination benefits may be paid. However, the total of salary and termination benefits during the notice period shall not exceed the equivalent of 18 months' salary.

Guidelines determined by the Board of Directors and proposed to the AGM 2018

For the 2018 AGM, the Board of Directors has proposed to adopt the same guidelines for remuneration to senior executives as in the preceding year. ●

BOARD OF DIRECTORS

1 Vigo Carlund

Chairman. Born 1946. Elected 2008, Chairman since 2011.

Other board assignments: Los Naranjos S.L.

Previous assignments: CEO of Investment AB Kinnevik, Korsnäs AB and

Transcom World-Wide AB, and chairman of Tele 2 AB.
Shareholding: 3,670,000 B shares.
Independent in relation to the Company, executive management and major shareholders of the Company.

2 Fredrik Erbing

Member of the Board of Directors. Born 1967. Elected 2008.

Assignments: Vice President, Acando AB.

Education: MSc. in Engineering, Royal Institute of Technology, Stockholm.

Shareholding: 120,000 B shares.
Shareholding in endowment policy: 120,000 B shares.
Independent in relation to the Company, executive management and major shareholders of the Company.

3 Pontus Lindwall

Member of the Board of Directors. Born 1965. Elected 2011.

Assignments: CEO and board member of Betsson AB (publ), chairman of Mostphotos AB and board member of Solporten Fastighets AB.

Education: MSc. in Engineering, Royal Institute of Technology in Stockholm.

Shareholding: 4,046,000 B shares.
Shareholding in endowment policy: 2,109,000 A shares, 720,420 B shares.
Independent in relation to the Company, executive management and shareholders. Pontus Lindwall is chairman of Betsson AB, which is a customer of NetEnt.

4 Maria Hedengren

Member of the Board of Directors. Born 1970.

Elected 2017. CFO of iZettle, CFO of NetEnt 2011–2016.

Education: BSc. in Business Administration from the University of Gothenburg.

Independent in relation to major shareholders but

not independent in relation to the Company and its management because Maria Hedengren was CFO of NetEnt until 2016.
Shareholding: 19,000 B shares.

5 Peter Hamberg

Member of the Board of Directors. Born 1973. Elected 2009.

Assignments: CEO and board member of Hamberg Förvaltning AB and board member of C-RAD AB and Solporten Fastighets AB.

Education: Bachelor's degree in international business admin-

istration, San Francisco State University, USA.
Shareholding: 1,218,000 A shares, 580,400 B shares.
Independent in relation to the Company and executive management. Peter Hamberg is a **close relative of one of the Company's major shareholders.**

6 Michael Knutsson

Member of the Board of Directors. Born 1961. Elected 2012, Michael Knutsson is CEO of Knutsson Holdings AB and board member of Pata-Pata AB.

Shareholding: 6,000,000 A shares, 10,000,000 B shares.

Independent in relation to the Company and executive management, **not independent** in relation to major shareholders.

7 Jenny Rosberg

Member of the Board of Directors. Born 1966. Elected 2015. CEO and board member of ROPA Management AB.

Other board assignments: Board member of Nordax Group, Nordax Bank and AB Persson Invest.

Education: MBA from the Stockholm School of Economics.
Shareholding: 15,600 B shares.
Independent in relation to the Company, executive management and major shareholders.

8 Maria Redin

Member of the Board of Directors. Born 1978. Elected 2012. CFO of MTG

Education: BSc. in Business Administration from the University of Gothenburg.

Shareholding: 11,880 B shares.

Independent in relation to the Company, executive management and major shareholders of the Company.





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SENIOR EXECUTIVES





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1 Karin Palmquist

HR Director. Born 1960. Employed 2015. Karin Palmquist has many years of experience from development, change and leadership work. Comes most recently from PwC where she held the position of Human Capital Leader of Learning

and Development. Previously held senior positions at Gula Tidningen and Dale Carnegie and had her own consulting business with customers in Europe, the US and China. **Shareholding:** 720 B shares. **Stock options:** 70,400.

2 Per Eriksson

President and CEO. Born 1961. Employed 2012. Per Eriksson has been active in the IT industry for over 27 years and was most recently President and CEO of Dustin Group. Prior to that, he headed Dell EMC in Europe, the Middle East, and Africa, and was CEO

of Dell Nordic. **Education:** BSc. in Business Administration from Stockholm University. **Shareholding:** 143,538 B shares **Stock options:** 462,400.

3 Therese Hillman

Chief Financial Officer. Born 1980. Employed 2017. Therese Hillman has worked with e-commerce for 10 years and is former CEO of Gymgrossisten, a leading online retailer of sporting gear and dietary supplements in the Nordic

region and a subsidiary of Qliro Group. Formerly COO and subsequently CFO of Gymgrossisten. **Education:** MSc. in Accounting and Finance from the Stockholm School of Economics. **Shareholding:** – **Stock options:** 40,000.

4 Carl Silverstolpe

MD of NetEnt Malta Ltd. Born 1967. Employed 2018. Carl Silverstolpe has extensive experience from senior positions in sales in the recruitment and the IT industries. Before joining NetEnt, he was the CEO of Monster Scandinavia during

2007–2018. He is also a board member of Wise Group AB.

Shareholding: – **Stock options:** –

5 Åsa Bredin

Chief Development Officer. Born 1972. Employed 2015. Åsa Bredin has extensive experience in development and programming and has previously held senior positions at King, Betsson and Oracle.

Education: MSc. in computer sciences from the University of Lund. **Shareholding:** 768 B shares. **Stock options:** 50,600.

6 Ludvig Kolmodin

Chief Information Officer. Born 1972. Employed 2009. Ludvig Kolmodin has more than 15 years of international experience in system development, IT operation and project management, in the

telecom industry, mainly at mobile operator 3, as well as within the banking sector. **Education:** MA in systems analysis and design from Mid Sweden University. **Shareholding:** – **Stock options:** 47,080.

7 Anna Romboli

Communications Director. Born 1973. Employed 2014. Anna Romboli has over 15 years of experience from business development in branding, communication and PR. Formerly Vice President Brand and

Communications at Veryday, consultant in PR and brand strategy. **Education:** MBA from the University of Gothenburg, School of Business, Economics and Law. **Shareholding:** – **Stock options:** 210,000.

8. Henrik Fagerlund

Chief Product Officer. Born 1970. Employed 2014. Henrik Fagerlund has 13 years' experience from the gaming industry and has held senior positions at Paf and Boss Media (now GTECH).

Education: B.Sc in Engineering from Uppsala University **Shareholding:** – **Stock options:** 88,000.

Internal control of financial reporting

NetEnt's control systems ensure that the Company's targets are realised in terms of appropriate and efficient operations, reliable financial reporting, and compliance with laws and regulations.

NetEnt's control system has been devised to ensure accurate, reliable financial reporting and accounting in accordance with applicable laws and ordinances, accounting standards and other requirements for listed companies.

Internal control refers to the process that is influenced by the Board of Directors, Company management and other staff, and is designed to provide reasonable assurance that the goals of the Company are achieved in terms of

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

NetEnt applies the established framework for internal control issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). This framework encompasses five principal areas: control environment, risk assessment, control activities, monitoring/improvement and communication.

Control environment

The foundation of NetEnt's control system is the control environment, which determines the individual and collective approaches in the Group. It is defined through policies and procedures, manuals and codes, and is upheld with the help of NetEnt's organisational structure with clear responsibilities and powers based on shared values. Soundly devised internal control not only creates conditions for reliable financial reporting, but also contributes to a healthy and sustainable busi-

ness with greater profitability as a result.

Work on the design of internal processes and monitoring thereof is becoming increasingly important as the Company grows. This is particularly important in terms of the systems that NetEnt develops and operates on behalf of customers.

NetEnt's Board bears overarching responsibility for establishing an efficient internal control system. The responsibility for establishing an efficient control environment has been delegated to the CEO. The CEO delegates powers to those reporting to him, both directly and through established guidelines and manuals at the Company. Corporate values are an important element in this respect, providing guidance for daily work.

The Company's finance function reports to the Audit Committee and to the Company's Chief Financial Officer, and works to develop and improve internal control in financial reporting in the Group, both proactively with a focus on the internal control environment, and by reviewing how internal control works.

NetEnt reviews its internal control processes in accordance with a recurring time cycle each year, and makes changes to the extent required. The Audit Committee sees both the self-assessment and the review performed by external advisors. The Company has also established a framework and a process for internal audit of the finance function and the financial reporting that is based on a combination of self-assessment and independent review with the support of an external auditing firm.

Compliance

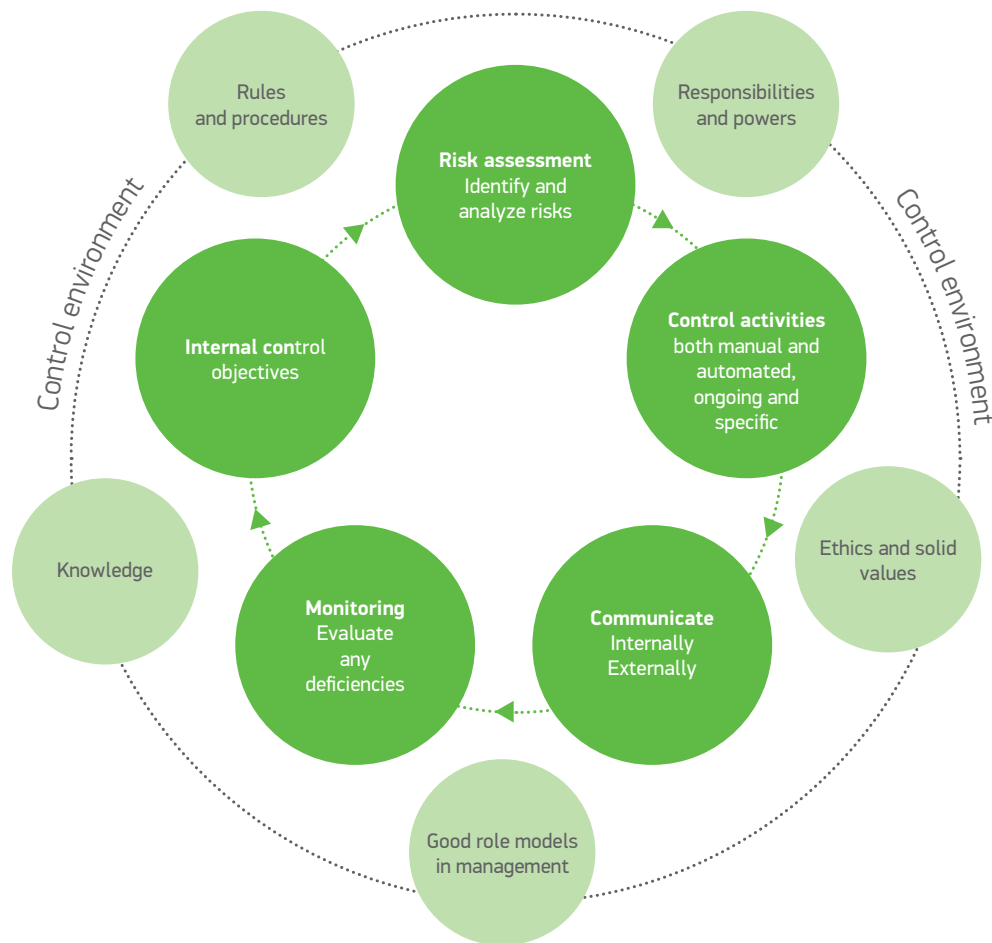
Moreover, the Group has a function comprising people with specific responsibility for compliance, as well as quality and processes. The function was established to secure enhancement of the Company's processes and procedures for industry-specific compliance. The compliance department regularly reports its observations directly to the CEO and meets at least once a year with the Audit Committee without the presence of any members of management.

Internal governance instruments

Internal governance instruments for financial reporting primarily consist of the Group's finance policy, information policy, financial handbook, and authorisation instructions that define accounting and reporting rules, as well as the Group's definition of processes and minimum requirements for sound internal control in financial reporting. In addition, the Company has policies regarding, for example, trade in the Company's shares, IT and information security, dividend, anti-bribery, prevention of money laundering and terrorist financing, drugs and gambling.

Risk assessment

Each year, NetEnt conducts a structured risk assessment to identify risks that affect the internal control of financial reporting, and to identify where those risks are present. Risks in financial reporting are evaluated and monitored by the Board of Directors through the Audit Committee.



The main risks to the Company are attributable to areas such as regulated activity, the invoicing process and revenue recognition, development expenditure and taxes, and the Company's substantial cash and cash equivalents.

During the risk assessment, particular attention has been paid to the risk of irregularities and undue favouring of other parties at the Company's expense, and the risk of loss or misappropriation of assets. Matters are prepared by the Audit Committee before consideration by the Board of Directors. The risk assessment results in control objectives that support meeting the fundamental financial report-

ing requirements. The risk assessment is updated annually by the Company, and is reported to the Audit Committee.

Moreover, the Company has a risk management process designed to constantly identify, prioritise and manage material business risks in general. The risk landscape is in some respects similar to the risk assessment for financial reporting, but includes other risks such as the availability of competent staff and political decisions. The Audit Committee shall continually monitor this process and report regularly to the Board of Directors. For a complete description of the industry and business-related risks

that affect NetEnt, see the "Risk factors" section on pages 52-55 and Note 26 on pages 98-99.

