Net Gaming Europe AB (publ) – Interim Report Q1 2019

Negative impact from regulation effects in Europe, while North America continues to grow

First quarter 2019

- Revenue from operations declined to EUR 4,053 (4,328) thousand.
- EBITDA declined to EUR 2,553 (3,102) thousand. Adjusted for a one-time effect related to the divestment of the Battle of Malta, EBITDA for Q1 2018 was EUR 2,801 thousand.
- Profit after tax declined to EUR 1,941 (2,144) thousand.
- Earnings per share after dilution fell to EUR 0.026 (0.031).
- Total NDC growth declined by -15%; NDCs for largest vertical Casino declined by -14%.
- Cash flow from operating activities increased to EUR 2,835 thousand (EUR 2,562 thousand excl. gaming operations).

Significant events in the quarter

- Management team strengthened by new Head of M&A with effect from 29 April.
- On 1 January 2019, Net Gaming changed its presentation currency from SEK to EUR to provide a clearer picture of operating activities in the currency in which they are primarily conducted.

Significant events after the quarter

- Shareholders representing 62.5% of the shares and the capital have submitted proposals for the 2019 Annual General Meeting with regard to Net Gaming's Board. Fredrik Rüdén and Peter Åström, with broad industry experience within iGaming, are nominated as new Board members.
- Notice of AGM on 23 May 2019.
- Publication of 2018 Annual Report.
- Net Gaming has entered into an agreement with ABG Sundal Collier ("ABG") whereby ABG will act as liquidity provider for the Net Gaming share. The purpose is to promote the share's liquidity, and the assignment commences on Monday 13 May 2019.

Key figures	**Jan-Mar**			**Jan-Dec**		
EUR thousands	**2019**	**2018**	**Y/Y%**	**2018**	**2017**	**Y/Y%**
Revenue, affiliate operations	4,053	4,328	-6%	18,556	16,644	12%
Organic growth, %	-12%	9%	-21 p.e	12%	14%	-2 p.e
EBITDA	2,553	3,102	-18%	12,500	11,329	10%
EBITDA margin, %	63%	72%	-9 p.e	67%	68%	-1 p.e
Profit after tax	1,941	2,144	-9%	7,792	959	+712%
Earnings per share (after dilution)	0.026	0.031	-18%	0.108	0.014	+671%
Net debt/EBITDA (rolling 12 mth)	2.1	2.1	-	2.1	2.4	-
NDC growth, %	-15%	+28%	-43 p.e	+23%	+16%	+7 p.e

Q1 2019

-12%
Organic growth

-18%
EBITDA growth

-18%
Earnings per share

CEO's comments: Increased political uncertainty in European markets, positive development continues in North America

Revenue declined by 6% in the first quarter. Revenue excluding "paid media" was unchanged compared with the same period the previous year. Our gaming operations have been discontinued and Battle of Malta has been divested, which affects the comparative figure. The political regulatory effects in Europe and the transition to an increased revshare proportion are two main factors that explain why we have not shown better revenue growth during the first quarter. We face a period ahead in which these two factors will continue to have a negative impact on our revenue. Positive factors that stand out during the first quarter are revenue growth of 42% for North America and the continuation of re-regulation in the US.

Political uncertainty

As already mentioned, several national markets in Europe are in the process of major legal and political changes. The higher political activity during the quarter has created short-term turbulence among iGaming operators, which has repercussions for companies like us who are engaged in affiliate marketing. The Netherlands has just voted to regulate online gambling in the second half of 2020 and the bill will be presented in June 2019. Sweden became a regulated market on 1 January 2019. In Italy, they are still debating a gambling advertising ban, although affiliate marketing now appears to be exempt. It is our assessment that the ongoing restructuring of the gaming market in Europe will continue to have an adverse effect on our revenue in the period ahead. The short-term uncertainty does not change the long-term market conditions, but at present it is too early to say when there will be a lasting recovery in Europe. Increased political risks lie ahead and are something we have to live with.

Revshare's proportion of revenue increases

In line with our operational strategy, we have continued to increase the revenue share proportion, which is now 40% (23%) of total revenue. The rapid transition to revshare has had a negative impact on our Q1 revenue, but will benefit us over time.

Continued growth in North America

During the quarter, we continued to develop and invest in our assets in North America. North American revenue grew by 42% and the region now accounts for 26% of our total revenue. Net Gaming has launched, and will continue to launch, growth projects for both national and local brands for the American market. Pennsylvania will be regulated later this year and we expect more states to follow this trend in the coming years. We see good opportunities for long-term growth in North America, although we now also see increasing competition.

New digital brands launched

We have also launched new brands on our scalable technical platform during the quarter. New launches include Slotsbot, Bettingonline in the UK and Wettfieber. A focus area in 2019 is also to improve design and user value. We have seen positive effects of this already in the first quarter, and we also expect to see them in the future when all revenue-generating sites have been upgraded.

Increased acquisition focus for more revenue diversification

In order to cope with the political regulatory effects in Europe, we will increase our focus on selectively making qualitative acquisitions with the aim of creating an increased geographical distribution of revenue. This work has been intensified through the appointment of Christian Käfling, Head of M&A.

