

CORPORATE GOVERNANCE REPORT

Corporate governance practices refer to the decision-making systems through which owners, directly or indirectly, control a company.

Good corporate governance rests on three pillars – active owners, an involved and well constructed Board and efficient operating processes. This requires an organisation that has a clear division of responsibility, effective internal controls and an expressed risk management process. Good corporate governance creates value by ensuring an effective decision making process that is in line with the company’s strategy and steers the company toward established business goals. Rezidor is incorporated under the laws of Sweden with a public listing at Nasdaq Stockholm since November 28, 2006. Reflecting this, the corporate governance of Rezidor Hotel Group AB (Rezidor) is based on Swedish legislation and regulations, primarily the Swedish Companies

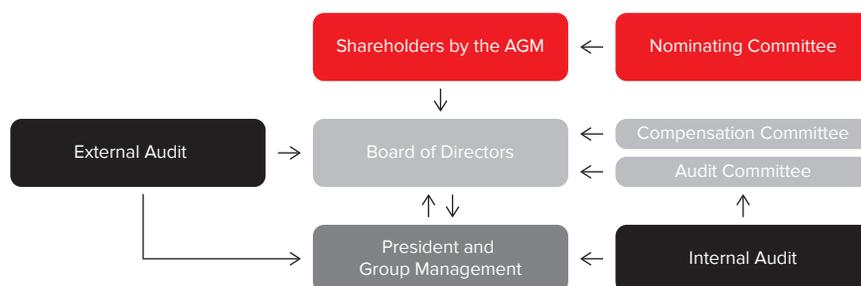
Act and the Swedish Annual Accounts Act, but also the Listing Agreement with the Stockholm Stock Exchange, the Swedish Code of Corporate Governance, the Articles of Association and other relevant rules. This Corporate Governance Report for the 2014 fiscal year has been subject to audit procedures as outlined in the auditor’s report on page 61

Corporate Governance at Rezidor

The shareholders’ meeting is a limited company’s highest decision-making body and serves as a forum for shareholders to exercise influence. At the Annual General Meeting of Shareholders (AGM) the shareholders elect the members of the Board of Directors, the Chairman of the Board, the auditors and decide on a num-

ber of other central issues. The Nominating Committee nominates the persons to be elected by the AGM as members of Rezidor’s Board. On behalf of Rezidor’s shareholders, the Board oversees the organisation and the management of the Company. To increase the efficiency and depth of the Board’s work on certain issues, the Board has established two committees: the Audit Committee and the Compensation Committee. Internal audit is an important resource for the Board’s committees to verify the effectiveness of internal controls. The Board appoints the CEO, who is charged with carrying out the day-to-day management of the Company in accordance with the directions of the Board. The CEO is responsible for leading the work conducted by the Exec-

Corporate Governance at Rezidor



Read more on our website

More information about Rezidor’s corporate governance is available at www.rezidor.com. The site includes the following information:

- Corporate governance reports since 2006
- The Articles of Association
- Nominating Committees since 2007
- AGM’s since 2007 and related documentation
- The Board, Committees and their work
- The Company’s management
- Compensation to management

utive Committee. The CEO's administration of the Company, as well as the annual report, is audited by Rezidor's auditor. The picture below illustrates how governance is organised at Rezidor.

Ownership Structure

At year-end 2014, Rezidor had 3,475 shareholders according to the register of shareholders maintained by Euroclear Sweden AB. Institutional owners dominate the ownership structure. The ten largest shareholders owned shares corresponding to 76.5% (excluding Rezidor) of the outstanding shares. Carlson, a privately held hospitality and travel company, represents the largest single shareholder and holds 50.2% of the registered shares and 51.3% of the outstanding shares. Rezidor's share capital amounted to EUR 11,625,766, distributed among 174,388,857 shares. The number of shares outstanding after deducting the number of shares owned by Rezidor was 170,707,719 at year end 2014. Each share entitles the holder to one vote and all shares carry equal rights to participate in the company's profits and

assets. For additional information on Rezidor's ownership structure, see page 67.

