

## Corporate Governance Report

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

The Company follows the Code with the exception of the Chairmanship of the Nomination Committee, which are explained below.

### 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 under the heading The MTG share, page 34.

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 on MTG's website [www.mtg.se](http://www.mtg.se).

**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 statement of financial position, 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 on [www.mtg.se](http://www.mtg.se).

Shareholders who wish to participate in the Annual General Meeting must be duly registered as such 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 on Modern Times Group MTG AB's website [www.mtg.se](http://www.mtg.se).

The Annual General Meeting for the 2011 financial year will be held on 8 May 2012 in Stockholm.

## Nomination procedure

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**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 2011, a Nomination Committee was established, consisting of major shareholders in Modern Times Group MTG AB with Cristina Stenbeck as convener. The committee comprises Cristina Stenbeck on behalf of Investment AB Kinnevik, Thomas Ehlin on behalf of Nordea Investment Funds, Johan Ståhl on behalf of Lannebo Fonder, and Kerstin Stenberg on behalf of Swedbank Robur funds. Together, the members of the Nomination Committee represent more than 50% of the voting rights in Modern Times Group MTG AB. 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 2012 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.

Cristina Stenbeck, who is a Member of the Board of Directors of MTG, has been appointed Chairman of the Nomination Committee, an appointment that deviates from what the Code prescribes. The other members of the Nomination Committee have declared their decision regarding election of the Chairman of the Nomination Committee as being in the Company's and shareholders' best interest and a natural consequence of Cristina Stenbeck representing the Company's largest shareholders.

**The Board of Directors as at 31 December 2011** The Board of Directors of Modern Times Group MTG AB comprises eight Non-Executive Directors. The members of the Board of Directors are David Chance, Mia Brunell Livfors, Simon Duffy, Lorenzo Grabau,

Alexander Izosimov, Michael Lynton, David Marcus, and Cristina Stenbeck. The Board of Directors and its Chairman, David Chance, were re-elected, and Lorenzo Grabau was elected for the first time at the Company's Annual General Meeting of Shareholders on 18 May 2011. Biographical information on each Board member is provided on pages 48-50 of this report.

**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 which 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 which include the Companies Act, the Articles of Association, and the 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 instructions and mandates 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 Executive Management. The external auditor also attend the meetings of the Audit Committee. Minutes are taken at all meetings and are made available to all Board members and to the auditor.

## Board of Directors during 2011

Name	Position	Born	Nationality	Elected	Independent to major shareholders	Independent to company and its management	Remuneration Committee	Audit Committee
David Chance	Chairman	1957	American and British	1998	Yes	Yes	Member	
Mia Brunell Livfors	Member	1965	Swedish	2007	No	Yes	Member	
Simon Duffy	Member	1949	British	2008	Yes	Yes		Chairman
Lorenzo Grabau	Member	1965	Italian	2011	Yes	Yes		Member
Alexander Izosimov	Member	1964	Russian	2008	Yes	Yes		Member
Michael Lynton	Member	1960	American and British	2009	Yes	Yes		Member
David Marcus	Member	1965	American	2004	Yes	Yes	Chairman	
Cristina Stenbeck	Member	1977	American and Swedish	2003	No	Yes		

Mia Brunell Livfors became independent of the Company and its management as although she is a member of the Board of Directors of Transcom Worldwide S.A., MTG's relationship with Transcom Worldwide S.A. is no longer considered as significant.

## Board working procedures

**Remuneration Committee** The Remuneration Committee comprises David Marcus as Chairman and David Chance and Mia Brunell Livfors. 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 and the employment terms for the Chief Executive Officer and Executive Management within MTG. The Committee also advises the Board on long-term incentive schemes.

**Audit Committee** The Audit Committee comprises Simon Duffy as Chairman, Lorenzo Grabau, Alexander Izosimov and Michael Lynton. 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.

**Remuneration to 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 to the Accounts in this Report. Board members do not participate in the Group's incentive schemes.

**Work of the Board during 2011** 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 matters related to investments in programming and non-current assets. The Board of Directors also reviewed the Group's strategies and forward development plans.

The Board of Directors had 6 ordinary meetings and 3 extraordinary meeting during 2011.

## Attendance at Board and Committee Meetings

Board of Directors	Board meetings	Audit Committee	Remuneration Committee
Meetings until the Annual General Meeting 18 May	2	1	2
Meetings from the Annual General Meeting 18 May	7	2	2
Total number of meetings	9	3	4
David Chance, Chairman	9/9		4/4
Mia Brunell Livfors	9/9		4/4
Simon Duffy	8/9	3/3	
Lorenzo Grabau (from 18 May 2011)	7/7	2/2	
Alexander Izosimov	8/9	3/3	
Michael Lynton	9/9	3/3	
David Marcus	6/9		4/4
Cristina Stenbeck	9/9		

## External auditors

The Company's auditors are elected by the Annual General Meeting for a period of four years. The current auditor was elected at the 2010 Annual General Meeting. KPMG was last elected as MTG's lead auditors in 2010 and has been external auditors since 1997. George Pettersson, authorised public accountant, is responsible for the audit of the Company on behalf of KPMG since 2010. 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 which may result from observations noted during such examination or the implementation of such other tasks. All other tasks are defined as other assignments.

The auditors report their findings to the shareholders by means of the auditors' report, which is presented to the Annual General Meeting. In addition, the auditors 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 for the years 2009, 2010 and 2011. 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 of the notes to the consolidated financial statements.

## Executive Management

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MTG's Executive Management comprises the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), and Executive Vice Presidents ((EVP). Biographical information on each executive is provided on pages 51–55 of this report.

**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 Executive 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 and other issues. The Company guidelines and policies issued include financial control, communication, 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 Executive 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 2012 are described under the heading Executive Remuneration on pages 31–32.

The remuneration paid to the Group's Executive Management, as well as information about the beneficial ownership of the Company shares and other financial instruments are set out in Note 25 to the Accounts of this report.

**Share based long-term incentive plans** The Group has four outstanding share based long-term incentive programmes, decided upon in 2007, 2009, 2010 and 2011. For information about these programmes, see Note 25 to the Accounts of this report and the MTG website at [www.mtg.se](http://www.mtg.se).



## Internal control report

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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 OMX Stockholm. This process involves the Board, Executive Management and personnel.

**Control environment** The Board has specified a set of instructions and working plans 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 principles 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 measured. 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. Designing control activities is of particular importance to enable the Company to prevent and identify shortcomings. The important segments are compliance with the broadcasting regulations, control and follow-up on penetration, share of viewing and listeners, and the development of advertising markets. Assessing and controlling risks also involve the operational boards in each business segment, and includes risk registers, contingency plans and disaster recovery plans. Minutes are kept for these meetings. The operational boards are further described under the heading Executive Management.

**Information and communication** Guidelines and manuals used in the Company's financial reporting are communicated to the employees concerned. 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 financial market.

**Follow-up** The Board of Directors regularly evaluates the information provided by 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 the following up of the 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.