Let me conclude by saying that we continue to have strict cost control, with cost levels in line with the previous year. We show a strong operating cash flow compared with the previous year and a clearly improved equity ratio, which is in line with how we want to drive Net Gaming forward. We work hard every day to implement our long-term growth plan step by step.

Marcus Teilman, President and CEO

The Group's development

QUARTER JAN–MAR 2019

Revenue
Revenue for Q1 declined by 6% to EUR 4,053 (4,328) thousand, driven by reduced organic growth of -12%. Paid media was phased out as a revenue stream in 2018, which is reflected in the comparative figure. Revenue excluding paid media did not vary between the quarters.

Revenue for Q1 2019 has been affected by the regulation of the European market and an accelerated transition from CPA to Revenue Share, which is now 40% (23%). The transition to an increased percentage for revenue share will have an adverse effect in the short term, but will strengthen our growth over time.

Growth in New Depositing Customers (NDC) decreased by 15% compared with the corresponding period the previous year. This is attributable to the phasing-out of "Paid Media" and the challenges that operators have faced in connection with regulations in Europe.

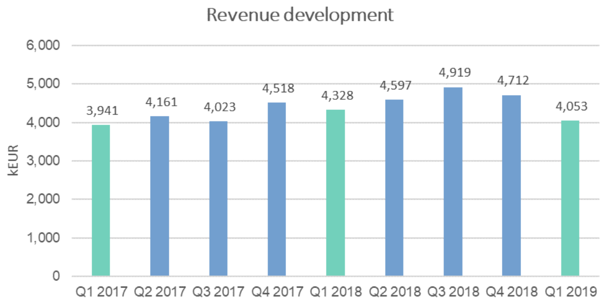
We also see our position with strong domains in the North American market producing results as more states are deregulated. North America shows revenue growth of 42% for Q1 2019 and is our second-largest market, generating 26% of total revenue. We are now seeing a sharp increase in competition in this market.

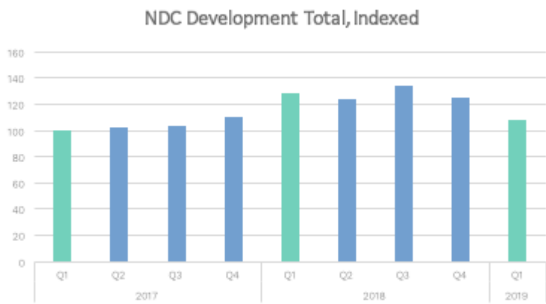
Costs
Operating expenses increased slightly during Q1 2019 compared with the previous year.

Personnel expenses for Q1 increased to EUR 983 (771) thousand, primarily driven by organisational development and recruitment of key personnel to adapt the Company for growth. In addition, the number of contracted consultants has been reduced in favour of employed personnel.

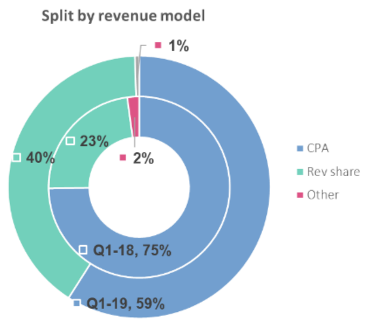
Other external expenses declined during Q1 2019, mainly due to a reduction in marketing (paid media), which also had an adverse effect on revenue. This is due to a transition to organic SEO traffic for the acquisition of Magnum Media completed in November 2017.

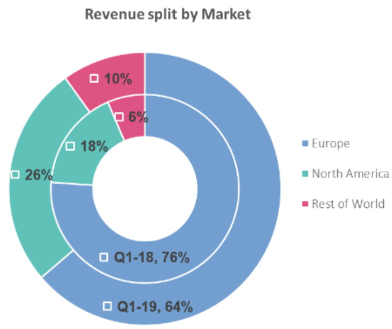
Earnings
EBITDA declined by 18% to EUR 2,553 (3,102) thousand. The EBITDA margin has declined to 63% from 65% in Q1 2018, excluding non-recurring revenue from the sale of the Battle of Malta.

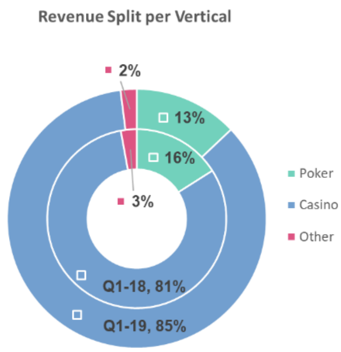




The graph shows an index of NDC development over time. NDC stands for new depositing customer, i.e. a newly depositing customer that Net Gaming has referred to one of its customers (operators). The charts above do not show absolute figures, but a percentage development from index 100 in the first quarter of 2017.



