

Corporate Governance Report

Net Entertainment NE AB is a Swedish public limited liability company listed on Nasdaq OMX Stockholm. The basis for the Company's management, leadership, and control by shareholders, the Board of Directors, and the CEO are applicable external laws and rules, as well as internal regulations such as policies and instructions. The most prominent laws and regulations are the Swedish Companies Act, the Swedish Code of Corporate Governance ("the Code"), Nasdaq OMX Stockholm's listing requirements as specified in "Rules for issuers". The Company has not committed any violations of the rules on the exchange where the Company's shares are admitted to trade or of generally accepted principles in the market.

Also, the Articles of Association have a central role in the corporate governance by defining the Company's name, the domicile of the Board of Directors, business direction, information concerning share capital and voting rights for shares, as well as how conversion of A-shares to B-shares may occur. The Company's Articles of Association do not contain any specific rules regarding amendments to the Articles of Association.

Due to legislative amendments, a corporate governance report is a legal requirement for all Swedish companies whose shares are traded on the Swedish regulated market and whose fiscal years begin after 28 February 2009, i.e. Net Entertainment from the fiscal year 2010. The Company's auditor shall review the corporate governance report. An additional legal requirement is that the Audit Committee shall have an independent member who also has accounting or auditing skills.

The Swedish Companies Act contains basic rules about a limited liability company's organization. The purpose of the Code is to provide guiding rules for good corporate governance and to supplement the legislation in a number of areas. The Annual Accounts Act places requirements on how corporate governance reports shall be created. The Code allows for companies to deviate from these rules if, in individual cases, it can be considered to result in better corporate governance for the company (according to the principle "comply or explain"). If a company finds that a certain rule or recommendation in the Code is not appropriate to comply with due to the company's special circumstances, the company may deviate from this rule, provided that the deviation is disclosed and justified, and that the chosen alterna-

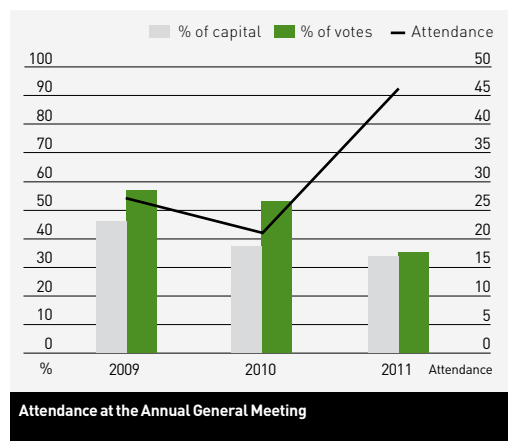
tive solution is specified. The Company follows the Code without deviations.

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is Net Entertainment's highest governing body, in which shareholders exercise their influence in the Company. The AGM has a senior position in relation to the Board and the Chief Executive Officer. To be entitled to vote for their shares at the AGM, shareholders must be recorded in the share register five work days before the meeting, including Saturdays, and announce their participation to the Company no later than the day which is stated in the summons. Shareholders who cannot attend personally can participate through a representative. Decisions at the meeting are normally made by a simple majority of votes. However, certain types of resolutions require sanction by a higher proportion of the votes and shares represented at the AGM as dictated by the Swedish Companies Act.

The AGM shall be held within six months from the end of the fiscal year. The time and place is announced in connection with the third quarter earnings report at the latest. Information on how a shareholder can have a matter raised at the meeting, and by when such a request must be received by the Company in order to make sure it is brought up in the AGM, is announced on the Company's website at the latest by the third quarter earnings report. The summons to the AGM is announced at least four weeks prior to the meeting, and will then be available on the website.

At the AGM, a presentation of the Company's develop-



ment over the past year is given, and resolutions will be made on a number of central matters. The AGM approves the annual accounts for the previous fiscal year, decides on discharge from liability for the Board of Directors and CEO, elects the Board of Directors and auditors, decides on compensation for the Board of Directors and auditor, decides how the Nominating Committee shall be appointed, and handles other formal matters such as any changes in the articles of association. Extraordinary General Meetings may be held when warranted.

Each A share carries ten votes and each B share carries one vote. Each voting shareholder in Net Entertainment may vote for the full number of owned and represented shares without limitations in voting rights.

