

# CORPORATE GOVERNANCE REPORT

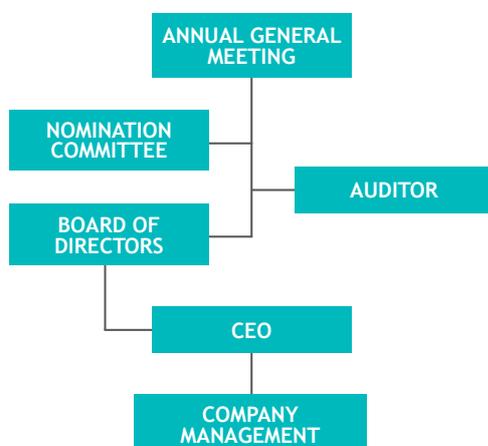
## GOOD GOVERNANCE AND CONTROL SUPPORTS SUSTAINABLE AND PROFITABLE GROWTH

Betsson has demonstrated strong growth in recent years. One contributing factor to this development has been a good balance between ambition and attention to detail. For our part, good corporate governance means preserving a dynamic, hungry company culture in which individuals are rewarded and shown appreciation for their efforts, and where risks are managed on a sound commercial basis. A company such as Betsson, which operates in a high-speed, dynamic environment, has to be able to respond quickly and, consequently, each employee must be given the space to act on his or her own initiative, within a set framework. Good government and control thereby enhances the commercial conditions for a company.

### Pontus Lindwall

Chairman of the Board of Directors

## COMPANY BODIES FOR GOVERNANCE AND CONTROL



### EXTERNAL REGULATORY FRAMEWORKS

- Swedish Companies Act
- Swedish and international accounting legislation
- NASDAQ rules for issuers
- Swedish Code of Corporate Governance

### INTERNAL REGULATORY FRAMEWORKS

- Articles of Association
- Formal work plan for the Board of Directors
- Terms of reference for the CEO
- Group policies
- Business plan and strategies
- Code of Conduct

## CORPORATE GOVERNANCE REPORT 2015

In addition to the regulations stipulated in applicable legislation or other statutes, Betsson applies the Swedish Code of Corporate Governance, a regulatory code based on the framework for internal control issued by the Committee of the Sponsoring Organizations of the Treadway Commission (COSO).

Betsson hereby presents its Corporate Governance Report for 2015. The company applies the Code in full, with no deviations. This report comprises part of our management reporting and has been reviewed by the company auditors.

## AREAS OF RESPONSIBILITIES

The shareholders exercise their influence over Betsson AB at the Annual General Meeting of Shareholders, which is the company's highest decision-making body, whilst the responsibility for the

company's organisation and the management of the company's affairs lies with the Board of Directors and the CEO, in accordance with the Swedish Companies Act, other rules and regulations, applicable regulations for listed companies, the Articles of Association and the Board's internal control instruments.

## SHAREHOLDERS

Betsson has been a listed company since 1996, and has been listed on the Stockholm Stock Exchange since 2000. The company's Class B shares are listed on Nasdaq Stockholm Large Cap List (BETS). At the end of the period, the company had 35,156 (21,443) shareholders. The three strongest shareholders in terms of votes were Per Hamberg with 3.7 per cent of the capital and 18 per cent of the votes, the Knutsson family with 4.8 per cent of the capital and 10.7 per cent of the votes and Rolf Lundström with 3.1 per cent of the capital and 9.6 per cent of the votes.

## ARTICLES OF ASSOCIATION

The Articles of Association define the number and responsibilities of the directors and auditors, the kind of business to be undertaken, and the means by which the shareholders exert control over the Board of directors. The company's Articles of Association stipulate no limitations regarding the number of votes which each shareholder is entitled to exercise at the Annual General Meeting. No specific regulations are stated in the company's Articles of Association regarding the appointment and dismissal of Board Members. For the current Articles of Association, adopted by the Annual General Meeting of 08/05/2015, please go to [www.betssonab.com](http://www.betssonab.com):

## ANNUAL GENERAL MEETING

The Annual General Meeting is the highest decision-making body in Betsson AB. The Annual General Meeting, which is held within six months of the end of the financial year, votes on the adoption of the income statement and balance sheet, and resolves on the proposed dividend. Directors are also elected and their fees and other remuneration set. In certain cases, auditors are elected and the Annual General Meeting resolves on their fees. Furthermore, other statutory matters and other proposals from the Board and shareholders are addressed, and resolutions are made regarding guidelines for remuneration to senior executives.

