

Quarterly Report

1 January – 31 March 2006

CHERRYFÖRETAGEN AB (publ)
Stockholm, Sweden, 15 May 2006

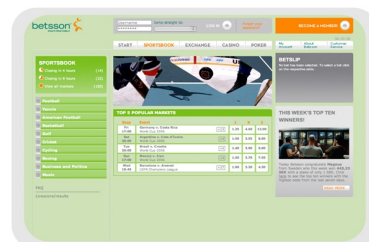
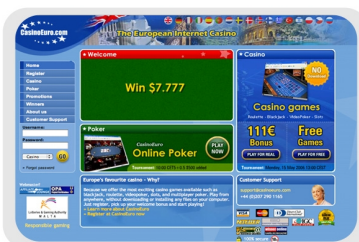


All figures in this report are in SEK.
Numbers in parenthesis indicate the corresponding period of the previous year.

Cherry's Internet gaming developed very strongly

- Cherry Online's revenues increased to SEK 68.8 (19.1) million
- The number of Betsson customers increased by 23 percent to 298,000 during the quarter
- The number of active Betsson customers increased by 32 percent during the quarter
- Net Entertainment's revenues increased by 47 percent to SEK 21.6 million
- Cherry Casino is expanding in the Mediterranean
- The group's net sales increased by 58 percent to SEK 133.2 (84.1) million
- Operating profit increased by 122 percent to SEK 8.9 (4.0) million
- Profit/loss after financial items increased to SEK 7.1 (139.4) million.
- Introduction of IFRS affects last year's annual net financial income by SEK 135.0 million
- Profit/loss after tax amounted to SEK 5.0 (138.3) million, which corresponds to SEK 0.14 (4.43) per share.
- Work with division of the Group continues as planned.

"The first quarter was marked by a show of strength from Net Entertainment. Sales were strong and margins remained high while we increased the tempo of our development efforts. Internet gaming also continues to show strength. CasinoEuro increased its net sales by 70 percent during the quarter while Betsson's new site and improved product offering attracted new customers and increased customers' degree of activity," says Pontus Lindwall, CEO of Cherry.



Group

Cherry's net sales increased by 58 percent to SEK 133.2 (84.1) million during the quarter. Internet-based operations Cherry Online and Net Entertainment reported increased net sales.

The year's operating profit amounts to SEK 8.9 (4.0) million. Both Net Entertainment and Cherry Online reported increased profits compared with the same period of the previous year, while Cherry Casino's traditional operations reported a practically unchanged result. Group-wide costs increased slightly during the period due to non-recurring costs for financial counselling regarding division of the Group. Operating margin increased to 6.7 (4.7) percent.

Profit before tax amounted to SEK 7.1 (139.4) million. The comparison includes valuation of financial instruments to a fair market value, which increased the net financial income of the first quarter of 2005 by SEK 135.0 million. This valuation to a fair market value was based on the external valuation of subscription rights and call options in Betsson and was conducted in conjunction with Cherry's acquisition of the company.

Profit/loss after tax amounted to SEK 5.0 (138.3) million, which corresponds to SEK 0.14 (4.43) per share. If the valuation of financial instruments to a fair market value is excluded from the income statement of the previous year, profit increased to SEK 0.14 (0.11) per share.

Return on equity was 1 (36) percent and return on total capital 1 (31) percent. Equity per share was SEK 12.51 (13.15) at the closing date.

Business areas

Cherry's operations are divided into three business areas:

- Cherry Online - Internet gaming on a global market primarily via Betsson.com and CasinoEuro.com
- Net Entertainment - development of gaming software for licensing to international gaming companies
- Cherry Casino - traditional casino gaming and gaming machines in Sweden, Denmark and on cruise ships

Cherry Online

Net sales for the business area increased during the quarter to SEK 68.8 (19.1) million and the operating profit increased to SEK 1.5 (-1.0) million. The development within CasinoEuro.com was especially pleasing. Net sales increased by 70 percent compared to the previous quarter. This increase was primarily achieved through product development.

Betsson.com

Betsson continued to show strong growth during the quarter. The number of registered customers at March 31 was 298,000, which means an increase of 23 percent since December 31. The number of active customers increased more rapidly (by 32 percent) and reached 47,000 by the end of the quarter. This is an increase of 161 percent compared to one year ago.

During the quarter, Betsson began operating in Poland. With 37 million residents, Poland is a large market showing strong growth in e-trade and Internet gaming.

Poker has once again shown strong growth. The total number of registered poker players increased by 21 percent during the quarter, from 186,800 at December 31 to 226,000. At the same time, the number of active poker customers increased by 14 percent to 35,300. Compared to the first quarter of 2005, this is a 194 percent increase in the number of poker players.