Annual General Meeting 2011

The AGM 2011 was held on April 13 at Stockholm Konserthus. At the meeting, 34.3 percent of all votes and 34.6 percent of all shares were represented. The AGM was attended by all members of the Board of Directors, the Company's auditor, the CEO, and all other senior executives. Of the four members of the Nominating Committee, three were present.

At the AGM, resolutions were made on ordinary matters, and also on a share split and automatic redemption procedure concerning a transfer to the shareholders of SEK 2.00 per share, and authorization for the Board of Directors to decide on a new issue of at most 4,300,000 shares of series A and/or series B, with the purpose of increasing the Company's financial flexibility, as well as the ability to make payments with its own financial instruments in connection with any company acquisitions and acquisitions of businesses that the Company may transact. For more information, view the website.

The website contains all required documents for the meeting, as well as the minutes of the meeting and the Articles of Association.

AGM 2012

The AGM 2012 will take place on 18 April at Spårvagnshalarna in Stockholm at 15.00. The summons to the AGM is shown on the company's website at www.netent.com/agm, where the required documents are also available before the meeting.

Net Entertainments ten largest shareholders according to Euroclear Sweden AB at December 31 2011	Percent of capital	Percent of votes
Per Hamberg	8.9	20.9
Rolf Lundström	6.5	14.4
Lars Kling	3.3	9.4
Svenska Handelsbanken SA	1.8	7.8
Berit Anita Lindwall	1.7	6.4
EFG Bank	5.9	6.2
Banque Carnegie Luxembourg	1.0	3.8
Knutsson Holdings AB	6.6	2.9
SIX SIS AG, W8IMY	4.6	2.0
Swiss Life	4.5	2.0

Shareholdings include holdings through families and companies.

NOMINATING COMMITTEE

The AGM decides on how the Nominating Committee shall be appointed.

At the AGM in April 2011, it was decided that the Chairman of the Board of Directors, Vigo Carlund, shall convene a Nominating Committee consisting of a representative from each of the three largest shareholders as of 31 August 2011 who, together with the Chairman of the Board, shall be members of the Nominating Committee for the AGM 2012. In September 2011, Per Hamberg (appointed by the Hamberg family), Christoffer Lundström (Provobis Invest AB) and Eugen Steiner (the Kling family) were appointed as members of the Nominating Committee. Per Hamberg was appointed Chairman of the Nominating Committee. The composition of the Nominating Committee is based on the list of registered shareholders provided by Euroclear Sweden and other reliable ownership information as of the last business day in August.

The Nominating Committee has prepared a proposal to be submitted to the AGM 2012 for resolutions regarding the Chairman of the Meeting, the Chairman of the Board and other members of the Board of Directors, auditors in appropriate cases, remuneration to the Board of Directors and the auditors, as well as principles for appointment of the Nominating Committee. The Nominating Committee's mandate period runs until the new Nominating Committee is appointed in accordance with the resolution on selection of the Nominating Committee for the AGM 2012.

The composition of the Nominating Committee meets the Code's requirements for independent members.

In its work, the Nominating Committee has participated in the assessment of the Board of Directors and its work as well as the Chairman of the Board's report on the Company's activities, goals, and strategies, in order to make correct assessments concerning the composition of the Board of Directors. In addition, the Nominating Committee has analyzed the skills and experience of the members of the Board of Directors, and compared them with the needs that have been identified. The Nominating Committee has noted that the members of the Board of Directors hold a wide range of extensive experience in business activities, technology, the gaming industry and financial markets, etc. Since the Annual General Meeting 2011 the Nominating Committee has met on five occasions.

The Nominating Committee's proposal, its justified opinion on the proposed Board of Directors and supplementary information regarding the nominated members of the Board of Directors are announced in connection with the summons to the AGM and will be presented at the AGM 2012 together with a report of the Nominating Committee's work.

