

ANNUAL REPORT 2005



CONTENT

2005 in Brief	1
Message from the Chairman	2
Over to the President	3
The Share	4
Five-year Overview, Group	6
Board of Directors	7
Group Management, Auditors	8
Betsson	9
Message from the CEO	10
Business concept, goals, strategy and revenue model	12
Offering	13
Market	14
Trends	15
Senior Executives	16
Net Entertainment	17
Message from the CEO	18
2005	19
Market	20
Business concept, strategy, targets and business model	21
Senior Executives	22
Cherry Casino	23
Message from the Head of Business Area	24
Market	26
Business concept, model and overall strategies	27
Senior Executives	28
Financial Statements	29
Board of Directors' Report	30
<i>Group</i>	
Income Statements	37
Balance Sheets	38
Cash Flow Statements	39
Statement of Changes in Equity	40
<i>Parent Company</i>	
Income Statements	41
Balance Sheets	42
Cash Flow Statements	44
Statement of Changes in Equity	45
Notes to the Financial Statements	46
Allocation of Profit	71
Audit Report	72
Addresses	73

ANNUAL GENERAL MEETING

The annual general meeting of Cherryföretagen AB (publ) will be held at 3 p.m. on Monday, May 15, 2006 at Konferens Spåravnshallarna, Birger Jarlsgatan 57A in Stockholm. Shareholders wishing 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 Tuesday, May 9, 2006; and
- notify the company of their intention to participate by noon on Thursday, May 11, 2006.

Notification may be made in writing to the company at Birger Jarlsgatan 57B, 113 56 Stockholm, by telephone +46 (0)8-506,403 00, by fax +46 (0)8-735 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 and number of advisors (max. two). Shareholders who will be represented by proxy should include a power of attorney when notifying the company.

Shareholders whose shares are registered in the name of a nominee must temporarily register the shares in their own name in order to be entitled to participate in the AGM. Shareholders intending re-register their shares must inform nominees well in advance of Tuesday, May 9, 2006.

2006 FINANCIAL CALENDAR

<i>Interim Report Q1</i>	
<i>March 2006</i>	<i>May 15, 2006</i>
<i>Annual General Meeting</i>	<i>May 15, 2006</i>
<i>Interim Report Q2</i>	
<i>June 2006</i>	<i>Aug 18, 2006</i>
<i>Interim Report Q3</i>	
<i>September 2006</i>	<i>Nov 13, 2006</i>

To receive Cherry's reports and press releases as soon as they are issued, please visit www.ngnews.se and set up a subscription.

2005 IN BRIEF

- ✿ Group net sales increased by 44 percent to SEK 444.2 (308.5) million.
- ✿ Operating profit increased to SEK 45.8 (16.6) million.
- ✿ Profit after financial items amounted to SEK 187.1 (16.5) million.
- ✿ Introduction of IFRS affected net financial income by SEK 135 million.
- ✿ Profit after tax was SEK 178.1 (12.1) million, SEK 4.91 (0.37) per share.
- ✿ Cherry acquired the gaming destination Betsson. Betsson had 240,000 customers at the end of the year, with 186,800 registered poker players.
- ✿ The Board proposes that Cherryföretagen be split up into three separate listed companies. The three business areas are:
 - Betsson (currently Cherry Online) – online gaming via Betsson.com and the online casinos
 - Net Entertainment – development and sales/licensing of games and gaming systems
 - Cherry Casino – traditional casino games and gaming machines, primarily in Sweden, Denmark and on cruise ships
- ✿ The Board also proposes that Cherry changes its name to Betsson.



MESSAGE FROM THE CHAIRMAN

At the end of 2005, the Board decided that Cherry-företagen should be demerged into three independent, listed companies (Betsson, Net Entertainment and Cherry Casino).

The demerger will benefit customers, employees and shareholders alike, as it will allow the companies to develop more quickly and strongly on their own than as subsidiaries of Cherry Group.

Over the forty or so years in which Cherry has existed, we have built up extensive, in-depth knowledge of gaming and its market. We have acquired important direct and indirect know-how about how gaming should be designed, operated and marketed. This special know-how, which we call Play Appeal, has formed the basis of our expansion, whether into new geographical markets or new forms of gaming.

The breakthrough of the Internet offers immeasurable potential for all types of gaming. At Cherry we focused on effectively exploiting the knowledge gained from land-based gaming operations when we developed online gaming. Cherry also developed gaming software through Net Entertainment, both for its own operations and on behalf of a large number of colleagues in the sector. As our own gaming operations grew, we found ourselves competing with our customers. This was even more apparent after the acquisition of Betsson in 2005.

Listing the companies separately allows rationalization of our operations. This also means that we are no longer competing with our customers. What is more, each company can focus on its own operations, without needing to consider the other companies' interests. All these factors convince the Board that each company will develop faster and more strongly on its own.

The demerger will also clarify the difference between the three investment options for the market. Having a clearer insight into the operations of each company will make it easier for shareholders to choose their risk level.

We therefore propose that Cherry Group be demerged into three separate companies.



BETSSON

Betsson's operations will comprise global online gaming (poker, sportsbook, exchange and casino) via gaming sites such as Betsson.com and CasinoEuro.com. Operations will be conducted from Costa Rica, Malta and the UK, as all these countries have well regulated gaming markets. The company will consist of the present business area Cherry Online.

NET ENTERTAINMENT

Net Entertainment develops gaming software that is licensed to a customer base which currently consists of some 30 different gaming companies. Customers include Unibet, Gamebookers, Ogame, Bet24, 24hpoker and Betsson.

CHERRY CASINO

Cherry Casino operates traditional gaming operations, including blackjack, roulette and gaming machines, in restaurants and on international passenger vessels. The majority of the operations are conducted in Sweden and Denmark. Cherry Casino also runs maritime gaming operations in the Mediterranean.

In conclusion, I am extremely optimistic about the future. Gambling has always existed and always will exist. The industry is growing and Cherry is a proven expert in gaming and its market. Cherry's know-how will come into its own as we now commit ourselves to creating three strong, focused companies.

Stockholm, 6 March 2006

John Wattin

Chairman of the Board

OVER TO THE PRESIDENT

How a year can fly! It seems like only yesterday that I wrote last year's message, but you only have to read it through to appreciate how much has happened since then. One could say that 2005 was the year of poker – the year in which online poker made a wide-ranging breakthrough in Scandinavia.

Cherry's acquisition of the outstanding shares in Betsson in 2005 also brought success, with strong growth, particularly in poker. Cherry moved to modern new offices and we rationalized the business-to-business operations in Net Entertainment.

When Betsson became a wholly owned subsidiary of Cherry, an aggressive strategy for the company was marked out. Betsson has shown itself to have a well functioning organization and a competitive product offering. Cherry's management has been encouraged by Betsson's performance in 2005, although we are aware that there is still much that needs to be done. Despite relatively fierce competition in the sector, with many worthy opponents around, it is my belief that Betsson can go far. Across Europe and beyond, state-owned gaming companies still enjoy an undeserved high market share. They have achieved this position by virtue of well established brands and long tradition. However, the tide appears to be turning in favor of the modern type of gaming company which Betsson represents. For younger generations, where future growth lies, it feels totally natural to play with modern Internet-based gaming companies. Older players, previously long-standing customers of conventional gaming companies, are now making the transition to newer forms of gaming which give a higher dividend and better service. Although this metamorphosis of the gaming market is underway in Scandinavia, it has scarcely begun in other large markets.

In 2005, we streamlined Net Entertainment's operations, which now exclusively comprise products and services for online gaming operators. The company has focused on strengthening its brand in the sector. At the same time, a large-scale program has been implemented aimed at enhancing the structure of the technical department. The company has achieved its goals of increasing product quality and improving delivery precision. A large number of top-grade employees have been recruited. Processes and methods have been documented, and the



company's organization has been improved. As a result, we are seeing higher production capacity and new, highly competitive products. Net Entertainment has also strengthened its sales department and clarified its sales process. These changes now leave Net Entertainment well equipped for continuing growth and good profitability.

Cherry's traditional operations in Cherry Casino are quite different from its online gaming activities. Growth in this market is weaker than in online gaming, particularly in restaurant casinos. Factors such as increased competition from other products, changing dining habits and the ban on smoking in restaurants have resulted in a weaker customer base. In restaurant casinos, a savings program has been launched, aimed at adapting the organization to the present situation. Cherry's restaurant casinos are well positioned to respond to any rearrangement of the market which may provide scope for offering additional products. Until that time, the company will continue to earn money by tightening the effectiveness of its organization.

Maritime operations in Cherry Casino performed positively. Cherry is reaping the rewards of a fast-moving market in the Mediterranean, with positive market trends also in the waters surrounding Sweden and its neighbors.

The Board's decision to split Cherry into three parts means that this will be the last annual report from Cherry Group in its present form. In spring 2007, it will be really exciting to see what three ambitious companies have managed to achieve independently!

Stockholm, April 2006
Pontus Lindwall
President and CEO

THE SHARE

Cherry's B share is listed on the O List of Stockholm-börsen (the Stockholm Stock Exchange).

SHARE STRUCTURE

At the end of the year, Cherryföretagen had 5,610,000 A shares and 32,448,726 B shares, making a total of 38,058,726 shares. Each A share gives an entitlement to 10 votes, while each B share gives an entitlement to 1 vote. The shares carry equal entitlement to Cherry's assets and profits.

SHARE ISSUES

During the year, a directed non-share issue was implemented in conjunction with the acquisition of the remaining shares in GBE Holdings Ltd. (Betsson). A total of 6,855,000 B shares were issued in conjunction with this transaction.

CONVERTIBLES AND OPTION PROGRAMS

No new incentive schemes were introduced in 2005. The existing program from 2003 consists 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. A total of 1,510,000 B shares will be issued under these programs during 2006.

OWNERSHIP STRUCTURE

At December 30, 2005, the number of shareholders in Cherry was 3,785 (2,828). Foreign shareholders owned 52 percent of the shares and 48% of the votes.

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

BREAKDOWN OF SHARE CAPITAL

	Votes	No. of shares	No. of votes	Par value	Tkr
Shares, series A Shares	10	5,610,000	56,100,000	2	11,220
Shares, series B Shares	1	32,448,726	32,448,726	2	64,897
Total shares		38,058,726	88,548,726		76,117
Convertibles B	1	800,000	800,000	2	1,600
Warrants B	1	710,000	710,000	2	1,420
Total shares after dilution		39,568,726	90,058,726		79,137

LIQUIDITY PROVISION 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.

A total of 44.4 (18.7) million shares changed hands during the year, which represents 123 (60) percent of the average total number of B shares issued. An average of 175,000 (74,000) shares per trading day changed ownership. The average number of transactions per trading day was 100 (36).

SHARE PRICE AND TURNOVER

The share price increased by approximately 36 (25) percent during the year. The price (most recent transaction) was SEK 28.20 (20.80) at the closing date, which corresponds to a market capitalization of SEK 1,073 (649) million. The highest price listing was SEK 37.90 on February 22, and the lowest was SEK 21.00 on January 3. The average price for the year was SEK 29.01 (21.04).

Total share turnover amounted to SEK 1,288 (390) million for the year, which corresponds to an average of SEK 5.1 (1.5) million per trading day, and an average of SEK 51,000 (43,000) per transaction.

One board lot equals 500 Cherry B shares.

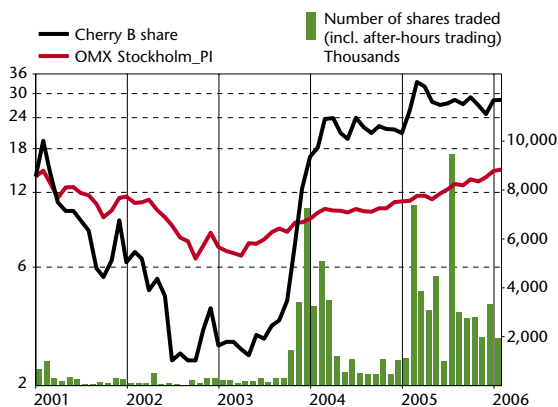
DIVIDEND POLICY

The Board of Directors proposes that no cash dividend be paid for 2005. Instead, the Board proposes that the company be split up into three parts and that Net Entertainment and Cherry Casino be spun off to the shareholders.

The Board normally aims for 25-30 percent of profit after tax to be distributed to the shareholders.

SHARE DISTRIBUTION AT DECEMBER 30, 2005

No. of shares	No. of share-holders	%	No. of shares	%	Röstandel %
> 500,001	15	0	25,583,996	67	82
100,001–500,000	21	1	4,985,065	13	9
50,001–100,000	17	1	1,178,901	3	1
20,001–50,000	45	1	1,444,461	4	2
10,001–20,000	73	2	1,131,752	3	1
5,000–10,000	114	3	917,489	2	1
2,001–5,000	298	8	1,050,720	3	1
1,001–2,000	411	11	692,892	2	1
501–1,000	649	17	588,835	2	1
1–500	2,117	56	484,615	1	1
Total	3,760	100	38,058,726	100	100



LARGEST SHAREHOLDERS AT DECEMBER 30, 2005

Namn	A shares	B shares	Andel av aktiekapital, %	Votes, %
Straumur-Burdaras Investment Bank	1,402,500	9,289,249	28.1	26.3
Per Hamberg & family	1,497,000	1,956,578	9.1	19.1
Lars Kling & family	1,497,000	1,080,362	6.8	18.1
Rolf Lundström & family and company	652,500	1,808,626	6.5	9.4
Bill Lindwall & family	561,000	167,895	1.9	6.5
Dixcart Financial Services Ltd.		4,233,306	11.1	4.8
Familjen Hans Sköld		734,000	1.9	0.8
Familjen Knutsson och bolag		437,500	1.1	0.5
Cntxt Development Group		373,773	1.0	0.4
Länsförsäkringar fonder		270,500	0.7	0.3
Other shareholders		12,096,937	31.8	13.8
Total	5,610,000	32,448,726	100.0	100.0

5-YEAR OVERVIEW

GROUP

<i>Amounts in SEK thousands unless otherwise specified</i>	2005	2004	2003	2002	2001
INCOME STATEMENT					
Net sales	444,208	308,489	264,317	271,078	260,627
Operating profit	45,828	16,555	1,949	308	-50,793
Profit/loss from financial investments	141,241	-87	-1,322	-289	-1,543
Profit/loss after financial items	187,069	16,468	627	19	-52,336
Minority interest			-922	-450	287
Profit/loss before tax	187,069	16,468	-295	-431	-52,049
Profit/loss after tax	178,066	12,071	2,565	-900	-48,947
<i>attributable to equity-holders of parent company</i>	<i>176,919</i>	<i>11,354</i>			
FINANCIAL RATIOS					
Equity	474,130	101,301	75,827	73,099	54,354
Total assets	573,401	151,582	120,035	113,033	100,296
Equity/assets ratio (%)	83	67	63	65	54
Quick ratio (%)	195	167	195	176	141
Profitability					
Return on total capital (%)	40	13	2	2	-41
Return on equity (%)	44	13	2	-1	-62
Return on capital employed (%)	46	19	3	4	-65
Profit margin (%)	42.1	5.3	0.2	0.0	-20.1
Operating margin (%)	10.3	5.4	0.7	0.1	-19.5
Interest coverage ratio (multiple)	208	17	1	1	-49
INVESTMENTS					
Property, plant & equipment	14,553	13,597	7,607	15,366	13,623
Intangible assets	13,820	3,970	2,240	2,673	1,863
Shares and other	1,000	13,861	2,145	0	0
EMPLOYEES					
Average number of employees	273	252	270	257	299
Number of persons employed	842	843	710	712	761
THE SHARE					
New share issue (before issue expenses)	229,642	12,756	-	20,409	-
Share capital	76,117	62,407	61,227	61,227	40,818
Convertibles (shares) outstanding	800,000	800,000	800,000	-	-
Warrants (shares) outstanding	710,000	710,000	710,000	-	-
Number of shares at year-end	38,058,056	31,203,726	30,613,684	30,613,684	20,409,123
Average number of shares outstanding	36,048,704	30,948,468	30,613,684	21,024,192	20,409,123
Number of own shares	0	0	0	0	0
Number of registered shareholders	3,785	2,828	3,288	2,634	2,601
Share price (SEK)	28.20	20.80	16.70	2.90	7.45
Earnings per share (SEK)	4.91	0.37	0.08	-0.04	-2.40
Earnings per share after dilution (SEK)	4.73	0.36	0.08	-	-
Cash flow per share (SEK)	1.62	-0.39	0.03	0.31	-0.79
Cash flow per share after dilution (SEK)	1.57	-0.37	0.03	-	-
Equity per share (SEK)	12.38	3.19	2.48	2.39	2.66
Equity per share after dilution (SEK)	12.06	3.24	2.56	-	-
Dividend per share (SEK)	0.00	0.00	0.00	0.00	0.00

IFRS applied from 2005. Comparative figures for 2004 have been restated using the new principles. Figures have not been restated for previous years.

THE BOARD OF DIRECTORS



1 Ragnar Thorisson

Board Member
Born 1971, Reykjavik
Former Vice President Nordic Investments at Burdaráð HF. Elected in 2005.
Shareholding: 0

2 Patrick Svensk

Board Member
Born 1966, Stockholm.
President and CEO Zodiak Television AB (publ). Elected in 2005.
Shareholding: 2,000 B shares.

3 John Wattin

Chairman of the Board
Born 1947, Stockholm.
CEO of Investering i Kunskap AB. Other directorships: Board Chairman of Qbranch AB and Value Tree AB. Vice Chairman of My SQLAB and Akademikliniken AB. Board member of Silentium AB. Elected in 1989.
Shareholding: 77,500 B shares. Includes holdings via companies.

4 Pontus Lindwall

CEO and Group President
Born 1965, Stockholm.
M. Eng. CEO of Net Entertainment NE AB, CEO of Intact Technology Stockholm AB.
Other directorships: Board Member of CasinoEuro Ltd, Net Entertainment Malta Ltd, Aciago AB and Solporten Fastighets AB. Employed in Group since 1991.
Shareholding: 98,850 B shares, 30,000 warrants and 3,280 convertibles equivalent to 800,000 shares.

5 Anders Holmgren

Board Member
Born 1973, London.
MBA. Head of Cherry Online business area.
Other directorships: CEO and Board Member of Betsson Ltd and CasinoEuro Ltd. Elected in 2005.
Shareholding: 1,357,261 B shares (own and/or related party/ company holdings).

6 Per Hamberg

Board Member
Born 1943, Ekerö.
Other directorships: Board Member of Solporten Fastighets AB. Elected in 1974.
Shareholding: 1,497,000 A shares and 1,956,578 B shares. Includes holdings via family members.

Saknas på bild

Anna Carin Månsson

Board Member
Born 1959, Lidingö
B.Sc. Econ.
Other directorships: Board Member of Investment AB Spiltan, Stagepool and Preera AB. Elected in 2003.
Shareholding: 10,000 B shares.

GROUP MANAGEMENT



1 Gunnar Lind

Vice President, COO

Born 1958, Bålsta.

