



Quarterly Report Q2, 2005

Interim report January 1 - June 30, 2005

CHERRYFÖRETAGEN AB (publ)
Stockholm, 21 July 2005

(All figures in this report are in SEK)

Quarter 2

- **Internet gaming developed strongly during Q2**
- **Betsson customers increase from 105,000 to 140,000**
- **Net Entertainment's success continues; profit increase of over 90 percent**
- **Group net sales increase by 49 percent to SEK 107.7 (72.5) million**
- **Operating profit increased to SEK 11.1 (1.1) million**

Interim Period, January - June

- **Group net sales increase by 37 percent to SEK 192.5 (140.9) million**
- **Operating profit increased to SEK 15.1 (5.3) million**
- **Profit after financial items amounts to SEK 150.7 (7.5) million**
- **Introduction of IFRS affected the reporting period's net financial income by SEK 135 million**
- **Profit after tax amounts to SEK 146.1 (5.7) million, SEK 4.30 (0.17) per share**

Group

Quarter

Cherry's net sales increased by 49 percent to SEK 107.7 (72.5) million during the quarter. Both Cherry Online and Net Entertainment reported substantially increased revenues. SEK 29.3 million of the increase in net sales compared with the previous year relates to the effects of acquired businesses (Betsson SEK 25.8 million and traditional casino operations SEK 3.5 million).

The Group's operating profit amounted to SEK 11.1 (1.1) million. All business areas report an increased operating profit compared with second quarter last year. Net Entertainment reports a profit increase of over 90 percent and Cherry Online has turned a loss of SEK -2 million last year to a profit of SEK 3.5 million. Cherry Casino (traditional forms of gaming) also reports a profit increase compared to the second quarter last year.

Profit/loss after financial items amounted to SEK 11.3 (1.2) million and the profit after tax to SEK 7.8 (0.5) million, which corresponds to SEK 0.22 (0.02) per share.

Interim Period

Group net sales increased by 37 percent to SEK 192.5 (140.9) million during the reporting period. All the business areas reported increased net sales. SEK 46.0 million of the increase in net sales compared with the previous year relates to the effects of acquired businesses (Betsson SEK 35.6 million and traditional casino operations SEK 10.4 million).

Operating profit during the reporting period amounted to SEK 15.1 (5.3) million. All business areas report improved results compared with the same period last year. Net Entertainment reports a profit increase of 76 percent during the reporting period.

Profit after financial items increased to SEK 150.7 (7.5) million. Net financial income includes the measurement of financial instruments at fair market value, which was recognized in the income statement from Q1 at SEK 135.0

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million. The transaction concerned the measurement of subscription rights/call options in Betsson at fair market value based on the external valuation of the company carried out prior to its acquisition. At this point Betsson was valued at SEK 590 million.

Profit/loss after tax amounted to SEK 146.1 (5.7) million, which corresponds to SEK 4.30 (0.17) per share.

Return on equity was 36 (7) percent and return on total capital 31 (6) percent. Equity per share was SEK 13.15 (3.02) at the closing date.

Business areas

Cherry's operations have been restructured, and effective from January 1, 2005 are divided into three business areas:

- Cherry Online - online gaming via Betsson.com and online casinos
- Net Entertainment - development and sales/licensing of games and gaming systems, Casino Module
- Cherry Casino - traditional casino games and gaming machines, mainly in Sweden, Denmark and on cruise ships

All comparison figures for 2004 have been restated in accordance with the new business area organization.

Cherry Online

Net sales for the business area increased during the second quarter to SEK 36.7 (5.1) million and the operating profit increased to SEK 3.5 (-2.0) million. The now wholly-owned Betsson contributed to the period's revenues by SEK 25.8 million and the operating profit by SEK 4.2 million. In addition, the operating profit was affected by the Group's amortisation of acquired intangible assets, which arose in connection with the acquisition of Betsson, by SEK -1.6 (0.0) million.

For the entire reporting period, the business area reported an increase in net sales to SEK 55.8 (12.2) million and a profit increase to SEK 2.5 (-1.6) million. From February 17, 2005, Betsson is consolidated into Cherry, which affected the interim period's revenues by SEK 35.6 million and the operating profit by SEK 5.7 million. In addition, amortisation on acquired intangible assets, which arose in connection with the acquisition of Betsson, affected the operating profit by SEK -2.1 (0.0) million. Betsson's background, present situation and future prospects are described below.

Betsson in brief

Betsson was founded in 2000. Its business concept is to provide a marketplace for betting between two or more parties. In Betsson's system, customers play against each other rather than against a bookmaker, which allows higher winnings to be paid to the players and gives a more varied gaming experience. Since May 2005, Betsson has also offered a bookmaker service in multiple betting form under the product name "Betsson Sport". As well as betting, Betsson also offers an online casino and poker room. The rising popularity of these two products has transformed Betsson into a multi-gaming marketplace. The company's registered office is in London. Betsson holds a British bookmakers' license.

Important events during the period

During the quarter, Betsson has launched multiple betting, which is marketed under the brand name "Betsson Sport". The service is a bookmaking service, where Betsson players can combine several results into one game. Multiple betting is still dominating on the Scandinavian market for sport betting, and Betsson expects good product development.

Also during the period, a mobile poker client was launched making it possible to play poker through a mobile phone, either for real money or play money. The service was launched in June 2005 and has been well received. During the quarter, new casino games were also launched.