All shareholders registered in the shareholders' register on a given record day, and who have notified their attendance in due time, have the right to participate in the meeting and vote for their total holding of shares. Shareholders may be represented by proxies.

## ANNUAL GENERAL MEETING 2015

The Annual General Meeting for 2015 was held on 8 May 2015. The Meeting was attended by shareholders, in person or by proxy, representing 55 per cent of the voting rights and 35 per cent of the capital. Pontus Lindwall was elected Chairman of the Meeting.

## Resolutions

The minutes from this meeting can be found on Betsson's website.

The resolutions made by the Annual General Meeting included:

- Mandating the Board of Directors to resolve on the non-cash issue of shares and/or convertible preferred stock that entails the issuing or conversion of a maximum total of 14.1 million B shares (after the share split), corresponding to a dilution of approximately 10 per cent of the share capital and five per cent of the voting rights.

- Mandating the Board of Directors to resolve on the combined acquisition of as many shares as required such that the company holding, at any given time, does not exceed 10 per cent of all shares in the company. This mandate was not exercised during the 2015 financial year.
- The Board was further authorised to resolve on the sale of the company's own shares for cash in conjunction with acquisitions of companies or operations at a price corresponding to the market price on the transfer date.
- To establish an incentive programme that would principally mean that the company would offer senior executives and other key personnel the right to acquire share options or to receive employee share options in the company. The maximum number of options that could be issued in accordance with the programme should be 3,490, 500 corresponding to a dilution effect of approximately 2.5 per cent of the share capital and approximately 1.23 per cent of the voting rights in the company after dilution.
- To issue 3,490,500 C shares to expense the company's costs in outstanding incentive programmes.
- To approve the Board's proposal to distribute the equivalent of SEK 3.98 per share for 2015, through an automatic redemption procedure.
- To re-elect Board members Kicki Wallje-Lund, Patrick Svensk, Lars Linder-Aronson and re-elect Pontus Lindwall as working Chairman of the Board. To elect Martin Wattin and Jan Nord.

## ANNUAL GENERAL MEETING 2016

The Betsson AB (publ) Annual General Meeting will be held on Thursday 12 May 2016 at 10:00AM in Filmstaden Sergel, Slöjdgatan 6, Hötorget, Stockholm, theatre 6. For further information regarding the Annual General Meeting 2016, please refer to the company's website: [www.betssonab.com](http://www.betssonab.com).

## THE NOMINATION COMMITTEE

In accordance with the resolution adopted at the Annual General Meeting of 2015, the Chairman of the Board has been assigned to convene the meetings of the company's Nomination Committee and to invite representatives of the company's larger shareholders to join the Committee. The Nomination Committee is to consist of a minimum of three members, and the majority of the Nomination Committee's members may not be formed of employees or members of the Board. The Nomination Committee shall prepare a list of proposed Board Members, as well as a proposal for the Chairman and auditors, and shall also propose remuneration for Board Members, Board committees and auditors. These proposals are to be submitted to the Annual General Meeting 2016 for resolution. The composition of the Nomination Committee was announced on 22 October in Betsson's Interim Report for the third quarter of 2015 and on the company's website.

### The Nomination Committee for the Annual General Meeting 2016 is comprised of:

- John Wattin, representing the Per Hamberg and companies with a total of 18 per cent of the votes,
- Michael Knutsson, representing the Knutsson family and company, with a total of 10.7 per cent of the votes,
- Christoffer Lundström, representing the Rolf Lundström family and company, with a total of 9.6 per cent of the votes,
- Pontus Lindwall, Chairman of the board of Betsson AB and convener of the Nomination Committee.

From the formation of the Nomination Committee on 22 September 2015 until 1 March 2016 inclusive, Lars Linder-Aronson as Chairman of the Board, replaced Pontus Lindvall as convener of

the Nomination committee. The Nomination Committee represents a participating interest which, at year-end, amounted to 38.3 per cent of the votes in the company. An important source of information for the Nomination Committee's work is the yearly evaluation of the Board's performance.

The Nomination Committee seeks to identify candidates for nomination who, together with the existing members, are able to provide the Board with the appropriate combined competence. This entails experience from executive positions in listed companies, expertise in the financial and gaming sectors or experience from international service companies.

The Nomination Committee also proposes, ahead of the Annual General Meeting, fees and remuneration to all Board members including the working Chairman of the Board.

The Nomination Committee's complete proposals and background information, to be presented to the Annual General Meeting 2016, will be published on the company's website, [www.betssonab.com](http://www.betssonab.com), in advance of the Annual General Meeting.

