

Directors' Report

Modern Times Group MTG AB (publ.) (MTG) is a publicly listed company. Its Class A and Class B shares are listed on Nasdaq Stockholm's Large Cap list under the symbols MTGA and MTGB. The Company's registered office is located at Skeppsbron 18, P.O. Box 2094, SE-103 13 Stockholm, Sweden. The Company's registration number is 556309-9158.

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Business Operations

MTG's objective is to be the leading digital video entertainment provider in each of our markets. MTG is shaping the future of entertainment by connecting consumers with the content that they love through multiple screens in the home and on the move, online and offline, scheduled and on demand. MTG's TV channels and radio stations are funded by subscription and advertising revenues, and made available on its own platforms, online and on third party networks. MTG operates channels and platforms across the Nordic region and the Baltics, as well as scale broadcasting operations in Bulgaria and the Czech Republic. MTG packages and offers the best TV series, movies, live sports and kids content to its viewers and subscribers. The majority of this programming content is acquired but MTG also owns nice entertainment, which is a leading content creator, producer and distributor. In addition, MTG is the world's number one esports company (through Turtle Entertainment and DreamHack), Europe's largest multi-channel network (through Zoomin.TV and Splay), a global TV channel operator through Trace TV, and shareholder in online gaming company InnoGames and digital sports producer Engage Sports Media.

Business Review

Group sales were up 6.7% (3.0) year on year at constant exchange rates, with organic growth of 5.4% (0.7). The Group's operating margin for its continuing operations before items affecting comparability was 7.8% (7.8).

Revenues for the Group's Nordic Entertainment business grew by 6.2% (2.7) at an organic basis with an operating margin of 12.3% (13.4). The Group's International Entertainment business reported 6.7% (5.5) organic revenue growth, with an operating margin of 12.9% (8.2). MTG Studios' organic sales were up 2.2% (-14.2) with an operating margin of 4.4% (0.2). MTGx sales were up 194% (-) and reflected the acquisition of a number of new companies during the second half of 2015, while the operating loss reflected the ongoing investment in these high growth businesses. MTG's total group-wide digital revenues almost doubled in 2016.

The Norwegian advertising market is estimated to have grown in 2016, while the Swedish and Danish markets are estimated to have declined. The total number of pay-TV subscribers in the Nordic region grew as the growth in the number of Viaplay and third party network subscribers more

than offset the ongoing decline in the satellite subscriber base. Average revenue per Nordic subscriber also increased during the year. The Czech, Bulgarian and Lithuanian advertising markets are all estimated to have grown in 2016, while the Estonian and Latvian markets are estimated to have declined. The Baltic satellite subscriber base decreased during the year but average revenue per subscriber increased. MTG disposed of its Hungarian free-TV operations and Russian and international pay-TV channel businesses in 2015, and its Ukrainian pay-TV and Ghanaian and Nigerian operations in 2016.

MTG is proposing a 4% (5) increase in its annual ordinary cash dividend to the Annual General Meeting in May to SEK 12.00 (11.50), which corresponds to 93% (86) of the net profit from continuing operations before items affecting comparability, and is well in line with the dividend policy to distribute at least 30% of recurring net profit as an annual ordinary cash dividend.

Consolidated financial results

Key figures	2016	2015
Net sales	17,299	16,218
<i>Organic growth</i>	5.4%	0.7%
<i>Acquisitions/divestments</i>	1.2%	1.9%
Changes in FX rates	0.1%	0.4%
<i>Reported growth</i>	6.7%	3.0%
Operating income before items affecting comparability, continuing operations	1,347	1,268
<i>Operating margin before items affecting comparability</i>	7.8%	7.8%

CONTINUING OPERATIONS

Sales

MTG reported 6.7% (3.0) net sales growth to SEK 17,299m (16,218), which reflected healthy organic sales growth in the Nordic and International Entertainment business segments as well as the acquisitions made in the MTGx segment.

The Group's revenue mix reflected its diversified and balanced structure, with 33% (32) of revenues derived from advertising sales; 49% (52) from subscription revenues; and 18% (16) from other business-to-business and business-to-consumer sales.

Operating expenses

Group operating costs excluding items affecting comparability increased to SEK 15,952m (14,950) and were up 6.7% (3.1) at constant exchange rates. The increase reflected the adverse impact of the appreciation of the US dollar on content costs; investments in sports rights and programming; and the full year consolidation and investment in the expansion of the MTGx acquired businesses, which were offset to an extent by the savings from the Group's cost transformation programme and the disposal of a number of international entertainment businesses. Group depreciation and amortisation charges totalled SEK 241m (190).

Operating income before items affecting comparability

The Group's operating income increased to SEK 1,347m (1,268) before items affecting comparability, with an operating margin of 7.8% (7.8).

Items affecting comparability

The Group reported no items affecting comparability in 2016 and SEK 512m of items affecting comparability in 2015. The 2015 items comprised restructuring costs of SEK 652m, and a combined net gain of SEK 140m from the sale of Viasat Hungary, the Russian and international pay-TV channels businesses, and associated companies Sappa and Radio Nova as well as revaluation of acquisition related liabilities.

Financial net

Group financial income amounted to SEK 15m (24) and financial costs to SEK -96m (-54) which mainly reflected the non-cash effect of discounting options to acquire further shares in subsidiaries and earn-out liabilities at fair value.

Tax

Group tax charges totalled SEK 303m (194), corresponding to an effective tax rate of 24% (27).

Net income and earnings per share

The Group reported net profits from continuing operations of SEK 963m (533), and basic earnings per share of SEK 12.88 (7.45).

DISCONTINUED OPERATIONS

CTC Media

MTG had large scale business interests in Russia, and was therefore affected by the amendments to the Russian Mass Media Law to reduce the permitted level of aggregate foreign ownership in Russian mass media companies from the beginning of 2016. MTG's interest was therefore classified as a discontinued operation prior to its sale in May 2016, with the fair value reported at each quarter balance sheet date. The cash payment received was USD 123 million, which

was equivalent to SEK 1,023 million, and the divestment of the interest gave rise to a non-cash charge of SEK -1,002m, which was mainly due to the reclassification of accumulated currency translation differences. Net income from discontinued operations amounted to SEK -1,072m (-282).

Total net income and earnings per share

The Group reported total net income of SEK -109m (251), and basic earnings per share of SEK -3.19 (3.22).

Cash flow

(SEKm)	2016	2015
Cash flow from operations	940	1,051
Changes in working capital	-242	-555
Net cash flow from operations	697	497
Investment activities	-833	-1,467
Financial activities	-463	656
Net change in cash, continuing operations	-599	-314
Net change in cash, discontinued operations	1,023	90
Total net change in cash and cash equivalents	425	-224
Cash and cash equivalents	845	410
Return on capital employed % (excluding items affecting comparability)	21	26

Group capital expenditure of non-current assets totalled SEK 345m (293). Investments in shares in subsidiaries and associated companies amounted to SEK 607m (1,594). These investments included the acquisition of 21% of InnoGames and 22% of Engage Sports Media in 2016, and the acquisitions of stakes in Turtle, Zoomin.TV, Splay and DreamHack in 2015. The Group's reported return on capital employed for continuing operations and before items affecting comparability was 21% (26).

(SEKm)	2016	2015
Net debt	2,186	2,124
Equity to assets ratio %	28	29
Net debt to EBITDA ratio	1.4	1.5
Total borrowing	3,049	2,567

The Group had net debt of SEK 2,186m (2,124) at the end of the year, which was equivalent to 1.4x trailing 12 month EBITDA before items affecting comparability.

The Group paid out the approved cash dividend of SEK 767m (733) to shareholders in May 2016.

Acquisitions and divestments

On 1 March, MTG announced that it has signed an agreement to sell its Ukrainian pay-TV business to Ukraine's 1+1 Media Group for an undisclosed consideration. The sale was completed in October.

On 23 May, MTG announced that it had completed the sale of its 38% shareholding in Russian media company CTC Media, Inc. The cash payment received amounted to a total of USD 123 million, which was equivalent to SEK 1,023 million. MTG no longer has any interests in CTC Media or its operations.

On 25 May, MTG announced that it had acquired 22% of Engage Sports Media for an undisclosed consideration, with the option to increase its shareholding in the future. ESM enables premium sports rights owners to digitalise and monetize their content for global audiences.

On 1 December, MTG announced that it had completed the acquisition of 21% of InnoGames, a leading online games developer. MTG plans to acquire a further 14% of InnoGames in the first half of 2017 and has the right to acquire a further 16% of the company at the same valuation up until the end of September 2017, as well as options to increase the shareholding further over time. The transaction was based on an enterprise value of EUR 260 million for 100% of the company.

On 16 December, MTG announced the completion of the sale of its free-TV broadcasting and production businesses in Ghana and Nigeria to Econet Media Group for an undisclosed consideration. The previously announced sale of MTG's free-TV broadcasting business in Tanzania to the same buyer is pending local regulatory approval.

Significant Events

17 March - New Financial Reporting Structure

MTG announced changes to its financial reporting structure with effect from the first quarter of 2016. This followed the changes to MTG's management and operating structure during the Group's strategic transformation from a traditional broadcaster into a digital entertainment company. Comparable figures for prior periods were made available at www.mtg.com/our-performance/quarterly-results/.