Intensive work is ongoing to launch a new, improved site. The launch is planned for autumn.

Betsson's market position

Betsson has established a strong position in the Nordic market through its strong brand and the high level of repayments to customers. Betsson has also succeeded in creating a large user base which regularly uses the service. As liquidity in

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an exchange is a crucial factor in the service's ability to function, Betsson has also established a strong market position where high entrance barriers exist. The combination of this and good customer support, a strong management team, a loyal customer base and positive profitability development creates excellent conditions for the company to increase its market share in the future.

Development of Betsson.com in Q2 2005

Betsson has continued its positive development in the second quarter of 2005. Betsson is currently a profitable gaming company with a proven business model and a large customer base.

Net sales (gaming profit) for the company amounted to SEK 25.8 million for the second quarter and operating profit to SEK 4.2 million. The corresponding numbers for the first quarter were SEK 17.2 million and SEK 1.0 million. This represents an increase in net sales by 50 percent compared to the first quarter.

The number of registered customers at June 30 was 140,500, which means an increase of 34 percent since the end of the first quarter. The number of active customers during the same period was 20,300, which represents an increase of 13 percent compared to the first quarter.

Poker has once again shown the strongest growth. Betsson had a total of 109,000 registered poker players at the end of Q2, compared with 61,000 at March 31, 2005. This represents an increase of 79 percent during the quarter.

The number of active poker players grew to 16,400 during the period, which represents an increase of 36 percent compared to the first quarter.

The number of betting exchange players at June 30, 2005 was 4,000, which is unchanged compared to the first quarter 2005. The second quarter is seasonally weak for the betting exchange, since the major European football leagues finish during May. The lack of a large event such as last year's UEFA Championship in football in June 2004 was probably also a factor. Another contributing reason is that some of the players have moved completely over from the betting exchange to the new business area "Betsson Sport".

The number of active players in the business area "Betsson Sport" was 1,229. The product was launched during May.

The number of active casino players at March 30 was 5,100, compared with 5,500 at the end of 2004, which is a decrease of 8 percent. The decreased activity on the betting exchange, and the habitually slower spring and summer have affected casino activity. Betsson expects a stronger autumn as a result of new product launches and a greater internal focus on the product.

Betsson operates responsible gaming

In April, Betsson signed an agreement with G4, Global Gambling Guidance Group for an accreditation system for responsible gaming standards. G4's program for responsible gaming consists of ethical business standards, information systems for the gaming company's employees and customers, staff development and software which uses a questionnaire to assess whether a player is in the risk zone. The work is going as planned and Betsson expects to receive accreditation during summer 2005. The company aims to become the leading gaming company in the development of technology and staff training to avoid gambling addiction.

Betsson's future prospects

Betsson sees further strong growth in the internet gaming market and will continue its international expansion. Interest for poker is generally continuing and is expected to keep increasing. The media's interest has also increased and plays a more and more important role.

The launches in Norway and Denmark have been successful, with these markets showing good growth. The Swedish market is still Betsson's largest market and is also showing healthy growth. In 2005, Betsson will focus on establishing itself in new markets and strengthening its product range even more. Betsson's therefore reiterates its ambition to have at least 200,000 registered customers at the end of the year.

Cherry's Online Casinos

In the business area Cherry Online, Cherry operates gaming via online casinos. Focus is on CasinoEuro.com which is run from Malta and is focused on Europe as its primary market, and CherryCasino.com which is run from Costa Rica and has North America as its main market. During the period, the casino Apuestas.com was sold.

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The number of registered customers in Cherry online casinos at June 30 was 173,000, which means an increase of 15 percent since the previous quarter. The number of active customers during the quarter was 7,744, an increase of 6 percent.

During the second quarter, investments in the market have been reduced as planned for CasinoEurope.com. This led to a slight decrease in customer influx while the result was improved contrasted with the previous quarter. Increased resources were devoted to the existing customers. The gaming profit (revenues) from Cherry's online casino during the second quarter was SEK 10.8 (5.0) million, an increase of 116 percent.

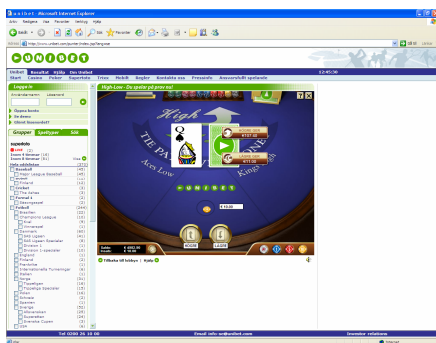
Net Entertainment

Net Entertainment is a leading provider within B2B for online gaming. The company's brand is associated with innovation and quality. During the period, the company has begun rebranding, with the result that the company's trademark will become NETENT.



During this period, Net Entertainment has signed a number of agreements with customers who will be using the company's main product Casino Module. Among these can be mentioned Las Vegas From Home (www.lvfh.com), GII Entertainment (www.giientertainment.com), Bet and Game (www.betandgame.com) and Red Bet (www.redbet.com). In addition, an old customer has returned to Net Entertainment, namely CBM Bookmaker (www.cbmbet.com). The kiosk-project in the UK has been cancelled by our client due to legality issues. Net Entertainment will seek new geographical markets for Internet gaming kiosks.