Annual General Meeting

Rezidor shall have one AGM to be held in Stockholm before the end of the month of June each year. The notice convening the AGM is required to be published not earlier than six weeks, but not later than four weeks, before the date of the AGM. All shareholders registered in the shareholder's register who have given timely notification to the Company of their intention to attend and who have followed prescribed procedures described in the notice convening the AGM, may attend the AGM and vote for their total share holdings. Shareholders who cannot participate in person may be represented by proxy. The AGM is held in Swedish. Due to Rezidor's international ownership and in order to allow non-Swedish speaking shareholders to participate, the meeting is simultaneously interpreted in English and all of the information materials for the meeting are also available in English. Decisions at the AGM usually require a

simple majority vote. However, for certain items of business taken up at the AGM, the Swedish Companies Act requires that a proposal is approved by a higher percentage of the shares and votes represented at the AGM. The AGM is informed about Rezidor's development over the past fiscal year and decides on a number of central issues, such as changes to Rezidor's Articles of Association, the election of auditor, discharging the members of the Board of Directors from liability for the fiscal year, remuneration of the Board of Directors, fees to the auditors, decisions on the number of Board members, election of the members of the Board of Directors and Chairman of the Board for the period up to the close of the next AGM and decision on dividends.

Annual General Meeting 2014

Rezidor's AGM in 2014 was held at the Stockholm Waterfront Congress Centre on April 24, 2014. The AGM was attended by 135 shareholders personally or by proxy, representing 74.1% of the total number of shares and votes of the Com-

The AGM resolves upon:

- Amendments to Rezidor's Articles of Association
- Dividend
- Decisions on the number of Board members
- Election of Board members and auditors
- Remuneration to Board members
- Fees to the auditors
- Share based, long term incentive plan

The Nominating Committee recommends:

- Members of the Board of Directors
- Chairman of the Board
- Remuneration to the Board of Directors
- Remuneration for committee work
- Election of Auditors and auditors' fees
- Guidelines for remuneration to key management
- Procedure to be used in appointing members of the Nominating Committee for the next AGM

Decisions at the 2014 AGM included:

- No dividend will be paid for the year 2013 and the distributable funds are brought forward.
- The following members were re-elected: Trudy Reutio (also elected as Chairman), Staffan Bohman, Göte Dahlin, Anders Moberg, Wendy Nelson and Douglas M. Anderson. David P. Berg and Charlotte Strömberg were elected as new members of the Board of Directors.
- The total remuneration to the Board of Directors elected at the AGM would amount to maximum EUR 431,500, to be allocated as shown in the table on page 54.
- It was decided to implement a share based, long term incentive plan covering the financial years 2014 to 2016.
- It was decided to approve the Board of Directors' resolution on a new share issue with preferential right for the shareholders.

The 2015 Nominating Committee

| Member | Representing | Number of shares August 31, 2014 | Share of votes August 31, 2014 (based on number of registered shares) |
|-----------------------------|--------------------------|----------------------------------|---|
| Michael W. Andrew, Chairman | Carlson | 87,552,187 | 50.2% |
| Marianne Flink | Swedbank Robur Fonder AB | 9,689,678 | 5.6% |
| Erik Durhan | Nordea Funds | 4,161,591 | 2.4% |

pany, after taking into consideration that there are no voting rights as regards the 3,681,138 shares owned by the company. All persons proposed for re-election or election to the Board attended the AGM, as well as the employee Board representative. Also present were the CEO, key executives, Rezidor's auditor as well as two out of the three members of the Nominating Committee. All documents required for the 2014 AGM and the minutes from the meeting have been made available on Rezidor's website in both Swedish and English.

Annual General Meeting 2015

The 2015 AGM will take place on April 24, 2015 at Radisson Blu Royal Viking, Vasagatan 1, Stockholm. Shareholders who wish to participate must be recorded in the shareholders' register maintained by Euroclear Sweden AB, on April 17, 2015 and also notify Rezidor of their intention to attend no later than by 16.00 p.m. CEST on April 20, 2015. For additional information on the AGM 2015 and how to register attendance, see page 68.