Control activities

The most material risks identified in terms of financial reporting are managed through control structures in processes. Control activities are designed and documented at the process level, and include both overarching and more specific controls with the purpose of preventing, detecting and correcting errors and discrepancies. When devising control activities, accurate and timely performance thereof is ensured.

Control activities span everything from the review and monitoring of performance outcomes to specific account reconciliations.

General IT controls are established for the systems that support the processes that affect internal control regarding financial reporting. The design of processes and control activities within IT is also affected by regulations issued by the gaming authorities, such as Malta Gaming Authority (MGA), Alderney Gambling Control Commission (AGCC), Gibraltar Regulatory Authority (GRA), UK Gambling Commission and external reviews in connection with licences and certifications. Such reviews are conducted both by independent auditing agencies for certification in relation to requirements from authorities, and by the Company's external auditors as part of the audit.

Areas that are covered by control activities include:

- due authorisation of business transactions
- ERP systems that affect financial reporting, including verification management
- the accounting process, including year-end reports and consolidated financial statements and their compliance with applicable regulations in the form of generally accepted accounting principles, prevailing laws and regulations, and requirements for listed companies. The process is also designed to ensure proper source materials for decision making for the Board of Directors and management
- significant and unusual or complex business transactions, as well as business transactions or valuations of assets or liabilities that contain significant elements of judgment,
- all new employees are subject to prior background screening.

Monitoring

Monitoring of control activities is continuously conducted to ensure that risks have been satisfactorily observed and addressed. Monitoring encompasses both formal and informal procedures applied by the Company. Such procedures include monitoring profit vs. budget and plans, analyses and key figures. The Board of Directors continuously evaluates the information provided by Company management. The process includes both reconciliation of monthly financial reports vs. budget and goals, and reporting at Board meetings. Through the Audit Committee, the Board of Directors examines and assesses the internal control organisation and function. The Company's policies and instructions are evaluated and updated annually at a minimum with respect to appropriateness and functionality – or more often if needed.

The Company's CFO presents the results of internal control work as a standing agenda item at Audit Committee 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.

Information and communication

Information and communication about internal governance instruments for financial reporting are available for all employees to whom these apply via the Company's intranet. NetEnt has information and communication channels with the purpose of promoting complete and accurate financial reporting. Only a limited number of people in the functions

Finance, IR, and the CEO's office have access to information that is confidential in nature such as budgets, forecasts, financial outcome reporting, Board material and remuneration. Access to such confidential information is in accordance with the powers bestowed upon the Company's staff in the organisation.

Guidelines and manuals of importance for financial reporting are updated and communicated to those concerned as new employees are introduced, and in the event of potential changes, to all affected staff. There are both formal and informal communication channels to senior executives and the Board of Directors for information from employees. In order for all employees to feel secure in reporting deviations from the Company's rules, there is a confidential and efficient whistleblowing procedure in place. For external communication, there are guidelines for the Company with stringent demands on accurate and relevant information for the market. The Board of Directors annually adopts an information policy for the Company, which includes guidelines for contacts with analysts and the media.

In connection with the introduction of new employees, the latter are informed of the laws and guidelines followed by the Company regarding for example managing insider information and trade in the Company's shares. Prior to each quarterly earnings report, a reminder is sent about the rules to all staff.

Internal audit

The Company already had an internal audit function in place regarding anti-money laundering procedures. The most recent complete internal audit took place in 2016 and was performed by EY. ●

Sustainability governance and NetEnt's business model

NetEnt has identified a number of sustainability areas that are of particular importance to the company and its stakeholders. Read more about NetEnt's aims for greater sustainability on pages 16–17.

NetEnt is a provider of digitally distributed games and gaming systems for online casino, used by gaming operators around the world. The company's revenues essentially consist of royalties, which are determined as a percentage of the game win (player bets less player wins) generated by NetEnt's games for the customers. NetEnt is an operating and development company and does not conduct any gaming operations of

its own in relation to players. For further information about the business model, see pages 14–15.

Governance of NetEnt's sustainability efforts is integrated into the ordinary operations and ensured through the policies, targets and key figures within the various parts of the organisation (read more in the Corporate Governance Report on pages 56–63). The Board of Directors bears ultimate responsibility.

In the group management, the Communication Director bears overarching responsibility for sustainability work, and the rest of the management group are responsible for specific areas, shown in the table below.

NetEnt supports the UN initiative Global Compact as well as the UN global Sustainable Development Goals (SDG), which place demands on continual improvements in sustainability. Read more about this on pages 16–17.

In dialogue with its stakeholders, NetEnt has identified the most material areas of sustainability. These are shown in the table below together with targets and outcomes for the year in each area.

Overview with targets

Area	Targets and indicators	Outcome 2017
Responsible gaming	<ul style="list-style-type: none"> Compliance with laws and rules regarding responsible gaming on regulated markets Offer customers technology to support responsible gaming 	The goals are considered fulfilled.
Anti-corruption and anti-money laundering	<ul style="list-style-type: none"> The Company has zero tolerance of corruption and money laundering 	The goals are considered fulfilled.
Work environment/society	<ul style="list-style-type: none"> Employee satisfaction. Net Promoter Score (eNPS): >30 	eNPS = 42
Environment	<ul style="list-style-type: none"> CO2 emissions in relation to no. gaming transactions to decrease by 20 percent until 2020 Offices shall be operated with a green and sustainable mindset 	CO2 emissions/transaction 2017 = 22.6 mg (2016 = 22.9 mg)
Diversity and equality	<ul style="list-style-type: none"> Gender breakdown, target of 50 percent women in 2020 	39 percent women in December 2017 (40)
Regulations	<ul style="list-style-type: none"> Increase presence on regulated markets in no. licenses and certifications 	NetEnt is present on 17 regulated markets (15)



Responsible gaming

Promoting responsible gaming is fundamental to NetEnt and a condition for the licences it holds.

It's important to play for the right reason – to have fun. Although NetEnt has no direct contact with the individual players, the company works actively and in close cooperation with other market participants to prevent gaming-related problems. For some people, gaming can turn into an addiction that threatens physical, psychological and social wellbeing. The Public Health Agency (2017) estimates that around 2 percent of the population aged between 16 and 84 have issues with their gaming. Out of people who have played in the past year, the percentage of problematic gaming is estimated at 3 percent of players.

Product design with safety functions

NetEnt's product design is aimed at helping customers promote responsible gaming. This means that the games are designed with functions that enable the operators to allow the player to stay in control of their gaming, for example by setting an upper limit to their bets or gaming time, by reducing playing speed or by turning off certain functions.

Internal guidance and training

All employees are trained in responsible gaming, and those with special responsibility undergo in-depth training. Formal guidance in the area is also provided through the following policies and processes, which contribute to the company's ability to fulfill its sustainability targets.

- **NetEnt Responsible Gaming Policy**

Comprehensive guide for all employees in matters relating to responsible gaming.

- **NetEnt Self-Exclusion Procedure**

Description of how NetEnt shall proceed when a player expresses a desire to be closed off from further playing.

- **NetEnt Regulatory Training Policy**

Presentation of the requirements placed on employee training in responsible gaming.

- **Player Communication Guideline**

Guide for communication with players in the event of players contacting NetEnt directly regarding gaming problems.

eCOGRA-certified

Players can rest assured that the games fulfill set requirements and game rules, are random, and that wins are possible. At the same time, players should be aware that gaming, just like other forms of entertainment, costs money and that losing is also possible.

NetEnt's games and platform are regularly tested for randomness by independent accredited testing agencies, which is one of the requirements set by the gaming authorities where the company operates. NetEnt is also verified by the

international testing agency eCOGRA (e-Commerce and Online Gaming Regulation and Assurance) - a London-based industry organisation that works to promote safe and responsible gaming. Each year eCOGRA examines the development environment at NetEnt, verifies and ensures that the software is securely and reliably maintained and operated, and that the company is continuously tested by other independent agencies. eCOGRA also examines, in purely general terms, how the operations and games meet the agency's responsible gaming requirements.

Global Gambling Guidance Group (G4)

NetEnt is certified for responsible gaming according to the Global Gambling Guidance Group (G4). By developing responsible gaming software and training programs for the employees of gaming companies, and by offering support lines and personal counseling, G4 works to prevent and minimise the damage and problems that arise from gambling addiction.

NetEnt is regularly examined by G4 to ensure that the Company's operations and products support the following consumer protection guidelines of the organisation:

- Protecting minors and at-risk individuals
- Protecting players' rights
- Promoting responsible gaming in a safe environment, for instance through integral protective functions
- Ensuring the reliability of games and gaming devices
- Keeping online casino games free from criminal activity, such as money laundering
- Compulsory training for employees in responsible gaming

Preventive work on our markets

In order to support preventive work and the treatment of gambling addiction, NetEnt has undertaken to make annual donations to the Responsible Gambling Trust and Gambling Therapy in the UK

- two organisations that work nationally and internationally to reduce gaming-related problems in society.

online help for problem gamblers

gambling therapy



Anti-corruption and anti-money laundering

Zero tolerance, clear guidelines and staff training.

NetEnt applies zero tolerance and clear guidelines against money laundering and corruption. All employees undergo training in the work against corruption and money laundering. The following policy instruments are used in this area to realise the sustainability targets:

- Anti-Money Laundering policy
- Anti-Bribery policy
- Handbook against money laundering and combating the financing of terrorism (*Handbook for AML/CFT*)

- Ban on employees playing NetEnt's games (Staff Gambling Policy)
- Staff Vetting Policy.

Work environment and society

Dedicated employees are fundamental to NetEnt's success and contribute to a better society

Motivated employees who feel good are crucial to NetEnt's ability to reach its goals, and this also contributes towards a better society. NetEnt prioritises measures to ensure that staff thrive and develop in their workplace. There is a great focus on the regular employee survey that is conducted several times each year and followed up with analysis and measures to improve the work environment. There is an emphasis on personal development, and NetEnt aims to offer good advancement and internal career opportunities. Health is a particularly important part of the Company's employee strategy – employees are encouraged



to have a healthy lifestyle with exercise, sound eating habits and mental balance, such as through wellness benefits and many shared activities and initiatives. In 2015 a health coach was appointed, serving both at an overall strategic level, and at the individual level in matters relating to health and mental balance. NetEnt has the following policies that contribute to realising the sustainability targets:

- Work Environment Policy
- Alcohol and Drugs policy
- Anti-Slavery and Human Trafficking Policy.

Environment

A relatively low environmental impact can be reduced further.

From an environmental perspective, NetEnt's digital business model is a better alternative than traditional, physical casino environments that consume more resources. At the beginning of 2017, an environmental policy was introduced at the company. The company's electricity consumption is the greatest burden on the environment, and is mainly attributable to different types of technical equipment such as servers, PCs and monitors. As far as possible, travel is to be avoided in favour of video or phone meetings, which also supports the efficiency and profitability of the business.

The objective is to reduce CO2 emissions per gaming transaction by 20 percent over the next three years. In terms of operating the offices, the company strives to be green with measures such as recycling and the reduction of paper and disposables. As the company grows and needs new premises, the environmental aspect is considered when evaluating new options. At the beginning of 2017 NetEnt relocated to a new office on Vasagatan in Stockholm, in a property owned by Vasakronan. The latter is goal-oriented in reducing environmental impact, and is climate-neutral and certified according to ISO 14001.

Diversity and equality

Equal opportunity for everybody is a key feature at NetEnt.

At NetEnt, diversity notably leads to a better exchange of perspectives and experience, which promotes innovation. Also, diversity bolsters the corporate culture, which is a success factor. NetEnt strives to offer equal opportunity for all staff irrespective of gender, age, ethnicity, sexual orientation or religion. All evaluations of existing and new employees are exclusively based on factors such as competence, experience and attitude. 64 nationalities were represented among staff in 2017. The group-wide language is English, and in most cases knowledge of Swedish is not required for employment.

An important part of the company's employee strategy is the objective to achieve a 50/50 balance between male and female employees by 2020. The male/female breakdown in the management team is 50/50 compared with an average of 21 percent women for all listed Swedish companies¹. For the entire NetEnt Group, the proportion of women was 39 percent at the end of 2017 - a relatively high figure compared with other companies in the IT sector.

For the third consecutive year, NetEnt was among the finalists when the AllBright foundation issued its 2017 award for the best listed company in terms of gender equality.

The Company applies an Equal Opportunities Policy, which serves as support in the field of diversity in realising sustainability targets.

¹⁾ Allbright report, September 2017

Regulations and compliance

Regulations mean healthy developments for the gaming industry.

NetEnt welcomes regulation in the gaming industry because this leads to a safer environment for both players and gaming companies. NetEnt is a member of the Swedish online gaming industry association, BOS, which represents gaming

companies and game developers. NetEnt is also an associate member of the World Lottery Association (WLA), a global member-based organisation that promotes the interests of state-authorised lotteries and gaming operators. Commercially reasonable rules regarding taxes and product provisions provide solid fundamentals for regulated markets to grow and develop. NetEnt's strategy is to grow in regulated markets and, for many years, the Company has invested resources to build up an organisation with the capacity to apply for and maintain licences and certifications.

