




## Annual Report 2004

-  Quality and innovation
-  Combination of online gaming and traditional casino gaming
-  Offensive acquisitions mean larger market shares



## A SUCCESSFUL YEAR

- Group net sales increased by 18 percent to SEK 311.1 (264.3) million.
- Net sales in online gaming increased by more than 110 percent.
- Profit after net financial items increased to SEK 14.9 (0.6) million.
- Profit after tax amounted to SEK 9.8 (2.6) million.
- Earnings per share increased to SEK 0.32 (0.08).

### Events after the end of the report period

- Cherry acquires all the shares in betting company Betsson.com.
- Cherry is divided into three new business areas: Cherry Online, Net Entertainment and Cherry Casino.

Contents	
1	What you need to know about Cherry
2	President's review
4	About Cherry
6	Market
8	Cherry Online
10	Net Entertainment
12	Cherry Casino
14	5-year overview
16	The share
18	Board of Directors' report
25	Income statement
26	Balance sheet
28	Changes in equity
29	Cash flow statement
30	Notes
45	Audit report
46	Board of Directors
47	Management
48	Addresses

The Annual General Meeting of Shareholders of Cherryföretagen AB (publ) will be held at 16.00 on Thursday, June 16, 2005 in Tegensalen at Tegen Konferens, Sundbybergsvägen 9, Solna.

Shareholders who wish to participate in the Annual General Meeting must

- be recorded in the register of shareholders held by VPC AB (Swedish Securities Register Center) no later than Friday, June 3, 2005
- notify the company of their intention to participate no later than 12.00 p.m. on Tuesday, June 14, 2005.

Notification may be made in writing to Box 1067, 171 22 Solna, by telephone 08-705 96 10, by fax 08-735 57 44 or by e-mail: info@cherry.se. The notification must include the shareholder's name, personal ID and/or company registration number, address, telephone number, shareholding (specifying class of shares) and number of assistants (max. two). Shareholders who are represented by proxy should include a power of attorney when notifying the Company.

To be entitled to participate in the AGM, shareholders whose shares are registered in the name of a nominee must temporarily register the shares in their own name. Shareholders must inform their nominee of their intention to re-register their shares well before June 3, 2005.

### Financial information during 2005

Interim Report Q1 as at March 2005	April 26, 2005
Annual General Meeting	June 16, 2005
Interim Report Q2 as at June 2005	July 21, 2005
Interim Report Q3 as at September 2005	October 25, 2005
Interim Report Q4 as at December 2005	February 16, 2006
Year-end report 2005	February 16, 2006
Annual Report 2005	Week 15 (prov.) 2006

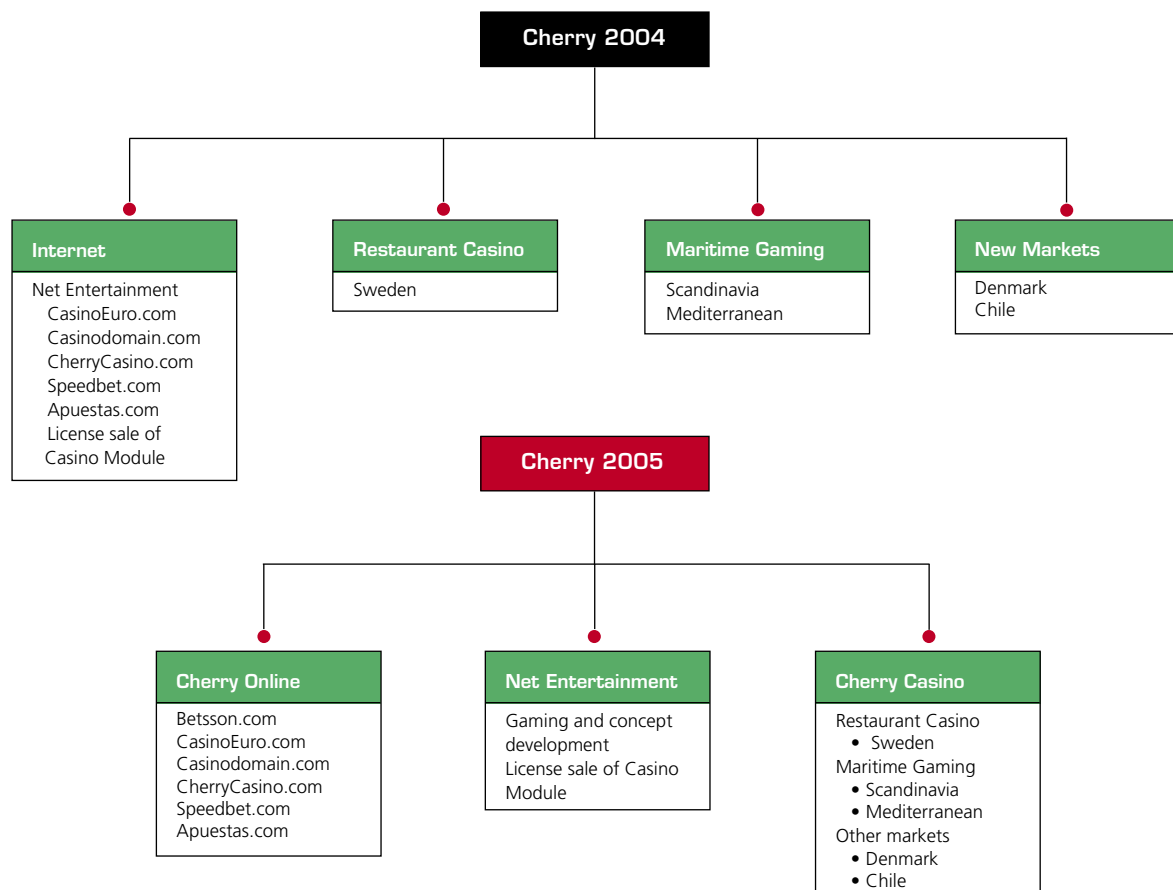
To receive Cherry's reports and press releases as soon as they are issued, visit [www.ngnews.se](http://www.ngnews.se) and set up a subscription.



# WHAT YOU NEED TO KNOW ABOUT CHERRY

- ✿ Cherry is one of Sweden's leading private gaming companies. Cherry has been active in traditional gaming for over 40 years and started its internet operations back in 1996.
- ✿ Cherry's business is concentrated on online gaming and traditional casino operations.
- ✿ Cherry owns the fast growing betting exchange www.betsson.com. Betsson has a considerably higher level of repayments to players than that of its competitors.
- ✿ Net Entertainment develops software for international gaming operators. The Casino Module product is a major success and has been sold to over 30 gaming operators across the globe.
- ✿ Cherry is one of the few companies which hold a license to operate an online casino from Malta.
- ✿ Cherry Casino is the largest restaurant casino operator in Sweden with over 400 gaming tables.
- ✿ With effect from the beginning of the year Cherry is divided into three business areas: Cherry Online, Net Entertainment and Cherry Casino.

## Organization





## ONLINE GAMING IS NOW ESTABLISHED IN SEVERAL IMPORTANT MARKETS



**Now the world at large has recognized the strength of online gaming. Increasing flows of customers are discovering an array of offers and services never previously available to them, whether they live in Paris, London, Istanbul, Stockholm or Haparanda.**

It is now clear that it is actually possible to make money from different types of online gaming and that this form of gaming has a high level of scalability. I think that everyone sees online gaming as still in its infancy. It is a fact that only a small percentage of all potential customers feel comfortable

[Cherry acquires gaming company Betsson.com in the early part of 2005.](#)

paying for online gaming and this is where the companies have a duty to educate and explain. The truth is that online gaming has made an excellent breakthrough in certain markets, but some large, important markets are lagging in development and will experience growth in a few years' time. Consequently, online gaming companies such as ourselves must be positioned at the forefront of product development for future markets and prepare launches in markets which are adjudged to have the right infrastructure and Internet penetration. Gaming via mobile phones has not as yet been as easy and comfortable as online gaming via computers, but when this happens, accessibility will increase dramatically. We are in the midst of a succession of generations, which means that younger people find it completely natural to indulge in online gaming, while older generations feel uncertainty or a lack of knowledge. Online gaming has also enabled new gaming experiences which would not have been possible without this technology. Examples of this are P2P games such as poker, and betting exchanges where players from one part of the world can play against friends on the other side of the globe. In early 2005, Cherry acquired the gaming company Betsson.com. Cherry had invested in this company from an early stage and then received a beneficial option to acquire the remaining parts of the company at a discount. Betsson



has quickly evolved into a strong player in the European gaming market and the company has created a brand which is perceived as positive and innovative. Betsson's rate of growth in the latter part of 2004 and early 2005 is impressive and a sign that there is a great need for products to supplement those offered by the state companies. Net Entertainment won a large number of contracts for its Casino Module in 2004. The company has established itself as one of the most respected in online casino gaming. A number of new products have been launched and the system's competitiveness has been sharpened with the advent of new language versions. In 2004, Net Entertainment was awarded another gaming license, this time for Malta. This is particularly heartening, as Malta is a member of the EU and this provides better scope to market gaming within the union. Net Entertainment is one of the few companies which hold a license for online gaming in the EU. In the area of legislation, there has always been much discussion about whether the monopoly in Sweden, for example, is lawful. Different bodies have reached different conclusions. However, the general consensus appears to be that the European gaming monopoly is in breach of EC law. The monopoly companies themselves are thought to have adopted the same viewpoint even though this is not being openly communicated. Cherry's traditional gaming activities currently comprise mainly restaurant casino and maritime gaming operations. Cherry made a number of successful acquisitions in restaurant casinos in 2004. I now look forward to seeing Cherry fully exploiting the synergies between land-based and online gaming. In maritime gaming, Cherry lost a large number of agreements during the

The company has established itself as one of the most respected in online casino gaming.

year. This explains the decline in net sales and improvement in profit. In Q1 2005, a number of new agreements were signed with shipowners operating in the Mediterranean. These areas have also previously been successful for Cherry. The amusement arcades in Denmark have developed largely according to plan, although Cherry has found it difficult to obtain gaming licenses in some gas stations where the Danish Roads Directorate has intervened. This has delayed establishment to some extent. Betsson appears set for further strong development in the future. The company has a unique product and an excellent brand. The same applies to the online casinos owned by Cherry. Now that products and trademarks have been established, it is important to develop and expand the business. The battle for customers is decided in the marketplace, not in the courts.

PONTUS LINDWALL  
President and CEO



## ABOUT CHERRY

**Whether the gaming is online or at the restaurant, the player must be given an exciting gaming experience. Cherry knows this. And everything we do is directed towards heightening the thrill of gaming. Cherry has been creating an exciting gaming experience for over 40 years and this experience has given the company in-depth knowledge of gaming and its market. We have our combined experience and innovation to become an established player in the strongly growing online gaming market.**

Cherry knows every form of gaming. The company's operations are concentrated mainly in online, casino and machine gaming. Online gaming has the greatest potential, as the Internet is an excellent distribution medium for gaming. Cherry's company Net Entertainment is one of the market leaders in the development of Internet casino gaming. The acquisition of Betsson has also given Cherry a foothold in the growing market for online poker and betting.

Cherry is at present in a transitional phase between traditional gaming and gaming in a global market using new technology, particularly the Internet. Cherry's organization has been adapted to enable it to exploit the growth potential which arises from online gaming in particular. Cherry's traditional gaming operations, such as restaurant casinos and gaming machines on ferries, will still remain one of the cornerstones of the company's business.

### BUSINESS CONCEPT

Cherry's business concept is to create exciting gaming by means of games, lotteries and competitions. The ability to

translate expert knowledge into exciting, top-class products and provide accessibility, involvement at local level and professional service is the foundation on which Cherry cements lasting and rewarding partnerships. Cherry will also develop and operate online casinos in a global market through Net Entertainment and Cherry Online.

### OVERALL STRATEGY

- To develop and market technology for gaming, competitions and lotteries based on the Internet and mobile Internet.
- To develop and market traditional forms of gaming in new markets.
- To adapt the company's organization in order to exploit new business opportunities created by low cost global distribution.
- To utilize the convergence of traditional gaming and the Internet.

### OVERALL FINANCIAL TARGETS

- Annual growth in net sales of at least 15 percent.
- Profit margin to exceed 8 percent over one business cycle.
- Average annual return to shareholders to amount to at least 10 percent.
- Return on equity to exceed 20 percent after tax.
- Equity/assets ratio to be between 40 and 45 percent.

### BUSINESS MODEL

Cherry's business model is aimed at creating exciting gaming. We do this by working closely with gaming websites, restaurant owners, shipowners and other owners of gaming



Cherry is currently in a transitional phase between traditional gaming and gaming in a global market using new technology, particularly the Internet.

locations. Cherry offers its partners gaming, gaming systems, personnel, equipment, servicing, administration and, not least, knowledge of the gaming market. Our partners provide marketplaces and customers. Whatever the form of gaming, whether it be cooperation agreement, partnership or licensing, Cherry is usually responsible for the whole gaming contract. As Cherry's business model is based on the results from the gaming, Cherry knows the importance of always providing well functioning, attractive services, which create an exciting gaming experience. This benefits both Cherry and its partners.

#### CHERRY'S SUCCESS FACTORS

- Cherry has a solid track record in the gaming industry:
- Has operated every form of gaming for over 40 years
- Started online operations back in 1996
- Transfers knowledge from traditional gaming to online gaming
- Listens to customers

#### Cherry is quick to implement new technology:

- One of the first to use Non-Download technology
- One of the first to offer online gaming for mobile phones

Quality  
and innovation

Cherry started its online operations back in 1996.



## Strong prime movers

Everything points towards a weaker position for the monopoly. Customers are becoming more accustomed to paying and gaming over the Internet.



## STRONG DEVELOPMENT FOR ONLINE GAMING

**Online gaming will play out both the Swedish and foreign monopolies. There is much to indicate that the battle for the gaming market will be won in the marketplace, pending the arrival of deregulation through the legal process.**

The online gaming market is growing quickly. The number of players was estimated at almost 5 million in 2000, while two years later the figure had soared to 10 million. Last year the number of players was 15 million and next year, 2006, the number is expected to reach almost 20 million.

The increased use of the Internet is the most important explanation for the fast development. Although there are legal obstacles to traditional gaming in many countries, their inhabitants can still play online. The Internet has made it possible to offer services across national boundaries. The gaming companies have a special license and operate in countries such as the United Kingdom where they are not subject to domestic legislation.

In addition to online gaming, gaming is also available via mobile phones and interactive digital TV. In Sweden alone there are over 7 million mobile phone subscriptions. As 3G becomes more widespread and extensively used, there is much to indicate that gaming via mobile phones will increase too.

Another important catalyst behind the rapid growth of online gaming is the well developed gaming culture which has evolved from the monopoly's aggressive marketing. For already existing players, the step towards online gaming is often quite natural. The reason is that online gaming offers better conditions and is often more tailored to the customers' wishes. One example of this is Betsson's high repayment level of 98 percent compared with Svenska Spel, which has 45–75 percent.

The market for online gaming is also boosted by an increase in people's available income and the fact that they are becoming more used to paying online. In addition, social acceptance of betting and gaming has increased, which is reflected in the way that it is now quite normal to show poker games, for example, on TV.

### THE SWEDISH GAMING MARKET

Preliminary figures from the Swedish National Gaming Board show that the regulated Swedish gaming market had

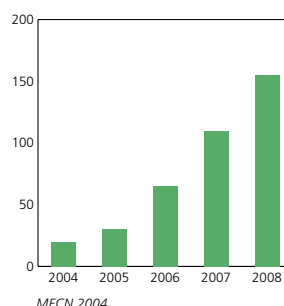
a turnover of SEK 36.5 billion in 2004. This represents an increase of 1 percent on the previous year. The largest player is Svenska Spel which, with its token machines and Casino Cosmopol, accounted for 56 percent of the market. The other major players are ATG and the popular movements. Private companies are almost completely excluded from the Swedish gaming and lottery market, with the exception of gaming with low stakes and winnings.

How long the monopoly will continue to exist is anybody's guess. However, there is every indication that the monopoly will be abolished in the future. It is Cherry's opinion that the gaming monopoly is a financial monopoly, with its main purpose to line the state coffers. In addition, the European Court of Justice (the Gambelli case) has ruled that the gaming monopoly contravenes the right of establishment and the freedom to provide services. The Court has also stated that such restrictions may be justified if they are necessary for consumer protection. However, the court ruled that a government cannot claim that it is protecting its citizens from gambling addiction if it advertises its gaming products at the same time.

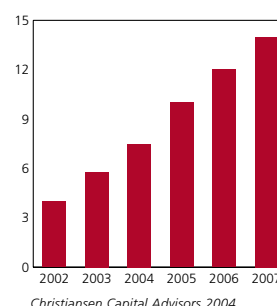
The Swedish government's main argument for maintaining the monopoly is that it wants to protect its citizens from gambling addiction. But to claim this and then encourage gambling with massive advertising campaigns beggars belief.

When the Swedish gaming market is finally deregulated, Cherry will be well positioned. Cherry is the market leader in the Swedish restaurant casino market and has 40 years' experience in running and developing gaming. Consumers will benefit from the competition by having access to a wider product range, better service and higher repayment levels.

**Betting exchanges**  
USD billion



**Global online gaming market**  
USD billion





## BETSSON - SMARTER GAMING WITH TERRIFIC FUTURE PROSPECTS



Betsson's business concept is to offer a broad range of top-class online gaming in a secure, user-friendly gaming environment which provides customers with the best conceivable gaming experience 24 hours a day.

### CHERRY BUYS BETSSON

In February 2005, Cherry decided to convert its convertible loans and call in the purchase warrants in UK online gaming company Betsson. The transactions will give Cherry 100 percent ownership of Betsson.

### What prompted the acquisition

- Cherry's Board sees a bright future for sports gaming on betting exchanges like the one Betsson operates.
- Betting exchanges give players high odds, which attracts new customers.
- The operations can be run with relatively little organization.
- Betsson's operations are developing well.

Cherry Online owns interests in companies which run online gaming. The business area currently comprises of Betsson and a number of online casinos. Betsson's vision is to offer smarter gaming by providing a better and more exciting gaming experience. For this reason, Betsson offers betting with higher odds and higher payouts.

Betsson represents a new generation of gaming companies, offering betting, casino games and poker on its web site [www.betsson.com](http://www.betsson.com). At present, the company's operations are concentrated on Sweden, Norway, Denmark, Finland, the Czech Republic and the UK.

### UNIQUE BETTING EXCHANGE

Betsson's betting exchange is open 24/7 all year round. Customers play directly against each other, making the bookmaker surplus to requirements. The absence of a bookmaker means that players do not need to pay the usual gaming companies' margin, which gives up to 30 percent better odds. Betsson pays back 98 percent of stakes, which explains why so many more players are being attracted. In 2004, the number of members increased by more than 500 percent.

Betsson's task is to offer customers the best possible gaming experience, match the customers' bets, create and control all markets, and manage the customers' transactions. Betsson's betting exchange gives the customers greater freedom as the players can not only place bets, but also set their own odds, lay bets, request higher odds and play during ongoing events. In other words, the customers themselves decide when, how and under what conditions they want to play. This freedom is one of Betsson's golden rules.



Betsson's betting exchange is open 24/7 all year round. Customers play directly against each other, making the bookmaker surplus to requirements.

#### CASINO GAMING

Betsson's casino games, launched in June 2003, have experienced strong growth. In the last three months of 2004, monthly net sales increased by 17 percent and the future looks bright. Since the launch of this service, more than 10,000 customers have at some time played in the casino.

Betsson's Casino was developed by Net Entertainment. Betsson's customers can select from 18 different casino games, including Roulette, Black Jack, Baccarat and Caribbean Stud Poker, plus video poker and gaming machines. The players can also take part in tournaments, which is greatly appreciated by customers. New games are constantly being added to the portfolio.