Employed in Group since 2004.

Other directorships: Board Member of Cherry Casino AB, Cherry Casino Syd AB, Cherry Casino Norr AB, Cherry Maritime Gaming AB, Cherry A/S and Secular Services Ltd.

Shareholding: 0

2 Anders Holmgren

Board Member

Born 1973, London.

MBA. Head of Cherry Online business area.

Elected in 2005. Other directorships: CEO and Board Member of Betsson Ltd and CasinoEuro Ltd. Shareholding: 1,357,261 B shares (own

and/or related party/ company holdings).

3 Pontus Lindwall

CEO and Group President

Born 1965, Stockholm.

M. Eng. CEO of Net Entertainment NE AB, CEO of Intact Technology Stockholm AB. Employed in Group since 1991.

Other directorships: Board Member of CasinoEuro Ltd, Net Entertainment Malta Ltd, Aciago AB and Solporten Fastighets AB.

Shareholding: 98,850 B shares, 30,000 warrants and 3,280 convertibles equivalent to 800,000 shares.

4 Peter Eidensjö

Financial Manager, CFO

Born 1957, Stockholm.

Employed in Group since 1989.

Other directorships: Director of Aciago AB, Deputy Director of Betsson Technologies AB.

Shareholding: 12,000 B shares. 30,000 warrants.

Auditors

Gunnar Liljedahl

Auditor

Born 1948, Nordmaling.

Authorized Public Accountant

Auditor since 1995. Deputy Auditor since 1985. Ernst & Young AB.

Wilhelm Sande

Deputy Auditor

Born 1948, Umeå.

Authorized Public Accountant Deputy Auditor since 1995. Ernst & Young AB.

BETSSON

Betsson is a leading gaming company which offers players an attractive gaming experience, high odds and secure solutions. The company's product portfolio currently consists of Sportsbook, Exchange, Casino and Poker.

HIGHLIGHTS 2005

- Launch of traditional odds betting – Betsson Sportsbook – making Betsson the first company to offer a betting exchange, poker, casino and traditional odds betting from the same website.
- Launch of poker client for mobiles.
- Certified by the G4 organization for work aimed at combating gambling addiction.
- Strengthened market position in Sweden, Norway and Denmark.
- Full-year target of 200,000 customers exceeded.

FACTS

<i>SEKm</i>	2005	2004
Revenues	154.6	25.0
Operating profit	16.7	-5.4
<i>Number of customers</i>		
Betsson	242 000	65 000
Casino	204 000	131 000

MESSAGE FROM THE CEO

WHAT'S YOUR THRILL?

There's no denying it – 2005 was the most important year in Betsson's history. We were transformed from a niche company firmly blinkered on our betting exchange to a gaming portal with a whole host of different products. 2005 was also a year in which we successfully expanded into the Nordic countries and created a strong financial platform to support future expansion.

Since my colleagues and I founded Betsson in 2000, the company has grown rapidly. The market for online gaming has really taken off as more and more people discover the advantages of online gambling and betting. This type of gaming is more fun and more tailored to the customer than conventional forms of gambling, such as Jack Vegas machines. Punters also avoid having to make a trip to the bookmaker's to place a bet and then waiting several days to find out if they have won.

Betsson is clearly operating in a growth industry. Online gaming has shown an average annual growth of 35 percent since 2000, and sales in the European gaming market are estimated at EUR 400 billion. X expects annual growth of Y percent in the online gaming market over the next few years.

Our goal is to quickly evolve into one of the leading gaming companies in our markets. Growth is a priority area and, in the current climate, it is important to build a strong brand and take market share. Despite fierce competition, there is tremendous potential for those who play their cards right.

There is an increasing trend for the smaller fish in the pond to be taken over and we are moving closer to a scenario in which the sector will be dominated by a small number of companies. I am strongly committed to making Betsson one of Europe's leading gaming destinations, and to achieve this goal we shall concentrate our efforts on aggressive growth.



"An important aspect of our work is offering exactly what customers want -whether it be poker, casino or sports betting, Betsson will always offer the most attractive games"

"Betsson has a firm base and is strongly positioned to meet increased demand for online gaming"

We currently have a presence in Sweden, Norway, Denmark, Finland, Turkey and Poland. Prioritized geographical market areas are those which have a high level of Internet use, a developed gaming culture, favorable legal conditions and secure payment systems.

Interest in online poker has surged in recent years and, as one of the leading gaming companies, we have taken a large share of this growth. Our casino product has also experienced strong growth and the interest in this area looks set to remain buoyant. As we launched sports betting after some of our competitors, this area accounts for a relatively small proportion of our sales. However, looking at our competitors' sales figures in sports betting, it is evident that there is immense potential for Betsson in this area.

An important aspect of our work is offering the very games the customers want. And whether it be poker, casino or sports betting, Betsson will always offer the most attractive games.

The future will see customers being increasingly discerning about where they play and expecting the company to provide the best possible gaming experience. High quality, secure solutions and a realistic gaming sensation are all success factors. In other words, it will be even more important to have a strong brand. This prompted us to revamp our website at the beginning of 2006, when we also introduced a loyalty program, a ranking system, a

more realistic gaming environment and round-the-clock telephone support.

We have also, been one of the prime movers behind the G4 organization, which works to reduce gambling addiction. We have also prepared for deregulation by applying to run the same type of gaming operations as Svenska Spel. One thing is sure – we shall be ready to act quickly on the day the monopoly finally tumbles.

During the year we launched the new pay-off "What's your thrill?" which we use in our communication. To me, this captures the very essence of our business, namely giving our customers some moments of entertaining excitement – providing them with a real kick.

If I personally were asked "What's your thrill?", I would say my work at the helm of Betsson. It certainly is entertaining and thrilling, and it's an exhilarating feeling to have successfully established Betsson as a profitable company with a strong market position. My colleagues and I now face the challenge of continuing this strong growth and taking a strong position in our priority markets.

London, April, 2006

Anders Holmgren

CEO, Head of Business Area

"To bring enjoyment and excitement to people's lives by offering high-quality gaming"

BUSINESS CONCEPT

Betsson's business concept is "To bring enjoyment and excitement to people's lives by offering high-quality gaming".

GOALS

Main goal: continued growth, principally in the European market. Short-term goal: to be one of the three strongest brands in its chosen markets.

2006 goal: to add at least two new products to the product portfolio.

STRATEGY

GROWTH

Growth is a priority area. Growth will be achieved by expanding into new geographical markets and developing and maintaining deep relationships with existing customers.

CREATING CUSTOMER LOYALTY

It is important to have a loyal customer base, in particular with a view to increasing cross selling.

ACTING LOCALLY

By acting locally in different markets, Betsson ensures that the company always satisfies customers' preferences in a particular market.

REVENUE MODEL

Betsson's revenue model varies according to the gaming category. Betsson currently has two revenue models:

- *Betsson acts as "bank" and plays against its customers*
- *Customers play against each other and Betsson receives commission on their winnings.*

BANK REVENUE MODEL: CASINO AND SPORTSBOOK

In Casino and Sportsbook, Betsson acts as bank, i.e. Betsson plays against the customer. Although Betsson can lose an individual gaming encounter, in a longer perspective the odds are on the company's side. Consequently, there is a certain measure of theoretical risk associated with the revenue model, but as the number of games is high, the company virtually always comes out overall winner.

Profitability in the Sportsbook area is governed by Betsson's ability to offer odds on different events. The odds are compiled by professional oddsmakers who analyze the chances of different outcomes.

In the casino area, the odds are an integral part of the game itself, which means that Betsson's financial risk level is lower. Nevertheless, profits vary during certain periods, as a result of the chance factor and different playing patterns.

If the number of wagers and total stakes are high, winnings are more constant, as the long-term odds work in Betsson's favor.

COMMISSION REVENUE MODEL:

POKER AND EXCHANGE

In Poker, Betsson deducts commission from every pot played (approx. five percent of profit). Commission varies according to the size of the prize pot. Poker is a very fast game, with customers playing a large number of rounds in an hour, which makes the product extremely profitable.

In Exchange, Betsson takes a percentage of the winnings from the winning party in a bet. The more customers win, the more the company earns. The frequency of participation is lower than in Poker, as betting opportunities are based on the number of available sporting events.

OFFERING

BETSSON'S VISION IS TO OFFER SMARTER GAMING

Betsson is the gaming destination of the new generation. By offering players an attractive gaming experience, high odds and secure solutions, Betsson has evolved into a leading gaming company. Development in online gaming is moving at a rate of knots, and Betsson regularly adds new games, with the aim of securing the key factor in all business – satisfied customers.

Betsson offers a wide range of secure, user-friendly online games of international caliber. High on our agenda is always to provide quality, security and optimal functionality.

Betsson holds a bookmaker's permit, issued by the City of London Magistrates' Court and approved by the UK authorities. The company's operations currently focus on markets in Sweden, Norway, Denmark, Finland, the Czech Republic and Poland.

The product portfolio consists of Exchange, Poker, Casino and Sportsbook.

BETSSON EXCHANGE

Betsson's Exchange is a round-the-clock marketplace for betting. The customers place bets against each other, thereby eliminating the need for a bookmaker. The absence of a bookmaker means that Betsson's customers obtain higher odds than on traditional betting sites. On average, Betsson pays out 96 percent of the stakes, which explains why customers are increasingly choosing to bet in this way.

Betsson's Exchange is designed to give players the ultimate betting experience. Punters decide when, how and under what conditions they want to play. This freedom is one of Betsson's core values.

BETSSON POKER

Interest in online poker is keen and growing all the time. Betsson Poker is part of Ongame, the largest poker network in the world, with over 6 million registered poker players across the globe.



Betsson Poker has a wide range of services ranging from high limit tables for experienced players to play money tables for new players. We also offer popular poker games such as Texas Hold'em, Omaha and 7 Card Stud in tournaments every day. With Betsson Poker, customers can play the browser version, play on their mobile or download a poker client to their computer.

BETSSON CASINO

Betsson Casino offers a wide choice of international-caliber casino games. The game is easily accessible, user-friendly and does not require any downloading. The product range includes a wide selection of first-class games, with new games regularly added to the existing range. Customers will find both traditional and innovative games, such as Black Jack, Roulette, Casino Hold'em, video poker games and slot machines. Players particularly appreciate the facility to take part in tournaments.

BETSSON SPORT

Betsson Sportsbook offers a wide choice of betting on sports events and other entertainment of interest to the European punter. Since its launch in 2005, Betsson Sportsbook has attracted a great deal of interest. Punters can place bets on football, tennis and ice hockey events, as well as political elections or the Eurovision Song Contest.

MARKET

The market for online betting is growing at a remarkable pace. This trend reflects the fact that the Internet has become part and parcel of people's lives, and that attractive new online games are constantly being released. Another factor prompting people to play online is that it gives a fast result, and therefore offers higher entertainment value.

The gaming industry, which is one of the world's largest industries, is experiencing strong growth. Global sales are estimated in the region of EUR 1,200 billion, and European sales account for approximately EUR 400 billion of this figure*. Gambling is widespread in every culture. Looking at Sweden, some 90 percent of the population regularly participates in some form of gambling activity.

STRONG GROWTH IN ONLINE GAMING

Online gaming represents the largest growth in the gaming market. The market intelligence company Christiansen Capital Advisors estimates that online gaming grew by almost 200 percent between 2001 and 2005. The future also appears dazzling, with the company forecasting global sales of USD 24 billion in 2010, which represents a further increase of 1,000 percent.

New forms of distribution, such as the facility to access the Internet via mobile phones and digital TV, indicate a further upsurge in growth. The Far East has made major technical advances in mobile solutions and Alatto Research Group predicts that mobile gaming will generate sales of USD 500 million in 2006. However, the explosion in mobile gaming is probably a couple more years away, as games and interfaces require further development.

GROWTH DRIVERS

This strong growth is mainly attributable to increased Internet use and the fact that the gaming companies are

constantly coming up with attractive new games on good terms.

The table below shows the percentage of the population with access to the Internet in different countries. A total of 12.7 percent of the world's population has access to the Internet, and this figure is steadily rising. North America, Japan, Germany and the UK have the largest percentage in absolute numbers. In Scandinavia, 62 percent of the population (15 million people) has access to the Internet.

ACCESS TO THE INTERNET

Country	% of population	Number of users	Total population
Sweden	74.3%	6,722,553	9,043,990
Denmark	62.4%	3,375,850	5,411,596
UK	59.0%	35,309,524	59,889,407
Germany	56.2%	46,455,813	82,726,188
Finland	50.5%	2,650,000	5,246,920
Norway	49.7%	2,288,000	4,600,644

DEMOGRAPHY

Various surveys indicate that the typical online player is between 30 and 40 years of age, well educated and with an income above the national average. Both men and women play online. However, different games appear to attract different categories of players. Men between 26 and 44 prefer skill-based gambling, such as sports betting and poker, whereas women between 40 and 50 tend to opt for lotteries and bingo.

SEGMENTATION

The most frequently used online product is casino gaming, with the number of players constantly rising. Next comes sports/Sportsbook betting, although online poker is the fastest-growing product.

TRENDS



BETTING EXCHANGES

Betting exchanges, which involve customers playing against each other rather than against a bookmaker, have won ground in recent years. As the bookmaker is surplus to requirements, customers get better payouts, which results in higher odds. Everything points to this trend continuing, as more people discover the advantages of these betting exchanges which Betsson and other companies operate.

ONLINE-POKER

Poker is the area of online gaming which has shown strongest growth during recent years. Growth was 300 percent in 2003 and 200 percent in 2004, with preliminary data for 2005 indicating 130-percent growth in the poker market. This rapid growth, which is partly due to poker's rise in popularity as a game, is also due to the fact that online poker offers players the facility to play against each other wherever in the world they happen to be. It is difficult to predict the future rate of growth in online poker. However, the industry's own projections indicate that the present high monthly growth of 10–15 percent will fall to 2–4 percent as the market matures. A survey conducted by the market intelligence company MECN (Media & Entertainment Consulting Network) shows that 75 percent of experts in the industry believe that commis-

sion revenue from online poker will exceed USD 4 billion within a few years.

The fact that 15 percent of American males and 42 percent of British males play poker at least once a year speaks volumes for continued growth.

SPORT-BETTING

Sports betting is a form of gaming which is experiencing strong growth. Betsson will focus strongly on this area in 2006, as the market will grow rapidly in the future. When Betsson first launched the service in 2005, the company worked with an external partner. To achieve greater flexibility, Betsson then developed its own bookmaker department, and demand has subsequently risen dramatically.

Games of chance, such as casino games and lottery account for around half of online gaming sales. The range of new games is constantly expanding, and the latest trend in Casino is increased demand for progressive jackpots, i.e. a jackpot which grows until it is won.

Online gaming currently represents approximately 10 percent of total gaming. Five years ago the figure was a mere 2 percent, which is clear evidence that online gaming is taking more and more market share. The overall trend in online gaming speaks for itself: more Internet users + more demand for online entertainment = continued growth in online gaming.

SENIOR EXECUTIVES



1 Anders Holmgren
 CEO, Head of Business Area
 Born 1973, London.
 Employed with Betsson since 2004.
 Shareholding: 1,357,261 B shares
 (own and/or related party/ company hold-
 ings).

2 Tomas Alexandersson
 Technical Director
 Born 1974, Stockholm.
 Employed with Betsson since 2004.
 Shareholding: 0

3 Fredrik Sidfalk
 Marketing Director
 Born 1974, London.
 Employed with Betsson since 2004.
 Shareholding: x B shares.

4 Henrik Bergquist
 Product Director
 Born 1973, London.
 Employed with Betsson since 2004.
 Shareholding: x B shares.

5 Fredrik Nilsson
 Financial Director
 Born 1973, London.
 Employed with Betsson since 2004.
 Shareholding: 0



NET ENTERTAINMENT

Net Entertainment is the leading B2B supplier in online gaming. The company's trademark is associated with innovation and quality. Net Entertainment develops gaming software, which is licensed to an international customer base currently made up of over 30 different companies, such as Unibet, Gamebookers, PokerRoom and 24h poker. License holders are offered tailored solutions, customer service and support. The company was founded in autumn 1996.

HIGHLIGHTS 2005

- 74.6% increase in net sales
- High profitability continues, with operating margin of 50%
- Strong market trends continue
- 6 new license holders
- Launch of several new games
- Rationalization of operations
- Restructuring

FACTS

SEK m	2005	2004
Sales	68.9	40.5
Profit after financial items	35.8	26.6

MESSAGE FROM THE CEO

MAJOR DRIVES AND MARKET GROWTH BEHIND SUCCESS

Over the last year, Net Entertainment implemented a number of changes which resulted in a considerable improvement in net sales and profitability. Net sales increased by 74 percent and the operating margin was 50 percent. This success is the result of strong market growth and Net Entertainment's major product development drive aimed at sharpening the company's competitive edge. The new games launched in 2005 are generating excellent revenues.

Net Entertainment's primary target group consists of on-line operators with an existing customer base. By adding our Casino Module product, they are able to expand their product range quickly and cost effectively, resulting in a marked improvement in sales. Several of the company's customers obtain a significant proportion of their total income from Casino Module.

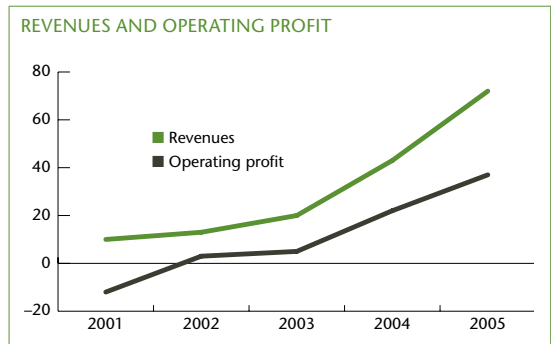
Casino Module is a gaming solution which consists of a large number of games and a powerful management platform. It offers conventional casino games, number games, lotteries and skill-based games – either in combination or separately. Technically, Casino Module is a stand-alone system, but is perceived by the player as a natural and integral part of the license holder's website.

CasinoModule's impressive sales growth is due to a number of factors – high earning power, ease of integration into the customer's existing system, market-leading language support and, last but not least, its ability to offer a realistic gaming environment. License holders get their very own tailored system, which not only provides a unique gaming experience, but is also perceived as a natural part of their website.

I expect our market to continue its rapid growth and I am pleased to say that we are better equipped than at any time in our history to respond to increased demand. Our present organization will enable us to be prime movers in this growing market.