The Compliance Department supports the organisation in matters regarding laws, regulations and directives, and ensures the company's compliance to policies and processes. The department also assists with customer due diligence. In order for all employees to feel secure in reporting deviations from the company's rules, a whistleblowing function is in place - procedures enabling employees, confidentially and efficiently, to raise their concerns.

The following policies are available to attain the sustainability targets in this area:

- NetEnt Compliance Management Policy
- NetEnt Crime and Disorder Policy
- NetEnt Fair and Open Policy
- NetEnt Regulatory Training Policy
- NetEnt Software and Testing Standards Policy
- Information Security Policy
- Authorisation Policy
- Insider Policy
- IR Policy.

Sustainability risks

The following sustainability risks can have implications for the company's future development:

- Responsible gaming
 - Anti-corruption and anti-money laundering
 - Regulated operations and compliance.
- These, and other operational risks, and how they are managed, are described in more detail on pages 52-55.

Group

Income statements and statement of comprehensive income

SEK thousands	Note	2017	2016
Revenues	3, 4	1,619,455	1,452,158
Other revenues	5	5,527	2,943
Total operating revenues		1,624,982	1,455,101
Operating expenses			
Personnel expenses	6	-463,322	-409,014
Depreciation/amortization and impairment	12, 13	-158,019	-138,894
Other operating expenses	25	-416,543	-371,244
Total operating expenses		-1,037,884	-919,152
Operating profit		587,098	535,949
Financial items			
Financial income	8	18,882	35,739
Financial expense	9	-20,575	-26,161
Total financial items		-1,693	9,578
Profit before tax		585,404	545,527
Tax on profit for the year	10	-32,969	-41,115
Profit for the year		552,436	504,412
Earnings per share, basic (SEK)	11	2.30	2.10
Earnings per share, diluted (SEK)	11	2.30	2.10
Closing number of shares		240,130,860	240,130,860
Average number of shares		240,130,860	240,130,860
Profit for the period attributable to:			
Parent Company shareholders		552,436	504,412

Statement of comprehensive income

SEK thousands	2017	2016
Profit for the year	552,436	504,412
Other comprehensive income		
Items that may be reclassified to profit/loss		
Exchange differences arising from the translation of foreign operations	17,654	15,345
Sum of other comprehensive income for the year, net after tax	17,654	15,345
Total comprehensive income for the year	570,090	519,757
Comprehensive income for the year attributable to Parent Company shareholders	570,090	519,757

Group

Balance sheets

SEK thousands	Note	12/31/2017	12/31/2016
Assets			
Non-current assets			
Intangible assets	12	318,208	253,495
Property, plant and equipment	13	151,345	120,546
Deferred tax	10	5,317	-
Other non-current receivables	17	9,849	9,567
Total non-current assets		484,719	383,608
Current assets			
Accounts receivable	15	55,786	44,306
Other taxes receivable		-	1,748
Other receivables	17	74,843	89,379
Prepaid expenses and accrued income	16	210,422	213,247
Funds held on behalf of licensees*		82,535	92,398
Cash and cash equivalents	18	387,035	494,497
Total current assets		810,621	935,575
Total assets		1,295,340	1,319,183
Equity and liabilities			
Equity	19		
Share capital		1,205	1,205
Other capital contributed		93,812	90,189
Reserves		24,550	6,897
Retained earnings incl. profit for the year		836,928	824,785
Total equity		956,495	923,076
Non-current liabilities			
Deferred tax liability	10	11,341	14,269
Total non-current liabilities		11,341	14,269
Current liabilities			
Accounts payable		44,421	99,700
Current tax liabilities		25,628	25,034
Other liabilities	21	145,811	164,947
Accrued expenses and deferred income	22	111,644	92,157
Total current liabilities		327,504	381,838
Total equity and liabilities		1,295,340	1,319,183

* As of 2017 setup fees for jackpots have been reclassified from Cash and cash equivalents to Funds held on behalf of licensees.

Group

Cash flow statements

SEK thousands	Note	12/31/2017	12/31/2016
Operating activities			
Operating profit		587,098	535,949
Adjustments for non-cash items			
– Depreciation/amortization and impairment	12, 13	158,019	138,894
– Other		-4,666	-4,155
Interest received		12	30
Interest paid		-1,292	-1,072
Income tax paid		-40,879	-47,889
Cash flow from operating activities before changes in working capital		698,292	621,757
Increase/decrease in accounts receivable		-11,480	-9,204
Increase/decrease in current receivables		38,894	-129,944
Increase/decrease in accounts payable		-55,279	66,166
Increase/decrease in other current operating liabilities		-4,366	75,438
Cash flow from operating activities		666,061	624,213
Investing activities			
Investment in intangible assets	12	-156,363	-154,277
Investment in property, plant and equipment	13	-86,900	-79,862
Cash flow from investing activities		-243,262	-234,139
Financing activities			
Distribution to shareholders/dividend		-540,294	-320,174
Premium received for stock options		3,647	9,528
Redemption of stock options		-52	-306
Cash flow from financing activities		-536,700	-310,952
Cash flow for the year		-113,901	79,122
Opening cash and cash equivalents		494,497	402,058
Exchange rate difference in cash and cash equivalents		6,438	13,317
Closing cash and cash equivalents	18	387,035	494,497

Group

Changes in equity

SEK thousands	Share capital	Other contributed capital	Reserves	Retained earnings incl. profit for the year	Total equity
2016					
Opening equity 1/1/2016	1,205	80,856	-8,448	640,548	714,161
Profit for the year	-	-	-	504,412	504,412
Exchange-rate differences arising from the translation of foreign operations	-	-	15,345	-	15,344
Total comprehensive income for 2016	-	-	15,345	504,412	519,757
Distribution to shareholders	-	-	-	-320,174	-320,174
Closing equity, 12/31/2016	1,205	90,189	6,897	824,786	923,076

SEK thousands	Share capital	Other contributed capital	Reserves	Retained earnings incl. profit for the year	Total equity
2017					
Opening equity 1/1/2017	1,205	90,189	6,897	824,786	923,076
Profit for the year	-	-	-	552,436	552,436
Exchange-rate differences arising from the translation of foreign operations	-	-	17,654	-	17,654
Total comprehensive income for 2017	-	-	17,654	552,436	570,090
Premium received for stock options	-	3,623	-	-	3,623
Distribution to shareholders	-	-	-	-540,294	-540,294
Closing equity, 12/31/2017	1,205	93,812	24,550	836,928	956,495

Parent Company

Income statements and statement of comprehensive income

SEK thousands	Note	2017	2016
Net sales	3, 4	804,581	737,162
Other revenues	5	2,478	360
Total operating revenues		807,059	737,522
Operating expenses			
Personnel expenses	6	-411,251	-365,037
Depreciation/amortization and impairment	12, 13	-28,750	-26,430
Other external expenses	23	-317,622	-299,541
Total operating expenses		-757,624	-691,008
Operating profit		49,435	46,514
Financial items			
Profit from participations in Group companies	7	443,237	487,052
Other interest income and similar profit/loss items	8	8,785	20,296
Interest expense and similar profit/loss items	9	-6,753	-10,980
Total financial items		445,268	496,368
Profit after financial items		494,704	542,882
Appropriations			
Provision to accrual fund		-	-
Accelerated depreciation		-5,853	4,481
Total appropriations		-5,853	4,481
Profit before tax		488,851	547,363
Tax on profit for the year	10	-9,166	-13,971
Profit for the year		479,684	533,392
Closing number of shares		240,130,860	240,130,860
Average number of shares		240,130,860	240,130,860

Statement of comprehensive income

SEK thousands	2017	2016
Profit for the year	479,684	533,392
Other comprehensive income		
Sum of other comprehensive income for the year, net after tax	0	0
Total comprehensive income for the year	479,684	533,392

Parent Company

Balance sheets

SEK thousands	Note	2017	2016
Assets			
Non-current assets			
Intangible fixed assets			
Licenses and ERP systems	12	4,027	5,791
Total intangible fixed assets		4,027	5,791
Property, plant and equipment			
Plant and equipment	13	71,963	51,828
Total property, plant and equipment		71,963	51,828
Financial assets			
Participations in Group companies	14	4,611	4,611
Deferred tax	10	2,163	-
Total financial assets		6,773	4,611
Total non-current assets		82,763	62,230
Current assets			
Current receivables			
Accounts receivable	15	-	3
Receivables from Group companies	26	529,077	388,228
Current taxes receivable		1,730	1,748
Other receivables	17	14,743	27,955
Prepaid expenses and accrued income	16	45,447	51,327
Total current receivables		590,997	469,261
Cash and bank balances	18	111,944	345,728
Total current assets		702,941	814,989
Total assets		785,704	877,219

Parent Company

Balance sheets

SEK thousands	Note	2017	2016
Equity and liabilities			
Equity			
	19		
Restricted equity			
Share capital		1,205	1,205
Statutory reserve		38	38
Total restricted equity		1,243	1,243
Non-restricted equity			
Share premium reserve		58,885	55,299
Retained earnings		81,197	88,098
Profit for the year		479,684	533,392
Total unrestricted equity		629,766	676,789
Total equity		631,009	678,032
Untaxed reserves			
	20		
Accrual funds		29,021	29,021
Accelerated depreciation		-	-5,594
Total untaxed reserves		29,021	23,427
Current liabilities			
Accounts payable		33,413	86,976
Liabilities to Group companies	25	3,499	9,006
Other liabilities	21	7,532	6,598
Accrued expenses and deferred income	22	91,230	73,180
Total current liabilities		135,674	175,760
Total equity and liabilities		795,704	877,219

Parent Company

Cash flow statements

SEK thousands	Note	2017	2016
Operating activities			
Operating profit		49,435	46,514
Adjustments for non-cash items			
– Depreciation/amortization and impairment	12, 13	28,750	26,430
– Other		3,019	10,460
Dividends from subsidiaries		487,052	408,537
Interest received		0	1
Interest paid		-987	-932
Income tax paid		-8,175	-7,836
Cash flow from operating activities before changes in working capital		559,094	483,174
Increase/decrease in accounts receivable		3	-2
Increase/decrease in current receivables		-67,104	3,921
Increase/decrease in accounts payable		-52,168	60,567
Increase/decrease in other current operating liabilities		-89,790	75,563
Cash flow from operating activities		350,035	623,221
Investing activities			
Acquisition of subsidiary	14	0	-2,302
Investment in intangible fixed assets	12	-1,542	-4,524
Investment in property, plant and equipment	13	-45,578	-41,822
Cash flow from investing activities		-47,120	-48,648
Financing activities			
Premium received for stock options		3,647	9,528
Redemption of options		-52	-306
Distribution to shareholders/dividend		-540,294	-320,174
Cash flow from financing activities		-536,699	-310,952
Cash flow for the year		-233,784	263,621
Opening cash and cash equivalents		345,728	82,107
Closing cash and cash equivalents	18	111,944	345,728

Parent Company

Changes in equity

SEK thousands	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Profit for the year	Total equity
Opening equity 1/1/2016	1,205	38	45,967	-24,613	432,885	455,481
Profit for the year					533,392	533,392
Total comprehensive income	-	-	-	-	533,392	533,392
Premium received for stock options	-	-	9,333	-	-	9,333
Allocation according to the AGM	-	-	-	112,711	-432,885	-320,174
Closing equity, 12/31/2016	1,205	38	55,299	88,098	533,392	678,032

SEK thousands	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Profit for the year	Total equity
Opening equity 1/1/2017	1,205	38	55,299	88,098	533,392	678,032
Profit for the year					479,684	479,684
Total comprehensive income	-	-	-	-	479,684	479,684
Premium received for stock options	-	-	3,586	-	-	3,586
Allocation according to the AGM	-	-	-	-6,902	-533,392	-540,294
Closing equity, 12/31/2017	1,205	38	58,885	81,197	479,684	621,009

Notes to the financial statements

Note 1 General information

NetEnt AB (publ), the Parent Company with corporate identity number 556532-6443 and its subsidiaries (together, the Group or the Company) is a leading supplier of digitally distributed gaming systems used by some of the world's most successful gaming operators. NetEnt Casino Module is a comprehensive gaming system comprising a full suite of high-quality games and a powerful administration tool. The games create a superior gaming experience for the player while the administration tool enables NetEnt's customers - the gaming operators - to optimize their business and profitability. Operators are provided with a customized system solution that is quickly and easily integrated, ensuring cost-efficient operation and minimizing installation-to-operation times. The Company's revenues essentially consist of royalties, which are calculated and invoiced as a percentage of the game win (player bets less player wins) that are generated by NetEnt's games for the customers. When signing new customer agreements, the customers are also invoiced for setup fees that are aimed at covering the integration and setup costs that arise for NetEnt in connection with the launch of new customers. Setup fees account for a minor share of the Company's total revenues.

NetEnt is a pure operating and development company and thus does not conduct any gaming operations of its own. The Company's brand is internationally reputed and associated with innovation, service, and quality. The Parent Company of the Group is based in Stockholm, where a certain amount of development and infrastructure coordination is carried out, while product management, sales, operations, customer support and marketing are managed out of Malta. The Company also has offices in Gothenburg, Gibraltar, Kiev (Ukraine), Krakow (Poland) and New Jersey (USA), as well as an IT operations site in Alderney. Product development takes place at the Company's offices in Stockholm, Gothenburg, Kiev and Krakow, and through a subcontractor in India.