Nominating Committee

The Nominating Committee makes recommendations for the election of members to the Board of Directors and recommendations regarding the allocation of remuneration to the Chairman and other members of our Board of Directors and the allocation of remuneration in respect

of committee work, if any. Such recommendations are presented at the AGM. The Nominating Committee, with the assistance of the Audit Committee, also prepares a proposal for the AGM regarding the election of auditors of Rezidor, when applicable, and makes recommendations for the auditors' fees. The Nominating Committee shall also make a recommendation regarding the procedure to be used in appointing members of the Nominating Committee for the next AGM.

Members

In accordance with the decision made by the 2014 AGM, the Nominating Committee for the AGM on April 24, 2015 has been established. Based on the list of shareholders per August 31, 2014 the three largest known shareholders have been contacted, each of which was offered the possibility to appoint one representative of the Nominating Committee. The committee members and the shareholders they represent were made public on October 10, 2014. The Nominating Committee for the 2015 AGM had one meeting in 2014, attended by all members, and during which minutes were taken. The Nominating Committee's proposals will be presented in the notice of the AGM and on Rezidor's website. The members of the Nominating Committee did not receive any compensation for their work in the committee.

The Board of Directors

Under the Swedish Companies Act, the Board of Directors shall be elected by the shareholders and is ultimately responsible for the organisation and the management of the Company. The Articles of Association provide that the Board of Directors shall consist of not less than three – and not more than fifteen – members. Each year, the Board of Directors specifies its way of working in written Rules of Procedure clarifying the Board's responsibilities. The Rules of Procedure regulate the internal division of duties between the Board and its committees, including the role of the Chairman and the Vice Chairman, the Board's decision-making procedures, its meeting schedule, procedures governing the convening, agenda and minutes of meetings, as well as the Board's evaluation on accounting, auditing matters and financial reporting. In addition, the Board of Directors has established separate written work plans for the Audit Committee and the Compensation Committee. The Rules of Procedure also govern how the Board will receive information and documentation of importance for its work to facilitate the making of well-founded decisions. The Board has also issued instructions for the CEO, as well as for the financial reporting to the Board. Moreover, it has adopted other special steering documents, including a Finance Policy, a Communication and Investor Relations Policy and a Code

The Board deals with and decided on issues such as:

- Monitoring the work of the CEO
- Appropriately structuring the organisation, management and guidelines for the administration of Rezidor's interests and ensuring that satisfactory internal controls exist
- Setting strategies and targets
- Establishing special control instruments
- Evaluating the management of operations and planning managerial succession

Remuneration to the Board of Directors 2012–2014

| | 2012 | 2013 | 2014 |
|------------------------|----------------|----------------|----------------|
| Board | 307,953 | 305,000 | 385,000 |
| Audit Committee | 22,000 | 22,000 | 28,500 |
| Compensation Committee | 17,803 | 14,000 | 18,000 |
| Finance Committee | 14,000 | – | – |
| Total | 361,756 | 341,000 | 431,500 |

of Business Ethics. The responsibilities of the Board include monitoring the work of the CEO through ongoing reviews throughout the year. The Board is further responsible for ensuring that Rezidor's organisation, management and guidelines for the administration of Rezidor's interests are structured appropriately and that there is satisfactory internal control. The responsibilities of the Board also include setting strategies and targets, establishing special control instruments, deciding on larger acquisitions through business combinations and divestments of operations, deciding on other large investments, deciding on deposits and loans in accordance with the Finance Policy and issuing financial reports, as well as evaluating the management of operations and planning managerial succession. Apart from the activities of the Audit and Compensation Committees, there has been no allocation of work among the directors. The Board shall be assisted by a Secretary, who is not a member of the Board. The former General Counsel of Rezidor, Marianne Ruhngård, was the Secretary at all but one Board meetings and all but two Audit Committee meetings during 2014. Christiane Reiter, Assistant to Rezidor's President & CEO, was the Secretary at one Board meeting and Andreas Fondell, Rezidor's Head of Group Accounting, was the Secretary at two Audit Committee meetings. Minutes from the Compensation Committee's meetings

were taken by Michael Farrell, Rezidor's Head of Human Resources.