Stockholm, April, 2006

Pontus Lindwall
CEO



2005

IMPORTANT EVENTS

- In 2005, Net Entertainment rationalized its operations by selling its online casinos. This enabled Net Entertainment to concentrate on its forte, namely the development and provision of gaming systems.
- The Apuestas online casino was sold to an external party. The other casinos (casinoeuro, cherrycasino, speedbet and casino-domain) were transferred to Cherry Online, where they are now run together with the Betsson gaming portal.
- During the year, Casino Module's random number generator was certified and approved by two independent certification bodies – Technical Systems Testing (TST) in Canada and the Swedish National Laboratory of Forensic Science (SKL). This creates confidence among operators and end users alike and represents a powerful marketing tool.
- During 2005, Net Entertainment joined G4, the organization which campaigns for player protection and the elimination of gambling addiction. This means that Casino Module now has support for player protection, a function which will be enhanced in the future. Support for player protection is expected to play an even more crucial role as competition for end customers heats up.
- Net Entertainment was awarded a class 4 license in Malta during the year, authorizing the company to offer its license holders hosting within the EU. Operators can apply to the Lotteries and Gaming Authority in Malta for an operator's license to offer gaming in the EU. This marks yet another step towards an open, regulated European gaming market. After obtaining the license, Net Entertainment established a hosting center in Malta, from where a number of customer systems are now operated.



- A radical internal restructuring process was implemented in order to create a clearer organizational structure and simplified work routines and processes. The initiative resulted in increased quality and security, which in turn resulted in satisfied customers and increased sales. The program included significant technical measures, which brought improvements such as transition to 12-week development cycles in order to increase the rate of production.
- New appointments were made during the year, with the aim of strengthening the development department and accelerating product development. The sales organization was also strengthened by new recruitments. An account management function was introduced to enhance the service level and to help customers increase casino sales. This has had a positive impact and has been extremely well received by customers. The workforce was increased by 70 percent in total.
- Net Entertainment will continue on its path, consolidating its position as a market leading supplier of online gaming. We expect the strategic investments in product development and sales we made in 2005 to bear fruit in the future.

NET ENTERTAINMENT

SEK million	2005	2004	2003
Revenues ¹	68,9	40,5	20,1
Operating profit	35,8	26,6	5,1
Operating margin (%)	52,0	53,3	25,4
Growth (%)	70,0	101,5	60,8

1) Includes revenue from Cherry Online

MARKET

The market for online gaming is in a phase of strong growth. The largest growth is expected to take place in Asia and Eastern Europe. As part of our efforts to meet increased demand in new regions, we are gradually increasing the language support in Casino Module. There is currently support for 18 languages, with a further 6 due to be introduced shortly.



The diagram above shows global market development in online gaming. As can be seen, there has been a sharp increase in sales, and this trend is expected to continue. Net sales for 2001 amounted to USD 3 billion, and by 2005 the figure had risen to USD 12 billion, an increase of almost 400 percent. Up to 2010, net sales are expected to increase by a further 200 percent, calculated on the basis of the 2005 figures. Increased Internet use and broadband access play a major role in this rapid growth trend. With fastest growth expected in Eastern Europe and Asia, Net Entertainment has started work to add six languages to its Casino Module language support in order to cope with demand in these growth regions. This will take the total number of languages supported by Casino Module to 24 – head and shoulders above competing systems on the market.

TRENDS

Net Entertainment has a solid reputation in the market.

The brand is strong and is associated with quality and innovation.

The company increased its investments in marketing and profiling activities in 2005 and played a prominent role at all the trade fairs and major events connected with the gaming industry.

Marketing by the state gaming monopolies has resulted in a well developed gaming culture. For experienced players, the move to playing online is a natural step to take, as online gaming often offers better conditions and is tailored to customers' needs.

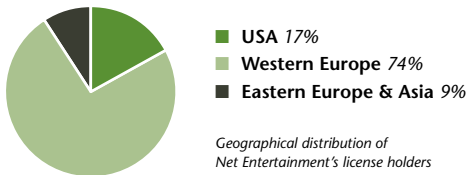
Net Entertainment follows an unambiguous niche strategy which is based on providing a market-leading product in a clearly defined area. Net Entertainment has applied this strategy since it began life, which is an important reason behind the company's success.

The strategy's success is partly due to the fact that the consolidation among gaming operators which Net Entertainment predicted has now become a reality. This has resulted in operators demanding best-of-breed products, which works in favor of companies like Net Entertainment.

Growth in gaming via mobile terminals has been relatively slow to date. Net Entertainment expects growth in this area of the market to pick up once a common standard for mobile terminals is established.



GEOGRAPHICAL CUSTOMER DISTRIBUTION (%)



CUSTOMER BASE

The majority of Net Entertainment's customers are based in Western Europe, although Eastern Europe and Asia appear likely to become more prominent in the future. Much of Net Entertainment's work is in close proximity to its customers. This ensures that the company is constantly in touch with local development and able to offer customized, user-friendly products. These close partnerships, which are enhanced by mutual trust and exchange of ideas, generate a high level of customer satisfaction and well cemented customer relationships. This gives Net Entertainment a unique opportunity to develop its products in line with demand and the license holder's interests.

COMPETITORS

Although the online gaming market is large and growing, it is dominated by around 10 established suppliers, among them Net Entertainment. Several of these companies have a broader product portfolio than Net Entertainment and many have gradually increased their focus on areas such as the poker market. However, Net Entertainment has elected to focus on a defined market segment in order to be able to offer a more powerful and functional product. This strategy has been highly effective.

BUSINESS CONCEPT

Net Entertainment will supply exciting and reliable Internet solutions, which incorporate technology and expertise, to gaming operators wishing to increase their product range and profitability.

STRATEGY

Net Entertainment's strategy is to offer a market-leading system solution in the framework of cutting-edge expertise and a high service level, thereby consolidating its role as a key player in the online gaming market.

FINANCIAL TARGETS

Profit margin >25 percent

Market share to increase to 20 percent (based on the 100 largest sports gaming operators).

BUSINESS MODEL

CasinoModule is licensed according to a performance-based model whereby Net Entertainment receives royalties, the size of which is determined by the profit the product generates. This provides the company with a strong incentive to regularly develop the product and support its license holders.

The focus has gradually been shifted to larger customers, with the help of several strategic reference customers, thereby allowing the company to win a stronger market position.

Casino Module is integrated with the license holder's existing website and IT systems, which results in a simple IT architecture, without any duplication of functionality. This in turn results in a clear division of responsibility and low production, operating and distribution costs.

Having a hosted system solution enables license holders to focus on their core business. Net Entertainment's Operations Center monitors and supports customers' applications, while key account personnel provide a listening ear during day-to-day operation. This creates strong customer relationships and a win-win situation for both parties.

SENIOR EXECUTIVES



1 Annelie Jonson

CFO

Born 1969, Nacka.

Employed since 2002 (in Group since 1998).

Shareholding: 20,000 warrants.

2 Johan Öhman

Sales Manager

Born 1969, Stockholm.

Employed since 2003.

Shareholding: 1,500 B shares.

3 Pontus Lindwall

CEO, Head of Business Area

Born 1965, Stockholm.

Employed in Group since 2001.

Shareholding: 98,850 B shares, 30,000 warrants and 3,280 convertibles corresponding to 800,000 shares.

4 Patrik Nilsson

System Administrator

Born 1962, Solna.

Employed since 2004.

Shareholding: 0

5 Viktoria Nilsson

Development Manager

b. 1969, Solna.

Employed since 2004.

Shareholding: 0

6 Mikael Carlsson

CTO

Born 1967, Stockholm.

Consultant since 2005.

Shareholding: 7,000 B shares.



CHERRY CASINO

Cherry Casino has unique experience in the gaming industry. The company has been operating different forms of gaming since the 1960s and is currently part of the global experience industry. Our games and staff can be found in the restaurants, aboard vessels on international routes and in other locations where people meet and circulate.

HIGHLIGHTS 2005

- Restructuring
- New poker game introduced
- New business model
- Increased focus on Mediterranean

FACTS

<i>SEKm</i>	2005	2004
Revenues	240.7	247.7
Operating profits	7.0	9.1
Vessels	42	43
Restaurant casinos	267	278
Number of employees	750	804

MESSAGE FROM HEAD OF BUSINESS AREA

EXCITEMENT, ENTERTAINMENT AND CAMARADERIE

We implemented a number of important changes during 2005. These changes have left Cherry well equipped to grow in a rapidly changing market.

Excitement, entertainment and camaraderie – this encapsulates what Cherry offers its customers in gaming environments created in restaurants and on ferries in Sweden and other parts of Europe. And we have been doing this successfully every day for over 40 years. The unique know-how we have built up over the years makes me tremendously confident about Cherry's future.

I would like clear up one thing – I am all in favor of a regulated gaming market. Like so many areas of our society, gambling can lead to problems, which makes it important to have clear rules and regulations, as is the case here in Sweden.

What is not so good is that, in principle, only horse racing, the government and the popular movements are allowed to operate gaming activities in Sweden. This means that the market does not need to be regulated – Denmark is a good case in point.

Nevertheless, no monopoly or competitor can take away our trump card – our unbeatable experience and expertise in gaming. I firmly believe that it is only a matter of time before the monopoly tumbles and on that very day we shall be ready for super-fast expansion.

IMPORTANT EVENTS DURING THE YEAR

Cherry is Sweden's largest private player in restaurant casino gaming, with a market share of approximately 37 percent. Although the first months of 2005 developed positively, the year ended with a decline in sales and profitability, caused by a weaker market.



"No monopoly or competitor can take away our trump card – our unbeatable experience and expertise in gaming"

To adapt to the changed market situation, we implemented a number of revenue-generating and cost-reducing measures in autumn 2005.

- ✿ *Merging of the three restaurant casino companies into one nationwide company, resulting in lower costs.*
- ✿ *Reduction in stock-keeping and acquisition of cheaper new premises.*
- ✿ *A new streamlined organization, which sadly resulted in some staff redundancies.*
- ✿ *Development of new business models, which will generate new sources of income.*
- ✿ *Introduction of a new poker game, Cherry Hold'em.*

2005 was a successful year for our maritime operations. Growth and profitability improved and the future appears promising. We won new contracts in Italy and will continue to focus on ferries operating in the Mediterranean.

This positive performance is the result of the strategy we adopted towards the end of 2004 – a strategy which has enabled us to move from competing mainly on price to offering a highly competitive total concept.

Cherry provides gaming environments at service stations in Denmark under the Shell contract. We successfully renegotiated the central agreement with Shell during the year and adapted it to a franchisee system. We also closed a number of unprofitable gaming environments, which had a positive impact on our results, even though net sales fell. Our drive to increase maritime gaming on ferries visiting Danish ports brought new contracts.

We discontinued our operations in Chile during 2005.

NEW SERVICES AND CONCEPTS

The future will see us focusing even more on growth in profitable segments. We shall target segments in which customers appreciate a high level of service and quality, as well as a rapid rate of investment in new equipment. We shall continue to develop new services and activities in order to protect our strong position.

Continued expansion remains high on our agenda, particularly in maritime operations. In the first quarter of 2006, we entered into a number of new agreements strengthening our presence in the Mediterranean, which is a highly expansive region.

Our strategy to run our gaming operations in a highly responsible way stands firm. And our aspiration to be genuine and professional in our dealings with end customers and partners is reflected in everything we do.

All things considered, the future appears promising for Cherry. We have shown ourselves quick to adapt to market changes, and we are close to being able to offer new products that will generate new sources of income. I would like to conclude by extending thanks to our talented and service-minded employees, without whom Cherry would not be where it is today – a service company in the recreation and experience industry.

Stockholm, April, 2006

Gunnar Lind

Head of Cherry Casino Business Area

MARKET

The Swedish restaurant casino market started the early part of 2005 strongly, only to tail off later in the year. Cherry has adapted its organization and strategy to reflect the new market situation. Cherry's maritime operations performed well, and we modified our Danish operations to suit the changed market.

Cherry now has an organization which leaves it well positioned to take market share the very moment the state monopoly falls.

The Swedish gaming market is regulated. This prevents non-bona fide players entering into the sector and enticing people. However, it means that private companies are basically excluded from the Swedish gaming and lottery market. This applies to all gaming, apart from activities with low stakes and winnings, such as restaurant casinos. Parliament has ruled that only the popular movements, horse racing and the state are allowed to run normal gaming operations.

How long the state monopoly will continue no-one knows, but everything points to it falling eventually. And on the day the monopoly comes falling down, Cherry will be there in a strong position and with an attractive customer offering.

Net sales in the Swedish gaming market amounted to

SEK 35.6 billion in 2005, which is a decline of approximately 2.5 percent on the 2004 figure. Whether this means that Swedish people have cut down on their gambling is not clear. One explanation for the decline may be that more people are abandoning the state-run options in favor of online gaming, where many companies offer considerably better repayment than does Svenska Spel, for example. This state-owned company which is the largest player in the Swedish market reported net sales of SEK 19 billion for 2005.

RESTAURANT CASINO

The Swedish restaurant casino market made a positive start to 2005, but fell victim to a decline in sales towards the end of the year, which was probably a knock-on effect of the ban on smoking in restaurants. As well as being part of the eating out experience, restaurant casino operations provided employment for some 700 employees – many of them young people taking on extra work to supplement their studies.

Cherry adapted its operations to the new market conditions during the year and will be launching new products in 2006.

Cherry's customers consist of end users, in other words the players, and restaurants. The Swedish economic situation is healthy and household incomes are rising, which is an



incentive for people to engage in gaming activities. Cherry works closely with the restaurants, acting as a partner in their entertainment offering.

Cherry's market share in restaurant casinos in Sweden is approximately 37 percent and the company is the only nationwide company of its kind. Its competitors are smaller companies, which have a strong regional footing in some areas. Many of the smaller players have either merged or been taken over. This trend is expected to continue in the future.

MARITIME GAMING

Cherry's maritime gaming operations take place on ferries in Northern Europe and in Greece and Italy through the wholly owned subsidiary Secular Services Ltd. Gaming is more prevalent in Greece and other Mediterranean countries than in Scandinavia, and growth is good. The Greek market is subject to rapid change and Cherry's organization is therefore designed to enable the company to respond quickly.

Competition for shipping customers is fierce, but this has not stopped Cherry from taking market share. One explanation is that Cherry works on the basis of a service concept which gives customers good support and follow up. The fact that Cherry is a listed company is perceived by customers as a stamp of quality and is an important reason behind Cherry's excellent reputation.

CHERRY A/S

In Denmark, private companies are allowed to operate gaming activities in public environments if they comply with official rules and regulations. The games must be connected to government control and taxation authorities via computer networks and the gaming machines must remain under the constant supervision of the gaming location's personnel. With Shell's franchisees, Cherry offers gaming environments at service stations around the country. Cherry's Danish operations also work closely with Cherry's maritime gaming operations.

BUSINESS CONCEPT

Cherry's business concept is to create an exciting gaming experience by means of gambling, 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.

BUSINESS MODEL

Cherry's business model is aimed at creating exciting gaming. We do this by working closely with restaurant owners, shipowners and other owners of gaming locations. Cherry offers its partners gaming, gaming systems, personnel, equipment, service, administration and, not least, knowledge of the gaming market. Our partners provide marketplaces and customers. Whatever the form of gaming, Cherry is normally responsible for the full gaming contract. As Cherry's business model is based on the results of gaming, Cherry is well aware of the importance of always providing well functioning, attractive services which create an exciting gaming experience. This benefits both Cherry and its partners.

OVERALL STRATEGIES

- *To develop and market traditional gaming in close cooperation with our partners.*
- *To develop new business concepts in which gaming helps provide exciting entertainment.*
- *To continue our expansion in maritime operations, both in Scandinavia and other parts of Europe, with the focus on the Mediterranean region.*
- *To adapt the organization to enable us to quickly take advantage of new business opportunities in Sweden and other areas of Europe.*
- *To ensure that Cherry's gaming operations are run in a highly responsible way.*

SENIOR EXECUTIVES



1 Mats Rydberg
 CEO Cherry A/S, Denmark
 Born 1968, Svedala.
 Employed in Group since 2005.
 Shareholding: 0

2 Per-Anders Persson
 CEO, Cherry Casino AB
 Born 1959, Solna.
 Employed in Group since 1979.
 Shareholding: 1,500 B shares,
 30,000 warrants.

3 Ulf Bergström
 CEO, Cherry Casino Syd AB
 Born 1966, Gothenburg.
 Employed in Group since 1986.
 Shareholding: 2,300 B shares,
 30,000 warrants.

4 Gunnar Lind
 Vice President, COO,
 Cherryföretagen AB (publ)
 Born 1958, Bålsta.
 Employed in Group since 2004.
 Shareholding: 0

5 Lars-Gunnar Persson
 Acting CEO, Cherry Maritime
 Gaming AB
 Born 1951, Stockholm.
 Employed in Group since 1975.
 Shareholding: 28,500 B shares,
 20,000 warrants.

6 Jörgen Eriksson Sjöner
 CEO, Cherry Casino Norr AB
 Born 1967, Umeå.
 Employed in Group since 1995
 Shareholding: 2,000 B shares,
 30,000 warrants.



FINANCIAL STATEMENTS

The Board of Directors and Chief Executive Officer of Cherryföretagen AB (publ), corporate registration no. 556090-4251, registered office Stockholm, herewith present the annual report for the parent company and group for the financial year 2005. The financial statements, including the auditors' report, can be found on pages 29 to 72.

The results and financial position of the parent company and group are stated in the Board of Directors' report and the subsequent income statements, balance sheets, statements of cash flows, statements of changes in equity and accompanying notes and comments.

The reporting currency for 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 May 15, 2006.

BOARD OF DIRECTORS' REPORT

LISTING AND OWNERSHIP

The company's B share is listed on Stockholmsbörsen's O List. The company has a total of 3,800 shareholders. The largest shareholder is Burdarás with a total of 28.1 percent of capital and 26.3 percent of the votes.

OPERATIONS AND AREAS OF FOCUS

Operations are concentrated mainly on online, casino and machine gaming. In 2005, operations were divided into three business areas:

Cherry Online	Online gaming in a global market, mainly via Betsson.com and CasinoEuro.com.
Net Entertainment	Development of gaming software which is licensed to international gaming.
Cherry Casino	Traditional casino games and gaming machines in Sweden, Denmark and on cruise ships.

NET SALES AND PROFIT

The Group's net sales increased by 44 percent to SEK 444.2 (308.5) million during the year. Both Cherry Online and Net Entertainment reported a sharp increase in net sales. SEK 117.0 million of the increase in net sales compared with the previous year is attributable to the effects of acquired businesses (Betsson SEK 106.6 million and traditional casino operations SEK 10.4 million). Operating profit for the year amounted to SEK 45.8 (16.6) million. Both Net Entertainment and Cherry Online reported a substantial increase in profit, while the traditional operations in Cherry Casino reported a lower profit figure than in the previous year. The operating margin rose to 10.3 (5.4) percent. The operating margin for the Group's online activities was 25.9 percent. Profit after financial items increased to SEK 187.1 (16.5) million. Net financial income includes financial instruments measured at fair value, which amounted to SEK 135.0 million in the income statement for Q1. The transaction relates to the measurement of warrants/call options in Betsson at fair value, based on the external valuation of the company carried out prior to its acquisition. Betsson was valued at SEK 590 million. Profit after tax amounted to SEK 178.1 (12.1) million, which corresponds to SEK 4.91 (0.37) per share.

Return on equity was 44 (13) percent and return on total capital 40 (13) percent. Equity per share was SEK 12.38 (3.19) at the closing date.