Since 2009 the Parent Company has been listed on the Stockholm stock exchange - NASDAQ Stockholm, with the ticker NET B.

This annual report was approved for publication by the Board of Directors on March 15, 2018. The income statement and balance sheet will be adopted at the AGM on April 25, 2018.

Note 2 Accounting and valuation principles

Basis of preparation of the financial statements

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

The accounting principles have been consistently applied by all Group companies in their reporting, and in consolidation during all periods of time presented in the consolidated financial statements.

Conditions for preparing the consolidated financial statements

The Parent Company's functional currency is the Swedish krona (SEK), which is also the reporting currency for the Parent Company and the Group. The financial statements are thus presented in SEK.

All figures are expressed in SEK thousands unless otherwise stated. SEKm is an abbreviation for million Swedish kronor. Amounts and figures in brackets refer to comparable figures for the same period of the previous year.

Assets and liabilities are recognised at acquisition cost, apart from some financial assets and liabilities which are measured at fair value.

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

The Parent Company applies the same principles as the Group, except to the extent that the Parent Company financial statements have 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 policies of the Parent Company are provided below in the section "Parent Company accounting policies".

Standards, amendments and interpretations effective for 2017

No new, amended or revised standards and interpretations that came into effect in 2017 have had any material impact on the Group's financial statements.

Standards, amendments to standards in issue not yet effective and not adopted early by the Group

The International Accounting Standards Board (IASB) has issued the following new and amended standards which have not yet come into effect:

IFRS 15 "Revenue from Contracts with Customers" regulates revenue recognition. The purpose of IFRS 15 is to provide users of financial statements with more informative and relevant disclosures regarding the Company's revenues. Revenue shall, according to IFRS 15, be recognised when the customer gains control of the sold product or service and is able to utilize or benefit from the product or service. According to the extended disclosure obligation, the following shall be provided: information regarding revenue type, timing of settlement, uncertainty related to revenue recognition and cash flow attributable to the Company's customer contracts. IFRS 15 applies to financial

years beginning on or after January 1, 2018, with early application permitted. Executive management has, during the year, completed the evaluation of the effects of introducing the standard. The conclusion is that the changes will have a negligible impact on the Group's financial statements. The introduction of IFRS 15 will affect when, in time, the Company recognizes revenue and expenses attributable to setup fees which, as of 2018, will be accrued over the term of the contract. Since setup fees constitute a small part of the Company's total revenues, the effect will not be material.

IFRS 16 "Leases" introduces a "right of use model" and entails, for the lessee, that largely all leases shall be reported in the balance sheet. Classification into operating and finance leases shall thus not be done. Leases with a term of 12 months or less, and leases of a negligible amount, are exempted. In the income statement, depreciation on the asset and interest expense on the liability are reported. IFRS 16 Leases was issued on January 13, 2016 and will replace IAS 17 Leases. IFRS 16 is applicable to financial years starting on or after 1 January 2019 with early application permitted, provided that IFRS 15 is applied simultaneously. The process of evaluating the effects of the introduction of this standard has commenced and the preliminary forecast is that the changes will not have any material impact on the Group's financial statements.

IFRS 9 "Financial Instruments" addresses classification, valuation and recognition of financial assets and liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the parts of IAS 39 that deal with the classification and valuation of financial instruments. The standard will apply to financial years starting on or after January 1, 2018. Earlier application is permitted. The introduction of IFRS 9 will not have any material impact on the Group's financial statements.

In the opinion of Company management, other new or revised standards and interpretations not yet effective in 2017 are not expected to have any material effect on the consolidated financial statements for the period to which they are initially applied.

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 non-current assets. Liabilities are classified as current liabilities if they are expected to be settled in the Company's normal operating cycle, if they are held primarily for trading purposes, if they are expected to be settled within twelve months after the balance sheet date or if the Company lacks 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 non-current liabilities.

Consolidated financial statements

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

Principles of consolidation

The consolidated financial statements were prepared in accordance with the purchase method. Acquisition-related costs are expensed in the periods in which they arise. 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 acquisition cost of the shares and the fair value at the time of acquisition of the Group's share of the identifiable net assets acquired is recognised as consolidated goodwill. If the difference is negative, the amount is immediately recognised as revenues in the income statement.

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

Translation of foreign operations

Figures for operations that do not have the Swedish 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 in translation - translation differences - are recognised through comprehensive income in equity. Foreign operations are sold at their accumulated translation differences, less any currency hedging in the consolidated income statement. Transactions in foreign currency are translated to the functional currency at the exchange rate applying on the transaction date or the date on which the items at remeasured. Foreign exchange gains and losses that arise in connection with payment of such transactions are recognised in operating profit to the extent that they refer to operating transactions and otherwise in net financial items.

Revenues

NetEnt's revenues essentially consist of royalties, which are calculated and invoiced as a percentage of the game win (player bets less player wins) that is generated in NetEnt's games with the customers, and include the fair value of that which has been received or will be received for services sold in the Group's operating activities. Revenue is recognised excluding VAT and discounts, and after elimination of intra-group sales. All invoicing takes place monthly in arrears.

Services in the form of technical operation and monitoring

are included in the royalties described above. In connection with the signing of new customer agreements, the Group also receives setup fees that are aimed at covering the integration and setup costs that arise for NetEnt when new customers are launched. Setup fees are recognised continuously as the agreements are signed.

The Group recognizes revenue when its amount can be reliably measured and it is probable that future financial benefits will accrue to the Company. The amount of revenue cannot be reliably measured until all sales commitments are fulfilled or have expired. This takes place when the operators have access to the gaming platform and the gaming transactions can thus be carried out and the performance obligation has been met. If any circumstances arise that might change the original assessment of the amount of revenue, the estimates are reviewed. Such reviews can result in increases or decreases of estimated income or expense and affect income during the period in which the circumstances that caused the change became known to Company management.

Other revenues

Revenue from activities not included in the ordinary operations is recognised as other revenues. This item mainly includes recovered amortized receivables, exchange gains from operations and profit from the sale of non-current assets.

Financial income/expense

Interest income and interest expense are reported as distributed over their maturity 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 fixed-interest period equal to the carrying amount of the receivable or liability.

Other external expenses

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

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting submitted to the chief executive decision maker. The chief executive decision maker is the function responsible for allocation of resources and performance assessment of the operating segments. In the Group, this function has been identified as the Group management, which makes strategic decisions. The Company's only product (and thus segment) is casino game systems.

Pooled jackpots

NetEnt offers its customers (the operators) the opportunity to

take part in pooled jackpots. The jackpots are generated by the players and it is the players of the participating operators that can win the jackpot. When a player plays the jackpot game, part of the bet goes to the global jackpot. The participating operator is invoiced monthly for accumulation of the jackpot. The funds for pooled jackpots are recognised in the balance sheet as current receivables, divided between "Other current receivables" and "Funds held on behalf of licensees". Funds held on behalf of licensees consist of accumulated jackpots that have been invoiced and received from the operators. Accumulated jackpots, where the amount has not yet been received from the operators, are recognised in "Other current receivables". A corresponding amount is recognised in liabilities in the balance sheet as other current liabilities. In the cash flow statement, the accumulation of jackpot funds and outgoing payment of winnings are included in changes in working capital. The funds relating to pooled jackpots are managed by a type of bank account excluded from the Company's cash and cash equivalents. The total jackpot liability is reported monthly together with the balance in the bank account to the Maltese gaming authority, MGA. In connection with jackpot wins, the win is verified according to internal processes and is then paid out to the winning operator.

Cash flow statement

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

Intangible assets

Development expenditure is capitalised to the extent that it is expected to generate future financial benefits. Only expenditure arising in the development phase of online gaming products, gaming systems and gaming platforms is capitalised and recognised as an asset from the date on which the decision is made to complete the project, and when circumstances permit 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.

In the balance sheet, recognised development expenditure is entered at acquisition cost, less deductions for accumulated amortisation and impairment losses. Regular assessments are made of the projects' revenue-generating capacity in order to identify any need for impairment. Intangible assets also include acquired gaming agreements, software licenses, concessions and trademarks. These intangible assets are recognised in the balance sheet at acquisition cost, less accumulated amortisation and impairment losses.

All of the Company's intangible assets have a known useful life.

Property, plant and equipment

Property, plant and equipment are recognised as assets in the balance sheet when it is probable that future financial benefits will accrue to the Company and the cost of the asset can be reliably measured. Property, plant and equipment are recognised at acquisition cost less accumulated depreciation and any impairment losses. Repairs and maintenance are recognised as expenses in the period incurred.

Depreciation/amortisation and impairment

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

- Trademarks, domain names, licenses, 2-5 years.
- Gaming agreements and concessions, 3-5 years.
- Capitalised 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, 3-4 years.
- PCs (workstations for developers, etc.), 1-3 years.
- Office equipment, 1-7 years.

The residual value and useful life of an asset are reviewed annually. If there is any indication that the carrying amounts of property, plant and equipment, intangible fixed assets or financial assets in the Group are excessive, an analysis is performed in which the recoverable amount of the smallest cash-generating unit 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 amount. When a previously recognised impairment loss is no longer warranted, it is reversed. A reversal may not be higher than an amount that does not exceed the carrying amount that would have been recognised (net of amortisation or depreciation) had no impairment loss been recognised. Intangible assets not yet completed are impairment tested annually at minimum.

Other financial assets

Financial assets can be classified into the following categories:

- a. financial assets measured at fair value through profit or loss,
- b. loans and accounts receivable and
- c. available-for-sale financial assets. The classification is dependent upon the purpose for which the financial asset was acquired. The classification of the financial assets is determined in initial accounting.

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

Loans and accounts receivable

Loans and accounts receivable are financial assets that are not derivatives with determined or determinable payments, and are not listed on an active market. They are included in current assets with the exception of items falling due more than 12 months following the closing date, which are classified as non-current assets. In this category, accounts receivable as well as cash and cash equivalents and certain other receivables are recognised in the balance sheet (see Notes 15, 17 and 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. A provision for impairment of accounts receivable is made when there is objective evidence of the inability of the Group to obtain all the amounts due under the original terms of the receivable. The size of a provision is determined by the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted by the original effective interest rate, and the adjustment is recognised in the income statement in selling expenses. When accounts receivable cannot be collected, they are completely written off from accounts receivable.

Cash and cash equivalents

Cash and cash equivalents include cash, bank balances and other current investments maturing within three months of the acquisition date.

Equity

Equity consists of registered share capital, other contributed capital, translation 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 recognised, net after tax, in equity as a deduction from the issue proceeds. Other than the shares' quotient value, other capital contributed refers to amounts received from new share issues, shareholder contributions, amounts received from issuing options, and group contributions. Translation reserve refers to translation differences attributable to the translation of foreign subsidiary operations into NetEnt's presentation currency.

Accounts payable

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

Other financial liabilities

Financial liabilities not held for trading are initially measured at fair value and subsequently at amortized cost. Amortized cost is determined based on the effective interest calculated when the liability was recognised. Surplus and deficit values and transaction expenses are hence distributed over the term of the liability.

Taxes

Tax in the income statement consists 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 measured at their nominal amounts and according to the tax regulations and tax rates decided or announced and which are highly likely to be adopted. For items recognised in the income statement, related tax effects are thus also recognised in the income statement. Tax effects of items recognised through comprehensive income in equity or directly in equity, are recognised in other comprehensive income or equity.

Deferred tax is calculated using the balance sheet method based on temporary differences arising between the carrying amounts and values for tax purposes of assets and liabilities, applying the tax rates and regulations decided 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 in consolidated goodwill or in differences attributable to participations in subsidiaries and associates that are not expected to be taxed within the foreseeable future. In legal entities, untaxed reserves including deferred tax liabilities are recognised. Deferred taxes receivable relating to deductible temporary differences and loss carry-forwards are only recognised to the extent that it is probable they will be utilized and result in lower future tax payments.

Leases

Leases are classified in the consolidated financial statements either as finance or operating leases. Leases of non-current assets for which the Group is essentially exposed to the same risks and rewards as in direct ownership are classified as finance leases. The leased asset is recognised in non-current assets and the corresponding rent liability falls under interest-bearing liabilities. Leases of assets for which the lessor essentially remains the owner are classified as operating leases and the leasing charge is expensed on a straight-line basis over the term of the lease. The scope of operating leases and rental agreements is provided in Note 23.

Dividends or distributions to shareholders

Dividends are recognised as a liability after they are approved by the Annual General Meeting.

Employee benefits**Pension expenses and pension commitments**

The Group has various pension plans in different countries. The pension plans are 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 expensed in the period in which the employees performed the services to which the charge relates.

Benefits after termination of employment

The Group has no obligations to employees after they have retired or their employment with the Company has come to an end.

Severance benefits

Severance remuneration is payable when an employee's position is terminated by NetEnt before the normal date of retirement, or when an employee voluntarily departs in exchange for such remuneration. The Group recognizes 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 ensuing from an offer made to encourage voluntary departure.