23 March - Management team changes

MTG appointed Peter Nørrelund as Executive Vice President and CEO of MTG Sport, and Gabriel Catrina as Chief Strategy Officer. Joseph Hundah left his position as Executive Vice President and CEO of MTG Africa, and MTG EVP Jette Nygaard-Andersen took on responsibility for MTG's African operations.

29 June - MTG and Telenor sign new TV distribution agreement

MTG and Telenor signed a new multi-year agreement for the broader distribution of MTG's TV channels on Telenor's networks across the Nordic region. Telenor is the biggest network operator in the region and has 1.9 million TV subscribers, while MTG is the Nordic region's number one video entertainment provider and also operates its own TV platforms.

28 July - MTG launches Viaplay in the Baltics

MTG expanded its Viaplay video streaming service to Estonia, Latvia and Lithuania. MTG also signed a partnership agreement with mobile telecom operator Tele2 to make Viaplay available to their mobile customers across the Baltics.

9 September - MTG included in Dow Jones Sustainability Indices

MTG was included in the Dow Jones Sustainability Index for the fifth consecutive year. MTG was the only Swedish media company in the European index, and one of the top nine media companies in the global index.

27 September - MTG issues SEK 500 million bond

MTG successfully issued a SEK 500 million four year corporate bond. The notes were placed with Swedish and international investors, and the coupon is based on the three month STIBOR rate plus 1.4%.

A full list of MTG corporate events can be found at www.mtg.com.

Significant Events after the end of the year

25 January 2017 – MTG sells Czech TV holding

to invest further in InnoGames MTG announced that it had signed an agreement to sell its 50% shareholding in FTV Prima Holding to Denemo Media. The cash transaction values 100% of FTV Prima Holding at an enterprise value of EUR 237.4 million (approximately SEK 2,255 million). MTG also announced subsequently that it intends to use the proceeds from the sale to increase its ownership in InnoGames from 21% to 51%.

17 March 2017 - MTG sells Baltic broadcasting businesses

MTG announced that it had signed an agreement to sell its free-TV, pay-TV, digital and radio businesses in the Baltic region to Providence Equity Partners. The transaction values 100% of the business at an enterprise value of EUR 115 million (approximately SEK 1,094 million).

Segments

MTG has a new financial reporting structure from 2016 following the changes to MTG's management and operating structure during the Group's strategic transformation from a traditional broadcaster into a digital entertainment company. MTG is thereby divided into four operating business segments: Nordic Entertainment; International Entertainment; MTG Studios; and MTGx. The entertainment businesses are geographically defined and include pay-TV, free-TV and radio services, which are made available both on- and offline. MTG Studios consists of content production and distribution businesses. MTGx comprises the Group's global digital businesses, which currently include three verticals - esports, online gaming and digital video networks. The stated figures for 2016 and 2015 are based on the same operational structure.

All figures in the following business segment information exclude items affecting comparability.

Nordic Entertainment

(SEKm)	2016	2015
Net sales	11,139	10,487
o/w Free-TV & Radio	4,866	4,656
o/w Pay-TV	6,272	5,831
Costs	-9,768	-9,082
Operating income	1,370	1,405
Operating margin	12.3%	13.4%
Net sales growth		
Organic growth	6.2%	2.7%
Acquisitions/divestments	0.0%	-0.7%
Changes in FX rates	0.0%	0.2%
Reported growth	6.2%	2.2%

The segment comprise free-TV and radio operations; the Viasat satellite pay-TV platform and channel packages; and the Viaplay and Viasat streaming services.

Sales were up 6% (3) on an organic basis following high Viaplay subscriber intake and higher prices, new distribution agreements with third party networks, and coverage of popular sports events during the year.

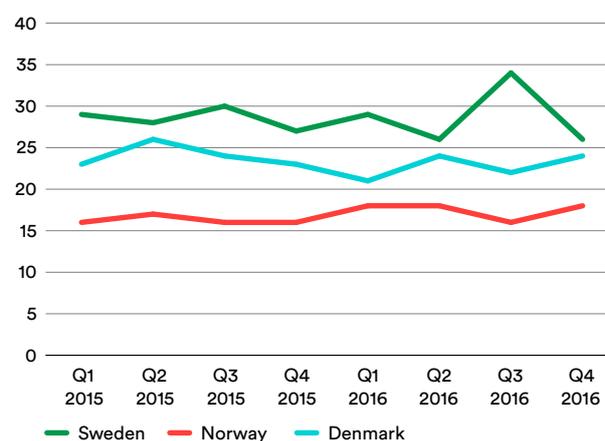
Operating costs were up more than sales due primarily to investments in content, the expansion of Viaplay, and the impact of the appreciation of the US dollar on content costs.

These were partly offset by transformation savings. Operating income was thereby down with a lower operating margin.

Free-TV and radio sales were up at constant FX, with higher sales in Sweden, Norway and Denmark. The Norwegian advertising market is estimated to have grown, while the Swedish and Danish markets are estimated to have declined. Advertising prices were up in all three markets. MTG's Norwegian and Swedish audience shares were up, while the Danish share was down for the full year.

Commercial share of viewing (%)

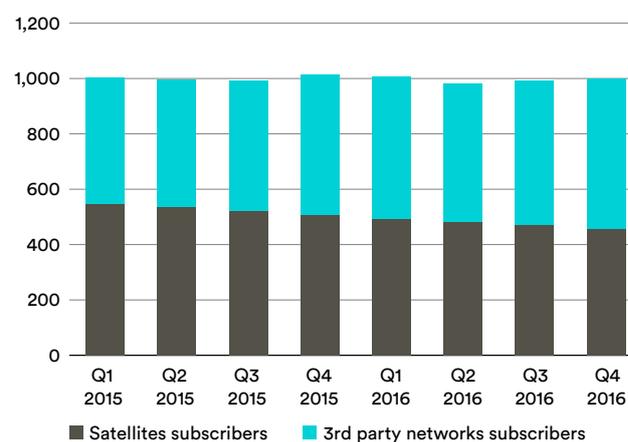
(Target audience: 15-49)



Pay-TV sales were up at constant FX following Viaplay subscriber intake and price rises. The subscriber base (excluding Viaplay) declined slightly as the growth in the third party network subscriber base almost offset the decline in the satellite base. Satellite ARPU was up following price increases.

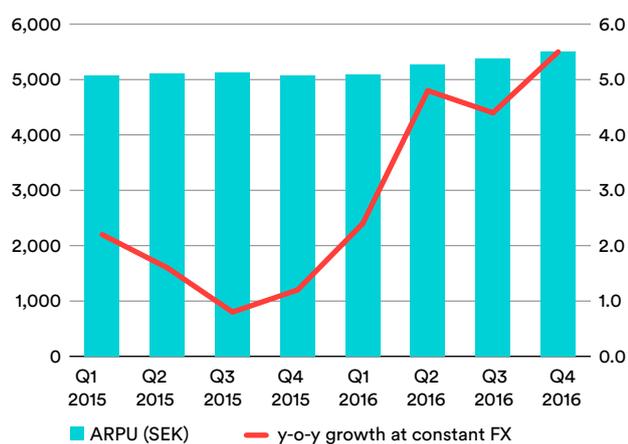
Satellite and 3rd party subscribers (excluding Viaplay)

(000's)



Annualised revenue per satellite subscriber (ARPU) and growth at constant FX

SEK (left side); % (right side)



International Entertainment

(SEKm)	2016	2015
Net sales	3,404	3,796
o/w Free-TV & Radio	2,769	2,703
o/w Pay-TV	635	1,093
Costs	-2,965	-3,485
Operating income	438	311
Operating margin	12.9%	8.2%
Net sales growth		
Organic growth	6.7%	5.5%
Aquisitions/divestments	-18.3%	-1.5%
Changes in FX rates	1.3%	-0.2%
Reported growth	-10.3%	3.8%

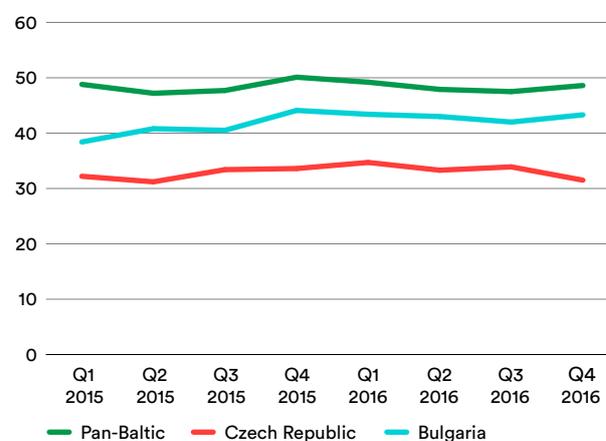
The segment comprise the non-Nordic free-TV and radio operations; Viasat satellite pay-TV platform; pay-TV channels; and Viaplay streaming service. The key operating markets were the Baltics, Bulgaria and the Czech Republic.

Sales were up 7% (6) on an organic basis following higher sales across the board. Reported sales were down due to the divestment of the Hungarian free-TV operations and the Russian and international pay-TV channel businesses in 2015, the Ukrainian pay-TV business from the end of 2015 and the Ghanaian and Nigerian operations at the end of 2016. Operating costs were also down and operating income increased substantially with a higher operating margin.