Members of the Nominating committee

Per Hamberg (Appointed by the Hamberg family)
Christoffer Lundström (Provobis Invest AB)
Eugen Steiner (Kling family)
Vigo Carlund, Chairman of the Board

THE BOARD OF DIRECTORS

The Board of Directors is elected by the shareholders at the AGM with a mandate period from the AGM until the end of the next AGM. The Company's Articles of Association do not contain specific provisions on the appointment and dismissal of board members. The Board of Directors manages the shareholders' interests by establishing goals and strategies for the business, evaluating the executive management and securing systems for monitoring and control of established goals. It is also the task of the Board of Directors to ensure that there is sufficient control over the Company's compliance with laws and other regulations that apply to the Company's business, that the necessary ethical guidelines are established for the Company's conduct and to ensure that the Company's communications are open, as well as accurate, relevant and reliable.

Between AGMs, the Board of Directors is the Company's highest governing body.

According to the articles of association, Net Entertainment's Board of Directors shall consist of three to nine members and no deputies. The AGM decides the exact number of members.

The members of the Board of Directors shall devote their time and attention to Net Entertainment and acquire the necessary knowledge to defend the Company and its shareholders.

At the AGM in April 2011, six members were elected: Vigo Carlund, Fredrik Erbing, Niclas Eriksson, Mikael Gottschlich, Peter Hamberg and Pontus Lindwall. For a further description of the members, refer to page 22.

All but one member are independent in relation to the Company and its management, and five members to larger shareholders. Pontus Lindwall was not independent in relation to the Company during the period April-October 2011 as he was the CEO at the Company until October 2006. The evaluation of the members of the Board of Directors' independence is based on the Code's rules, which apply from 1 February 2010.

At the Board meetings, Vigo Carlund and Peter Hamberg have been present at all meetings, Fredrik Erbing and Pontus Lindwall were absent from one meeting, Niclas Eriksson was absent from three meetings and Michael Gottschlich was absent from four meetings.

The Chairman of the Board of Directors

The Chairman of the Board of Directors is appointed by the AGM. Vigo Carlund was appointed Chairman of the Board of Directors by the AGM 2011.

The Chairman organizes the work of the Board of Directors so that it is conducted efficiently and is such that the Board of Directors fulfils its commitments. This also includes organizing and leading the work of the Board of Directors in order to create the best possible conditions for the work, ensuring that new members of the Board of Directors go through the necessary introductory training,

that the Board regularly updates and deepens its knowledge of the company, the industry, and its development, is responsible for contacts with the owners, and communicates its opinions to the Board of Directors. The Chairman also ensures that the Board of Directors receives sufficient information and support for decisions in its work and, in consultation with the CEO, establishes proposals for the agendas of Board meetings. The Chairman of the Board of Directors verifies that the Board's decisions are implemented and is responsible for ensuring that the Board of Directors' work is evaluated annually and that the Nominating Committee is informed of the evaluation. The Chairman is also a support for the CEO.

The work of the Board of Directors

The Board of Directors is regulated by the rules of procedure, in addition to laws and recommendations. The rules of procedure are established by the Board of Directors and reviewed annually through Board decisions.

The rules of procedure are divided into different sections in order to clarify and regulate the Board of Directors' work and tasks. The parts consist of the Board of Directors' rules of procedure and instructions to the CEO and Audit Committee. The Remuneration Committee is composed of the entire Board of Directors.

The rules of procedure describe which items shall be found on the agenda at each Board meeting, the annual cycle of items over the business year and the agenda for statutory Board meetings. The rules of procedure include the Board's general duties, distribution of work within the Board, how Board meetings shall be recorded and provision of information to the Board of Directors before the Board meeting and between Board meetings.

Before each Board meeting, the members receive written material about the matters to be discussed at the Board meeting. Also, each month, a monthly report is distributed containing operational and financial developments.

In 2011, the Board of Directors held 22 meetings, including the constituting meeting, four for the approval of interim reports, and ten extra Board meetings. In connection with the Board meeting in June, a strategy meeting was held, in which the executive management presented an in-depth analysis of the industry development and the proposed strategic direction for continued growth and development. This meeting was held in Sweden.

The key points at the Board meeting in 2011 were matters concerning strategy, taxes, approval of business plans and budgets, forecasts, key policies, annual report, earnings report and interim reports, recruitment of CEO and investments. Among investment matters, most notable were adaptations to various geographic markets and the investment in a Live Casino product. Other matters addressed by the Board of Directors were financial goals, vision, and mission, as well as financial policy.

