**Intellectual property rights**

Net Entertainment’s most important intellectual property rights mainly consist of the copyrights for the software, in particular Net Entertainment Casino™, and related materials that are developed and continue to be developed within the corporation. Therefore, it is very important that anything developed within the corporation remains Net Entertainment’s property. Through contracts with employees and consultants, it is ensured that the copyright for developed products falls to Net Entertainment. Along with Net Entertainment’s success, the Company has at various times been sued for allegedly infringing on intellectual property rights. Although the Company has not lost in any such claim, there is a risk of negative impact in the future if a court rules against the Company. Each case involves varying degrees of expenses for legal advisors. Lawsuits often lead to costs of different size for the Company in the form of for example legal fees, even if the lawsuit in the end will not lead to a court matter.

**Exchange rate fluctuations**

The corporation’s profit and financial position are exposed to exchange rate fluctuations, since most of the income is in Euros (EUR) and the majority of the expenses are in Swedish kronor (SEK). Net Entertainment’s current policy is not to hedge changes in value in exchange rates. A strengthening in the value of SEK in relation to EUR negatively impacts the Company’s profit. The fulfilment of Net Entertainment’s financial goals may be affected by future changes in exchange rates.

The Groups consolidated result, equity, assets and liabilities are also affected by changes in exchange rate when profit from foreign subsidiaries is converted to Swedish kronor for the Group’s consolidated financial reporting.

**Tax situation**

The Group’s tax expense is affected by in which country within the Group conducts operations where the profit is generated and tax laws in each respective country. Comprehensive assessments are required to be able to establish the appropriation for income tax. There are many transactions and calculations where the final tax is uncertain at the time when the transactions and calculations are implemented. With the help of legal experts, Net Entertainment has assessed how tax regulations affect the business in order to ensure a correct tax situation. This also applies to indirect taxes. Net Entertainment reports and pays to the tax authorities the amount of tax that Net Entertainment and hired external experts consider correct. However, these figures may prove to be inadequate in the event that the tax authorities do a different interpretation of the tax rules than the assessment Net Entertainment has made and believes is correct.

**ANNUAL GENERAL MEETING**

After a tax audit in Net Entertainment NE AB concerning fiscal years 2007–2010, the Swedish Tax Agency has announced its decision to impose additional taxes on Net Entertainment in the amount of approximately 92.1 MSEK.

The Swedish Tax Agency states in its decision that the transfer pricing that has been applied between the Swedish-based parent company Net Entertainment NE AB and the Malta-based operations is not motivated. Thus, the Swedish Tax Agency gives certain agreements between companies within the Net Entertainment Group a different legal interpretation and economic substance than what Net Entertainment and its expert advisors do. Net Entertainment disputes the assessment that the Swedish Tax Agency has done and consequently also the amounts as it relates to the income tax adjustment and the tax surcharges. Net Entertainment insists that it has followed applicable laws for taxation of its operations, which is also supported by the external experts that the Company has consulted on the subject.

The Company has initiated an appeal of the Swedish Tax Agency’s decision. Net Entertainment does not currently see grounds to make a provision in the accounts for possible tax related to this matter. The amount of SEK 92.1 million is reported as a contingent liability for 2012. View note 27.

**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.

The Articles of Association of the Swedish limited liability companies act as a legal basis. The Code and the 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 supplementing 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 in regards 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 alternative 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 one’s shares at the AGM, a shareholder must be recorded in the share register five days before the meeting and announce their intention to participate in 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 after the end of the fiscal year. 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. A 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 development over the past year is held, 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 nomination 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 2013

The AGM 2013 will take place 25 April at Spårvagnshal- larna in Stockholm at 15.00. Summaries 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.

NOMINATING COMMITTEE

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

At the AGM in April 2012, 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 December 2011, together with the Chairman of the Board of Directors. The Chairman of the Board of Directors is appointed by the Nominating Committee for the AGM 2013. In September 2012, Per Hamberg (represented by the Hamberg family), Christerstef Lundstrom (Proinvest AB) and Martin Watin (the Kling family) were appointed as members of the Nominating Commit-tee. 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 2013 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 2013.

