

# CORPORATE GOVERNANCE

**This Corporate Governance Report has not been subject to review by the Company's auditors.**

Net Entertainment NE AB is a Swedish public limited liability company with securities quoted on the NASDAQ OMX Stockholm Stock Exchange. Net Entertainment's corporate governance is therefore based on Swedish regulations and Swedish legislation. The rules and regulations comprise the Swedish Companies Act, the Swedish code for corporate governance (the Code), the listing requirements of NASDAQ OMX Stockholm as specified in "Regulations for issuers" and the Company's own internal instructions and policies.

The Swedish Companies Act provides a regulatory framework for the organisation of a public limited liability company. The Code is intended to provide guidance on sound corporate governance principles and support the legislation in a number of areas where it places higher demands. However, the Code makes it possible for companies to deviate from the provisions of the Code provided that each deviation can be explained as leading to better corporate governance (based on the principle of 'comply or explain').

With effect from 1 July 2008, the Code applies to all Swedish companies whose shares are listed for trading on a regulated market. Transition rules that apply to the companies that were not affected by the requirements of the Code prior to 1 July 2008, as is the case for Net Entertainment, state that the Code must be applied as soon as possible and no later than on the date of the first Annual General Meeting, which is held after 1 January 2009. Net Entertainment will commence application of the Code no later than on the date of its 2009 AGM. If a company finds any rule or recommendation inappropriate to the special circumstances of the company, it may depart from best practice provided it can explain and justify the reasons for such departure.

## ANNUAL GENERAL MEETING

The Annual General Meeting is the ultimate decision making body of Net Entertainment. The Annual General Meeting must be held within six months after the end of each financial year. The Annual General Meeting approves the annual report for the financial year, elects the Board of Directors and auditors and considers other formal issues. An extraordinary general meeting can be held if so demanded.

Shareholders are entitled to attend a meeting provided they are recorded in the register of shareholders maintained by Euroclear Sweden AB (VPC AB) on the date decided by the Board of Directors, and provided they notify the Company of their intention to attend no later than on the date decided by the Board of Directors.

Each Series A share gives an entitlement to ten votes and each Series B share gives an entitlement to one vote.

\*The term "major shareholders" refers to shareholders with more than 10 percent of the voting power or the Company's capital stock

## NOMINATING COMMITTEE

The Annual General Meeting held on April 10, 2008, passed a resolution to establish a Nominating Committee to prepare proposals for the following Annual General Meeting concerning the election of the members of the Board. The Nominating Committee shall consist of not less than three members and shall represent Net Entertainment's larger shareholders. In October 2008, Per Hamberg (representing the Hamberg and Kling families) and Martin Larsson (representing the Eriksson, Lundström and Knutsson families and himself) were elected, together with Rolf Blom, the Chairman of the Board of Directors, as members of the Nominating Committee for the 2009 AGM. The chairman of the Nominating Committee is Per Hamberg.

## BOARD OF DIRECTORS

The Board of Directors is the Company's final decision making body in the period between the Annual General Meetings.

### Work of the Board of Directors

Net Entertainment's Board of Directors plays a strategic management role and is responsible for ensuring that the executive management implements the strategies and decisions of the Board. The Board of Directors also has a control function and a responsibility to provide information that gives the market an accurate picture of the Company and its financial position.

The work of the Board of Directors involves setting goals and strategies, establishing business and marketing plans for each year and deciding the budget for the following financial year. In addition, the Board of Directors reaches decisions concerning key policies and agreements, major investments and forecasts.

The Board of Directors works according to a written set of procedures, which determines the frequency and agenda of Board meetings, the circulation of material for meetings and matters to be brought to the Board for decisions. It also regulates the division of responsibility between the Board, the Chairman of the Board and the CEO. It also defines the authority of the CEO. The Chairman of the Board prepares the Board meetings together with the CEO. At each scheduled Board meeting, the CEO presents a report on the Company's financial progress.

Net Entertainment's Board of Directors consists of five elected members. All members are independent in relation to both the Company and its management and major shareholders.