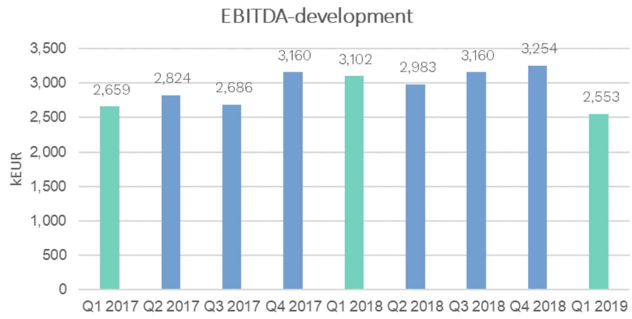




Net Gaming's net financial items for Q1 2019 amounted to EUR -298 thousand, compared with EUR -673 thousand for the same period the previous year. The change is mainly due to currency effects of EUR 458 thousand related to loan financing arranged in SEK. Interest expenses have declined, mainly due to Q1 2018 including one-time effects of the conversion of the convertible loan, which had a negative effect on net financial items. Interest expenses for Q1 2019 are representative of the present financing arrangement.

Profit after tax declined to EUR 1,941 (2,144) thousand for continuing operations.

Earnings per share after dilution for the period amounted to EUR 0.026 (0.031).



Financial position

Cash flow and investments

Cash flow from operating activities during Q1 amounted to EUR 2,835 thousand, compared with EUR 2,562 thousand in Q1 2018 (excluding gaming operations). The positive trend compared with the corresponding quarter in the previous year is mainly attributable to an improved working capital level, which had a positive effect on cash flow. The increase is primarily related to increased cash conversion on trade receivables and reduced sales.

Cash flow from investing activities, which is limited as the Company's business model is not capital-intensive, amounted to EUR -236 thousand, compared with EUR -373 thousand in Q1 2018 (excluding gaming operations). Q1 investments were mainly related to the acquisition of new domain names and website development for expansion in the US and the European markets.

Cash flow from financing activities in Q1 amounted to EUR -697 (-682) thousand and consisted primarily of interest paid on the bond loan. Cash flow from financing activities has been affected by the transition to IFRS 16, which means that lease liability repayments of EUR 53 thousand in Q1 are recognised in financing activities.

Liquidity and financial position

The Group's interest-bearing net debt (excluding cash) at the end of the period was EUR 36,191 thousand, compared with EUR 38,015 thousand at the end of Q1 2018. The translation effect of converting the bond loan from SEK to EUR at the end of the period was EUR 416 thousand, which had a positive impact on net financial items. The Company's cash and cash equivalents at the end of Q1 2019 amounted to EUR 12,027 (12,487) thousand.

The equity/assets ratio was 38 (23) percent and equity was EUR 23,079 (13,478) thousand at 31 March 2019.

Financial targets

The Board of Net Gaming has defined the following financial targets and objectives:

EPS growth
Net Gaming's target is average annual EPS growth of at least 20% over time. Growth in earnings per share is the overall financial objective. It is Net Gaming's assessment that strong growth in earnings per share is the best measure for shareholder value over time.

Organic revenue growth
Net Gaming's long-term target is annual organic revenue growth in the range of 15 to 25%. Net Gaming will continuously invest in the core business and new internal growth initiatives to ensure strong and sustainable organic growth. The time when growth initiatives bear fruit may vary, which means that organic growth may fluctuate over time. Net Gaming's definition of organic growth is based on net sales compared with the previous period, excluding acquisitions (last 12 months) and divestments, and exchange rate movements.

Capital structure
Net Gaming's target is a maximum net debt/EBITDA ratio of 2.0 over time. Net Gaming will conduct operations at low financial risk over time by maintaining low net debt. The Board is entitled to derogate from this objective during periods when this is considered best for the Company and for shareholder value.

Dividend policy
To prioritise growth during the next three years through acquisitions, internal growth projects and capital structure ahead of dividends. The Board will recommend to the AGM on 23 May 2019 that no dividend be paid for the financial year 2018.

Overview of outcomes of financial targets
The table below shows the outcomes of the defined financial targets.

Period	EPS growth		Organic revenue growth		Capital structure	
Jan-Dec 2018	+1100%	✔	12%	✘	2.1	✘
Jan-Mar 2019	-18%	✘	-12%	✘	2.1	✘

Other information

The share
On 30 June 2018, Net Gaming Europe (publ) was listed on Nasdaq First North Premier, Stockholm (NETG). The early redemption of the remaining convertibles of SEK 13,999,941 in July 2018 resulted in 3,111,098 shares.

Share capital
On 31 March 2019, share capital amounted to EUR 1,913 thousand, divided into 75,604,487 shares. The Company has one class of shares – A shares. Each share entitles the holder to (1) vote at the shareholders' meeting. On 31 March 2019, the number of shareholders was 1,171.

Following the change of presentation currency on 1 January 2019, share capital was converted to EUR 1,912,618.10.

Shareholder structure
The total number of shares in the Company on 31 March 2019 was 75,604 487, distributed as shown below.