New development is ongoing and Net Entertainment anticipates increasing the product portfolio with several new games during the second half of 2005.



For the second quarter, the business area's revenues increased with 44 percent to SEK 12.0 (8.4) million and operating profit was improved by 93 percent to SEK 8.9 (4.6) million.

During the entire reporting period, the revenues increased to SEK 23.3 (16.2) million and operating profit rose 76 percent to SEK 16.2 (9.2) million

Cherry Casino

The Cherry Casino business area is an amalgamation of the former business areas Restaurant Casino, Maritime Gaming and New Markets.

The business area operates gaming activities, with table games (blackjack and roulette) at 280 restaurants in Sweden; gaming machines and table games on 40 cruise ships in the Nordic market and on 5 vessels in the Mediterranean via

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partly-owned company; gaming machines at 13 gas stations in Denmark in a joint venture with Danish Shell; and the game of pajazzo in Chile.

Cherry is the market leader in restaurant casinos in Sweden with a market share of 38 percent of active gaming tables. Cherry's share of the maritime gaming market in the Nordic Region is estimated at 34 percent of the number of vessels which have gaming activities.

Revenues for second quarter were SEK 58.8 (58.9) million and the operating profit increased to SEK 1.7 (0.8) million. Maritime gaming operations reported reduced figures, due to the termination of the partnership with Stena Line, while the other gaming operations reported increased revenues. The acquired casino operation Knutsson Casino added SEK 3.5 million to net sales during the quarter.

For the entire reporting period, the revenues increased to SEK 113.0 (112.2) million and operating profit increased to SEK 2.2 (1.5) million. The acquired casino operations Knutsson Casino and Engdahl Casino added SEK 10.4 million to net sales during the reporting period.

Personnel

The average number of employees in the Group was 266 (247) during the period. Most of the increase relates to personnel taken over with the acquisition of Knutsson Casino and Engdahl Casino the previous year, and the acquisition of Betsson during Q1, as well as new recruitment in Net Entertainment and Cherry Online. In June, a total of 832 (836) persons were employed.

As of 1st June, Mats Rydberg took on the role as Managing Director for Cherry A/S (Cherry Casino's Danish operation)

Extraordinary shareholders' meeting, new share issue

The extraordinary shareholders' meeting held on April 18, 2005 concluded the acquisition of Betsson.com, adopting the Board of Directors' proposal to issue 6,855,000 B shares to the owners of GBE Holdings Ltd (Betsson) as payment for the remaining 29 percent of outstanding shares in GBE Holdings Ltd.

The capital contributed in kind was entered in the parent company's (Cherryföretagen AB) balance sheet at a value of SEK 229,642,500, of which SEK 13,710,000 was put into share capital.

Annual General Meeting

The annual general shareholder's meeting was held June 16, 2005. The assembly adopted the statement of income and the balance sheet for the parent company and Group regarding operating year 2004 as they were included in the annual report. It was decided that no dividends would be paid for the fiscal year 2004 and that the earnings would be carried forward.

The members of the board and managing director were granted discharge of liability for the operating year 2004. The assembly decided to re-elect the board members John Wattin, Anders Fällman, Per Hamberg, Anna-Carin Månsson, and Niclas Palmstierna, and newly elect Anders Holmgren (CEO and one of the founders of Betsson). John Wattin was chosen as the chairman of the board at the statutory board meeting.

The assembly further determined to authorise the board to, with or without preferential right to shareholders, make a decision to issue at the most a total of 3,000,000 shares of series B for cash payment and/or determine contribution or offset or otherwise with conditions, as well as to change the articles of association to the effect that the registered office is changed to Stockholm's Municipality, and, by adopting a conversion proviso in the articles of association, give shareholders the right to convert their A-shares to B-shares.

Events after the end of the reporting period

On July 11, Kinnevik reported that they had sold the majority of their shareholdings in Cherry to the Icelandic investment company Burdarás. After the transaction, Burdarás is Cherry's largest shareholder, with 25.1 of share capital and 17.9 percent of votes. Kinnevik's remaining holdings represent 1.8 percent of the capital and 7.9 percent of votes.

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Betsson has signed a contract with Victory 247 for delivery of a complete gaming system for the Internet, containing Betting Exchange, multiple betting, poker and casino. Net Entertainment will deliver the casino and certain other technologies for the project.

2005 Prospects

Net Entertainment is proving successful as a software/systems supplier to other gaming operators. This market, as a whole, is growing.

The acquisition of Betsson means that Cherry Online has gained further operations with strong growth and high potential.

The opening of the EU gaming market, which will soon become a reality before long, following the ruling by the European Court of Justice against the Italian state monopoly, will represent increased opportunities for Cherry.

Cherry has not issued a forecast for the full year 2005.

Future reports

- Quarterly Report Q3 October 25, 2005
- Quarterly Report Q4, Financial Statement 2005 February 16, 2006

For further information, please refer to the summaries included in the quarterly and half-year reports of the Group's statement of income, balance sheet, summary of assets, cash flow statement as well as notes and key business ratio for the period and comparison period, and the parent company's interim report (Note 7).