At the 2008 Annual General Meeting, four members retired from the Board of Directors and four new members were elected. A new deputy member was also elected. Rolf Blom was re-elected and appointed Chairman by the Meeting. The deputy member retired from the Board of Directors in November 2008 to comply with the requirements of the Code. The Board of Directors held seven scheduled meetings and nine additional meetings in 2008. In addition to the regular items on the agenda as described above, main items

at the scheduled Board meetings in 2008 were a strategy for growth through acquisition, approval of interim reports, resolution to apply for listing of the Company's shares on the NASDAQ OMX Stockholm Stock Exchange, auditor negotiations, corporate governance matters pertaining to the implementation of the Swedish Code of Corporate Governance and tax-related matters. Main items at additional Board meetings in 2008 were chiefly related to potential acquisitions and the process surrounding the flotation of shares in the Company onto the NASDAQ OMX Stockholm Stock Exchange. The CEO, Johan Öhman, attends the Board meetings together with the Chief Financial Officer, Bertil Jungmar, who also takes the minutes of the meetings. The meetings are also attended by different executive managers to give presentations on various aspects of the business. All Board members have attended the Board meetings, with the following exceptions: Ann-Catrine Appelquist, Niclas Eriksson and Pontus Lindwall (one meeting), John Wattin (two meetings) and Michael Gottschlich (three meetings).

#### Audit Committee

In 2008, the Board of Directors established an Audit Committee comprising all five Board members. The Chairman of the Board is the Chairman of the Committee. The Company's Financial Director, Bertil Jungmar, is co-opted as a representative of the Committee and is the Committee secretary.

The Audit Committee is responsible for the quality assurance regarding the Company's financial reporting and for Net Entertainment's internal control processes. The Committee is also responsible for the Board of Director's regular communications with the Company's auditors, establishing guidelines for services to be provided by the auditors in addition to audits, evaluation of the audit work, assisting the Nominating Committee with proposals for the election of auditors and fees to auditors. Furthermore, the Committee has carried out a risk assessment on the Company's financial reporting and has drawn up a work plan for the year 2009/2010.

The Audit Committee met once in 2008 and once in February 2009. All members attended both meetings.

#### Remuneration Committee

In 2008, the Board of Directors established a Remuneration Committee comprising all five Board members. The Chairman of the Board is the Chairman of the Committee.

The Remuneration Committee deals with matters relating to remuneration and benefits to Senior Management, including the CEO. The Remuneration Committee prepares items for resolution by the Board relating to remuneration and benefits for the CEO and matters of significance for all senior executives. The Committee decide on remuneration matters concerning other senior executives and on matters of lesser importance. The Board of Directors also decide on matters of major significance concerning remuneration

for senior executives and the salary of the CEO. In 2007, the Board of Directors adopted a remuneration policy that was presented to and approved by the Annual General Meeting. This remuneration policy is reviewed annually. The current remuneration policy is appended to the minutes of the Annual General Meeting. These documents are available on the Company's website.

The Remuneration Committee met once in 2008 and once in February 2009. All members attended both meetings, except for Niclas Eriksson and Michael Gottschlich who attended one meeting.

#### AUDIT

The Company's auditors are elected by the Annual General Meeting for a four-year term of office. The auditors review and examine the Company's accounts and administration for the Annual General Meeting. At the Annual General Meeting held on 10 April, 2008, Deloitte AB was elected as the Company auditors for the period extending until the 2012 Annual General Meeting. Therése Kjellberg has been appointed principal auditor.

The auditors have presented their findings from the review of the January-June 2008 Interim Report, the 2008 Annual Report and Internal Control for both the Audit Committee and the Board of Directors. The auditors also held a meeting with the Audit Committee without any members of Senior Management being present.

#### INTERNAL CONTROL

The basis for the internal control over financial reporting is the overall control environment defined by the Board of Directors and the management. A key aspect of the control environment is a clear definition of the organisational structure, decision-making processes and delegation of authority, which is presented in steering documents such as internal policies, guidelines, manuals and assessments.