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 chairing the Board of Directors’ report on the Chairman of the Board of Directors’ and the CEO’s activities, goals, and strategies, to make correct assessments concerning the composition of the Board of Directors. In addition, the Nominating Committee has analysed 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 held a wide range of extensive experience in business activities, technology, the gaming industry, financial markets as well as from different geographical markets. Since the Annual General Meeting 2012 the Nominating Committee has met on two occasions. The Nominating Committee’s proposal, its justified opinion to proposed Board of Directors, and supplement-ary information regarding the nominated members of the Board of Directors are announced in connection with the summaries to the AGM, and will be presented at the AGM 2013 together with a report of the Nominating Committee’s work.

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 ap-pointment and dismissal of board members. The Board of Directors manages the shareholders’ interests by es-tablishing goals and strategies for the business, evalu-ating 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 es-tablished and followed, and to ensure that the Company’s communications are open, as well as accu-rate, relevant, and reliable.

Betrue ABGM, the Board of Directors is the Com-pany’s highest governing body. According to the articles of association, Net entertain-ment’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 ac-

quire the necessary knowledge to defend the Company and its shareholders.

At the AGM in April 2012, seven members were elected to the Board of Directors, as follows: Fredrik Erbing, Maria Redin, Mikael Gottschlich, Peter Hamberg, Michael Knutsson and Pontus Lindwall. For further description of the members, refer to page 41.

All but one member is independent in relation to the Company and its management, and six members to larger shareholders. Pontus Lindwall is not independ-ent in relation to the Company as he is the Chairman of the Board of Directors, customer and previous parent company of Net Entertainment. 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, Peter Hamberg, Fredrik Erbing and Maria Redin have been present on all meetings, Pontus Lindwall was absent from one meet-ing and Michael Knutsson och Mikael Gottschlich were absent from three meetings each.

The Chair 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 2012.

The Chairman organizes the work of the Board of Di-rec-ctors so that it is conducted efficiently, and such that the Board of Directors fulfills their commitments. This also includes organizing and leading the work of the Board of Directors in order to create the best possible conditions for the Board to accomplish its duties. The Chairman ensures that the Board of Directors receive sufficient information and support for decisions in its work, and, in consultation with the CEO, establishes proposals for the agendas of the Board meet-ings. The Chairman of the Board of Directors verifies that the Board’s decisions are implemented, and is respon-sible for 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 governed by the Board’s Rules of procedure, in addition to laws and recommendations. The Rules of procedure are established by the Board of Di-rec-tors and reviewed annually through Board decisions. The Rules of procedure are divided into different sec-tions in order to clarify and regulate the Board of Direc-tors’ 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 appointed by the Board of Directors, with competencies to make proposals concerning the Board of Directors and the CEO’s remuneration.

The Rules of procedure describe what items shall be found on the agenda at each Board meeting, the annual cycle of items over the business year, and the business 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 provi-sion of information to the Board of Directors before the Board meeting and between Board meetings.

Befor each Board meeting, the members received de-tailed documentation about the matters to be discussed at the Board meeting. Also, each month, a monthly report is distributed containing operational and financial devel-opment.

In 2012, the Board of Directors held 14 meetings, in-cluding the constituting meeting, three for the approval of interim reports, and four extra Board meetings. In con-nec-tion with the Board meeting in June, a strategy meet-ing was held, in which the executive management pre-sented 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 2012 were mat-ters concerning strategy, taxes, the development of the euro currency and contingency planning in relation to the same, approval of business plans and budgets, forecasts, key policies, annual report, earnings report and interim reports and investments. Examples of investment mat-ters includes adoptions to various ongoing projects, and the investment in a Live Casino product and evalua-tion of a new ERP system. Other matters addressed by the Board of Directors were financial goals, vision, and mission, as well as financial policy. On one occasion the Board held meeting in Malta, where an important part of the Company’s business is located, where the Board also visited the Malta Lotteries and Gaming Authority (LSA). Also present at the Board meetings are the CEO and the CFO who also took the minutes for the meetings. The CED reports on the operational development at each ordi-nary Board meeting, and the CED reports on the finan-cial development. In addition, various senior executives participated in presentations on different agenda items.