The Chairman of the Board

At the 2014 AGM Trudy Rautio was elected as the Chairman of the Board of Directors. At the statutory Board meeting the same day following the AGM, Staffan Bohman was appointed Vice Chairman. It is the responsibility of the Chairman to follow operations, in consultation with the CEO, and ensure that the other Board members receive the information necessary to maintain a high level of quality in discussions and decisions. The Chairman shall make sure that the Board's work, including the work in the Board committees and the efforts of individual members, with regard to working procedures, competences and the working climate are evaluated. This occurs annually in accordance with an established process and this evaluation is then shared with the Nominating Committee. The Board's Compensation Committee participates in evaluation and development questions regarding compensation for the Executive Committee.

Members of the Board of Directors

Pursuant to the Articles of Association, the Board of Directors shall be elected at the AGM and serve for a term expiring at the next AGM. The members of the Board of Directors may be removed from office through a resolution of shareholders, and

vacancies on the Board may likewise only be filled by a resolution of shareholders. Following the 2014 AGM, the Board of Directors was composed of eight directors elected by the shareholders at the AGM, including the Chairman, and one employee representative elected by the Swedish labour organisation "Hotell- och restaurangfacket". The Directors' biographies can be found on page 63 in the Annual Report.

Work of the Board in 2014

According to current Rules of Procedure adopted by the Board, the Board must convene at least four times a year, in addition to the statutory Board meeting, and otherwise as necessary. In 2014, the Board held 14 meetings, including the statutory Board meeting. Four of the Board meetings were coordinated with the dates of the presentation of the external financial reports. Moreover the Board members attended in June a two-day meeting on strategic issues. In December, there was a meeting concerning the 2015 budget. Audit related matters have been addressed as a special item during a Board meeting at least once per year and in conjunction therewith; the Board meets with Rezidor's auditor without the CEO or any other member of management being present. During 2014, the Board has been working in accordance with the adopted Rules of Procedure. The main activities

Board committees' work 2014

| | Audit Committee | Compensation Committee |
|--------------------|--|---|
| Members | Staffan Bohman, Chairman Douglas M. Anderson Göte Dahlin (up until April 2014) David P. Berg (as from April 2014) | Trudy Rautio, Chairman Anders Moberg Wendy Nelson Charlotte Strömberg (as from April 2014) |
| Number of meetings | 8 | 3 |
| Work in 2014 | <ul style="list-style-type: none"> • reviewing financial reports • reviewing auditor's observations from audit work and audit guidelines • reviewing the Company's risk situation • reviewing irregularities and whistle blowing cases • reviewing internal control results • evaluating adequacy of safety & security function and internal controls • evaluating auditor's work and decision about thresholds to be applied for non-audit work by auditors. | <ul style="list-style-type: none"> • adopting an executive remuneration philosophy • designing variable compensation plans in form of short term (MIC) and long term (LTIP) incentive schemes • evaluating achievement of strategic objectives for the executive committee during 2014 and setting objectives for 2015 • assessing capabilities of the executive committee members • reviewing and approving 2014 compensation for executive committee members and recommending CEO compensation for Board approval. |

during 2014 were as follows:

- adopting a budget for 2015 and a business plan for 2015–2017
- reviewing and monitoring the implementation of Route 2015 and Project Fit
- evaluating profit targets and profit improvement opportunities
- discussing and approving of certain hotel projects and investments meeting defined criteria
- assessing brand and growth strategy
- keeping informed about the financial position of the Company and the group, evaluating bank facilities and capital requirements, including extension of credit lines
- evaluating and proposing to the AGM a new share issue
- keeping informed about the Company's activities in the area of asset management and approving of certain transactions
- evaluating internal controls
- evaluating activities in relation to defined focus hotels
- approving revisions to the Finance Policy, Communication & Investor Relations Policy and Insider Policy.

The Board liaises with the auditors regarding plans for the audit procedure and reviews what measures to take based on the auditors' reporting.

Independence of Board members

None of the members of the Board of Directors elected by the shareholders at the AGM are employed by Rezidor or any other company within the Rezidor Hotel Group. Based on the Nominating Committee's assessment published on March 24, 2014 relating to the AGM 2014 and the Swedish Code of Corporate Governance, the following assessment is made regarding the independency of the members of the Board. Göte Dahlin, Staffan Bohman, Anders Moberg and Charlotte Strömberg are independent Directors in relation to the Company and the Management as well as in relation to major shareholders. Trudy Rautio, Douglas M. Anderson, Wendy Nelson and David P. Berg are independent Directors in relation to the Company and the Management but are not independent in relation to major shareholders, as they are related to Carlson.