Also present at the Board meetings were the CEO and

the CFO who also took the minutes for the meetings. The CEO reports on operational developments at each ordinary Board meeting and the CFO reports on financial developments. In addition, various senior executives participated in presentations on different agenda items.

At the Board meeting in February 2012, the head auditor, Therese Kjellberg, Deloitte, reported her conclusions from the audit for 2011. During the meeting, the members of the Board had the opportunity to ask the auditor questions without Company management being present.

The Chairman of the Board of Directors annually evaluates the work of the Board through a systematic and structured process with the purpose of developing the Board's work and efficiency. The Board of Directors continually evaluates the CEO's work and the Board addresses this evaluation without anyone from the Company management being present.

Attendance, meetings 2011	Board of Directors	Audit committee	Remuneration committee
Vigo Carlund	22 of 22	-	1 of 1
Pontus Lindwall	16 of 17	-	- of 1
Fredrik Erbing	21 of 22	5 of 5	1 of 1
Niclas Eriksson	19 of 22	-	1 of 1
Mikael Gottschlich	18 of 22	5 of 5	- of 1
Peter Hamberg	22 of 22	5 of 5	1 of 1

Audit Committee

The Board of Directors has established an Audit Committee which, since April 2011, has consisted of Fredrik Erbing (Chairman), Peter Hamberg and Mikael Gottschlich. CFO Maria Hedengren is an adjunct to the Committee, and functions as its secretary. The Company's auditors attend the Committee's meetings for presentations and debriefing.

The Audit Committee is responsible for monitoring and quality assurance of the Company's financial reporting. In terms of financial reporting, the Audit Committee monitors the efficiency of the Company's internal controls and risk management. The Committee keeps itself informed of the audit of the annual accounts and the consolidated financial statements and reviews and monitors the auditor's impartiality and independence and pays special attention if the auditor provides the Company with services other than auditing services. The Committee is also responsible for the Board's ongoing communication with the Company's auditors, establishing guidelines for what services may be procured by the auditors in addition to regular audits, evaluation of the audit process, counseling the Nominating Committee when preparing proposals to the auditors and audit fees. In addition, the Committee has established an annual plan for its work, an updated risk analysis for the business with special focus on financial reporting, approved the auditor's audit plan, read and evaluated the auditor's review, evaluated the internal controls and the process improvement work performed by

the Company in that regard, considered the Finance policy and discussed the risks and their connection to internal control and accounting issues. During the year, special attention has been devoted to further development of the Finance department and controller function.

The Audit Committee met five times in 2011. The auditor attended all meetings.

Remuneration Committee

The Remuneration Committee consists of all six members of the Board of Directors. The Chairman of the Board of Directors is the Chairman of the Committee. All members were independent in relation to the Company except for Pontus Lindwall during the period April-October 2011 as he was the CEO of the Company up until October 2006. During the period April-October 2011 no meetings were held in the Remuneration Committee and Pontus Lindwall did therefore not participate in any decisions where he could be considered biased.

The Remuneration Committee deals with matters concerning remuneration and benefits for senior executives, including the CEO. The Remuneration Committee prepares matters for decision by the Board concerning the CEO's remuneration and benefits, as well as matters of principle for all senior executives. The Committee makes decisions on matters of remuneration concerning other senior executives, and other matters of lesser importance. The Board of Directors also decides on matters of principle concerning remuneration to senior executives and salary for the CEO. The Board of Directors has established guidelines for remuneration to senior executives that are presented to and approved by the AGM. The guidelines for remuneration to senior executives are monitored and evaluated annually, including programs that are ongoing, and that ended during the year, for variable remuneration for the Company management. The current remuneration policy is attached to the minutes from the AGM, which is available on the website.

The Remuneration Committee met once in 2011 where all members of the Board were present except for Michael Gottschlich and once in the beginning of 2012 where all members participated.