#### POKER

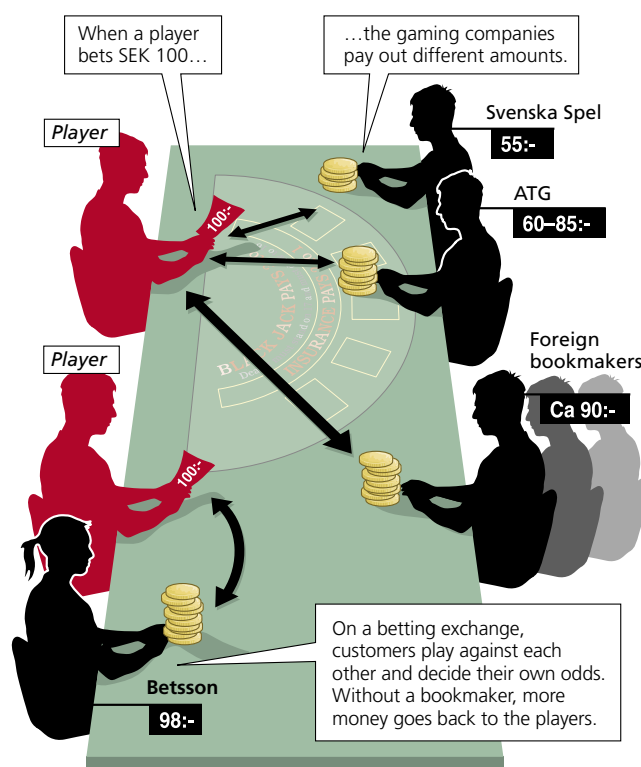
Betsson launched its poker service in June 2004. Online poker has become very popular and the influx of customers increased by 29 percent a month between November 2004 and January 2005. At the end of January 2005, Betsson had 8,500 active poker players and over 40,000 people had tried out the service, playing for fictitious money. Playing frequency also increased, which had a positive effect on net sales during the same period. Betsson's poker service is a member of one of the world's largest associations for online poker players – Poker Network – with more than 3 million registered players.

#### INTERNATIONAL EXPANSION

Betsson launched its services in Norway in 2004. Penetration into the Norwegian market exceeded expectations and Betsson's international expansion is set to continue. Prioritized geographical markets are those which have a high level of Internet penetration, a developed gaming culture and favorable legal conditions.

#### The Swedish gaming market

The hundred note you bet can return a lot or a little, depending on who you play with.



GRAPHIC ART: TOMAS ÖHRLING/INFO

#### ONLINE CASINOS

Cherry Online also owns a number of online casinos which operate from Malta and Costa Rica. The most important are CherryCasino and CasinoEuro. CherryCasino is aimed mainly at the US market, while CasinoEuro is a distinctly European casino. CasinoEuro was one of the first gaming sites to accept the euro as payment and its operations have developed well, which is largely due to the fact that the casino is available in 16 of the most important European languages.



## Good dividends from sales efforts

Our main product Casino Module has met with major sales success. The sales organization has been strengthened in various ways, including the opening of a sales office in London.



## NET ENTERTAINMENT GROWING, WITH GOOD PROFITABILITY

**Net Entertainment continued to expand in 2004. Net sales increased by more than 110 percent and profitability rose. The company is currently the leading player in the online gaming market.**

Cherry's wholly owned subsidiary Net Entertainment has been developing software for online casino gaming since 1997. The company made its commercial breakthrough in 2003 and its positive development continued in 2004.

Net Entertainment's net sales increased following intensive sales initiatives and good market growth which favored existing customers. In 2004, Net Entertainment signed Casino Module agreements with around ten different gaming companies, among them Pokerroom, Gamebookers and Mr Bookmaker. The market for online gaming is still in its infancy and continues to show strong growth.

### LEADING PLAYER IN THE ONLINE GAMING MARKET

Net Entertainment consolidated its position as the leading player in the online gaming market in 2004. The company's trademark is strong and is associated with quality and innovation. The company had prominent representation at all the large trade marts during the year, which was a major part of its brand strategy.

Net Entertainment's main product, Casino Module, is a platform for online casino gaming, and is suitable for all types of websites with an existing customer base. The product has experienced major sales successes and is currently used by over 30 gaming operators. Casino Module's success is largely due to its user-friendliness, broad language support, ease of integration into the customer's gaming site and its powerful system administration tools.

### NEWS DURING THE YEAR

In 2004, Net Entertainment strengthened its sales organization with new employees and also opened an office in London to increase the level of service in an important market. Considerable resources have been earmarked for further development of Casino Module, which will include increased language support, new games and user-assisting functions such as real-time information to the players.

During the previous year, the company initiated a partnership in the UK which is based on placing gaming terminals in public environments. Customers can play online at these terminals, which is a natural way of providing online gaming with a new distribution channel. The project is still in a testing phase, but evaluations made by the company have indicated that the product has a bright future.

### STRATEGY

Net Entertainment's strategy is to consolidate its role as an established player in the online gaming market. The company currently has a number of profile customers, which provides a good basis for continued growth in the European market and further breakthroughs into new markets.

Net Entertainment consolidated its position as the leading player in the online gaming market in 2004. The company's trademark is strong and is associated with quality and innovation.



## OFFENSIVE ACQUISITIONS FOR CHERRY CASINO DURING THE YEAR

**The previous year was marked by fierce competition and price reductions. However, Cherry still managed to consolidate its position and increase profitability. In restaurant casinos, two strategic acquisitions were made and in Denmark there was an expansion of gaming locations at filling stations.**

### RESTAURANT CASINO, SWEDEN

Cherry's restaurant casino operations showed increased net sales and an improvement in profit in 2004. This was in spite of tough competition and a reduction in sales in the Swedish restaurant casino market. The fall in sales in this market is largely due to the fact that the Swedish government operates its own casinos, has its own gaming machines and does not allow competition on equal terms.

The market for restaurant casinos is mature. Cherry's strategy is to achieve growth in the Swedish restaurant casino market, both organically and by means of acquisitions.

Last year, Cherry acquired the casino operations of Knutsson Casino and Engdahl Casino. Even before the amalgamation, Cherry was the largest Swedish player in restaurant casinos. Following the acquisitions, Cherry's market share was 38 percent, which means that the company has consolidated its predominant position.

The acquisitions have brought synergy effects, as the operations were incorporated into Cherry's organization without any appreciable increase in administrative costs. The acquisitions should also result in increased profitability, leaving Restaurant Casino ideally positioned to respond to the situation which will arise when the Swedish gaming monopoly crumbles.

Cherry operates restaurant casino gaming throughout Sweden, with offices in Umeå, Stockholm and Gothenburg. Area managers all over Sweden are responsible for staffing, training and equipment. In 2004, Cherry worked intensively on quality improvement and sales by designing and implementing quality and sales programs. Cherry's administrative system allows precise profitability analyses, as the system can follow up the results down to the very lowest level, for example gaming location and even gaming table.

### MARITIME GAMING, SCANDINAVIA

Maritime Gaming reported an improvement in profit but a fall in net sales. The fall in net sales was a result of the phasing out of the collaboration between Cherry and Stena during autumn. The improvement in profits is due to the large-scale cost-savings program implemented during the year, which resulted in a more effective organization.

The Maritime Gaming business area runs gaming operations on over 40 vessels. During the previous year, major sales initiatives resulted in extensive negotiations with new customers. Cherry signed a few new agreements in the early part of 2005.

The maritime gaming market is expected to perform well in the long term. This is mainly because the economy is expected to become stronger, which in turn will result in an increase in ferry bookings. Cherry's Scandinavian market share is just over 30 percent.

### MARITIME GAMING, MEDITERRANEAN

Cherry has been operating gaming on ferries in the Mediterranean since 2000. The Mediterranean area is an emerging



market. Through the partly owned company Secular Corporation, Cherry has successfully built profitable and expansive operations based in Greece. Gaming in Greece and other Mediterranean countries is more widespread than in the Scandinavian market, which is one reason why the market is able to show good profitability.

The Greek ferry market is characterized by rapid changes, including changes in ownership. This calls for a highly flexible organization on Cherry's part. Cherry's strategy is to continue to deliver high-quality services.

Spain and Italy are potential future geographical markets for Cherry.

#### OTHER MARKETS

The gaming market is subject to strict regulation. Cherry regularly analyses different markets to enable the company to offer services quickly when legal and commercial conditions change.

The other markets in which Cherry is currently active are mainly Denmark and Chile.

In the Danish market, private operators are allowed to run gaming operations with gaming machines in public places, provided the gaming companies comply with rigorous rules. The games must be connected to authorities via computer networks for control and taxation and the gaming machines must remain under the constant supervision of the gaming location's personnel. In addition, 1 percent of revenues must go towards measures to fight gambling abuse.

In Denmark, Cherry offers gaming environments in partnership with Danish Shell at gas stations across the country. The selected gas stations are in locations where there is heavy traffic – both private and professional. The partnership has been developed in 2004 and towards the end of 2004 there were 16 gaming environments in operation. Cherry regularly evaluates these operations before continuing its expansion in the Danish market.

Operations in Chile comprise the Pajazzo game of skill. The game is mainly located in shopping centers in Santiago. Cherry's strategy is to cautiously expand operations in pace with deregulation of the Chilean market.



### Consolidated positions

Cherry's strategic acquisitions stand the company in good stead to face the situation in a modern gaming market.



## 5-YEAR OVERVIEW, GROUP

(Amounts in SEK thousands unless otherwise specified)	2004	2003	2002	2001	2000
<b>Income statement</b>					
Net sales	311,147	264,317	271,078	260,627	376,210
Operating profit/loss	15,031	1,949	308	-50,793	8,357
Profit/loss from financial investments	-87	-1,322	-289	-1,543	-3,401
Profit/loss after financial items	14,944	627	19	-52,336	4,956
Minority interest	-717	-922	-450	287	92
Profit/loss before tax	14,227	-295	-431	-52,049	5,048
Profit/loss after tax	9,830	2,565	-900	-48,947	-271
<b>Financial position</b>					
Equity	98,019	75,827	73,099	54,354	102,583
Total assets	150,058	120,035	113,033	100,296	148,328
Equity/assets ratio (%)	65	63	65	54	69
Quick ratio (%)	171	195	194	141	186
<b>Profitability</b>					
Return on total capital (%)	12	2	2	-41	4
Return on equity (%)	11	3	-1	-62	0
Return on capital employed (%)	17	2	3	-65	6
Profit margin (%)	4.8	0.2	0.0	-20.1	1.3
Interest coverage ratio (multiple)	16	1	1	-49	17
<b>Investments</b>					
Installations and gaming equipment	14,179	7,607	15,366	13,623	13,768
Intangible assets	11,003	2,240	2,673	1,863	1,268
Shares and other	19,003	2,145	0	0	753
Of total investments financed with own shares	12,756	-	-	-	-
<b>Personnel</b>					
Average number of employees	252	270	257	299	327
Number of persons employed	843	710	712	761	782
<b>The Share</b>					
New share issue (before issue expenses)	12,756	-	20,409	-	40,574
Share capital	62,407	61,227	61,227	40,818	40,818
Convertibles (shares) outstanding	800,000	800,000	-	-	-
Warrants (shares) outstanding	710,000	710,000	-	-	-
Number of shares at year-end	31,203,726	30,613,684	30,613,684	20,409,123	20,409,123
Average number of shares outstanding	30,948,468	30,613,684	21,024,192	20,409,123	19,965,680
Number of own shares	0	0	0	0	0
Number of registered shareholders	2,828	3,288	2,634	2,601	2,497
Share price (SEK)	20.80	16.70	2.90	7.45	16.50
Earnings per share (SEK)	0.32	0.08	-0.04	-2.40	-0.01
Earnings per share after dilution (SEK)	0.31	0.08	-	-	-
Cash flow per share (SEK)	-0.39	0.03	0.31	-0.79	-0.06
Cash flow per share after dilution (SEK)	-0.37	0.03	-	-	-
Equity per share (SEK)	3.14	2.48	2.39	2.66	5.03
Equity per share after dilution (SEK)	3.19	2.54	-	-	-
Dividend per share (SEK)	0.00	0.00	0.00	0.00	0.00



## 5-YEAR OVERVIEW, BUSINESS AREAS

(Amounts in SEK thousands unless otherwise specified)	2004	2003	2002	2001	2000
<b>Online Gaming Business Area</b>					
Net sales	62,952	29,595	10,814	8,700	6,593
Operating profit/loss	14,712	4,264	-8,027	-51,039	-11,097
Online casinos in operation	5	5	4	4	1
Online casinos (Casino Module) in operation	24	13	1	-	-
Number of persons employed	31	20	16	17	20
Average number of employees	26	18	16	25	16
<b>Restaurant Casino Business Area</b>					
Net sales	149,481	140,360	154,961	155,466	168,139
Operating profit/loss	6,622	4,825	8,467	6,451	7,370
Number of gaming locations	278	211	220	225	217
Number of gaming tables	427	354	373	376	379
Number of persons employed	741	610	627	673	674
Average number of employees	164	176	169	203	228
<b>Maritime Gaming Business Area</b>					
Net sales	69,381	80,927	72,996	76,433	108,015
Operating profit/loss	4,296	3,453	-2,226	-2,425	8,616
Number of vessels	43	49	52	47	39
Number of gaming machines	494	646	675	525	656
Number of gaming tables	10	9	9	2	14
Number of persons employed	39	43	40	58	61
Average number of employees	33	38	41	50	53
<b>New Markets Business Area</b>					
Net sales	28,510	13,310	10,318	3,513	952
Operating profit/loss	-1,814	-2,235	-7,821	-4,523	-2,904
Number of gaming machines in operation	470	286	216	150	80
Number of persons employed	24	30	23	1	2
Average number of employees	22	31	23	1	2
<b>Gaming Machines Business Area (closed down in 2002)</b>					
Net sales	-	-	21,804	16,328	89,948
Operating profit/loss	-	-	17,884	9,191	12,681
Number of persons employed	-	-	1	2	16
Average number of employees	-	-	2	9	19
<b>Group-wide</b>					
Net sales	823	125	185	177	2,563
Operating profit/loss	-8,785	-8,358	-7,969	-8,448	-6,309
Number of persons employed	8	7	5	10	9
Average number of employees	7	7	6	11	9



## THE SHARE

**Cherry's B share has been listed on the Stockholm Stock Exchange's O List since June 22, 2000. Prior to that, the share had been listed on the NGM list (at that time the SBI list) since March 1996.**

### SHARE CAPITAL

Share capital in Cherryföretagen amounts to SEK 62,407,452, distributed between 5,610,000 A shares and 25,593,726 B shares, each with a nominal value of SEK 2. Each A share carries an entitlement to 10 votes, while each B share carries an entitlement to 1 vote. The shares carry equal entitlement to Cherry's assets and profits.

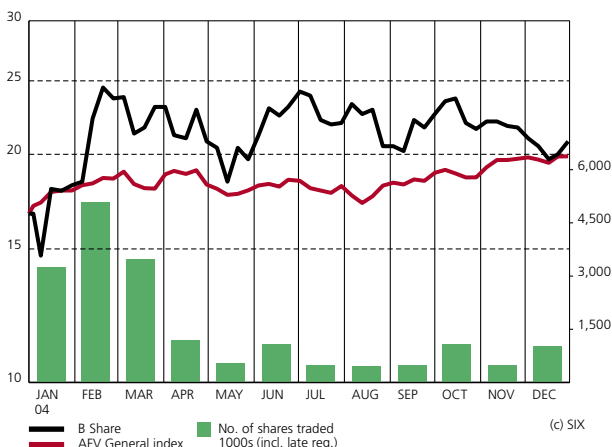
### SHARE ISSUES

Two directed share issues were implemented in connection with the acquisition of the operations of Knutsson Casino and the acquisition of shares in GBE Holdings Ltd. (Betsson). In total, 590,042 B shares were newly issued in conjunction with these two transactions.

### CONVERTIBLES AND OPTION SCHEMES

No new incentive schemes were introduced in 2004. The existing schemes from 2003 consist of a convertible debenture loan issued to the CEO and warrants issued to employees at market prices. The conversion period is April 1–24, 2006, and the subscription date for the options is May 15, 2006. Under these schemes, a total of 1,510,000 B shares will be issued during 2006.

### The Cherry share



### OWNERSHIP STRUCTURE

At 30 December 2004, the number of shareholders in Cherry was 2,828 (3,288). Foreign owners, not including the founder Lars Kling, hold 8.3 percent of the shares and 3.2 percent of the voting rights.

A large number of major holdings in the company are registered in the name of nominees in foreign banks. This means that the Board still does not have information about the identity of some of the end owners of Cherry.

### LIQUIDITY GUARANTEE ETC.

Since October 2003, Remium has acted as liquidity provider. This means that Remium guarantees to maintain share trading under the stock exchange's supervision. To increase liquidity in the share, Nordnet customers were given the right to trade in the Cherry share with no brokerage fees. As the share's liquidity is now good, Cherry has, with effect from February 28, 2005, taken the share off the Zero Brokerage List for Nordnet.

A total of 18.7 million shares changed hands during the year, which represents 60 percent of the average total number of B shares issued. On average, 74,000 shares changed ownership on each trading day. The average number of transactions was 36 for each trading day.

### SHARE PRICE MOVEMENTS AND TRADING

The share price increased by around 25 percent during the year. The price (most recent transaction) was SEK 20.80 (16.70) at the closing date, which corresponds to a market value of SEK 649 (511) million. The highest price listing was SEK 24.90 on July 1, and the lowest SEK 14.10 on January 12. The share's average price during the year was SEK 21.04.

Total trading in the share amounted to SEK 390 million for the year, which corresponds to an average of SEK 1.5 million for each trading day, and an average of SEK 43,000 per transaction.

From January 3, 2005 one board lot equals 500 B shares in Cherry.

### DIVIDEND POLICY

The Board of Directors proposes that no dividend be paid for 2004. When the company has distributable funds again, it is the Board's goal that 25–30 percent of profit after tax should be distributed to shareholders.



### Largest shareholders at December 30, 2004

Name	A shares	B shares	Share capital, %	Voting rights, %
Kinnevik	1,402,500	7,378,249	28.1	26.2
Per Hamberg family	1,497,000	1,982,578	11.1	20.7
Lars Kling family	1,497,000	1,325,221	9.0	19.9
Rolf Lundström family and company	652,500	1,858,935	8.0	10.3
Bill Lindwall family	561,000	245,149	2.6	7.2
Robur Fonder		1,598,119	5.1	2.0
Hans Sköld family		1,209,000	3.9	1.5
Banque Carnegie Luxembourg		585,500	1.9	0.7
SIS Segaintersettle AG, Schweiz		521,477	1.7	0.6
Knutsson family and company		437,500	1.4	0.5
Credit Agricole Indosuez, Luxemburg		342,741	1.1	0.4
Banco Fonder		340,000	1.1	0.4
Länsförsäkringar fonder		299,000	1.0	0.4
Nordea Bank Finland ABP		298,000	1.0	0.4
Scandinavien Trade-Link i Stockholm AB		218,250	0.7	0.3
Other shareholders		6,954,007	22.3	8.5
<b>Total</b>	<b>5,610,000</b>	<b>25,593,726</b>	<b>100.0</b>	<b>100.0</b>

### Breakdown of share capital

	Votes	No. of shares	No. of votes	Nominal	SEK
Class A shares	10	5,610,000	56,100,000	2	11,220,000
Class B shares	1	25,593,726	25,593,726	2	51,187,000
<b>Total shares</b>		<b>31,203,726</b>	<b>81,693,726</b>		<b>62,407,000</b>
Convertibles B	1	800,000	800,000	2	1,600,000
Warrants B	1	710,000	710,000	2	1,420,000
<b>Total shares after dilution</b>		<b>32,713,726</b>	<b>83,203,726</b>		<b>65,427,000</b>

### Share distribution at 30 December 2004

No. of shares	No. of shareholders	%	No. of shares	%
> 100,000	29	1	23,908,553	77
50,000–100,000	21	1	1,525,391	5
20,000–50,000	52	2	1,771,450	6
10,000–20,000	65	2	972,825	3
5,000–10,000	108	4	837,494	3
1,000–5,000	594	21	1,431,238	4
< 1,000	1,959	69	756,775	2
<b>Total</b>	<b>2,828</b>	<b>100</b>	<b>31,203,726</b>	<b>100</b>



## BOARD OF DIRECTORS' REPORT

The Board of Directors and Chief Executive Officer of Cherryföretagen AB (publ), corporate registration no. 556090-4251, registered office Solna, herewith present their annual report for the Parent Company and Group for the financial year 2004. The financing and results of the Group's and Parent Company's operations for the last three financial years, as well as the financial position at each of the year-ends are shown in the following income statements, balance sheets, cash flow statements, summaries of equity and additional information and notes. The reporting currency of the Parent Company and Group is the Swedish krona.

The income statements and balance sheets of the Group and Parent Company will be presented to the Annual General Meeting of Shareholders for adoption on 16 June 2005.

### LISTING AND OWNERSHIP

The company's B share is listed on the Stockholm Stock Exchange's O List. The company has a total of 2,800 shareholders. The largest shareholder is Kinnevik with a total of 28.1 percent of capital and 26.2 percent of the votes.

