

Internal control

NetEnt’s control system has been developed to ensure accurate, reliable financial reporting and accounting in accordance with applicable laws and rules, accounting standards and other requirements for listed companies.

Internal control refers to the process that is influenced by the Board of Directors, the company’s management and other staff, and is designed to provide reasonable assurance that the company’s goals are met in terms of

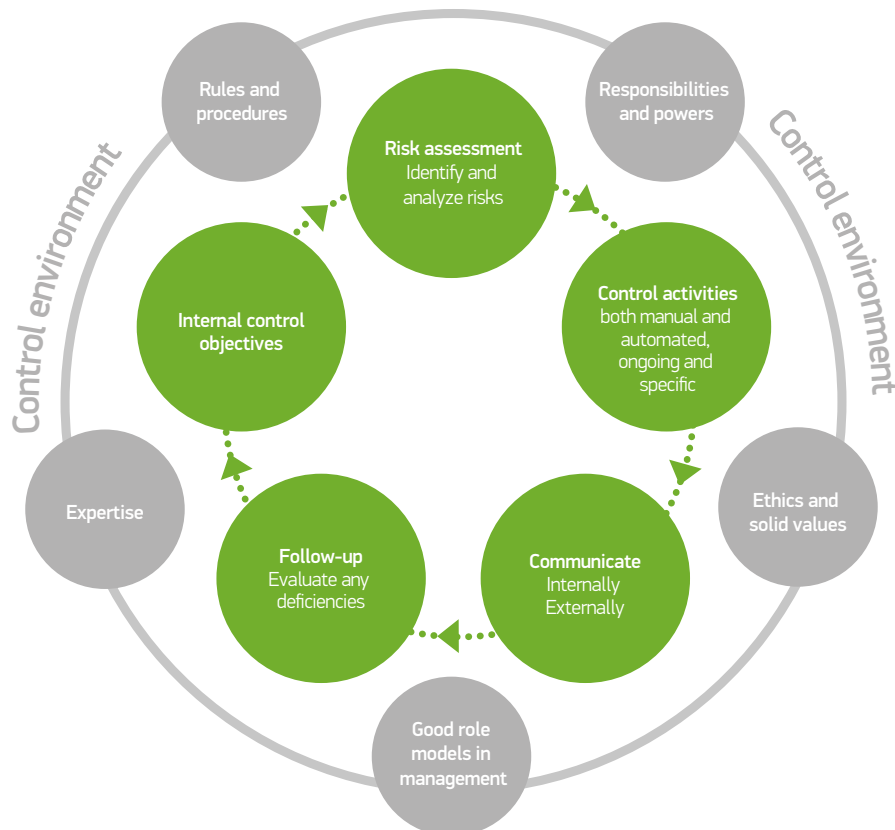
- appropriate and efficient operations,
- reliable financial reporting, and
- compliance with the applicable laws and regulations.

NetEnt applies the established framework for internal control issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework covers five principal areas: control environment, risk assessment, control activities, monitoring/ improvement and communication.

CONTROL ENVIRONMENT

The foundation of NetEnt’s control system is the control environment, which determines the individual and collective work procedures in the Group. It is defined through policies and procedures, manuals and codes, and is upheld with the help of NetEnt’s organizational structure with clearly defined responsibilities and powers based on shared values. Soundly devised internal control not only creates conditions for reliable financial reporting, but also contributes to a healthy and sustainable business, resulting in greater profitability. Work on the design of internal processes and monitoring thereof is becoming increasingly important as the company grows. This is particularly important in terms of the systems that NetEnt develops and operates on behalf of customers.

NetEnt’s Board has overarching responsibility for establishing an efficient internal control system. Responsibility for establishing an efficient control environment has been delegated to the CEO. The CEO delegates powers to those reporting to him,





both directly and through established guidelines and manuals in the company. Corporate values are an important element in this respect, providing guidance for day-to-day work.

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 in financial reporting in the Group, both proactively with a focus on the internal control environment, and by reviewing the effectiveness of internal control.

NetEnt reviews its internal control processes following a recurring cycle each year and makes changes to the extent necessary. The Audit Committee, with the company's auditor, in turn regularly reviews selected control processes. The company has also established a framework and a process for internal audit of the finance function and the financial reporting that is based on a combination of self-assessment and independent review with the support of an external auditing firm.

Compliance

Furthermore, the Group has a function comprising people with specific responsibility for compliance, as well as quality and processes. The function has been set up among other things to ensure ongoing development of the company's processes and routines for industry-specific compliance. The compliance department regularly reports its observations directly to the CEO and meets at least once a year with the Audit Committee without the presence of any members of management.

Internal governance instruments

Internal governance instruments for financial reporting consist primarily of the Group's finance policy, information policy, financial handbook, and authorization instructions that define accounting and reporting guidelines, as well as the Group's definition of processes and minimum requirements for sound internal control over financial reporting. In addition, the company has policies regarding, for example, employee trading in the company's shares, IT and information security, dividends, anti-bribery, and prevention of money laundering, terrorist financing, drugs and gambling.