Employee Board representatives

In accordance with the law (1987:1245) on board representation for employees, the Swedish labour organisation "Hotell- och restaurangfacket" has the right to appoint two employee representatives to the Board. The term of appointment for Göran Larsson, who joined the Board in the 2009 fiscal year, expired at the AGM in 2014. Göran Larsson was then re-appointed on May 23, 2014. A second employee representative has not been appointed.

Evaluation of the Board

Pursuant to the rules of procedure, and in accordance with the requirements of the Swedish Code of Corporate Governance, the Chairman of the Board initiates an annual evaluation of the performance of the Board. The 2014 Board evaluation consisted of an anonymous questionnaire that was answered by each Board member. The questionnaire was divided into a number of sections covering topics such as the atmosphere of cooperation within the Board, its range of expertise and the methods the Board utilised to carry out

Attendance record and Board remuneration in 2014

| | Attendance | | | Fees (EUR) | | | |
|---------------------|------------|-----------------|------------------------|----------------|-----------------|------------------------|----------------|
| | Board | Audit Committee | Compensation Committee | Board | Audit Committee | Compensation Committee | Total |
| Trudy Rautio | 100% | | 100% | 80,000 | | 6,000 | 86,000 |
| Staffan Bohman | 93% | 100% | | 65,000 | 9,000 | | 74,000 |
| Douglas M. Anderson | 100% | 100% | | 40,000 | 6,500 | | 46,500 |
| Göte Dahlin | 100% | 100% | | 40,000 | 6,500 | | 46,500 |
| Anders Moberg | 100% | | 100% | 40,000 | | 4,000 | 44,000 |
| Wendy Nelson | 93% | | 100% | 40,000 | | 4,000 | 44,000 |
| David P. Berg | 100% | 100% | | 40,000 | 6,500 | | 46,500 |
| Charlotte Strömberg | 100% | | 100% | 40,000 | | 4,000 | 44,000 |
| Göran Larsson | 100% | n/a | n/a | n/a | n/a | n/a | n/a |
| Total | | | | 385,000 | 28,500 | 18,000 | 431,500 |

Remuneration to the Executive Committee¹

| TEUR | Base remuneration | Variable remuneration | Pension | Housing, schooling and company cars | Total |
|-------------------------------------|-------------------|-----------------------|---------|-------------------------------------|-------|
| CEO | 641 | -21 | 66 | 70 | 756 |
| The Executive Committee (incl. CEO) | 4,787 | 115 | 486 | 571 | 5,959 |

Remuneration to the Executive Committee 2012–2014

| | 2012 | 2013 | 2014 |
|-------------------------------------|-------|-------|-------|
| CEO | 2,868 | 1,430 | 756 |
| The Executive Committee (incl. CEO) | 7,045 | 5,495 | 5,959 |

¹ The remuneration numbers, which are reported gross before the deduction of tax, exclude social security costs. The negative amount on Variable salaries for the CEO is due to reversal of accruals.

its tasks as well as a section which addresses the role of the Chairman. The results of the 2014 evaluation have also been compared with the results from previous Board evaluations so as to identify if any area deviates from results of previous years. The objective of the evaluation is to provide insight into the Board members' opinions about the performance of the Board and the role of the Chairman and identify measures that could make the work of the Board more effective. A secondary objective is to form an overview of the areas the Board believes should be afforded greater scope and where additional expertise might be needed within the Board. The Chairman of the Board has presented the results of the evaluation to the Board as well as to the Nominating Committee.

Board Committees

In order to increase the efficiency of its work and enable a more detailed analysis of certain issues, the Board has formed two committees: the Audit Committee and the Compensation Committee. The members of the committees are appointed for a maximum of one year at the statutory Board meeting and perform their duties as assigned by the instructions adopted for each committee annually. The primary objective of the committees is to provide preparatory and administrative support to the Board. However, they are also empowered to make decisions on matters that the Board, pursuant to the committee instructions, delegates to them and on other issues in their respective areas of responsibility that are not considered essential in nature or that fall within the overall decision-making powers of the Board. The committees are required to inform the Board of any such decisions. The issues considered and the decisions taken at committee meetings are recorded in the minutes and reported

at the next Board meeting. Representatives from the Company's specialist functions participate in committee meetings.