Name	No. of shares	Ownership, %
Trottholmen AB	47,272,282	62.53%
Avanza Pension	5,246,905	6.94%
Varenne AB	1,748,761	2.31%
Peak Core Strategies	1,350,030	1.79%
Nordnet Pension AB	1,212,918	1.60%
JRS Asset Management	1,212,829	1.60%
Credit Suisse	1,111,111	1.47%
Prioritet Capital AB	1,103,255	1.46%
JPM Chase NA	954,640	1.26%
RBC Investor Services Bank S.A.	880,313	1.16%
Other shareholders	13,511,343	17.87%
TOTAL	**75,604,487**	**100.00%**

Relevant risks and uncertainties
Net Gaming is exposed to a number of business and financial risks. The business risks can be divided into strategic, operational and legal risks. Financial risks are related to factors such as exchange rates, interest rates, liquidity and credit. Risk management within the Net Gaming Group is aimed at identifying, controlling and reducing risks. This is achieved based on a probability and impact assessment. The risk assessment is unchanged from the risk profile presented on pages 23, 30-31 and 65-66 of the 2018 annual report. The Parent Company's risks and uncertainties are indirectly the same as for the Group.

Outlook
Net Gaming is not providing any forecasts in this report.

Seasonality
Net Gaming is affected by seasonal variations, with Q1 (Jan-March) and Q4 (Oct-Dec) revenue being somewhat stronger, while Q2 (Apr-Jun) and Q3 (Jul-Sep) are somewhat weaker. The revenue seasonality follows the normal pattern for the iGaming industry. Net Gaming has a relatively fixed cost base and a scalable platform, which means that the EBITDA margin is somewhat higher in Q1 (Jan-Mar) and Q4 (Oct-Dec).

Supplementary information

The Board of Directors and the CEO hereby certify that this report provides a true and fair view of the Parent Company's and the Group's operations, financial position and financial performance for the current period, and describes material risks and uncertainties faced by the Parent Company and other Group companies.

This interim report has not been audited or reviewed by the Company's auditors.

Stockholm, 23 May 2019

BOARD OF DIRECTORS

Henrik Kvick Chairman	Jonas Bertilsson Board member	Marcus Blom Board member
Tobias Fagerlund Board member	Marcus Teilman Board member & CEO	

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Forthcoming report dates
2019 AGM: 23 May 2019
Interim report January-June 2019: 15 August 2019
Interim report January-September 2019: 14 November 2019

Presentation for investors, analysts and media
A live conference call will be held on 23 May 2019 at 10.00 a.m. Swedish time. CEO Marcus Teilman and CFO Gustav Vadenbring will present the report in English. You can follow the presentation here https://tv.streamfabriken.com/net-gaming-europe-q1-2019

To call and take part in the conference call:
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The appointed Certified Adviser is FNCA Sweden AB, info@fnca.se, +46 8 528 00 399.

This information is information that Net Gaming Europe AB (publ) is required to disclose under the EU Market Abuse Regulation. The information was provided by the contact person above for publication on 23 May 2019 at 08.30 CET.

Consolidated Statement of Comprehensive Income

Amounts in EUR thousands	*01/01/2019 31/03/2019*	*01/01/2018 31/03/2018*	*01/01/2018 31/12/2018*
Revenue *notes* 2, 3	4,053	4,328	18,556
Total revenue	**4,053**	**4,328**	**18,556**
Capitalised work for own account	107	-	-
Other external expenses	-608	-713	-3,081
Personnel expenses	-983	-771	-3,155
Other operating income	-	301	302
Other operating expenses	-16	-43	-122
EBITDA	**2,553**	**3,102**	**12,500**
Depreciation	-186	-145	-343
Operating profit/loss (EBIT)	**2,367**	**2,957**	**12,157**
Profit/loss from financial items			
Interest and similar income	-	-	2
Interest and similar expenses	-756	-913	-3,391
Impairment of financial assets	-	-	-660
Other financial items	458	240	265
Profit/loss from financial items	**-298**	**-673**	**-3,784**
Profit before tax	**2,069**	**2,284**	**8,373**
Tax on profit/loss for the year	-128	-140	-581
Profit/loss for the period, continuing operations	**1,941**	**2,144**	**7,792**
Profit/loss for the period, discontinued operations	-	-58	-150
Profit/loss for the period	**1,941**	**2,086**	**7,642**
Earnings per share, continuing operations (EUR)	0.026	0.031	0.108
Earnings per share after dilution, continuing operations (EUR)	0.026	0.031	0.108
Earnings per share (EUR)	0.026	0.031	0.105
Earnings per share after dilution (EUR)	0.026	0.031	0.105
Other comprehensive income, income and expenses recognised directly in equity			
Exchange differences on translation of foreign operations	14	1,338	1,296
Other comprehensive income for the year	**14**	**1,338**	**1,296**
Total comprehensive income for the period	**1,955**	**3,482**	**9,088**

