

# 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 does 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.

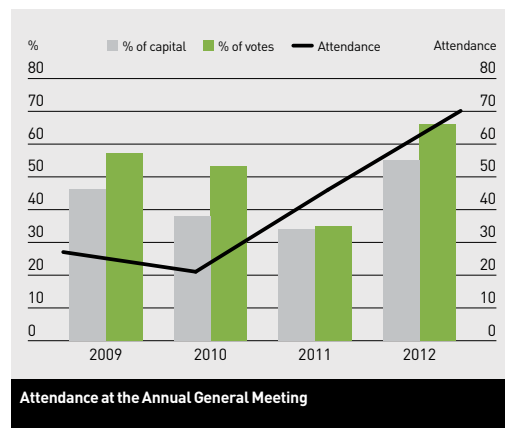
The Swedish Companies Act contains basic rules about a limited liability company's organization. The purpose of the Code is to provide guiding rules for good corporate governance, and supplementing the legislation in a number of areas. The Annual Accounts Act places requirements on how corporate governance 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 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 ones shares at the AGM, a shareholder must be recorded in the share register five days before the meeting, 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 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. Summon 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 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 2013

The AGM 2013 will take place 25 April at Spårvagnshallen in Stockholm at 15.00. Summons to the AGM is shown on the Company's website at [www.netent.com/agm](http://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 August 2012, who, together with the Chairman of the Board, shall be members of the Nominating Committee for the AGM 2013. In September 2012, Per Hamberg (appointed by the Hamberg family), Christoffer Lundström (Provobis Invest AB) and Martin Wattin (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 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 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 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 hold 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 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 2013 together with a report of the Nominating Committee's work.

#### Members of the Nominating committee

Per Hamberg (representing the Hamberg family)  
Christoffer Lundström (Provobis Invest AB)  
Martin Wattin (representing the Kling family)  
Vigo Carlund, Chairman of the Board of Directors

#### 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 does 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 ac-

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

At the AGM in April 2012, seven members were elected: Vigo Carlund, Fredrik Erbing, Maria Redin, Mikael Gottschlich, Peter Hamberg, Michael Knutsson and Pontus Lindwall. For further description of the members, refer to page 24.

All but one member are independent in relation to the Company and its management, and six members to larger shareholders. Pontus Lindwall is not independent in relation to the Company as he is the Chairman of the Board of Betsson AB, 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 meeting and Michael Knutsson och Mikael Gottschlich were absent from three meetings each.

#### 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 2012.

The Chairman organizes the work of the Board of Directors so that it is conducted efficiently, and such that the Board of Directors fulfils 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 work, ensuring that new members of the Board of Directors go through the necessary introductory training, that the Board regularly updates and deepens their knowledge of the Company, the industry, and its development, is responsible for contacts with the owners, and communicates their 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 the Board meetings. The Chairman of the Board of Directors verifies that the Board's decisions are implemented, and is responsible 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 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 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 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 detailed documentation about the matters to be discussed at the Board meeting. Also, each month, a monthly report is distributed containing operational and financial development.

In 2012, the Board of Directors held 14 meetings, including the constituting meeting, three for the approval of interim reports, and four 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 2012 were matters 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 matters includes adaptations to various geographic markets and the investment in a Live Casino product and evaluation 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 Maltese Lotteries and Gaming Authority (LGA).

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

At the Board meeting in February 2013, the head auditor, Therese Kjellberg, Deloitte, reported her conclusions from the audit for 2012. 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.

#### Audit Committee

The Board of Directors has established an Audit Committee, which, since April 2012, has consisted of Fredrik Erbing (Chairman), Maria Redin 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, 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 audit, evaluation of the audit process, counselling 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 ongoing review including IT systems 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 its connection to internal control and accounting issues. During the year, special attention has been devoted to further development of the Finance department and controlling function as well as the evaluation of a new ERP system.

The Audit Committee met five times in 2012. The auditor attended all meetings.

#### Remuneration Committee

The Remuneration Committee consists 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 Betsson AB, customer and former parent company of 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 execu-

tives, 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 twice in 2012 and once during early 2013 where all members of the Board were present.

#### 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 business plan, 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 63.

#### Remuneration to the board of directors

##### 2010-2012, SEK thousand

Decided at the AGM	2012	2011	2010
Chairman of the Board of Directors	580	550	650
(including fees for assignments in foreign)	-	-	(100)
Chairman of the Audit Committee	300	270	270
Members of the Board of Directors	240	220	220

#### Remuneration to senior executives

In order to achieve good long-term value growth for shareholders, Net Entertainment seeks to offer its employees a competitive remuneration and 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.