Instructions for the CEO

The Board of Directors has prepared and established instructions regarding the CEO's tasks and responsibilities, as well as obligations to the Board of Directors. The CEO is responsible for managing and developing the Company and dealing with the ongoing management of the Company's business affairs within the framework of the Swedish Companies Act, the Company's business plan, instructions for the CEO and guidelines and instructions announced by the Board. In the internal work, the CEO shall monitor that the Company's organization is businesslike and efficient, ensure that the internal controls are effective and efficient, implement the Company's strategy

and goals and process and suggest qualitative and quantitative goals for the Company's various business units. For the Board of Directors, the CEO shall continuously and before each ordinary Board meeting create, compile, and present data that the Board of Directors requests for assessment of the Company's economic situation, such as reports, key figures and comments, proposals for a business plan, a marketing plan, budgets, forecasts, financial statements, interim reports and annual reports.

REMUNERATION TO THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

Remuneration to the Board of Directors

Remuneration to the Board of Directors is proposed by the Nominating Committee and decided by the AGM, and is paid to members of the Board of Directors who are not employed by the Company.

Monetary data regarding remuneration distributed to the Board of Directors per fiscal year is shown in note 6 on page 59.

REMUNERATION TO THE BOARD OF DIRECTORS 2009-2011, KSEK

Decided at the AGM	2011	2010	2009
Chairman of the Board of Directors	550	650	500
(including fees for assignments in foreign subsidiaries)	(-)	(100)	-
Members of the Board of Directors	220	220	200
Chairman of the Audit Committee	270	50	-

Remuneration to senior executives

In order to achieve good long-term value growth for shareholders, Net Entertainment seeks to offer its employees competitive remuneration and an attractive workplace that makes it possible to recruit and retain the right employees. For senior executives, the Board of Directors has prepared guidelines for remuneration as outlined below. The Board has, with support from the third sentence in the introduction to the guidelines, deviated from the guidelines to senior management for variable compensation of the Acting CEO for 2011. There are specific reasons for this that are related to the extended responsibilities of the role as CEO brought in, as compared to the former position.

Monetary data regarding remuneration distributed to employees and senior executives is shown in note 6 on page 59.

Guidelines adopted by the AGM 2011

These guidelines shall be applied for the CEO of Net Entertainment NE AB and other senior executives of the Company. The principles in these guidelines are relevant to employment contracts entered into after the Annual General Meeting and in such cases amendments are made in existing contracts after the Annual General Meeting. The Board

of Directors shall be able to deviate from the guidelines provided that there are special grounds in a specific case.

It is of fundamental importance for the Company and its shareholders that the principles for remuneration and other conditions of employment of senior executives from both a short-term and long-term perspective are competitive and create good conditions for retaining and motivating skilled employees and attracting new employees when needed. In order to achieve this, it is important that the Company has fair and internally balanced conditions, while maintaining market competitiveness. The employment conditions for senior executives should contain a well-balanced combination of fixed and variable salary, share-based incentive programs, retirement benefits and conditions for termination of employment.

Remuneration should be based on performance and should therefore contain a combination of fixed and variable salary such that variable remuneration constitutes an appropriately large part of the total remuneration.

The fixed salary shall be competitive, individual and shall be based on the individual's responsibility, role, skills, and experience in relevant positions.

An annual variable salary shall be measured and paid on an annual basis. The annual variable salary shall be capped at 100 percent of the fixed salary and shall be based on actual achievements in relation to the established financial and operational goals. Goals for variable salary are determined annually by the Board of Directors with regard to variable salary for the CEO and by the CEO with regard to variable salary for other people in senior management, in order to ensure that they are in line with the Company's business strategy and objectives. The conditions for variable salary shall include the minimum level of performance in relation to goals for which no variable salary is received.

In order to ensure long-term commitment, continued employment, and competitive remuneration from an international perspective, annual variable salary may be supplemented with long-term cash incentive programs with deferred payment between 12 and 24 months. Such incentive programs are used selectively and are based on objectives related to the current fiscal year. Long-term cash incentive programs require continued employment until a pre-agreed date in order for payment to be made. Long-term cash incentive programs shall be capped at 50 percent of the annual fixed salary and shall otherwise follow the same principles that apply to the Company's annual variable salary as above.

Persons within the sales organization may have variable remuneration in the form of commissions based on successful sales. In certain situations, when a particularly good sales result has been achieved, the commission may add up to an amount that exceeds 100 percent of the fixed salary. For persons with commission remuneration, the variable salary according to the two preceding paragraphs is limited to 50 and 25 percent of the fixed salary.