Free-TV and radio sales were up at constant FX and up even more on an organic basis, with higher sales in all but one market. The Bulgarian, Czech and Lithuanian advertising markets are estimated to have grown, while the Estonian and Latvian markets are estimated to have declined. MTG's audience shares were up in all but one market for the full year.

Commercial share of viewing (%)

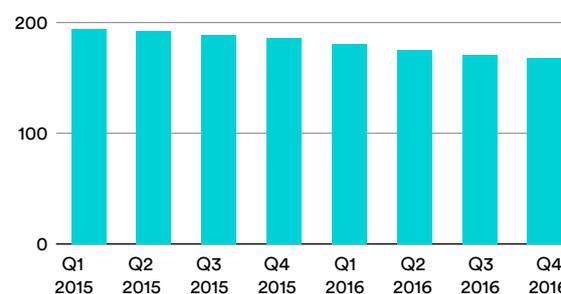
Target audience: Baltics 15-49, Czech Republic 15-54, Bulgaria 18-49



Pay-TV sales were up on an organic basis, and included a promising start for Viaplay in the Baltics, as well as higher sales in Bulgaria and for Trace TV. The subscriber base in the Baltics (excluding Viaplay) declined but satellite ARPU was up following price increases.

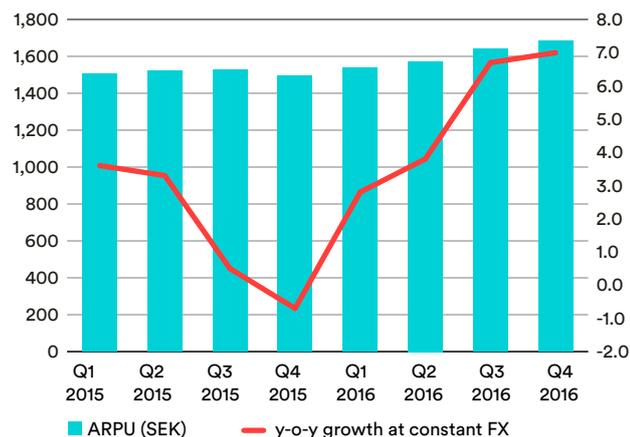
Satellite subscribers

(000's)



Annualised revenue per satellite subscriber (ARPU) and growth at constant FX

SEK (left side); % (right side)



MTG Studios

(SEKm)	2016	2015
Net sales	1,777	1,780
Costs	-1,700	-1,777
Operating Income	77	3
Operating margin	4.4%	0.2%
Net sales growth		
Organic growth	2.2%	-14.2%
Acquisitions/divestments	0.0%	0.0%
Changes in FX rates	-2.4%	1.0%
Reported growth	-0.2%	-13.2%

MTG Studios comprise a number of leading creators, producers and distributors of television shows, commercials, events and branded content. These include the nice entertainment group of 28 content production and distribution companies in 16 countries.

Sales were up 2% (-14) on an organic basis and driven by continued high demand for scripted drama and branded entertainment content. Operating costs were down following the implementation of cost optimisation programmes. The operating income and the operating margin were both up.

MTGx

(SEKm)	2016	2015
Net sales	1,326	451
Costs	-1,577	-562
Operating income	-251	-111
Operating margin	-18.9%	-24.7%
Reported growth	194.3%	-

MTGx is the group's global digital video entertainment business and delivers next generation entertainment experiences in esports, digital video networks and online gaming. MTGx comprise Turtle Entertainment (74% owned), Zoomin.TV (51% owned), Splay (81% owned), DreamHack (100% owned), InnoGames (21% owned) and Engage Sports Media (22% owned), as well as a number of start-ups.

Sales were up 194% following the acquisition of Turtle, Zoomin.TV, Splay and DreamHack in the second half of 2015, and continued high levels of growth for the combined businesses in 2016. Operating costs were also up due to the consolidation of the businesses and investments in the rapid expansion of the esports businesses in particular to include more events, more leagues and more studios around the world. Operating losses therefore also increased. Following the Group's annual impairment tests, MTG reported a SEK 95m impairment of the goodwill related to Zoomin.TV due to ongoing pressure on online advertising prices. This was fully offset by a corresponding reduction in the value of the liability related to the option to acquire further shares in the company.

Outlook

MTG is executing on its strategy to transform its business from a primarily traditional national broadcast model to a primarily digital video entertainment model, in order to capitalise on the shift to online, on mobile and on demand media consumption with ever increasing social applications. MTG's objective is to manage this migration while delivering long term sales and profit growth, and returning cash to shareholders. MTG has substantially optimised its cost base, in order to offset adverse currency exchange rate movements and enable investment in high quality content and enhanced user experiences, and the expansion of its digital entertainment business. MTG is well positioned for further growth because it has more customers today than ever before, and these customers are spending more time and money with MTG products, which are more broadly available, more relevant and more popular than ever.

MTG continues to review and realign its portfolio of operations, in order to ensure that the Group's resources are focused on those areas that offer the greatest potential returns. MTG's ambition is to shape the future of entertainment and to be the leading digital video entertainment player in each of its markets.

Risks and Uncertainties

The text below describes the major risk factors affecting the Group's operations, and is divided into business operations and financial operations.

MTG operates in a highly competitive environment that is subject to rapid change

Competition for viewers, subscribers, advertising and distribution is intense from broadcasters, cable and broadband networks, satellite and terrestrial platforms, online and mobile operators, movie studios and independent content producers and distributors, video gaming sites and other media, as well as pirated content. The Company's ability to compete successfully is dependent on a number of factors, including the ability to adapt to new technologies and product innovations, to achieve widespread distribution, and to sustainably develop quality content and user communities. The Company currently depends on a number of third-party network operators for the distribution of programming, which represents a significant proportion of its revenues.

MTG is also increasingly reliant on a wide variety of technological platforms, and could therefore face the risk of new market entrants, as well as new ways to distribute content. This could mean significant change to the entertainment industry and potentially cause disruption to established contracts and negotiation structures, as well as business practices, technological standards for distribution of content, or ways that advertising is traded and sold in the online environment. The increasing shift towards online viewing and platforms could also potentially make the Group a target for cyber-attacks, intrusions, disruptions or denials of service.

Economic and political risks

MTG sold its fully owned subsidiaries in Russia in 2015 and its shares in CTC Media were divested through a buy back in 2016. Procedures to liquidate a few 50% owned companies are still pending in January 2017.

The Company also has operations and investments in emerging markets in Central and Eastern Europe and African markets. These markets have different risk profiles than developed markets, in terms of the prevailing economic and political systems, legal and tax regimes, and standards of corporate governance and business practices.

Potential risks inherent in markets with evolving economic and political environments include potentially inadequate protection of foreign investments or intellectual property rights, foreign exchange controls, higher tariffs and other levies, as well as longer payment cycles.

Further expansion results in an increased exposure to foreign currencies. Substantial foreign exchange rate movements can cause significant impacts on the Group's income statements, financial position and cash flows. MTG hedges the main part of its US dollar and Euro denominated contracted outflow on a 16-36 month forward basis, in order to reduce the impact of short-term currency transaction effects on the Group's cost base. The Group's equity is not hedged.

MTG's business is affected by laws, rules and regulations

The Group's businesses are regulated in many different jurisdictions. The regimes which regulate the Group's business include both European Union and national laws and regulations related to broadcasting, telecommunications, competition (antitrust) and taxation. Changes in such laws and regulations, particularly in relation to licensing requirements, access requirements, programming transmission and spectrum specifications, consumer protection, taxation, or other aspects of the Group's business, or those of any of its competitors, could have a materially adverse effect on the Group's business, financial condition or operational results.

Current potential changes in EU law that may have an adverse impact on the Group's business include the following:

- In May 2015 the European Commission launched its digital single market strategy. One of its primary goals is increased consumer access to digital services across borders within the EU. A new EU Regulation on portability of online content services was announced in December 2015 and is expected to come into force in late 2017, allowing subscribers to the Group's Viaplay streaming service to access the service when travelling in the EU. The Regulation is not expected to pose a significant risk to the Group's business.
- In 2014 the European Commission opened an anti-trust investigation into the cross-border provision of pay-TV services in the EU. A decision is possible during 2017.
- In 2015 the European Commission initiated a sector enquiry into e-commerce in Europe, which seeks to examine the barriers to accessing goods and services online across borders. A decision is possible during 2017.
- In May 2016 the European Commission published a proposal to amend certain provisions of the Audiovisual Media Services Directive to reflect market, consumer and technological changes in the ten years since the Directive was last updated.

Whilst amendments to this Directive could pose a risk to the Group's business, it is not expected that the Directive will be finalized until late 2018.

- In January 2016 a new General Data Protection Regulation was approved by the European Parliament and Council and will take effect in January 2018, replacing the EU Data Protection Directive 95/46/EC. The new regulation will result in changes to how the Group deals with the data of EU Citizens. MTG has reviewed the legal implications of the Regulation, and while its enactment will result in additional administration and associated costs to bring the Group's data protection policies and procedures in line, MTG considers that the Regulation will not pose a significant risk to the Group's business.
- On 23rd June 2016 the UK voted to leave the European Union. Subsequently, it was announced that the UK will trigger Article 50 of the Treaty on European Union by the end of March 2017 and leave the EU by spring 2019. The UK's decision to leave the European Union and to negotiate a new trading relationship could impact the Group's UK broadcasting operation should the UK not be able to secure EU single market access for the audiovisual sector.
- In September 2016, the European Commission published a proposal for a Regulation on the exercise of copyright and related rights applicable to certain online transmissions of broadcasting organisations. The Proposal extends certain principles of the 1993 Satellite and Cable Directive to the online environment. Whilst consideration of the Proposal is at an initial stage, it could pose a risk to the Group's business in its current form. The effect of the Proposal would be to end exclusive territorial rights as it would enable all service providers to reach out to consumers in 28 Member States, whilst only having to clear copyright in one Member State.