Bonus plans

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

Incentive schemes

The Group can offer employees the opportunity to participate in share-based incentive schemes in the form of stock options or stock saving schemes that are issued on market terms to motivate long-term commitment and promote a greater alignment of interests with the Company's shareholders. In order to strengthen loyalty to the Company, share-based incentive schemes in the form of stock options issued on market terms can be combined with cash remuneration, which is payable in connection with the redemption period during which the stock options can be exercised. Such payment can be made to employees who are still employed at the time of redemption and shall, net of tax, not exceed 70 percent of the premium paid for the stock option. The loyalty remuneration for these incentive schemes is recognised continuously over the term of the scheme.

Provisions

A provision is recognised in the balance sheet when the Group has an existing legal or informal obligation owing to a past event, and an outflow of financial resources will probably be required to settle the obligation and the amount can be reliably estimated. In a situation where the effect of the point in time at which the payment takes place is important, provisions are calculated by discounting expected future cash flows at an interest rate before tax that reflects current market assessments of the time value of the money and, if applicable, the risks associated with the liability. A restructuring provision is recognised when the Group has defined a detailed, formal restructuring

plan and the restructuring has either commenced or has been officially announced. No provision is made for future operating expenses.

Contingent liabilities

A contingent liability is recognised 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 recognised as a liability or a provision due to the improbability of an outflow of resources being required to settle it.

Parent Company accounting policies

The Parent Company complies with the same accounting principles as the Group, with the exceptions stated below.

Participations in subsidiaries are recognised at acquisition cost less any impairment losses. Acquisition-related expenses for the subsidiaries, which are expensed in the consolidated financial statements, are included as part of the acquisition cost of participations in subsidiaries.

Shareholder contributions are recognised directly in the equity of the recipient and capitalised in the contributor's shares and participations. These assets are subsequently subject to impairment testing. Group contributions received for the purpose of minimizing the total tax of the Group are recognised as an appropriation.

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

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

The amendments to RFR 2 have not had any considerable effect on the Parent Company's financial statements. The upcoming changes and updates in RFR 2 are also not expected to have any material effect on the Parent Company's financial statements.

Key estimates and assumptions

The Group makes estimates and assumptions about the future. The resulting estimates used for accounting purposes will, by definition, rarely match the actual outcome. The estimates and assumptions that entail a considerable risk of substantial adjustments in the carrying amounts of assets and liabilities in the next financial year are outlined below. They are regularly evaluated and are based on past experience and other factors, including expectations of future events that are deemed reasonable in the prevailing circumstances.

Taxes

The Group's tax expense is primarily affected by the distribution of profit between Sweden and the countries in which the Group operates and the tax regulations of each country. Comprehensive assessments are required to establish the income

tax provision. There are many transactions and calculations for which the final tax is uncertain at the time when the transactions and calculations are conducted. The Company has, alongside legal experts, assessed how tax regulations affect the operations in order to ensure an accurate tax status. This also applies to indirect taxes. The Company recognizes and pays to the tax authorities the tax amounts that the Company deems accurate. However, these amounts may prove insufficient if tax authorities apply a more restrictive interpretation of tax regulations than the assessment made by the Company and which the latter considers to be accurate.

Impairment testing

Each year, Group assets are impairment tested according to IAS 36. The Group has invested considerable amounts in the development of gaming platforms and their carrying amounts are compared with expected future discounted cash flows calculated on present values. The Group has identified one cash-generating unit, Casino Module™, with a carrying amount of SEK 311.6 million (244.7). The impairment test is based on detailed assumptions for the next three years. Several estimates and judgments are made when the asset's value in use is calculated, including revenue growth for the identified cash-generating unit and development of the cost base with consideration to the Group's expected growth. Other significant assumptions relate to the discount rate that is used. The Group has chosen a 10-year government bond rate plus a risk premium on the date of valuation. In the year's impairment test, the calculation rate after tax was 5.7 percent (5.8 percent) for the cash-generating unit for discounting estimated cash flows after tax. Even when a much higher discount rate is used, the impairment test does not show any need for impairment.

In the balance sheet, recognised development expenditure is entered at acquisition cost, less deductions for accumulated amortisation and impairment losses. Regular valuations are performed of the projects' revenue-generating capacity to identify any impairment requirements (see Note 12).

Note 3 Revenues

	Group		Parent Company	
	2017	2016	2017	2016
Royalties	1,619,455	1,452,158	-	-
Consulting revenues	-	-	804,581	737,162
Total	1,619,455	1,452,158	804,581	737,162

Note 4 Segment reporting

The chief executive decision maker is the function responsible for allocation of resources and performance assessment of the operating segment. In the Group, this function has been identified as the Group management.

Segments are defined by their ability to generate income and incur expenses. Defined segments in the Group are used for follow-up purposes to make strategic decisions. In its reporting to the chief decision maker, the Group has identified one segment for follow-up.

The identified segment is casino game systems.

Group management assesses the operations based on the operating segment. With respect to geographic breakdown of operations, NetEnt's customers (gaming operators) offer games to their customers (players) in many different countries. The domicile of NetEnt's direct customers (the 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, whereby the owner of a gaming site can be domiciled anywhere in the world and still serve many local markets around the world.

The operations of the NetEnt Group are geographically diversified based on legal requirements, regulations and strategic decisions.

The geographical information provided below regarding revenues and assets has been broken down based on the countries in which the Group's customers are domiciled, and where the Group's assets are found.

Geographic breakdown

	2017	2016
Revenues		
Sweden	-	-
Malta	47.6%	56.6%
Other countries	52.4%	43.4%
Non-current assets		
Sweden	16.2%	15.4%
Malta	77.1%	75.9%
Alderney	0.2%	1.0%
Gibraltar	5.8%	6.5%
Ukraine	0.3%	0.1%
USA	0.5%	1.1%

The share of revenue of the three largest customers is shown below.

Customers (share of revenue)

	2017	2016
Customer I	7%	8%
Customer II	6%	7%
Customer III	4%	4%

Note 5 Other revenue

	Group		Parent Company	
	2017	2016	2017	2016
Exchange rate gains, operations	4,871	2,807	1,869	230
Other	656	136	609	130
Total	5,527	2,943	2,478	360

Note 6 Employee benefits

Average number of employees

	2017		2016	
	Average number of employees	Of whom male	Average number of employees	Of whom male
Sweden	415	75%	380	69%
Malta	265	46%	202	42%
Ukraine	4	35%	4	43%
Gibraltar	19	47%	13	49%
USA	3	100%	3	100%
Poland	39	49%	16	62%
Group total	745	62%	618	60%

Board fees

	2017	2016
Current Board of Directors		
Vigo Carlund, Chairman	677	623
Fredrik Erbing	397	357
Mikael Gottschlich	92	268
Peter Hamberg	292	268
Pontus Lindwall	292	268
Michael Knutsson	292	268
Maria Redin	318	282
Jenny Rosberg	318	282
Maria Hedengren	200	-
Total	2,877	2,617

Note 6 Employee benefits (cont.)

Salaries and social security expenses

	2017		2016	
	Salaries	Social security expenses (of which pension expenses)	Salaries	Social security expenses (of which pension expenses)
Board and CEO	8,456	3,880 (1,323)	8,143	3,625 (574)
Other employees, Sweden	249,832	123,782 (36,052)	222,913	106,001 (30,432)
Total Parent Company	258,288	127,662 (37,375)	231,056	109,626 (31,006)
Other employees, Malta	83,118	6,253 (1,260)	67,758	4,497 (770)
Other employees, Ukraine	2,182	154 (12)	2,292	163 (18)
Other employees, Gibraltar	12,855	1,015 (641)	9,409	639 (390)
Other employees, USA	3,727	599 (304)	5,851	693 (398)
Other employees in Poland	11,713	2,203 (190)	4,422	870 (70)
Total Group	371,883	137,886 (39,782)	320,788	116,488 (32,652)

Presented salaries and social security expenses include both amounts expensed and capitalisation of development expenditure.

Female representation at Board and Group Management level, year-end

	2017			2016		
	No. male	No. female	Share female	No. male	No. female	Share female
Board of Directors	5	3	38%	6	2	25%
Other senior executives	5	4	44%	5	4	44%
Total Group Board of Directors and Executive Management	10	7	41%	11	6	35%

Board remuneration

The Annual General Meeting determines remuneration for Board members. At the Annual General Meeting on April 21, 2017, it was resolved for the period until the 2018 Annual General Meeting, that Board fees would be paid to a total amount of SEK 2,970 thousand, of which SEK 700 thousand to the Board Chairman and SEK 300 thousand each to the other members of the Board, with an addition of SEK 110 thousand for the chair of the Audit Committee and SEK 30 thousand to the other members of the Audit Committee.

Senior executive remuneration

In 2017, total remuneration to the CEO amounted to SEK 6,677 (7,102) thousand, of which SEK 265 (1,613) thousand was variable remuneration, pension benefits of SEK 1,216 (936) thousand, and loyalty bonus costs of SEK 1,052 (640) thousand. Of the pension benefits, SEK 772 (473) thousand refers to payments into a company-owned endowment insurance for pension commitments to the current and former CEO, see Note 28 for additional information. Other benefits pertaining to health insurance totalled SEK 13 (18) thousand.

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

Remuneration for other senior executives in Group management in 2017 totalled SEK 16,909 (20,811) thousand, of which SEK 703 (3,651) thousand was variable remuneration, pension benefits totaling SEK 1,825 (1,493), and loyalty bonus cost of SEK 1,193 (757) thousand. Senior executives in Group management consisted of 9 (9) different individuals in 2017.

The notice period for other senior executives varies between 3 and 6 months and is mutual. Other benefits pertaining to health insurance totalled SEK 207 (112) thousand.

Loyalty remuneration

Employees are offered the opportunity to take part in ongoing share-based incentive schemes in the form of stock options or stock saving schemes that are issued on market terms to motivate long-term commitment and promote a greater alignment of interests with the Company's shareholders. In order to strengthen loyalty to the Company, share-based incentive schemes in the form of stock options issued on market terms can be combined with cash remuneration, which is payable in connection with the redemption period during which stock options can be exercised, to employees who are still employed at the time of redemption. Such remuneration may not exceed 70 percent, net after tax, of the premium paid for the stock option. The Company's cost of loyalty remuneration is recognised on an ongoing basis over the vesting period. In 2017 a total cost of SEK 6,176 (3,191) thousand was recognised for loyalty remuneration.

Note 7 Profit from participations in Group companies

	Parent Company	
	2017	2016
Anticipated distribution from subsidiaries	443,237	487,052
Total	443,237	487,052

Note 8 Financial income

	Group		Parent Company	
	2017	2016	2017	2016
Interest income	12	29	-	1
Exchange rate differences	18,870	35,710	8,785	20,295
Total	18,882	35,739	8,785	20,296

Note 9 Financial expense

	Group		Parent Company	
	2017	2016	2017	2016
Interest expense	1,292	1,072	987	932
Exchange rate differences	19,283	25,089	5,767	10,048
Total	20,575	26,161	6,753	10,980

Note 10 Income tax

	Group		Parent Company	
	2017	2016	2017	2016
Current tax				
Sweden	11,588	13,711	11,588	13,711
Outside Sweden	30,148	25,312	-	-
Total current tax	41,736	39,023	11,588	13,711
Deferred tax				
Sweden	-2,422	-727	-2,422	260
Outside Sweden	-6,346	2,819	-	-
Total deferred tax	-8,768	2,092	-2,422	260
Total tax expense	32,969	41,115	9,166	13,971

Note 10 Income tax (cont.)

	Group		Parent Company	
	2017	2016	2017	2016
Difference between real tax expense and tax expense based on applicable tax rate				
Recognised profit before tax	585,404	545,527	488,851	547,363
Tax according to applicable tax rate 22.0% (22.0%)	128,789	120,016	107,547	120,420
Difference in tax rate in foreign operations	-97,123	-79,568	-	-
Effects of changed tax rate	-	-	-	-
Non-taxable income	-	-	-97,512	-107,151
Tax attributable to prior years	-351	82	-999	-
Tax effect from non-deductible items	1,654	585	130	703
Recognised tax expense	32,969	41,115	9,166	13,971
Specification of deferred tax expense				
Tax on appropriations	-1,283	-727	-1,283	260
Tax on temporary differences	-7,485	2,819	-1,139	-
Recognised deferred tax expense	-8,768	2,092	-2,422	260
Specification of deferred tax liability and tax receivable				
Tax on appropriations	-1,023	5,356	-1,023	260
Tax on temporary differences	12,364	8,913	-1,139	-
Recognised deferred tax liability and tax receivable	11,341	14,269	-2,163	260

As at December 31, 2017, there were no recognised or unrecognised tax deficits.

Note 11 Earnings per share

	Group	
	2017	2016
Profit after tax attributable to Parent Company shareholders (SEK thousand)	552,436	504,412
Average number of shares (thousand)	240,131	240,131
Average number of shares (thousand), diluted	240,131	241,073
Earnings per share (SEK)	2.30	2.10
Earnings per share (SEK), diluted	2.30	2.10

Stock option program 2015–2018

The Annual General Meeting on April 29, 2015 resolved to introduce a new long-term incentive program for senior executives and key individuals at the NetEnt Group. The total number of outstanding stock options is 928,050, with the right to subscribe for an equal number of shares in NetEnt AB. The stock options were issued at the market price of SEK 4.66 per option according to a valuation based on Black–Scholes. The strike price for the shares is SEK 71.07 and subscription for shares take place during the period from August 1 to October 1, 2018.