The launch of mobile poker was successful. Over 2,800 customers have now played poker for real money via their mobile phone. This is an increase of 35 percent compared to the previous quarter. The scope of games via mobile phones is, however, marginal compared to traditional Internet gaming.

The number of betting exchange players at December 31 was 4,000, which represents a decrease of 9 percent compared to fourth quarter 2005.

The number of active players in the business area "Betsson Sport" totalled 7,200, compared to 5,300 the previous year. This is a growth of 36 percent in Q1.

The number of active casino players at March 31 was 16,900, compared with 7,600 on December 31, an increase of 122 percent.

Cherry's Online Casinos

In the business area Cherry Online, Cherry also operates gaming via online casinos. Focus is on CasinoEuro.com, which is run from Malta with Europe as its primary market.

The number of registered customers in Cherry online casinos at March 31 was 210,900, which means an increase of 4 percent since the previous quarter. The number of active customers during the quarter was 9,800, an increase of 18 percent. CasinoEuro developed very strongly during the period. Net sales increased by 70 percent compared to the previous quarter and by 158 percent compared to the first quarter 2005.

Net Entertainment

Net Entertainment is a leading provider within B2B for online gaming. The company's brand is associated with innovation and quality. Net Entertainment develops gaming software for licensing to customers, today consisting of around 30 different gaming companies such as Unibet, Gamebookers, NordicBet, Bet24, and 24hpoker. Revenues consist of royalties and other proceeds from sales.

Net Entertainment's sales increased substantially during the quarter - an increase by 47 percent to SEK 21.6 (14.7) million. Operating profit increased to SEK 10.6 (7.3) million. Operating margin remained in principle unchanged at 49 (50) percent. Net Entertainment also licenses out its software and sales consulting services internally within the Group to Cherry Online. These revenues are included in the figures reported above. Excluding these sales within the Group, Net Entertainment's revenues totalled SEK 15.7 (11.3) million.

The company's increased product development efforts have borne fruit. Net Entertainment now has an organisation that is able to launch new products at a rapid pace and with high quality. Coupled with continual product development is the development of new product families to supplement the company's popular CasinoModule. The new products will enable Net Entertainment to attract new customer categories.

Cherry Casino

Business area Cherry Casino operates gaming activities, with table games (blackjack and roulette) at 250 restaurants in Sweden; gaming machines and table games on 37 cruise ships in the Nordic market and on 8 vessels in the Mediterranean via partly-owned company; and gaming machines at 8 gas stations in Denmark in a joint venture with Danish Shell.

Cherry is the market leader in restaurant casinos in Sweden with a market share of 37 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. During the period, Cherry Casino entered into an agreement for gaming on three additional vessels in the Mediterranean. Operations on these vessels will be initiated during the second quarter.

Revenues for the second quarter dropped to SEK 48.5 (54.3) million and operating profit totalled SEK 0.4 (0.5) million. The decrease in revenues and profit can primarily be attributed to a market downturn within Swedish restaurant casino gaming, while maritime and other operations show somewhat improved figures compared to the same period of the previous year. The first quarter of the year is usually the weakest for Cherry Casino.

Personnel and organisation

The average number of employees during the period was 270 (255) for the Group. Net Entertainment and Cherry Online saw an increase in personnel, while the number of employees in traditional gaming activities dropped. At the end of the quarter, there were 794 (866) employees.

Events after the end of the reporting period

Net Entertainment has entered into several agreements regarding CasinoModule. These agreements will be put into operation during the second quarter.

In April, the EU Commission decided to initiate an investigation of seven member countries (including Sweden) to determine whether the gaming legislation of the country infringes on EC rights.

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2006 Prospects

The Board proposes that the Cherry Group be split into three independently listed companies that correspond to the current business areas. The Board has determined that the three operational branches could be developed more rapidly and stronger on their own. A split also gives better transparency of the different businesses and gives shareholders the possibility to choose their desired risk level and area of operations. Distribution of Cherry Casino dividends are expected in the second quarter while distribution of Net Entertainment dividends are expected in the autumn.

The proposal will be formed so Betsson continues its operations under the publicly traded holding company Cherryföretagen AB (publ). It will be recommended that Cherry change their name to Betsson.

Betsson (currently Cherry Online) is expected to at least double their turnover during 2006

The opening of the EU gaming market, which became more of a reality during the first quarter, represents increased opportunities for Cherry in all business areas.

Cherry has not issued a forecast for the full year 2006.