MTG is reliant on access to financing

The Company is exposed to risks associated with disruptions in the financial markets, which could make it more difficult and/or more expensive to obtain financing in the future. Potential events affecting this may include the adoption of new regulations, implementation of recently enacted laws or new interpretations, or the enforcement of existing laws and regulations applicable to financial institutions, the financial markets or the financial services industry, which could result in a reduction in the amount of available credit or increases in the cost of credit. The Groups' existing credit facilities are currently considered sufficient.

Financial policies and risk management

Financial policy

The Group's financial risk management is centralised to the parent company in order to capitalise on economies of scale and synergy effects, as well as to minimise operational risks. The Group's financial policy is subject to review and approval by the Board of Directors and constitutes a framework of guidelines and rules for financial risk management and financial activities in general. The Group's financial risks are continuously evaluated and monitored to ensure compliance with the Group's financial policy. The exposures are described in Note 21.

Foreign exchange risk

Foreign exchange risk is divided into transaction exposure and translation exposure.

Transaction exposure

Transaction exposure is hedged mainly for unmatched contracted programme acquisition outflows, through forward exchange agreements on the basis of 36 months forward.

Translation exposure

Translation exposure arises from the conversion of the Group's subsidiaries and associated companies' earnings and balance sheets into the Swedish krona reporting currency from other currencies. Since many of the subsidiaries report in currencies other than Swedish krona, the Group is exposed to exchange rate fluctuations. Translation exposure is not hedged.

Interest rate risk

MTG's sources of funding are primarily shareholders' equity, cash flows from operations and external borrowing. Interest-bearing debt exposes the Group to interest rate risk. The Group does not currently use derivative financial instruments to hedge its interest rate risks.

Financing risk

External borrowing is managed centrally in accordance with the Group's financial policies. Loans are primarily taken up by the parent company, and transferred to subsidiaries as internal loans or capital injections. There are also companies, including those where the Group owns a 50% interest or less, who have external loans and/or overdraft facilities connected directly to these companies.

Refinancing risk

The refinancing risk is managed by seeking to diversify funding sources and maturities, and by typically initiating the refinancing of all loans twelve months prior to maturity.

Credit risk

The credit risk with respect to MTG's trade receivables is diversified among a large number of customers, both private

individuals and companies. High credit ratings are required for all material credit sales and solvency information is obtained to reduce the risk of bad debt.

Insurable risks

The parent company ensures that the Group has sufficient insurance cover, including business interruption, director and officer liabilities, and asset losses. This cover comprises corporate umbrella solutions to cover most territories.

Business Ethics

MTG has adopted the following principles and guidelines, in line with the Group's values and corporate responsibility, in conducting its business:

- We act with honesty and integrity
- We are committed to free and open competition
- We comply with laws and regulations as well as corporate policies
- We comply with all competition and anti-trust laws
- We do not participate in party politics and never make political contributions
- We strictly prohibit any bribes and other unlawful payments

Employees

An organisation is defined by its ability to create change, adapt to its environment and capitalise on the opportunities presented to it. The speed and efficiency with which this is accomplished is what determines success, and its employees are the most important factor in achieving goals and objectives. MTG's Code of Conduct, mission statement and employee guidelines have all been presented and communicated to employees by local management in each of the countries in which MTG operates. Internal surveys have been put in place to measure the extent to which employees embrace Group policies, to provide feedback on their views on how the Company is managed, as well as any other feedback regarding the implementation of the Group's policies. The most essential of these policies are:

- We promote equal opportunities irrespective of race, ethnicity, religion, nationality, gender, mental or physical handicaps, marital status, age, sexual orientation or any other status unrelated to the individual's ability to perform
- We value diversity
- We do not tolerate discrimination or sexual, physical or mental harassment
- We seek to provide a healthy, safe and clean working environment
- We respect and support each other

The Group employed 3,805 (3,995) full time employees at the end of 2016. Details of the average number of employees during the year and the aggregated remuneration for the year are presented in Notes 24 and 25.

Executive Remuneration

The guiding principles approved by the 2016 Annual General Meeting can be found in Note 25. Senior executives covered by these guidelines include the Executive Management. The guiding principles have been followed during 2016.

Proposal for 2017 Executive Remuneration guidelines

The Board proposes the following guidelines for determining remuneration for MTG's CEO and other senior executives (the "Group Management") as well as members of the Board if they are remunerated outside their directorship.

Remuneration guidelines

The objective of the guidelines is to ensure that MTG can attract, motivate and retain senior executives, within the context of MTG's international peers, which primarily consists of Nordic and European media, telecom and global online companies. The aim is to create a remuneration that is market competitive, well balanced and reflects individual performance and responsibility, both short-term and long-term, as well as MTG's overall performance and align the incentives for the Group Management with the interests of the shareholders. The intention is that the Group Management shall have a significant long term shareholding in MTG and that remuneration to the Group Management shall be based on the pay for performance principle.

Remuneration to the Group Management shall consist of fixed salary, short-term variable remuneration paid in cash ("STI") the possibility to participate in long-term share or share price related incentive programs ("LTI") as well as pension and other customary benefits.

Fixed salary

The fixed salary for the members of the Group Management shall be competitive and based on the individual responsibilities and performance.

Variable remuneration

The STI shall be based on fulfillment of established targets for the MTG Group and in the area of responsibility for each member of the Group Management. The result shall be linked to measurable targets (qualitative, quantitative, general, individual). The targets within each area of responsibility are defined to promote MTG's development in the short and long-term.

The maximum payment under the STI shall generally not exceed 100 percent of each Group Management member's fixed salary. Payment of part of the STI is conditional upon it being invested in MTG shares and on those shares being held for an agreed period of time.

The LTI shall be linked to certain pre-determined financial and/or share or share-price related performance criteria and shall ensure a long-term commitment to the development of the MTG Group and align the Group Management's incentives with the interests of the shareholders.

Pension and other benefits

The Group Management shall be entitled to pension commitments that are customary, competitive and in line with market conditions in the country in which the member of the Group Management is employed. Pension commitments will be secured through premiums paid to insurance companies.

MTG provides other benefits to the members of the Group Management in accordance with local practice. Other benefits can include, for example, a company car and health care. Occasionally, housing allowance could be granted for a defined period.

Notice of termination and severance pay

The maximum notice period of the Group Management members' contract is twelve months during which time salary payment will continue. MTG does not generally allow any additional contractual severance payments to be agreed.

Compensation to Board Members

Board members elected at General Meetings may in certain cases receive a fee for services performed within their respective areas of expertise, outside of their Board duties. Compensation for these services shall be paid at market rates and be approved by the Board.

Deviations from the guidelines

The Board may deviate from the above guidelines on a case by case basis. For example, additional variable remuneration or cash payments may be paid in the case of exceptional performance or in special circumstances such as recruitment or retention. In such cases the Board will explain the reason for the deviation at the following Annual General Meeting.

Share-based long-term incentive plans

The Group has three outstanding share-based long-term incentive plans, approved in 2014, 2015 and 2016. For information about these programmes, see Note 25 and www.mtg.com.

Parent Company

Modern Times Group MTG AB (publ.) is the Group's parent company and is responsible for Group-wide management, administration and finance functions. MTG's financial policy includes providing a central cash pool or financing through internal loans to support the operating companies.

The MTG parent company reported net sales of SEK 45 (51) million in 2016. Net interest and other financial items totalled SEK 235 (401) million, and included SEK 15 (153) million of dividends received from subsidiaries. Income before tax and appropriations amounted to SEK 4 (135) million. Income after tax and appropriations amounted to SEK 139 (133) million. The parent company had cash and cash equivalents of SEK 606 (115) million at the end of the period. SEK 5,871 (5,849) million of the SEK 5,871 million total available credit facilities, including SEK 371 million overdraft facilities, was unutilised at the end of the reporting period.

Environmental impact

The Company does not own or operate any businesses in Sweden that are subject to reporting obligations to authorities relating to effects on the environment, or which require compulsory licensing. MTG chooses to report the environmental impact for travel and offices in the Corporate Responsibility Report on a voluntary basis.

Proposed appropriation of earnings

The following funds are at the disposal of the shareholders as at 31 December 2016 (SEK):

Premium reserve	267,111,846
Retained earnings	5,507,342,854
Net income 2016	139,278,413
Total	5,913,733,113

The Board of Directors proposes that an increased annual cash dividend of SEK 12.00 (11.50) per share be paid to shareholders for the twelve months ended 31 December 2016, and that the remaining amount be carried forward. Of the amount carried forward, SEK 267 million is to be carried forward to the premium reserve. The total proposed dividend payment for 2016 would amount to a maximum of SEK 801,385,488 based on the maximum potential number of outstanding shares as at the record date, and represent 93% (86) of the Group's net income from continuing operations excluding items affecting comparability.