Shareholders wishing to submit proposals to the Nomination Committee should do so by email to [valberedning@betssonab.com](mailto:valberedning@betssonab.com) or by mail to the company's headquarters.

## THE BOARD AND ITS WORK

The Members of the Board are elected annually by the Annual General Meeting for the period until the conclusion of the following Annual General Meeting. There are no rules in place stipulating the maximum period of time a member may serve on the Board. Betsson's Board is comprised of six members elected by the Annual General Meeting, with no deputies. At the 2015 Annual General Meeting, Kicki Wallje-Lund, Patrick Svensk, Lars Linder-Aronson and Pontus Lindwall were re-elected as members. Pontus Lindwall was re-elected as Chairman. And Martin Wattin and Jan Nord were elected. The members of the Board are presented on pages 18-19.

The company's former CEO resigned on 20 July, whereupon Pontus Lindvall was appointed CEO and Lars Linder-Aronson Chairman of the Board.

The Group President and CEO participate in the board meetings with different presentations. The Group's CFO, Fredrik Rüdén, participates both to present reports and to serve as secretary. Other executives in the Group participate from time to time in Board meetings as required, either to present specific issues or to serve as secretary.

## The Board's independence

According to the definition applied by the Stockholm Stock Exchange, the number of Board Members elected at the Annual General Meeting who are independent of the company is 5 (83 per cent) and the number of Board Members elected at the Annual General Meeting who are independent of the company's major shareholders is 6 (100 per cent). All members meet NASDAQ Stockholm's requirements concerning professional experience. Pontus Lindwall cannot be considered independent of the company given his role as working Chairman of the Board or as CEO. With this composition, Betsson's Board fulfils the regulations for listed companies and the regulations of the Swedish Code of Corporate Governance, which require that the majority of elected members are independent of the company and company management, and that at least two of these are also independent of the company's major shareholders. All Board members and all members of the Group management team have undergone the NASDAQ Stockholm course in Stock Exchange regulations

## Board meetings

In 2015, the Board held nineteen (twenty) minuted meetings, of which one (one) was the statutory meeting and one (five) was a per capsulam meeting. The Board had a four (six) per cent absence rate during the year's Board meetings.

All of the meetings comprise the CEO's review of developments within the operations and current issues concerning important events, the risk aspects of significant contracts, potential acquisitions and legal trends in the gaming market. The Board has paid particular attention to strategic financial matters and issues concerning acquisitions, internal control and major investments during the year.

The attendance of Board Members at Board meetings is shown below, as a percentage (figures in brackets refer to the previous year).

Pontus Lindwall, member, working Chairman of the Board until 20 July 2015 incl.	100 (100)
John Wattin, member until June 2015 incl.	67 (100)
Kicki Wallje-Lund, Member	100 (90)
Carl Lewenhaupt, member up to June 2015	100 (83)
Lars Linder-Aronson, Chairman from 20 July 2015, member	100 (100)
Patrick Svensk, Member	93 (100)
Martin Wattin, member from June 2015 incl.	100 (-)
Jan Nord, member from June 2015 incl.	80 (-)

Average attendance at Board and Committee meetings was 96 (94) per cent.

## Information provided to the Board of Directors

The work of the Board follows a specific plan in order to ensure that the Board receives all relevant information. The company's auditors report their observations based on the audit of the financial statements and their assessment of the company's internal procedures and controls to the Board. The Board receives, on a monthly basis, a detailed operational report in which management describes developments.

## Internal control and risk management

The Board applies a formal work plan including decision-making rules, as well as instructions for its own work and that of the Remuneration Committee, the Audit Committee and terms of reference to the CEO, with the aim of achieving an efficient management of the operational risks, refer to the section on significant risks and factors of uncertainty in the Management Report. The Board updates, as necessary, and adopts, yearly, the formal work plan for the Board, terms of reference to the CEO, decision-making rules and authorization routines.

## The Audit Committee

The Audit Committee's responsibility is to ensure compliance with established principles for financial reporting and internal controls. In accordance with the rules of procedure adopted after the 2015 Annual General Meeting, the Audit Committee continues to comprise three members, none of whom is to be Chairman of the Board. The members of the Committee are Lars Linder-Aronson, Kicki Wallje-Lund and Martin Wattin.

The Audit Committee is responsible for monitoring and following up the reporting of Corporate Responsibility issues. The Audit Committee also acts as a finance committee tasked with supporting and monitoring financial operations and evaluating and proposing changes to treasury policy. The results of the Audit Committee's work in the form of observations, recommendations and proposals for decisions and measures to be taken are

addressed by the Board on a continual basis. The Group auditors and Group CFO report to the Audit Committee. There was a 100 per cent attendance record at the four audit committee meetings.