Stock option program 2016–2019

The Annual General Meeting on April 21, 2016, resolved to introduce a new long-term incentive program for all employees in the NetEnt Group. The total number of outstanding stock options is 1,422,180, with the right to subscribe for an equal number of new shares in NetEnt AB. The stock options were issued at the market price of SEK 6.58 per option according to a valuation based on Black–Scholes. The strike price for the options was set at SEK 109.70 and subscription for shares can take place during the period from August 1 to October 1, 2019.

The potential new shares that the share options correspond to are considered when calculating the number of shares and diluted earnings per share in accordance with IAS 33 Earnings per share.

Stock option program 2017–2020

The Annual General Meeting on April 21, 2017, resolved to introduce a new long-term incentive program for all employees in the NetEnt Group. The total number of outstanding stock options is 722,000, with the right to subscribe for an equal number of new shares in NetEnt AB. The stock options were issued at the market price of SEK 5.05 per option (option premium) according to a valuation based on Black–Scholes. The strike price for the options was set at SEK 92.40 and subscription for shares can take place during the period from August 1 to October 1, 2020. If these share options are fully subscribed, SEK 66.7 million will be contributed to Parent Company equity.

The number of shares outstanding after dilution at year-end 2017 was thus 240,130,860. The average share price, SEK 70.22 during the year, is below the strike price of all three stock option schemes.

Valuation according to Black–Scholes

Stock option program 2015–2018

Option price (SEK)	4.66
Assumptions for valuation	
Average share price	54.67
Strike price (130%)	71.07
Expected volatility*	28.5%
Term:	3 years
Expected dividends (SEK)	
2016-04-30	1.00
2017-04-30	1.26
2018-04-30	1.47
Risk-free rate	0.01%
Discount applied	15%
Option value before discount	5.48

Stock option program 2016–2019

Option price (SEK)	6.58
Assumptions for valuation	
Average share price	84.38
Strike price (130%)	109.70
Expected volatility*	30.0%
Term:	3 years
Expected dividends (SEK)	
2017-04-30	1.62
2018-04-30	1.92
2019-04-30	2.26
Risk-free rate	-0.38%
Discount applied	15%
Option value before discount	7.74

Stock option program 2017–2020

Option price (SEK)	5.05
Assumptions for valuation	
Average share price	71.11
Strike price (130%, rounded)	92.40
Expected volatility*	30.0%
Term:	3 years
Expected dividends (SEK)	
2018-04-30	2.15
2019-04-30	2.44
2020-04-30	2.87
Risk-free rate	-0.44%
Discount applied	15%
Option value before discount	5.94

* Based on historically realised volatility for the share.

Note 12 Intangible assets

Group	Gaming products, gaming systems and gaming platforms	Gaming contracts and concessions	Licenses and ERP systems	Total
2016				
Opening acquisition cost	578,279	1,615	25,818	605,712
Capitalised development expenditure for the year	146,652	-	7,625	154,277
Sales for the year	-	-	-	0
Translation difference	27,739	-	31	27,770
Closing accumulated cost	752,670	1,615	33,474	787,759
Opening amortisation	413,873	1,615	6,930	422,418
Amortisation for the year	84,620	-	8,371	92,991
Sales for the year	-	-	-	0
Translation difference	18,843	-	12	18,855
Closing accumulated amortisation and impairment	517,336	1,615	15,313	534,264
Closing residual value according to plan, December 31, 2016	235,335	0	18,160	253,495
2017				
Opening acquisition cost	752,670	1,615	33,474	787,759
Capitalised development expenditure for the year	153,643	-	2,720	156,363
Sales for the year	-	-	-	0
Translation difference	23,554	-	23	23,577
Closing accumulated cost	929,867	1,615	36,217	967,699
Opening amortisation	517,336	1,615	15,313	534,264
Amortisation for the year	95,128	-	1,996	97,124
Sales for the year	-	-	-	0
Translation difference	18,062	-	42	18,103
Closing accumulated amortisation and impairment	630,525	1,615	17,351	649,491
Closing residual value according to plan, 12/31/2017	299,342	0	18,866	318,208
Parent Company				
2016				
Opening acquisition cost	24,433	1,615	24,585	50,633
Investments for the year	-	-	4,524	4,524
Closing accumulated cost	24,433	1,615	29,109	55,157
Opening amortisation	24,433	1,615	16,074	42,122
Amortisation for the year	-	-	7,244	7,244
Closing accumulated amortisation	24,433	1,615	23,318	49,366
Closing residual value according to plan, December 31, 2016	0	0	5,791	5,791
2017				
Opening acquisition cost	24,433	1,615	29,109	55,157
Investments for the year	-	-	1,542	1,542
Closing accumulated cost	24,433	1,615	30,651	56,699
Opening amortisation	24,433	1,615	23,318	49,366
Amortisation for the year	-	-	3,306	3,306
Closing accumulated amortisation	24,433	1,615	26,624	52,672
Closing residual value according to plan, 12/31/2017	0	0	4,027	4,027

Note 13 Tangible assets

	Group		Parent Company			Group		Parent Company	
	2017	2016	2017	2016		2017	2016	2017	2016
Plant and equipment					Leasehold improvements				
Opening acquisition cost	273,527	217,750	103,401	87,067	Opening acquisition cost	48,566	17,842	42,859	17,475
Acquisitions for the year	42,144	49,177	17,968	16,438	Acquisitions for the year	45,095	30,685	27,610	25,384
Translation differences	3,557	6,740	-	-	Translation differences	407	39	-	-
Closing accumulated acquisition cost	318,969	273,527	121,369	103,401	Closing accumulated cost	94,068	48,566	70,469	42,859
Opening depreciation	182,459	138,236	76,453	61,636	Opening depreciation	19,088	13,694	17,979	13,609
Depreciation for the year	48,360	40,518	19,101	14,921	Depreciation for the year	8,813	5,384	6,343	4,370
Translation differences	3,172	3,845	-	-	Translation differences	59	10	-	-
Sales and disposals	0	-140	0	-104	Closing accumulated depreciation	27,960	19,088	24,322	17,979
Closing accumulated depreciation	233,991	182,459	95,554	76,453	Closing residual value according to plan	66,108	29,478	46,147	24,880
Closing residual value according to plan	85,237	91,068	25,815	26,948					

Note 14 Participations in Group companies, Group and Parent Company

Parent Company	Corp. id no.	Domiciliation	Ownership holding %	No. of shares or participations	Book value 2017	Book value 2016
NetEnt Technology AB	556185-1758	Stockholm	100%	1,000	89	89
- NetEnt Malta Holding Ltd.		Malta	0.0025%	1		
- NetEnt Malta Ltd.		Malta	0.0025%	1		
- NetEnt Product Services Ltd.		Malta	0.0333%	1		
- NetEnt International Ltd		Malta	0.0833%	1		
- NetEnt Gaming Solutions PLC		Malta	0.0017%	1		
NetEnt Malta Holding Ltd.	C 37769	Malta	99.998%	39,999	423	423
- NetEnt Malta Ltd.		Malta	99.998%	39,999		
- NetEnt Product Services Ltd.		Malta	99.967%	2,999		
- NetEnt Poland sp.zo.o		Poland				
- NetEnt International Ltd		Malta	99.917%	1,199		
- NetEnt Gaming Solutions PLC		Malta	99.998%	59,999		
- NetEnt Software Ltd		Malta	100%	2,000		
- NetEnt (Gibraltar) Ltd		Gibraltar	100%	2,000		
NetEnt Alderney Ltd		Alderney	100%	1,000	9	9
Net Entertainment Ukraine LLC	380 906 40	Ukraine	100%	-	3,460	3,460
NetEnt Americas Holding Inc.	562 75 84	USA	100%	5,000	630	630
- NetEnt Americas LLC						
Total					4,611	4,611
		Parent Company				
		2017	2016			

Changes in participations in Group companies

Opening acquisition cost	4,611	2,308
Increased share capital in Net Entertainment Ukraine LLC	-	2,303
Closing book value	4,611	4,611

Note 15 Accounts receivable

The carrying amounts for accounts receivable coincide with the fair values and are matched by nominal amounts. No receivables have been pledged as collateral for liabilities or contingent liabilities. At December 31, 2017, total accounts receivable were SEK 57,145 (44,595) thousand. Of these, SEK 39,700 (28,238) thousand were past due. During the year, provisions for doubtful debts were made for a total of SEK 1,359 (289) thousand. This

applies to a number of independent customers that have not previously had payment difficulties. Confirmed bad debt losses during the period and an age analysis of consolidated accounts receivable are presented below. The age analysis contains total accounts receivable and doubtful debts for which provisions have been made. Provisions for doubtful debts are based on an individual assessment. Credit risks are described in more detail in Note 26.

Maturity analysis of non-impaired accounts receivable

Group	12/31/2017	Provisions for doubtful debts	Past due but not provisioned	12/31/2016	Provisions for doubtful debts	Past due but not provisioned
SEK thousands						
Receivables not past due	17,682	-237	-	16,357		-
1-30 days	31,300	-102	31,198	24,323	-289	24,034
31-90 days	7,238	-328	6,910	2,813		2,813
91-180 days	693	-693	0	-86		-86
Over 181 days	233	-	233	1,188		1,188
Total	57,145	-1,359	38,342	44,595	-289	27,949

Parent Company	12/31/2017	Provisions for doubtful debts	Past due but not provisioned	12/31/2016	Provisions for doubtful debts	Past due but not provisioned
SEK thousands						
Receivables not past due	-	-	-	-	-	-
1-30 days	-	-	-	-	-	-
31-90 days	-	-	-	3	-	3
91-180 days	-	-	-	-	-	-
Over 181 days	-	-	-	-	-	-
Total	-	-	-	3	-	3

Provision for doubtful debts

SEK thousands	Group		Parent Company	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Per 1 January	289	2,327	-	-
Provision for doubtful debts during the year	7,104	289	-	-
Confirmed bad debt losses during the year	-6,034	-2,327	-	-
Closing provision	1,359	289	-	-

Note 16 Prepaid expenses and accrued income

	Group		Parent Company	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Accrued royalty revenues	141,861	138,897	-	-
Prepaid IT services	3,071	3,385	1,140	1,490
Prepaid rent	24,810	15,117	14,438	10,751
Prepaid license expenses	27,563	46,896	26,005	35,985
Other prepaid expenses	13,117	8,952	3,864	3,101
Total	210,422	213,247	45,447	51,327

Note 17 Other receivables

	Group		Parent Company	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
VAT	15,562	28,079	13,344	26,667
Receivables from operators	57,713	57,515	-	-
Other	1,568	3,785	1,399	1,288
Total	74,843	89,379	14,743	27,955

The item "receivables from operators" refers to the accumulated jackpot receivable that has not yet been invoiced to the operator, see also description about the accounting treatment of jackpots under Note 2, Accounting policies.

Not 17 Other receivables (cont.)

Other non-current receivables

	Group		Parent Company	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Deposit Spain	9,850	9,567	-	-
Total	9,850	9,567	0	0

The item refers to a deposit of EUR 1 million that has been paid as part of the Spanish licensing procedure.

Note 18 Cash and cash equivalents

	Group		Parent Company	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Cash and bank balances	387,035	494,497	111,944	345,728
Total	387,035	494,497	111,944	345,728

Credit available to the Group amounted to SEK 50,000 (50,000) thousand, of which zero (zero) was utilized at December 31, 2017. 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 utilization of overdraft facilities potentially occurring in the Parent Company, despite the liquidity of the Group as a whole being generally sound.

Note 19 Equity

	12/31/2017		12/31/2016	
	No. shares	Share capital	No. shares	Share capital
Share capital composition				
Shares, series A (10 votes per share)	33,660,000	169	33,660,000	169
Shares, series B (1 vote per share)	206,470,860	1,036	206,470,860	1,036
Total number of shares	240,130,860	1,205	240,130,860	1,205

Quotient value per share 0.502 öre.

Group

Other capital contributed

This pertains to shareholders' equity contributed by previous owners through shareholder contributions and Group contributions, and premiums for issued share options.

Reserves

Translation reserve

The translation reserve comprises all exchange rate differences arising 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, accumulated translation differences were SEK 24,550 (6,897) thousand.

Note 19 Equity (cont.)

Specification reserves	Translation difference
Opening balance 1/1/2016	-8,448
Translation difference for the year	15,345
Closing balance, December 31, 2016	6,897
Opening balance 1/1/2017	6,897
Translation difference for the year	17,654
Closing balance, 12/31/2017	24,551

Retained earnings incl. profit for the year

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

Proposed/conducted distribution to shareholders

The Board of Directors proposes to the AGM that no dividend be paid for the 2017 financial year.

The Board proposes that the AGM resolves to distribute SEK 540.3 million (540.3) to shareholders, equaling SEK 2.25 (2.25) per share, through a share redemption program.