The MTG Share

MTG's shares are listed on Nasdaq Stockholm's Large Cap list under the symbols 'MTGA' and 'MTGB'. MTG's market capitalisation, as at the close of the trading on Nasdaq Stockholm on the last business day of 2016, was SEK 18.0 (14.4) billion. The MTGB share price was SEK 270.00 (216.70) as at the close of trading on the last business day of 2016.

Shareholders

The total number of shareholders according to the share register held by Euroclear Sweden AB (Swedish Securities Centre) was 21,478 (19,374) at the end of 2016.

The shares held by the ten largest shareholders corresponded to approximately 46% (45) of the share capital and 63% (65) of the voting rights. Swedish institutions and mutual funds owned approximately 53% (51) of the share capital; international investors owned approximately 38% (41); and Swedish private investors owned approximately 9% (8).

MTG held 118,308 Class B shares and 865,000 Class C shares as treasury shares at the end of 2016. The total number of issued shares at the end of 2016 was 67,647,124, comprising 5,007,793 Class A shares; 61,774,331 Class B shares; and 865,000 Class C shares.

Shareholders as at 31 December 2016

Name	Class A Shares	Class B Shares	Total	Capital	Votes
Kinnevik AB	4,461,691	9,042,165	13,503,856	20.0%	48.0%
Nordea Funds		5,281,152	5,281,152	7.8%	4.7%
The Capital Group Companies Inc.		3,486,081	3,486,081	5.2%	3.1%
Handelsbanken Funds		2,934,000	2,934,000	4.3%	2.6%
Öhman Funds		1,390,634	1,390,634	2.1%	1.2%
SEB Funds		1,109,257	1,109,257	1.6%	1.0%
Lannebo Funds		875,000	875,000	1.3%	0.8%
Catella Funds		828,192	828,192	1.2%	0.7%
DFA Funds		647,362	647,362	1.0%	0.6%
Swedbank Robur Funds		628,706	628,706	0.9%	0.6%
Norges Bank		588,026	588,026	0.9%	0.5%
Folksam		536,162	536,162	0.8%	0.5%
Enter Funds		499,200	499,200	0.7%	0.4%
SPP Funds		492,584	492,584	0.7%	0.4%
Oddo Meriten Funds		487,088	487,088	0.7%	0.4%
Vanguard Funds		461,417	461,417	0.7%	0.4%
Skandia Funds		455,088	455,088	0.7%	0.4%
Second Swedish National Pension Fund		421,540	421,540	0.6%	0.4%
Skandia Life	166,214	251,250	417,464	0.6%	1.7%
Others	379,888	31,241,119	31,621,007	46.7%	31.3%
Total outstanding shares	5,007,793	61,656,023	66,663,816	98.5%	100.0%

Source: Euroclear Sweden AB

Share distribution, number	Number of shareholders	%	Number of shares	%
1 – 1,000	19,872	92.5%	3,502,734	5.3%
1,001 – 5,000	1,194	5.6%	2,529,709	3.8%
5,001 – 10,000	152	0.7%	1,091,522	1.6%
10,001 – 50,000	149	0.7%	3,400,323	5.1%
50,001 – 100,000	35	0.2%	2,439,967	3.7%
100,001 – 15,000,000	76	0.4%	53,699,561	80.6%
Total outstanding shares at 31 December 2016	21,478	100%	66,663,816	100%

Share capital and votes

Each Class A share is entitled to ten voting rights. Each Class B and C share is entitled to one voting right. The Class C shares are not entitled to dividend payments. The Class C shares are issued and repurchased as part of the MTG performance based incentive plans approved by the Annual General Meetings of shareholders.

In 2016, 28,892 Class B shares were exercised as part of the 2013 long term incentive plan and increased the number of outstanding shares to 66,663,816. In 2015, 5,780 Class B shares were exercised as part of the 2012 long term incentive plan. The total number of voting rights including treasury shares was 112,717,261 (112,717,261) as at 31 December 2016. There were no changes to the number of issued shares in 2016 or 2015. For further information, please see note 17 – Shareholders' equity.

The Group's share capital amounted to SEK 338 (338) million at the end of the year. For changes in the share capital between 2016 and 2015, please see the report entitled "Consolidated statement of changes in equity".

Dividends

The parent company paid an ordinary dividend of SEK 11.50 (11.00) per share to shareholders in 2016, amounting to a total payment of SEK 767 (733) million.

Share buy-back

The 2016 and 2015 Annual General Meetings approved a mandate to authorise the Board of Directors to buy back MTG Class A or Class B shares up until the 2017 and 2016 Annual General Meetings, respectively. The Group's shareholding in its own stock may not exceed 10% of the total number of issued shares. There were no Class A shares or Class B shares bought back in 2016 or 2015.

Reclassifications

In accordance with the Articles of Association, and the Extraordinary General Meeting of shareholders in 2009, the Board of Directors approved reclassifications from Class A to Class B shares in 2014. There were no requests for reclassifications in 2016 or 2015.

Issued, reclassified and repurchased shares

Parent company	Class A shares	Class B shares	Class C shares	Total
Number of issued shares as at 31 December 2016	5,007,793	61,774,331	865,000	67,647,124

The number of issued shares of each class is unchanged since 2014. The Class C shares are redeemable and may, upon the decision of the Board of Directors, be reclassified into Class B shares. The quota value is SEK 5.00 per share.

Share-based long-term incentive plans

If all share awards granted to senior executives and key employees as at 31 December 2016 were exercised and all shares awarded, the issued share capital of the Company would increase by 742,231 (600,157) Class B shares, and be equivalent to a dilution of 1.1% (0.9) of the issued capital and 0.7% (0.5) of the related voting rights as at the end of 2016. Further details about the programmes can be found in Note 25.

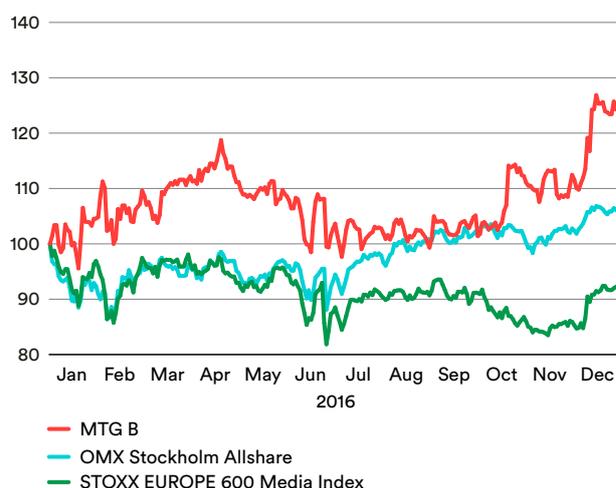
Outstanding retention and performance rights granted

Programmes	No. of rights
LTIP 2014	141,373
LTIP 2015	267,219
LTIP 2016	333,639
Number of outstanding rights as at 31 December 2016	742,231

Articles of Association

The Articles of Association do not include any provisions for appointing or dismissing members of the Board of Directors or for changing the articles. Outstanding shares may be freely transferred without restrictions. MTG is not aware of any agreements between shareholders that limit the right to transfer shares.

Share performance index



Corporate Governance Report

The Company's governance is based on the Articles of Association, the Swedish Companies Act, the Swedish Annual Accounts Act, the listing rules of Nasdaq Stockholm, the Swedish Code of Corporate Governance (the Code), and other relevant Swedish and international laws and regulations.

Governance structure



Shares and shareholders

The share capital consists of Class A, Class B and Class C shares. The holder of one Class A share is entitled to ten voting rights. Holders of Class B and Class C shares are entitled to one voting right for each share. The Class A and B shares entitle the holder to the same proportion of assets and earnings and carry equal rights in terms of dividends. The holder of a Class C share is not entitled to dividends. For further information about the Company's shares, see The MTG share on pages 23-24.

Information regularly provided to shareholders includes interim reports and full year reports, Annual Reports and press releases on significant events occurring during the year. All reports, press releases and other information can be found at www.mtg.com.

Annual General Meeting

The Annual General Meeting is the highest decision-making body in a limited liability company and it is at the Annual General Meeting where all shareholders can exercise their right to decide on issues affecting the Company and its operations.

The authority and work of the Annual General Meeting are primarily based on the Companies Act and the Code as well as on the Articles of Association adopted by the Annual General Meeting.

The Annual General Meeting of shareholders shall be held within six months after the end of the financial year. At the Annual General Meeting, resolutions shall be passed with respect to the adoption of the income statement and balance sheet as well as the consolidated income statement and balance sheet, the disposition of the Company's earnings according to the adopted balance sheet, the discharge of liability for the Board of Directors and the Chief Executive Officer, appointment of the Board of Directors and their Chairman and the Company's auditors, and certain other matters provided for by law and the Articles of Association.

Shareholders wishing to have matters considered at the Annual General Meeting should submit their proposals in writing at least seven weeks before the Annual General Meeting in order to guarantee that their proposals may be included in the notice to the Meeting. Details on how and when to submit proposals to MTG can be found at www.mtg.com.

