

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 shares 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. Through legislative amendments applying for all Swedish companies whose shares are traded on the Swedish regulated market and the financial year beginning after February 28, 2009, i.e. for Net Entertainment from financial year 2010, Corporate Governance Report is a legal requirement. The company's auditor will then review the corporate governance report. A legal requirement that audit committees should have an independent person with accounting or auditing skills are also introduced.

The Swedish Companies Act provides a regulatory framework for the organization 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'). 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 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.

ELECTION COMMITTEE

At the Annual General Meeting in April 2009 it was decided that the chairman Rolf Blom shall convene an Election Committee composed of one representative of each of the three largest shareholders at 31 August 2009 which, together with the Chairman of the Board shall be members of the Election Committee for the Annual General Meeting 2010. In October 2009, Per Hamberg was appointed (appointed by the Hamberg family), Lena Apler (Provobis Invest AB) and Emil Sunvisson (Kling family) as members of the Election Committee. The

Committee's term of office runs until the new committee is appointed in accordance with the decision on appointing the Election Committee for the Annual General Meeting 2010.

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 steering 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 six elected members. All members are independent in relation to the Company and its senior management and five board members to major shareholders.

At the 2009 Annual General Meeting, five members were re-elected and one new member was elected. Rolf Blom was re-elected and appointed Chairman of the Board by the Meeting. The Board of Directors held six scheduled meetings and eight additional meetings in 2009. Key points at the board meetings in 2009 have been questions regarding strategy, acquisitions, taxes, approval of business plans and budget, annual report, earnings report, interim reports and investments. In June, the board held a two-day meeting with senior management regarding strategy for continued growth and development. 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 exception of Rolf Blom and Niclas Eriksson who have not been present on one meeting each.

Audit Committee

The Board of Directors has established an Audit Committee that has since April 2009 comprised of Fredrik Erbing (Chairman), Rolf Blom and Mikael Gottschlich. Previously the Audit Committee comprised of all Board Members. The Company's CFO, Bertil Jungmar, is co-opted to the Committee and is the Committee secretary.

The Company's auditors participate in some of the committees meetings through presentations and debriefing. 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 audit services, evaluation of the audit work, assisting the Election Committee with proposals for the election of auditors and fees to auditors. Furthermore, the Committee has established an annual plan for its work, carried out a risk assessment on the Company's financial reporting, participated and evaluated the auditor's review, evaluated the internal controls and improvements performed by the company in that regard, considered the financial policy, and discussed the risks related to internal control and accounting issues.

The Audit Committee met four times in 2009. All members attended all of the meetings.

Remuneration Committee

The Remuneration Committee comprise of all six 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 decides on remuneration matters concerning other senior executives and on matters of lesser importance. The Board of Directors also decides on matters of major significance concerning remuneration for senior executives and the salary of the CEO. The Board of Directors adopted a remuneration policy that will be 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 2009 and once in February 2010. All members attended both meetings.

Instructons 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 organization operates efficiently and professionally and that the internal control is purposeful and efficient, for implementing the Company's strategy and goals, and developing and proposing qualitative and quantitative goals for the Company's 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, interim reports and annual reports.

AUDITING

The Company's auditors are elected by the Annual General Meeting for a four-year term of office. The Annual General Meeting gives the auditors the task of reviewing and examining the Company's accounts and business administration. At the Annual General Meeting in 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 auditor has presented her findings of the audit of the January-September 2009 Interim Report, the 2009 Annual Report and Internal Control for both the Audit Committee and the Board of Directors. The auditor has also met with the Audit Committee without any members of Senior Management being present.

INTERNAL CONTROL

Internal control is the process affected by the Company's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of the Company's objectives in the following respects:

- purposeful and efficient operations,
- reliable financial reporting, and
- compliance with applicable laws and regulations.

The basis for the internal control with regard to financial reporting is the overall control environment adopted by the Board of Directors and the management, which they communicate and act upon and which provides discipline and structure for other components in the control process. Internal control components include risk assessment, control activities (both general and more specific controls) aimed at preventing, detecting and correcting errors and inconsistencies, systems for internal and external information and communication, and monitoring by the Board and the management and onwards down into the organization to ensure quality throughout the process. A key aspect of the control environment is a clear definition of the organizational structure, decision-making processes and delegation of authority, which is presented in steering documents such as internal policies, guidelines, manuals and assessments.

The Board is responsible for the internal control process in accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance.

Control environment

In its development of processes, Net Entertainment has greatly considered the control environment and implementation of a risk assessment. A well-planned internal control not only provides a good basis for reliable financial reporting, it also promotes sound and sustainable business performance, resulting in increased profitability. Net Entertainment's internal processes are under continuous development and review and this process will become increasingly important as the Company grows. This is equally important for the systems that Net Entertainment develops and manages on behalf of licensees.