At the Board meeting in February 2013, the head audi-tor, Therese Kjellberg, Deloitte, reported her conclusions from the audit for 2012. During the meeting, the mem-bers of the Board had the opportunity to ask the auditor questions without Company management being present.

The Chairman of the Board of Directors annually eval-uates 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
Remuneration to the board of directors

2010-2012, SEK thousand

Chair of the AGM

Decided at the AGM

2012

2011

2010

Chairman of the Board of Directors

580

550

650

(Chairman of Audit Committee)

300

270

270

Members of the Board of Directors

240

220

220

Guidelines adopted by the AGM 2012

These guidelines shall be applied for the CEO of Net Entertainment and other senior executives of the Company. The principles in these guidelines are relevant for 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 personal and a business perspective shall be applied. 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 of termination of employment. Remuneration should be based on performance, and share options should be included in the total remuneration. The fixed salary shall be competitive, individual, and based on the individual’s responsibility, role, skills, and experience in relevant positions.

Remuneration to the board of directors

Remuneration to the board of directors constitutes of all seven 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 as he is the Chairman of the Board of Directors of the Group at Net Entertainment. Pontus Lindwall did however 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 presented 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 twice in 2012 and once during early 2013 where all members of the Board were present.

Instructions for the CEO

The Board of Director 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, implement the Company’s strategy and business plan, marketing plan, budgets, forecasts, financial statements, interim reports, and annual reports.

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 decided to members of the Board of Directors who are not employed by the Company.

Monetary data regarding remuneration distributed to employees and senior executives is shown in note 6 on page 63.

Retirement benefits for the CEO and other persons in the Company’s management shall be competitive and shall be based on defined contribution 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 be consistent with market conditions.
The CEO can have a maximum notice period of twelve months. Other persons in the Company’s senior management can have a notice period of maximum six months. In addition to notice period, both are entitled to severance pay and cur. Salary during notice period and severance pay in total shall however not exceed equivalent to 18 months’ salary.

Guidelines determined by the Board of Directors and proposed to the AOG 2013

For the AOG 2013 the Board has proposed the following changes to the guidelines for remuneration to senior executives;

The 2012 remuneration guidelines states that persons within the sales organization may have variable compen-sation in the form of commission based completed sales. Provision for sales persons can work to ensure the quality of 100 percent of the fixed salary, which can be obtained through particularly good sales performance. For the An-nual General Meeting 2013 it is proposed that this section on commission based remunerations to sales men is removed since the main purpose of the guidelines is to give encouragement to senior executives and also to remove any possible incentives for the sales men to delay contract negotiations if the current financial year cap has been reached. No other changes to the guidelines will be proposed.

AUDIT
Auditors are elected by the AOG, and review the Com-pany’s accounts and management on behalf of the AOG. According to the articles of association, Net Entertain-ment may use one or two auditors. Deloitte AB  was elected as auditors at the AOG in April 2012 for the pe-riod until the AOG 2013. Therese Kjellberg was appointed chief auditor. On the AOG 2013 auditor is elected for the period up until the AOG 2014 will be appointed.

The auditor has presented her conclusions of the syn-optic review of the interim report for January - Septem-ber 2012, the audit for the entire year 2012, and internal control for the audit committee and the Board of Direc-tors. 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 such as assistance with setting up Net Entertainment’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 67.

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 Ac-counts Act, it is required that the Company annually de-scribes the Company’s system for internal control and risk management regarding financial reporting. The Board of Directors has overall responsibility for financial report-ing. The Board of Directors and the board’s committee’s division of labour is regulated in the Board’s rules of procedure. The Audit Committee has an important role in prepar-ing the Board’s annual report. The committee clearly defines and commun-micated in the form of regulatory documents and internal policies, guidelines, manuals, and valutations.