Financial reports

- Quarterly report for second quarter 2006 18 August 2006
- Quarterly report for third quarter 2006 13 November 2006

Accounting principles

The accounting principles remain unchanged from the year-end accounting 2005. This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting. Further information on the Group's accounting and valuation principles is found in note 1 of the annual report for 2005.

For further information, please refer to the summaries included in the quarterly 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 as well as the annual report for 2005.

Stockholm, 15 May 2006

Pontus Lindwall
President and CEO

Review report

This report was not subject to review by the company auditor.

For further information, please contact:

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Cherry in Brief

Cherry is a publicly traded Swedish gaming company with around 4,000 shareholders. The company's B share is listed on the Stockholm Stock Exchange's O List. Operations are concentrated mainly in online, casino and machine gaming. Gaming operations are primarily run via the online casinos and the betting exchange Betsson.com. Through Cherry Casino, gaming operations are run in restaurants in Sweden, on cruise ships and amusement halls. Cherry employs approximately 800 people.

Amounts in SEK millions unless otherwise specified

Consolidated income statement	Q1 2006	Q1 2005	Full Year 2005	Full Year 2004
Revenues	133.2	84.1	444.2	308.5
Capitalized development costs	2.4	0.8	5.7	2.7
External expenses	-87.2	-48.8	-260.2	-177.3
Personnel expenses	-32.8	-28.1	-122.0	-104.3
Depreciation according to plan	-6.6	-4.0	-21.3	-13.0
Other operating expenses	-0.1	0.0	-0.6	0.0
Operating expenses	-124.3	-80.1	-398.4	-291.9
Operating profit/loss	8.9	4.0	45.8	16.6
Financial income	-0.5	135.3	145.9	1.9
Financial costs	-1.3	0.1	-4.7	-2.0
Profit/loss before tax	7.1	139.4	187.0	16.5
Tax	-2.1	-1.1	-9.0	-4.4
Profit/loss after tax	5.0	138.3	178.0	12.1
Attributable to:				
Parent company's shareholders	5.3	138.2	176.9	11.4
Minority interest	-0.3	0.1	1.1	0.7
Profit/loss after tax	5.0	138.3	178.0	12.1
Profit/loss per share (SEK)	0.14	4.43	4.91	0.37
Earnings per share after dilution (SEK)	0.13	4.24	4.73	0.36
Proposed/implemented dividend per share (SEK)	0.00	0.00	0.00	0.00

Group per segment/business area	Q1 2006	Q1 2005	Full Year 2005	Full Year 2004
Revenues				
(external)				
Cherry Online	68.8	19.1	154.5	25.0
Net Entertainment 1)	15.7	11.3	48.3	35.3
Cherry Casino	48.5	54.3	240.7	247.4
Group-wide	0.2	0.1	0.7	0.8
Group	133.2	84.8	444.2	308.5
Operating profit/loss				
Cherry Online	1.5	-1.0	16.7	-5.4
Net Entertainment	10.6	7.3	35.8	21.6
Cherry Casino	0.4	0.5	7.0	9.1
Group-wide	-3.6	-2.8	-13.7	-8.7
Group	8.9	4.0	45.8	16.6

1) In the statement above, only the business areas' external income is accounted for. In addition to this, Net Entertainment supplies the CasinoModule and consulting services to the business area Cherry Online. Net Entertainment's revenues including these sales amount to:

Q1 2006	Q1 2005	Full Year 2005	Full Year 2004
21.6	14.7	68.9	40.5

Amounts in SEK millions unless otherwise specified

Consolidated balance sheet	2006-03-31	2005-03-31	2005-12-31	2004-12-31
Intangible assets	396.7	395.9	395.2	18.5
Tangible fixed assets	31.9	28.2	27.3	27.8
Financial investments	0.0	3.5	0.0	21.6
Other long-term receivables	1.5	3.9	1.6	11.4
Deferred tax receivables	0.7	1.8	0.7	1.9
Inventories	1.9	2.7	1.9	2.4
Current receivables	64.9	52.2	68.3	44.0
Current investments	0.0	4.1	0.0	4.1
Cash and liquid assets	80.4	25.0	78.4	19.9
Total assets	578.0	517.3	573.4	151.6
Equity	479.0	436.7	474.1	101.3
Long-term interest bearing liabilities	11.0	4.5	9.7	4.7
Other long-term liabilities	0.0	1.6	0.0	2.8
Deferred tax liabilities	14.2	16.2	14.4	2.0
Current interest bearing liabilities	6.9	0.8	3.5	0.8
Other current liabilities	66.9	57.5	71.7	40.0
Total equity and liabilities	578.0	517.3	573.4	151.6
Consolidated cash flow statement	Q1 2006	Q1 2005	Full Year 2005	Full Year 2004
Profit/loss after financial items	7.1	139.4	187.0	16.5
Adjustments for non-cash items	6.9	-130.9	-119.5	10.2
Taxes paid	-2.2	-0.4	-3.8	-0.5
Cash flows from operating activities before changes in working capital	11.8	8.1	63.7	26.2
Changes in working capital	1.3	1.1	-3.6	-9.0
Cash flows from operating activities	13.1	9.2	60.1	17.2
Investments	-12.9	-4.5	-29.4	-32.0
Investment in acquisition of subsidiaries	-	2.0	2.0	0.0
Change in long-term receivables	0.1	-0.4	-0.3	-3.3
Sale of shares and fixed assets	0.1	0.2	19.9	5.3
Cash flows from investing activities	-12.7	-2.7	-7.8	-30.0
Dividend paid to minority shareholders in subsidiaries	-	-	-	-1.1
New share issue costs	-	-	-0.2	0.0
Change in long-term liabilities	1.9	-1.5	5.4	2.0
Cash flows from financing activities	1.9	-1.5	5.2	0.9
Changes to cash and liquid assets	2.3	5.0	57.5	-11.9
Cash and liquid assets at beginning of period	78.4	19.9	19.9	31.8
Exchange rate differences	-0.3	0.1	1.0	0.0
Cash and liquid assets at end of period	80.4	25.0	78.4	19.9

Amounts in SEK millions unless otherwise specified

Changes in Group equity	Q1 2006	Q1 2005	Full Year 2005	Full Year 2004
Opening balance	474.1	101.3	101.3	75.8
Effect of changed accounting principles, IFRS 27	-	-	-	2.2
Effect of changed accounting principles, IAS 39	-	222.9	222.9	-
Adjusted opening balance	474.1	324.2	324.2	78.0
Translation differences	-0.1	-0.2	0.3	-0.4
Financial assets that can be sold:				
- Total wealth changes reported directly against equity	-	31.9	31.9	-
- Reported in income statement at sale	-	-	-2.8	-
Acquisition and consolidation of Betsson (71%) adjusted to acquisition value of previously acquired shares	-	-57.5	-57.5	-
Profit/loss for the period	5.0	138.3	178.0	12.1
Total change in net wealth, excl. transactions against company owners	479.0	436.7	474.1	89.7
Dividend to minority shareholders in subsidiaries	-	-	-	-1.1
Sale of minority owned sub-subsidiaries	-	-	0.2	-
New issues and non-cash issues with acquisition of companies and shares	-	-	-	12.7
New share issue costs	-	-	-0.2	-
Equity, end of period	479.0	436.7	474.1	101.3
Attributable to:				
Parent company's shareholders	476.2	410.4	471.0	99.5
Minority interest	2.8	26.3	3.1	1.8
Total equity	479.0	436.7	474.1	101.3

Key ratios, Group	Q1 2006	Q1 2005	Full Year 2005	Full Year 2004
	2006-03-31	2005-03-31	2005-12-31	2004-12-31
Number outstanding shares at end of period (millions)	38.1	31.2	38.1	31.2
Number of shares after full dilution (millions)	39.6	32.7	39.6	32.7
Average number outstanding shares during period (millions)	38.1	31.2	36.1	31.0
Number of shares after full dilution (millions)	39.6	32.7	37.6	32.5
Number of own shares	0.0	0.0	0.0	0.0
Number registered shareholders	3 959	4 094	3 785	2 828
Last paid share price (SEK)	34.00	32.00	28.20	20.80
Profit per share after taxes (SEK)	0.14	4.43	4.91	0.37
Earnings per share after tax, after dilution (SEK)	0.13	4.24	4.73	0.36
Cash flow per share (SEK)	0.05	0.16	1.62	-0.39
Cash flow per share after dilution (SEK)	0.05	0.16	1.57	-0.37
Equity per share (SEK)	12.51	13.15	12.38	3.19
Equity per share after dilution (SEK)	12.19	12.74	12.06	3.24
Dividend per share (SEK)	0.00	0.00	0.00	0.00
Return on equity (percent)	1	36	44	13
Return on total capital (percent)	1	31	40	13
Return on capital employed (percent)	2	36	46	19
Operating margin (percent)	6.7	4.7	10.3	5.4
Profit margin (percent)	5.3	165.8	42.1	5.3
Equity/assets ratio (percent)	83	84	83	67
Quick ratio (percent)	197	139	195	167
Investments (SEK million)	12.9	4.5	29.4	32.0
Cash and liquid assets (SEK million)	80.4	25.0	78.4	19.9
Average number of employees (full-time equivalents)	270	255	273	252
Number of employees at end of period	794	866	842	843