Shareholders who wish to participate in the Annual General Meeting must be duly registered with Euroclear Sweden AB. The shareholders may then attend and vote at the meeting in person or by proxy. A shareholder wishing to attend the Annual General Meeting must notify MTG of his or her intention to attend. The manner in which to notify MTG can be found in the notice convening the Annual General Meeting.

Those shareholders who cannot attend the Annual General Meeting in person and wish to be represented by a proxy, must authorise the proxy by issuing a power of attorney. If such power of attorney is issued by a legal entity, an attested copy of the certificate of registration must be attached. The original power of attorney and the certificate of registration, where applicable, are to be sent to Modern Times Group MTG AB, c/o Computershare AB, P.O. Box 610, SE-182 16 Danderyd, Sweden, well in advance of the Meeting. The form to use for a power of attorney can be found at www.mtg.com.

The Annual General Meeting for the 2016 financial year will be held on 9 May 2017 in Stockholm.

The Nomination Committee

The Nomination Committee's tasks include:

- To evaluate the Board of Directors' work and composition
- To submit proposals to the Annual General Meeting regarding the election of Board Directors and the Chairman of the Board
- To prepare proposals regarding the election of Auditors in cooperation with the Audit Committee (when appropriate)
- To prepare proposals regarding the fees to be paid to Board Directors and to the Company's Auditors

- To prepare proposals for the Chairman of the Annual General Meeting
- To prepare proposals for the administration and order of appointment of the Nomination Committee for the Annual General Meeting

Following a resolution of the Annual General Meeting of Modern Times Group MTG AB in May 2016, a Nomination Committee was established, consisting of major shareholders. The Nomination Committee comprises David Chance, Chairman of the MTG Board of Directors; Cristina Stenbeck, appointed by Kinnevik AB; Erik Durhan, appointed by Nordea Funds; and Yvonne Sörberg, appointed by Handelsbanken Funds. Cristina Stenbeck was appointed as the Chairman of the Nomination Committee at their first meeting. The members of the Nomination Committee do not receive any remuneration for their work.

The Nomination Committee will submit a proposal for the composition of the Board of Directors and Chairman of the Board to be presented to the 2017 Annual General Meeting for approval. Shareholders wishing to propose candidates for election to the Modern Times Group MTG AB Board of Directors should submit their proposals in writing.

The Board of Directors as at 31 December 2016

The Board of Directors of Modern Times Group MTG AB comprises six Non-Executive Directors. The members of the Board of Directors are David Chance, Joakim Andersson, Simon Duffy, Donata Hopfen, John Lagerling and Bart Swanson. The Board of Directors' Chairman David Chance, Joakim Andersson, Simon Duffy, and Bart Swanson were re-elected, while Donata Hopfen and John Lagerling were elected for the first time at the 2016 Annual General Meeting. Michelle Guthrie and Alexander Izosimov declined re-election. Biographical information on each Board member is provided on pages 30–31.

Responsibilities and duties of the Board of Directors

The Board of Directors has the overall responsibility for MTG's organisation and administration. The Board of Directors is constituted to provide effective support for, and control of, the activities of the Executive Management of the Company. The Board has adopted working procedures for its internal activities that include rules pertaining to the number of Board meetings to be held, the matters to be handled at such regular Board meetings, and the duties of the Chairman. The work of the Board is also governed by rules and regulations that include the Companies Act, the Articles of Association, and the Swedish Corporate Governance Code.

In order to carry out its work more effectively, the Board has appointed a Remuneration Committee and an Audit Committee.

These committees handle business within their respective segment and present recommendations and reports on which the Board may base its decisions and actions. However, all members of the Board have the same responsibility for decisions made and actions taken, irrespective of whether issues have been reviewed by such committees or not.

The Board has also adopted procedures for the provision of instructions to the Chief Executive Officer. These procedures require that investments in non-current assets of more than SEK 2,000,000 have to be approved by the Board. The Board also has to approve large-scale programming investments and other significant transactions including acquisitions and closures or disposals of businesses. In addition, the Board has also issued written instructions specifying when and how information, which is required in order to enable the Board to evaluate the Group's and its subsidiaries' financial positions, should be reported.

Ensuring quality in financial reporting

The working procedures determined annually by the Board include instructions on the type of financial reports and similar information which are to be submitted to the Board. In addition to the full-year report, interim reports and the annual report, the Board reviews and evaluates comprehensive financial information regarding the Group as a whole and the entities within the Group.

The Board also reviews, primarily through the Group's Audit Committee, the most important accounting principles applied by the Group in financial reporting, as well as major changes in these principles. The tasks of the Audit Committee also include reviewing reports regarding internal control and financial reporting processes, as well as internal audit reports submitted by the Group's internal audit function. The Group's external auditors report to the Board as necessary, but at least once a year. A minimum of one such meeting is held without the presence of the CEO or any other member of the Executive Management. The external auditor also attends the meetings of the Audit Committee. Minutes are taken at all meetings and are made available to all Board members and to the auditor.

Evaluation of the Board of Directors and the Chief Executive Officer

Each year in Q4 the Chairman of the Board circulates a questionnaire asking the Directors of the Board to individually assess how they think the Board itself has performed during the past year. Questions focus on whether the Board is adding value to the organisation and enhancing its performance through examination of Board structure and composition, its operation and effectiveness and its role in monitoring the execution of agreed strategies. The survey also includes an individual performance review.

Answer options include both a quantitative ranking system as well as an opportunity to provide any relevant comments, particularly in relation to ideas for improvement. At the Q4 Board Meeting the Chairman provides the full Board with

a report of the outcome of the Board evaluation process. This summary is also presented by the Chairman and discussed with the Nomination Committee.

Board of Directors during 2016

Name	Position	Born	Nationality	Elected	Independent to major shareholders	Independent to company and its management	Remuneration Committee	Audit Committee	Corporate Responsibility Advisory Group
David Chance	Chairman	1957	American and British	1998	Yes	Yes	Member		
Joakim Andersson	Member	1974	Swedish	2015	No	Yes	Member	Member	Member
Simon Duffy	Member	1949	British	2008	Yes	Yes		Chairman	Chairman
Michelle Guthrie	Member until 24 May 2016	1965	Australian	2013	Yes	Yes		Member	Member
Donata Hopfen	Member from 24 May 2016	1976	German	2016	Yes	Yes		Member	
Alexander Izosimov	Member until 24 May 2016	1964	Russian and Swedish	2008	Yes	Yes	Chairman		
John Lagerling	Member from 24 May 2016	1976	Swedish	2016	Yes	Yes		Member	
Bart Swanson	Member	1963	American	2015	Yes	Yes	Chairman		

Board working procedures

Remuneration Committee

The Remuneration Committee comprises Bart Swanson as Chairman, David Chance and Joakim Andersson. The Board of Directors commissions the work of the Remuneration Committee. The responsibilities of the Remuneration Committee include:

- issues related to salaries, pension plans, bonus programmes
- advice to the Board on proposals for the Guidelines for Remuneration applicable to the Chief Executive Officer and Executive Management
- the review and monitoring of the application of the Guidelines for Remuneration, the variable remuneration programmes and of the remuneration structure and levels of remuneration within MTG
- advice to the Board on long-term incentive schemes

Audit Committee

The Audit Committee comprises Simon Duffy as Chairman, Joakim Andersson, Donata Hopfen and John Lagerling. The Audit Committee's responsibility is to:

- monitor the company's financial reporting
- monitor the company's efficiency relating to internal control, internal audit and risk management
- keep informed regarding the audit of the annual report and the consolidated accounts

- review and monitor the impartiality and independence of the auditor, with special attention to the services provided other than audit

- assist the Nomination committee to prepare for the election of auditors at the Annual General Meeting

In addition, the Audit Committee should, when applicable, monitor and secure the quality and fairness of transactions with related parties.

Corporate Responsibility Advisory Group

Further to the Board committees, a CR Advisory Group was established in 2013 to support the Board on corporate responsibility topics. The Group consists of Board Directors Simon Duffy and Joakim Andersson.

Remuneration of Board members

The remuneration of the Board members is proposed by the Nomination Committee, comprising the Company's largest shareholders and approved by the Annual General Meeting. The Nomination Committee proposal is based on benchmarking of peer group company compensation and company size. Information on the remuneration of Board members is provided in Note 25. Board members do not participate in the Group's incentive schemes.

Work of the Board during 2016

The Board reviewed the financial position of Modern Times Group MTG AB and the Group on a regular basis during the year. The Board also regularly dealt with matters involving acquisitions, the establishment of new operations, and mat-

Attendance at Board and Committee Meetings

Board of Directors	Board meetings	Audit Committee	Remuneration Committee	Corporate Responsibility Advisory Group
Meetings until the Annual General Meeting on 24 May 2016	1	1	2	1
Meetings after the Annual General Meeting on 24 May 2016	6	3	2	2
Total number of meetings	7	4	4	3
David Chance, Chairman	7	-	4	-
Simon Duffy	7	4	-	3
Michelle Guthrie (until 24 May 2016)	1	1	-	1
Donata Hopfen (from 24 May 2016)	5	3	-	-
Alexander Izosimov (until 24 May 2016)	1	-	2	-
John Lagerling (from 24 May 2016)	5	3	-	-
Joakim Andersson	7	4	4	2
Bart Swanson	7	1	2	0

ters related to investments in programming and non-current assets. The Board of Directors also reviewed the Group's strategies and future plans with a particular focus on the digital transformation and cost transformation and portfolio realignment measures.