Stockholm, 21 July 2005
CHERRYFÖRETAGEN AB (publ)

Board of Directors

Review Report

I have summarily reviewed this interim report in accordance with the recommendations of FAR (the institute for the accountancy profession in Sweden). A summary examination is significantly limited in comparison with a full audit. Nothing has appeared indicating that the interim report does not comply with stock market and company legislation.

Stockholm, 21 July 2005

Gunnar Liljedahl
Authorised Public Accountant, Ernst & Young

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Cherry in Brief

Cherry is a privately-owned Swedish gaming company with over 4,400 registered shareholders.

The company's B share is listed on the Stockholm Stock Exchange's O List (CHER B).

Operations are concentrated mainly in online, casino and machine gaming.

The main gaming operations take place in restaurants in Sweden, on cruise ships on Northern European and Mediterranean routes, in amusement halls in Denmark, in shopping centres in Chile, via Betsson.com and globally in online casinos.

Cherry employs a total of over 800 staff.

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Amounts in SEK millions unless otherwise specified

| Consolidated income statement | Note | Q2 2005 | Q2 2004 | Jan-Jun 2005 | Jan-Jun 2004 | Full Year 2004 |
|---|------|----------------|---------|---------------------|--------------|----------------|
| Net sales | | 107.7 | 72.5 | 192.5 | 140.9 | 311.1 |
| External expenses | | -60.7 | -42.2 | -109.5 | -80.5 | -177.3 |
| Personnel expenses | | -30.6 | -25.9 | -58.6 | -49.3 | -104.3 |
| Depreciation according to plan | | -5.3 | -3.3 | -9.3 | -5.8 | -12.9 |
| Other operating expenses | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating expenses | | -96.6 | -71.4 | -177.4 | -135.6 | -294.5 |
| Operating profit/loss | | 11.1 | 1.1 | 15.1 | 5.3 | 16.6 |
| Profit/loss from financial investments | 2. | 0.2 | 0.1 | 135.6 | 2.2 | -0.1 |
| Profit/loss after financial items | | 11.3 | 1.2 | 150.7 | 7.5 | 16.5 |
| Taxes | | -3.5 | -0.7 | -4.6 | -1.8 | -4.4 |
| Profit/loss after tax | | 7.8 | 0.5 | 146.1 | 5.7 | 12.1 |
| Attributable to: | | | | | | |
| Parent company's shareholders | | 8.0 | 0.6 | 146.2 | 5.2 | 11.4 |
| Minority interest | | -0.2 | -0.1 | -0.1 | 0.5 | 0.7 |
| Profit/loss after tax | | 7.8 | 0.5 | 146.1 | 5.7 | 12.1 |
| Profit/loss per share (SEK) | | 0.22 | 0.02 | 4.30 | 0.17 | 0.37 |
| Earnings per share after dilution (SEK) | | 0.21 | 0.02 | 4.13 | 0.16 | 0.36 |
| Proposed/implemented dividend per share (SEK) | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| Group per segment/business area | Note | Q2 2005 | Q2 2004 | Jan-Jun 2005 | Jan-Jun 2004 | Full Year 2004 |
|--|------|----------------|---------|---------------------|--------------|----------------|
| Net sales | | 36.7 | 5.1 | 55.8 | 12.2 | 25.0 |
| (external) | | 12.0 | 8.4 | 23.3 | 16.2 | 37.9 |
| Cherry Casino | | 58.8 | 58.9 | 113.0 | 112.2 | 247.4 |
| Group-wide | | 0.2 | 0.1 | 0.3 | 0.3 | 0.8 |
| Group | | 107.7 | 72.5 | 192.4 | 140.9 | 311.1 |
| Operating profit/loss | | 3.5 | -2.0 | 2.5 | -1.2 | -5.4 |
| Cherry Online | | 8.9 | 4.6 | 16.2 | 9.2 | 21.6 |
| Net Entertainment | | 1.7 | 0.8 | 2.2 | 1.5 | 9.1 |
| Cherry Casino | | -3.0 | -2.3 | -5.8 | -4.2 | -8.7 |
| Group-wide | | 11.1 | 1.1 | 15.1 | 5.3 | 16.6 |

Cherry Online's operating profit is affected by amortisation of identifiable intangible assets which arose in connection to the acquisition of Betsson. Amortisation was SEK -1.6 million for the quarter and SEK -2.1 million for the entire reporting period

| Consolidated balance sheet | Note | 2005-06-30 | 2004-06-30 | 2004-12-31 |
|-------------------------------------|--------|-------------------|------------|------------|
| Intangible assets | 3. | 452.5 | 19.3 | 18.5 |
| Tangible fixed assets | | 34.2 | 29.6 | 27.8 |
| Financial assets | | 9.2 | 35.5 | 34.9 |
| Inventories | | 2.7 | 2.0 | 2.4 |
| Current receivables | | 52.9 | 41.0 | 44.0 |
| Current investments | | 4.1 | 4.3 | 4.1 |
| Cash and liquid assets | | 28.5 | 14.0 | 19.9 |
| Total assets | | 584.1 | 145.7 | 151.6 |
| Equity | 2.3.6. | 502.1 | 96.3 | 101.3 |
| Long-term provision deferred tax | 3. | 16.0 | 1.3 | 2.0 |
| Long-term liabilities | | 6.3 | 5.5 | 7.5 |
| Current liabilities | | 59.7 | 42.6 | 40.8 |
| Total equity and liabilities | | 584.1 | 145.7 | 151.6 |