The Board has the right to reclaim variable pay paid on the basis of information that later proved to be evidently erroneous.

Leading employees are invited to participate in an ongoing share-based program to motivate long-term work. In order to strengthen loyalty to the Company, a share-based incentive program in the form of share option rights may be issued under competitive conditions combined with cash remuneration, which is payable in connection with the use of share option rights to employees who are still employed at the time of redemption. Such remuneration may not exceed 50 percent, net after tax, of the premium paid for the share option rights.

Retirement benefits for the CEO and other persons in the Company's management shall be competitive and shall be based on defined benefit pension plans, where the premium shall be capped at 33 percent of the pensionable salary. Other benefits, such as company car, remuneration for health insurance, etc. shall constitute a minor part of the total remuneration and shall be consistent with what is competitive.

The CEO and other individuals in the Company's management team have a notice period of six months. Other individuals in the Company's management team shall have notice periods of between three and six months. Severance pay, including dismissal pay, shall not exceed 18 months' salary.

Guidelines determined by the Board of Directors and proposed to the AGM 2012

For the AGM 2012 the Board has proposed the following changes and clarifications to the guidelines for remuneration to senior executives;

The annual variable salary shall be maximized to 50 percent of the fixed salary. Previous guidelines were maximized to 100 percent.

Persons within the sales organization may have variable compensation in the form of commission-based completed sales. Provision for sales persons can amount to a maximum of 100 percent of the fixed salary, which can be obtained through particularly good sales performance. This is not a change from previous guidelines but a clarification.

Leading employees are offered to participate in the ongoing share based incentive program in the form of a share option rights or share purchase plan issued under market conditions to motivate long term employment and promote increased community of interest with the Company's shareholders. Previous guidelines only covered share option rights in the category of share-based incentive programs. The CEO may have a notice period of no more than twelve months. Other members of the Company' management may have a notice period of no more than six months. In addition to the notice period there may be severance pay. Notice period and severance pay shall not together exceed the equivalent of a total of 18 months' salary.

AUDIT

Auditors are elected by the AGM, and review the Company's accounts and management on behalf of the AGM. According to the articles of association, Net Entertainment shall have one or two auditors. Deloitte AB were elected as auditors at the AGM in April 2008 for the period until the AGM 2012. Therese Kjellberg was appointed chief auditor. At the AGM 2012 an auditor for the period up until the AGM 2013 will be appointed.

The auditor has presented her conclusions of the synoptic review of the interim report for January - September 2011, the audit for the entire year 2011, and internal control for the audit committee and the Board of Directors. The auditor also met with the Board of Directors and the audit committee without anyone from the Company management present.

In addition to the audit, the auditor has had a limited number of other tasks for Net Entertainment. These have been audit-related services concerning accounting and reporting, and well as assisting with establishing the Company's tax returns. In the previous year, assignment relating to the initial public offering in 2009 has taken place. Remuneration to the auditor is stated in note 23 on page 63.

INTERNAL CONTROL: THE BOARD'S DESCRIPTION OF THE MOST IMPORTANT ELEMENTS IN THE COMPANY'S SYSTEM FOR INTERNAL CONTROL AND RISK MANAGEMENT REGARDING FINANCIAL REPORTING

The Board's responsibility for internal governance and control is regulated in the Swedish Companies Act the Annual Accounts Act, and the Code. In the Annual Accounts Act, it is required that the Company annually describe the Company's system for internal control and risk management regarding financial reporting. The Board of Directors has overall responsibility for financial reporting. The Board's and the committees' division of labor is regulated in the Board's rules of procedure.

The Audit Committee has an important role in preparing the Board of Directors' work to ensure the quality of financial reporting. The preparation involves matters on internal control and compliance, control of reported values, estimates, assessments and other matters that could affect the quality of the financial reports. The Committee also has continuous contact with the auditor.

Net Entertainment applies the established framework for internal control COSO (Committee of Sponsoring Organizations of the Treadway Commission). The principles of COSO consist of five interrelated components: control environment, risk assessment, control activities, information and communication and review process.

The Board of Directors' rules of procedure specify which reports and what information of a financial nature shall be distributed to the Board of Directors at each ordinary Board meeting and in between. The CEO ensures that the Board of Directors receives the reports required in

order for the Board to be able to continuously assess Net Entertainment's economic position.