PERFORMANCE OF THE BUSINESS AREAS

Cherry Online

Cherry Online includes Betsson.com, acquired in February, and Cherry's own online casinos, with the main focus on CasinoEuro.com.

The business reported an increase in net sales to SEK 154.6 (25.0) million, with profit rising to SEK 16.7 (-5.4) million during the year. Betsson was consolidated into Cherry with effect from February 17, 2005. This had a positive effect of SEK 106.6 million on net sales for the year and SEK 22.9 million on operating profit. However, amortization of intangible assets arising from the acquisition of Betsson had a negative effect of SEK -5.3 (0.0) million on operating profit.

The business area experienced sound growth during the year. At the end of the year, Betsson had 242,000 (65,000) customers and the number of active customers was 36,000 (12,200). Cherry's online casinos ended the year on 203,700 (131,100) customers, with 8,300 (5,700) of them active customers.

Net Entertainment

Net Entertainment is a leading B2B supplier in online gaming. The company's trademark is associated with innovation and quality. Net Entertainment develops gaming software that is licensed to an international customer base currently comprising some 30 different gaming companies. Income consists of royalties and other sales revenue.

The company is carrying out an intensive product development program to strengthen its competitiveness, and the new games launched in 2005 generated excellent revenues. The combination of effective product development and strong market trends guarantees a continuation in the business area's good growth as the older games are phased out.

Net sales increased by 37 percent to SEK 48.3 (35.3) million and operating profit rose by 66 percent to SEK 35.8 (21.6) million.

Net Entertainment also licenses its software and sells consulting services internally to Cherry Online. These

transactions are not included in the above figures for net sales. Revenue from Cherry Online amounted to SEK 20.6 (3.2) million in 2005.

Cherry Casino

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

The business area operates gaming activities, which include table games (blackjack and roulette) at 250 restaurants in Sweden, gaming machines and table games on 37 vessels in the Nordic market and 5 in the Mediterranean region via partly-owned companies and gaming machines at 10 service stations in Denmark in a joint venture with Danish Shell. During the fourth quarter Cherry sold its holding in the Chilean gaming operations, with a modest capital gain.

Cherry is the market leader in restaurant casinos in Sweden with a market share of 37 percent of active gaming tables. Cherry's share of the maritime gaming market in the Nordic Region is estimated at 34 percent of the number of vessels which offer gaming activities.

Net sales for the year fell to SEK 240.7 (247.4) million and operating profit was SEK 7.0 (9.1) million. The acquisition of Knutsson Casino and Engdahl Casino had a negative effect of SEK 10.4 million on the figures for the year.

INVESTMENTS

The Group's investments in intangible assets, property, plant & equipment and financial assets amounted to SEK 29.4 (31.4) million during the year.

SEK 14.5 (13.6) million was invested in games and equipment, most of which related to gaming equipment for maritime gaming.

Investments in intangible assets amounted to SEK 13.8 (4.0) million, of which SEK 13.5 (2.7) million related to capitalized development expenses in Net Entertainment and Betsson, and SEK 0.3 (1.3) million to acquired gaming agreements and concessions.

Acquired shares and participating interests amounted to SEK 1.0 (13.9) million.

FINANCING

Cash flow from operating activities amounted to SEK 64.0 (17.0) million and cash flow from investing activities was

SEK -11.7 (-29.8) million. The equity/assets ratio was 83 (67) percent.

SHAREHOLDER CONTRIBUTION

The parent company paid a shareholder contribution of SEK 2.0 million to the partly owned (10 percent) company Aciago AB. The parent company's shareholding in Aciago has been written down to SEK 0.

EMPLOYEES

The average number of employees in the Group was 273 (252) during the period. An increase in the number of employees was reported in Net Entertainment and Cherry Online, while the number of employees in traditional gaming activities fell. The total number of employees at the end of the year was 842 (843).

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

BUSINESS COMBINATION

On February 17, the Board decided, to convert its loans and call in all options in the UK online gaming company Betsson with immediate effect. The company became a consolidated subsidiary (71 percent) of Cherry Group from that date. The remaining 29 percent was acquired on April 18 at a market price based on external valuations. This acquisition was paid for with the company's own shares.

2005 SHARE ISSUE

The extraordinary general meeting held on April 18 adopted the Board's proposal to issue 6,855,000 B shares as payment for the remaining 29 percent of the shares in Betsson. Through the non-cash issue, Cherry's owners became owners of all the shares in Betsson.

BOARD MANDATE TO ISSUE SHARES

The annual general meeting held on June 16, 2005 granted the Board a mandate to implement new shares issues on one or more occasions in the period up to the next annual general meeting, with or without shareholders' preferential rights. Such share issues may total a maximum of 3,000,000 class B shares, and may be cash

issues, non-cash issues, issues in kind or issues subject to other conditions. If the mandate is fully exercised, this will correspond to a dilution effect of 7.9 percent of share capital and 3.4 percent of votes.

The reason for new share issues being implemented without shareholders' preferential rights is to facilitate time-efficient financing in conjunction with corporate acquisitions. If a new share issue takes place without shareholders' preferential rights, the issue price is determined according to market conditions.

The mandate was not exercised during 2005.

PROPOSAL TO SPLIT UP AND SEPARATELY LIST THE GROUP'S BUSINESS AREAS

In December, the Board proposed that Cherryföretagen be split up into three separate listed companies. The purpose of the demerger is to clarify the values in each business area by creating three clear investment options.

A demerger must be approved by a general meeting of shareholders. An extraordinary general meeting will be convened as soon as possible after the detailed planning has been formulated by the Board. The proposal is supported by shareholders (more than 70 percent of the votes).

IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

Betsson launched a new website in early February. The new web site will create a platform for future growth. In conjunction with the launch of the new site, Betsson also opened its own Sportsbook.

Cherry Casino has entered into gaming agreements with another four vessels in the Mediterranean. Operations are expected to be underway in the second quarter of 2006.

Cherry has appointed Handelsbanken Capital Markets as its exclusive financial advisor on the planned demerger of Cherryföretagen into three independent companies.

PROSPECTS FOR 2006

It is the Board's opinion that the proposed demerger of the Group will allow the three business areas to develop faster and more strongly alone. It will also give clarity to the three business areas and enable shareholders to select their preferred risk level and area of investment.

The proposal will be formulated in such a way as to allow Betsson to continue its operations under the listed holding company Cherryföretagen AB (publ). The Board also proposes that Cherry changes its name to Betsson.

Betsson (currently Cherry Online) is expected to at least double its sales during 2006.

The deregulation of the EU gaming market, which will come sooner or later, will bring increased opportunities to all Cherry's business areas.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

With effect from 2005, Cherry applies IFRS in its consolidated financial reporting in compliance with an EU regulation which applies to all listed companies within the Europe Union. In the financial statements for 2005, comparative figures and key ratios for 2004 have been restated under IFRS, with the exception of IAS 39, Financial Instruments, for which the company has taken advantage of the exemption allowed in IFRS 1, First-Time Adoption of International Financial Reporting Standards. A description of the effects of the transition to IFRS on the Group's financial position and performance is shown in note 25.

CORPORATE GOVERNANCE

Legislation and articles of association

First and foremost, Cherryföretagen AB (publ) is responsible for applying the Swedish Companies Act and the rules governing the share's listing on the Stockholm Stock Exchange. At the same time, Cherry must also comply with its own articles of association. These are available on Cherry's website.

Companies on Stockholmsbörsen's A list and companies listed on the O list with a market value in excess of SEK 3 billion must apply the Swedish Code of Corporate Governance. As Cherry's market capitalization is below SEK 3 billion, the company does not apply the code.

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 business to be con-

sidered, information on the proposed dividend and the main content of other proposals. A shareholder or proxy may vote for the full number of shares he/she owns or represents.

Proposals for business 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 from the annual general meeting are sent to shareholders who request them and are also available on the company's website.

Nomination work is carried out by a nomination committee elected by the main shareholders. The following nomination committee has been elected prior to the 2006 annual general meeting: Per Hamberg (founder and principal shareholder in Cherry), Rolf Blom (elected by Dixcart Financial Services Ltd.) and Fredrik Danielsson (elected by Burdarás HF). The nomination committee's chairman is Per Hamberg.

The annual general meeting has not appointed an audit or remuneration committee. This is because Cherry is a small, easily analyzed company, with a compact board, and 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 of shareholders until the next AGM. There are no rules governing the length of time a member may serve on the Board.

At the annual general meeting held on June 16, John Wattin, Anders Fällman, Per Hamberg, Anna-Carin Månsson and Niclas Palmstierna were re-elected and Anders Holmgren (CEO Betsson) was elected. At the statutory Board meeting, John Wattin was re-elected Chairman of the Board.

At the extraordinary general meeting held on September 22, Ragnar Thorisson and Patrick Svensk were newly elected to replace Kinnevik's representatives, Anders Fällman and Niclas Palmstierna. This was because Kinnevik sold its shareholding in Cherry to the Icelandic investment company Burdarás. At the statutory Board meeting, John Wattin was re-elected Chairman of the Board.

Cherry's Board consists of six members elected by the annual general meeting, with no deputies. The board members include persons connected with Cherry's major owners – Burdarás, Per Hamberg and Dixcart Financial Services Ltd (sellers of Betsson) – and other persons with no connection. Anders Holmgren is the only board member who is actively involved in day-to-day operations as head of the Cherry Online business area. The Chief Executive Officer is not a member of the Board.

According to Stockholmsbörsen's definition, the number of elected board members not connected with the company is five (83 percent) and the number not connected with the company's main owners is three (50 percent). All board members meet Stockholmsbörsen's experience requirements. All Board members and all members of Group management have undergone training in Stockholmsbörsen's rules.

The Chief Executive Officer is the board's rapporteur. 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.

The Board held seventeen minuted meetings in 2005. The Board has concentrated on strategic, financial and accounting matters, major investment business and decisions on lending to owners of gaming locations (advance payments of gaming shares). During 2005, the Board's main focus was on the acquisition of Betsson and the issue of the demerger of Cherry Group.

The Board's work follows a plan which ensures that it receives all necessary information. The company's auditors report to the Board on their findings from auditing the final accounts and their evaluation of the company's internal procedures and control.

The Board has adopted written rules of procedure and issued written instructions on the division of work between Board members and the Chief Executive Officer, and information the Board should regularly receive.

Management group

The Board has delegated operational responsibility for administration of the parent company and Group to the CEO and Group President.

Subsidiaries normally only have a formal employee board consisting of the Group President and/or Vice

President or Head of Business Area. Internally, the CEOs of subsidiaries therefore report directly to the Group President and/or the board of the parent company. Board work relating to operations in the Cherry Online/Betsson business area is dealt with by the Cobal board on Malta. CEO instructions have been drawn up for the CEOs of the wholly owned subsidiaries, and these are identical to the Group President's own 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 suitable skills profiles.

The internal control group which was established in the early part of 2004 to assist with the Danish operations (development of the joint venture with Danish Shell) was discontinued at the beginning of 2005. Danish operations were then reported in the Cherry Casino management group.

At the end of the year, Cherry's group management consisted of four persons: the President & CEO (also head of the Net Entertainment business area), the Vice President (also head of the Cherry Casino business area), the Head of the Cherry Online business area and the CFO.

Group management held eleven meetings in 2005. These meetings dealt with earnings trends, reports and issues prior to and following board meetings. The meetings also considered matters relating to budgets, forecasts, investments, policies and analyses of market and business trends. Group management also discussed and made decisions on projects relating to business areas. Particular focus was directed towards the acquisition and integration of Betsson.

Cherry's three business areas have separate management groups which deal with regular operational business.

Remuneration

The Board's fees are decided by the Annual General Meeting of Shareholders. Remuneration of the Group President is determined by the Board. Remuneration of personnel directly subordinated to the CEO is determined by the CEO following consultation with the Chairman of the Board. The Group applies the principle that the manager's

manager approves decisions about remuneration issues. Incentive programs comprising convertibles for the Group President and warrants for the senior management group/ other key personnel were implemented in 2003 and run until spring 2006. Information about employee benefits can be found in note 6.

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 virtually all of 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 presented. Internal procedures and control systems are also regularly reviewed and reported to the Chief Financial Officer and Group management.

In addition to auditing assignments, Cherry has used Ernst & Young for consultation on VAT, taxation and accounting matters and various analyses. Remuneration of auditors is shown in note 6.

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 was for the unpaid portion of the purchase consideration and amounts to just over USD 500,000 plus 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 entire 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 wheels of

fortune, and for its failure to apply reasonable transitional provisions. This negligence on the part of the government 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 this 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. This investigation concluded 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 is also supported by recent rulings made by the European Court of Justice and the Supreme Court. Preliminary calculations indicate that Cherry sustained damages of approximately SEK 80 million.

Cherry is also pursuing a case for the 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 provide notification of the 1997 changes in law to the EU. Cherry's case also been by strengthened by recent rulings made by the European Court of Justice and the Supreme Court.

Cherry has also brought a case against the Swedish National Gaming Board concerning its instruction that Cherry must remove Betsson's advertising slogan from Cherry's casino gaming cloths. Cherry has asked the county administrative court to request a preliminary ruling from the European Court of Justice on the compatibility of the Swedish Lotteries Act with EU law.

Every so often, Net Entertainment receives proposals relating to infringement of intellectual property such as patents. Net Entertainment does not consider such proposals to have any bearing on the company's products.

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 risks are coordinated through the parent company Cherryföretagen AB, which is also responsible for investing excess liquidity. Financing of subsidiaries normally takes place through the parent company. The wholly owned operating subsidiaries are responsible for managing their own financial risk within the frameworks defined by the Board following coordination with the parent company.

Currency risk

The Group's results are exposed to changes in exchange rates as some of its sales are in different currencies from their costs (transaction exposure). The results are also affected by changes in exchange rates when foreign subsidiaries' results are translated to SEK (translation exposure).

The Group's equity is also affected by changes in exchange rates when assets and liabilities in foreign subsidiaries are translated to SEK (translation exposure).

The Cherry Online, Net Entertainment and Cherry Casino (maritime gaming) business areas receive a large proportion of their revenue in a different currency from their costs, in particular EUR. 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. Exchange differences arising from translation of foreign net assets are recognized directly in consolidated equity.

To minimize currency exposure, external financing is obtained by raising loans, normally in the same currency as the reporting currency of the company concerned. The Group currently has a low level of debt. Long-term liabilities concern the joint financing of the Group's operations in Denmark where revenues are also in DKK. Forward exchange contracts have not been used to hedge the loan.

Income statement items in foreign subsidiaries and associates are not hedged.

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

	EURO	USD	DKK	PLN	Total
Unhedged estimated net flows, 12 months	92	3	5	1	101
Earnings effect in the event of exchange rate changes +/- 1%	0.9	0.0	0.1	0.0	1.0

Refinancing risk, liquidity risk

The Group's operations are largely financed from its own funds. At the closing date, the Group had a total of SEK 9.5 million in bank loans relating to its Danish operations.

Cherry has traditionally aimed to maintain a low level of debt, with an equity/assets ratio of at least 40 percent. The Group's property, plant & equipment consists mainly of games and gaming equipment. It is anticipated that most future investment in property, plant & equipment can be financed by internally generated funds or rental solutions. External financing will be needed to cover expansion of Cherry Online's operations and any large corporate acquisitions.

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 100,000.

Counterparty risk and credit risk

The Group's financial transactions expose it to credit risk in relation to financial counterparties. Cherry does not have any significant concentration of credit risk. 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 significant to the outcome of business negotiations relating to gaming location agreements. Issuing pre-paid gaming shares involves credit risk. To minimize this risk, the recipient of the advance payment provides collateral in the form of chattel mortgages, real estate mortgages, personal guarantees and/or other pledges of property. In 2004, all credit decisions on amounts over SEK 300,000 were made by Cherry's Board. Decisions on amounts between SEK 150,000 and 300,000 were made by the President and the Chairman of the Board, and on amounts up to SEK 150,000 by the President or the Vice President.

Online casino operations involve credit risk to the operator. However, the credit risk from e-commerce is no different from the credit risk involved in other credit card transactions. As a protection device, Cherry has implemented internal systems which significantly obstruct fraud. It is Cherry's opinion that, at present, sufficient measures have been taken to provide reasonable protection against fraud and credit risk.

POLITICAL DECISIONS

Gaming is strictly regulated in most national markets and all gaming operations are, in principle, subject to license. Political decisions therefore 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. The rapid rate of development means there is a risk of Cherry's technology becoming outdated unless efforts are made to maintain a leading position. Investments in new technology are necessary in order to create games with a higher performance and remain competitive.

RESEARCH & DEVELOPMENT

Cherry does not conduct any research activities. Expenditure on development of gaming products, systems and platforms is capitalized to the extent that it is expected to result in future economic benefits. Only expenditure associated with the development phase of online products and systems is currently capitalized and recognized as an asset.