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Amounts in SEK millions unless otherwise specified

| Consolidated cash flow statement | Jan-Jun 2005 | Jan-Jun 2004 | Full Year 2004 |
|--|---------------------|---------------------|-----------------------|
| Profit/loss after financial items | 150.7 | 7.5 | 16.5 |
| Adjustments for non-cash items | -125.3 | 3.9 | 10.3 |
| Taxes paid | -4.8 | -0.9 | -2.5 |
| Cash flows from operating activities before changes in working capital | 20.6 | 10.5 | 24.3 |
| Changes in working capital | 3.3 | -2.6 | -7.7 |
| Cash flows from operating activities | 23.9 | 7.9 | 16.6 |
| Investments | -14.0 | -25.6 | -31.4 |
| Investment in acquisition of subsidiaries | 4. -0.1 | 0.0 | 0.0 |
| Change in long-term receivables | -1.0 | -2.9 | -3.3 |
| Sale of shares and fixed assets | 0.7 | 3.5 | 5.3 |
| Cash flows from investing activities | -14.4 | -25.0 | -29.4 |
| Dividend paid to minority shareholders in subsidiaries | 0.0 | -0.7 | -1.1 |
| New share issue costs | -0.2 | 0.0 | 0.0 |
| Change in long-term liabilities | -1.2 | 0.0 | 2.0 |
| Cash flow from financing activities | -1.4 | -0.7 | 0.9 |
| Changes to cash and liquid assets | 8.1 | -17.8 | -11.9 |
| Cash and liquid assets at beginning of period | 19.9 | 31.8 | 31.8 |
| Exchange rate differences | 0.5 | 0.0 | 0.0 |
| Cash and liquid assets at end of period | 28.5 | 14.0 | 19.9 |

Amounts in SEK millions unless otherwise specified

| Changes in Group equity | Note | Jan-Jun 2005 | Jan-Jun 2004 | Full Year 2004 |
|---|--------|---------------------|---------------------|-----------------------|
| Opening equity, beginning of year | | 101.3 | 75.8 | 75.8 |
| Opening minority interest (separate item under equity according to IAS 27) | | - | 2.2 | 2.2 |
| Effect from changed accounting principles for financial instruments, O/B value 2005 | 2.3.6. | 222.9 | - | - |
| Dividend paid to minority shareholders for the period | | 0.0 | -0.7 | -1.1 |
| Change in value of financial instruments available for sale | 2. | 32.0 | - | - |
| Non-cash share issues relating to acquisitions | | - | 12.8 | 12.7 |
| New share issue costs | | -0.2 | - | - |
| Translation differences | | 0.0 | 0.5 | -0.4 |
| Profit/loss for the period - parent company's shareholders | | 146.2 | 5.2 | 11.4 |
| - minority interest | | -0.1 | 0.5 | 0.7 |
| Closing equity, end of period | | 502.1 | 96.3 | 101.3 |

| Changes in minority share of Group equity | | Jan-Jun 2005 | Jan-Jun 2004 | Full Year 2004 |
|---|----|---------------------|---------------------|-----------------------|
| Minority's share of opening Group equity, according to IAS 27 | | 1.8 | 2.2 | 2.2 |
| Dividend to minority shareholders in subsidiaries | | 0.0 | -0.7 | -1.1 |
| Minority share of consolidated subsidiaries February 2005 | 4. | 24.5 | - | - |
| Cherry's acquisition of minority share in GBE April 2005 | 4. | -24.5 | - | - |
| Profit/loss for the period | | -0.1 | 0.5 | 0.7 |
| Minority share of closing equity. | | 1.7 | 2.0 | 1.8 |

| Accumulated translation differences in equity | Note | Jan-Jun 2005 | Jan-Jun 2004 | Full Year 2004 |
|--|------|---------------------|---------------------|-----------------------|
| Amount at beginning of the period. | | 0.6 | 1.0 | 1.0 |
| Exchange rate differences in foreign subsidiaries for the period | | 0.0 | 0.5 | -0.4 |
| Amount at end of the period. | | 0.6 | 1.5 | 0.6 |

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| Key ratios, Group | Jan-Jun 2005 2005-06-30 | Jan-Jun 2004 2004-06-30 | Full Year 2004 2004-12-31 |
|--|------------------------------------|------------------------------------|--------------------------------------|
| Number outstanding shares at end of period (millions) | 38.1 | 31.2 | 31.2 |
| Number of shares after full dilution (millions) | 39.6 | 32.7 | 32.7 |
| Average number outstanding shares during period (millions) | 34.0 | 30.7 | 31.0 |
| Number of shares after full dilution (millions) | 35.5 | 32.2 | 32.5 |
| Number of own shares | 0.0 | 0.0 | 0.0 |
| Number registered shareholders | 4 677 | 3 214 | 2 828 |
| Last paid share price (SEK) | 27.40 | 24.00 | 20.80 |
| Profit per share after taxes (SEK) | 4.30 | 0.17 | 0.37 |
| Earnings per share after tax, after dilution (SEK) | 4.13 | 0.16 | 0.36 |
| Cash flow per share (SEK) | 0.26 | -0.58 | -0.39 |
| Cash flow per share after dilution (SEK) | 0.25 | -0.55 | -0.37 |
| Equity per share (SEK) | 13.15 | 3.02 | 3.19 |
| Equity per share after dilution (SEK) | 12.81 | 3.08 | 3.24 |
| Dividend per share (SEK) | 0.00 | 0.00 | 0.00 |
| Return on equity (percent) | 36 | 7 | 13 |
| Return on total capital (percent) | 31 | 6 | 13 |
| Return on capital employed (percent) | 36 | 8 | 19 |
| Operating margin (percent) | 7.8 | 3.8 | 5.3 |
| Profit margin (percent) | 78.3 | 5.3 | 5.3 |
| Equity/assets ratio (percent) | 86 | 66 | 67 |
| Quick ratio (percent) | 143 | 139 | 167 |
| Investments (SEK million) | 14.1 | 25.6 | 31.4 |
| Cash and liquid assets (SEK million) | 28.5 | 14.0 | 19.9 |
| Average number of employees (full-time equivalents) | 266 | 247 | 254 |
| Number of employees at end of period | 832 | 836 | 843 |