Remuneration of the Board

The amount of remuneration granted to the Board of Directors, including the Chairman, is determined by a resolution at the AGM. Compensation for the work of the members of the Board of Directors elected by the shareholders was taken by a resolution by the shareholders at the 2014 AGM. The members of the Board are not entitled to any benefits upon ceasing to serve as a member of the Board. The Board members' attendance and also the annual fees to the Chairman and the other Board members for the Board and Committee work (from the AGM 2014 up until the AGM in 2015) are shown in the table on the previous page.

Executive Committee

The CEO is responsible for producing necessary information and basic documentation, on the basis of which, the Board can make well founded decisions. He presents matters and proposes decisions, as well as reporting to the Board on the development of the Company. The CEO is responsible for leading the work conducted by the Executive Committee and renders decisions in consultation with the other members of the Executive Committee, which in 2014 consisted of eight persons (including the CEO). The Executive Committee was reduced to six persons at the end of 2014.

Remuneration of the members of the Executive Committee

The remuneration granted to the CEO and the other members of the Executive Committee consists of a mix of a fixed remuneration, an annual variable remuneration based on the outcome of financial and individual performance objec-

tives, a long term share-based incentive programme, a pension and other benefits. The general components and more details can be found in the guidelines for remuneration of key executives which were approved by the 2014 AGM. Details on the compensation of the CEO and the other members of the Executive Committee can be found in Note 10, but a summary of 2014 and the period 2012–2014 is presented below.

Share-related Incentive Programmes

The Annual General Meetings in 2011, 2013 and 2014 approved proposals for long-term share related performance-based incentive programmes ("performance based share programmes") to be offered to executives within Rezidor. The three programmes run for a three year period. The objectives of the performance-based share programmes are to offer a competitive remuneration package that helps align executives with shareholder interests; to increase the proportion of remuneration linked to company performance and to encourage executive share ownership. In order to implement the performance based share programmes in a cost efficient and flexible manner, the Board of Directors was authorized by the AGMs to decide on acquisitions or sale of its own shares on the Nasdaq Stockholm exchange. More detailed descriptions of the three performance based share programmes can be found in Note 32.

Financial reporting

The Board monitors the quality of financial reporting through instructions to the CEO and reporting instructions via the Audit Committee. The Audit Committee reviews in advance all financial reports prior to their publication by Rezidor. The Board as a whole reviews and approves Rezidor's financial reports prepared by

the management prior to publication. The Board is also responsible for Rezidor's financial statements being prepared in compliance with legislation, applicable accounting standards and other requirements for listed companies. The CEO and the CFO review and assure the quality of all financial reporting including interim reports and the annual financial statements, press releases with financial content and presentation material issued to the media, owners and financial institutions. With respect to the communication with the auditors, the auditors are present at the Board meeting where Rezidor's year-end Financial Report is approved.

Auditors

Auditors in Swedish limited companies are elected by the AGM and tasked with auditing the Company's financial reporting and administration of the company by the Board and the CEO. At the 2014 AGM Deloitte AB was reelected as auditor for Rezidor for a period until the end of the 2016 AGM with Thomas Strömberg as the responsible auditor. Thomas Strömberg (born 1966) is a member of FAR, the Swedish professional institute for authorised public accountants and approved public accountants. He has been an authorised public accountant since 1998. In addition to Rezidor, Thomas Strömberg is responsible for the audits of Investor, Karolinska Development and Tele2. The auditors follow an audit plan that incorporates the comments and concerns of the Audit Committee, and report their observations to the Audit Committee during the course of the audit and to the Board in conjunction with the establishment of the 2014 Annual Report. The auditor attended seven out of eight meetings of the Audit Committee during the year. On one occasion the Board met with Rezidor's auditor without the CEO or anyone else from the

Management present. Deloitte submits an audit report covering Rezidor Hotel Group AB, the Group and a majority of subsidiaries. During 2014, the auditors have had consulting assignments outside of the audit, mainly concerning matters related to the interpretation of IFRS, internal control related matters as well as tax compliance support in some areas; none of which impacted the auditors independence. The auditors receive a fee based on approved invoiced amounts for their work in accordance with a decision of the AGM. For information about the auditors' fee in 2014, see Note 41.