Consolidated Statement of Financial Position

Amounts in EUR thousands	*31/03/2019*	*31/03/2018*	*31/12/2018*
Assets			
Non-current assets			
Property, plant and equipment	243	74	224
Goodwill	42,856	41,365	42,856
Right-of-use assets	197	-	-
Other intangible assets	2,755	1,619	2,683
Other non-current receivables	479	-	457
Deferred tax assets	409	990	536
Total non-current assets	**46,939**	**44,048**	**46,756**
Current assets			
Trade receivables	1,140	2,034	1,873
Other receivables	156	161	183
Prepayments and accrued income	108	264	135
Cash and cash equivalents	12,027	12,487	10,094
Total current assets	**13,341**	**14,946**	**12,285**
Total assets	**60,370**	**58,994**	**59,041**
Equity and liabilities			
Equity – *note 4*	**23,079**	**13,478**	**21,120**
Non-current liabilities and provisions			
Other non-current liabilities	35,542	37,556	35,877
Lease liabilities	31	-	-
Deferred tax liabilities	-	14	-
Total non-current liabilities and provisions	**35,573**	**37,570**	**35,877**
Current liabilities			
Trade payables	258	380	760
Liabilities to Parent Company	347	335	347
Lease liabilities	147	-	-
Other liabilities	322	6,275	396
Accruals and deferred income	644	956	541
Total current liabilities	**1,718**	**7,946**	**2,044**
Total equity and liabilities	**60,370**	**58,994**	**59,041**

Consolidated Statement of Changes in Equity

Amounts in EUR thousands	*Share capital*	*Other paid-in capital*	*Reserves*	*Retained earnings incl. year's*	*Total equity*
Opening equity, 1 Jan 2018	1,773	8,726	1,113	-3,688	7,924
Set-off issue March 2018	25	935	-	-	960
Conversion to shares Mar 2018	67	1,098	-	-	1,165
Conversion to shares Jun 2018	42	678	-	-	720
Conversion to shares Jul 2018	79	1,281	-	-	1,360
Option proceeds received	-	42	-	-	42
Issue expenses	-	-1	-	-	-1
Share-based payments	-	12	-	-	12
Exchange rate changes in equity	-72	-348	279	141	-
Comprehensive income for the period	-	-	1,296	7,641	8,937
Closing equity, 31 Dec 2018	**1,913**	**12,424**	**2,688**	**4,094**	**21,120**
Opening equity, 1 Jan 2019	1,913	12,424	2,688	4,094	21,120
Share-based payments	-	5	-	-	5
Comprehensive income for the period	-	-	14	1,941	1,955
Closing equity, 31 Mar 2019	**1,913**	**12,429**	**2,702**	**6,035**	**23,079**

Consolidated Cash Flow Statement

Amounts in EUR thousands	*01/01/2019 31/03/2019*	*01/01/2018 31/03/2018*	*01/01/2018 31/12/2018*
Operating activities			
Profit before tax	2,069	2,226	8,223
Adjustments for non-cash items not included in operating activities			
- Depreciation and amortisation of assets	186	154	381
- Exchange gains/losses on financial receivables and liabilities	-458	-240	-176
- Costs for share-based programmes	5	5	12
- Gain/loss on sale of other assets	1	-301	-302
- Reversal of impairment of financial assets	-	-	-139
- Impairment of financial assets	-	-	664
Interest and similar expenses	756	913	3,391
Interest and similar income	-	-	-2
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables	759	-38	80
Increase (+)/Decrease (-) in operating liabilities	-483	-652	-928
Cash flow from operating activities	2,835	2,067	11,204
- Of which from discontinued operations	-	-495	-1,081
Investing activities			
Acquisition of interests in Group companies	-	-	-5,511
Acquisition of property, plant and equipment	-40	-19	-204
Acquisition of intangible assets	-196	-518	-3,259
Sale of other assets	-	150	302
Cash flow from investing activities	-236	-387	-8,672
- Of which from discontinued operations	-	-14	-44
Financing activities			
Option proceeds received	-	-	42
Issue expenses	-	-	-1
Interest paid	-644	-682	-2,966
Interest received	-	-	2
Repayment of lease liabilities	-53	-	-
Cash flow from financing activities	-697	-682	-2,923
- Of which from discontinued operations	-	-	-
Cash flow for period	**1,902**	**998**	**-391**
Cash & cash equivalents at beginning of period	10,094	11,687	11,687
Exchange differences	31	-198	-211
Reclassification from cash & cash equivalents to other current investments	-	-	-991
Cash & cash equivalents at end of period	12,027	12,487	10,094

Income Statement – Parent

Amounts in EUR thousands	*01/01/2019 31/03/2019*	*01/01/2018 31/03/2018*	*01/01/2018 31/12/2018*
Revenue	71	55	256
Total revenue	**71**	**55**	**256**
Operating expenses			
Other external expenses	-89	-80	-538
Personnel expenses	-54	-30	-198
Other operating expenses	-	-1	-1
EBITDA	**-72**	**-56**	**-481**
Depreciation	-4	-	-
Operating profit/loss	**-76**	**-56**	**-481**
Profit/loss from financial items			
Profit/loss from investments in Group companies	-	1,027	-1,265
Other interest and similar income	23	123	335
Interest and similar expenses	-743	-913	-3,391
Other financial items	458	170	193
Profit/loss after financial items	**-338**	**351**	**-4,609**
Tax on profit/loss for the year	-	12	25
Profit/loss for the year	**-338**	**363**	**-4,584**