Note 1. Accounting principles

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting, which follows the provisions of the Swedish Financial Accounting Standards Council's recommendation RR31 Interim Financial Reporting for Groups. The parent company's report has been prepared in accordance with RR 32 Accounting for Legal Entities. The accounting principles applied in this interim report are accordance with the principles given in the 2004 annual report.

The accounting principles applied in this interim report are as described in the consolidated financial statements in the 2004 annual report, note 34. This note states that International Financial Reporting Standards (IFRS) will be applied with effect from 2005 and that comparison figures relating to 2004 will be restated in accordance with the new principles, with the exception of those which apply to financial instruments. In accordance with the rules for transition to IFRS, the new principles for financial instruments are applied only in the parts of the accounts concerning 2005.

According to IFRS 1, reporting will be prepared in accordance with the IFRS standards that apply on December 31, 2005. These standards must also have been approved by the EU. Consequently, the effects of the transition to IFRS presented in this interim report are preliminary and based on currently applicable IFRS and relevant interpretations, which may be changed before December 31, 2005 to reflect the associated effect on reported amounts.

The effects on shareholders' equity at the beginning of this year and at the beginning of 2004, when figures are restated according to the new principles, are shown in note 6 of this interim report. The effects of restating comparison figures for reporting period January-June 2004 and full-year 2004 results, and for equity at the end of the period and full-year 2004, are described in note 5 of this interim report.

Corresponding information relating to the full year 2004 and shareholders' equity at the end of 2004 is also shown in note 34 of the 2004 annual report, which is available on the company's website.

A correction has been made in the Q2 report. It applies for deferred tax receivables which in the 2004 annual report and the quarterly report for Q1 2005 were incorrectly reported as current receivables. As of the current report, deferred tax receivables are reported as long-term receivables (included in financial assets). All comparison figures for previous periods have been recalculated.

Note 2. Reporting of change in value of financial instruments

During the first quarter, a measurement of financial instruments was done regarding GBE Holdings Ltd. (Betsson) at fair market value. This applied to Cherry's holdings of shares and derivatives (subscription rights and call options) in Betsson before the acquisition on February 17. At the beginning of 2005, the shares and derivatives were measured at fair market value, which was reported directly to shareholders' equity. The valuation was based on a calculated value of the company of SEK 350 million, as at January 1, 2005. See note 6 in this report and note 34 in the 2004 annual report.

The valuation of Betsson conducted in conjunction with Cherry's acquisition of the company during Q1, amounted to SEK 590 million. Under IFRS, the fair value of Cherry's holding of financial instruments in Betsson is measured at the fair market value immediately before the transaction, which means that Betsson becomes a subsidiary of Cherry (acquisition date).

For this measurement at fair value, the classification of financial instruments shown in note 34 of the 2004 annual report is used, which means that:

- Shares which are not shares in subsidiaries or associated companies are classified under the category available for sale. Measurement is at fair market value, with the change in value reported directly to shareholder' equity until the asset is sold or permanent value impairment is identified, which is then recognized in the income statement. Cherry's holding in Betsson amounted to 17.3 percent at the time. The fair value measurement meant an increase to the carrying amount by SEK 32 million, with the change in value reported directly to shareholders' equity.
- Derivatives are classified as assets measured at fair market value and for which the change in value is reported in the income statement. Cherry held subscription rights and call options in Betsson enabling it to acquire up to 71 percent of the total number of shares in the company at fixed prices. Measurement of these derivatives at fair market value before the acquisition produced an increase in the reported value of SEK 135 million which, in accordance with IFRS, was reported in the income statement during the first quarter.

Note 3. Reporting and entering GBE Holdings Ltd (Betsson) in the consolidated balance sheet

At the beginning of 2005, Cherry's holding in Betsson corresponded to 17.3 of the total number of shares in the company, plus a convertible debenture loan. Under an agreement between the companies, Cherry was entitled to convert the debentures into shares at a fixed price in February 2005 and to purchase more shares in the company, also at a fixed price. These two transactions would result in Cherry holding 71 percent of the total shares in Betsson. If Cherry exercised its call options, this also represented an undertaking to acquire the remaining shares in Betsson at a market value determined by a valuation conducted by two independent external parties.

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Acquisition of up to 71 percent during the first quarter

Cherry converted its debentures and called in the options on February 17, 2005. With effect from this date, Betsson is considered a subsidiary (71%-owned) and consolidated into the Cherry Group.