The Board has the overall responsibility for the internal control with regard to financial reporting. The Board has adopted a written work plan that clarifies the Board's responsibilities and regulates the internal division of duties for the Board and its committees. The Board has appointed an Audit Committee whose primary task is to ensure compliance with established principles for financial reporting and internal controls and that appropriate relations are maintained with the Company's auditors. The Board has produced and adopted instructions for the CEO and instructions for financial reporting to the Board of Net Entertainment with regard to the ongoing work on internal control that has been delegated to the CEO. The CEO, in turn, delegates authority to those who report to him, both directly and through the Company's established guidelines and manuals.

The Group's Finance department reports to the Audit Committee and to the Group's CFO and works on the development and improvement of the internal control with regard to financial reporting across the Group. This is done both proactively with a focus on the internal control environment and by monitoring how the internal control process works. In a fast-growing company like Net Entertainment, it is

CORPORATE GOVERNANCE

essential that internal control development is an ongoing process. A project was implemented in 2009 to document and further the development of processes with the aim of clarifying and strengthening the internal control process. This has also resulted in greater efficiency and reduced vulnerability. A new financial system has been implemented to facilitate reporting, analysis, planning and control. The Finance department has also been strengthened by the recruitment of more employees to ensure that the department's capabilities meet Company needs.

Internal steering documents for financial reporting primarily comprise the Group's Finance Policy, Information Policy, Finance Manual and authorization instructions that define the accounting and reporting regulations, and the Group's definition of processes and minimum requirements for good internal control regarding financial reporting. The Company has also established a policy for Trading in the Company's Shares, an IT Policy, a Dividend Policy and a Drugs and Gambling Policy.

Risk Assessment

Net Entertainment has conducted a structured risk assessment to enable identification of the significant risks that affect the internal control for financial reporting and identification of where these risks lie. Special consideration has been given to the risk of irregularities and improper favoring of another party at the Company's expense, as well as the risk of loss or misappropriation of assets. At the same time, the risk assessment has placed greater focus on key processes and positions.

Risks in connection with financial reporting are loss or misappropriation of assets, improper favoring of another party at the expense of the Company and other risks concerning material misstatements in the financial statements, for example, the accounting and valuation of assets, liabilities, revenues and expenses or non-compliance in disclosure requirements. The issues are prepared by the Audit Committee for review by the Board. A number of items have been identified in the income statement and balance sheet where there is an increased risk of material misstatement. These risks can be attributed primarily to legal areas such as regulated operations and taxes and the Company's substantial cash equivalents.

The risk assessment results in control objectives that support compliance with the fundamental requirements for the financial reports. The risk assessment is updated annually and the results are reported to the Audit Committee.

Control activities

The most significant risks identified with regard to financial reporting are managed through control structures in processes. Appropriate control activities are designed and documented at process level and include general and more detailed controls aimed at preventing, detecting and correcting errors and inconsistencies. The control activities must be designed to ensure they are implemented in the correct manner and at the correct time. General IT controls should be appropriately designed for those systems that support the processes that affect internal control with regard to financial reporting.

Areas encompassed by control activities may include:

- proper authorization of business transactions business systems that have an impact on financial reporting, including handling of vouchers
- the financial reporting process, including annual accounts and consolidated financial statements and their compliance with current and applicable rules with respect to generally accepted accounting principles, applicable legalization and regulations and listed com-

pany requirements, and also to guarantee that correct supporting documentation for decision-making is reported to the Board and management

- material and unusual or complex business transactions, as well as business transactions or valuations of assets or liabilities that include a significant element of judgment.

Information and communications

All employees concerned have access via the Company's intranet to information and communications about internal steering documents for financial reporting. Net Entertainment has information and communication channels aimed at promoting the completeness and accuracy of the information contained in the financial reports. Essential guidelines and manuals of importance to the financial reporting are updated and communicated regularly to the employees concerned. Employees are able to communicate essential information to corporate management and the Board via formal and informal channels of information. There are guidelines for external communications to ensure Company compliance with stringent requirements for correct and relevant information to the market.

Monitoring

The Board regularly analyses the information reported by the management. Monitoring includes the follow-up of monthly financial reports on budgets and targets as well as reports from Board meetings. The Company implements a process to regularly monitor and assess compliance with internal policies, guidelines, manuals and codes, and also the functionality and appropriateness of established control activities. The Audit Committee is responsible for ensuring the implementation of measures concerning weaknesses and proposals for measures that have been identified via internal control activities and the external audit.

A standing item on the agenda of the Audit Committee's meetings is a report from the Group's CFO on the results of his work on internal control. The Board is given regular reports on the results of the Audit Committee's work in the form of observations, recommendations and proposals for decisions and measures.

Internal audit

If a company does not have a dedicated audit function (internal audit), it is the responsibility of the Board of Directors to annually assess whether such a function is necessary and present its opinion in its report on corporate governance. Net Entertainment does not have a dedicated audit function. The future development and administration of the internal control system is handled in the organization. The Board does not consider it necessary to establish a dedicated internal audit function.

Organization Net Entertainment Group