ENVIRONMENT

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

INCOME STATEMENTS

GROUP

<i>Amounts in SEK thousands</i>	<i>Note</i>	2005	2004
Revenue from gaming operations	2,3	441 555	304 709
Other operating revenue	2,3	2 653	3 780
Total		444 208	308 489
Operating expenses:			
Capitalized work for own use		5 671	2 658
Operating expenses from gaming activities		-191 030	-134 612
Other external expenses	4,6	-69 143	-42 664
Personnel expenses	6	-122 048	-104 328
Depreciation/amortization	7	-21 270	-12 948
Other operating expenses		-560	-40
Total operating expenses		-398 380	-291 934
Operating profit		45 828	16 555
Net finance income/expense			
Finance income	8	145 912	1 961
Finance expense		-4 671	-2 048
Total net finance income/expense		141 241	-87
Profit/loss before tax		187 069	16 468
Tax	9	-9 003	-4 397
Profit/loss for the year		178 066	12 071
<i>Attributable to</i>			
Equity holders of parent		176 919	11 354
Minority interest		1 147	717
Earnings per share before dilution (SEK)	10	4.91	0.37
Earnings per share after dilution (SEK)	10	4.73	0.36
Proposed/implemented dividend per share (SEK)		-	-

BALANCE SHEETS

GROUP

Amounts in SEK thousands	Note	2005	2004
ASSETS			
Non-current assets			
Intangible assets	11	395 200	18 532
Property, plant and equipment	12	27 309	27 776
Financial investments	15	-	21 605
Other long-term receivables	16	1 615	11 434
Deferred tax assets	9	698	1 857
Total non-current assets		424 822	81 204
Current assets			
Consumables		1 878	2 420
Tax assets	9	24	1 091
Trade receivables		4 052	3 640
Prepaid expenses and accrued income	17	42 258	22 551
Other receivables	16	21 955	16 731
Short-term investments	15	0	4 098
Cash & cash equivalents		78 412	19 847
Total current assets		148 579	70 378
TOTAL ASSETS		573 401	151 582
EQUITY AND LIABILITIES			
Equity			
	18		
Share capital		76 117	62 407
Other paid-in capital		232 231	51 618
Reserves		-153	-394
Retained earnings incl. profit for the year		162 796	-14 088
Equity attributable to equity holders of the parent		470 991	99 543
Minority interest		3 139	1 758
Total equity		474 130	101 301
Non-current liabilities			
Non-current interest-bearing liabilities	20	9 687	4 674
Other non-current liabilities	21	-	2 851
Deferred tax liabilities	9	14 393	1 982
Total non-current liabilities		24 080	9 507
Current liabilities			
Current interest-bearing liabilities	20	3 504	806
Advance payments from customers		47	165
Trade payables		16 762	3 203
Tax liabilities	9	7 191	2 340
Other liabilities	21	22 499	10 082
Accrued expenses and deferred income	22	25 188	24 178
Total current liabilities		75 191	40 774
TOTAL EQUITY AND LIABILITIES		573 401	151 582
Pledged assets and contingent liabilities			
Pledged assets	23	-	2 217
Contingent liabilities	24	-	1 733

CASH FLOW STATEMENTS

GROUP

Amounts in SEK thousands	Note	2005	2004
Operating activities			
Profit/loss after financial items		187 069	16 468
<i>Adjustments for non-cash items</i>			
– Depreciation/amortization		21 270	12 948
– Impairment of assets		3 788	1 030
– Capital gain/loss on sales		–10 065	–3 086
– Change in value IFRS		–135 040	-
– Translation differences and other		439	–348
Income taxes paid		–3 790	–520
Cash flow from operating activities before changes in working capital		63 671	26 492
Changes in working capital			
Change in inventories		542	–52
Change in trade receivables		–16 649	–11 842
Change in trade payables		8 749	198
Change in current liabilities		3 831	2 398
Cash flow from operating activities		60 144	17 194
Investing activities			
Acquisition of intangible assets		–13 820	–3 970
Acquisition of property, plant & equipment		–14 553	–13 597
Disposal of property, plant & equipment		986	3 338
Acquisition of shares and participating interests		–1 000	–13 861
Acquisition of shares and participating interests, subsidiaries	5	2 001	-
Disposal of shares and participating interests		10 933	1 956
Acquisition of short-term investments		-	–553
Disposal of short-term investments		7 942	-
Change in long-term liabilities		–341	–3 280
Cash flows from investing activities		–7 852	–29 967
Financing activities			
Issue expenses		–175	-
Long-term loans		8 632	2 728
Repayment of loans		–3 190	–743
Dividend paid to minority shareholders in subsidiaries		-	–1 123
Cash flows from financing activities		5 267	862
Change in cash & cash equivalents		57 559	–11 911
Cash and cash equivalents at beginning of year		19 847	31 807
Exchange rate differences		1 006	–49
Cash and cash equivalents at year-end		78 412	19 847
Additional information:			
Unutilized credit facilities amounted to		8 216	430
Interest paid during the period amounted to		–437	–557
Interest received during the period amounted to		316	760

STATEMENT OF

CHANGES IN EQUITY

GROUP

	Share- capital	Other paid-in capital	Foreign currency trans- lation reserve	Verkligt värde- reserv	Retained earnings inc. pro- fit/loss for year	Total	Minori- tetsin- tressen	Total equity
Opening equity Jan 1, 2004	61 227	40 042	0	0	-25 442	75 827		75 827
Adjustment for IFRS 27						0	2 164	2 164
Adjusted equity Jan 1, 2004	61 227	40 042	0	0	-25 442	75 827	2 164	77 991
Translation differences for the year			-394			-394		-394
Total changes in value recognized directly in equity, excl. transactions with company's owners	61 227	40 042	-394	0	-25 442	75 433	2 164	77 597
Profit/loss for the year					11 354	11 354	717	12 071
Total changes in value, excl. transactions with company's owners	61 227	40 042	-394	0	-14 088	86 787	2 881	89 668
Dividend to minority shareholders in subsidiaries						0	-1 123	-1 123
New issues relating to business combinations and acquisition of shares	1 180	11 576				12 756		12 756
Closing equity Dec 31, 2004	62 407	51 618	-394	0	-14 088	99 543	1 758	101 301
Adjustment for IAS 39				222 943		222 943		222 943
Adjusted equity Jan 1, 2005	62 407	51 618	-394	222 943	-14 088	322 486	1 758	324 244
Translation differences for the year			241			241	42	283
Available-for-sale financial assets								0
– Revaluations recognized directly in equity				31 932		31 932		31 932
– Recognized on sale				-2 812		-2 812		-2 812
Acquisition and consolidation of Betsson (71%), adjusted to cost of previously acquired shares		169 978		-252 063		-82 085	24 521	-57 564
Total changes in value recognized directly in equity, excl. transactions with company's owners	62 407	221 596	-153	0	-14 088	269 762	26 321	296 083
Profit/loss for the year					176 919	176 919	1 147	178 066
Total changes in value, excl. transactions with company's owners	62 407	221 596	-153	0	162 831	446 681	27 468	474 149
Sale of minority-owned second-tier subsidiaries					-36	-36	192	156
Non-cash issue relating to acquisition of minority share (29%) of Betsson	13 710	10 811				24 521	-24 521	0
Issue expenses		-176				-176		-176
Repaid dividend not withdrawn					1	1		1
Closing equity Dec 31, 2005	76 117	232 231	-153	0	162 796	470 991	3 139	474 130

INCOME STATEMENTS

PARENT COMPANY

<i>Amounts in SEK thousands</i>	<i>Note</i>	2005	2004
Revenues	3	4 492	1 866
Other operating income		-	119
Total		4 492	1 985
Operating expenses			
Other external expenses	4,6	-10 148	-5 229
Personnel expenses	6	-8 585	-5 346
Depreciation/amortization	7	-129	-204
Other operating expenses		-27	0
Total operating expenses		-18 889	-10 779
Operating profit		-14 397	-8 794
Financial items			
	8		
Profit/loss from interests in associates		-1 733	-852
Profit/loss from other securities and investments		133 005	-
Interest and similar income		522	814
Interest and similar expense		-189	-210
Total financial items		131 605	-248
Profit/loss after financial items		117 208	-9 042
Appropriations	19	4 061	-2 888
Profit/loss before tax		121 269	-11 930
Tax	9	3 905	3 079
PROFIT/LOSS FOR THE YEAR		125 174	-8 851
Proposed/implemented dividend per share (SEK)		-	-

BALANCE SHEETS

PARENT COMPANY

Amounts in SEK thousands	Note	2005	2004
ASSETS			
Non-current assets			
<i>Property, plant and equipment</i>			
Equipment	12	461	380
Total property, plant and equipment		461	380
<i>Financial assets</i>			
Participating interests in group companies	13	710 189	44 156
Participating interests in associates	14	0	0
Other long-term receivables from associates	16	0	1 967
Other long-term securities	15	-	20 948
Other long-term receivables	16	-	8 408
Total financial assets		710 189	75 479
Total non-current assets		710 650	75 859
Current assets			
<i>Current receivables</i>			
Trade receivables		70	193
Receivables from group companies		33 755	50 387
Other receivables	16	194	1 747
Prepaid expenses and accrued income	17	763	173
Total current receivables		34 782	52 500
Cash and bank balances		19 850	1 645
Total current assets		54 632	54 145
TOTAL ASSETS		765 282	130 004

<i>Amounts in SEK thousands</i>	<i>Note</i>	2005	2004
EQUITY AND LIABILITIES			
Equity	18		
<i>Restricted equity</i>			
Share capital		76 117	62 407
Share premium account		-	30 792
Statutory reserve		506 557	7 946
Total restricted equity		582 674	101 145
<i>Unrestricted equity</i>			
Retained earnings		24 465	15 334
Profit/loss for the year		125 174	-8 851
Total unrestricted equity		149 639	6 483
Total equity		732 313	107 628
Untaxed reserves	19	98	4 159
Non-current liabilities			
Convertible loans	20	-	3 280
Total non-current liabilities		0	3 280
Current liabilities			
Convertible loans	20	3 280	-
Advance payments from customers		48	165
Trade payables		1 849	391
Liabilities to group companies		21 389	9 842
Tax liabilities		1 069	2 340
Other liabilities	21	367	152
Accrued expenses and deferred income	22	4 869	2 047
Total current financial liabilities		32 871	14 937
TOTAL EQUITY AND LIABILITIES		765 282	130 004
Pledged assets and contingent liabilities			
Pledged assets	23	-	-
Contingent liabilities	24	11 241	3 872

CASH FLOW STATEMENTS

PARENT COMPANY

Amounts in SEK thousands	Note	2005	2004
Operating activities			
Profit/loss after financial items		117 208	-9 042
<i>Adjustments for non-cash items</i>			
– Depreciation/amortization		129	204
– Impairment of assets		3 788	852
– Capital gain/loss on sales		21	-116
– Change in value IFRS		-135 040	-
– Translation differences and other		1	-
Income taxes paid		-4 358	1
Cash flow from operating activities before changes in working capital		-18 251	-8 101
Changes in working capital			
Change in operating receivables		25 361	620
Change in operating liabilities		33 254	-7 175
Cash flow from operating activities		40 364	-14 656
Investing activities			
Disposal of intangible assets		-	7 033
Acquisition of property, plant & equipment		-238	-19
Disposal of property, plant & equipment		-	798
Acquisition of shares and participating interests		-1 000	-13 661
Acquisition of shares and participating interests, subsidiaries		-20 967	-
Disposal of shares and participating interests		-	5 577
Change in long-term receivables		215	-3 081
Cash flow from investing activities		-21 990	-3 353
Financing activities			
Issue expenses		-175	-
Cash flow from financing activities		-175	0
Change in cash and cash equivalents		18 199	-18 009
Cash & cash equivalents at beginning of year		1 645	19 654
Exchange rate differences		6	0
Cash & cash equivalents at year-end		19 850	1 645
Additional information:			
Unutilized credit facilities amounted to		0	0
Interest paid during the period amounted to		-189	-187
Interest received during the period amounted to		460	981

STATEMENT OF

CHANGES IN EQUITY

PARENT COMPANY

	Share capital	Statutory-reserve	Fair value reserve	Retained earnings	Balanserat resultat	Profit/loss for year	Total equity
Opening equity Jan 1, 2004	61 227	20 144	7 946		5 254	-6 182	88 389
Allocation adopted by AGM		-928			-5 254	6 182	0
Group contribution					15 333		15 333
Total changes in value recognized directly in equity, excl. transactions with company's owners	61 227	19 216	7 946	0	15 333	0	103 722
Profit/loss for the year						-8 851	-8 851
Total changes in value, excl. transactions with company's owners	61 227	19 216	7 946	0	15 333	-8 851	94 871
Repaid dividend not withdrawn					1		1
New issues relating to business combinations and acquisition of shares	1 180	11 576					12 756
Closing equity Dec 31, 2004	62 407	30 792	7 946	0	15 334	-8 851	107 628
Adjustment for IAS 39				220 131			220 131
Adjusted equity Jan 1, 2005	62 407	30 792	7 946	220 131	15 334	-8 851	327 759
Allocation adopted by AGM					-8 851	8 851	0
Group contribution					17 981		17 981
<i>Available-for-sale financial assets</i>							
– Revaluations recognized directly in equity				31 932			31 932
Acquisition and consolidation of Betsson (71%)		252 063		-252 063			0
Total changes in value recognized directly in equity, excl. transactions with company's owners	62 407	282 855	7 946	0	24 464	0	377 672
Profit/loss for the year						125 174	125 174
Total changes in value, excl. transactions with company's owners	62 407	282 855	7 946	0	24 464	125 174	502 846
Non-cash issue relating to acquisition of remaining shares in Betsson	13 710	215 932					229 642
Issue expenses		-176					-176
Repaid dividend not withdrawn					1		1
Reclassification of share premium account		-498 611	498 611				
Closing equity Dec 31, 2005	76 117	0	506 557	0	24 466	125 174	732 314

NOTES TO THE FINANCIAL STATEMENT

NOTE 1 ACCOUNTING POLICIES

COMPLIANCE WITH LAW AND STANDARDS

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the statements of the International Financial Reporting Interpretations Committee (IFRIC) approved by the European Commission for application within the EU. This financial report is Cherry's first full financial report prepared under IFRS. In making the transition from previous accounting policies to IFRS, the group has applied IFRS 1, First-time Adoption of International Financial Reporting Standards, which describes the procedure for first-time adopters of IFRS. The group has also applied the Swedish Financial Accounting Standards Council's recommendation RR 30, Supplementary accounting regulations for groups.

The parent company applies the same policies as the group, with the exception that the parent company also applies RR 32, Reporting for legal entities. This means that the income statements and balance sheets follow the model in the Swedish Annual Accounts Act.

The group has taken advantage of the exemption provision in IFRS 1 and opted not to apply IAS 39 to comparative figures for 2004; instead, it will apply the standard prospectively from January 1, 2005.

Application of IAS 39 increased equity by SEK 222.9 million at January 1, 2005. The effect of IAS 39 on the income statements was SEK 135.0 million in 2005.

Note 25 contains an analysis and explanation of the effects of the transition to IFRS on the group's financial position and earnings.

PREPARATION OF THE PARENT COMPANY'S AND GROUP'S FINANCIAL REPORTS

The parent company's functional currency is the Swedish krona, which is also the reporting currency for the parent company and the group. This means that the financial reports are presented in SEK. Unless otherwise specified, all amounts are rounded to the nearest thousand. Assets and liabilities are reported using the historical cost basis of accounting, apart from some financial assets and liabilities which are measured at fair value. Financial assets and liabilities which are measured at fair value consist of derivatives and financial assets classified as financial assets measured at fair value in the income statements or as available-for-sale financial assets.

CLASSIFICATIONS

Assets are classified as current assets if they are expected to be sold or are intended to be sold or used in the company's normal operating cycle, if they are held primarily for trading purposes, if they are expected to be sold within twelve months after the balance sheet date or if they are cash & cash equivalents. All other assets are classified as non-current assets.

Liabilities are classified as current liabilities if they are expected to be settled in the company's normal operating cycle, if they are owned primarily for trading purposes, if they are expected to be settled within twelve months after the balance sheet date or if the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. All other liabilities are classified as non-current liabilities.

SEGMENT REPORTING

The primary format for reporting segment information is by business segment, as the group's internal reporting system is structured to allow monitoring and follow-up of its business areas.

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 has control.

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. The difference between the cost of acquisition of shares and the fair value initially recognized for acquired identifiable net assets represents the cost of goodwill, which is recognized as an asset in the balance sheet. If the difference is negative, the amount is recognized as income.

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

TRANSLATION OF FOREIGN OPERATIONS

Operations which do not have the Sweden krona as their functional currency are translated to SEK using the current method. This means that all assets, provisions and other liabilities are translated at the closing rate, and income statement items are translated at the average rate. Exchange differences arising during this conversion (translation differences) are recognized directly in equity.

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

ASSOCIATES

Holdings in associates in which the Group has a minimum of 20 percent and a maximum of 50 percent of the voting rights or otherwise has control 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.

The equity method means that the carrying amount of shares in associates corresponds to the group's share of equity in the

associate and any residual value of the group's share of surplus and deficit values.

The Group's share of the profit of associated companies, after adjustment of finance income and expense for any amortization or reversal of acquired surplus or deficit values, is reported under Profit/loss from shares in associates in the consolidated income statement, calculated according to the group's accounting policies.

REVENUES

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 recognized when the customer receives the services. Sales are recognized after the group has transferred to the purchaser the significant risks and rewards associated 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

Revenues from activities which do not come under ordinary operations are reported as other operating income. This item mainly includes recovered amortized receivables, exchange gains from operations and profit from the sale of property, plant & equipment.

OTHER OPERATING EXPENSES

Costs of secondary activities in ordinary operations relating to operating receivables and operating liabilities are reported as other operating expenses. This item mainly includes exchange losses from operations and losses on the sale of property, plant & equipment.

INTANGIBLE ASSETS

Development expenditure is capitalized to the extent that it is expected to result in future economic benefits. Only expenditure associated with the development phase of online gaming products, systems and platforms is capitalized and recognized as an asset from the date on which the decision is made to complete the project and when conditions allow this. The carrying amount includes expenditure on materials, purchased services, direct payroll expenses and indirect expenses that can be attributed to the asset in a reasonable and consistent way.

Development expenses are recognized in the balance sheet at cost, net of accumulated amortization and impairment losses. Regular assessments are made of projects' income-generating capacity in order to identify any impairment losses.

Goodwill, acquired gaming agreements & concessions, trademarks and customer databases also come under intangible assets. Goodwill is measured at cost, net of accumulated impairment. Goodwill is allocated to cash-generating units and is not amortized; instead, it is subject to annual impairment testing. Other intangible assets are recognized in the balance sheet at cost, net of accumulated amortization and impairment losses.

PROPERTY, PLANT & EQUIPMENT

Items of property, plant & equipment are recognized at historical cost, net of accumulated depreciation and any impairment losses. Repairs and maintenance are expensed as they arise.

DEPRECIATION/AMORTIZATION AND IMPAIRMENT

Depreciation/amortization is based on the original cost acquisition less the calculated residual value and any impairment losses. Depreciation/amortization is applied on a straight-line basis over the asset's estimated useful life.

Useful lives of assets (years):

Trademarks, domain names	max 5 yrs
Betsson trademark	Indefinite, not amortized
Betsson customer database	2 yrs
Gaming agreements & concessions	3–5 yrs
Capitalized development expenses for games, gaming systems and gaming platforms (based on class of asset)	max. 5 years
Gaming machines in operation	3–7 yrs
Goods gaming machines	2 yrs
Amusement machines	max. 3 years
Casino tables	5 yrs
Casino wheels, Sweden	10 yrs
Display systems (maritime gaming machines)	2 yrs
Registration equipment (Swedish casino gaming)	3 yrs
Other gaming equipment	max. 5 years
Office equipment	5 yrs
Computers	3–5 yrs
Vehicles	3–5 yrs

The residual value and useful life of an asset are reviewed annually. If the carrying amount of intangible assets, property, plant & equipment or financial assets appears to be too high, impairment is identified and quantified by reference to the recoverable value of individual or related types of assets, measured as the higher of net selling price and value in use. The value in use is measured as expected future discounted cash flow. An impairment loss is the difference between the carrying amount and the recoverable value. When there is an indication that a previously recognized impairment loss no longer exists or has decreased, the impairment loss is reversed. However, the increased amount cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

GROUP AND SHAREHOLDER

CONTRIBUTIONS FOR LEGAL ENTITIES

Group and shareholder contributions are reported in accordance with the recommendations of the Swedish Financial Accounting Standards Council's Emerging Issues Task Force. Shareholder contributions are recognized directly in the equity of the recipient company and capitalized in the contributor's shares and participating interests. These assets are subsequently subject to impairment testing.

Group contributions are reported on the basis of economic substance. This means that group contributions made or received for the purpose of minimizing the group's total tax are recognized directly in retained earnings after a deduction for their current tax effect.