The Board of Directors met seven times during 2016.

External auditors

The Company's auditor is elected by the Annual General Meeting for a period of four years. KPMG was elected as MTG's auditor in 2014 and has been external auditor since 1997. Joakim Thilstedt, authorised public accountant, has been responsible for the audit of the Company on behalf of KPMG since December 2013. Audit assignments have involved the examination of the annual report and financial accounting, the administration by the Board and the CEO, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or the implementation of such other tasks. All other tasks are defined as other assignments.

The auditor reports its findings to the shareholders by means of the auditors' report, which is presented to the Annual General Meeting. In addition, the auditor's report detailed findings at each of the ordinary meetings of the Audit Committee and to the full Board once a year.

KPMG provided certain additional services in the years 2016 and 2015. These services comprised tax compliance work, advice on accounting issues, and advice on processes and internal controls and other assignments of a similar kind and closely related to the auditing process. For more detailed information concerning the auditors' fees, see Note 26.

Pre-approval of policies and procedures for non-audit related services

In order to ensure the auditor's independence, the Audit Committee has established pre-approval policies and procedures for non-audit related services to be performed by the external auditor. The policy was approved in December 2016 by the Audit Committee of MTG.

Group Management

MTG's Group Management comprises the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), and Executive Vice Presidents. Biographical information on each executive is provided on pages 32-34.

Chief Executive Officer

The CEO is responsible for the ongoing management of the Company in accordance with the guidelines and instructions established by the Board.

The CEO and the Group Management team, supported by the various employee functions, are responsible for the adherence to the Group's overall strategy, financial and business control, financing, capital structure, risk management and acquisitions. Among other tasks, this includes preparation of financial reports and communication with the stock market. The Company guidelines and policies issued include financial control, communication practices, brands, business ethics and personnel policies.

There is an operational Board for each of the segments. The Chief Executive Officer chairs the operational Board meetings, which are attended by the Group Management of the relevant business segments and the Chief Financial Officer and other Executive Vice Presidents.

Executive remuneration

The current guiding principles for executive remuneration and the proposals for 2017 are described under the heading Executive Remuneration on pages 21-22 and note 25.

The remuneration paid to the Group's Executive Management is set out in Note 25, together with information about the beneficial ownership of Company shares set out in the biographical information on each executive.

Share based long-term incentive plans

The Group has three outstanding share based long-term incentive programmes, decided upon in 2014, 2015 and 2016. For information about these programmes, see Note 25 and www.mtg.com.

Internal control report

The processes for internal control, risk assessment, control activities, information and communication, and monitoring regarding the financial reporting are designed to ensure reliable overall financial reporting and external financial statements in accordance with International Financial Reporting Standards, applicable laws and regulations and other requirements for listed companies on Nasdaq Stockholm. This process involves the Board, Executive Management and other personnel.

Control environment

The Board has specified a set of instructions and working processes regarding the roles and responsibilities of the Chief Executive Officer and the Board committees. The Board also has a number of established basic guidelines, which are important for its work on internal control activities. This includes monitoring performance against plans and prior years. The Audit Committee assists the Board in overseeing various issues such as monitoring internal audit and establishing accounting policies applied by the Group.

The responsibility for maintaining an effective control environment and internal control over financial reporting is delegated to the Chief Executive Officer. Other Executive Managers at various levels have respective responsibilities. The Executive Management regularly reports to the Board according to established routines and in addition to the Audit Committee's reports. Defined responsibilities, instructions, guidelines, manuals and policies together with laws and regulations form the control environment. All employees are accountable for compliance with these guidelines.

Risk assessment and control activities

The Company has prepared a model for assessing risks in all segments in which a number of items are identified and analysed.

These risks are reviewed regularly by the Board of Directors and by the Audit Committee, and include both the risk of losing assets as well as irregularities and fraud. The process involves all Group companies, segments and business units. Overall coordination is conducted centrally by the Group's Risk Management staff function. In addition a Risk Committee has been established comprising Group top management representatives. The purpose is to provide a group-wide overview and a basis for decision-making regarding risk management. Risk management is performed through an appropriate balance between preventive and risk-reducing measures. The most important aspects are regulation compliance, license requirements, legal change, information and IT security, political and economic risks. The respective managers are in charge of risk management in the Group's companies, segments and business units. The responsibility encompasses the day-to-day work focused on operational and other relevant risks, and on leading risk management activities in their own areas of responsibility. The managers are supported by central Group functions.

Information and communication

Guidelines used in the Company's financial reporting are updated and communicated to the employees concerned on an ongoing basis. There are formal as well as informal information channels to the Executive Management and to the Board of Directors for information from the employees identified as significant. Guidelines for external communication ensure that the Company applies the highest standards for providing accurate information to the capital markets.

Follow-up

The Board of Directors regularly evaluates the information provided by the Executive Management and the Audit Committee. The Board receives regular updates of the Group's development between the meetings. The Group's financial position, its strategies and investments are discussed at every Board meeting. The Audit Committee reviews the quarterly reports prior to publication. The Audit Committee is also responsible for following up on internal control activities. This work includes ensuring that measures are taken to deal with any inaccuracy and to follow up suggestions for actions emerging from the internal and external audits.

The Company has an independent internal audit function responsible for the evaluation of risk management and internal control activities. This work includes scrutinising the application of established routines and guidelines. The internal audit function plans its work in cooperation with the Audit Committee and reports the result of its reviews to the Audit Committee. The external auditors report to the Audit Committee at each ordinary meeting of the Committee.

Board of Directors

David Chance

Chairman of the Board
American and British, born 1957



Chairman of the Board of Directors since May 2003, and a member of the Board since 1998. David was Deputy Managing Director of the BSKYB Group between 1993 and 1998. David is Chairman of Top Up TV and is a Non-Executive Director of PCCW Limited (Hong Kong) and Chairman of its NOW TV media group. He has also served as a Non-Executive Director of ITV plc and Q2 plc. David graduated with a BA, BSc and MBA from the University of North Carolina.

Member of the Remuneration Committee.

Independent of the Company and management and independent of major shareholders.

Direct or related person ownership:
3,565 class B shares

Bart Swanson

Non-Executive Director
American, born 1963



Bart Swanson is currently an advisor at Horizons Ventures, a venture capital firm based in Hong Kong with a focus on disruptive and technology-focused start-ups. Mr. Swanson is on the boards of Zoom Video Communications Inc, Impossible Foods, Modern Meadow, Sentient Technologies, Benevolent AI, Shine Communications, Cortica Ltd., Hola Networks, and several other technology companies. Previously, Bart was Chairman of the Board of Summly Ltd. from 2012 up until 2013 when the company was acquired by Yahoo. During 2010 and 2011 Bart was Chief Operating Officer of Badoo, one of the largest Internet social dating sites, prior to which Bart spent three years as Managing Director at GSI Commerce International (later eBay Enterprise). Before joining GSI Commerce International, Bart was a General Manager at Amazon, where he was one of the key executives in establishing and expanding Amazon.com's footprint in Germany, France and the United Kingdom. Bart graduated from the University of Southern California with a Bachelor's degree in History and from the University of Pennsylvania with an MA in International Studies, as well as an MBA from Wharton.

Chairman of the Remuneration Committee.

Independent of the Company and management and independent of major shareholders.

Direct or related person ownership:
1,300 class B shares

Donata Hopfen

Non-Executive Director
German, born 1976



Donata Hopfen has been the Publishing Director and Head of the Management Board of BILD Group, Europe's largest newspaper and Germany's largest digital news portal, since May 2014. Donata was previously the Managing Director of BILD's digital and mobile activities. Donata joined Axel Springer in 2003 and has held various positions including responsibility for business development and product management at BILD.T-Online, and head of business development in Axel Springer's electronic media department. Donata previously worked as a Strategy Consultant for Accenture's Media & Entertainment Practice for three years from 2000. Donata is also a member of the Advisory Board of Transfermarkt GmbH, member of the Digital Advisory Board of Deutsche Postbank AG and a member of the Foundation Board of SWAB. Donata holds diplomas in European business administration from the Universities of Madrid and Reutlingen.

Member of the Audit Committee.

Independent of the Company and management and independent of major shareholders.

Direct or related person ownership:
0 class B shares

Joakim Andersson

Non-Executive Director
Swedish, born 1974



Joakim Andersson was appointed Chief Financial Officer of Kinnevik AB, MTG's large reference shareholder, in February 2015 and was also appointed acting Chief Executive Officer of Kinnevik in December 2016. Joakim joined the Kinnevik Group in 2001 at Banque Invik, and became Group Treasurer of Kinnevik in 2007. As Group Treasurer, Joakim supported Kinnevik's investee companies in managing capital markets, financing and corporate financial management, and was responsible for Kinnevik's cash and liquidity management as well as its treasury operations and controls. Joakim holds a Master of Science in Business and Economics from Växjö University.

Member of the Remuneration Committee and Audit Committee.

Independent of the Company and management, not independent of major shareholders.

Direct or related person ownership:
100 class B shares

John Lagerling

Non-Executive Director
Swedish, born 1976



John Lagerling has been Vice President of Business Development, Mobile and Product Partnerships at Facebook, where he heads global business development, mobile partnerships and other new partner dependent initiatives, since 2014. Prior to joining Facebook, John spent seven years at Google holding various leadership positions, including Director of Android Global Partnerships. John holds an MSc in Marketing and International Business from the Stockholm School of Economics.