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

#### Guidelines adopted by the AGM 2012

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 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 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 of 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 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 50 percent of the fixed salary, and 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 regards to variable salary for the CEO, and by the CEO with regards 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 of maximum 100 percent of the fixed salary. For persons with commission remuneration, the variable salary according to the two preceding paragraphs is limited to a maximum of 50 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 incentive program in form of share option rights or other share based incentive programs issued at market price to motivate long-term engagement and promote an increased common interest with the shareholders. In order to strengthen loyalty to the Company, share-based incentive programs in the form of share option rights issued based on market conditions can be combined with a 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 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 periods, terms of severance pay can occur. 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 AGM 2013**

For the AGM 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 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. For the Annual 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 govern remuneration to senior executives and also to remove any possible incentive 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 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 2012 for the period until the AGM 2013. Therese Kjellberg was appointed chief auditor. On the AGM 2013 auditor for the period up until the AGM 2014 will be appointed.

The auditor has presented her conclusions of the synoptic review of the interim report for January - September 2012, the audit for the entire year 2012, 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 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 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 labour 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 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 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 regards 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 in 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 in the organization in order to ensure the quality of the process. An important part of control environment is that 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 in 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 2012 the work to further develop the internal control has continued. The Company conducted a review of the internal controls design during the year with respect to how well the controls addresses the specific inherent risks that had been identified to increase clarity and to ensure adequate controls in relation to financial

reporting. Another example of the continuous work to improve and rationalise the routines and controls was a prestudy that was conducted during the year to evaluate a new ERP system and a new group consolidation system. Competence development within the Finance department 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. Regulatory compliance in this respect refers to industry specific regulation from gaming authorities in different countries.

Internal governance instruments for financial reporting primarily consist of the Company's Finance Policy, Information Policy, Economic Handbook, and authorisation 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. 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. 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 favouritism 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 processes 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 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 Lotteries and Gaming Authority of Malta (LGA), 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 authorisation of business transactions
- business systems that affect the 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 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, 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 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 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 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 in the form of observations, recommendations, and proposals for decisions and measures are continuously reported to the Board of Directors.

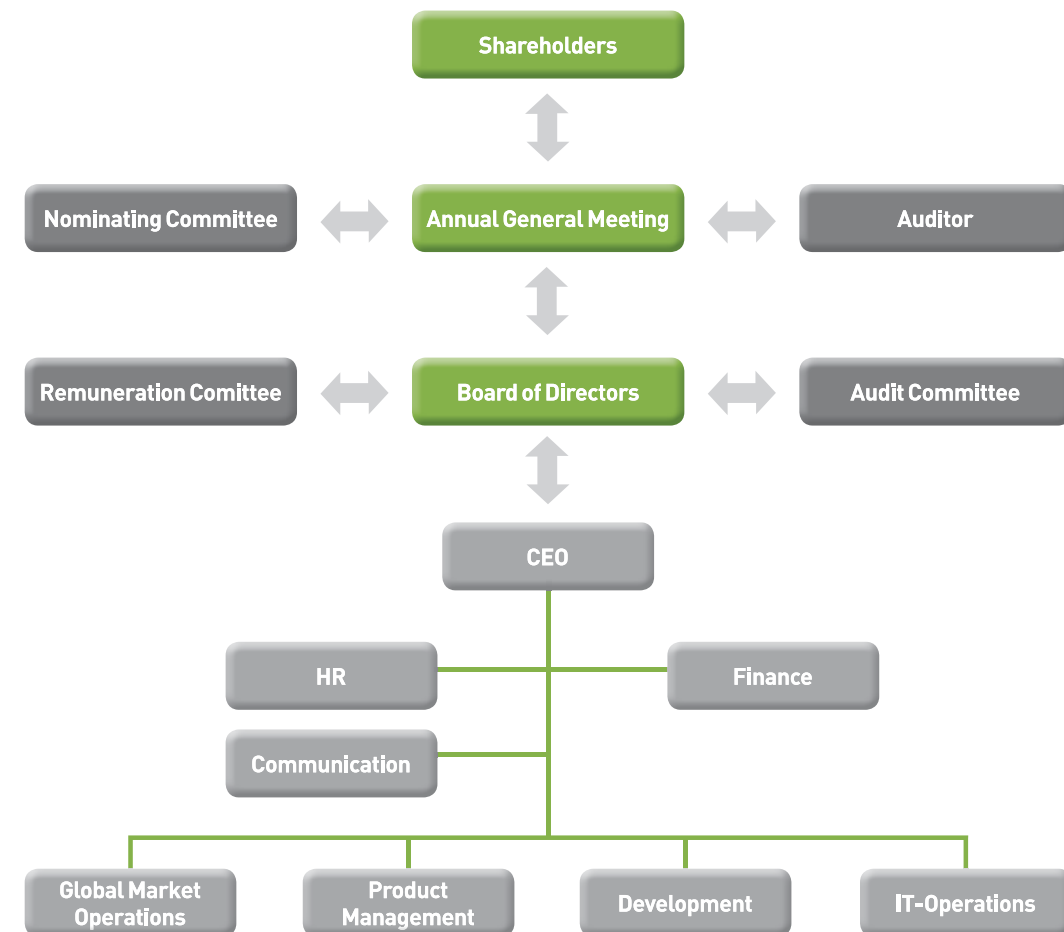
**Internal audit**

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 Malta and 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 analysis and dialog 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 secure 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 5,610,000 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