The quality of the external financial reporting is ensured through a number of measures and procedures. All interim reports are subject to processing by the Board before being released, along with the earnings report and annual report. The CEO is responsible for all information provided, such as press releases, presentations for meetings with analysts, media, and owners and investors. In addition to the annual report, the auditor also reviews interim earnings report for the third quarter.

Internal control refers to the process that is influenced by the Board of Directors, the Company managements, and other staff, and is designed to provide a reasonable assurance that the goals of the Company are achieved with regard to

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

The basis of the internal controls related to the financial reporting consists of the overall control environment that the Board of Directors and the management have established and communicated. The Board of Directors and the management operate based on this, which creates discipline and structure for other parts of the process. These parts include risk assessment, control activities, including both general and more specific controls with the purpose of preventing, detecting, and correcting errors and discrepancies, systems for internal and external information and communication, and monitoring from the Board of Directors and the Company management and further down the organization in order to ensure the quality of the process. An important part of the control environment is that the organizational structure, decision making, and authority are clearly defined and communicated in the form of regulatory documents and internal policies, guidelines, manuals and valuations.

Control environment

In the development of processes, Net Entertainment has considered the control environment and the risk assessment performed. A well-designed internal control not only creates conditions for reliable financial reporting, but probably contributes to a healthy and sustainable business with greater profitability as a result. Work on the design of internal processes and monitoring of these is continuously ongoing within Net Entertainment and is becoming increasingly important as the Company grows. This is especially important regarding the systems Net Entertainment develops and operates on behalf of licensees.

The Board of Directors has prepared and established instructions for the CEO and instructions for financial reporting to the Board of Directors at Net Entertainment regarding the ongoing work with internal control that is

delegated to the CEO. In turn, the CEO delegates authority to the people that report to him, both directly and through established guidelines and manuals within the Company. The Company's corporate values are an important element here, which provides guidance for daily operations.

The Company's finance function reports to the audit committee and to the Company's Chief Financial Officer and works to develop and improve the internal control regarding financial reporting in the Company, both proactively with a focus on the internal controls environment, and by reviewing how the internal controls work. Constant development of internal controls is important for a rapidly growing company like Net Entertainment. During 2011 the work to further develop the internal control has continued. To increase clarity and to implement additional internal control activities as a natural part of the continuous work on financial reporting, a re-organization was carried out so that the areas of responsibilities between the controlling function and the accounting department were changed. The usage of the new system for time and project follow-up has also been further developed. The Group has a department with special responsibility for regulatory compliance, as well as quality and processes. Regulatory compliance in this respect also refers to industry specific regulation from gaming authorities in different countries. In 2011 a new role for security control has been recruited in this department.

Internal governance instruments for financial reporting primarily consist of the Company's Finance Policy, Information Policy, Economic Handbook, and authorization instructions that define accounting and reporting rules, as well as the Company's definition of processes and minimum requirements for good internal control regarding financial reporting. Guidelines for financial reporting are updated when there are changes in the legal requirements, listing requirements and / or accounting standards that are relevant to the Company. In addition, the Company has prepared policies regarding trading of company shares, IT and information security, dividend, drugs and gambling, and more.

Risk assessment

Risks regarding financial reporting are evaluated and monitored by the Board of Directors through the Audit Committee. Net Entertainment has implemented a structured risk assessment process in order to enable identification of the significant risks that affect the internal controls regarding financial reporting, as well as identification of the risks that exist. These risks are mainly attributed to the areas such as regulated activity, the billing process, development expenditure and taxes and the Company's significant liquid funds. During the risk assessment, particular attention has been paid to the risk of irregularities and favoritism by other parties at the Company's expense and risk of loss or misappropriation of assets. At the same time, the risk assessment has a greater focus on key pro-

cesses and items.

Matters are prepared by the Audit Committee before consideration by the Board of Directors. The risk assessment results in control goals that support the basic requirements of financial reporting being fulfilled. The risk assessment is updated annually by the Company, and the results are reported to the Audit Committee and the Board of Directors.