## The Remuneration Committee

New rules of procedure for the Board were adopted at the end of the 2015 Annual General Meeting. It was resolved that the Remuneration Committee should consist of two members, neither of whom should be the Chairman of the Board. The Committee's members are Kicki Wallje-Lund and Patrick Svensk. The Remuneration Committee held two meetings during the year and their discussions included considering proposals for a new incentive programme (options).

The main responsibility of the Remuneration Committee is to address the remuneration and terms of employment of the CEO based on the guidelines for remuneration and terms of employment for the CEO adopted by the Annual General Meeting. Attendance at the two Remuneration Committee meetings during the year was 100 per cent.

## AREAS OF RESPONSIBILITY OF THE CHAIRMAN OF THE BOARD AND CEO

Up until 21 July, the company had a working Chairman of the Board who primarily worked in the following areas; planning of long-term strategy issues that lie outside the CEO's strategic brief within the applicable business plans, monitoring of regulatory and other legal changes in countries that can be of significance for Group activities and geographic expansion, regular evaluation of strategic alliances and larger company acquisitions of a strategic nature, and support of Group management in strategic projects and in association with the recruitment of key expertise.

## CEO AND GROUP MANAGEMENT

Betsson's President and CEO is responsible for the day-to-day management of both the Parent Company and the Group, a responsibility which does not include decision-making in operating online game activities. The CEO leads the work in the Parent Company and makes executive decisions in consultation with other senior executives. At the end of 2015, there were five (five) senior executives, including one woman; please see page 20. The senior executives hold regular operational reviews under the leadership of the CEO.

The operations of the Parent Company (Betsson AB) consist of the management and administration of the company's investments and the evaluation of potential acquisitions or divestments of business operations. Group gaming activities are operated from Malta, via several wholly owned subsidiary companies, each of which as its own Board and an operational management group that manages operational decisions in Betsson gaming businesses.

Each respective CEO in the wholly owned subsidiaries act in accordance with a set of CEO instructions which are in line with the Group CEO instructions.

## REMUNERATION

Remuneration to the Members of the Board and the guidelines for remuneration to senior executives are determined at the Annual General Meeting. Remuneration paid to the President of the Group is determined by the Remuneration Committee. Remuneration for executives directly subordinate to the CEO is determined by the CEO after consultation with the Remuneration Committee. The Group applies the principle that a manager's immediate manager must approve any decisions regarding remuneration.

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## In the case of senior executives, the following principles adopted by the 2015 Annual General Meeting apply:

- Remuneration is to be market-based and competitive, in order to be able to attract and retain skilled senior executives. Remuneration is to comprise a fixed salary and, when necessary, variable remuneration, pensions and other benefits such as, in some cases, a company car.
- Any variable remuneration which may be offered to senior executives will be decided on the basis of pre-determined Group-wide and individual goals relating to the management of the company and the company's financial development, and taking into account the personal development of the individual concerned. Current variable remuneration to senior executives is described in more detail in Note 8.

The Board may make decisions diverging from these guidelines for individual instances, under special circumstances.

### AUDIT

At the 2015 Annual General Meeting, PricewaterhouseCoopers AB was elected, with Authorised Public Accountant Niklas Renström as senior auditor.

The audit of the annual financial statements is carried out in January-February. The annual report is audited in March and April. A general audit is performed in association with the company's interim reports for the third quarter. In addition, audits of internal procedures and control systems are regularly performed during the year and reported to the Group CFO, management group and the Board. In addition to the auditing assignment, Betsson has engaged PricewaterhouseCoopers AB for consultation in VAT and tax issues, accounting matters, and for various other studies.

### INTERNAL AUDIT

Betsson's profitable growth stems from a willingness and desire to constantly improve the operations. The internet-based gaming industry is constantly exposed to a rapidly changing environment, such as changes in legal systems, seasonality and currency fluctuations. To be able to manage this, an educational and adaptive approach is crucial. At the same time, it is important that Betsson's customers feel safe and secure with the gaming companies' games and payment solutions. This permeates all company and Group customer offerings.

Betsson has commissioned Ernst & Young to conduct specific audit assignments, like those that a separate internal audit department would normally perform. Since 2012, the company has a Global Tax Manager to ensure that it complies with current tax regulations, and in 2013, internal control was strengthened by a separate business controller function, with responsibility in the budget and follow-up process.