APPROPRIATIONS FOR LEGAL ENTITIES

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

BORROWING COSTS

Borrowing costs are recognized as an expense in the income statement for the period to which they relate

TAXES

Total tax in the income statement consists of current tax and deferred tax. Current tax is tax (paid or received) which relates to the current year. This also includes adjustment of current tax attributable to prior periods. Deferred tax is calculated using the liability 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 balance sheet date. Temporary differences are not taken into consideration in goodwill on consolidation nor in differences attributable to shares in subsidiaries and associates which are not expected to be taxed in the near future. Untaxed reserves including deferred tax liabilities are reported in legal entities.

Deferred tax assets relating to deductible temporary differences and loss carryforwards 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.

FINANCIAL INSTRUMENTS

Financial instruments recognized as assets in the balance sheet include cash & cash equivalents, trade receivables, shares and other equity instruments, loan receivables, receivables from bond issues and derivatives. Financial instruments recognized as liabilities and equity include trade payables, debt and equity instruments, loan liabilities and derivatives.

Financial instruments are initially recognized at cost, which corresponds to the fair value of the instrument plus transaction costs for all financial instruments. Subsequent recognition of a financial instrument depends on its classification.

A financial asset or liability is recognized in the balance sheet when the company becomes a contracting party to the instrument's conditions. Trade receivables are recognized in the balance sheet on billing. Liabilities are recognized when the counterparty has delivered and a contractual obligation to pay exists, even if the bill has not been received. Trade payables are recognized on receipt of the bill.

A financial asset is derecognized when the rights under the agreement have been realized or have matured, or the company no longer has control over them. The same applies to part of a financial asset. A financial liability is derecognized when the obligation under the agreement has been fulfilled or no longer exists. The same applies to part of a financial asset.

The fair value of listed financial assets corresponds to the asset's listed buying rate at the balance sheet date. The fair value of non-listed financial assets is defined by using measurement benchmarks such as recent transactions, prices of similar instruments and discounted cash flows.

At the end of each reporting period, the company assesses whether there are any objective indications of impairment of a financial asset or group of financial assets. Equity instruments classified as available-for-sale are required to show a considerable and prolonged decline in fair value below the instrument's cost of acquisition before an impairment loss is recognized. If

an asset classified as available-for-sale is identified as impaired, any previously accumulated impairment recognized directly in equity is reallocated to the income statement. Impairment losses for equity instruments recognized in the income statement are not reversed at a subsequent date.

Under IAS 39, financial instruments are classified into categories. The classification of a financial instrument is based on the purpose of its acquisition. Company management makes the classification on the original date of acquisition.

Classification of financial assets:

Financial assets measured at fair value in the income statement

This category comprises two sub-groups: financial assets held for trading, and other financial assets the company initially placed in this category. The fair value of assets in this category is regularly assessed, with any changes recognized in the income statement.

Loan receivables and trade receivables

Loan receivables and trade receivables are financial assets which are not derivatives with fixed payments or payments that can be defined, and are not listed in an active market. Receivables arise when a company provides money, goods and services directly to a beneficiary without any intention to conduct trading in the receivable. The category also includes acquired receivables. Assets in this category are measured at accumulated cost. Accumulated cost is measured on the basis of the effective interest calculated at the date of acquisition.

Held-to-maturity investments

Financial assets with fixed or pre-determinable cash flows and fixed maturity, which the company is able to and intends to hold until maturity. Assets in this category are measured at amortized cost. Amortized cost is measured on the basis of the effective interest calculated at the date of acquisition. This means that surplus and deficit values and direct transaction costs are accrued over the instrument's maturity.

Available-for-sale financial assets

This category includes financial assets not classified in any other category or financial assets which the company initially placed in this category. The fair value of assets in this category is regularly assessed, with any changes recognized in equity. When the investments are derecognized, any previously recognized accumulated profit or loss is transferred from equity to the income statement.

Other financial liabilities

Financial liabilities not held for trading are measured at amortized cost. Amortized cost is measured on the basis of the effective interest calculated when the liability was recognized. This means that surplus and deficit values and direct issue costs are accrued over the liability's maturity.

Cash & cash equivalents

Cash & cash equivalents consist of cash, readily convertible deposits with banks and similar institutions and short-term liquid investments maturing within three months of acquisition which are subject to an insignificant to risk of changes in value. Deposit interest rates on the group's bank and post giro accounts in Sweden are Stibor-linked

Financial investments

Financial investments are either financial assets or short-term investments, depending on the purpose of the holding. If their maturity or expected period of ownership exceeds one year they are financial assets, and if less than one year they are short-term investments.

The subsidiary Intact Technology Stockholm AB (90.1 %) 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 nature of business, which is gaming, lotteries and competitions. It is the Board's intention to discontinue the investments as soon as this is viable 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.

Financial investments comprising shares are either financial assets measured at fair value in the income statement or available-for-sale financial assets.

Interest-bearing securities acquired to be held until maturity are classified as held-to-maturity financial assets and are measured at amortized cost. Interest-bearing securities not acquired to be held until maturity are classified as available-for-sale financial assets.

When financial assets are measured at fair value in the income statement, any changes in value are recognized in net finance income/expense.

Long-term and other receivables

Long-term receivables and other short-term receivables are receivables which arise when the company provides money without any intention of conducting trading in the receivable. If the intended period of ownership exceeds one year they are long-term receivables, and if less than one year they are classified as other receivables. These receivables come under the category Loan receivables and trade receivables.

Trade receivables

Trade receivables are classified as trade receivables and loan receivables. Trade receivables are recognized in the amounts expected to be received, less a deduction for doubtful debts which is calculated without any discounting. Impairment of trade receivables is recognized in operating expenses.

Liabilities

Liabilities are classified as other financial liabilities, which means that they are initially recognized in the amounts received, less transaction costs. After acquisition, loans are measured at amortized cost using the effective interest method. Long-term liabilities have an expected maturity which exceeds one year, while current liabilities have a maturity of less than one year.

Convertible bonds

Convertible bonds can be converted to shares if the counterparty exercises the option to convert the receivable into shares, recognized as a compound financial instrument divided into a debt portion and an equity portion. The fair value of the liability is calculated on the basis of future cash flows, which are discounted using the market rate for similar liabilities, with no rights of conversion. The value of equity instruments is calculated as the difference between the issue proceeds when the convertible was issued and the fair value of the financial liability at the date of issue. Transaction costs associated with the issue of a compound financial instrument are distributed between the debt portion and the equity portion in proportion to the distribution of the issue proceeds. Interest expense is recognized in the income statements and is measured using the effective interest method.

INVENTORIES

Inventories are measured at the lower of cost of acquisition (less a deduction for any obsolescence) and the net selling value.

LEASES

Leases are classified either as finance or operating leases in the consolidated income statement. Leasing of property, plant & equipment where the group is essentially exposed to the same risks and rewards as in direct ownership is classified as finance leasing.

The leased asset is recognized in property, plant & equipment 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. Details of operating leases and rental agreements are shown in note 4.

EQUITY – GROUP

Share capital

The group's registered share capital at December 31, 2005 was 38,058,056 shares.

Other paid-in capital

This relates to capital paid in by shareholders.

Reserves

Fair value reserve

The fair value reserve includes the accumulated net changes in the fair value of an available-for-sale financial asset until the asset is derecognized.

Foreign currency translation reserve

The foreign currency translation reserve contains all exchange differences which arise during translation of the financial statements of foreign entities which use a different currency from the group's presentation currency.

Retained earnings (including profit for the year)

Retained earnings (including profit for the year) includes accumulated profits in the parent company & subsidiaries, associates and joint ventures, and the portion of untaxed reserves attributable to equity. Previous provisions to the statutory reserve, not including transferred share premium reserves, are included in this equity item.

EQUITY – PARENT COMPANY

Restricted reserves

Restricted reserves may not be reduced by means of distribution of dividends.

Statutory reserve

The purpose of the statutory reserve is to save some of the net profit which cannot be used to cover loss brought forward.

Share premium account

The transitional provision covering the change in the Swedish Annual Accounts Act states that funds transferred to the share premium account prior to January 1, 2006 must be transferred to the statutory reserve in the first annual report prepared after January 1, 2006.

Unrestricted equity

Share premium account

When shares are issued at a premium (from January 1, 2006), i.e. above their par value, an amount representing the difference between the par value of the shares and the amount received is transferred to the share premium account.

Retained earnings

Retained earnings consist of the previous year's unrestricted equity after any transfers to the statutory reserve and any distribution of dividends. Retained earnings, profit for the year and unrestricted equity comprise the amount available for distribution to shareholders.

PENSION EXPENSE AND PENSION COMMITMENTS.

The group has various pension plans in different countries, in which the assets have normally been separated for 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 plans. 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 multi-employer plan. For the financial years 2005 and 2004, Cherry has not had access to information which would make it possible to present this plan as a defined-benefit plan. The ITP pension plan which is covered through insurance with Alecta is therefore presented as a defined-contribution plan.

PROVISIONS

A provision is recognized in the balance sheet when the company has a present obligation (legal or constructive) as a result of a past event and it is likely that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the effect of the time value of money is material, the amount of a provision should be measured by discounting expected future cash flows at an interest rate before tax that reflects the present market value of the expenditure required to settle the amount and, if applicable, the risks associated with the liability. A restructuring provision is recognized when the group has defined a detailed, formal plan for restructuring and the restructuring has either commenced or has been approved. No provision is made for future operating expenses.

CONTINGENT LIABILITIES

A contingent liability is recognized when there is a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events or when there is an obligation arising from contingent events which is not reported as a liability or a provision, due to the fact that it is not probable that an outflow of resources will be required to settle the obligation

DEFINITIONS

Revenues. Revenues from gaming operations after payment/redemption of players' winnings and other operating income.

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 finance expense, divided by average shareholders' equity.

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

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

Profit margin. Profit/loss after financial items, divided by revenue for the period.

Operating margin. Operating profit/loss, divided by revenue 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, net of inventories, divided by current liabilities, including proposed but not yet adopted dividend.

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

Number of employees. 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 end of each period.

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 expense 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. With effect from 2005, the Online Gaming business area has been divided into Cherry Online and Net Entertainment. Income statement comparative figures for 2004 have been restated to cover the new business area organization. Comparative balance sheet figures have not been restated, but refer to the entire Online Gaming business area.

År 2005	Cherry Online	Net Entertainment	Cherry Casino	Group and other	Total koncernen
External revenues	154 551	48 255	240 693	709	444 208
Internal revenues from other segments	0	20 645	16	3 783	
Total revenues	154 551	68 900	240 709	4 492	
Operating profit	16 698	35 849	6 986	-13 705	45 828
Profit before tax					187 069
Profit after tax					178 066
Assets	446 183	30 378	75 638	21 203	573 402
Liabilities	39 456	8 705	39 738	11 373	99 272
Investments	10 793	5 734	12 608	238	29 373
Depreciation/amortization	6 684	3 628	10 829	129	21 270
År 2004	Cherry Online	Net Entertainment	Cherry Casino	Total and other	Total Group
External revenues	25 039	35 255	247 372	823	308 489
Internal revenues from other segments		5 245	14	1 162	
Total revenues	25 039	40 500	247 386	1 985	
Operating profit	-5 403	21 639	9 104	-8 785	16 555
Profit before tax					16 468
Profit after tax					12 071
Assets	Included in	68 906	79 766	2 910	151 582
Liabilities	Net Entertainment bal.	7 469	33 272	9 540	50 281
Investments	-	18 130	13 279	19	31 428
Depreciation/amortization	-	2 756	9 988	204	12 948

SECONDARY SEGMENT – GEOGRAPHICAL

Division of the group's operations into geographical segments does not add any further information and involves so many simplifications and standardizations that the information will cease to have any value or relevance.

In the Online Gaming business area (Cherry Online and Net Entertainment from 2005) the subsidiary Net Entertainment develops and sells 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 Sweden and many other countries in Scandinavia, the EU, the USA and Asia. Their actual customer databases belong to them 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 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, which allows a gaming site owner to 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 fail to provide relevant information.

Division into geographical segments also fails to provide relevant information for maritime gaming operations. These 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 not provide a relevant picture of the origins of our revenues.

For the above reasons, Cherry has decided not to report the Group revenues by geographical segment

NOTE 3 REVENUES, RELATED-PARTY TRANSACTIONS

	Group		Parent Company	
	2005	2004	2005	2004
Revenues from gaming operations	441 555	304 709	4 492	1 866
Other operating income				
– EU grant received	586	-	-	-
– Recovered amortized receivables	42	77	-	-
– Capital gain on the sale of property, plant and equipment	229	1 285	-	115
– Exchange differences, operations	1 395	1 803	-	-
– Other	401	615	-	4
Total	444 208	308 489	4 492	1 985

	Parent Company	
	2005	2004
<i>Intra-group purchases and sales</i>		
Purchases from subsidiaries	0	0
Sales to subsidiaries	3 784	1 162

	Group		Parent Company	
	2005	2004	2005	2004
<i>Purchases and sales, associates</i>				
Purchases from associates	0	0	0	0
Sales to associates	0	0	0	0

NOTE 4 LEASES

Lease payments for vehicles, rent for premises and other leased equipment classified as operating leases amounted to:

	Group		Parent Company	
	2005	2004	2005	2004
Lease payments and rental charges recognized as expense	5 251	4 329	1 590	440

Future minimum charges for non-cancellable operating leases and rental agreements:

	Group		Parent Company	
	2005	2004	2005	2004
– during 2006	6 401		4 299	
– during 2007–2010	13 922		11 001	
– after 2010	-		-	
Total	20 323		15 300	

NOTE 5 BUSINESS COMBINATIONS

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

ACQUISITION OF UP TO 71 PERCENT ON FEBRUARY 17

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

Betsson was consolidated into the balance sheet at an acquisition cost of SEK 363 million (according to the fair value measurement of Cherry's financial instruments prior to the acquisition, see notes 8 and 25).

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

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

Deferred tax is calculated according to the tax rate in each tax jurisdiction.

The valuation resulted in a goodwill item of SEK 278.5 million, which is not amortized under IFRS.

As Cherry acquired 71 percent of Betsson, the minority share of the acquired assets and liabilities (excl. goodwill) in that company amounted to SEK 24.5 million at the acquisition date.

ACQUISITION OF THE REMAINING 29 PERCENT ON APRIL 18

At the extraordinary general meeting of shareholders on April 18, Cherry acquired the remaining 29 percent of the shares in Betsson, which was paid for with the company's own shares. Cherry issued a total of 6,855,000 shares at a price of SEK 33.50. In the consolidated financial statements, this transaction resulted in the above-mentioned minority share falling to Cherry's shareholders (internal transfer in equity) and dilution.

POST-ACQUISITION EFFECTS

Amortization of the identifiable intangible assets listed above will amount to SEK 6.3 million between 2005 and 2006 and SEK 1.8 million between 2007 and 2009. The amortization is charged to operating profit/loss in the Cherry Online business area.

Betsson's earnings have added SEK 16.6 million to the group's net profit for 2005.

At the end of 2005, Cherry enlisted external help in conducting an impairment test as prescribed in IAS 36 Impairment Losses, in order to measure the goodwill arising from the acquisition and ascertain whether there was any indication of impairment losses. The test revealed that the recoverable value (measured as value in use and fair value less cost to sell) was not lower than the carrying amount (see also note 11).

Effects of the acquisition on the group's assets and liabilities

	Carrying amount of acquired unit	Adjustment following acquisition analysis	Fair value recognized in group
Development costs, IT system, platforms	4 791	8 843	13 634
Customer database		9 090	9 090
Trademarks		77 261	77 261
Total intangible assets	4 791	95 194	99 985
Property, plant and equipment	277		277
Current receivables	7 248		7 248
Cash and cash equivalents	6 292		6 292
Deferred tax		-14 279	-14 279
Current liabilities	-14 967		-14 967
Identifiable assets and liabilities	3 641	80 915	84 556
Group goodwill			278 456
Cost of acquisition			363 012
Purchase consideration paid, cash 2005			4 291
Cash and cash equivalents (acquired)			-6 292
Net effect on Cash and cash equivalents			-2 001

NOTE 6 EMPLOYEES, PERSONNEL EXPENSES AND FEES TO BOARD AND AUDITORS

	2005		2004	
	Total	men	Total	men
Parent Company				
Sweden	8	62%	7	57%
Total Parent Company	8	62%	7	57%
Subsidiaries				
Sweden	208	47%	198	41%
Denmark	6	50%	6	50%
UK	11	73%	0	0%
Poland	13	0%	13	0%
Greece	4	50%	4	75%
Chile	18	83%	18	83%
Costa Rica	5	80%	6	67%
Total, Subsidiaries	265	49%	245	44%
Total, Group	273	49%	252	44%

Sick leave, Sweden	Group		Parent Company	
	2005	2004	2005	2004
Total sick leave – employees' total standard working hours	2.0%	2.6%	10.5%	10.2%
Sick leave, proportion of long-term absence (more than 60 consecutive days)	38.4%	44.5%	85.3%	99.7%
Sick leave, women*	1.7%	2.3%	4.1%	1.0%
Sick leave, men*	2.2%	2.9%	14.5%	15.6%
Sick leave, employees under 30*	1.1%	1.3%	0.0%	0.0%
Sick leave, employees 30–49*	2.4%	3.9%	11.0%	13.8%
Sick leave, employees over 49*	12.3%	11.0%	7.7%	0.0%

* as a percentage of the group's standard working hours

	Group		Parent Company	
	2005	2004	2005	2004
Wages, salaries and remuneration				
Boards, CEO, V CEO, other senior executives	8 199	5 888	3 601	2 630
Other employees	78 529	66 821	1 974	1 149
Total	86 728	72 709	5 575	3 779
– bonus to CEO, V CEO, other senior executives	65	444	0	140
Social security contributions (incl. pension expense)	31 608	28 140	3 222	1 751
Pension expense				
Boards, CEO, V CEO, other senior executives	1 816	1 209	1 280	349
Other employees	4 941	4 927	102	199
	6 757	6 136	1 382	548

The year's expenses for pension insurance taken out in Alecta amounted to SEK 666 (615) thousand, of which SEK 535 (490) thousand relates to retirement and family pension. These expenses are reported in the income statement under Personnel expenses

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. Board members employed in Cherry do not receive any special board fee. The Board has decided to distribute the fee of SEK 750,000 in such a way that Board members receive SEK 75,000 and the Chairman receives SEK 275,000. The Chairman of the Board did not receive any remuneration other than Board fees and does not have any retirement or termination benefits.

Chief Executive Officer/President

In the financial year 2005, the CEO received SEK 975 thousand in salary and car benefits. There were no bonus payments.

In addition to pension benefits pursuant to the national insurance act (ATP and AFP), the CEO is also entitled to increased pension premiums. 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. The pension is a defined-contribution plan. No pension agreement for early retirement before the age of 65 exists. The pension is a vested plan.

In the event of termination of employment by Cherry, the Chief Executive Officer is entitled to a period of notice of six months and termination 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 termination pay.

Group management

Group management, which consisted of three people in 2005, received salaries and company car benefits amounting to SEK 2 817 thousand. There were no bonus payments.