Control activities

The most significant risks identified regarding financial reporting are managed through the control structures of processes. Control activities are designed and documented at the process level and include both general and more specific controls with the purpose of preventing, detecting, and correcting errors and discrepancies. When designing control activities, it is ensured that they are performed correctly and on time. So-called general IT controls are designed for the system that support the processes that affect internal control regarding financial reporting. The design of processes and control activities within IT is also affected by regulations specified by the gaming authorities, such as the Lotteries and Gaming Authority of Malta (LGA), and external reviews in connection with control of such regulatory compliance. Such reviews are implemented both by certified auditing agencies for certification in relation to requirements from authorities and by the Company's external auditors. Control activities include from the review and monitoring of performance outcomes to specific account reconciliations.

Areas that are covered by control activities are, for example:

- proper authorization of business transactions
- business systems that affect financial reporting, including verification management
- the accounting process, including year-end reports and consolidated annual accounts and their compliance with applicable regulations in the form of generally accepted accounting principles, applicable laws and regulations and requirements for listed companies, but also in order to ensure proper decision making for the Board of Directors and management
- significant and unusual or complicated business transactions, as well as business transactions or valuations of assets or liabilities that contain significant elements of judgement.

Information and communication

Information and communication concerning internal governance instruments for financial reporting are available for all affected employees on the Company's internal network. Net Entertainment has information and communication channels with the purpose of promoting completeness and accuracy of financial reporting. Only a limited number of persons within the functions Finance,

IR and CEO staff have access to information that is considered confidential, such as budgets, forecasts, economic outcome reporting, Board material and compensation. Access to such confidential information is in accordance with the powers which the Company's personnel have been awarded in the organization. Important guidelines and manuals of importance for financial reporting are updated and communicated to affected employees in connection with the introduction of new employees and possible changes to all affected personnel. There are both formal and informal communication channels to senior executives and the Board of Directors for information from employees. The employees can also contact the Board of Directors via e-mail and be anonymous to senior executives if they so wish, a so-called whistle blower policy. For external communication there are guidelines for the Company with high standards for accurate and relevant information to the market. The Board of Directors annually establishes an information policy for the Company which among other things provides guidelines for contacts with analysts and media. In connection with the introduction of new employees, the employees are informed of the guidelines and laws that apply to the Company regarding for example managing insider information and trading with the Company's shares. Prior to each quarterly earnings report a reminder is sent about the share trading rules.

Review process

The Board of Directors continuously evaluates the information that the Company management provides. The review process includes both monitoring of monthly financial reports for budget and goals and reporting at Board meetings. Through the Audit Committee, the Board of Directors reviews and assesses the internal control's organization and function. The Audit Committee's work includes, among other things, ensuring that measures are taken regarding deficiencies and proposals for measures that are identified through internal control activities and the external audit. The Company's policies and instructions are evaluated and updated at least annually with regards to effectiveness and functionality or more often if needed.

The Company's CFO presents the results of the work on internal controls as a recurring point on the agenda for the Audit Committee's meetings. The results of the Audit Committee's work in the form of observations, recommendations, and proposals for decisions and measures are continuously reported to the Board of Directors.

Internal audit

According to the Code, in companies that do not have a separate review function (internal audit), the Board of Directors shall annually evaluate the need for such a function and justify the conclusion in the description of the internal control. There is no such separate review function in Net Entertainment. The responsibility for further development and management of the system for internal control oc-

curs in the organization together with existing functions for quality, processes and regulatory compliance. It is the Board of Directors' assessment that there is no need to create a separate review function due to the limited scope and complexity of the business. The extent is limited to 324 persons employed at the end of 2011 and operations mainly located in Malta and Stockholm and IT operations and development units in an additional two countries. To ensure adequate risk management, governance, ethics, quality, compliance and efficiency the finance function is used with the support from external specialists in specific

matters. The Audit Committee has a recurring point on the agenda for its meetings to get statements from the CFO on how work is progressing regarding improvement of internal controls on financial reporting and places requirements on improvements based on for example the risk analysis and dialog with the Company's auditors. Separate from the economy function a quality function exists that reports directly to the CEO and whose purpose is to ensure further development of the Company's processes regarding quality assurance, regulatory compliance and disaster management.

ORGANIZATIONAL STRUCTURE