Balance Sheet – Parent Company

Amounts in EUR thousands	*31/03/2019*	*31/03/2018*	*31/12/2018*
Assets			
Total non-current assets	31,606	38,529	32,786
Total current assets	6,445	10,240	5,903
Total assets	**38,051**	**48,769**	**38,689**
Equity and liabilities			
Equity	1,816	4,927	2,149
Total non-current liabilities	35,550	37,570	35,877
Total current liabilities	685	6,272	663
Total equity and liabilities	**38,051**	**48,769**	**38,689**

Notes to the Group's interim report

1. Accounting policies

This interim report has been prepared in accordance with IAS 34. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, IFRS. For detailed information about accounting policies, see pages 40-45 of the Company's 2018 annual report and the notes in the report http://www.netgaming.se/en/2019/04/23/net-gaming-publishes-annual-report-for-2018/.

This interim report has not been reviewed by the Company's auditors.

Fair value of financial instruments

When determining the fair value of an asset or liability, the Group uses observable data as far as possible in accordance with IFRS 13. Fair value measurement is based on the fair value hierarchy, which categorises inputs into different levels. For detailed information, see page 44 of the 2018 annual report.

The following items are measured at amortised cost, with their carrying amounts being a reasonable approximation of their fair values due to their short-term nature: trade receivables, other receivables, cash and cash equivalents, trade payables and other liabilities. In addition, the Company has a bond loan of SEK 375 million, which is measured at amortised cost. The bond corresponds to EUR 35,542 thousand using the closing rate on 31 March 2019. The bond's fair value measurement is classified as level 2 and is based on listings with brokers. Similar contracts are traded in an active market, and the rates reflect actual transactions for comparable instruments.

At 31 March 2019, the Company did not have any financial instruments categorised in level 2 or level 3 of the fair value hierarchy.

There were no transfers between levels during Q1 2019 or in 2018.

New and amended accounting policies

Changed assessment of useful life of domain names

Net Gaming has historically amortised domain rights based on an estimated useful life of 8 years. During the first quarter of 2019, Net Gaming has reviewed the estimated useful life of domain rights and has concluded that they have an indefinite useful life. This conclusion is based on the assessment that, with ongoing maintenance and protection of the right, there is no foreseeable limit to the period over which it can used, and an indefinite useful life is therefore considered a better reflection of its actual use.

This is reported as a changed assessment and estimate, with the effects reported prospectively, and does not therefore affect historically reported figures. The carrying amount of domain rights was EUR 851 thousand on 31 March 2019, compared with EUR 528 thousand on 31 March 2018.

Capitalisation of development costs

Internally generated intangible assets derived from the Group's development work on new and existing sites are only reported if the following conditions are met:

- it is technically feasible to complete the intangible asset and use or sell;
- it is the Company's intention to complete the intangible asset and use or sell it;
- it is possible to use or sell the intangible asset;
- the Company shows how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset; and

- the expenses attributable to the intangible asset during its development can be reliably calculated.

It is Net Gaming's assessment that the criteria for capitalising internally generated development costs within affiliate operations are met. Capitalisation is also supported by SIC 32. The development costs are related to website development (coding, content and design) and capitalisation of these costs in Q1 2019 amounted to EUR 107 thousand.

Discontinued operations

With effect from 31 March 2019, gaming operations are classified as a discontinued operation and are not therefore included in the segment information, but are presented as an amount in the consolidated statements of comprehensive income. The Group's cash flow statements are presented with gaming operations included, but with additional information for certain lines. Where appropriate, comparative periods have been restated to reflect the non-inclusion of gaming operations in continuing operations.

Changed segment reporting

Segment information is presented from management's perspective and operating segments are identified based on the internal reporting to the Group's chief operating decision maker. The former operating segment gaming operations is classified as a discontinued operation as of 31 March 2019 and is not therefore included in the segment information. This leaves Net Gaming with only one remaining operating segment – affiliate operations – and as the Group's income statement and balance sheet consist virtually entirely of these affiliate operations, no separate segment information is presented with effect from Q1 2019.

IFRS 16 Leases

IFRS 16 introduces a "right-of-use model" and requires lessees to report virtually all leases in the balance sheet. This means that there is no classification into operating and finance leases. An exemption is allowed for leases with a lease term of 12 months or less and low-value leases. Depreciation of the right-of-use asset and interest on the lease liability are reported in the income statement. Net Gaming applies IFRS 16 with effect from 1 January 2019. Net Gaming has reviewed all leases and rental contracts. Net Gaming has chosen the simplified transition method, which means that a right-of-use asset is recognised at an amount corresponding to the lease liability at the date of initial application. Lease liabilities amount to EUR 238 thousand and right-of-use assets amount to EUR 238 thousand at the date of initial application (after adjustments for prepaid and accrued lease payments). The most significant leases are office rental agreements. Net Gaming's assessment is that the interest it would have had to pay for a loan over the same period with the same collateral on the amount required to purchase a similar asset in a similar economic environment would be 5 percent for the underlying assets. The incremental borrowing rate has therefore been set at 5 percent.