### OPERATIONS AND CONCENTRATION

The Group's operations are concentrated on online, casino and machine gaming. The main gaming operations take place in restaurants in Sweden, on cruise ships in Northern European and Mediterranean routes, in amusement halls in Denmark, in shopping centers in Chile and globally in online casinos and partly-owned Betsson.com.

In 2004, operations were divided into four business areas: Online Gaming, Restaurant Casino, Maritime Gaming and New Markets.

### THE GROUP'S NET SALES AND PROFIT

The Group's net sales increased by SEK 47 million to SEK 311.1 (264.3) million for the full year 2004.

The increase is mainly attributable to Online Gaming. Net sales for Online Gaming rose by over 110 percent compared with the previous year. New Markets also reported a large increase in revenue. SEK 21.4 million of full-year revenues relates to acquired casino operations.

Full-year operating profit improved by over SEK 13 million to SEK 15.0 (1.9) million and profit after net financial items increased by over SEK 14 million to SEK 14.9 (0.6) million.

Return on equity was 11 (3) percent and return on total capital 12 (2) percent. All business areas reported improved results compared with the previous year.

The greatest improvement in profits was reported by the Online Gaming business area, with operating profit increasing to SEK 14.7 (4.3) million. Profit after tax amounted to SEK 9.8 (2.6) million, which corresponds to SEK 0.32 (0.08) per share.

### PERFORMANCE OF THE BUSINESS AREAS

#### Online Gaming

The business area showed highly positive development during 2004. Net sales and profits increased significantly compared with the previous year.

Full-year revenues increased to SEK 62.9 (29.6) million and profit rose to SEK 14.7 (4.3) million.

The business area has continued to experience success in the sale of Net Entertainment's Casino Module, which is an in-house developed product designed to support casino games on sports betting websites in all languages.

The business area also invested further resources to maintain the high growth rate in its own online casinos.

Towards the end of the year, Cherry was awarded a preliminary operating license in Malta. The license means that Cherry will be able to operate online casinos with Malta as the base. There are currently very few licenses for online casinos within the EU. Investment in a gaming license within the EU has resulted in increased costs, but the view is that the license will be valuable in the future.

Cherry invested further in the Betsson.com. betting exchange during the year. Cherry owned just over 17 percent of the company at year-end, and decided on February 17, 2005 to exercise its option to acquire the remainder of the company. Betsson has shown a highly positive performance. The poker game introduced at the end of Q2 has quickly become very popular. Betsson's high level of payment of players' winnings has enabled the company to establish a strong position among price conscious customers. Betsson has more than 80,000 registered customers. 29,200 new customers were registered during the fourth quarter of 2004, and more than 12,000 new customers were registered during January 2005.

The market for betting exchanges is predicted to achieve an annual growth of 79 percent up to and including 2008 (MECN Analysis) and Cherry views Betsson as a strategically important holding.

#### Restaurant Casino

The business area's main operations are table games (blackjack and roulette) in Swedish restaurants. Cherry is



the market leader in Sweden with a market share of 38 percent of active gaming tables.

Economic recession, a reduction in the numbers of diners and competition from the Swedish government's international casinos and gaming machines are all having an impact on the business area's net sales and profitability, particularly in the big cities.

The acquisition of the casino businesses Knutsson Casino and Engdahl Casino in Q2 halted the downward trend. Full-year revenues amounted to SEK 149.5 (140.4) million and profit increased to SEK 6.6 (4.8) million. Both acquisitions are part of Cherry's strategy for growth in restaurant casino operations. These structural business transactions are aimed partly at obtaining synergy effects in a traditional market and partly at enabling the company to position itself and be better prepared for the new environment that will arise when the gaming monopoly in Sweden weakens. The acquisitions have affected the business area's revenues by SEK 21.4 million for the year.

#### Maritime Gaming

The business area operates gaming (slot machines and table games) on more than 40 cruise ships. Cherry's primary market is the Nordic market. The market share in this market is estimated at 34 percent of the number of ships which have gaming activities. The business area also operates gaming on cruise ships in the Mediterranean with local partners.

Revenues for the year amounted to SEK 69.4 (80.9) million. The fall in net sales is largely due to the ending of the partnership with Norwegian Fjordlines halfway through 2003 and a cutback in collaboration with Stena during 2004.

Despite the fall in net sales, the business area has been able to report an improved operating profit of SEK 4.3 (3.4) million for the full year. The increase is largely attributable to rationalizations and improvements in the profitability of Swedish operations.

There has been a gradual reduction in the collaboration between Cherry and Stena during autumn. This will have the effect of reducing the business area's net sales still more. However, this will only have a marginal effect on Cherry's results.

#### New Markets

One of the business area's goals is to identify and establish itself in new geographical markets which have the right legal and commercial conditions. The business area is currently established in Denmark, supplying gaming machines to Danish Shell's gaming venues, in Chile with the Pajazzo game of skill (located in public areas), and in Norway (via associated companies) with a few gaming machines.

Net sales for the business area rose to SEK 28.5 (13.3) million during the year. The increase in net sales is largely due to the joint venture with Danish Shell. Operating profit for the year improved to SEK -1.8 (-2.2) million.

At the closing date, 16 Danish gaming environments were operating under the joint venture with Danish Shell. The set up process is slightly behind schedule because the planned opening of gaming venues at highway service stations has been delayed due to ongoing negotiations between Shell and the Danish Roads Authority.

#### INVESTMENTS

The Group's gross investments for the year amounted to SEK 44.2 (12.0) million, of which SEK 12.8 (0.0) million was financed through the issue of own shares.

SEK 14.2 (7.6) million was invested in games and equipment, most of which related to extension of the joint venture with Danish Shell.

Investments in intangible assets amounted to SEK 11.0 (2.2) million, of which SEK 2.7 (2.2) million related to capitalized development expenses in Net Entertainment and SEK 8.3 (0.0) million to gaming agreements and concessions for acquired casino operations.

Acquisition of shares and participations amounted to SEK 19.0 (2.2) million, most of which relates to investments in Betsson.com.

#### FINANCING

Cash flow from operating activities amounted to SEK 16.6 (14.6) million and cash flow from investing activities was SEK -29.4 (-16.3) million.

The Group's operations are largely financed from its own funds. Utilized overdraft facilities amounted to SEK 0.0 (0.3) million and bank loans to SEK 1.6 (2.2) million at the closing date. All the bank commitments apply to the Danish operations. The real estate credit of SEK 0.5 million for operating real estate in Denmark has been reduced during the year in conjunction with the sale of real estate.

The equity/assets ratio was 65 (63) percent.

#### SHAREHOLDERS' CONTRIBUTION

There were no shareholders' contributions during the year. In the previous year, the parent company paid a shareholders' contribution of SEK 1.4 million to subsidiaries and invested SEK 5.4 million in subsidiaries through an increase in share capital and the share premium reserve.

#### EMPLOYEES

The average number of employees during the year in the Group was 252 (270). In December, a total of 843 (710) persons were employed. Most of the increase



relates to personnel taken over with the acquisition of the operations of Knutsson Casino and Engdahl Casino and new positions in the Online Gaming business area.

Most of the Group's employees work as croupiers or dealers in Swedish restaurant casinos or on cruise ships. Most of them are young people who combine their studies with part-time work in the evenings and at weekends.

#### **THE BOARD'S MANDATE TO ISSUE SHARES**

The annual general meeting on May 12, 2004 decided to authorize the Board, for the period up to the next annual general meeting, to make decisions on new shares issues (on multiple occasions, and with/without preferential rights for shareholders) totaling a maximum of 3,000,000 class B shares, whether for a cash payment, a determination of subscription in kind or other offset, and/or any other conditions. If the authorization is fully utilized, this will correspond to a dilution of 9.8 percent of share capital and 2.7 percent of votes.

The reason for the new share issue occurring while deviating from shareholders' preferential rights is to allow time-efficient financing in conjunction with corporate acquisitions. If a new share issue takes place without preferential rights for shareholders, the issue price must be established by the market.

#### **SHARE ISSUES COMPLETED DURING 2004**

On two occasions during the year, the Board utilized the annual general meeting's mandate to implement directed new share issues for acquisitions.

At the Board meeting of June 3, 2004, it was decided to issue 357,500 new class B shares with a nominal value of SEK 2, whereupon the shares (with a deviation from shareholders' preferential rights) went to Knutsson Casino AB. The new shares were issued at a subscription price of SEK 21.30. This issue corresponded to a dilution of 1.2 percent of share capital and 0.4 percent of votes.

At the Board meeting of June 14, 2004, it was decided to issue 232,542 new class B shares with a nominal value of SEK 2, whereupon the shares (with a deviation from shareholders' preferential rights) went to the owners of GBE Holdings Ltd. (Betsson.com). The new shares were issued at a subscription price of SEK 22.11. This issue corresponded to a dilution of 0.8 percent of share capital and 0.3 percent of votes.

#### **IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL YEAR**

On February 17, 2005, the Board decided to convert convertible loans and call in all options in the UK online gaming company Betsson (GBE Holdings Ltd.) with immediate effect. The transactions mean that Cherry will achieve 100 percent ownership of Betsson.

The agreement includes several different convertible loans and warrants. In total, these mean that Cherry's entire investment (to achieve 71 percent ownership of the company) amounts to SEK 31.7 million. Of this SEK 31.7 million, SEK 28.3 million was already paid as at December 31, 2004 through a combination of share acquisitions and convertible debenture loans. Together with the conversion of loans, the remaining purchase price (to arrive at 71 percent ownership) was SEK 3.4 million, which was paid in cash.

The agreement means that Cherry also acquires the remaining 29 percent of Betsson at market value. Betsson's market value will be determined through a valuation by two external parties. Cherry's intention is to pay with newly issued class B Cherry shares.

As a consequence of the acquisition, Cherry will restructure its online gaming operation. Cherry's holdings in companies which conduct online gaming operations will be grouped together in a new business area called Cherry Online. Net Entertainment, which is a dedicated software/systems development company, will be reported separately. Cherry's traditional gaming operations – Restaurant Casino, Maritime Gaming and New Markets – now come under the Cherry Casino business area.

#### **EVENTS AFTER PUBLICATION OF THE YEAR-END REPORT**

On March 30, 2005, the market value of GBE Holdings Ltd (Betsson) was established at SEK 590 million. The market value forms the basis for defining the price for Cherry's acquisition of the remaining 29 percent of the shares in GBE Holdings Ltd. Under the agreement concluded on February 17, 2005, the shares are paid for by means of a directed share issue of 6,855,000 Cherry B shares at a value of SEK 25 per share.

On March 30, the Cherry Board decided to convene an extraordinary general meeting of shareholders on April 18, 2005 to propose implementation of the share issue.

#### **PROSPECTS FOR 2005**

The Online Gaming business area reported strong, positive development in 2003 and 2004. Cherry's perseverance in this investment is now paying off. The subsidiary Net Entertainment is proving successful as a software/systems supplier to other gaming operators.

The proposed acquisition of Betsson means that the Cherry Group will acquire operations characterized by strong growth and high potential.

In January 2005, Cherry's own online casinos and Betsson's gaming site both reported higher revenues than in any single previous month.

The opening of the EU gaming market, which will soon become a reality, following the ruling by the



European Court of Justice against the Italian state monopoly, will represent increased opportunities for Cherry.

#### EFFECTS OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Group's financial reporting for 2005 will be carried out in accordance with IFRS and the comparison information for 2004 will be restated. The rules relating to adoption and restatement can be found in IFSR 1 (First-time Adoption of International Financial Reporting Standards).

The most significant effects for the Group of the transition to IFRS relate to the reporting of corporate acquisitions, financial instruments and minority interests. IFRS 3, Business Combinations, necessitates on Cherry's part that the goodwill which arose from the acquisition of Net Entertainment in 2000 is no longer amortized. IAS 27, Consolidated and Separate Financial Statements, means that in the future Cherry's minority interests in the jointly-owned operations in the Mediterranean and in Chile will be included in shareholders' equity and will not affect the profit/loss for the year. IAS 32 and 39, regarding financial instruments, will be applied from 2005, and the comparison figures for 2004 will not be restated, in accordance with the transitional provisions. According to IFRS 1, reporting will be prepared in accordance with the IFRS standards which apply on December 31, 2005.

These standards must also have been approved by the EU. Consequently the effects of the transition to IFRS presented below 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. For further information on the transition to IFRS, please refer to note 34.

Effects of transition to IFRS full year 2004, SEK m	Per present accounting rules	Per IFRS
Operating profit/loss	15.0	16.6
Profit/loss after financial items	14.9	16.5
Profit/loss for the year	9.8	12.1
Equity	98.0	101.3

#### CORPORATE GOVERNANCE

##### Legislation and articles of association

Cherryföretagen AB (publ) must above all apply the Swedish Companies Act and the regulations connected with the share's listing on the Stockholm Stock Exchange. At the same time, Cherry must comply with the provisions contained in its articles of association. These are available on Cherry's website. A Swedish code for corporate governance was introduced in December 2004. The Stockholm Stock Exchange has stated its intention to incorporate the code into its rules and regulations during 2005.

##### Annual General Meeting

Notification of the Annual General Meeting is issued no earlier than six and no later than four weeks before the meeting. The notification contains information about registration, the right to participate in and vote at the meeting, a numbered agenda of the matters to be considered, information on the proposed dividend and the main content of other proposals. The shareholder or proxy may vote for the full number of shares he/she owns or represents.

Proposals for matters to be considered by the meeting should be addressed to the Board of Directors and be submitted in good time before the notification of the meeting is issued. Minutes of the meeting are available to shareholders on request, and these will also be available on the company's web site, with effect from the 2005 Annual General Meeting.

Nomination work is carried out by a nominating committee appointed by the Board. For the present period, the committee consists of Anders Fällman and Per Hamberg.

The Annual General Meeting has not appointed an audit or remuneration committee. This is because Cherry is a small, surveyable company; the board is not large, and therefore all board members are involved and participate in auditing and remuneration matters.

##### Board of Directors

Board members are elected annually by the Annual General Meeting for the period until the next AGM. There are no rules governing the length of time a member may serve on the Board.

At the 2004 Annual General Meeting, Jörgen Madsen retired from the Board at his own request. Anders Fällman was elected as a new Board member. At the statutory Board meeting, John Wattin was re-elected Chairman of the Board.

Cherry's Board consists of five members elected by the Annual General Meeting, with no deputies. The Board members include persons connected with Cherry's major owners – Kinnevik and Per Hamberg – and other persons with no connection. Per Hamberg is the only Board member who works actively in current operations on a part-time consulting basis. The Chief Executive Officer is not a member of the Board.

In accordance with the Stockholm Stock Exchange's definition, the number of meeting-elected Board members not connected with the company is three (60 percent) and the number of meeting-elected Board members not connected with the company's principal owners is two (40 percent), and both meet the Stockholm Stock Exchange's experience requirements. All Board members and all members of Group management have undergone training in the Stockholm Stock Exchange's rules.



The Chief Executive Officer is the rapporteur of the Board. Salaried employees of the company participate in Board meetings as secretary and rapporteur in special matters. The secretary of the Board is the company's CFO.

In 2004, the Board held sixteen minuted meetings, eight of which were ordinary meetings and eight conference calls or per capsulam meetings. The Board has directed particular attention to strategic, financial and accounting matters, major investment business and decisions on lending to owners of gaming locations (advance payments of gaming shares).

The Board's work follows a plan to ensure that it receives all necessary information. The company's auditor reports to the Board on his findings from auditing the final accounts and his evaluation of the company's internal procedures and control.

The Board has adopted a written working plan and drawn up written instructions about the distribution of work among Board members and the Chief Executive Officer, and about information that the Board should regularly receive.

#### **Senior management group**

The Board has delegated operational responsibility for Parent Company and Group administration to the Chief Executive Officer.

Subsidiaries normally only have one formal employee board consisting of the Group President. Internally, the CEOs of subsidiaries therefore report directly to the Group President and/or the board of the parent company. CEO instructions have been drawn up for each CEO in the wholly owned subsidiaries, and these are identical to the Group President's own CEO instructions.

The companies which Cherry owns jointly with external owners normally have their own functioning boards. Cherry is represented on these boards by members of its senior management group and/or board or Cherry employees with a suitable skills profile.

An internal steering group has been appointed to assist with the Danish operations (extension of the partnership with Danish Shell). The group consists of three members of the senior management group whose task it is to act as coach and board for the manager of the subsidiary during the development of operations. The steering group met on 10 occasions during the year.

At year-end, Cherry's senior management group consisted of eight persons: The Group President, also responsible for the Online Gaming business area, the Vice President, also responsible for the Restaurant Casino, Maritime Gaming and New Markets business areas, the CEOs of the three Swedish casino companies, the acting CEO of the Swedish maritime company/Maritime Gaming business area, the CEO of the Danish company

and the Group's CFO. On a number of occasions during the year, Board member Per Hamberg has participated in senior management meetings as adviser, and has acted as rapporteur and coordinator of the Group's operations in Chile and Norway.

The senior management group held seven meetings in 2004. The meetings dealt with earnings trends, reports and issues prior to and following the Board's meetings. The meetings also considered matters relating to the budget, forecasts, investments, policies and reviews of market and business trends. There were also discussions and decisions on business-related projects.

In August, a COO/V CEO was appointed, with responsibility for non-Internet-based operations. Since August 2004, the Group President, Vice President and CFO have been meeting to determine and coordinate the Group's operations and activities. The meetings were held on average every two weeks during the period August to December 2004.

#### **REMUNERATION**

The Board's fees are decided by the Annual General Meeting of Shareholders. Remuneration to the Group President is decided by the Board. Remuneration to personnel directly subordinated to the Chief Executive Officer is decided by the latter following consultation with the Chairman of the Board. The Group applies the principle that the manager's manager must approve decisions about remuneration issues.

The incentive scheme, namely convertibles for the Group President and warrants for the senior management group and other key personnel, was implemented in 2003 and runs until spring 2006. Information about remuneration can be found in note 7.

#### **Option agreements to senior executives**

To inject important expertise into Intact, John Wattin and Pontus Lindwall were invited to acquire 8.6 percent and 1.3 percent respectively of the shares in Intact under a share option agreement. The share option agreements entitled John Wattin and Pontus Lindwall in May, June and July of 2002, 2003 and 2004 to call for Cherry-företagen to purchase their shares in Intact at market prices and under predefined conditions.

The share option agreements have not been exercised and have therefore expired.

#### **Consulting agreement with Hamberg & Kling Förvaltnings AB**

For Per Hamberg's other work in Cherry, apart from his normal Board duties, Cherry has signed a consulting agreement with Hamberg & Kling Förvaltnings AB, in which Per Hamberg is employed. Under the agreement,



payment amounted to between SEK 650 and 1,300 per hour worked. The agreement ceased as at June 15, 2004.

The agreement was approved by the Board at the meeting held on January 29, 2004. Per Hamberg did not participate in the Board's decision.

#### AUDITING

Gunnar Liljedahl from Ernst & Young was elected auditor by the 2004 annual general meeting for a period of four years. Ernst & Young are auditors to Cherryföretagen and almost all its subsidiaries. Gunnar Liljedahl has been Cherry's auditor since 1995.

The annual accounts and financial statements are audited during January and February. A review report of the mid-year interim report is also drawn up. Internal procedures and control systems are also regularly reviewed and reported to the Group's Chief Financial Officer and senior management group.

In addition to auditing assignments, Cherry has used Ernst & Young for consultation on VAT, taxation, accounting matters and various analyses. Remuneration is listed in note 5.

#### INVESTOR RELATIONS

Cherry keeps its shareholders informed by means of its annual report, year-end report, interim reports, press releases and the company's website. Reports and press releases from recent years can also be found on the website.

#### DISPUTES

Cherry has been involved in and won a lawsuit at the Arbitration Court in Bratislava, Slovakia, against the purchasers of its shares in Danube Casinos. The claim is for the unpaid portion of the purchase price and amounts to just over USD 500,000 and interest. The claim is in the recovery stage. As the business culture of Slovakia differs greatly from that of Sweden, it is difficult to predict whether the claim is recoverable. Cherry has made provision for the whole claim in its accounts.