Group management is entitled to pensions under the ITP system or equivalent and some increased pension premiums. Pensionable salary does not include bonuses and a company car. The total pension premium including increased pension does not exceed 30 percent of the fixed salary for any member of group management. No pension agreement for early retirement before the age of 65 exists. The pensions are defined-contribution plans, with the exception of ITP bonuses, which are defined-benefit. The pensions are vested plans.

Group management's contracts of employment contain clauses on remuneration and notice. If a member of group management resigns of his 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 termination of employment by Cherry, the Vice President is entitled to a period of notice of six months and termination pay corresponding to 12 months' salary. Settlement from severance pay is not made if salary is received from other employment.

If the Vice President resigns of his own volition, the period of notice is six months, with no termination pay. No termination payments are made to other members of group management.

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. 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 a service 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

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 fully or partially converted to B shares during the period April 1-24, 2006 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.

Preparation and decision-making process

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

REMUNERATION OF AUDITORS

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 AB and virtually all of its subsidiaries. Gunnar Liljedahl has been Cherry's auditor since 1995. In addition to auditing assignments, Cherry has used Ernst & Young for consultation on taxation, VAT and accounting matters and various analyses relating to large projects.

	Group		Parent Company	
	2005	2004	2005	2004
Auditing				
– Ernst & Young	906	722	354	335
– Other auditors	303	36	-	-
Other assignments carried out by Ernst & Young	386	518	386	201
Total	1 595	1 276	740	536

NOTE 7 DEPRECIATION/AMORTIZATION

Depreciation/amortization of non-current assets:

	Group		Parent Company	
	2005	2004	2005	2004
Gaming products, systems and platforms	-4 772	-1 673	-	-
Gaming agreements and concessions	-2 085	-1 767	-	-
Customer databases	-3 787	-	-	-
Trademarks	-4	-	-	-
Land and buildings	-	-2	-	-
Installations and gaming equipment	-10 622	-9 506	-129	-204
Total	-21 270	-12 948	-129	-204

NOTE 8 NET FINANCE INCOME/EXPENSE, FINANCIAL ITEMS

Group	2005	2004
Interest income	316	760
Other investments including derivatives:		
– Net gain on sale of financial assets	6 780	1 642
– Net change in value following revaluation of financial assets	135 040	-
Net exchange differences	3 776	-441
Finance income	145 912	1 961
Interest expense	437	557
Impairment of receivable/participating interest in associates	1 733	852
Impairment of available-for-sale financial assets	2 035	178
Net exchange differences	466	461
Finance expense	4 671	2 048
Total financial items	141 241	-87
Parent Company	2005	2004
Impairment of participating interest/receivable in Cherry AS, Norway	-1 733	-852
Total profit/loss from interests in associates	-1 733	-852
Impairment of shares in Aciago	-2 035	-
Change in value following revaluation of derivatives (warrants, call options) Betsson	135 040	-
Total profit/loss from other securities and investments	133 005	0
Interest income, group companies	378	274
Interest income, other	82	707
Exchange differences	62	-167
Total financial income and similar income	522	814
Interest expenses, group companies	-	-
Interest expenses, other	-189	-188
Exchange differences	-	-22
Total financial expense and similar expense	-189	-210

COMMENTS ON FINANCIAL ITEMS IN THE INCOME STATEMENTS

Group

During the year the subsidiary Net Entertainment sold its remaining holding in the Icelandic company Betware. The sale yielded a capital gain of SEK 2.9 million.

The company Establish was sold during the year, allowing the subsidiary Intact's holding in the company to be sold with a capital gain of SEK 3.9 million.

Parent Company and Group

Prior to the acquisition of Betsson, Cherry's holdings of derivatives (warrants and call options) in the company were revalued at fair value in the income statement, which involved a recognized increase in value of SEK 135 million, see below.

Impairment losses recognized in associates relate to Cherry's receivable from the Norwegian company Cherry AS. The

company's performance caused Cherry to write down its entire receivable from Cherry AS.

Impairment in 2005 relates to Cherry's investment in the development company Aciago. During the year, Cherry converted loan financing to a shareholder contribution. Aciago's performance in 2005 caused Cherry to write down its entire holding.

MEASUREMENT OF DERIVATIVES IN BETSSON

In the first quarter a fair value measurement of financial instruments relating to GBE Holdings Ltd (Betsson) was made. This applied to Cherry's holdings of shares and derivatives (warrants and call options) in Betsson before the acquisition on February 17. At the beginning of 2005, the shares and derivatives were measured at fair market value, which was recognized directly in equity. The measurement was based on a valuation of the company of SEK 350 million at January 1, 2005, see note 25.

The final valuation of Betsson which was made in conjunction with Cherry's Q1 acquisition of the company amounted to SEK 590 million. Under IFRS, the fair value of Cherry's holding of financial instruments in Betsson is measured at the fair value

immediately before the transaction, which means that Betsson becomes a subsidiary of Cherry (acquisition date).

Shares which are not shares in subsidiaries or associates are classified under the category available for sale. Measurement is at fair value, with the change in value recognized directly in equity until the asset is sold or a permanent impairment loss is identified, which is then recognized in the income statement. Cherry's holding in Betsson amounted to 17.3 percent at the time. Following the fair value measurement, the carrying amount was adjusted by SEK 31,932 thousand, with the change in value recognized directly in equity.

Derivatives are classified as assets measured at fair value and for which the change in value is recognized in the income statement. Cherry held warrants and call options in Betsson enabling it to acquire up to 71 percent of the total number of shares in the company at fixed prices. The measurement of these derivatives at fair value prior to acquisition means an increase in the carrying amount of SEK 135,040 thousand, which under IFRS is reported in the income statements during the first quarter.

NOTE 9 TAX

<i>Tax expense in income statements</i>	Group		Parent Company	
	2005	2004	2005	2004
Distribution by current and deferred tax				
Current tax	-9 708	-2 500	-3 087	-2 454
Deferred tax	705	-1 897	6 992	5 533
Total	-9 003	-4 397	3 905	3 079
<i>Tax expense is distributed as follows:</i>				
Current tax				
Sweden	-5 810	-2 453	-3 087	-2 454
Outside Sweden	-3 898	-47	-	-
Total current tax	-9 708	-2 500	-3 087	-2 454
Deferred tax				
Sweden	1 007	-1 817	6 992	5 533
Outside Sweden	-302	-80	-	-
Total deferred tax	705	-1 897	6 992	5 533
Difference between actual tax expense and tax expense based on present tax rate				
Recognized profit before tax	187 069	14 227	121 269	-11 930
Tax according to present tax rate (28%)	-52 379	-3 984	-33 955	3 340
Tax attributable to prior years	-520	-2	-	-2
Difference in tax in foreign operations	5 543	2 224	-	-
Tax effect of change in value under IFRS	37 811	-	37 811	-
Tax effect of non-deductible items	-1 489	-2 503	-	-259
Tax effect of non-taxable items	2 031	460	49	-
Tax effect of non-recognized loss carryforwards	-	35	-	-
Recognized tax expense	-9 003	-4 397	3 905	3 079
Specification of deferred tax expense				
Tax on group contributions	-	-	6 992	5 963
Change in tax on loss carryforwards	-1 092	-581	-	-430
Change in tax on temporary differences	719	-	-	-
Tax on appropriations	1 078	-1 316	-	-
	705	-1 897	6 992	5 533

<i>Tax in balance sheets</i>	Group		Parent Company	
	2005	2004	2005	2004
Long-term receivables				
– Deferred tax assets, loss carryforwards	698	1 857	-	-
Deferred tax assets relate to the group's total loss carryforwards. Cherry considers it probable that these can be utilized in the future.				
Current receivables				
– Tax asset	24	1 091	-	-
Provision for taxes				
– Deferred tax on untaxed reserves	903	1 982	-	-
– Deferred tax, temporary differences	13 490	-	-	-
Total	14 393	1 982	0	0
Current liabilities				
– Tax liabilities	7 191	2 340	1 069	2 340

NOTE 10 EARNINGS PER SHARE

	Group		Parent Company	
	2005	2004	2005	2004
Profit after tax attributable to equity holders of the parent	176 919	11 354	125 174	-8 851
Convertible loan interest after tax	136	136	136	136
Adjusted profit/loss	177 055	11 490	125 310	-8 715
Average number of shares				
– before dilution	36 048 704	30 948 468	36 048 704	30 948 468
– convertible loan	800 000	800 000	800 000	800 000
– warrants	617 080	588 848	617 080	588 848
– after dilution	37 465 784	32 337 316	37 465 784	32 337 316
Earnings per share (SEK)				
– before dilution	4.91	0.37	3.47	-0.29
– after dilution	4.73	0.36	3.34	-0.27

See note 1, Definitions, for calculation method. Average published price 2005 (2004): SEK 29. 01 (21,04) Discount rate 5.75 percent

NOTE 11 INTANGIBLE ASSETS

Group	Gaming systems and gaming platforms	Gaming agreements and concessions	Trademarks	Customer-databases	Goodwill	Total
Amortized cost						
Opening balance Jan 1, 2004	6 480	12 239	0	0	42 226	60 945
Business combinations	-	8 313	-	-	-	8 313
Internally developed assets	2 658	-	-	-	-	2 658
Other investments	-	32	-	-	-	32
Closing balance Dec 31, 2004	9 138	20 584	0	0	42 226	71 948
Business combinations	14 912	-	77 261	9 090	278 456	379 719
Internally developed assets	5 671	-	-	-	-	5 671
Other investments	2 720	106	147	-	-	2 973
Exchange differences	242	-	-	-	-	242
Closing balance Dec 31, 2005	32 683	20 690	77 408	9 089	320 682	460 552
Accumulated Amortization/impairment						
Opening balance Jan 1, 2004	1 954	11 748	0	0	36 273	49 975
Amortization	1 673	1 767	-	-	-	3 440
Closing balance Dec 31, 2004	3 627	13 515	0	0	36 273	53 415
Business combinations	1 279	-	-	-	-	1 279
Amortization	4 772	2 085	4	3 787	-	10 648
Exchange differences	11	-	-	-	-	11
Closing balance Dec 31, 2005	9 689	15 600	4	3 787	36 273	65 353
Carrying amount						
Jan1, 2004	4 526	491	0	0	5 953	10 970
Dec 31, 2004	5 511	7 069	0	0	5 953	18 533
Dec 31, 2005	22 994	5 090	77 404	5 302	284 409	395 199

IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL

The cash-generating unit Cherry Online has a considerable recognized goodwill value of SEK 284.4 (5.9) million at the end of the year and the unit's recoverable value is based on its value in use. This value is the result of cash flow forecasts which in turn are based on actual operating profit and a five-year forecast based on a business plan for the same period and a budget for 2006. The cash flows for the years following 2010 have been extrapolated with an annual growth rate of 2 percent, which corresponds to an assumed future rate of inflation. Growth in the first five years is expected to be higher than sector growth as the company is a relatively new operation with scope for continued growth from its market initiatives. The projected cash flows have been discounted by 15 percent before tax.

The main assumptions used in the five-year forecast and the methods used to estimate the values are as follows:

Important variables	Method
Sales	A forecast which is based on the market plans and updated annually to reflect the actual outcome. The forecast uses previous experience and external sources of information.
Operating margin	The operating margin is largely dependent on market initiatives. Amounts are determined in the annual budget for the unit. The forecast uses previous experience and external sources of information.

The company's management does not consider that any reasonable changes in the main assumptions will result in the calculated recoverable value of Cherry Online being lower than its carrying amount.

NOTE 12 PROPERTY, PLANT & EQUIPMENT

	Group			Parent Company
	Land and buildings	Installations and gaming equipment	Total	Installations and gaming equipment
Amortized cost				
Opening balance Jan 1, 2004	873	69 227	70 100	2 753
Other investments	-	14 504	14 504	19
Disposals	-873	-8 379	-9 252	-258
Exchange differences	-	768	768	-
Closing balance Dec 31, 2004	0	76 120	76 120	2 514
Business combinations	-	339	339	0
Other investments	-	13 727	13 727	237
Disposals	-	-17 383	-17 383	-1 531
Exchange differences	-	-22	-22	-
Closing balance Dec 31, 2005	0	72 781	72 781	1 220
Accumulated depreciation/impairment				
Opening balance Jan 1, 2004	238	44 864	45 102	2 087
Disposals	-240	-7 114	-7 354	-157
Depreciation	2	9 506	9 508	204
Exchange differences	-	1 088	1 088	-
Closing balance 31 December, 2004	0	48 344	48 344	2 134
Business combinations	-	61	61	-
Disposals	-	-12 998	-12 998	-1 504
Depreciation	-	10 622	10 622	129
Exchange differences	-	-557	-557	-
Closing balance Dec 31, 2005	0	45 472	45 472	759
Carrying amount				
Jan 1, 2004	635	24 363	24 998	666
Dec 31, 2004	0	27 776	27 776	380
Dec 31, 2005	0	27 309	27 309	461

NOTE 13 TAX ON PROFIT FOR THE YEAR

Company	Reg. no.	Regd office	Holding %	Number of shares	Parent Company	
					2005	2004
Cherry Casino AB	556225-3806	Solna	100%	20 000	9 080	9 080
Cherry Casino Syd AB	556229-6730	Gothenburg	100%	20 000	4 774	4 774
Cherry A/S		Denmark	100%	1 000	9 467	9 467
Cherry A/S		Norway	35%	5 000	0	0
Casinoinvest i Sverige AB	556444-6119	Solna	100%	5 000	3 280	3 280
– Cherry Casino Norr AB	556420-9632	Umeå	100%	-	-	-
– Cherry Casino Norr KB	969615-3494	Umeå	100%	-	-	-
Cherryföretagen Casinoutrustningar AB	556205-2307	Solna	100%	6 000	812	812
First Casino AB	556443-0527	Uppsala	100%	1 000	1 000	1 000
Cherry Maritime Gaming AB	556207-4335	Solna	100%	10 000	2 907	2 907
– Secular Corporation		Liberia	55%	-	-	-
Cherry Fritidsattraktioner AB	556210-9909	Gothenburg	100%	20 000	4 454	4 454
Cherry Maritime Service Väst AB	556206-3403	Falkenberg	100%	10 000	3 561	3 561
Cherry Leisure AB	556169-9843	Solna	100%	2 500	290	290
Net Entertainment NE AB	556532-6443	Stockholm	100%	20 409 123	10 001	-
– Mobile Entertainment ME AB	556185-1758	Stockholm	100%	-	-	-
– Mil Treinta y Dos S.A.		Costa Rica	100%	-	-	-
Net Entertainment Malta Holdings Ltd		Malta	100%	10 000	19	-
– Net Entertainment Malta Ltd		Malta	100%	-	-	-
Secured Gaming Funds SGF AB	556118-8870	Stockholm	100%	-	5 577	-
Intact Technology Stockholm AB	556561-4814	Stockholm	90.1%	9 010	901	-
AB Restaurang Rouletter	556133-3153	Solna	100%	1 000	131	131
Svenska Casino AB	556560-6869	Solna	100%	1 000	100	100
GBE Holdings Ltd		Isle of Man	100%	3 656 502	649 406	-
Betsson Malta Holdings Ltd		Malta	100%	10 000	19	-
– CasinoEuro Ltd		Malta	100%	-	-	-
Betsson Ltd		UK	100%	100	2	-
Betsson Technologies AB	556651-8261	Stockholm	100%	1 000	107	-
The Open Exchange Ltd		UK	100%	100	1	-
Cherry International AB	556561-8575	Solna	100%	8 000	4 300	4 300
– Cherry Chile Limitada		Chile	0 (50)%	-	-	-
– Cherry Tivolito S.A.		Chile	0 (50)%	-	-	-
Total					710 189	44 156

<i>Changes in shares in Group companies</i>		2005	2004
Cost, 1 Jan		44 156	49 733
Betsson acquisition:			
– Reclassification from other long-term holdings		408 040	-
– Reclassification from other long-term receivables		7 433	-
– Cash payment including acquisition costs		4 291	-
– Non-cash issue		229 642	-
Intra-group disposals		-	-5 577
Intra-group acquisitions		16 589	-
Paid in share capital, new start-ups		38	-
Carrying amount, Dec 31		710 189	44 156

NOTE 14 SHARES IN ASSOCIATES

Company, Regd office	Group			Parent Company		
	Holding	2005	2004	Holding	2005	2004
Cherry A/S, Norge	35%	0	0	35%	0	0
Total		0	0		0	0

<i>Changes in shares in associates</i>	Group		Parent Company	
	2005	2004	2005	2004
Opening carrying amount	0	0	0	0
Closing carrying amount	0	0	0	0

NOTE 15 FINANCIAL INVESTMENTS

	Group		Parent Company	
	2005	2004	2005	2004
Financial investment which are non-current assets				
<i>Financial assets measured at fair value in the income statement:</i>				
– Derivatives (convertible bonds, warrants)	-	0	-	0
– Derivatives (call options)	-	0	-	0
Available-for-sale financial assets				
– Shares	-	21 605	-	20 948
Carrying amount, Dec 31	0	21 605	0	20 948
Short-term investments which are current assets				
<i>Financial assets measured at fair value in the income statement:</i>				
– Shares	0	4 098	-	-
Carrying amount, Dec 31	0	4 098	0	0

<i>Specification of holdings of financial assets and short-term investments</i>						
Company, Regd office	Holding	Group		Parent Company		
		2005	2004	Holding	2005	2004
Betware Ltd, Island	0 (4.9)%	-	457	0%	-	-
GBE Holdings Ltd, Ilse of Man	0 (17.3)%	-	20 937	0 (17.3)%	-	20 937
Aciago AB, Stockholm	10.0%	0	11	10.0%	0	11
Nordstans Casino KB, Göteborg	0 (15)%	-	200	-	-	-
Total shares which are non-current assets		0	21 605		0	20 948
Establish, Stockholm (unlisted)	0 (11.4)%	-	4 098	-	-	-
Reachin Technologies, Stockholm (unlisted)	1.1%	0	0	-	-	-
Total shares which are current assets		0	4 098		0	0

<i>Specification of changes</i>	Group		Parent Company	
	2005	2004	2005	2004
Changes in financial investments (non-current)				
Opening carrying amount	21 605	2 917	20 948	2 145
Acquisitions	-	19 003	-	18 803
Disposals	-657	-315	-	-
Shareholder contribution	2 024	-	2 024	-
Change in value in equity (OB derivative)	194 499	-	194 499	-
Change in value in income statement (derivative)	135 040	-	135 040	-
Change in value in equity (shares)	60 376	-	57 564	-
Reversal of change in value of shares on sale	-2 812	-	-	-
Reclassification to subsidiary	-408 040	-	-408 040	-
Impairment	-2 035	-	-2 035	-
Closing carrying amount	0	21 605	0	20 948
Changes in short-term investments (current assets)				
Opening carrying amount	4 098	3 723	-	-
Disposals	-4 098	-	-	-
Investments	-	553	-	-
Impairment	-	-178	-	-
Closing carrying amount	0	4 098	-	-