At 31 March, the Group's leased assets totalled EUR 197 thousand, reported under Right-of-use assets, while liabilities of EUR 31 thousand were reported under Non-current liabilities and EUR 147 thousand under Current liabilities. Finance costs of EUR 9 thousand and depreciation of EUR 41 thousand were recognised for the period January-March 2019. Lease liability repayments amounted to EUR 53 thousand, reported under Cash flow from financing activities.

The Group as lessee
The Group assesses whether an arrangement is a lease or contains a lease at the commencement date. The Group reports a right-of-use asset and a corresponding lease liability for all leases where the Group is lessee. However, this does not apply to short-term leases (defined as leases with a lease term of 12 months or less) and leases where the underlying asset is of low value. For these leases, the Group recognises lease payments as an operating expense on a straight-line basis over the lease term, if no other systematic method better reflects how the economic benefits from the underlying asset are consumed by the lessee.

Right-of-use assets are depreciated over their estimated useful lives or over the agreed lease term if this is shorter. If a lease transfers ownership of the underlying asset at the end of the lease term or if the cost of the right-of-use asset reflects the Group's intention to exercise a purchase option, depreciation is applied over the useful life of the underlying asset. Depreciation begins on the lease's commencement date.

The lease liability is initially measured at the present value of the lease payments not paid at the commencement date, discounted using the interest rate implicit in the lease. If this interest rate cannot be readily determined, the Group uses the incremental borrowing rate. The incremental borrowing rate is the interest rate that a lessee would have to pay for loan financing over the same period with the same collateral for the right-of-use asset in a similar economic environment. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. These lease payments are recognised as an expense in the period in which they arise and are included under administrative expenses in the consolidated income statement.

Lease payments that are included in the measurement of the lease liability are as follows:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable payments that depend on an index or a rate, initially measured using the index or rate at the commencement date.

Both non-current and current lease liabilities are reported as separate items. The Group remeasures the lease liability (and makes a corresponding adjustment of the right-of-use asset) if:
- the lease term has changed or if there is a change in the assessment of an option to purchase the underlying asset. In these cases, the lease liability is remeasured by discounting the changed lease payments using a changed discount rate.
- the lease payments change as a result of changes to an index or rate, or a change to the amounts expected to be paid out under a residual value guarantee. In these cases, the lease liability is remeasured by discounting the changed lease payments using the initial discount rate (unless the changed lease payments are due to a change to the variable interest rate, in which case a changed discount rate is used instead).
- a lease is changed and the change is not reported as a separate lease. In these cases, the lease liability is remeasured by discounting the changed lease payments using a changed discount rate.

The Group has not made any such adjustments in the periods presented.

The Group applies IAS 36 *Impairment* to determine whether the right-of-use asset is impaired and reports any identified impairment in the same way as described for property, plant and equipment.

2. Organic revenue growth

Net Gaming's long-term target is organic revenue growth in the range of 15 to 25%.
Net Gaming will continuously invest in the core business and new internal growth initiatives to ensure strong and sustainable organic growth. The time when growth initiatives bear fruit may vary, which means that organic growth may fluctuate over time. Net Gaming's definition of organic growth is based on net sales compared with the previous period, excluding acquisitions (last 12 months) and divestments, and exchange rate movements.

Organic revenue growth – bridge Q1 2019

Amounts in EUR thousands	*01/01/2019 31/03/2019 Growth, %*	*01/01/2019 31/03/2019 Absolute figures*	*01/01/2018 31/03/2018 Absolute figures*	*Deviation Absolute figures*
Total growth, EUR	**-6.3%**	**4,053**	**4,328**	**-275**
Adjustment acquired and divested/discontinued operations	-3.8%	-195	-35	-160
Total growth in EUR, excl. acquisitions and discontinued operations	**-10.1%**	**3,858**	**4,292**	**-435**
Adjustment for constant currency	-1.6%	-	75	-75
Total organic sales growth	**-11.7%**	**3,858**	**4,368**	**-510**

Organic revenue growth – bridge Q1 2018

Amounts in EUR thousands	*01/01/2018 31/03/2018 Growth, %*	*01/01/2018 31/03/2018 Absolute figures*	*01/01/2017 31/03/2017 Absolute figures*	*Deviation Absolute figures*
Total growth, EUR	**9.0%**	**4,328**	**3,939**	**389**
Adjustment acquired and divested/discontinued operations	-5.4%	-325	-73	-252
Total growth in EUR, excl. acquisitions and discontinued operations	**3.5%**	**4,003**	**3,865**	**138**
Adjustment for constant currency	5.1%	-	-183	183
Total organic sales growth	**8.7%**	**4,003**	**3,682**	**321**

3. Revenue

The Group's revenue for Q1 2019 and the financial year ended 31 December 2018 was distributed as follows;

Amounts in EUR thousands	*01/01/2019 31/03/2019*	*01/01/2018 31/03/2018*	*01/01/2018 31/12/2018*
Revenue distribution by vertical (Affiliate)			
Casino	3,447	3,525	15,867
Poker	523	629	2,147
Other verticals	82	173	542
Total revenue	**4,052**	**4,327**	**18,556**

Revenue attributable to Sweden in Q1 2019 amounted to 2% (8%). The corresponding amount for the full year 2018 was 4% (3%).