In 2001, Cherry reported the Swedish government to the Chancellor of Justice for its failure to provide notification of the ban on goods gaming machines and the wheel of fortune, and for not applying reasonable transitional provisions. This remissness cost Cherry considerable amounts. Cherry wanted the Chancellor of Justice to investigate whether the government was liable for damages. The Chancellor of Justice delivered a negative response in 2003. As it was not clear what prompted the negative response, Cherry consequently enlisted external legal expertise to investigate the feasibility of bringing action against the government and claiming damages for breach of EC law. The findings of this investigation are that it was wrong

of the government not to provide notification of the 1997 changes in the law (wheel of fortune), in accordance with the provisions on technical regulations in directive 98/34 EC. This meant that the ban was ineffective and could not be applied to Cherry. The government is therefore guilty of a standard-setting transgression, which constitutes a breach of EC law. In the investigator's opinion, there is every indication that a claim for damages in respect of the changes in 1997 would be successful. This conclusion finds further support in a newly published draft settlement by an advocate general in the European Court of Justice. According to preliminary calculations, Cherry sustained damages of approximately SEK 80 million.

Cherry is also pursuing a case for restitution of unlawfully collected taxes. The claim, approximately SEK 20 million, is based on the same standard-setting transgression as above, namely the government's failure to notify the 1997 changes in law to the EU.

As far as the action for damages is concerned, Cherry has not made a final decision on whether and how to proceed with the case.

#### RESEARCH AND DEVELOPMENT

Cherry does not conduct any research activities. Development expenditure is capitalized to the extent that it is expected to lead to future economic benefits. Only expenditure relating to the development phase of online gaming products in Net Entertainment is capitalized and recognized as an asset. Other development expenses are reported as costs in the income statement as they arise. These only represent insignificant amounts.

#### ENVIRONMENT

Cherry's operations are not subject to license under the environmental code.

#### DIVIDEND

The Board of Directors proposes to the Annual General Meeting of Shareholders on June 16, 2005 that no dividend be paid.

#### RISK MANAGEMENT

##### Organization

The Group runs its financing activities on the basis of a low-risk financial policy defined by the Board. Financing activities and management of financial risk are coordinated through the parent company Cherryföretagen AB, which is also responsible for investing excess liquidity. Financing of subsidiaries is mainly through the parent company. The wholly owned operating subsidiaries are responsible for managing their own financial risk within the frameworks defined by the Board after coordinating with the parent company.

**Currency risk**

The Group's results are exposed to exchange rate changes when some of its sales are in different currencies from the costs (transaction exposure). The results are also affected by exchange rate changes when foreign subsidiaries' results are translated to SEK (translation exposure). Also, the Group's equity is affected by exchange rate changes when assets and liabilities in foreign subsidiaries are translated to SEK (translation exposure).

A large proportion of Cherry's revenues in the Online Gaming and Maritime Gaming business areas are in different currencies from its costs, mainly EUR and USD. At present, Cherry does not hedge these revenues.

The foreign companies are financed mainly through shareholders' equity and intra-group loans in the parent company's national currency. At the present time there is no hedging of shareholders' equity in foreign subsidiaries. The exchange rate difference from translation of foreign net assets is reported directly to the Group's equity.

Loans raised in foreign currency as part of the Group's financing are not hedged at the present time. To reduce currency exposure, financing is carried out by raising loans mainly in the same currency as that in which the relevant company runs its operations. At present, the Group has a low level of debt. Long-term liabilities relate to partial financing of the Group's operations in Denmark where the revenues too are in DKK.

Income statement items in foreign group and associated companies are not hedged.

The forecast transaction flow in different currencies is shown below (converted to SEK m):

	EUR	USD	DKK	CLP	PLN	Total
Unhedged, expected net flow, 12 months	73	2	4	2	2	83
Effect on income of currency change +/- 1%	0.7	0	0	0	0	0.8

**Refinancing risk, liquidity risk**

The Group's operations are largely financed from its own funds. The Group had a total of SEK 1.6 million in bank loans at the closing date. All the bank commitments apply to the Danish operations.

Cherry has traditionally aimed to have a low level of debt, with an equity/assets ratio of at least 40 percent. The Group's tangible assets consist mainly of games and gaming equipment. It is anticipated that future investments in tangible assets can be mainly financed by internally generated funds or rental solutions. The need for external financing is expected to arise in conjunction with an expansion of the Danish operations and in the event of any large corporate acquisitions.

The main intention is to make acquisitions mainly by cash payment and/or issue of own shares.

**INTEREST RATE RISK**

The Group's revenues and cash flows from operations are largely independent of changes in market interest levels. The Group's excess liquidity is placed in the bank. The commitment period is short. Cherry currently has a low level of debt. Interest rate changes have little effect on the Group's results. The effect of a 1-percent change in interest rates is under SEK 20,000.

**COUNTERPARTY RISK AND CREDIT RISK**

The Group's financial transactions give rise to credit risks in relation to financial counterparties. Cherry does not have any appreciable concentration of credit risks. The company estimates the number of customers in its traditional operations at over 200. No single customer accounts for more than 15 percent of the Group's net sales. However, individual units in each business area may have greater exposure to individual customers.

Cherry makes advance payments to its customers for gaming shares, which is a natural part of its restaurant casino gaming operations. Pre-paid gaming shares are a competitive device in the sector and are important to the outcome of business negotiations relating to gaming location agreements. The issuing of pre-paid gaming shares involves credit risk. To minimize this risk, the advance payment recipient provides collateral in the form of chattel mortgages, real estate mortgages, personal guarantee and/or other pledges of property. In 2004, all credit decisions over SEK 300,000 were made by the Board of Directors, credit decisions between 150,000 and 300,000 by the President and the Chairman of the Board, and credit decisions up to 150,000 by the President or Vice President.

It is Cherry's opinion that, at the present time, sufficient measures have been taken to provide reasonable protection against fraud and credit risks.

**POLITICAL DECISIONS**

Gaming is strictly regulated in most national markets and all gaming operations are in principle subject to license. Political decisions have a major impact on Cherry's operations.

**TECHNICAL DEVELOPMENT**

Online gaming is still in its infancy and there is a large degree of uncertainty associated with the future market. Development is moving at a rapid pace, which means there is a risk of Cherry's technology becoming outdated unless efforts are made to hold a leading position. Investments in new technology are necessary in order to create games with a higher performance, thereby becoming more competitive.



## INCOME STATEMENT

Amounts in SEK thousands	Note	GROUP			PARENT COMPANY		
		2004	2003	2002	2004	2003	2002
<b>Revenues</b>	1, 2, 3						
Net sales		303,857	259,620	265,889	1,209	1,687	1,348
Work performed by the company for its own use and capitalized	16	2,658	2,208	2,301	–	–	–
Other operating income		4,632	2,489	2,888	776	–3	153
<b>Operating income</b>		<b>311,147</b>	<b>264,317</b>	<b>271,078</b>	<b>1,985</b>	<b>1,684</b>	<b>1,501</b>
<b>Operating expenses</b>							
Operating expenses from gaming activities		–134,612	–126,112	–128,813	–35	–86	–71
Other external expenses	4, 5	–42,664	–30,438	–31,636	–5,194	–4,919	–6,371
Personnel expenses	6, 7	–104,328	–93,895	–98,655	–5,346	–4,724	–5,121
Depreciation/impairment of fixed assets	8	–14,472	–11,976	–11,928	–204	–277	–144
Other operating expenses		–40	53	262	–	–	–
<b>Total operating expenses</b>		<b>–296,116</b>	<b>–262,368</b>	<b>–270,770</b>	<b>–10,779</b>	<b>–10,006</b>	<b>–11,707</b>
Operating profit/loss		15,031	1,949	308	–8,794	–8,322	–10,206
<b>Financial items</b>							
Profit/loss from shares in group companies	9	–	–	135	–	–1,350	–3,638
Profit/loss from shares in associated companies	10	–852	–	–68	–852	–	–
Return on other securities and investments	11	1,464	–1,394	–255	–	–	–
Interest income and similar items	12	319	1,420	2,276	814	1,975	3,641
Interest expense and similar items	13	–1,018	–1,348	–2,377	–210	–467	–1,203
<b>Total financial items</b>		<b>–87</b>	<b>–1,322</b>	<b>–289</b>	<b>–248</b>	<b>158</b>	<b>–1,200</b>
<b>Profit/loss after financial items</b>		<b>14,944</b>	<b>627</b>	<b>19</b>	<b>–9,042</b>	<b>–8,164</b>	<b>–11,406</b>
Appropriations	14	–	–	–	–2,888	0	–172
Minority share		–717	–922	–450	–	–	–
<b>Profit/loss before tax</b>		<b>14,227</b>	<b>–295</b>	<b>–431</b>	<b>–11,930</b>	<b>–8,164</b>	<b>–11,578</b>
Tax	15	–4,397	2,860	–469	3,079	1,982	3,595
<b>PROFIT/LOSS FOR THE YEAR</b>		<b>9,830</b>	<b>2,565</b>	<b>–900</b>	<b>–8,851</b>	<b>–6,182</b>	<b>–7,983</b>
Earnings per share before dilution (SEK)	16	0.32	0.08	–0.04	–0.29	–0.20	–0.38
Earnings per share after dilution (SEK)	16	0.31	0.08	–	–0.27	–0.19	–
Proposed/implemented dividend per share (SEK)		–	–	–	0.00	0.00	0.00

**BALANCE SHEET**

Amounts in SEK thousands	Note	GROUP			PARENT COMPANY		
		2004	2003	2002	2004	2003	2002
<b>ASSETS</b>	1						
<b>Fixed assets</b>							
<b>Intangible assets</b>	17						
Development expenses		5,510	4,525	3,403	–	–	–
Acquired gaming agreements and concessions		7,069	491	970	–	–	–
Goodwill		4,429	5,953	7,477	–	–	–
<b>Total intangible assets</b>		<b>17,008</b>	<b>10,969</b>	<b>11,850</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Tangible assets</b>	18						
Land and buildings		0	635	661	–	–	–
Installations and gaming equipment		27,776	24,363	26,439	380	666	666
<b>Total tangible assets</b>		<b>27,776</b>	<b>24,998</b>	<b>27,100</b>	<b>380</b>	<b>666</b>	<b>666</b>
<b>Financial assets</b>	19						
Shares in Group companies	20	–	–	–	44,156	49,733	55,233
Shares in associated companies	21	0	0	0	0	0	0
Other long-term receivables from associated companies	22	1,967	2,981	2,548	1,967	2,981	2,821
Other long-term securities	23	21,605	2,917	772	20,948	2,145	–
Other long-term receivables	24	9,467	6,025	1,251	8,408	5,165	0
<b>Total financial assets</b>		<b>33,039</b>	<b>11,923</b>	<b>4,571</b>	<b>75,479</b>	<b>60,024</b>	<b>58,054</b>
<b>Total fixed assets</b>		<b>77,823</b>	<b>47,890</b>	<b>43,521</b>	<b>75,859</b>	<b>60,690</b>	<b>58,720</b>
<b>Current assets</b>							
<b>Inventories</b>							
Consumables		2,420	2,368	1,800	0	0	82
<b>Total inventories</b>		<b>2,420</b>	<b>2,368</b>	<b>1,800</b>	<b>0</b>	<b>0</b>	<b>82</b>
<b>Current receivables</b>							
Accounts receivable		3,640	3,117	1,227	193	0	48
Due from Group companies		–	–	–	50,387	34,831	22,641
Other receivables		16,731	17,015	18,498	1,747	1,951	4,569
Tax receivables	15	2,948	3,743	650	0	543	121
Prepaid expenses and accrued income	25	22,551	10,372	11,180	173	333	329
<b>Total current receivables</b>		<b>45,870</b>	<b>34,247</b>	<b>31,555</b>	<b>52,500</b>	<b>37,658</b>	<b>27,708</b>
Current investments	26	4,098	3,723	5,117	0	0	0
Cash and bank balances		19,847	31,807	31,040	1,645	19,654	19,735
<b>Total current assets</b>		<b>72,235</b>	<b>72,145</b>	<b>69,512</b>	<b>54,145</b>	<b>57,312</b>	<b>47,525</b>
<b>TOTAL ASSETS</b>		<b>150,058</b>	<b>120,035</b>	<b>113,033</b>	<b>130,004</b>	<b>118,002</b>	<b>106,245</b>



## BALANCE SHEET

Amounts in SEK thousands	Note	GROUP			PARENT COMPANY		
		2004	2003	2002	2004	2003	2002
<b>EQUITY AND LIABILITIES</b>	1						
<b>Equity</b>							
<b>Restricted equity</b>							
Share capital	27	62,407	61,227	61,227	62,407	61,227	61,227
Restricted reserves/Statutory reserve		43,429	29,403	30,465	7,946	7,946	7,946
Share premium reserve		–	–	–	30,792	20,144	20,144
<b>Total restricted equity</b>		<b>105,836</b>	<b>90,630</b>	<b>91,692</b>	<b>101,145</b>	<b>89,317</b>	<b>89,317</b>
<b>Unrestricted equity</b>							
Unrestricted reserves/Profit brought forward		–17,647	–17,368	–17,693	15,334	5,254	9,244
Profit/loss for the year		9,830	2,565	–900	–8,851	–6,182	–7,983
<b>Total unrestricted equity</b>		<b>–7,817</b>	<b>–14,803</b>	<b>–18,593</b>	<b>6,483</b>	<b>–928</b>	<b>1,261</b>
<b>Total equity</b>		<b>98,019</b>	<b>75,827</b>	<b>73,099</b>	<b>107,628</b>	<b>88,389</b>	<b>90,578</b>
<b>Minority share</b>		<b>1,758</b>	<b>2,164</b>	<b>945</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Untaxed reserves</b>	28	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,159</b>	<b>1,271</b>	<b>1,271</b>
<b>Provisions for taxes</b>	15	<b>1,982</b>	<b>666</b>	<b>1,089</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Long-term liabilities</b>	29						
Convertible loans		3,280	3,280	–	3,280	3,280	–
Liabilities to credit institutions		1,394	2,137	1,797	–	–	–
Other long-term liabilities		2,851	123	1,210	–	–	–
<b>Total long-term liabilities</b>		<b>7,525</b>	<b>5,540</b>	<b>3,007</b>	<b>3,280</b>	<b>3,280</b>	<b>0</b>
<b>Current liabilities</b>							
Liabilities to credit institutions		806	936	19	–	–	–
Advance payments from customers		165	657	648	165	540	73
Accounts payable		3,203	3,005	2,342	391	178	345
Due to Group companies		–	–	–	9,842	22,589	12,304
Tax liabilities	15	2,340	0	0	2,340	–	–
Other liabilities		8,730	8,119	7,483	152	112	161
Accrued expenses and deferred income	31	25,530	23,121	24,401	2,047	1,643	1,513
<b>Total current financial liabilities</b>		<b>40,774</b>	<b>35,838</b>	<b>34,893</b>	<b>14,937</b>	<b>25,062</b>	<b>14,396</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>150,058</b>	<b>120,035</b>	<b>113,033</b>	<b>130,004</b>	<b>118,002</b>	<b>106,245</b>
Pledged assets	32	2,217	1,597	2,522	–	–	–
Contingent liabilities	33	1,733	2,724	625	3,872	3,725	475

**CHANGES IN EQUITY****GROUP**

Amounts in SEK thousands	Share capital	Restricted reserves	Unrestricted reserves	Profit/loss for the year	Total
Opening balance January 1, 2002	40,818	49,316	13,167	-48,947	54,354
Transfers between restricted and unrestricted reserves	-	-17,875	-31,072	48,947	0
New share issue	20,409	-	-	-	20,409
Issue expenses	-	-976	-	-	-976
Translation difference	-	-	212	-	212
Profit/loss for the year	-	-	-	-900	-900
Closing balance December 31, 2002	61,227	30,465	-17,693	-900	73,099
Transfers between restricted and unrestricted reserves	-	-1,062	162	900	0
Adjustment of equity in subsidiaries including minority	-	-	153	-	153
Translation difference	-	-	10	-	10
Profit/loss for the year	-	-	-	2,565	2,565
Closing balance December 31, 2003	61,227	29,403	-17,368	2,565	75,827
Transfers between restricted and unrestricted reserves	-	-936	3,501	-2,565	0
Change in equity share in unrestricted reserves	-	3,382	-3,382	-	0
New share issues relating to acquisition of operations and shares	1,180	11,576	-	-	12,756
Translation difference	-	4	-398	-	-394
Profit/loss for the year	-	-	-	9,830	9,830
Closing balance December 31, 2004	62,407	43,429	-17,647	9,830	98,019
<b>Accumulated translation differences</b>	2004	2003	2002		
Amount at beginning of year	996	986	774		
Exchange rate differences in foreign subsidiaries for the year	-394	10	212		
Amount at end of year	602	996	986		

**PARENT COMPANY**

Amounts in SEK thousands	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Profit/loss for the year	Total
Opening balance January 1, 2002	40,818	7,946	40,198	25,923	-45,001	69,884
Allocation as per AGM	-	-	-19,078	-25,923	45,001	0
New share issue	20,409	-	-	-	-	20,409
Issue expenses	-	-	-976	-	-	-976
Group contribution	-	-	-	9,244	-	9,244
Profit/loss for the year	-	-	-	-	-7,983	-7,983
Closing balance December 31, 2002	61,227	7,946	20,144	9,244	-7,983	90,578
Allocation as per AGM	-	-	-	-7,983	7,983	0
Group contribution	-	-	-	3,993	-	3,993
Profit/loss for the year	-	-	-	-	-6,182	-6,182
Closing balance December 31, 2003	61,227	7,946	20,144	5,254	-6,182	88,389
Allocation as per AGM	-	-	-928	-5,254	6,182	0
Group contribution	-	-	-	15,333	-	15,333
Repaid not withdrawn dividend from VPC	-	-	-	1	-	1
New share issues relating to acquisition of operations and shares	1,180	-	11,576	-	-	12,756
Profit/loss for the year	-	-	-	-	-8,851	-8,851
Closing balance 31 December, 2004	62,407	7,946	30,792	15,334	-8,851	107,628



## CASH FLOW STATEMENTS

Amounts in SEK thousands	Note	GROUP			PARENT COMPANY		
		2004	2003	2002	2004	2003	2002
<b>Operating activities</b>							
Profit/loss after financial items		14,944	627	19	-9,042	-8,164	-11,406
<b>Adjustments for non-cash items</b>							
- Depreciation/impairment		14,472	11,976	11,928	204	277	144
- Impairment of assets		852	-	820	852	1,350	550
- Capital gain/loss on the sale of fixed assets		-3,086	4	107	-117	-	264
- Recording of deferred tax asset		-	1,879	-	-	279	-
- Other adjustments		-348	13	146	1	-	1
Group contribution/shareholders' contribution		-	-	-	21,295	5,546	12,838
Income taxes paid		-3,079	1,018	51	-2,882	149	-
<b>Cash flows from operating activities before changes in working capital</b>		<b>23,755</b>	<b>15,517</b>	<b>13,071</b>	<b>10,311</b>	<b>-563</b>	<b>2,391</b>
<b>Change in working capital</b>							
Change in inventories		-52	-568	-96	0	82	54
Change in receivables		-11,623	-2,692	-3,218	-14,842	-9,950	3,417
Change in short-term investments		-375	1,394	24	0	0	0
Change in accounts payable		198	663	-1,821	213	-167	106
Change in current liabilities		4,738	282	-4,557	-10,338	10,833	-109
<b>Cash flows from operating activities</b>		<b>16,641</b>	<b>14,596</b>	<b>3,403</b>	<b>-14,656</b>	<b>235</b>	<b>5,859</b>
<b>Investing activities</b>							
Acquisition of intangible assets		-11,003	-2,240	-2,673	0	-	-
- financed with own shares		7,033	-	-	0	-	-
Acquisition of tangible assets		-14,179	-7,607	-15,366	-19	-278	-359
- financed with own shares		582	-	-	0	-	-
Acquisition of shares and participations		-19,003	-2,145	-	-18,803	-2,145	-
- financed with own shares		5,142	-	-	5,142	-	-
Acquisition of shares and participations, subsidiaries		-	-	-	-	-6,752	-4,461
Change in long-term receivables		-3,280	-5,207	217	-3,081	-5,325	-1,270
Sale of tangible assets		3,338	850	2,470	798	1	-
Sale of intangible assets		0	0	0	7,033	1	-
Cash flows from investing activities		1,956	-	-	5,577	10,902	-
<b>Cash flows from investing activities</b>		<b>-29,414</b>	<b>-16,349</b>	<b>-15,352</b>	<b>-3,353</b>	<b>-3,596</b>	<b>-6,090</b>
<b>Financing activities</b>							
New share issue		-	-	19,433	-	-	19,433
Change in long-term liabilities		1,985	2,533	-815	0	3,280	0
Dividend paid		-	-	-	-	-	-
Dividend paid to minority shareholders in subsidiaries		-1,123	-	-	-	-	-
<b>Cash flows from financing activities</b>		<b>862</b>	<b>2,533</b>	<b>18,618</b>	<b>0</b>	<b>3,280</b>	<b>19,433</b>
<b>Cash and cash equivalents</b>		<b>-11,911</b>	<b>780</b>	<b>6,669</b>	<b>-18,009</b>	<b>-81</b>	<b>19,202</b>
Cash and cash equivalents at beginning of year		31,807	31,040	24,517	19,654	19,735	533
Exchange rate differences		-49	-13	-146	-	-	-
<b>Cash and cash equivalents at year-end</b>		<b>19,847</b>	<b>31,807</b>	<b>31,040</b>	<b>1,645</b>	<b>19,654</b>	<b>19,735</b>
<b>Additional information</b>							
Unutilized credit facilities amounted to		430	486	1,296	-	-	-
Interest paid during the period amounted to		-557	-1,354	-1,590	-187	-467	-1,203
Interest received during the period amounted to		760	1,479	1,780	981	2,110	3,357



## ADDITIONAL INFORMATION

### NOTE 1 ACCOUNTING PRINCIPLES

#### General accounting principles

This annual report has been prepared in accordance with the Swedish Annual Accounts Act, the recommendations (RR) of the Swedish Financial Accounting Standards Council and the statements of its Urgent Issues Task Force.