RISK ASSESSMENT

Each year, NetEnt carries out a structured risk assessment to identify risks that affect the internal control of financial reporting, and to identify where these risks are present. Risks in financial reporting are evaluated and monitored by the Board of Directors through the Audit Committee.

The main risks to the company are attributable to areas such as regulated activity, the invoicing process and revenue recognition, development expenditure and taxes, and the company's substantial cash and cash equivalents. During the risk assessment, special attention is paid to the risk for irregularities and

unfair favoring of other parties at the company's expense, and the risk of loss or misappropriation of assets. Matters are prepared by the Audit Committee before consideration by the Board of Directors. The risk assessment results in control objectives that support achievement of the fundamental financial reporting requirements. The risk assessment is updated annually by the company, and is reported to the Audit Committee.

Furthermore, the company has a risk management process that is designed to continuously identify, prioritize and manage material business risks in general. The risk landscape is in some respects similar to the risk assessment for financial reporting, but includes other risks such as the availability of competent staff and political decisions. The Audit Committee shall continuously monitor this process and report regularly to the Board of Directors. For a complete description of the industry- and business-related risks that affect NetEnt, see the "Risk factors" section on pages 58–61 and Note 26 on pages 98–99.

CONTROL ACTIVITIES

The most material risks identified in terms of financial reporting are managed through control structures in processes. Control activities are designed and documented at the process level, and include both overarching and more specific controls with the purpose of preventing, detecting and correcting errors and discrepancies. When devising control activities, accurate and timely performance thereof is ensured. Control activities span everything from the review and monitoring of performance outcomes to specific account reconciliations.

General IT controls are established for systems that support processes affecting internal control over financial reporting. The design of processes and control activities within IT is also affected by regulations issued by the gaming authorities, such as the Malta Gaming Authority (MGA), the Alderney Gambling Control Commission (AGCC), the Gibraltar Regulatory Authority (GRA) and external reviews related to licenses and certifications. Such reviews are conducted both by independent auditing agencies for certification with regards to requirements from authorities, and by the company's external auditors.

Areas that are covered by control activities include:

- due authorization of business transactions,
- ERP systems that affect financial reporting, including verification management,
- the accounting process, including year-end reports and consolidated financial statements and their compliance with applicable regulations in the form of generally accepted accounting principles, prevailing laws and rules, and requirements for listed companies. The process is also designed to ensure proper information for decision making to the Board of Directors and management,

- significant and unusual or complex business transactions, as well as business transactions or valuations of assets or liabilities that contain significant elements of judgment,
- all new employees are subject to prior background checks.

MONITORING

Monitoring of control activities is conducted continuously to ensure that risks have been satisfactorily observed and addressed. Monitoring covers both formal and informal procedures applied at the company. Such procedures include tracking of results in relation to budget and plans, analyses and key figures. The Board of Directors continuously evaluates the information provided by company's management. The process includes both reconciliation of monthly financial reports against budgets and goals, and reporting at Board meetings. Through the Audit Committee, the Board of Directors reviews and assesses the internal control organization and function. The company's policies and instructions are evaluated and updated annually at a minimum with respect to appropriateness and functionality – or more often as needed.

The company's CFO presents the results of internal control work as a standing agenda item at Audit Committee 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.

INFORMATION AND COMMUNICATION

Information and communication about internal governance instruments for financial reporting are available to all employees concerned on the company's intranet. NetEnt has information and communication channels for the purpose of promoting complete and accurate financial reporting. Only a limited number of people in the functions of Finance, IR, and the CEO's office have access

to information that is confidential in nature such as budgets, forecasts, financial outcome reporting, Board material and remuneration. Access to such confidential information is authorized in accordance with the powers bestowed on the company's staff in the organization.

Guidelines and manuals of importance for financial reporting are updated and communicated to those concerned as new employees are introduced, and in the event of potential changes, to all affected staff. There are both formal and informal communication channels to senior executives and the Board of Directors for information from employees. For all employees to feel secure in reporting deviations from the company's rules, there is a confidential and efficient whistle-blowing procedure in place. For external communication, there are guidelines for the company with stringent demands on accurate and relevant information to the market. The Board of Directors annually adopts an information policy for the company, which includes guidelines for contacts with analysts and the media.

When new employees are introduced, the latter are informed of the laws and guidelines followed by the company regarding for example management of insider information and trading in the company's shares. Prior to each quarterly earnings report, a reminder about the rules is sent out to all staff.

INTERNAL AUDIT

The company has an internal audit function in place regarding anti-money laundering procedures. In 2016, an internal audit was performed by EY based on an earlier risk analysis. The internal audit was carried out through control of existing internal processes with the aim of safeguarding the financial reporting and followed the company's framework and process for internal audits.