Betsson has been consolidated at cost of acquisition SEK 420.2 million in the Group's balance sheet (in accordance with the fair value measurement of Cherry's financial instruments owned before the acquisition. See notes 2 and 6).

In accordance with IFRS 3, the acquirer shall, at the acquisition date, identify, measure and allocate the acquiree's identifiable assets, liabilities and contingent liabilities. Identifiable intangible assets shall also be allocated and measured at fair market value if they satisfy certain conditions. For these assets, an estimate of the economic life is made, after which the asset is amortised according to the estimated economic life. If the cost of acquisition exceeds the net fair value of the acquired part of the acquiree's identifiable assets, liabilities and contingent liabilities, this is recognized as goodwill. Goodwill which arises is not amortised. Instead, the acquirer shall carry out an impairment test at least once a year.

Cherry has used external experts to identify and calculate the following assets and liabilities in Betsson at the date of acquisition and to estimate economic life:

- Customer database, SEK 9 million, remaining life 2 years
- Surplus value computer system/technical platform, SEK 9 million, remaining life 5 years
- Trademarks, SEK 77 million, indefinite life
- Deferred tax on above assets, SEK 14 million, of which deferred tax on customer database and computer systems is reversed in line with depreciation/amortisation of these assets

The valuation resulted in a goodwill entry of SEK 336 million, which according to IFRS is not amortised.

As Cherry had acquired 71 percent of Betsson at the end of the first quarter, the minority share of the acquired assets and liabilities (excluding goodwill) in that company amounted to SEK 24.5 million at March 31, 2005.

Acquisition of the remaining 29 percent during the second quarter

At the extraordinary general meeting of shareholders on April 18, Cherry acquired the remaining 29 percent of the shares in Betsson, which was paid for with the company's own shares. Cherry issued a total of 6.855.000 shares at a price of SEK 33.50. In the consolidated financial statements, this transaction resulted in the above described minority share falling to Cherry's shareholders (internal transfer in equity) and dilution.

Effects since the acquisition

The amortisations on the identifiable intangible assets described above will be SEK 6.3 million during year 1 and year 2 and SEK 1.8 million during years 3-5 after the acquisition. The amortisations affect business area Cherry Online's operating profit.

Cherry will, according to plans, carry out an impairment test during the last quarter 2005.

Note 4. Reporting of acquisition of subsidiary in the consolidated cash flow statement 2005

During the year, the company GBE Holding Ltd (Betsson) was acquired. The value of the acquired assets and liabilities were, according to the pre-acquisition analysis, as follows:

| | |
|--|--------------|
| Assets | 6.6 |
| Current receivables | 7.2 |
| Cash and liquid assets | 6.3 |
| Current liabilities | <u>-13.7</u> |
| Purchase price paid | 6.4 |
| Cash and liquid assets in the acquired company | <u>-6.3</u> |
| Effect on the Group's cash and liquid assets | 0.1 |

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Note 5. IFRS-bridge, income statements and closing balances 2004

The effects of adjustments of comparison figures for the reporting period January-June 2004 and the full year 2004, and the closing positions at June 2004 and December 2004 resulting from the transition to IFRS, are shown below.

| Income statement | Mid-year, January-June 2004 | | | Full year, January-December 2004 | | | |
|--|-----------------------------|----------------|----------------|----------------------------------|----------------|----------------|--------------|
| | | Per Sw GAAP | Change IFRS | Per IFRS | Per Sw GAAP | Change IFRS | Per IFRS |
| Net sales | | 140.9 | | 140.9 | 311.1 | | 311.1 |
| Operating expenses | A. | -136.3 | 0.7 | -135.6 | -296.1 | 1.6 | -294.5 |
| Operating profit/loss | | 4.6 | 0.7 | 5.3 | 15.0 | 1.6 | 16.6 |
| Profit/loss from financial investments | | 2.2 | | 2.2 | -0.1 | | -0.1 |
| Profit/loss after financial items | | 6.8 | 0.7 | 7.5 | 14.9 | 1.6 | 16.5 |
| Minority interest | B. | -0.6 | 0.6 | 0.0 | -0.7 | 0.7 | 0.0 |
| Taxes | | -1.8 | | -1.8 | -4.4 | | -4.4 |
| Profit/loss after tax | | 4.4 | 1.3 | 5.7 | 9.8 | 2.3 | 12.1 |
| | | | | | | | |
| Balance sheet | O/B at 2004-Jun-30 | | | O/B at 2004-Dec-31 | | | |
| | | Per Sw GAAP | Change IFRS | Per IFRS | Per Sw GAAP | Change IFRS | Per IFRS |
| Intangible assets | C. | 18.6 | 0.7 | 19.3 | 17.0 | 1.5 | 18.5 |
| Tangible fixed assets | | 29.6 | | 29.6 | 27.8 | | 27.8 |
| Financial assets | | 35.5 | | 35.5 | 34.9 | | 34.9 |
| Inventories | | 2.0 | | 2.0 | 2.4 | | 2.4 |
| Current receivables | | 41.0 | | 41.0 | 44.0 | | 44.0 |
| Current investments | | 4.3 | | 4.3 | 4.1 | | 4.1 |
| Cash and liquid assets | | 14.0 | | 14.0 | 19.9 | | 19.9 |
| Total assets | | 145.0 | 0.7 | 145.7 | 150.1 | 1.5 | 151.6 |
| | | | | | | | |
| Equity | | 93.6 | 2.7 | 96.3 | 98.0 | 3.3 | 101.3 |
| Minority interest | D. | 2.0 | -2.0 | 0.0 | 1.8 | -1.8 | 0.0 |
| Long-term provision deferred tax | | 1.3 | | 1.3 | 2.0 | | 2.0 |
| Long-term liabilities | | 5.5 | | 5.5 | 7.5 | | 7.5 |
| Current liabilities | | 42.6 | | 42.6 | 40.8 | | 40.8 |
| Total equity and liabilities | | 145.0 | 0.7 | 145.7 | 150.1 | 1.5 | 151.6 |