With effect from this year, the Cherry Group applies the Swedish Financial Accounting Standards Council's recommendation RR 29, Employee Benefits. The new recommendation has not had any effect on Cherry's results and financial position. However, in the present situation, it is not possible to make a full assessment of the effect of implementation of RR 29 with respect to ITP plans, as Alecta is still unable to provide the necessary data. See the section Pension expenses and pension commitments below.

The Group's classification of deferred tax assets has been changed from the previous year. The presentation of deferred tax assets was previously divided into long-term and current receivables. With this report, the classification has been changed so that deferred tax assets are only reported as current receivables in order to achieve full compliance with RR 9. All comparison figures for previous periods have been restated.

In the previous annual report, a provision for deferred tax assets (for loss carry-forwards not previously reported in the balance sheet) was reported as a change in accounting principles. The amount, SEK 1 million, was reported directly to shareholders' equity. This transaction should not be viewed as a changed principle, but as a changed evaluation, which must be reported in the income statement for the year in which the changed evaluation is made. Therefore the comparison figures for 2003 have been adjusted and the accounting profit has increased by SEK 1 million.

The translation difference in cash and cash equivalents was not previously reported separately in the Group's cash flow statements as the amounts were small. In order to achieve compliance with RR 7, from this report the translation difference has been entered in the cash flow and the comparison figures for previous periods have been restated.

#### Valuation principles

Assets and liabilities have been valued at acquisition value unless otherwise stated.

#### Classifications

Fixed assets, long-term liabilities and provisions consist mainly of amounts which are expected to be recovered or paid after more than 12 months counted from the balance sheet date. Current assets and liabilities consist mainly of amounts which are expected to be recovered or paid within 12 months counted from the balance sheet date.

#### Segment reporting

The main classification system for the Group's segments is by business segment. Because the Group's internal reporting system is structured to ensure monitoring of its companies and business areas, its main classification system is business segments.

#### Consolidated financial statements

The consolidated financial statements include the parent company and companies in which the parent company directly or indirectly owns more than 50 percent of the voting rights or otherwise has a controlling interest.

The consolidated accounts have been prepared in accordance with the purchase method. This means that the parent company indirectly acquires the subsidiary's assets and takes over its liabilities, valued at fair value. The difference between acquisition value of shares and fair value of acquired identifiable net assets is reported as goodwill or negative goodwill.

Subsidiaries' income, expenses, assets and liabilities are included in the consolidated financial statements from the date on which the controlling interest arose (acquisition date) until and including the date on which the controlling interest ceases. Intra-group receivables, liabilities and transactions, and any associated unrealized gains, are eliminated in their entirety.

#### Translation of foreign operations

Cherry's foreign group companies are defined as independent companies and are therefore translated in accordance with the current method. Consequently, the exchange rate at the closing date is used to translate all assets, provisions and other liabilities, and any exchange rate differences are charged directly to shareholders' equity. All items in the income statement are translated using the average exchange rate for the year.

Independent foreign operations are sold at their accumulated translation differences, less any hedging in the consolidated financial statements.

#### Associated companies

Holdings in associated companies, in which the Group has a minimum of 20 percent and a maximum of 50 percent of the voting rights or otherwise has a controlling interest over the business and financial management, and for which the ownership interest at this level is considered to be long-term, are reported using the equity method. This does not apply to associated companies which are of negligible significance to the Group's results and financial position.

The equity method means that, in the consolidated financial statements, holdings in associated companies are valued at the Group's share of shareholders' equity in the associated company after adjusting for the Group's share of any surplus and deficit values. The Group's share of associated companies' profit, after adjustment of financial income and expenses for any amortization or dissolution of acquired surplus or deficit values, is reported under 'Profit/loss from shares in associated companies' in the consolidated income statement. The Group's share in associated companies' reported taxes is included in the Group's tax expenses. Earnings accrued in associated companies arising after the acquisition date, and which have not yet materialized through dividends, are allocated to the equity method reserve, which comprises part of restricted shareholders' equity in the Group. If the associated company is reported at a lower value than the value according to the acquisition cost method, the difference is charged to the Group's unrestricted equity. Unrealized gains arising from transactions with associated companies are eliminated in proportion to the Group's ownership in the company. Unrealized gains arising as a result of transactions with associated companies are eliminated against 'Shares in associated companies'. Unrealized losses are eliminated in the same way as unrealized gains, provided there is no write-down requirement.

#### Net sales

Revenues from the Group's gaming operations are reported in net form after deductions for players' winnings. Revenues from consulting/servicing activities and licensing of online gaming products/services are reported when the customer receives the services. Sales are reported after the Group has transferred to the purchaser the determining risks and benefits connected with the proprietary rights of the sold goods and no right of disposal or eventuality of actual control over such transferred goods remains.

#### Other operating income and other operating expenses

Revenues from activities which do not come under ordinary operations are reported as other operating income. This item mainly includes rental income, recovered amortized receivables, currency gains from operations, license revenues for the Cherry brand name and profit from the sale of fixed assets.

Costs of secondary activities in ordinary operations relating to operating receivables and operating liabilities are reported as other operating expenses.

#### Intangible assets

Development expenditure is capitalized to the extent that it is expected to lead to future economic benefits. Only expenditure relating to the development phase of online gaming products in Net Entertainment AB is capitalized and recognized as an asset. The carrying amount includes expenditure on materials, direct payroll expenses and indirect expenses that can be attributed to the asset in a reasonable and consistent way. Other development expenses are reported as costs in the income statement as they arise. These only represent insignificant amounts.

Development expenses are reported in the balance sheet at acquisition value less accumulated amortization and impairment losses. Regular assessments are made of projects' potential to generate revenue.

Goodwill and acquired gaming agreements and concessions also come under intangible assets. These are reported in the balance sheet at acquisition value less accumulated amortization and impairment losses.

**Tangible assets**

Tangible assets are reported at historical acquisition cost minus accumulated depreciation and any impairment losses. Repairs and maintenance are expensed as they arise. Additional expenditure is only capitalized if it generates economic benefits that exceed the original performance of the asset.

**Financial assets**

Financial assets are valued at acquisition value less any impairment losses.

**Depreciation according to plan**

Depreciation according to plan is based on the original acquisition value less the calculated residual value and any impairment losses. Depreciation is carried out on a straight-line basis over the estimated utilization period.

Goodwill	5–10 years
Acquired gaming agreements and concessions	3–5 years
Capitalized development expenses are defined on the basis of the class of asset and amount to	max. 5 years
Gaming machines in operation	3–7 years
Non-cash machines	2 years
Amusement machines max.	3 years
Casino tables	5 years
Casino wheels, Sweden	10 years
Display systems (maritime gaming machines)	2 years
Registration equipment (Swedish casino gaming)	3 years
Other gaming equipment	max. 5 years
Office equipment	5 years
Computers	3–5 years
Vehicles	3–5 years
Buildings	35 years

**Impairment losses**

If there are any internal or external indications that an asset has declined in value, the current recoverable amount is calculated. If the recoverable amount is less than the carrying amount, an impairment loss is identified, which is charged to profit/loss for the year. If the recoverable amount of an individual asset cannot be defined, the recoverable amount is calculated instead for the cash generating unit to which the asset belongs.

**Net financial income/expense**

Net financial income/expense consists of interest income and interest expenses, and also exchange gains and losses on the receivables and liabilities involved in financial activities. It also consists of dividend income and transaction costs for loans and the Group's share in the profit/loss of associated companies. Cherry expenses all loan expenditures.

**Group contribution and shareholders' contribution**

Group contributions are reported in accordance with economic interpretation. This means that Group contributions paid for the purpose of minimizing the Group's total tax are reported directly to retained earnings less their current tax effect.

Shareholders' contributions are reported as an increase under 'Shares in group companies'. An evaluation is then made of whether a write-down of the shares' value is required. Shareholders' contributions received are reported in the recipient's accounts under unrestricted equity.

**Appropriations**

Appropriations consist of the difference between accounting and fiscal depreciation and certain fiscal appropriations for profit equalization.

**Taxes**

Total tax in the income statement consists of current tax and deferred tax. Current tax is tax that is paid or received, which relates to the current year. This also includes adjustment of current tax attributable to earlier periods.

Deferred tax is calculated using the balance sheet method, on the basis of temporary differences between reported and fiscal values of assets and liabilities, and applying the tax rates and regulations which were adopted or advised at the closing date.

Temporary differences are not taken into consideration in goodwill on consolidation nor in differences attributable to shares in subsidiaries and associated companies which are not expected to be taxed. Untaxed reserves including deferred tax liabilities are reported in legal entities.

Deferred tax assets relating to deductible temporary differences and loss carry-forwards are only reported to the extent that it will be possible to utilize them in the future and that they will result in lower future tax payments.

**Current investments**

The subsidiary Intact Technology Stockholm AB (90.1 percent) was previously responsible for developing other business opportunities in the IT area, which arose from new media initiatives. These investments are not of a strategic/long-term nature as they are not part of Cherry's main concentration, which is gaming, lotteries and competitions. It is the Board's intention to conclude the investments as soon as this is possible from an economically beneficial perspective. On this basis, the investments will be reported as current assets, even though the time frame for sales may be over a year away.

**Cash and bank balances**

Cash and cash equivalents also include bank deposits with a commitment period of less than 3 months.

Deposit interest rates on bank and post giro accounts in Sweden are Stibor linked.

**Receivables and liabilities**

After individual valuation, receivables are recognized at the amount in which they are expected to be received. Receivables and liabilities in foreign currency are translated at the closing rate of exchange. Exchange rate differences which arise from operating receivables and liabilities are reported under operating profit/loss. Exchange rate differences for financial assets and liabilities are reported under net financial income/expense.

In the case of accounts receivable, these normally fall due for payment after 10 days. These are reported at the invoiced amounts with a deduction for calculated credit risk. A provision is made when it is no longer likely that the full amount will be paid. When the loss is identified, the remaining receivables are written off in their entirety. No is hedging is carried out for the flows in foreign currency (EUR, USD, DKK and CLP).

**Pre-paid gaming shares**

Pre-paid gaming shares are normal in the restaurant casino sector and act as an important competitive device, which has a bearing on business negotiations relating to attractive gaming location agreements.

The advance is reported under other receivables and the proportion that has a scheduled repayment period longer than one year is reported as other long-term receivables. The division into long-term and short-term is made on the basis of an individual assessment of each advance payment. In return for paid advances, Cherry often receives a higher gaming share during the period to which the advance applies.

This compensation is reported as a reduced location fee under operating expenses.

**Valuation of inventories**

Inventories are valued in accordance with the lowest value principle.

**Convertible debenture loan**

The convertible debenture loan has been reported at nominal value. Interest expenses for the loan have been charged to financial expenses.

**Leasing**

Leasing is classified either as finance or operating leasing in the consolidated financial statements. Leasing of fixed assets where the Group is more or less exposed to the same risks and rewards as in direct ownership is classified as finance leasing. The leased asset is reported as a fixed asset and the corresponding rental liability comes under interest-bearing liabilities. Leasing of assets where the lessor essentially remains the owner of the asset is classified as operating leasing and the leasing charges are expensed on a straight-line basis over the leasing period. The financial agreements that exist in the Group do not represent significant amounts and are therefore



reported as operating. The figures for operating leasing and rental agreements are shown in note 4.

#### Equity

Unrestricted equity is distributable provided a number of other criteria are also met. Unrestricted equity comprises unrestricted reserves and profit/loss for the year. Restricted equity is not distributable.

Restricted equity comprises the statutory, share premium and revaluation reserves, translation differences relating to foreign subsidiaries/associated companies and funds reserved by law in countries in which foreign subsidiaries and associated companies are registered.

#### Pension expenses and pension commitments

The Group has various pension plans in different countries, in which the assets have normally been separated for special administration. The pension plans are normally financed by payments from the relevant group companies and in some cases from employees.

The Group's outgoing payments for defined-contribution pension plans are reported as an expense during the period in which the employees performed the services to which the contribution relates.

Most of the pension commitments for salaried employees in Sweden are covered by insurance in Alecta (traditional Swedish ITP supplementary pension). Pensions for salaried employees who have opted for an alternative ITP, and pensions for other employees (croupiers and dealers) are defined-contribution. The Group also has salaried employees covered by the ITP Plan, which is financed through pension insurance in Alecta. According to recommendation URA 42 of the Swedish Financial Accounting Standards Council's Emerging Issues Task Force, this is a defined-benefit plan which covers several employers. For the financial year 2004, Cherry has not had access to information which makes it possible to present this plan as a defined-benefit plan. Therefore the ITP-compliant pension plan which is covered through insurance with Alecta is presented as a defined-contribution plan, in accordance with the ruling from the Swedish Institute of Authorized Public Accountants' Reporting and Auditing Committees.

The year's expenses for pension insurance taken out in Alecta amounted to SEK 615,000, of which SEK 490,000 relates to retirement and family pension, and are reported in the income statement under Personnel expenses

#### Provisions

A provision is reported in the balance sheet when the company has a legal or constructive undertaking, in which it is likely that payments will be required to fulfill the commitment and where it is possible to make a reliable estimate of the amount to be paid.

#### Contingent liabilities

Contingent liabilities are reported under memorandum items when there is

- a possible undertaking arising from contingent events, the incidence of which is confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not completely under the company's control, or

- an undertaking arising from contingent events, which is not reported as a liability or a provision, due to the fact that it is unlikely that payments will be required to fulfill the commitment or that the size of the commitment cannot be calculated with sufficient accuracy.

#### Definitions

**Net sales.** Operating income after payment/redemption of players' winnings.

**Average total capital.** Total assets at the start of the financial year plus total assets at year-end, divided by two.

**Average capital employed.** Total assets at the start and end of the financial year, less non-interest-bearing liabilities, including deferred tax liabilities, divided by two.

**Average shareholders' equity.** Shareholders' equity at the start and end of the financial year, divided by two.

**Return on total capital.** Profit after financial items, plus financial expenses, divided by average shareholders' equity.

**Return on capital employed.** Profit after financial items, plus financial expenses, divided by average capital employed.

**Return on equity.** Profit/loss after tax divided by average equity.

**Profit margin.** Profit/loss after tax divided by net sales for the period.

**Equity/assets ratio.** Equity at the end of period as a percentage of total assets at the end of period.

**Quick ratio.** Current assets, less inventories, divided by current liabilities, including proposed but not yet adopted dividend.

**Interest coverage ratio (multiple).** Profit/loss after financial items, plus interest expenses, divided by interest expenses.

**Number of persons employed.** The number of persons employed on the date of the most recent monthly salary payment.

**Average number of employees.** The number of employees converted into full-time equivalents.

**Number of shares.** The number of shares at the relevant period's end.

**Average number of shares outstanding.** Weighted average of the number of shares outstanding during the period.

**Earnings per share.** Profit/loss after tax divided by the average number of shares outstanding during the period.

**Earnings per share after dilution.** Profit/loss for the year, with an adjustment for interest expenses after tax attributable to outstanding convertibles, divided by the weighted average number of shares outstanding during the year, with an adjustment for additional shares in the event of conversion and any values of outstanding warrants. Calculated in accordance with RR 18 Earnings per share.

**Cash flow per share.** Cash flow divided by the average number of shares outstanding during the period.

**Equity per share.** Shareholders' equity divided by the number of shares outstanding at the end of the period.

**Dividend per share.** Implemented/proposed dividend.

**Share price.** The price paid in the most recent share transaction of the period.

**Number of registered shareholders.** The number of shareholders and shareholders' nominees recorded in the register of shareholders/stock book held by VPC AB (Swedish Securities Register Center).

**NOTE 2 SEGMENT REPORTING**

The Group's revenues are reported in net form, i.e. after payment of players' winnings, for all the business areas. The Group's primary segments are its business segments

	Online gaming	Restaurant Casino	Maritime Gaming	New Markets	Gaming Machines (discontd.. 2002)	Group-and other	Total Group
<b>2004</b>							
External revenues	62,952	149,481	69,381	28,510	–	823	311,147
Internal revenues	18	729	100	0	–	1,162	
<b>Total revenues</b>	<b>62,970</b>	<b>150,210</b>	<b>69,481</b>	<b>28,510</b>	<b>–</b>	<b>1,985</b>	
Operating profit/loss	14,712	6,622	4,296	–1,814	–	–8,785	15,031
Profit/loss after financial items	15,640	6,656	4,304	–3,473	–	–8,183	14,944
Profit/loss before tax							14,227
Profit/loss after tax							9,830
Assets	67,382	34,504	22,200	23,062	–	2,910	150,058
Liabilities	7,492	19,766	7,360	7,881	–	9,540	52,039
Investments	24,887	8,719	1,734	8,826	–	19	44,185
– Financed with own shares	6,757	6,000	–	–	–	–	12,757
Depreciation/amortization	4,280	2,227	4,581	3,180	–	204	14,472
<b>2003</b>							
External revenues	29,595	140,360	80,927	13,310	–	125	264,317
Internal revenues	34	430	112	0	–	1,626	
<b>Total revenues</b>	<b>29,629</b>	<b>140,790</b>	<b>81,039</b>	<b>13,310</b>	<b>–</b>	<b>1,751</b>	
Operating profit/loss	4,264	4,825	3,453	–2,235	–	–8,358	1,949
Profit/loss after financial items	2,123	5,123	2,999	–2,768	–	–6,850	627
Profit/loss before tax							–295
Profit/loss after tax							2,565
Assets	32,718	25,316	26,544	13,477	–	21,980	120,035
Liabilities	3,984	18,831	10,081	5,200	–	6,112	44,208
Investments	4,908	1,069	2,142	3,873	–	0	11,992
– Financed with own shares	3,137	1,192	5,895	1,456	–	296	11,976
Depreciation/amortization							
<b>2002</b>							
External revenues	10,814	154,961	72,996	10,318	21,804	185	271,078
Internal revenues	393	–	480	–	–	1,316	
<b>Total revenues</b>	<b>11,207</b>	<b>154,961</b>	<b>73,476</b>	<b>10,318</b>	<b>21,804</b>	<b>1,501</b>	
Operating profit/loss	–8,027	8,467	–2,226	–7,821	17,884	–7,969	308
Profit/loss after financial items	–9,347	8,962	–3,564	–8,630	18,512	–5,914	19
Profit/loss before tax							–431
Profit/loss after tax							–900
Assets	21,779	24,786	27,000	12,241	2,899	24,328	113,033
Liabilities	2,777	20,256	8,801	5,211	239	2,650	39,934
Investments	2,462	1,031	6,227	7,369	590	360	18,039
Depreciation/amortization	2,590	1,720	5,727	1,017	732	142	11,928

**Secondary segments – geographical distribution**

Division of operations into primary segments provides information which can to a certain extent be translated to geographical regions. The operations of Restaurant Casino take place exclusively in Sweden. The operations of New Markets take place in Denmark and Chile, with the Chilean operations not meeting the essential criterion for separate reporting.