Member of the Audit Committee.

Independent of the Company and management and independent of major shareholders.

Direct or related person ownership:
0 class B shares

Simon Duffy

Non-Executive Director
British, born 1949



Member of the Board of Directors since 2008. Simon was Executive Chairman of Tradus plc until the company's sale in March 2008. Simon is Non-Executive Chairman of YouView TV Ltd., as well as a Non-Executive Director of Oger Telecom Limited, Wizz Air Holdings Plc and Millicom International Cellular. Simon was also Executive Vice-Chairman of ntl:Telewest until 2007, having joined ntl in 2003 as CEO. Simon has also served as CFO of Orange SA, CEO of wireless data specialist End2End AS, CEO and Deputy Chairman of WorldOnline International BV, and held senior positions at EMI Group plc and Guinness plc. Simon holds a Master's degree from Oxford University and an MBA from Harvard Business School.

Chairman of the Audit Committee.

Independent of the Company and management and independent of major shareholders.

Direct or related person ownership:
1,750 class B shares

Group Management

Jørgen Madsen Lindemann

President & Chief Executive Officer
Danish, born 1966



Jørgen was appointed as President and CEO of MTG in September 2012, prior to which he served as Executive Vice President of the Group's Nordic Broadcasting (free-TV, pay-TV and radio) operations from October 2011. He was also responsible for the Group's Czech operations between 2008 and 2011, and the Hungarian operations between 2010 and 2011, and served as CEO of MTG Denmark from 2002, prior to which he was responsible for MTG's New Media department between 2000 and 2002. Jørgen has worked in the Group since 1994 when he joined as Head of Interactive Services. He became Head of Sponsorship for TV3 in 1997, then Head of Viasat Sport in Denmark and, subsequently, Head of Viasat Sport for the Group in 1998. He is also a member of the Boards of Zalando, Turtle Entertainment, The International Emmy Association in New York, and non-profit organisation Reach For Change.

Direct or related person ownership:
32,753 class B shares

Maria Redin

Chief Financial Officer
Swedish, born 1978



Maria was appointed as Chief Financial Officer of MTG in December 2015. She previously served as Acting Chief Financial Officer from June to November 2015. She has also held a number of senior positions at MTG, including Head of Group Finance, and Group Controller. Her roles in the Group have included the positions of CFO, and later CEO, of MTG's former gaming entertainment company Bet24, as well as a number of financial positions, and she started her career at MTG as a management trainee in 2004. Maria has been a Member of the Board of Directors at NetEnt since 2012. She holds a Masters' degree in International Business from the University of Gothenburg.

Direct or related person ownership:
1,648 class B shares

Anders Jensen

EVP; Chairman of the Nordic Entertainment Management Board & CEO of MTG Sweden
Swedish, born 1969



Anders joined MTG Sweden in 2014, prior to which he held senior positions at a number of Europe's leading telecommunications, retail and consumer goods companies. These roles included Senior Executive Vice President at TDC Group, where he ran the Consumer division and was also Chief Marketing Officer; CEO of the second largest mobile operator in Hungary – Telenor; CEO of Grameenphone, the market leading telecommunications service provider in Bangladesh; and Chief Marketing Officer of Vodafone / Telenor in Sweden.

Direct or related person ownership:
2,650 class B shares

Arnd Benninghof

EVP; CEO of MTGx
German, born 1969



Arnd was appointed as MTG Executive Vice President and CEO of MTGx in December 2015. He previously served as Deputy CEO of MTGx and CEO of Play & Ventures from November 2014 to November 2015. Prior to joining MTG, Arnd worked as Chief Digital Officer for Digital & Adjacent at ProSiebenSat.1 Media AG and also served as Managing Director of its Seven Ventures, the venture arm of that group. Arnd has also been CEO of Holtzbrinck eLAB, the incubator of the Holtzbrinck Publishing Group, founded and built fifteen companies, and also had different management roles at Tomorrow Focus AG. He started his career as a journalist, working for Deutsche Presse Agentur and TV networks. Arnd currently holds Board positions in the following companies within MTGx: Dreamhack, Turtle ESL, Engage Sports Media, Zoomin.TV, Splay and Innogames.

Direct or related person ownership:
911 class B shares

Gabriel Catrina

Chief Strategy Officer
Argentinian, born 1974



Gabriel Catrina was appointed as Chief Strategy Officer in March 2016. He joined MTG in September 2013 as Head of Group Strategy and has also worked closely with the Group's operating businesses. Gabriel also serves on the Boards of MTG subsidiaries Zoomin.TV and Trace. Gabriel was previously Head of the Media, Communications and Technology Practice for management consulting firm Booz & Company in the Nordics, where he spent 8 years advising leading companies globally on strategy, innovation and operations. Gabriel has worked in C-level and business development positions in the US, Europe and Latin America, including 3 years as CFO and COO of Argentinian digital education company Educ.ar, and 5 years as VP of Business Development (Europe & Latin America) for US-based telecommunications software company TCS. Gabriel has an MBA from the Stockholm School of Economics in Sweden and an M.Sc in Business Administration from UCC in Argentina.

Direct or related person ownership:
527 class B shares

Jakob Mejlhede Andersen

EVP; Group Head of Programming and Content Development
Danish, born 1973



Jakob was appointed as Executive Vice President of Programming and Content Development in March 2015 with responsibility for content acquisition, programming and development for MTG's Nordic on- and offline pay-TV businesses, and group-wide online free-TV businesses. The role also includes format sourcing and co-productions. He is also on the Board of DRG. He joined MTG in 2005 and became Senior Vice President of Acquisitions & Programming in 2009. He also became Chief Content Officer of the Group's digital accelerator MTGx in 2014. Jakob previously worked as Programme Director for SBS TV in Denmark and as Executive Producer for TV2 Denmark. Jakob has a journalism degree from the Danish School of Media and Journalism.

Direct or related person ownership:
3,944 class B shares

Jette Nygaard-Andersen

EVP; CEO of MTG's
Central European operations
Danish, born 1968



Jette was appointed MTG Executive Vice President and CEO of the Group's Central European TV, radio and digital operations in May 2015. She previously served as MTG Executive Vice President and CEO of the Group's Nordic pay-TV broadcasting operations from October 2012., Jette joined MTG in 2003 and has held a number of senior managerial positions across the Group, including CEO of Viasat Denmark between 2011 and 2013. Jette is a member of the Boards of FTV Prima, Nova Broadcasting Group and Turtle Entertainment. Prior to joining MTG, Jette was a strategy management consultant at Accenture, specializing in the Telecommunications & Media industry, and also held positions at the Maersk Group. Jette is a non-executive Board member of Coloplast A/S, which is listed on the Nasdaq Copenhagen Stock Exchange. Jette graduated with an M.Sc in Business, Finance and Economics from the University of Copenhagen.

Direct or related person ownership:
3,909 class B shares

Matthew Hooper

EVP; Group Head of
Corporate Communications
British, born 1970



Matthew was appointed as Executive Vice President and Head of Corporate Communications in February 2013 with responsibility for Group-wide Corporate Communications including brand development and experience; public, investor and government relations; corporate responsibility; and employee communications, as well as MTG's digital channels and corporate events. He joined MTG in October 2012 as Group Head of Corporate Communications and Planning, prior to which he was the co-Founder and Managing Partner of Shared Value Limited, the international corporate communications consulting firm, and a Board Director of Shandwick Consultants Limited, a division of the then publicly listed Shandwick global marketing and communications group. Matthew is a Masters graduate of Oxford University.

Direct or related person ownership:
4,981 class B shares

Peter Nørrelund

EVP; CEO of MTG Sport
Danish, born 1971



Peter Nørrelund was appointed as Executive Vice President and CEO of MTG Sport in March 2016 and as COO of Turtle Entertainment in February 2017. Peter joined MTG in 2003 and has headed up the Danish sports operations since 2004. Peter has been responsible for all sports rights acquisition across the Group since 2006 and was appointed as MTG Head of Sport in 2013. Peter is responsible for MTG's global sports organisation of 200+ people that acquires rights for MTG's online and offline platforms across multiple territories, and runs the technical play-out of MTG's sports channels and production of local language commentary and programming. Peter has a degree in Journalism from the Danish School of Media & Journalism and, prior to joining MTG, worked as a reporter, commentator, host and Editor in Chief at Danish public service broadcaster DR.

Direct or related person ownership:
2,581 class B shares

Mathias Hermansson

Executive Chairman of MTGx
Ventures and adviser to
MTG's President & CEO
Swedish, born 1972



Mathias was appointed as Executive Chairman of MTGx Ventures and adviser to MTG's President & CEO in December 2015. He previously served as Chief Financial Officer of MTG between March 2006 and November 2015, and was also responsible for the Group's Strategy, M&A, Legal and Security functions. He also worked as Group Financial Controller between 2001 and 2006 and held various senior financial positions at Viasat Broadcasting, MTG Radio and former MTG subsidiary Qliro Group. Mathias also previously served as Finance Director at former subsidiary Metro International's North American operations. He joined MTG in 1999 as a management trainee after working for Unilever in Sweden.

Direct or related person ownership: 14,589 class B shares