4. Share-based payments

The Company has incentive programmes from 2017 and 2018 consisting of 850,000 warrants. Prior to the 2019 AGM, the principal owner Trottholmen AB has proposed the introduction of a new incentive programme consisting of 250,000 employee share options for Christian Käfling as the new Head of M&A.

For share-based remuneration for 2017 and 2018, see note 17 on page 54 of the 2018 Annual Report.

The total reported cost associated with the above share-based programme, which is settled with equity instruments, is EUR 5 (5) thousand for Q1 2019. The cost also includes the cost of social security contributions.

5. Related party transactions

There were no related party transactions that significantly affected the Company's earnings and financial position during the period. For information on related parties, see note 31 of the 2018 annual report.

6. Pledged assets and contingent liabilities

Pledged assets and contingent liabilities are possible obligations that arise from past events and whose existence is confirmed only by the occurrence or non- occurrence of one or more uncertain future events outside the Group's control, or when there is an obligation arising from past events which is not recognised as a liability or provision because it is not probable that an outflow of resources will be required to settle the obligation or the amount cannot be measured with sufficient reliability.

	Group		*Parent Company*	
Amounts in EUR thousands	*31/03/2019*	*31/03/2018*	*31/03/2019*	*31/03/2018*
Shares in subsidiaries pledged as collateral for bonds	51,687	51,368	31,581	31,532

To provide collateral for borrowing related to the acquisition of the subsidiary HLM Malta Limited, the Parent Company has pledged all shares in the acquired subsidiary. For the Parent Company, the value of the pledged shares comprises the cost, while for the Group the value comprises total net assets, which would disappear from the Group if the subsidiary shares were foreclosed.

7. Events after the end of the period

Shareholders representing 62.5% of the shares and the capital have submitted proposals for the 2019 Annual General Meeting with regard to Net Gaming's Board. Fredrik Rüdén and Peter Åström, with broad industry experience within iGaming, are nominated as new Board members.

After the end of the period, the notice of the Annual General Meeting was issued on 23 May 2019.

After the end of the period, publication of the 2018 annual report has taken place.

Net Gaming has entered into an agreement with ABG Sundal Collier ("ABG") whereby ABG will act as liquidity provider for the Net Gaming share. The purpose is to promote the share's liquidity, and the assignment commences on Monday 13 May 2019.

Key figures and definitions

Key figures, Group

	01/01/2019 31/03/2019	01/01/2018 31/03/2018	01/01/2018 31/12/2018	01/01/2017 31/12/2017
EBITDA margin	63%	72%	67%	68%
Operating margin	58%	68%	66%	68%
Organic growth	-12%	9%	12%	14%
Equity/assets ratio	38%	23%	36%	14%
Return on equity	9%	20%	54%	22%
Equity per share (EUR)	0.31	0.19	0.28	0.12
Number of registered shares at end of period	75,604,487	70,826,723	75,604,487	67,180,880
Weighted average number of shares before dilution	75,604,487	68,099,865	72,476,411	60,773,012
Weighted average number of shares after dilution	75,604,487	68,099,865	72,476,411	68,217,457
Earnings per share after dilution, continuing operations	0.026	0.031	0.105	0.014
Market price per share at end of period (SEK)	7.44	9.58	9.78	8.80
EPS growth (%)	-18%	+223%	+671%	N/A

Net Gaming presents certain alternative performance measures (APMs) in addition to the conventional financial ratios defined by IFRS, in order to achieve better understanding of the development of operations and the Net Gaming Group's financial status. However, the APMs should not be regarded as a substitute for the key ratios required under IFRS. The reconciliation is presented in the tables in the annual report and should be read in connection with the definitions below.

EBITDA margin	EBITDA in relation to revenue
Equity per share, SEK	Equity divided by the number of shares outstanding.
Organic revenue growth	Revenue from affiliate operations compared with the previous period, excluding acquisitions and divestments (last 12 months) and exchange rate movements
Earnings per share, SEK	Profit/loss after tax divided by the average number of shares.
Return on equity	Profit/loss after tax divided by average equity.
Operating margin	Operating profit/loss as a percentage of sales.
Equity/assets ratio	Equity as a percentage of total assets.
Debt/equity ratio	Interest-bearing liabilities including accrued interest related to loan financing, convertibles, lease liabilities, excluding any additional consideration, and less cash, in relation to LTM EBITDA.
EPS growth	Percentage increase in earnings per share (after dilution) between periods.
NDC	The number of new customers making their first deposit with an iGaming (poker, casino, bingo, sports betting) operator. NDCs for the financial vertical are not included.
CPA	Cost Per Acquisition - revenue from “up-front payment” for each individual paying player that Net Gaming refers to its partners (usually the iGaming operator)
Revenue share	Revenue derived from “revenue share”, which means that Net Gaming and the iGaming operator share the net gaming revenue that the player generates with the operator.