The Online Gaming business area, which is Cherry's fastest growing operation, develops and sells subsidiary Net Entertainment's games and gaming systems. The company's most successful and fastest growing product/service is Casino Module. This is a module which enables other online gaming sites (particularly sports betting companies) to add casino games to their range. The module is adapted to the customer's requirements and is integrated into their gaming site in such a way that the end customers/players experience it as part of their normal web site playing. In addition, payments and winnings are entirely managed via the customer's payment system. Net Entertainment's business model is built on obtaining a success fee based on the profit from the casino game, in other words the difference between what each individual player bets and wins. Cherry's partners (gaming sites, sports betting companies) offer gaming to their own customers in a large number of countries in Scandinavia, the EU and other parts of the world. The actual customer databases belong to the gaming websites and they do not issue such sensitive information to Cherry. This means that Cherry is unable to determine geographical

areas to which the gaming revenues are attributable. It could be said that Cherry's customers are the gaming websites and that it is these companies' geographical addresses which should govern division of revenues by geographical area. These companies' addresses are determined on the basis of other reasons than proximity to the local market, such as appropriate gaming legislation, tax or other reasons (Costa Rica, Malta, Antigua etc). The advantage of the Internet is that it is a global, cross-border distribution medium, whereby a gaming site owner can have an address anywhere in the world, while serving a large number of local markets around the globe. To divide operations into geographical segments according to these companies' addresses would produce misleading information.

The maritime gaming operations take place on ships on international traffic routes between different countries. Here too, the business model is based on obtaining a success fee on the profit from the gaming activities on board the ships, in other words the difference between what each individual player bets and wins. Cherry does not have any access to the players' nationalities here either.

Here too, it could also be said that each individual ship is Cherry's customer or partner. However, the registration of vessels is governed by other reasons than proximity to the local market. Cherry would then report large revenues from countries such as Panama, Liberia and so on, which would give a completely misleading picture of the origins of our revenues. For the above reasons, Cherry has decided not to report the Group revenues by geographical segment.



	PARENT COMPANY		
	2004	2003	2002
<b>Intra-group purchases and sales</b>			
Purchases from subsidiaries	0	0	0
Sales to subsidiaries	1,162	1,626	1,316

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
<b>Purchases and sales, associated companies</b>						
Purchases from associated companies	0	0	0	0	0	0
Sales to associated companies	0	73	21	0	73	21

**NOTE 3 DISTRIBUTION OF OPERATING INCOME**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Net sales from gaming operations	303,857	259,620	265,889	1,209	1,687	1,348
Capitalized work performed by the company for its own use in Net Entertainment	2,658	2,208	2,301	–	–	–
Other operating income						
– Leasing, sales, external servicing	195	458	209	–	–	–
– License revenues, trademarks	657	649	568	657	73	12
– Inventory changes	–	–121	–	–	–82	–
– Recovered written-down receivables	77	244	131	–	–	–
– Capital gain/loss on the sale of fixed assets	1,285	53	262	115	–	–
– Exchange rate differences, operations	1,803	1,304	899	–	–	–
– Other	615	–98	819	4	6	141
<b>Total</b>	<b>311,147</b>	<b>264,317</b>	<b>271,078</b>	<b>1,985</b>	<b>1,684</b>	<b>1,501</b>

**NOTE 4 LEASING**

Leasing costs for vehicles, rent for premises and other leased equipment which comes under operating leasing amounted to:

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Expensed leasing and rental charges	4,329	4,505	4,384	440	428	784

At December 31, 2004, the figures for future minimum charge for non-terminable operating leasing and rental agreements were estimated as follows:

	GROUP		PARENT COMPANY	
	2004	2003	2004	2003
– in 2005	3,540		466	
– between 2006–2009	1,491		54	
– after 2009	–		–	
<b>Total</b>	<b>5,031</b>		<b>520</b>	

**NOTE 5 INFORMATION ON REMUNERATION OF AUDITORS**

The following payments were made to the company's auditor and auditing firm:

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
For audits and other reviews in accordance with the Companies Act etc, and consulting/other assistance as a result of their observations	758	808	670	335	441	166
For independent consulting, assistance etc provided by Ernst & Young AB and associated companies	518	320	358	201	98	161
<b>Total</b>	<b>1,276</b>	<b>1,128</b>	<b>1,028</b>	<b>536</b>	<b>539</b>	<b>327</b>

**NOTE 6 AVERAGE NUMBER OF EMPLOYEES**

	2004		2003		2002	
	Total	of which male	Total	of which male	Total	of which male
<b>Parent Company</b>						
Sweden	7	57%	7	58%	7	36%
<b>Total Parent Company</b>	<b>7</b>	<b>57%</b>	<b>7</b>	<b>58%</b>	<b>7</b>	<b>36%</b>
<b>Subsidiaries</b>						
Sweden	198	41%	204	41%	206	42%
Denmark	6	50%	19	53%	10	60%
Norway	0	0%	2	50%	7	79%
Poland	13	0%	13	0%	10	0%
Greece	4	75%	3	67%	3	67%
Chile	18	83%	16	82%	14	93%
Costa Rica	6	67%	6	17%	–	–
<b>Total subsidiaries</b>	<b>245</b>	<b>44%</b>	<b>263</b>	<b>41%</b>	<b>250</b>	<b>45%</b>
<b>Group total</b>	<b>252</b>	<b>44%</b>	<b>270</b>	<b>42%</b>	<b>257</b>	<b>45%</b>

**Sickness absence Sweden**

(as a percentage of standard working hours)

	GROUP		PARENT COMPANY	
	2004		2004	
Total sickness absence	2.4%		15.2%	
Long-term sickness absence	1.1%		15.2%	
Sickness absence, males	1.2%		15.2%	
Sickness absence, females	1.2%		0.0%	
Employees, 29 yrs of age or less	0.8%		0.0%	
Employees 30–49 yrs of age	1.2%		15.2%	
Employees, 50 yrs of age or more	0.4%		0.0%	

**Number and percentage of women in senior management 2004**

	Number of men	Number of women	Percentage of women
Board of Directors	4	1	20%
Senior management group (CEO, V CEO, CFO)	3	0	0%
<b>Total Parent Company</b>	<b>7</b>	<b>1</b>	<b>13%</b>
Senior management group, others	5	0	0%
Other CEOs of subsidiaries	1	2	67%
<b>Total Group</b>	<b>13</b>	<b>3</b>	<b>23%</b>

**NOTE 7 SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
<b>Wages, salaries and remuneration</b>						
Boards, CEO, V CEO, other senior executives	5,888	5,958	4,745	2,630	2,080	2,165
Other employees	66,821	60,329	67,246	1,149	1,311	1,695
<b>Total</b>	<b>72,709</b>	<b>66,287</b>	<b>71,991</b>	<b>3,779</b>	<b>3,391</b>	<b>3,860</b>
– of which bonus	444	0	120	140	0	0
Social security expenses (incl. pension costs)	28,140	24,407	25,612	1,751	1,579	1,740
<b>Pension costs</b>						
Boards, CEO, V CEO, other senior executives	1,209	723	805	349	318	296
Other employees	4,927	3,390	3,182	199	147	216
	<b>6,136</b>	<b>4,113</b>	<b>3,987</b>	<b>548</b>	<b>465</b>	<b>512</b>

**Remuneration of senior executives****The Board and Chairman of the Board**

A fixed fee defined by the Annual General Meeting is paid to the Board for distribution among its members. No special fee is paid for committee work. Board members employed in Cherry do not receive any special board fee. The Board has decided to distribute the fee of SEK 500,000 in such a way that Board members receive SEK 75,000 and the Chairman receives SEK 200,000. The Chairman of the Board did not receive any remuneration other than Board fees and does not have any pension benefits or severance pay agreement. In addition to Board fees, Per Hamberg received SEK 229,000 in consulting fees paid to Hamberg & Kling Förvaltnings AB for management assignments relating to the Group's activities in Chile and Norway.

In the financial year 2004, the CEO/President received SEK 967,000 in salary and a company car. There were no bonus payments.

In addition to pension benefits pursuant to the national insurance act (ATP and AFP), the Chief Executive Officer is also entitled to pension benefits in line with the ITP plan, which may be taken out with

any insurance company. Pensionable salary does not include bonuses and a company car. No increased retirement pension premium is paid. The pension is defined-contribution. No pension agreement for early retirement before the age of 65 exists. The pension is transferable.

In the event of notice served by Cherry, the Chief Executive Officer is entitled to a period of notice of six months and severance pay corresponding to 12 months' salary. Settlement from severance pay is not made if salary is received from other employment. If the CEO resigns of his own volition, the period of notice is six months, with no severance pay. The Group's COO was appointed as Vice CEO on December 27, 2004. The COO's remuneration for 2004 is described in the section "Senior management group" below.

**Senior management group**

The senior management group, which consisted of seven people in 2004, received salaries and company car benefits amounting to SEK 4,519,000. Bonuses were expensed at SEK 247,000, to be paid in 2005. The senior management group is entitled to pensions under the ITP system or equivalent. In certain cases, increased retirement



pension premiums are paid. Pensionable salary does not include bonuses and a company car. The total pension premium including increased pension does not exceed 35 percent of the fixed salary for any member of the senior management group. No pension agreement for early retirement before the age of 65 exists. The pensions are defined-contribution, with the exception of ITP bonuses, which are defined-benefit. The pensions are transferable. The senior management group's contracts of employment contain clauses on remuneration and notice. If the senior manager resigns of his or her own volition, the period of notice is normally six months, and for notice served by Cherry, the period of notice is between six and twelve months. In the event of notice served by Cherry, the Vice Chief Executive Officer is entitled to a period of notice of six months and severance pay corresponding to 6 months' salary. Settlement from severance pay is not made if salary is received from other employment. If the Vice CEO resigns of his own volition, the period of notice is six months, with no severance pay. No severance payments are made to other members of the senior management group. The contracts of employment normally contain a non-competition clause which remains in force throughout the period of employment and for a further 12 to 24 months.

#### Bonus scheme

A maximum bonus of 20 percent of the fixed annual salary, not including car benefits, may be paid to heads of business areas and/or managers of subsidiaries in the senior management team. At the present time there is no bonus scheme for the President. A maximum bonus of 50 percent of the fixed annual salary, not including car benefits, may be paid to the Vice President. The bonus is based on an accrual period of one year. The final bonus is dependent on whether individually defined targets have been achieved. The targets are mainly quantitative and are set by the President following a recommendation by the Board/Chairman of the Board.

#### Financial instruments

No financial instruments were issued in 2004. In 2003, Cherry raised a convertible debenture loan of SEK 3,280,000 from the company's

CEO, which is due for payment on May 15, 2006 and carries an annual interest rate of 5.75 percent. The debenture loan can be wholly or partially converted to B shares during the period April 1-24 at a conversion rate of SEK 4.10. Accordingly, the number of shares may increase by a maximum of 800,000. In 2003, 38 senior executives and key personnel subscribed for 710,000 options, with subscription rights for 710,000 B shares in Cherryföretagen AB. The option premium was SEK 0.49, which was calculated using the Black and Scholes option pricing model. Employees who participated in the share option scheme received a salary bonus corresponding to 73 percent of the option premium. The warrants are valid up to and including May 15, 2006 and may be used to subscribe for shares on May 15, 2006. The subscription price is SEK 4.10. In the event of full subscription, the shareholding may increase by a maximum of 710,000 shares. Senior executives' and other employees' holdings of convertibles and warrants under the 2003/2006 option schemes are shown below. All previous share-related incentive schemes have closed.

Convertibles 2003/2006	Number
CEO/President	3,280
Warrants 2003/2006	Antal
CEO/President	30,000
Senior management group	200,000
Senior executives	230,000
Other CEOs of subsidiaries	30,000
Other employees	450,000
<b>Total subscribed options</b>	<b>710,000</b>

#### Preparation and decision-making process

The annual general meeting and Board have not appointed a remuneration committee. Remuneration to the Group President is decided by the Board. Remuneration to personnel directly subordinated to the Chief Executive Officer is decided by the latter following consultation with the Chairman of the Board. The Group applies the principle that the manager's manager must approve decisions about remuneration issues.

### NOTE 8 DEPRECIATION/AMORTIZATION

Distribution of depreciation for each fixed asset is as follows:

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Development expenses	-1,673	-1,086	-599	-	-	-
Acquired gaming agreements and concessions	-1,767	-512	-846	-	-	-
Goodwill	-1,524	-1,524	-1,524	-	-	-
Land and buildings	-2	-26	-27	-	-	-
Installations and gaming equipment	-9,506	-8,828	-8,932	-204	-277	-144
<b>Total</b>	<b>-14,472</b>	<b>-11,976</b>	<b>-11,928</b>	<b>-204</b>	<b>-277</b>	<b>-144</b>

### NOTE 9 PROFIT/LOSS FROM SHARES IN GROUP COMPANIES

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Profit from sale of Cherry A/S, Norway	-	-	135	-	-	-3,088
Impairment of shares in Intact Technology	-	-	-	-	-1,350	-550
<b>Total</b>	<b>0</b>	<b>0</b>	<b>135</b>	<b>0</b>	<b>-1,350</b>	<b>-3,638</b>

### NOTE 10 PROFIT/LOSS FROM SHARES IN ASSOCIATED COMPANIES

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Cherry A/S, Norway	-852	-	-273	-852	-	-
Cherry Tivolito Beneficencia S.A., Chile	-	-	-53	-	-	-
Cherry Brussels S.A., Belgium	-	-	258	-	-	-
<b>Total</b>	<b>-852</b>	<b>0</b>	<b>-68</b>	<b>-852</b>	<b>0</b>	<b>0</b>

### NOTE 11 RETURN ON OTHER SECURITIES AND INVESTMENTS

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Capital gain on sale of shares	1,642	-	-	-	-	-
Impairment of shares	-178	-1,394	-255	-	-	-
<b>Total</b>	<b>1,464</b>	<b>-1,394</b>	<b>-255</b>	<b>0</b>	<b>0</b>	<b>0</b>

**NOTE 12 INTEREST AND SIMILAR INCOME**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Interest income, group companies	–	–	–	274	1,290	3,008
Interest income, associated companies	–	193	32	–	193	32
Interest income, other	760	1,286	1,748	707	628	317
Exchange rate differences	–441	–59	496	–167	–136	284
<b>Total</b>	<b>319</b>	<b>1,420</b>	<b>2,276</b>	<b>814</b>	<b>1,975</b>	<b>3,641</b>

**NOTE 13 INTEREST AND SIMILAR EXPENSE**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Interest expenses, group companies	–	–	–	–	–147	–731
Interest expenses, other	–557	–1,355	–1,590	–188	–320	–472
Exchange rate differences	–461	7	–787	–22	–	–
<b>Total</b>	<b>–1,018</b>	<b>–1,348</b>	<b>–2,377</b>	<b>–210</b>	<b>–467</b>	<b>–1,203</b>

**NOTE 14 APPROPRIATIONS**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Difference between book depreciation and depreciation according to plan	–	–	–	30	–	–172
Tax allocation reserve	–	–	–	–2 918	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–2 888</b>	<b>0</b>	<b>–172</b>

**NOTE 15 TAX**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Tax expense in income statements						
<b>Distribution by current and deferred tax</b>						
Current tax	–2,500	427	–51	–2,454	427	0
Deferred tax	–1,897	2,433	–418	5,533	1,555	3,595
<b>Total</b>	<b>–4,397</b>	<b>2,860</b>	<b>–469</b>	<b>3,079</b>	<b>1,982</b>	<b>3,595</b>

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Tax expenses are distributed as follows:						
<b>Current tax</b>						
Sweden	–2,453	427	–51	–2,454	427	–
Outside Sweden	–47	–	–	–	–	–
<b>Total current tax</b>	<b>–2,500</b>	<b>427</b>	<b>–51</b>	<b>–2,454</b>	<b>427</b>	<b>0</b>
<b>Deferred tax</b>						
Sweden	–1,817	639	–418	5,533	1,555	3,595
Outside Sweden	–80	1,794	–	–	–	–
<b>Total deferred tax</b>	<b>–1,897</b>	<b>2,433</b>	<b>–418</b>	<b>5,533</b>	<b>1,555</b>	<b>3,595</b>
<b>Difference between actual tax expense and tax expense based on present tax rate</b>						
Reported profit/loss before tax	14,227	–295	–431	–11,930	–8,164	–11,406
Tax according to present tax rate (28%)	–3,984	83	121	3,340	2,286	3,194
Tax attributable to previous years	–2	–	125	–2	–	–
Foreign tax attributable to temporary differences	–81	–	–176	–	–	–
Difference in tax in foreign operations	2,124	427	–	–	–	–
Tax effect of tax-exempt items	–21	–630	399	–259	–306	401
Tax attributable to temporary differences	–536	547	–418	–5,533	–1,553	–3,595
<b>Total current tax</b>	<b>–2,500</b>	<b>427</b>	<b>51</b>	<b>–2,454</b>	<b>427</b>	<b>0</b>
<b>Itemization of deferred tax</b>						
Tax expense from group contributions	–	–	–	5,963	1,553	3,595
Tax expense from change in loss carry-forwards	–581	2,571	–285	–430	149	–
Tax expense from change in appropriations	–1,316	–138	–133	–	–147	–
<b>Total deferred tax</b>	<b>–1,897</b>	<b>2,433</b>	<b>–418</b>	<b>5,533</b>	<b>1,555</b>	<b>3,595</b>



	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
<b>Tax in balance sheets</b>						
<b>Current receivables</b>						
– Deferred tax receivable, loss carry-forwards	1,857	2,437	–	–	427	–
– Tax assets	1,091	1,306	650	–	116	121
<b>Total</b>	<b>2,948</b>	<b>3,743</b>	<b>650</b>	<b>0</b>	<b>543</b>	<b>121</b>
<b>Current liabilities</b>						
– Tax liabilities	2,340	0	0	2,340	0	0
<b>Provision for taxes</b>						
– Deferred tax, tax allocation reserve	1,125	308	308	–	–	–
– Deferred tax, accelerated depreciation	857	358	496	–	–	–
– Deferred tax, temporary differences	–	–	285	–	–	–
<b>Total</b>	<b>1,982</b>	<b>666</b>	<b>1,089</b>	<b>0</b>	<b>0</b>	<b>0</b>

In view of the positive profit development in late 2003/early 2004, it was considered likely that loss carry-forwards could be utilized in future years. Consequently, deferred tax assets from previous loss carry-forwards not recorded in 2002 were reported in the balance sheet at December 31, 2003. The changed assessment also affected the results for 2003.