As a complement to this, the operations of several independent parties are also checked. Betsson is licensed in Malta by the Malta Gaming Authority (MGA). In order to obtain and maintain licences, the company's routines and processes must meet certain quality standards. MGA carefully inspects business operations to ensure the company satisfies all requirements. Betsson companies are also PCI-compatible for secure card transactions, and has agreements with several major banks. As a result, all credit card information is handled securely and the company meets the highest security standards as regards payments, withdrawals and deposits.

All private information sent to and from Betsson sites is encrypted and monitored. The random number generator behind Betsson's casino games, which guarantees fair gaming, has been

tested and approved by independent third parties, including Itech Labs, Gaming Laboratories International (GLI), Quinel, and eCogra. To ensure that poker software always produces random numbers, independent inspectors test the random number generator (RNG) on a monthly basis. These monthly reports are published on an ongoing basis. Players who use a poker bot to make decisions during a game are cheating. To ensure players feel comfortable and secure in having a level playing field in terms of technology in relation to other poker players, Betsson's poker suppliers have developed internal control systems that are evaluated at the same time as external control systems.

The Audit Committee bears the preparatory responsibility within the Board to ensure compliance with the established principles of internal control. The President and CFO are responsible, on a continuous basis, for taking appropriate steps to maintain good internal control. Each company function is responsible for executing the internal control within its relevant operational area, based on stated conditions. Reports are prepared on an on-going basis at all levels.

### SYSTEM FOR INTERNAL CONTROL AND RISK MANAGEMENT OF FINANCIAL REPORTING

In accordance with the Annual Accounts Act, the Board of Directors is to submit, on an annual basis, a description of the most important measures in the company's system for internal control and risk management regarding financial reporting.

#### Control environment

The control environment is the basis for the internal control of the financial reporting. The company's internal control structure is based on, among other things, a clear allocation of responsibilities and work assignments, both between the Board and the CEO and within the operations. Policies and guidelines are documented and assessed on a continuous basis by management and the Board. Governing documents and detailed process descriptions are communicated via established information and communication paths and have therefore been made available and known to the personnel concerned.

#### Risk assessment

The company identifies, analyses and makes decisions regarding the management of the risk of misstatement in the financial reporting. The Board deals with the outcome of the company's processes for risk assessment and risk management in order to ensure that these cover all significant areas, and identifies, when appropriate, any necessary measures to be implemented. The company's largest operational risks are related to the rapidly evolving environment characterising the gaming industry, including, for example, changes in legal systems, seasonality and currency fluctuations. The financial reporting can be influenced by the risk of errors in allocation to periods when settling accounts with partners and the risk of errors in the valuation of intangible assets.

#### Control measures

On the basis of risk assessments carried out within the Group, control measures of both a preventive and a detective nature are implemented to ensure that any errors are addressed. We have placed a special emphasis on mapping and assessing the most significant risks in the accounting practices as regards allocation to periods. Intangible assets are assessed on a continuous basis against the return they generate in order to ensure that the values reported in the company's balance sheet are correct.

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## Information and communication

The internal information and external communication are regulated at a comprehensive level by, among other things, an information policy. The internal communication to and from the Board and management takes place via, for example, regular information meetings. The company's intranet is another channel. The internal policies, guidelines, instructions and similar documents governing and supporting operations are published on the intranet.

## Follow-up

The company assesses, on a continuous basis, the internal control regarding financial reporting by asking questions and participating in the work of the finance function. Both company management and the Board receive daily turnover reports and monthly income statements and cash flow reports, including management comments on how business operations are progressing. The financial situation is considered at each scheduled meeting of the Board. The company's auditor participates in the Board meetings at least once a year and shares any observations regarding practices and control systems. During this meeting, the members of the Board have the opportunity to ask questions. The Board re-evaluates the significant risk areas and assesses the internal control on an annual basis.

## INVESTOR RELATIONS

Betsson shares information with shareholders by means of annual reports, arranged capital market days, year-end reports, quarterly reports and press releases and through the company's website. Reports and press releases from previous years are also available on the website, [www.betssonab.com](http://www.betssonab.com). Communication and transparency are key to Betsson, to allow the company's investors and analysts to make objective assessments of the company's development and, consequently, make informed decisions in their work. The company attaches great importance to investor relations, in which the aim is to inform the capital market of Betsson's financial position, operations and development so as to increase knowledge and interest in the company, and obtain a fair valuation of the company. During 2015, Betsson arranged a capital market day and, also participated in a number of IR activities, such as seminars, investor meetings and road shows in both Europe and the USA.

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