#### Control environment

It is essential when planning processes to take the control environment into consideration and to carry out a risk assessment. A well-planned internal control not only provides a good basis for reliable financial reporting, it also promotes a sound and sustainable business performance, resulting in increased profitability. The development and review of internal processes in Net Entertainment is ongoing and will become increasingly important as the Company grows. A work plan for these processes has been prepared for 2009.

The delegation of authority to act is aimed at defining how the responsibility is shared across positions, and thus individuals, in the Company. The delegation of authority in the Group begins with the Board's delegation of authority to the President and CEO to assume responsibility for the operating activities. He, in turn, delegates authority to those who report to him, both directly and through the Company's established internal guidelines and manuals.

A number of policies on key areas have been written to define the

Company's internal guidelines and guidelines in relation to shareholders and other external stakeholders. These policies play a role of varying degrees in the development and maintenance of the control environment within the Company.

Some of the more significant policy documents are:

- **DIVIDEND POLICY** – specifies guidelines on distribution of dividends to the shareholders
- **POLICY ON TRADING IN COMPANY SHARES** – specifies restrictions that apply in certain situations concerning trading in Company shares by Directors and employees
- **INFORMATION POLICY** – specifies guidelines on how pronouncements may be made and by whom on behalf of the Company
- **FINANCIAL MANUAL INCLUDING FINANCIAL POLICY** – specifies how financial matters, accounts, reports, acquisitions and other transactions are carried out in the Company and explains verification and approval procedures
- **IT POLICY** – specifies how questions and resources concerning information technology are managed by the Company, e.g. technical standards, security and communication

Net Entertainment's Guidelines for Employees include a skills development policy, an equal opportunities policy, an alcohol, drugs and gambling policy, an emergency response policy and a travel policy.

#### *Instructions for the CEO*

The Board of Directors has developed and adopted a set of instructions specifying the work and responsibilities of the CEO and his duties towards the Board of Directors. Within the parameters of the Swedish Companies Act, the CEO is responsible for the Company's business plan, CEO instructions, guidelines and directions from the Board of Directors, managing and developing the Company and managing the ongoing administration of the Company's business. The CEO is responsible for ensuring that the Company's organisation operates efficiently and professionally and that the internal control is meaningful and efficient, for implementing the Company's strategy and goals, and developing and proposing qualitative and quantitative goals for the Company's different business units. In his duties towards the Board of Directors, the CEO shall regularly, and prior to each scheduled Board meeting, prepare, compile and present information requested by the Board for appraisal of the Company's financial situation, such as reports, key performance indicators, comments, proposals for business plans, marketing plans, budgets, forecasts, year-end reports and annual reports.

#### *Follow-up*

The Company follows up compliance with internal policies, guidelines, manuals and assessments and monitors how efficiently control activities are being implemented. Activities and expenses are planned and budgeted to allow regular monitoring of planned and actual performance. This involves checking the accuracy of reported results to allow for further improvements in management and planning. In a rapidly-growing company like Net Entertainment, it is essential for the development of internal control to be an ongoing process.

In companies that do not have a separate audit function (internal audit), the Board of Directors must annually assess the need of such and present its standpoint in the description of the internal control. Net Entertainment does not have a separate audit function. In the opinion of the Board of Directors, the need of such a function is limited in a company of Net Entertainment's size and the establishment of such is not justifiable from a cost point of view.

With regard to financial reporting, the Audit Committee plays a key role in helping the Board monitor the internal control.

#### *Financial reviews and reporting*

The CEO is responsible for sending a written report to the Board of Directors every month. This monthly report contains a brief description of the month's key events, income statement, financial KPIs and a written comment on the Company's performance. In addition, the Board receives documentation prior to each scheduled Board meeting.

Additional monitoring of income and expenses at different levels in the Company serve to increase the reliability of the reports.

The Board of Directors as a whole is responsible for releasing the Company's interim reports.

## NET ENTERTAINMENT GROUP ORGANISATION