NOTE 16 LONG-TERM RECEIVABLES AND OTHER RECEIVABLES

<i>Long-term receivables in associates which are non-current assets</i>	Group		Parent Company	
	2005	2004	2005	2004
At end of year				
Cherry A/S, Norge	0	1 967	0	1 967
Total	0	1 967	0	1 967
Changes				
Opening carrying amount	1 967	2 981	1 967	2 981
Increase in receivable	-	208	-	208
Amortization	-234	-128	-234	-128
Impairment	-1 733	-165	-1 733	-165
Exchange differences	-	-77	-	-77
Negative net asset value	-	-852	-	-852
Closing carrying amount	0	1 967	0	1 967

<i>Other long-term receivables which are non-current assets</i>	Group		Parent Company	
	2005	2004	2005	2004
At end of year				
Debenture loan GBE Holdings Ltd (Betsson)	-	7 384	-	7 384
Debenture loan, Aciago AB	-	1 024	-	1 024
Long-term portion of licensee loan	479	749	-	-
Long-term portion of purchase price of shares in Establish	800	-	-	-
Long-term portion of deposits	336	310	-	-
Total	1 615	9 467	0	8 408
Changes				
Opening carrying amount	9 467	6 025	8 408	5 165
Debenture loan issued	1 049	3 243	1 049	3 243
Debenture loan converted to shareholder contribution	-2 024	-	-2 024	-
Debenture loan converted to shares in subsidiaries	-7 433	-	-7 433	-
Change in long-term portion of licensee loan	-270	-51	-	-
Change in long-term portion of deposits	26	250	-	-
Sale of shares, long-term part of receivable	800	-	-	-
Closing carrying amount	1 615	9 467	0	8 408

<i>Other receivables which are current assets</i>	Group		Parent Company	
	2005	2004	2005	2004
At end of year				
Short-term portion of licensee loan	5 619	6 791	-	1 228
Sale of shares, short-term portion of receivable	1 200	-	-	-
Short-term portion of deposits	2 177	100	-	-
Gaming shares	7 059	3 907	-	-
Gaming cash, small change cash	2 952	3 612	-	-
VAT	1 550	600	106	99
Other	1 398	1 721	88	420
Total	21 955	16 731	194	1 747

NOTE 17 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	2005	2004	2005	2004
Accrued gaming income	33 173	17 570	-	-
Other prepaid expenses	9 085	4 981	763	173
Total	42 258	22 551	763	173

NOTE 18 SHAREHOLDERS' EQUITY

<i>Breakdown of share capital, Parent Company</i>	2005		2004	
	No. shares	Share capital	No. shares	Share capital
Shares, series A (10 votes)	5 610 000	11 220	5 610 000	11 220
Shares, series B (1 vote)	32 448 056	64 896	25 593 726	51 187
Total shares	38 058 056	76 116	31 203 726	62 407
Convertibles B	800 000	1 600	800 000	1 600
Warrants B	710 000	1 420	710 000	1 420
Total shares after dilution	39 568 056	79 136	32 713 726	65 427

The par value of the shares is SEK 2. Both A and B shares carry the same rights. For distribution of equity, group and parent company, see note 1, pages 49–50. Reserves are shown in the statement of changes in equity, page 40.

NOTE 19 UNTAXED RESERVES, APPROPRIATIONS

<i>Parent Company</i>	2005	2004
Balance Sheet		
Tax allocation reserve, TAX 01	-	1 099
Tax allocation reserve, TAX 05	-	2 918
Accumulated accelerated depreciation	98	142
Total untaxed reserves	98	4 159
Deferred tax in untaxed reserves amounts to	27	1 165
Income Statement		
Difference between recognized depreciation and depreciation according to plan	44	30
Tax allocation reserve	4 017	-2 918
Total appropriations	4 061	-2 888

NOTE 20 INTEREST-BEARING LIABILITIES

	Group		Parent Company	
	2005	2004	2005	2004
Non-current interest-bearing liabilities				
Bank loan	9 480	848	-	-
Convertible bonds	-	3 280	-	3 280
Finance lease liabilities	207	546	-	-
Total	9 687	4 674	0	3 280
Current interest-bearing liabilities				
Overdraft facility	149	-	-	-
Short-term portion of bank loan	-	727	-	-
Short-term portion of convertible bonds	3 280	79	3 280	-
Short-term portion of finance lease liabilities	75	-	-	-
Total	3 504	806	3 280	0
Total non-current interest-bearing liabilities	9 687	7 525	-	3 280
– due between one and five years	9 687	4 674	-	3 280
– due after five years	-	-	-	-

Bank loan relates to financing of the Danish operations in local currency. The loan carries a variable interest rate which reflects current market rates. The entire amount is recognized as a non-current liability, as the loan is not being repaid at present. The issue of repayment will be discussed in August 2006.

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, 2006 at a conversion rate of SEK 4.10. Accordingly, the number of shares may increase by a maximum of 800,000.

At the time of issue, the conversion entitlement was not considered to have any independent value. In view of this, the liability is recognized at its nominal value.

NOTE 21 OTHER LIABILITIES

	Group		Parent Company	
	2005	2004	2005	2004
Other non-current liabilities				
Liabilities to minority in associates	-	2 851	-	-
Total	0	2 851	0	0
Other current liabilities				
Employees' tax	3 224	2 903	234	152
Personnel	368	288	-	-
Gaming taxes	2 738	1 910	-	-
Gaming shares to gaming locations	1 305	-	-	-
VAT	283	137	67	-
Players' accounts	12 127	2 412	-	-
Other	2 454	2 432	66	-
Total	22 499	10 082	367	152

NOTE 22 ACCRUED EXPENSES AND PREPAID INCOME

	Group		Parent Company	
	2005	2004	2005	2004
Vacation pay liability	6 361	6 013	162	215
Social security contributions	5 331	5 083	222	190
Payroll tax	1 174	915	260	97
Location charges	2 758	5 449	-	-
Accrued wages and salaries	4 114	3 528	910	186
Other	5 450	3 190	3 315	1 359
Total	25 188	24 178	4 869	2 047

NOTE 23 PLEDGED ASSETS RELATING TO COMPANY'S OWN LIABILITIES

	Group		Parent Company	
	2005	2004	2005	2004
Bank balances	-	2 217	-	-
Chattel mortgages	-	-	-	-
Total	0	2 217	0	0
Chattel mortgages in own custody	46 700	46 700	35 600	35 600

NOTE 24 CONTINGENT LIABILITIES

	Group		Parent Company	
	2005	2004	2005	2004
Personal guarantees and contingent liabilities for subsidiaries	-	-	11 241	3 872
Other personal guarantees and contingent liabilities	-	1 733	-	-
Total	0	1 733	11 241	3 872

NOTE 25 TRANSITION TO IFRS 2005

This financial report is the group's first to be prepared in accordance with IFRS, as described in note 1, Accounting Policies.

The accounting policies listed in note 1 have been applied in preparation of the group's financial statements for 2005 and for the comparison year 2004, and for the group's opening balance on January 1, 2004. However, the group has taken advantage of the exemption provision in IFRS 1 and will only apply IAS 32 and 39 from 2005.

The effects of the transition to IFRS on the group's position and earnings is shown in the following tables and explanations.

<i>Income statement</i>	<i>Note</i>	Results full year 2004		
		Swedish GAAP	IFRS Adjustment	IFRS
Revenues				
Revenues from gaming operations		303 857		303 857
Capitalized work for own use	<i>F</i>	2 658	-2 658	0
Other operating income		4 632		4 632
Total		311 147	-2 658	308 489
Operating expenses:				
Capitalized work for own use	<i>F</i>	-	2 658	2 658
Operating expenses from gaming activities		-134 612		-134 612
Other external expenses		-42 664		-42 664
Personnel expenses		-104 328		-104 328
Depreciation/amortization	<i>A</i>	-14 472	1 524	-12 948
Other operating expenses		-40		-40
Total operating expenses		-296 116	4 182	-291 934
Operating profit		15 031	1 524	16 555
Net finance income/expense				
Finance income		1 961		1 961
Finance expense		-2 048		-2 048
Total net finance income/expense		-87	0	-87
Profit before tax		14 944	1 524	16 468
Minority share	<i>B</i>	-717	717	0
Tax		-4 397		-4 397
PROFIT/LOSS FOR THE YEAR		9 830	2 241	12 071
Attributable to:				
Equity holders of the parent				11 354
Minority interest				717
Profit/loss for the period				12 071

<i>Balance sheet</i>	<i>Note</i>	Opening balance Jan 1, 2004			Closing balance Dec 31, 2004			Opening balance Jan 1, 2005	
		Swedish GAAP	IFRS Adjustment	IFRS	Swedish GAAP	IFRS Adjustment	IFRS	IFRS Adjustment	IFRS
ASSETS									
Non-current assets									
Intangible assets	A	10 969		10 969	17 008	1 524	18 532		18 532
Property, plant and equipment		24 998		24 998	27 776		27 776		27 776
Financial investments	C	2 917		2 917	21 605		21 605	222 943	244 548
Other long-term receivables		9 006		9 006	11 434		11 434		11 434
Deferred tax assets		2 437		2 437	1 857		1 857		1 857
Total non-current assets		50 327	0	50 327	79 680	1 524	81 204	222 943	304 147
Current assets									
Consumables		2 368		2 368	2 420		2 420		2 420
Tax assets		1 306		1 306	1 091		1 091		1 091
Trade receivables		3 117		3 117	3 640		3 640		3 640
Prepaid expenses and accrued income		10 372		10 372	22 551		22 551		22 551
Other receivables		17 015		17 015	16 731		16 731		16 731
Short-term investments		3 723		3 723	4 098		4 098		4 098
Cash and cash equivalents		31 807		31 807	19 847		19 847		19 847
Total current assets		69 708	0	69 708	70 378	0	70 378	0	70 378
TOTAL ASSETS		120 035	0	120 035	150 058	1 524	151 582	222 943	374 525
EQUITY AND LIABILITIES									
Equity									
Share capital	E	61 227		61 227	62 407		62 407		62 407
Other paid-in capital		-	40 042	40 042	51 618		51 618		51 618
Reserves	C	29 403	-29 403	0	-394		-394	222 943	222 549
Retained earnings incl. profit for year	A	-14 803	-10 639	-25 442	-15 612	1 524	-14 088		-14 088
Equity attributable to equity holders of the parent		75 827	0	75 827	98 019	1 524	99 543	222 943	322 486
Minority interest	B		2 164	2 164		1 758	1 758		1 758
Total equity		75 827	2 164	77 991	98 019	3 282	101 301	222 943	324 244
Minority interest	B	2 164	-2 164	0	1 758	-1 758	0		0
Provisions	D	666	-666	0	1 982	-1 982	0		0
Non-current liabilities									
Non-current interest-bearing liabilities		5 417		5 417	4 674		4 674		4 674
Other non-current liabilities		123		123	2 851		2 851		2 851
Deferred tax liabilities	D	-	666	666	-	1 982	1 982		1 982
Total non-current liabilities		5 540	666	6 206	7 525	1 982	9 507	0	9 507
Current liabilities									
Current interest-bearing liabilities		936		936	806		806		806
Advance payments from customers		657		657	165		165		165
Trade payables		3 005		3 005	3 203		3 203		3 203
Tax liabilities		0		0	2 340		2 340		2 340
Other liabilities		8 119		8 119	10 082		10 082		10 082
Accrued expenses and deferred income		23 121		23 121	24 178		24 178		24 178
Total current liabilities		35 838	0	35 838	40 774	0	40 774	0	40 774
TOTAL EQUITY AND LIABILITIES		120 035	0	120 035	150 058	1 524	151 582	222 943	374 525

A. IFRS 3, Business Combinations, involves changes in the method of accounting for corporate acquisitions and prohibits the amortization of goodwill. Business combinations prior to Jan 1, 2004 have not been restated.

For Cherryföretagen, application of IFRS 3 means that the profit for 2004 increases by 1,524, due to goodwill amortization which arose from the acquisition of Net Entertainment in 2000 ceasing from January 1, 2004. The goodwill which arose from the acquisition of First Casino AB at the end of 1999 and was amortized over five years has been identified as an acquired gaming agreement. The useful life of gaming agreements has been defined as five years, and consequently the goodwill amortization of SEK 179 thousand 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.

For Cherryföretagen, application of IAS means that the minority shares of the jointly owned operations in the Mediterranean and in Chile are included in equity and affect the profit for the year.

C. IAS 32 and 39, regarding financial instruments, are applied from 2005, and the comparative figures for 2004 have not been restated, in accordance with the transitional provisions.

Shares which are not shares in subsidiaries or associates are classified as available for sale. Measurement is at fair value, with the change in value recognized directly in equity until the asset is sold or a permanent impairment loss is identified, which is then recognized in the income statement.

For Cherry, this application means that the group's shares in the unlisted Icelandic company Betware Ltd are measured at the price paid in the most recent transaction, which adjusts the fair value by SEK 2,812 thousand.

Betsson's valuation, carried out 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 estimate of the value at the beginning of 2005 was made on the basis of the share price increases in similar listed companies up to the

date of the valuation. This estimate indicated a value of SEK 350 million for Betsson at the end of 2004.

The group's holding in GBE Holdings Ltd (Betsson) at the beginning of 2005 was measured at fair value based on the above information and resulted in a fair value adjustment of SEK 25,632 thousand.

Holdings of compound financial instruments (convertible bonds) 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 application means that the warrants and call options the group held in GBE Holdings Ltd at the beginning of 2005 were measured at fair value on the basis of the above information regarding shares, which resulted in a fair value adjustment of SEK 194,499 thousand.

D. Under Swedish GAAP, provisions were a separate part of the balance sheet. Under IFRS they are reported in liabilities. This necessitated a reclassification in the balance sheet, although there was no net effect on the balance sheet and no effects on the income statement.

E. Under Swedish GAAP, equity was divided into restricted and unrestricted reserves, with the unrestricted reserves being available for distribution as dividends. IFRS does not make this distinction. SEK 40,042 thousand of the restricted reserves reported under Swedish GAAP (excluding share capital) have, following an analysis of their origin as at January 1, 2004, been allocated to paid-in capital (from equity holders of the parent, while the remainder has been allocated to retained earnings).

Translation differences relating to investments in foreign operations are reported as a separate item in equity under IAS 21. Cherry has elected to zero the accumulated translation differences at January 1, 2004, as allowed in the transitional provisions in IFRS 1.

F. Enligt svenska regler redovisades aktiverat arbete för egen räkning bland intäkterna enligt årsredovisningslagens uppställningsschema. Enligt IFRS skall dessa istället reducera kostnaderna. Detta har inneburit en omflyttning i resultaträkningen, men ingen nettoeffekt på redovisade resultat eller den finansiella ställningen.

PROPOSED ALLOCATION OF PROFIT

DIVIDEND

The Board of Directors proposes to the Annual General Meeting of Shareholders on May 15, 2006 that no cash dividend be paid.

PROPOSED ALLOCATION OF PROFIT

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

Net profit for financial year 2005	125,174,126
Retained earnings	24,464,753
	<hr/>
	149,638,879

The Board proposes that SEK 149,638,879 be carried forward.

The 2005 annual report and consolidated financial statements for Cherryföretagen AB (publ) were approved for publication by the Board of Directors on February 16, 2006. The Board proposes that the 2005 annual report and consolidated financial statements be adopted by the annual general meeting on May 15, 2006.

The annual report has, to the best of our knowledge, been prepared in accordance with good accounting practice for listed companies. The disclosures contained in the report provide a true reflection of actual conditions and nothing of material significance has been omitted which would affect the picture of the company created by the annual report.

Stockholm, February 16, 2006

John Wattin
Chairman of the Board

Per Hamberg

Anders Holmgren

Anna-Carin Månsson

Patrick Svensk

Ragnar Thorisson

Pontus Lindwall
President and CEO

My audit report was submitted on April 10, 2006

Gunnar Liljedahl
Authorized Public Accountant
Ernst & Young AB

AUDIT REPORT

TO THE ANNUAL GENERAL MEETING OF CHERRYFÖRETAGEN AB (PUBL)

I have audited the annual report, consolidated financial statements, accounting records and administration of the Board of Directors and Chief Executive Officer of Cherryföretagen AB (publ) for the year 2005.

The financial statements and the administration of the company are the responsibility of the Board of Directors and the CEO. The Board and CEO are also responsible for ensuring that the accounts are prepared in accordance with the Swedish Annual Accounts Act, and that International Financial Reporting Standards (IFRS) as adopted by the EU are applied when preparing the consolidated accounts. My responsibility is to express an opinion on the annual report, the consolidated financial statements and the administration of the company 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 consolidated financial statements are free of material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. An audit also includes assessment of the accounting policies used and their application by the Board of Directors and CEO, evaluation of critical estimates made by the Board and CEO in preparing the annual accounts and consolidated financial statements, and the overall presentation of information in the annual accounts and financial statements. As a basis for my (our) opinion concerning discharge from liability, 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 CEO, and whether they have in any other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and thus provide a true and fair view of the company's financial performance and position in accordance with generally accepted accounting principles in Sweden. The consolidated financial statements have been prepared in accordance with the Annual Accounts Act and International Financial Reporting Standards (IFRS) as adopted by the EU and thus provide a true and fair view of the Group's financial performance and position. The Board of Directors' Report is consistent with the other parts of the annual report and the consolidated financial statements.

I recommend that the Annual General Meeting adopt the income statements and balance sheets of the Parent Company and Group, that the profit in 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 CEO be discharged from liability for the financial year.

Stockholm, April 10, 2006

Gunnar Liljedahl
Authorized Public Accountant
Ernst & Young AB

ADDRESSES

STOCKHOLM (HO)

Cherry
Net Entertainment
Betsson Technology
Birger Jarlsgatan 57 B
113 56 Stockholm
Tel +46 8-506 403 00
Fax +46 8-735 57 44

UMEÅ

Cherry
Kungsgatan 37
903 25 Umeå
Tel +46 90-12 57 30
Fax +46 90-13 37 13

MALTA

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

GOTHENBURG

Cherry
Furstenbergsgatan 4
416 64 Gothenburg
Tel +46 31-80 15 55
Fax +46 31-80 29 99

DENMARK COPENHAGEN

Cherry
Rugvænget 21 E
DK-2630 Taastrup
Tel +45 4 371 5022
Fax +45 4 371 5026

MALTA

Betsson Malta Holdings Ltd
CasinoEuro Ltd
G.B. Building
Watar Street
Ta'Xbiex

MALMÖ

Cherry
Stenxegatan 21 O
213 76 Malmö
Tel +46 40-93 09 30
Fax +46 40-93 85 94

DENMARK JUTLAND

Cherry
Dalsagervej 19
DK-9850 Hirtshals
Tel +45 9 894 5022
Fax +45 9 894 5540

UK

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

SOLNA

Cherry
Södra Långgatan 23
169 59 Solna
Tel +46 8-514 969 40
Fax +46 8-514 969 59

COSTA RICA

Mil Treinta y Dos S.A.
Apto 4315-1000
San Pedro, San José
Tel +506 224 5854
Fax +506 234 9204



Betsson.com and CasinoEuro.com are two of Europe's leading gaming sites