### NOTE 16 EARNINGS PER SHARE

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Profit/loss for the year after tax	9,830	2,565	–900	–8,851	–6,182	–7,983
Convertible loan interest after tax	136	85	–	136	85	–
<b>Adjusted profit/loss</b>	<b>9,966</b>	<b>2,650</b>	<b>–900</b>	<b>–8,715</b>	<b>–6,097</b>	<b>–7,983</b>
<b>Average number of shares</b>						
– before dilution	30,948,468	30,613,684	21,024,192	30,948,468	30,613,684	21,024,192
– convertible loan	800,000	500,000	–	800,000	500,000	–
– warrants	588,848	319,482	–	588,848	319,482	–
<b>– after dilution</b>	<b>32,337,316</b>	<b>31,433,166</b>	<b>21,024,192</b>	<b>32,337,316</b>	<b>31,433,166</b>	<b>21,024,192</b>
<b>Earnings per share (SEK)</b>						
– before dilution	0.32	0.08	–0.04	–0.29	–0.20	–0.38
– after dilution	0.31	0.08	–	–0.27	–0.19	–

See note 1, Definitions, for calculation method. Average market price 2004 (2003): 21,04 (12,38) (SEK). Discount rate: 5,75%

### NOTE 17 INTANGIBLE ASSETS

	GROUP			PARENT COMPANY		
	2004	2003	2002	2003	2002	2001
<b>Development expenses</b>						
Acquisition value brought forward	6,480	4,272	1,862	–	–	–
Acquisition value for the year	2,658	2,208	2,410	–	–	–
Acquisition value carried forward	9,138	6,480	4,272	–	–	–
Depreciation brought forward	–1,955	–869	–271	–	–	–
Depreciation for the year	–1,673	–1,086	–598	–	–	–
Accumulated depreciation carried forward	–3,628	–1,955	–869	–	–	–
Residual value according to plan carried forward	5,510	4,525	3,403	–	–	–

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
<b>Acquired gaming agreements and concessions</b>						
Acquisition value brought forward	12,239	12,207	11,944	–	–	–
Acquisition value for the year	8,345	32	263	–	–	–
Acquisition value carried forward	20,584	12,239	12,207	–	–	–
Depreciation brought forward	–11,749	–11,237	–10,391	–	–	–
Depreciation for the year	–1,767	–512	–846	–	–	–
Accumulated depreciation carried forward	–13,516	–11,749	–11,237	–	–	–
Residual value according to plan carried forward	7,068	490	970	–	–	–

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
<b>Goodwill</b>						
Acquisition value brought forward	42,226	42,226	42,226	–	–	–
Acquisition value for the year	–	–	–	–	–	–
Acquisition value carried forward	42,226	42,226	42,226	–	–	–
Depreciation brought forward	–36,273	–34,749	–33,225	–	–	–
Depreciation for the year	–1,524	–1,524	–1,524	–	–	–
Impairment of goodwill	–	–	–	–	–	–
Accumulated depreciation carried forward	–37,797	–36,273	–34,749	–	–	–
Residual value according to plan carried forward	4,429	5,953	7,477	–	–	–

**NOTE 18 TANGIBLE FIXED ASSETS**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
<b>Land and buildings</b>						
Acquisition value brought forward	873	873	873	–	–	–
Sales	–873	–	–	–	–	–
Acquisition value carried forward	0	873	873	0	0	0
Depreciation brought forward	–238	–212	–185	–	–	–
Sales	240	–	–	–	–	–
Depreciation for the year	–2	–26	–27	–	–	–
Accumulated depreciation carried forward	0	–238	–212	0	0	0
Residual value according to plan carried forward	0	635	661	0	0	0

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
<b>Installations and gaming equipment</b>						
Acquisition value brought forward	69,227	65,637	70,997	2,753	2,273	1,926
Purchases for the year	14,504	7,607	15,366	19	–	359
Intra-group purchases for the year	–	–	–	–	480	–
Sales/disposals	–8,379	–3,797	–20,234	–258	–	–12
Translation difference for the year	768	–220	–492	–	–	–
Acquisition value carried forward	76,120	69,227	65,637	2,514	2,753	2,273
Depreciation brought forward	–44,864	–39,198	–48,022	–2,087	–1,608	–1,476
Sales/disposals	7,114	3,052	17,339	157	–	12
Intra-group accum. depreciation taken over	–	–	–	–	–202	–
Depreciation for the year	–9,506	–8,828	–8,932	–204	–277	–144
Translation difference for the year	–1,088	110	417	–	–	–
Accumulated depreciation carried forward	–48,344	–44,864	–39,198	–2,134	–2,087	–1,608
Residual value according to plan carried forward	27,776	24,363	26,439	380	666	665
Accelerated depreciation brought forward	–	–	–	–172	–172	0
Accelerated depreciation for the year	–	–	–	30	0	–172
Accumulated accelerated depreciation	–	–	–	–142	–172	–172
Book value carried forward	27,776	24,363	26,439	238	494	493

**NOTE 19 FINANCIAL ASSETS**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
<b>Shares and participations in group companies</b>						
Acquisition value brought forward	–	–	–	49,733	55,233	51,587
Reclassification to associated company	–	–	–	–	–	–265
Shareholders' contribution	–	–	–	–	1,350	550
Shareholders' contribution, share issues	–	–	–	–	5,402	3,911
Intra-group sales	–	–	–	–5,577	–10,902	–
Impairment losses	–	–	–	–	–1,350	–550
Book value carried forward	–	–	–	44,156	49,733	55,233

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
<b>Shares and participations in associated companies</b>						
Book value brought forward	0	0	130	0	0	0
Reclassification to group company	–	–	–130	–	–	–
Reclassification from group company	–	–	–	–	–	265
Share of associated companies' profit/loss	–	–	205	–	–	–
Impairment losses	–	–	–205	–	–	–265
Book value carried forward	0	0	0	0	0	0

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
<b>Other long-term receivables from associated companies</b>						
Book value brought forward	2,981	2,548	0	2,981	2,821	0
Acquisition value	–	–	2,708	–	–	2,708
Increase in receivable	208	433	113	208	433	113
Repayment by installments	–128	–	–	–128	–	–
Impairment losses	–165	–	–273	–165	–273	–
Exchange rate adjustments	–77	–	–	–77	–	–
Negative net asset value	–852	–	–	–852	–	–
Book value carried forward	1,967	2,981	2,548	1,967	2,981	2,821



	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
<b>Other long-term securities</b>						
Book value brought forward	2,917	772	772	2,145	0	0
Sales	-315	-	-	-	-	-
Investments	19,003	2,145	-	18,803	2,145	-
Book value carried forward	21,605	2,917	772	20,948	2,145	0

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
<b>Other long-term receivables</b>						
Book value brought forward	6,025	1,251	3,886	5,165	0	1,551
Change in debenture loan	3,243	5,165	-	3,243	5,165	-
Change in long-term part of licensee loan	-51	50	50	-	-	-
Change in deposits	250	-441	190	-	-	-
Reclassifications	-	-	-2,875	-	-	-1,551
Book value carried forward	9,467	6,025	1,251	8,408	5,165	0

**NOTE 20 SHARES IN GROUP COMPANIES**

Company	Reg. no.	Regd. office	Holding %	No. shares	PARENT COMPANY		
					2004	2003	2002
Cherry Casino AB	556225-3806	Solna	100%	20,000	9,080	9,080	9,080
Cherry Casino Syd AB	556229-6730	Gothenburg	100%	20,000	4,774	4,774	4,774
Cherry A/S	26 03 44 69	Denmark	100%	1,250	9,467	9,467	4,065
Cherry A/S	982 212 715	Norway	35%	5,000	-	-	-
Casinoinvest i Sverige AB	556444-6119	Solna	100%	5,000	3,280	3,280	3,280
- Cherry Casino Norr AB	556420-9632	Umeå	100%	-	-	-	-
- Cherry Casino Norr KB	969615-3494	Umeå	100%	-	-	-	-
Cheryföretagen Casinoutrustningar AB	556205-2307	Solna	100%	6,000	812	812	812
First Casino AB	556443-0527	Uppsala	100%	1,000	1,000	1,000	1,000
Cherry Maritime Gaming AB	556207-4335	Solna	100%	10,000	2,907	2,907	2,907
- Secular Corporation		Liberia	55%	-	-	-	-
Cherry Fritidsattraktioner AB	556210-9909	Gothenburg	100%	20,000	4,454	4,454	4,454
Cherry Maritime Service Väst AB	556206-3403	Falkenberg	100%	10,000	3,561	3,561	3,561
Cherry VLT AB	556118-8870	Solna	0 (100)%	0 (18,000)	-	5,577	5,577
Cherry Leisure AB	556169-9843	Solna	100%	2,500	290	290	290
- Net Entertainment NE AB	556532-6443	Stockholm	100%	20,409,123	-	-	10,001
- Mobile Entertainment ME AB	556185-1758	Stockholm	100%	-	-	-	-
- Secured Gaming Funds SGF AB	556118-8870	Stockholm	100%	-	-	-	-
- Mil Treinta y Dos S.A.		Costa Rica	100%	-	-	-	-
- Net Entertainment Malta Ltd.	C34838	Malta	100%	-	-	-	-
- Casinoeuro Ltd.	C34836	Malta	100%	-	-	-	-
- Intact Technology Stockholm AB	556561-4814	Stockholm	90,1%	9,010	-	-	901
AB Restaurang Rouletter	556133-3153	Solna	100%	1,000	131	131	131
Svenska Casino AB	556560-6869	Solna	100%	1,000	100	100	100
Cherry International AB	556561-8575	Solna	100%	10,000	4,300	4,300	4,300
- Cherry Chile Limitada		Chile	50%	-	-	-	-
- Cherry Tivolito S.A.		Chile	50%	-	-	-	-
<b>Total</b>					<b>44,156</b>	<b>49,733</b>	<b>55,233</b>

In 2004, Cherry VLT AB was sold internally to Net Entertainment at book value and its name was changed to Secured Gaming Funds SGF AB. In 2003, Cherry Leisure AB purchased shares in Net Entertainment and Intact at book value.

**NOTE 21 SHARES IN GROUP COMPANIES**

Company, Regd. office	Holding	GROUP			Holding	PARENT COMPANY		
		2004	2003	2002		2004	2003	2002
Cherry A/S, Norway	35%	0	0	0	35%	0	0	0
Cherry Brussels S.A.	0 (33)%	-	0	0	-	-	-	-
<b>Total</b>		<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>0</b>	<b>0</b>

Cherry's holding in Cherry Brussels S.A. was sold during the year. The international casino project in Brussels is now terminated.

**NOTE 22 OTHER LONG-TERM RECEIVABLES FROM ASSOCIATED COMPANIES**

Company, Regd. office	Holding	GROUP			Holding	PARENT COMPANY		
		2004	2003	2002		2004	2003	2002
Cherry A/S, Norway	35%	1,967	2,981	2,548	35%	1,967	2,981	2,821
<b>Total</b>		<b>1,967</b>	<b>2,981</b>	<b>2,548</b>		<b>1,967</b>	<b>2,981</b>	<b>2,821</b>

The receivable arises from the loan made to Cherry A/S Norway, with a nominal value of NOK 2,150,000. The loan matures with gradually increasing quarterly repayments from September 2004 until and including September 2008.

Interest is paid quarterly starting in March 2004. Payments are made in NOK. The loan carries an interest rate of 7.2%. The other two owners of Cherry A/S have pledged their entire shareholding as collateral for the above loan.

**NOTE 23 SHARES IN OTHER COMPANIES**

Company, Regd. office	Holding	GROUP			Holding	PARENT COMPANY		
		2004	2003	2002		2004	2003	2002
Betware Ltd, Iceland	4.9 (8.2)%	457	772	772	0%	–	–	–
GBE Holdings Ltd, Ilse of Man	17.3 (10.5)%	20 937	2,145	–	17.3 (10.5)%	20,937	2,145	–
Aciago AB, Stockholm	10.0%	11	–	–	10.0%	11	–	–
Nordstans Casino KB	15.0%	200	–	–	–	–	–	–
<b>Total</b>		<b>21 605</b>	<b>2,917</b>	<b>772</b>		<b>20,948</b>	<b>2,145</b>	<b>0</b>

**NOTE 24 OTHER LONG-TERM RECEIVABLES**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Debenture loan GBE Holdings Ltd (Betsson)	7,384	5,165	–	7,384	5,165	–
Debenture loan, Aciago AB	1,024	–	–	1,024	–	–
Long-term part of licensee loan	749	800	750	–	–	–
Deposits	310	60	501	–	–	–
<b>Total</b>	<b>9,467</b>	<b>6,025</b>	<b>1,251</b>	<b>8,408</b>	<b>5,165</b>	<b>0</b>

At the closing date, Cherryföretagen had two convertible debenture loans issued by GBE Holdings Ltd (Betsson). The nominal amounts were EUR 210,000 and 550,000 and the loans carried an annual interest rate of 7 percent. On February 17, Cherry converted the loans, including accrued interest, into a total of 839,943 shares in GBE Holdings Ltd., which corresponds to 36.3% of the total number of shares (with the previous holding). Cherry also called in other options, thereby becoming 100% owner of GBE Holding Ltd. (Betsson).

Cherryföretagen has a convertible loan issued by Aciago AB. The nominal amount is SEK 1,000,000 and the maturity date October 30, 2006. The loan carries an annual interest rate of 7 percent, with quarterly payments. The loan may be paid with immediate effect provided the borrower's financial position allows this. All or parts of the loan can be converted into shares during November 2006. This would give Cherry a maximum shareholding of 72.5 of the total

shares in the company (with the present holding). If Cherry achieves over 50 percent of the voting rights and shares, Cherry undertakes to purchase the remaining outstanding shares in the company during the period November 1, 2006 to December 31, 2006 at market value. Payment will be in the form of B shares in Cherry and/or cash, as decided by Cherry. Aciago has the option to borrow up to a further SEK 2,000,000 until October 30, 2006, under certain conditions.

Other long-term receivables consist of the advance payments of gaming shares to restaurant casinos, which following individual assessment, are considered long-term, and therefore have a planned repayment period of over one year. The due date for these receivables does not exceed 5 years in any case. Payment of installments is monthly, as per agreement. The receivables do not carry interest. Collateral for these advance payments is in the form of chattel mortgages, real estate mortgages and/or personal guarantee.

**NOTE 25 PREPAID EXPENSES AND ACCRUED INCOME**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Accrued gaming income	17,570	6,232	7,400	–	–	–
Other prepaid expenses	4,981	4,140	3,780	173	333	329
<b>Total</b>	<b>22,551</b>	<b>10,372</b>	<b>11,180</b>	<b>173</b>	<b>333</b>	<b>329</b>

**NOTE 26 SHORT-TERM INVESTMENTS**

	Holding	GROUP			PARENT COMPANY		
		2004	2003	2002	2004	2003	2002
Establish (not listed)	11.4 (9.5)%	4,098	3,545	4,939	–	–	–
Reachin Technologies (not listed)	1.1%	0	178	178	–	–	–
<b>Total</b>		<b>4,098</b>	<b>3,723</b>	<b>5,117</b>	<b>0</b>	<b>0</b>	<b>0</b>

There is no market value available for the Group's short-term investments in unlisted shares. The values have been measured on the basis of the companies' closing equity, present value and expected earnings trend. Accordingly, the value of the Group's shares in

Reachin Technologies has been written down to SEK 0. The holding in Establish has been reported at the Group's share of equity in the company.

**NOTE 27 SHARE CAPITAL**

Breakdown of share capital	PARENT COMPANY					
	2004		2003		2002	
	No. of shares	Share capital	No. of shares	Share capital	No. of shares	Share capital
Shares, class A (10 votes)	5,610,000	11,220	5,610,000	11,220	5,610,000	11,220
Shares, class B (1 vote)	25,593,726	51,187	25,003,684	50,007	25,003,684	50,007
<b>Total shares</b>	<b>31,203,726</b>	<b>62,407</b>	<b>30,613,684</b>	<b>61,227</b>	<b>30,613,684</b>	<b>61,227</b>
Convertibles B	800,000	1,600	800,000	1,600	–	–
Warrants B	710,000	1,420	710,000	1,420	–	–
<b>Total shares after dilution</b>	<b>32,713,726</b>	<b>65,427</b>	<b>32,123,684</b>	<b>64,247</b>	<b>30,613,684</b>	<b>61,227</b>

The nominal value of the shares is SEK 2. Both A and B shares hold the same rights.

**NOTE 28 UNTAXED RESERVES**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Tax allocation reserve, TAX -01	-	-	-	1,099	1,099	1,099
Tax allocation reserve, TAX -05	-	-	-	2,918	-	-
Accumulated accelerated depreciation	-	-	-	142	172	172
<b>Total</b>	-	-	-	<b>4,159</b>	<b>1,271</b>	<b>1,271</b>
Deferred tax in untaxed reserves amounts to				1,165	356	356

**NOTE 29 LONG-TERM LIABILITIES**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Total long-term liabilities	7,525	5,540	3,007	3,280	3,280	0
- due between one and five years	7,525	5,278	2,681	3,280	3,280	-
- due after five years	-	262	326	-	-	-

**Convertible loans**

In 2003, Cherry raised a convertible debenture loan of SEK 3,280,000 from the company's CEO, which is due for payment on May 15, 2006 and carries an annual interest rate of 5.75 percent. The debenture loan can be wholly or partially converted to B shares during the period April 1-24 at a conversion rate of SEK 4.10.

Accordingly, the number of shares may increase by a maximum of 800,000. An overall assessment shows that the right of conversion does not have any independent value. In view of the conditions when the loan was taken out and the general interest situation, the liability is reported at nominal value. Of the Group's long-term liabilities at the closing date, SEK 4,674,000 are interest-bearing.

**NOTE 30 FINANCIAL INSTRUMENTS**

The table below shows the Group's financial assets and liabilities, with carrying amount and fair market value. The valuation principles for financial instruments are described in note 1. Cherry does not currently use forward cover, interest derivatives or swap agreements.

**Financial assets and liabilities December 31, 2004 (SEK thousands)**

	Carrying amount	Fair value
<b>Assets</b>		
Long-term receivables from associated companies	1,967	1,967
Other long-term securities	21,605	50,049
Other long-term receivables	9,467	203,966
Accounts receivable	3,640	3,640
Other receivables	16,731	16,731
Short-term investments	4,098	4,098
Cash and cash equivalents	19,847	19,847
	<b>77,355</b>	<b>300,298</b>
<b>Liabilities</b>		
Convertible loans	3,280	3,280
Liabilities to credit institutions - long-term	1,394	1,394
Other long-term liabilities	2,851	2,851
Liabilities to credit institutions - short-term	806	806
Accounts payable	3,203	3,203
Other liabilities	8,730	8,730
	<b>20,264</b>	<b>20,264</b>

As shown in note 23, most other long-term securities relate to shares in Betware Ltd and GBE Holdings Ltd. As both companies are unlisted, there is no market value for the shares at closing day. The holding in Betware Ltd has therefore been valued at the price of the most recent known transaction, which results in an adjustment of SEK 2,812,000 to the fair market value. The valuation of GBE Holdings Ltd. (Betsson), which was made in conjunction with Cherry's acquisition of the company in February 2005, amounted to SEK 590 million. There is no detailed measurement of the company's value at January 1, 2005 available. An estimation of the value at

the beginning of the year has been made based on price increases for shares in similar listed companies during the period up to the date of acquisition. This estimation indicates a value of SEK 350 million for Betsson at the end of 2004. The holding of shares in GBE Holdings Ltd. (Betsson) has therefore been valued on the basis of the points described above, which means an adjustment of SEK 25,632,000 to the fair market value. With regard to the shareholding and debenture loan in Aciago AB, it is not possible to measure the fair value as the company is not listed. As the company is in a start-up/development phase, an external company valuation would be unreliable and would therefore not produce a correct fair value. Accordingly the fair value has been assessed as equal to the book value. As shown in note 24, most other long-term receivables relate to the debenture loan to GBE Holdings Ltd. The financial instruments include derivatives in the form of warrants and call options enabling Cherry to acquire up to 71 percent of the total number of shares in GBE Holdings Ltd. at fixed prices during February 2005. The holding of these derivatives has been valued on the basis of the same points for holdings of shares described above, which means an adjustment of SEK 194,499,000 to the fair market value. Commercial accounts receivable and accounts payable, other receivables and liabilities, and cash & cash equivalents are reported at fair value.

Short-term investments, which comprise shares in unlisted companies, are reported in the annual accounts at the Group's share of the companies' equity. See note 26. The holdings are reported at fair value. The convertible debenture loan of SEK 3,280,000, which carries an interest rate of 5.75 percent, is due for repayment on May 15, 2006. An overall evaluation shows that the right of conversion does not have any independent value. In view of the conditions when the loan was taken out and the general interest situation, the liability is reported at nominal value. Because liabilities to credit institutions carry a variable interest rate, the fair value is considered the same as the book value. Other long-term liabilities are liabilities due from Cherry Chile Limitada and Cherry Tivolito S.A. to the other fifty-percent owner Globalux OY. The liabilities do not carry interest. The repayment terms are based on whether these companies report profit and cash surplus in the future. Accordingly the fair value has been assessed as equal to book value.

**NOTE 31 ACCRUED EXPENSES AND DEFERRED INCOME**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Vacation pay liability	6,013	5,623	5,721	215	261	387
Social security contributions	5,083	4,484	4 587	190	175	114
Payroll tax	915	773	694	97	75	100
Location charges	5,449	5,419	6,887	–	–	–
Accrued gaming tax	1,352	2,399	1,263	–	–	–
Accrued wages and salaries	3,528	2,623	3,088	186	–	–
Other	3,190	1,800	2,161	1,359	1,132	912
<b>Total</b>	<b>25,530</b>	<b>23,121</b>	<b>24,401</b>	<b>2,047</b>	<b>1,643</b>	<b>1,513</b>

**NOTE 32 PLEDGED ASSETS FOR OWN LIABILITIES AND PROVISIONS**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Bank balances	2,217	1,075	–	–	–	–
Chattel mortgages	–	–	2,000	–	–	–
Real estate mortgage (Denmark)	–	522	522	–	–	–
<b>Total</b>	<b>2,217</b>	<b>1,597</b>	<b>2,522</b>	<b>0</b>	<b>0</b>	<b>0</b>
Chattel mortgages in own custody	46,700	46,700	44,700	35,600	35,600	35,600

**NOTE 33 CONTINGENT LIABILITIES**

	GROUP			PARENT COMPANY		
	2004	2003	2002	2004	2003	2002
Personal guarantees and contingent liabilities for subsidiaries	–	–	–	3,872	3,725	475
Other personal guarantees and contingent liabilities	1,733	2,724	625	–	–	–
<b>Total</b>	<b>1,733</b>	<b>2,724</b>	<b>625</b>	<b>3,872</b>	<b>3,725</b>	<b>475</b>

The Group has undertaken to be responsible for certain obligations which could be imposed on the Group. The parent company has undertaken to be responsible for certain obligations which could be imposed on Group companies.