Internal Control over Financial Reporting

The purpose of this report is to give shareholders and other stakeholders a better view and understanding of how internal control of financial reporting at Rezidor Hotel Group AB ("Rezidor") is organised. Internal control of financial reporting is a process that involves the Board, and in particular, the Audit Committee appointed by the Board, Company management and personnel. It is designed to provide assurance of reliability in external reporting. This report has been prepared in accordance with the Swedish Code of Corporate Governance and the guidelines compiled by FAR and the Confederation of Swedish Enterprise. It is thus limited to internal control over financial reporting. In accordance with the statement from the Board for Swedish Corporate Governance in September 2006, this internal control report is restricted to a description of how the internal control is organised and makes no statement on how well it functioned during the fiscal year 2014. Rezidor applies the COSO framework as a base for the internal control structure. The Board evaluates the need for and organisation of an inter-

nal audit process annually. The structure of the process for 2014 and 2015 has been approved by the Board. The process is managed from the Rezidor corporate office in Brussels. The process also includes internal audit training.

This report supplements the Annual Report. It has been audited by Rezidor's auditors. The Internal control over financial reporting is described below in five components that jointly form the basis for Rezidor's control structure.

Control Environment

The control environment forms the basis of internal control. The control environment includes the culture that the Company communicates and operates from in a number of areas. Rezidor's values include reliability and transparency. It is important that all actions, internal as well as external, reflect these basic values. Rezidor's Code of Business Ethics has been made available to employees and describes the required behaviour in various situations. Compliance with the Code of Business Ethics is followed up by regular visits to the hotels by Area Vice Presidents, Regional and District Directors and Human Resources Managers. In addition, the General Manager must certify that he/she is not engaged in any conflict of interest. The whistleblower procedure, which was implemented in 2008, gives the employees the possibility to report on issues related to the Code of Business Ethics. Actions taken by the company in response to the whistleblower procedures are regularly monitored by the Audit Committee.

Rezidor's Board of Directors has appointed an Audit Committee with the objective of supervising the quality of the Company's financial and operational reporting. In addition, the Audit Committee evaluates the procedures for internal control and the management of financial

and operational risks. The Board has also issued specific instructions for the CEO. Rezidor has created a framework that describes the compulsory internal control policies applicable to all brands, all legal entities and all managed hotels within the Group. This document is the core of the Group's financial management system, and it outlines the procedures for the planning, delegation and follow-up of internal control. The document is also a tool for information and education.

One of the principal requirements of internal control is the necessity of written documentation to evidence compliance with the compulsory policies. Another principal purpose is to establish responsibilities and authority within the hotels and across all levels of the Group. This is achieved through job descriptions for the hotel General Managers and Financial Controllers and regional and corporate reviews and analyses of the individual hotels' performance on a monthly basis. The policy document and other guidelines are available on the intranet and are regularly updated to comply with accounting and audit regulations. Rezidor is also committed to building competencies and ensuring that employees, including those in finance and accounting functions, receive the appropriate training. Other control measures in effect are specific accounting procedures, the human resources manual, quality performance checks, mystery shoppers (cash integrity checks) and hotel reviews performed regularly by regional operational and financial management. For new hotel contract partners, a system is in place to make background checks.

Risk Assessment

Company management performs an annual risk assessment with regard to financial reporting. The external auditors

provide feedback and may suggest additional considerations for the assessment of risks. The risk assessment process has identified a number of critical processes such as revenue, purchasing, payroll, financial reporting, IT, related party transactions, cash handling procedures, inventories and equipment, receivables, bank relations and processes, legal requirements regarding operational licensing and insurance as well as contract management for outsourced services. The internal audit of these processes includes, as applicable, segregation of duties, authorisation for payment, contract handling, cost control, recording of revenues and follow-up routines. The annual plan for internal audit is developed based on the assessment of risks.

The risk assessment process is regularly updated to reflect operational changes that warrant specific attention from an internal audit perspective.