Central environment

In the development of processes, Net Entertainment has considered the central environment and the risk assess-ment 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 be-coming increasingly important as the Company grows. This is especially important regarding the systems Net Entertain-ment develops and operates on behalf of licensees. The principles of COSO is applied with 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 information of a financial nature shall be distributed to the Board of Directors at each or-dinary Board meeting, and in between. The CEO ensures that the Board of Directors receives in a timely manner, and is updated with timely information and guidance the board and the management are responsible for. The Board of Directors’ rules of procedure specify which reports and information of a financial nature shall be distributed to the Board of Directors at each or-dinary Board meeting, and in between. The CEO ensures that the Board of Directors receives in a timely manner, and is updated with timely information and guidance the board and the management are responsible for. The Board of Directors’ rules of procedure specify which reports and information of a financial nature shall be distributed to the Board of Directors at each or-dinary Board meeting, and in between. The CEO ensures that the Board of Directors receives in a timely manner, and is updated with timely information and guidance the board and the management are responsible for. 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Competence development within the Finance depart-ment is conducted continuously as well as review of the organization. An example of this is the expansion of the Finance department in Malta during 2012. The Group has a department with special responsibility for regulatory compliance, as well as quality and processes. Regula-tory compliance in this respect refers to industry specific regulation from gaming authorities in different countries.

Internal governance instruments for financial report-ing primarily consist of the Company’s Finance Policy, Information Policy, Economic Handbook, and authorisa-tion 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 re-porting 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. The Company also has a process for background screening of new staff before employing them.

Risk assessment

Risks regarding the financial reporting are evaluated and monitored by the Board of Directors through the Audit Committee. The Committee has the task of identifying and assessing risk associated with the financial reporting process. There is a structured risk process in place to en-able 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 favouritism by third parties in addition to 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 processes and items.

Matters are prepared by the Audit Committee before consideration by the Board of Directors. The risk assess-ment results in control and risk management guidelines that support the basic requiremens of internal control. In addition, the Company has prepared policies regarding trading of company shares, IT and information security, dividend, drugs and gambling, and more. The Company also has a process for background screening of new staff before employing them.

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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 supports the processes that affect internal control regarding financial reporting. In the Operations department, the casino system is supervised 24 hours seven days a week. Anomalies and changes in gaming patterns are investigated. 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 (LDA), Alderney Gambling Control Commission (AGCC) 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 the review and monitoring of performance outcomes for specific account reconciliations.

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

- Proper authorization of business transactions
- Business systems that affect the financial reporting, including verification management
- The accounting processes, 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 about 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, HR 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 has been awarded in the organization. Important guidelines and manuals of importance for the financial reporting is updated and communicated to affected employees in connection with introduction of new employees and on 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 also can contact the Board of Directors via e-mail and be anonymous to senior executives if they so wish, as 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 the 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 annually or more often as needed. The Company’s CFO presents the results of the work with internal controls as a recurring point on the agenda for the Audit Committee’s meetings. The results of the Audit Committee’s work is 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 occurs 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 403 persons employed at the end of 2012 and operations mainly located in Malmö, Stockholm and business is also conducted in Kiev, Ukraine, in Gibraltar and in Alderney. 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 the work is progressing regarding improvement of internal controls over the financial reporting and places requirements on improvements based on for example the risk assessment and adapt with the Company’s auditors. Moreover, the Company has a compliance department who reports their observations on a regular basis directly to the CEO and who also meet with the Audit Committee minimum once year without the Company’s management present. The compliance department’s purpose is to ensure continuous improvement of the Company’s processes and routines for industry specific regulatory compliance and routines to prevent money laundering.

NET ENTERTAINMENT CORPORATE GOVERNANCE MODEL

The share

The share capital in Net Entertainment amounts to SEK 1,190,566.85 divided into 5,510,000 shares of series A, with ten votes per share, and 33,943,716 shares of series B, with one vote per share. Owners of shares of series A have the right to convert one or more shares of series A to shares of series B, through written request to the Board of Directors, within the framework for the maximum number of votes corresponding to the number of shares of series A, corresponding to the number of votes corresponding to the number of shares of series A, or 100,000 shares of series B, or 100,000 shares of series B.

Corporate Governance Report