**NOTE 34 TRANSITION TO IFRS**

With effect from 2005, all listed companies in the EU must prepare their consolidated accounts in accordance with International Financial Reporting Standards (IFRS), which also include current International Accounting Standards (IAS). The Swedish Financial Accounting Standards Council's recommendations, which Cherryföretagen has applied up to and including 2004, are largely based on IAS. Consequently, much of the content of the consolidated accounts has already been adapted to the new regulations.

**Effects of the transition to IFRS**

The Group's financial reporting for 2005 will be carried out in accordance with IFRS and the comparison details for 2004 will be restated. The rules relating to adoption and restatement can be found in IFRS 1 (First-time Adoption of International Financial Reporting Standards). The most significant effects for the Group of the transition to IFRS relate to the reporting of corporate acquisitions, financial instruments and minority interests. IAS 32 and 39, regarding financial instruments, are applied from 2005, and the comparison figures for 2004 have not been restated, in accordance with the transitional provisions. The most significant changes to the accounting principles for Cherryföretagen are described below with reference to presentation of the effects on reported profit for 2004 and shareholders' equity as at December 31, 2003 and 2004. 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 below 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. IFRS 1 works on the basis that all standards are applied retrospectively, but also contains a number of exceptions to this rule. Where Cherry has taken advantage of these exceptions, this is stated in the comments below.

**Summary of the effects of the transition to IFRS**

	2004
<b>Profit/loss after tax, applied accounting principles</b>	<b>9,830</b>
<b>Effect of transition to IFRS</b>	
Corporate acquisitions	A 1,524
Minority interest	B 717
<b>Profit/loss IFRS* (prov.)</b>	<b>12,071</b>

\*IAS 32 and IAS 39 are applied from 2005 and have therefore not had any effect on the restated profit figure for 2004

	2004
<b>Shareholders' equity, applied accounting principles, Dec. 31,</b>	<b>98,019</b>
<b>Effect of transition to IFRS</b>	
Corporate acquisitions	A 1,524
Minority interest	B 1,758
<b>Shareholders' equity, Dec. 31, IFRS (prov.)</b>	<b>101,301</b>
Effect on financial instruments, January 1, 2005	C 222,943
<b>Shareholders' equity, Jan. 1, IFRS (prov.)</b>	<b>324,244</b>

A. IFRS 3, Business Combinations, involves changes to the way corporate acquisitions are made and does not permit goodwill amortization. The changes include more a detailed break-down of the purchase sum, which requires measurement of identifiable acquired intangible assets such as trademarks, customer relationships, technology etc. These assets are amortized over their useful life, unless this is indefinite, in which case amortization is prohibited. Goodwill and other intangible assets which are not subject to amortization must be tested for impairment annually or more frequently. In addition, no provision for restructuring measures resulting from the acquisition is permitted in the acquisition analysis. Corporate acquisitions made before January 1, 2004 have not been restated and no companies were acquired after this date. For Cherryföretagen, the application of IFRS 3 means an increase of SEK 1,524 in profit for 2004, because from January 1, 2004 there is no further amortization of the goodwill which arose from the acquisition of Net Entertainment in 2000.

The goodwill which arose from the acquisition of First Casino AB at the end of 1999, to be amortized over 5 years, has been identified as gaming agreements taken over. The useful life of the gaming agreement has been defined as five years, and consequently the amortization of SEK 179,000 during 2004 has not been reversed.

B. IAS 27, Consolidated and Separate Financial Statements, means that minority interests in profit/loss for the year are not deducted in the income statement, and that minority interests in shareholders' equity constitute part of the Group's reported equity. This is



a change from the previously applied principles, which required minority interests not to be included in profit/loss for the year or shareholders' equity. The income statement must indicate how much of the reported profit/loss is attributable to minority interests. When calculating earnings per share, a reduction will be made for the proportion of reported profit/loss attributable to minorities. For Cherryföretagen, application of IAS 27, Consolidated and Separate Financial Statements, means that minority interests in the jointly-owned operations in the Mediterranean and Chile will be included in shareholders' equity and will not affect profit/loss for the year. Reported profit for the year increases by SEK 717,000 and shareholders' equity by SEK 1,758,000.

C. IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement, are applied from January 1, 2005.

IAS 39 requires all financial assets and financial liabilities to be classified under different categories and then reported and measured in accordance with the principles that apply to each particular category. Cash & cash equivalents and short-term investments are classified as Financial assets at fair value through profit or loss. The change in value is recognized in the income statement. Shares which are not shares in subsidiaries or associated companies are classified under the category Available-for-sale financial assets. Measurement is at fair value, with the change in value reported directly to shareholder' equity until the asset is sold or a permanent value impairment is identified, which is then recognized in the income statement. For Cherry, this means that the Group's shares in the unlisted Icelandic company Betware Ltd are measured at the price of the most recent known transaction, which involves an adjustment of SEK 2,812,000 to the fair value.

The market valuation made when GBE Holdings Ltd. (Betsson) was acquired in February 2005 established the value of the company as SEK 590 million. A detailed measurement of the company's value at January 1, 2005 is not available. An estimation of the value at the beginning of the year has been made, based on the the price increase of shares in similar listed companies during the period up to the date of acquisition. This estimation indicates a value of SEK 350 million for the whole of Betsson at December 31, 2004. The Group's holding of shares in GBE Holdings Ltd. (Betsson) at the beginning of 2005 is measured at fair value on the basis of the points described above, which means an adjustment of SEK 25,632,000 to the fair value. Holdings of compound financial instruments (convertible debentures) are divided into derivatives and loan receivables. Derivatives are classified as assets measured at fair value and for which the change in value is reported in the income statement. For Cherry, this means that the Group's holdings of warrants and call options in GBE Holdings Ltd at the beginning of 2005 are measured at fair value on the basis of the points relating to shares described above, which means an adjustment of SEK 194,499,000 to the fair value. Loan receivables are classified under the category Loans and receivables, and are measured at the accrued acquisition value. Financial liabilities are measured at the accrued acquisition value. This is calculated in such a way that a constant effective interest rate is obtained over the loan period unless the maturity is short and no interest rate has been agreed. Similarly, accounts payable and other current liabilities are reported in nominal amounts.

The Group's cash-flow accounting is not expected to be appreciably affected by the introduction of IFRS.

#### PROPOSED APPROPRIATION OF PROFITS

The following earnings in the parent company are at the disposal of the Annual General Meeting:

Net loss for the financial year 2004	-8,850,698
Profit brought forward	15,333,348
	<u>6,482,652</u>

The Board proposes that no dividend be paid and that SEK 6,482,652 be carried forward. The board proposes a transfer of SEK 204,000 from the Group's unrestricted equity of SEK -7,817,000 to restricted reserves.

Solna March 30, 2005

**JOHN WATTIN**  
Chairman of the Board

**ANDERS FÄLLMAN**  
Member of the Board

**PER HAMBERG**  
Member of the Board

**ANNA-CARIN MÅNSSON**  
Member of the Board

**NICLAS PALMSTIERNA**  
Member of the Board

**PONTUS LINDWALL**  
Chief Executive Officer

My audit report was submitted on April 6, 2005

**GUNNAR LIJEDAHL**  
Authorized Public Accountant



## AUDIT REPORT

### To the Annual General Meeting of Shareholders of Cherryföretagen AB (publ) Reg. no. 556090-4251

I have audited the annual accounts, the consolidated financial statements, the accounting records and the administration of the Board of Directors and the Chief Executive Officer of Cherryföretagen AB (publ) for the financial year 2004. The Board of Directors and the Chief Executive Officer are responsible for the accounts, the administration of the company and for ensuring that the annual report and consolidated financial statements are prepared in accordance with the Annual Accounts Act. It is my responsibility to express an opinion on the annual accounts, the consolidated financial statements and the administration based on my audit. I conducted my audit in accordance with generally accepted auditing standards in Sweden. These standards require that I plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated financial statements are free of material misstatement. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. An audit also includes an assessment of the accounting principles used, their application, and the significant estimates and judgments made by the Board of Direc-

tors and Chief Executive Officer in the preparation of the accounts, and an evaluation of the overall presentation of information in the annual accounts and consolidated financial statements. I examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the Chief Executive Officer, and whether they have in any other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

In my opinion, the annual accounts and consolidated financial statements have been prepared in accordance with the Annual Accounts Act and thus provide a true and fair view of both the Company's and the Group's results and financial position in accordance with generally accepted accounting standards in Sweden. The report of the board of directors is consistent with the other parts of the annual report and consolidated financial statements. I recommend that the income statements and balance sheets of the parent company and group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the board of directors' report and that the members of the board and the chief executive officer be discharged from liability for the financial year.

Umeå, April 6, 2005

**GUNNAR LILJEDAHL**  
Authorized Public Accountant



## BOARD OF DIRECTORS AND AUDITORS



From left to right: Per Hamberg, John Wattin, Niclas Palmstierna, Anna-Carin Månsson and Anders Fällman.

### **JOHN WATTIN**

Chairman of the Board, b. 1947, Stockholm.  
CEO of Investering i Kunskap AB.  
Board member since 1989.  
Other directorships: Chairman of the Board of My SQL AB, Portwise AB, Establish AB, Qbranch AB and Akademikliniken AB.  
Director of Silentium AB. Senior advisor of Prosper Capital Fund.  
Shareholding: 77,500 B shares. Includes holdings via companies.

### **ANDERS FÄLLMAN**

Chairman of the Board, b. 1962, Stockholm.  
V CEO, Investment AB Kinnevik.  
Board member since 2004.  
Other directorships: CEO, Invik & Co AB. Chairman of the Boards of Banque Invik SA, Fischer Partner Fondkommission AB, Aktie-Ansvar AB, Invik Kapitalförvaltning AB and Moderna Försäkringar AB. Director of Korsnäs AB.  
No shareholding.

### **PER HAMBERG**

Chairman of the Board, b. 1943, Ekerö.  
Board member since 1974.  
Other directorships: Director of Solporten Fastighets AB.  
Shareholding: 1,497,000 A shares and 1,982,578 B shares.  
Includes holdings via family members.

### **ANNA-CARIN MÅNSSON**

Board member, b. 1959, Lidingö.  
Graduate in Business Administration.  
Board member since 2003.  
Other directorships: Director of Investment AB Spiltan and Stagepool.  
Shareholding: 10,000 B shares.

### **NICLAS PALMSTIERNA**

Chairman of the Board, b. 1973, Stockholm.  
Graduate in Business Administration.  
CEO Tele 2 A/S, Denmark.  
Board member since 2000.  
Shareholding: 3,800 B shares.

### **AUDITORS**

#### **Gunnar Liljedahl.**

Auditor, b. 1948, Nordmaling, authorized public accountant.  
Auditor since 1995, Deputy auditor since 1985.  
Ernst & Young AB.

#### **Wilhelm Sande**

Deputy auditor, b. 1948, Umeå, authorized public accountant.  
Deputy auditor since 1995.  
Ernst & Young AB



## MANAGEMENT

### PONTUS LINDWALL

Group President, CEO, b. 1965, Stockholm.  
M. Eng. CEO of Net Entertainment NE AB, CEO of Intact Technology Stockholm AB.  
Employed in the Group since 1991.  
Other directorships: Director of Establish AB, Aciago AB and Solporten Fastighets AB.  
Shareholding: 98,850 B shares, 30,000 warrants and 3,280 convertibles corresponding to 800,000 shares.

### GUNNAR LIND

Vice President, COO, b. 1958, Bålsta.  
Employed in the Group since 2004.  
No shareholding.

### PETER EIDENSJÖ

Financial Manager, CFO, b. 1957, Stockholm.  
Employed in the Group since 1989.  
Other directorships: Director of Aciago AB.  
Shareholding: 12,000 B shares. 30,000 warrants.



From left to right: Peter Eidsjö, Pontus Lindwall, Gunnar Lind.

## OTHER SENIOR EXECUTIVES

### Per-Anders Persson

CEO of Cherry Casino AB, b. 1959, Solna.  
Employed in the Group since 1979.  
Shareholding: 1,500 B shares, 30,000 warrants.

### Ulf Bergström

CEO of Cherry Casino Syd AB, b. 1966, Gothenburg.  
Employed in the Group since 1986.  
Shareholding: 2,300 B shares, 30,000 warrants.

### Jörgen Eriksson Sjöner

CEO of Cherry Casino Norr AB, b. 1967, Umeå.  
Employed in the Group since 1995.  
Shareholding: 2,000 B shares, 30,000 warrants.

### Lars-Gunnar Persson

Head of Maritime Gaming, Acting CEO of Cherry Maritime Gaming AB, b. 1951, Stockholm.  
Employed in the Group since 1975.  
Shareholding: 28,500 B shares, 20,000 warrants.

### Allan Gregersen

CEO of Cherry A/S, Denmark, b. 1966, Hirtshals, Denmark.  
Employed in the Group since 1990.  
Will leave his position and the Group in 2005.  
Shareholding: 2,025 B shares, 30,000 warrants.

### Johan Öhman

VP Sales Net Entertainment, b. 1969, Stockholm.  
Employed in the Group since 2003.  
Shareholding: 10,500 B shares.

### John Ekman

VP Marketing Net Entertainment, b. 1965, Stockholm.  
Employed in the Group since 2003.  
Other directorships: Director of Aciago AB.  
Shareholding: 43,250 B shares, 30,000 warrants.

**ADDRESSES****SOLNA (HO)**

Cherry  
P O Box 1067 (Nybodagatan 10)  
SE-171 22 Solna  
Sweden  
Phone +46 8 705 96 10  
Fax +46 8 735 57 44

**STOCKHOLM**

Net Entertainment  
Hammarby Kajväg 14  
SE-120 30 Stockholm  
Sweden  
Phone +46 8 556 967 00  
Fax +46 8 556 967 07

**GOTHENBURG**

Cherry  
Fürstenbergsgatan 4  
SE-416 64 Gothenburg  
Sweden  
Phone +46 31 80 15 55  
Fax +46 31 80 29 99

**MALMÖ**

Cherry  
Stenyxegatan 21 O  
SE-213 76 Malmö  
Sweden  
Phone +46 40 93 09 30  
Fax +46 40 93 85 94

**UMEÅ**

Cherry  
Kungsgatan 37  
SE-903 25 Umeå  
Sweden  
Phone +46 90 12 57 30  
Fax +46 90 13 37 13

**DENMARK-COPENHAGEN**

Cherry  
Rugvænget 21 E  
DK-2630 Taastrup  
Phone +454 371 5022  
Fax +454 371 5026

**DENMARK-JYLLAND**

Cherry  
Dalsagervej 19  
DK-9850 Hirtshals  
Phone +459 894 5022  
Fax +459 894 5540

**CHILE**

Cherry  
Gath y Chaves 2430  
Providencia-Santiago  
Phone +562 946 2276  
Fax +562 951 0442

**COSTA RICA**

Mil Treinta y Dos S.A.  
Apto 4315-1000  
San Pedro, San Jose  
Phone +506 224 0025  
Fax +506 234 9204

**MALTA**

Net Entertainment Malta Ltd.  
66, Old Bakery Street  
Valetta VLT 01

**UNITED KINGDOM**

Net Entertainment  
Mulberry House  
583 Fulham Road  
London SW6 5UA  
Phone +44 207 471 1736  
Fax +44 207 471 1799

**UNITED KINGDOM**

Betsson Ltd.  
Hillbrow House  
Hillbrow Road  
Esher, Surrey  
KT10 9NW  
Phone +44 137 246 1418  
Fax +44 870 220 3162

## A POKER LEXICON

For more information about poker rules and poker terms, please visit [www.betsson.com](http://www.betsson.com)

**ACTION** A plea for calls and raises at the table.

**ALL-IN** A player may declare himself "all in" and bet all his chips if he is unable to meet previous bets. The player is then only eligible to win that portion of the pot to which he has contributed. A side pot is created for the part of the game which continues with the remaining players.

**ALL-IN PROTECTION** Used in ring games to protect a player against losing connectivity to the table.

**ANTE** All players are required to place a small amount of chips into the pot before a hand.

**BET** To put money into the pot. n. The chips placed in the pot.

**BET LIMITS** Betting limits define the maximum and minimum amount of chips a player may bet.

**BIG BLIND** The forced bet which must be made by the player on the second left of the dealer before any cards can be dealt.

**BLUFF** To make a bet or raise with a poor hand which is unlikely to beat the other players.

**BOARD** Cards shared by all in a Hold'em game – flop, turn and river cards. Example: "There wasn't a single heart on the board".

**BUTTON** A small disc which indicates who is the dealer.

**CAP** The last permitted raise in a betting round.

**CENTRE POT** The first pot created during a hand.

**CHECK** To play without wagering any money. A player may check initially, then raise a bet made later on in the same betting round. The same as to bet zero.

**CHECK RAISE** A player checks his hand, to see what his opponents play will be, but then re-raises if his opponent raises him.

**COMMUNITY CARDS** A player checks his hand, to see what his opponents play will be, but then re-raises if his opponent raises him.

**COMPLETE HAND** A hand that uses all five cards.

**CONNECTOR** Consecutive hole cards (face-down cards dealt to each player) in Hold'em.

**EQUITY** Your legitimate share of a pot.

**EXPECTATION** 1) A term used to give an idea of what you might win on average in a particular game. (2) The amount a player expects to make at the poker table over a certain period.

**FLOP** The first three community cards, turned up simultaneously.

**GUTSHOT STRAIGHT** An inside straight draw.

**HEADS UP** A pot played for by only two players. "It was heads up by the turn".

**KICKER** A single card that determines which of two hands is the stronger.

**MUCK** To discard your hand in a showdown but not show your hand once you discover the other hand has beaten you. You do not need to show a winning hand either, provided no-one has seen you

**NICK** This is the name by which other players will know you. Also referred to as an Alias.

**NO-LIMIT** A poker game in which players may bet as much as they want at any time. There is no maximum bet; players can wager any amount up to whatever money is on the table in front of them.

**NUTS** The best possible hand that can be obtained using the board.

**OUT** A card that will make your hand a winning hand. Normally heard in the plural. Example: "Any spade will give me a flush so I have nine outs".

**OVER CARD** A card that is higher than any on the board.

**OVER PAIR** A pair in the hole that is higher than any card on the board.

**PLAY THE BOARD** When the five board cards make up a better hand than the players' hands in Texas Hold'em.

**POCKET OR POCKET CARDS** Your own cards which only you can see.

**POST** To post a blind bet. Usually the case when a new player enters the game.

**POT LIMIT** A poker game in which the maximum bet is determined by the size of the pot at the time. Like No Limit poker, this is a completely different game from Limit Poker.

**QUADS** Four of a kind. Holding four cards of the same rank.

**RAKE** Money taken from each pot by the house in return for hosting the game.

**RANK** The numerical value of a card. Example: "jack", "seven".

**RIVER** The fifth and last community board card dealt face up. Also called "Fifth street".

**SCARE** Card or combination of cards which gives other players an advantage over your hole cards. Example: Three consecutive cards or almost consecutive cards may well give someone a draw.

**SECOND PAIR** A pair that uses the second highest card from the first three community cards (flop).



**SET** Three of a kind, when you have one in the hand and two on the table.

**SHORT STACK** When you are playing with considerably fewer chips than the other players.

**SHOWDOWN** The point where all active players reveal their cards to determine who has the best hand.

**SIDE POT** When an active player runs out of money during the course of a hand, the remaining players participate in a side pot for the rest of the hand.

**SIT-OUT** A player who opts to remain at the table but not participate in the game.

**SMALL BLIND** The first blind is called the small blind and is posted by the player to the left of the dealer. A forced bet in Texas Hold'em.

**SPLIT POT** A pot that is split between two or more players if their hands are of equal value.

**SPLIT TWO PAIR** Two pairs where both pairs are a combination of one hole card and one community card.

**STACK** The stack of chips in front of a player.

**SUITED CARDS** Cards of the same rank, suit or a combination.

**TABLE STAKES** A standard rule whereby during a hand players cannot, for example, reach into their pockets and add to their bets. This means a player can only bet what is in front of him on the table on any given hand.

**TOP PAIR** A pair created by using the highest card from the flop cards.

**TRIPS** Three of a kind.

**TURN** The fourth community card. Dealt face up separately. Also called "Fourth street".

**UNDER THE GUN** The position that has to act first in a round of betting.

**VALUE** Betting for value, or when you actually want your opponents to see you. This is the opposite of a bluff when you try to scare or trick them into folding. You then have the best possible hand.

**WAGER** (1) To bet against or raise the pot. (2) The chips used to bet or raise.