The Audit Committee and the Board of Directors analyse the previous year's result from the internal audit and approve the proposed internal audit plan for the following year.

Control activities

Controls have been implemented in the organisation to ensure that risks are managed as intended by the Board, including financial reporting risk, IT risks and fraud risks.

Managers and financial department employees in the hotels perform controls as part of their daily business to comply with central as well as local policies and guidelines. Regular internal audits are performed to evaluate whether controls operate as intended. These audits are scheduled and performed based on Rezidor's formal annual risk assessment. Action plans are implemented and followed-up to improve control activities

that are lacking or found to be ineffective. Rezidor has established specific fraud mitigation programmes and controls and these procedures are known throughout the Company.

The specific internal audits of hotels and area, regional and corporate support offices are primarily aimed at internal control within operation and administration, with a focus on processes that impact financial reporting and risk of irregularities, improper favouritism of another party at the Company's expense, and the risk of losses. The teams for the internal audits consist of persons independent of the audited units, supported by external auditors and by risk management consultants.

Separate IT audits are carried out, primarily in high risk hotels, by IT managers who are specialised in IT processes and security. In addition, a self-assessment process related to internal control has been developed and completed by the hotels. The self-assessment for each hotel is subject to certain internal audits on a four-year rotating basis in order to verify the information. In-depth audits in target areas such as Treasury, Financial Reporting, marketing expenses, invoicing and collection of Technical Service Fees and major Capital Investment projects are also carried out in selected hotels.

Information and communication

Employees' individual responsibilities for maintaining internal control have been clearly communicated throughout the Group. Every manager is responsible for ensuring that employees have received and understood the relevant information needed to perform their tasks.

Persons responsible for operational and financial reporting have access to accounting principles and procedures and updates are communicated regularly.

General Managers, Regional Directors and Area Vice Presidents report operational and financial information on a monthly basis to the Executive Committee. Management receives the operational and financial information they require, and the Company has procedures for adapting to changing information needs as the competitive and/or regulatory environment evolves. The information systems are regularly evaluated, and the Company has established strategic plans related to future upgrades and information system needs.

The results from the internal audits are communicated throughout the organisation in order to benchmark and improve internal control procedures. The yearly audit plans and results of the audits are submitted periodically to the Executive Committee of the Group and to the Audit Committee.

Rezidor's goal is that internal control policies are known and followed in the Group. Policies and guidelines regarding the financial process are communicated

to all affected parties in the Group through direct distribution via electronic mail and via the Group's intranet, where all policies and guidelines are available.

Regulations related to a public company's external information to investors and stakeholders are known by those responsible for applying them. To ensure that the submission of external information is correct and complete, there is an information policy regarding disclosures to the stock exchange – as well as an investor relations policy – that have been adopted by the Board of Directors of the Group. These policies state the format, the content and the process for dealing with external information. The internal controls relating to these policies ensure compliance throughout the company.

A system, supported by an external company, that allows employees to anonymously (turn whistleblower) alert corporate management and the Audit Committee on ethical, financial and other issues in the organization has been in place for the past five years.

Monitoring

Regular internal meetings are used on different levels in the organisation for management and employees. A group including Executive Committee members, Area Vice Presidents and the Internal Audit Team meets on a regular basis to review and follow up on the results from the various internal audits carried out. These reviews include the results from specific internal audits of the financial reporting from corporate, area and regional support offices as well as from leased and managed hotels. The Executive Committee and the Board monitor Rezidor's operations and financial reporting on a regular basis. The Audit Committee and the Board review reports from external auditors, internal audits and other internal control activities. The Company, as well as the individual hotels, area, regional and corporate support offices, conduct follow-ups in regard to such recommendations and/or action plans.

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the Annual General Meeting of the shareholders of Rezidor Hotel Group AB (publ), corporate identity number 556674-0964.

It is the Board of Directors who is responsible for the corporate governance statement for the year 2014 included in the printed version of this document on pages 52–60 and that it has been prepared in accordance with the Annual Accounts Act. We have read the corporate governance statement and based on

that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards

on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the corporate governance statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, March 9, 2015

Deloitte AB

Thomas Strömberg
Authorised Public Accountant