Note 20 Untaxed reserves

	Parent Company	
	12/31/2017	12/31/2016
Untaxed reserves		
Depreciation/amortisation in excess of plan	-	-5,594
Accrual fund, fiscal 13	9,547	9,547
Accrual fund, fiscal 14	7,658	7,658
Accrual fund, fiscal 15	11,816	11,816
Total	29,021	23,427

Note 21 Other liabilities

	Group		Parent Company	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Other current liabilities				
Accumulated jackpot*	140,244	157,665	-	-
Personnel tax	5,567	7,282	7,532	6,598
Total	145,811	164,947	7,532	6,598

* The accumulated jackpot consists of several jackpots where the operators' players contribute to the accumulation of a jackpot. The current liability consists of the total accumulated jackpot balance that can be won and thereby paid out to the winning operator. The accounting treatment of jackpots is described in more detail in Note 2, Accounting policies.

Not 22 Accrued expenses and deferred income

	Group		Parent Company	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Accrued				
employee benefits	28,481	29,731	23,688	21,721
Vacation pay liability	28,470	22,817	25,577	21,091
Social security expenses	15,155	12,975	15,113	12,991
Employer's contribution	15,820	12,833	15,820	12,833
Other	23,718	13,802	11,031	4,545
Total	111,644	92,158	91,230	73,180

Note 23 Leases

Rents for premises and other rented equipment, and that are included in the concept of operating leases, amounted to:

	Group		Parent Company	
	2017	2016	2017	2016
Expensed lease payments and rental charges	64,112	28,049	52,401	20,078
Total	64,112	28,049	52,401	20,078

Future minimum lease charges for non-terminable operating leases and rental agreements are expected to be as follows:

	Group		Parent Company	
	2017	2016	2017	2016
Within one year	68,022	65,122	55,769	54,178
Two–five years	253,451	249,567	215,025	205,706
After five years	55,567	101,377	51,182	93,793
Total	377,040	416,066	321,976	353,677

Note 24 Auditor remuneration

Deloitte AB was elected auditor to the Company by the 2017 Annual General Meeting. Deloitte conducts the audit for NetEnt AB and its subsidiaries. In addition to the auditing assignment, NetEnt has also used Deloitte AB for consultation on taxation, VAT, accounting matters and analyses.

	Group		Parent Company	
	2017	2016	2017	2016
Deloitte				
Audit assignment	1,044	976	666	466
Audit services besides the audit assignment	244	193	130	75
Tax advisory	346	551	174	378
Other services	-	220	-	220
Total	1,634	1,940	970	1,139

Not 25 Related-party transactions

Relations Group

The Company's largest shareholder, Per Hamberg, controls around 20 percent of the votes in NetEnt, and thus has a controlling influence in the Company. Information about Board members and Company management of NetEnt is provided on pages 64–67.

Parent Company

The subsidiaries over which the Parent Company exercises controlling influence are described in Note 14 Participations in Group companies.

Transactions and outstanding balances

Group

Remuneration for the Board and Group management is described in Note 6.

	Parent Company	
	2017	2016
Purchase of services from related parties		
Purchases from subsidiaries	23,051	21,200
– % of total operating expenses	3.04%	3.07%
Sale of services to related parties		
Sale to subsidiaries	804,581	737,162
– % of total income	99.69%	99.95%
Liability to related parties		
Liability to subsidiaries	3,499	9,006
Receivables from related parties		
Receivables from subsidiaries	529,077	388,228

Note 26 Financial risks

The Group's financial activities are conducted on the basis of a low-risk finance policy as established by the Board of Directors. Financial activities and the management of financial risks are coordinated through the Parent Company NetEnt AB, which is also responsible for the investment of excess liquidity. According to the finance policy, cash and cash equivalents can be invested to maturities up to six months with no more than 25 percent of the excess liquidity tied up for longer 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.

Foreign exchange risk

Consolidated profit is exposed to fluctuations in exchange rates since most sales are in euro, while expenses are in Swedish kronor (transaction exposure). Earnings are also affected by exchange rate fluctuations when foreign subsidiaries' earnings are translated into Swedish kronor (translation exposure). Moreover, exchange rate fluctuations affect Group equity when assets and liabilities in foreign subsidiaries are translated into Swedish kronor (translation exposure). At present, equity in foreign subsidiaries is not hedged.

If the SEK had depreciated/appreciated by 10 percent in relation to the EUR, with all other variables constant, earnings for the year as at December 31, 2017, would have been SEK 109.0 million (82.8) higher/lower. Of the Group's total expenses, 56 percent (56) are in Swedish kronor. As a rule, NetEnt does not hedge risk exposure in terms of exchange rate fluctuations from future cash flows with financial instruments. By way of exception, identified flows can be hedged. No currency hedging was carried out in 2017 or 2016.

Interest rate risk

At December 31, 2017, zero (zero) of total available credit lines of SEK 50 million had been utilized. The interest rate risk to which the Group's income and cash flows are exposed is low. Changes in interest rates affect the return on cash and cash equivalents obtained by the Group. The risk in such changes is deemed negligible.

Credit risk

The Group does not have any significant concentration of credit risks. The Group has set guidelines for ensuring sales of services to customers with a suitable credit background and is responsible for monitoring and analyzing the credit risk for each new customer before standard terms for payment and delivery are offered. The use of credit limits is regularly analyzed and the management does not anticipate any significant losses due to default of payment from these counterparties. Through short lead times and credit terms, providing a short customer credit term, the credit risk is further reduced. Management is of the opinion that the Group has routines to handle credit risk exposure to each individual customer. Maximum credit

risk exposure is matched by the carrying amount of financial assets. In 2015 the Group paid a deposit to the Spanish gaming authority in accordance with the Spanish licensing procedure. This deposit may constitute a credit risk, since the term of the deposit is not entirely set. Group management considers the risk associated with the deposit to be low.

Financial assets and liabilities recognised at amortized cost

A calculation of fair value based on discounted future cash flows, in which the discount rate that reflects the counterparty's credit risk is the most significant input data, is not considered to give any significant difference from the carrying amount of financial assets and financial liabilities included in level 2. For all financial assets and liabilities, the carrying amount is therefore considered to be a good approximation of fair value. See table of financial instruments by category below.

Liquidity risk

Liquidity risk is managed by means of the Group holding sufficient cash and cash equivalents to finance the operations. Management also carefully monitors rolling forecasts for the Group's liquidity reserve, which consists of cash and cash equivalents (Note 18) on the basis of expected cash flows. Group financial liabilities essentially consist of accounts payable, for which the contractual due date falls within 12 months.

Accounts payable usually have a 30-day term of credit.

Capital management

At December 31, 2017, the Group had no (0) external liabilities for financing the operations. Capital consists of equity and the Company's dividend policy in the form of the share redemption scheme.

Note 26 Financial risks (cont.)

Group 2017	Loans and receivables	Other financial liabilities	Non-financial instruments	Total book value	Estimated fair value
Accounts receivable	55,786	-	-	55,786	55,786
Other current receivables	59,281	-	15,562	74,843	74,843
Prepaid expenses and accrued income	-	-	210,422	210,422	210,422
Funds held on behalf of licensees	-	-	82,535	82,535	82,535
Cash and cash equivalents	387,035	-	-	387,035	387,035
Total assets	502,102	-	308,519	810,621	810,621
Other liabilities	-	140,244	5,567	145,811	145,811
Accrued expenses and deferred income	-	-	111,644	111,644	111,644
Accounts payable	-	44,421	-	44,421	44,421
Total liabilities	-	184,665	117,211	301,876	301,876
Parent Company, 2017					
Accounts receivable	-	-	-	0	0
Other current receivables	1,399	-	13,344	14,743	14,743
Receivables from Group companies	529,077	-	-	529,077	529,077
Prepaid expenses and accrued income	-	-	45,447	45,447	45,447
Cash and cash equivalents	111,944	-	-	111,944	111,944
Total assets	642,420	-	58,791	701,211	701,211
Liabilities to Group companies	-	3,499	-	3,499	3,499
Other liabilities	-	-	7,532	7,532	7,532
Accrued expenses and deferred income	-	-	91,230	91,230	91,230
Accounts payable	-	33,413	-	33,413	33,413
Total liabilities	-	36,912	98,762	135,674	135,674

Note 27 Events after the end of the financial year

On January 16, 2017, NetEnt announced that operating profit for the fourth quarter would be below analysts' prevailing expectations due to lower-than-expected revenues. In January NetEnt won an award in the category Casino Platform Supplier at EGR Nordic Awards and in February the Company was named Online Casino Supplier of the Year at the Global Gaming Awards in London. At the ICE gaming expo in February, NetEnt announced two new branded games based on the TV series Narcos and Vikings, and a new, customized product for Live Casino.

Note 28 Contingent liabilities

	Group		Parent Company	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Pension commitments	12,576	6,501	12,576	6,501
Total	12,576	6,501	12,576	6,501

Pension commitments refer to provisions for direct pensions for the current and previous CEOs. These commitments have not been included in the balance sheet and are covered by the value of Company-owned endowment policies. The Company has no capital value risk in such commitments.

Statement of assurance from the Board of Directors and CEO

The Board of Directors and the CEO assure that the annual accounts and consolidated accounts have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and sound accounting practice, and provide a true and fair presentation of the Group's and the Company's position and results, and that the Administration report for the Group and Company provides an accurate overview of the developments 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, March 15, 2018

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

Maria Hedengren
Member of the Board of Directors

Peter Hamberg
Member of the Board of Directors

Jenny Rosberg
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 March 21, 2018
Deloitte AB

Erik Olin
Authorized Public Accountant

Auditor's report

To the general meeting of the shareholders of NetEnt AB (publ)
corporate identity number 556532-6443

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of NetEnt AB (publ) for the financial year 1 January 2017 - 31 December 2017 except for the corporate governance report and the sustainability report on pages 56-70 and 71-74 respectively. The annual accounts and consolidated accounts of the company are included on pages 48-101 in this document.

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 parent company as of 31 December 2017 and its financial performance and cash flow 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 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinion does not include the corporate governance report and the sustainability report on pages 56-70 and 71-74 respectively. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on our best knowledge and belief, no prohibited services referred to in the Auditors Regulation (537/2014) Article 5.1 has been provided to the audited company or, where applicable, its parent company or its controlled companies in the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significant in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Revenues

Risk assessment

Consolidated revenues amounts to SEK 1 625 million per 31 December 2017 and consists mainly of license revenues related to the Group's internally developed online gaming products and services of which the proprietary platform NetEnt Casino™ module represent a substantial part. The Groups customers pay fees (royalty) based on the game surplus that is generated by the product with the customer. In addition to royalties the Group earns revenues from installation and integration of NetEnt Casino™ for its customers.

The revenues are significant and derives from a large number of smaller transactions that are priced individually for all customers. Also the revenues from installation and integration services are subject to judgements and estimates from management. There is a risk that revenues are not complete, that transactions are not accurately priced and that set-up fees are not recognized as the service is provided by NetEnt.

For further information, please refer to Note 3 on page 89 which describes the Group's significant revenue streams and the Group's accounting policies in Note 2 on pages 84-89.

Our audit procedures

Our audit procedures included but were not limited to:

- gaining an understanding of significant transaction flows and critical IT-systems, including NetEnt Casino™ module and reviewed key controls in place to mitigate the risk for significant financial statement misstatements. Internal IT-specialists were involved in the review of IT-systems.
- evaluating whether there have been any changes in the Group's revenue recognition principles and/or judgement and estimates regarding revenue recognition.
- testing details for a sample of revenue transactions to assure that pricing of transactions are performed in accordance with customer contracts and that revenues are recognized in the same period as providing the services.

Intangible assets

Risk assessment

NetEnt has significant capitalized development expenditure for gaming-products, support systems and game-platforms. Once specific criteria's are met, development expenditure is recognized as an asset, as per December 31, 2017 capitalized

expenditures amount to SEK 318 million. The amount recognized includes direct labour costs, bought services, material and indirect costs which can be directly attributed to the asset.

There is a risk that expenditure that is not directly attributable to the asset, or that does not meet the criteria of recognition with current accounting standards, are recognized as an asset. Further, there is a risk that capitalized development expenditure do not create economic benefits for the company throughout the amortization period.

For further information, please refer to Note 12 on page 94 which presents the Group's development expenditure and the accounting policies in Note 2 on pages 84-89.

Our audit procedures

Our audit procedures included but were not limited to:

- gaining an understanding the Group's process for capitalization, determining utilization periods, and valuation of intangible assets and reviewed key controls in place to mitigate the risk for significant financial statement misstatements.
- evaluating whether there have been any changes in the Group's accounting principles and/or assessment and judgement regarding capitalization of intangible assets.
- testing of details for a sample of capitalized development expenditure in order to assure:
 - that development expenditures are adequately accounted for in the balance sheet and that amortization starts when the asset is taken in to use
 - that capitalization of internally generated development expenditure meets the criteria for capitalization
- reviewing that the process for impairment testing is in compliance with current accounting standards, that estimates and judgements are reasonable and that sufficient disclosures are included in the financial statements.

Income taxes

The Group operates through subsidiaries in a number of countries. Some subsidiaries perform services for other group companies and are compensated on an arm's length in accordance with formal agreements.