A.
In accordance with IFRS 3, goodwill amortisation ceases. The amounts relate to reversed amortisation for goodwill arising from the acquisition of subsidiaries.

B.
In accordance with IFRS, no deductions for minority share of the period's result will be made in the income statement. Instead, the result attributed to the parent company's shareholders and the minority interest is distributed in connection with the income statement.

C.
Goodwill has not been restated for acquisitions prior to January 1, 2004.

D.
As a result of the transition to IFRS, minority interests are classified as a separate item under shareholders' equity.

E.
IAS 32 and IAS 39, regarding financial instruments, are applied from 2005 and the comparison figures for 2004 have in accordance with the transition rules not been recalculated.

Note 6. IFRS bridge. 2005 and 2004 opening balances

The effects of adjustments resulting from the transition to IFRS for opening balances in 2005 and 2004 are shown below.

| Balance sheet | | O/B at 2005-Jan-01 | | | O/B at 2004-Jan-01 | | |
|-------------------------------------|----|--------------------|--------------|--------------|--------------------|-------------|--------------|
| | | Per Sw GAAP | Change IFRS | Per IFRS | Per Sw GAAP | Change IFRS | Per IFRS |
| Intangible assets | A. | 17.0 | 1.5 | 18.5 | 11.0 | | 11.0 |
| Tangible fixed assets | | 27.8 | | 27.8 | 25.0 | | 25.0 |
| Financial assets | B. | 34.9 | 222.9 | 257.8 | 14.3 | | 14.3 |
| Inventories | | 2.4 | | 2.4 | 2.4 | | 2.4 |
| Current receivables | | 44.0 | | 44.0 | 31.8 | | 31.8 |
| Current investments | | 4.1 | | 4.1 | 3.7 | | 3.7 |
| Cash and liquid assets | | 19.9 | | 19.9 | 31.8 | | 31.8 |
| Total assets | | 150.1 | 224.4 | 374.5 | 120.0 | 0.0 | 120.0 |
| Equity | D. | 98.0 | 226.2 | 324.2 | 75.8 | 2.2 | 78.0 |
| Minority interest | C. | 1.8 | -1.8 | 0.0 | 2.2 | -2.2 | 0.0 |
| Long-term provision deferred tax | | 2.0 | | 2.0 | 0.7 | | 0.7 |
| Long-term liabilities | | 7.5 | | 7.5 | 5.5 | | 5.5 |
| Current liabilities | | 40.8 | | 40.8 | 35.8 | | 35.8 |
| Total equity and liabilities | | 150.1 | 224.4 | 374.5 | 120.0 | 0.0 | 120.0 |

A.
In accordance with IFRS 3, goodwill amortisation ceases. The amount relates to reversed amortisation in 2004 for goodwill arising from the acquisition of subsidiaries.

B.
IAS 32 and IAS 39, regarding financial instruments, are applied from 2005. Shares in other unlisted companies (Betsson and Betware) have been reported in the opening balance at fair market value. For Betware, the shares were valued at the price of the last known transaction, and accordingly a revaluation of SEK 2.8 million was made and reported directly to shareholders' equity pending external sale. The shares in Betsson and the subscription rights/call options owned by the Group on January 1 were measured at fair market value, which resulted in a revaluation of SEK 220.1 million, reported directly to shareholders' equity. The fair market value of the company Betsson was estimated at SEK 350 million at the beginning of 2005, based on the external valuation conducted at the date of acquisition and which finally amounted to SEK 590 million. A subsequent downward adjustment of this value was made, based on price movements of shares in similar companies in the period from January 1 to the date of acquisition.

C.
As a result of the transition to IFRS, minority interests are classified as a separate item under shareholders' equity.

D.
Goodwill has not been restated for acquisitions prior to January 1, 2004.

Note 7. The parent company's interim report

The parent company provides and sells internal services to other group member companies in the areas of finance, accounting, administration and management, and in addition has certain external licensing revenues.

Net sales for the reporting period amounted to SEK 1.3 (1.0) and profit after financial items amounted to SEK 128.4 (-3.8) million. Valuation of financial instruments to a fair market value has affected the net financial income for the reporting period by SEK 135.0 (0.0) million.

During the reporting period, the parent company's investments in financial assets amounted to SEK 234.7 million, of which SEK 229.6 million were paid by issue of own shares and the rest with own funds.

Cash and liquid assets on the balance date amount to SEK 1.5 million compared to SEK 1.6 million at the turn of the year. The company has no bank loans or bank credits.

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