We have identified income taxes as a key audit matter since the Group operates through subsidiaries in a number of countries with significant intra-group transactions between the countries which have to be on market-based conditions and in compliance with local tax regulations applicable in the countries which the group operates.

For further information please refer to Note 10 on pages 92 for disclosures on the Groups income tax and the accounting policies in Note 2 on pages 84-89.

Our audit procedures

We have gained an understanding for the Groups processes for identifying and pricing of intra-group transactions. We have

also read the Groups documentation which describes the principles for pricing of intra-group transactions and for a sample of transactions reviewed that these are adhered to.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-47. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they 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.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about

whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of NetEnt AB (publ) for the financial year 1 January 2017 - 31 December 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to 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.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

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. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability.

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.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 56-70 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 56-70, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Deloitte AB, was appointed auditor of NetEnt AB (publ) by the annual general meeting of the shareholders on April 21, 2017 and has been the company's auditors since April 10, 2008. ●

Stockholm 2018-03-21
Deloitte AB

Erik Olin,
Authorized Public Accountant

GLOSSARY

B

Backoffice

Transaction management system for the casino.

Bet

Any form of wager or real-money at stake.

Betting limits

Minimum and maximum wagers that a player can make at any one time.

Bonus function

Slot games often have some type of bonus function or feature. Different versions of bonus functions can include scatter, wild and similar, but also bonus courses where the chances of winning are better than in the basic game.

Bonus round

The bonus function in slot games where the player moves up from the basic game to a bonus course with free spins, multipliers and other functions that often increase the chance of higher wins.

Branded games

Means casino games that use content licensed from a third party and on which a royalty or license fee is paid by NetEnt.

C

Casino games catalog

List of NetEnt's games that are available in a certain jurisdiction or regulated market.

Casino games

Overarching term for the category of games played for money, including slots and table games.

Casino lobby

Page within the licensee's gaming site showing the casino games that are available on the operator's site.

CasinoModule™

The brand name of NetEnt's casino system, which includes a set of games based on a technical platform.

Casino result

Casino result is calculated as player bets minus player wins, minus player compensations, minus regulated market gaming tax.

Chips

Disks used to denote values in place of real or play money, giving a visual representation of a bet in card games such as roulette.

Commercial go-live

The date when NetEnt's games and gaming system are launched commercially at a customer, i.e. the games become available to players for real money play on a gaming operator's site.

Credits

In slot games, credits are used instead of visualizing bets. Also called betting units.

Croupier

The French word for dealer, used in table games such as roulette and blackjack. Live casino with real dealers is broadcast in real time from NetEnt's studio in Malta.

Customer support

Function at NetEnt that assists licensees with incidents and problems.

D

Data center

Server hall where NetEnt physically handles the customers' transactions.

Deal

When the dealer distributes cards to players in a card game such as blackjack or poker.

Dealer

Used in table games such as roulette and blackjack. Live casino with real dealers is broadcast in real time from NetEnt's studio in Malta.

Deposit

A cash payment, usually made online, to credit a gaming account with funds to play.

Desktop games

Casino games that are available to players on their desktop PC or Mac (including laptops).

E

Expanding symbol

In slot games, this is a symbol that expands to fill the reel.

F

Feature round

In slot games, this is a special round that may include free spins, interactive games and the opportunity to win specific prizes.

Flash

A multimedia and software platform used for creating vector graphics, animation, browser games Rich Internet Applications (RIA) online.

Free round

The same as a bonus round. In slots games, the player can gain move up from the basic game to a bonus course with free spins, multipliers and other functions that often increase the chance of higher wins.

Free spins

In slot games, the player can be offered to spin the reels without using any credits, i.e. a free round.

G

Gaming authority

The authority responsible for regulation of the gaming market in a jurisdiction.

Game type

Term used to describe the genre of a casino game, such as Live Casino, video slot, table games, etc.

Gaming system

The NetEnt CasinoModule™ is a gaming system, integrated with the licensee's platform.

Game win

Player bets minus player wins.

General Availability (GA) Date

Date when NetEnt releases a new game, product, function or service to all its customers simultaneously.

Go-live

The date when NetEnt's games become available to players for real money play on a gaming operator's site.

Gross gaming revenue (GGR)

Also called game yield. Industry-wide definition, generally the same as the gross game win. Calculated as player bets minus player wins, minus player compensations and bonuses, before gaming taxes.

Gross gaming yield

Industry-wide definition, also called gross game win. Calculated as player bets minus player wins, minus player compensations and bonuses, before gaming taxes.

H

Hand

The cards dealt to a player in a card game such as blackjack, after the cards have been shuffled by the dealer.

Hosting center

Same as data center. Physical entity where the licensee's CasinoModule™ is hosted by NetEnt.

Hosting fee

Fixed monthly hosting fee invoiced to licensees covering customer support, IT service management, incident handling, problem handling, hosting charges and bandwidth.

HTML

Abbreviation for Hyper Text Markup Language. Standard markup language used to create web pages. Web pages are generally written in HTML and transferred over the Internet with HTTP.

HTML5

This is the fifth revision of the HTML standard. Since 2015, all NetEnt games are developed in HTML 5.

I**Integration**

Integration is the term for the activities and tasks that take place to connect the licensee's account platform with the NetEnt CasinoModule™ so that games can be launched.

J**Jurisdiction**

A limited geographical area or specific area of responsibility with authority for the administration of justice. Used to describe the regulated markets where NetEnt has licenses, such as Malta, Gibraltar, Alderney and the UK.

L**Land-based casino**

All casinos that are not online. Also known as offline

Live Casino

Game type which means a casino game with real dealers, broadcast over videolink in real time from a gaming studio, such as roulette and blackjack.

Live Common Draw Blackjack

Live Common Draw Blackjack is a type of Live Casino Blackjack game where many players can participate simultaneously, unlike traditional blackjack which permits a maximum of seven players.

Local jackpot

A local jackpot for one operator in one jurisdiction.

M**Maximum bet**

The largest wager permitted in a casino game such as roulette or blackjack.

Multichannel

The ability to enjoy our games on various platforms, such as desktop, tablets, mobile and land-based gaming machines.

Multiplayer

This allows a player to play in real-time with other players seated at the same table. Available in NetEnt's Live Casino games only. It is not available for our RNG games.

Multiplier

In slots, this refers to a feature where payouts can be multiplied up to a certain amount of times.

N**Net gaming revenue**

Industry-wide definition, same as net game win. Calculated as player bets minus wins, minus bonus costs, minus regulated market tax.

O**Online casino operator**

Term for NetEnt's customers, gaming companies, which in turn offer casino games to consumers. They often also provide other types of games, such as betting and poker.

Online casino supplier

Subcontractor to the gaming operator/online casino. NetEnt is an online casino supplier.

P**Payback**

See under Payout. The percentage of bets returned to players from a specific game – on average and over time.

Payline

In slot games, these are the lines on which winning symbols must land in order to win.

Payout

Also known as payback and RTP. The percentage of bets returned to players from a slots game – on average and over time.

Pay table

This describes the possible combinations and values of winning symbols and what the wild, scatter and other symbols mean in each casino game.

Players

The gaming operator's customers. End-consumers of NetEnt's games

Pooled jackpots

A larger jackpot that is pooled from several operators through the same game.

Professional services

NetEnt can provide additional services to its customers such as extra integration services/migrations/consolidations, game client brandings, business intelligence, marketing services including planning, web banner creation and poster design and training.

Progressive jackpot

A fixed amount from each wager will go towards the progressive jackpot, which will continue to accumulate until it is won.

Progressive slots

These games are linked and they pool a jackpot prize.

R**Random Number Generator (RNG)**

A computational algorithm designed to generate a sequence of numbers or symbols that is entirely random. Slot games are also known as RNG games.

Reels

In slot games, a reel refers to one of the columns on which players try to hit certain symbols or prizes. Often five reels that look like columns.

Return to Player (RTP)

See under Payout The percentage of bets returned to players from a specific game – on average and over time.

Revenue-share

Royalties calculated as part of the customer's revenues from NetEnt's games.

Royalty

NetEnt's customers pay royalties to NetEnt on a monthly basis. These are calculated as a percentage of the casino result in NetEnt's games after deduction of regulated market tax.

S**Scatter**

Symbols in a slot game. Three of these symbols are often needed to unlock a bonus round, win free spins or similar. Scatter rarely needs to appear on any specific line to generate a win.

Spin

Refers to a bet in a slot game. The player presses the spin button to spin the reel one time.

Symbol

In slot games, a symbol refers to an icon or value on the reel.

System integration fee

Upfront fees received from licensees to cover the costs of hardware investment and integration/testing before the launch of NetEnt's games.

V**Video slots or classic slots**

Terms used to describe NetEnt's main product, slot games.

W**Wild**

In slot games, wilds are symbols that will substitute for winning symbols if they land on a payline, helping players to enhance their wins. However, these rarely substitute for scatter or bonus symbols.

DEFINITIONS

Average number of employees

Average number of employees converted into full-time equivalents (FTEs).

Average number of shares outstanding

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

Cash flow from operating activities per share

Cash flow from operating activities in relation to the average number of shares outstanding during the period after dilution. A measure used by investors, analysts and the company's management for evaluation of the company's financial performance and ability to generate a positive cash flow.

Dividend per share

Distributed/proposed dividend. "Dividend" here also means cash distribution to shareholders.

Earnings per share

Profit after tax in relation to the average number of shares outstanding during the year.

EBITDA margin

Operating profit excluding depreciation and amortization in relation to operating revenues. A profitability measure that is used by investors, analysts and the company's management for evaluation of the company's profitability.

Equity per share

Shareholders' equity in relation to the number of shares outstanding at the end of the year.

Equity/assets ratio

Equity divided by total assets at the end of the period. A measure that is used by investors, analysts and the company's management for evaluation of the company's payment ability in the long- and short-term, and the capital structure of the company.

Net interest-bearing liabilities

Net of interest-bearing provisions and liabilities less financial assets and cash and cash equivalents. A measure used by investors, analysts and the company's management for evaluation of the company's financial position and ability to distribute money to shareholders.

Number of employees at year-end

The number of employees at year-end, converted to full-time equivalents (FTEs).

Number of engaged persons at year end

The number of employees and external resources such as dedicated people at contracted suppliers and consultants at the end of the period, converted to full-time equivalents (FTEs).

Number of shares outstanding

Number of outstanding shares at year-end adjusted for bonus issue and share split.

Operating margin

Operating profit in relation to operating revenues. A profitability measure that is used by investors, analysts and the company's management for evaluation of the company's profitability.

Return on equity (RoE)

Profit for the period as a percentage of shareholders' equity. A return measure that is used by investors, analysts and the company's management for evaluation of the company's ability to generate a return on the capital its shareholders have invested.

Revenue growth

Percentage increase in operating revenue in SEK compared to the previous year. A measure that is used by investors, analysts and the company's management for evaluation of the company's growth. The company's goal is for revenues to grow faster than the market.

INFORMATION FOR SHAREHOLDERS

AGM and other information

Annual General Meeting

The Annual General Meeting of NetEnt AB (publ) for the financial year January 1–December 31, 2017 will be held in Stockholm on Wednesday, April 25, 2018 at IVA Conference Center, Grev Turegatan 16. Notice of the Annual General Meeting is published on NetEnt's website, www.netent.com/agm.

Right to attend and registration

Shareholders wishing to attend the Annual General Meeting must be entered in the register of shareholders held by Euro-clear Sweden AB on April 19, 2018, and also notify NetEnt of their intention to attend no later than April 19, 2018.

Shareholders must register to attend the AGM in writing, stating their name, personal/corporate identity number, address, telephone number, e-mail address and shareholding to the following address:

NetEnt AB (publ), Att: Annual General Meeting
Vasagatan 16, 111 20 Stockholm
or by e-mail to agm@netent.com, or
via NetEnt's website at www.netent.com/agm

Share registration

Shareholders whose shares are nominee-registered through a bank's notary department or other nominee must, in order to be entitled to participate in the meeting, temporarily register the shares in their own name. Such registration must be done no later than April 19, 2017, so shareholders must notify their nominee well in advance of that date.

Other information

NetEnt intends to release financial reports, etc. on the dates below:

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
Year-end report and Q4 report 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. NetEnt's principal method of distributing financial reports is electronically. Financial reports, press releases and other information are available for viewing on NetEnt'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 as of when they have been published. Printed copies of the annual report are sent upon request.

For further information, please contact:

Per Eriksson, President and CEO
or **Therese Hillman**, CFO
Tel.: +46 (0) 8-57 85 45 00,
E-mail: ir@netent.com

Addresses

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Parent Company and Development

NetEnt AB (publ)
Vasagatan 16
SE-111 20 Stockholm
Sweden
Tel.: +46 (0) 8 578 54 500
Fax: +46 (0)8 578 54 510
E-mail: info@netent.com
or ir@netent.com

Global Market Operations

NetEnt Malta Ltd.
Level One, Spinola Park
Mikiel Ang. Borg Street
St. Julians SPK1000
Malta
Tel.: +356 21 31 16 21
Fax: +356 227 681 00
E-mail: sales@netent.com



NETENT

NetEnt AB (publ)
Corp. ID no. 556532-6443
Vasagatan 16, 111 20 Stockholm, Sweden
www.netent.com, info@netent.com