

# 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 OMX 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 2012 fiscal year has been subject to audit procedures as outlined in the auditor’s report on page 89.

## Corporate Governance at Rezidor

The shareholder’s 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 appoint the members of the Board of Directors, the Chairman of the Board, the auditors and decide on a number of 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 three committees: the Audit Committee, the Compensation Committee and the Finance Committee. Internal audit is an

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## Read more on our website

More information about Rezidor’s corporate governance is available at [www.rezidor.com](http://www.rezidor.com). The site includes the following information:

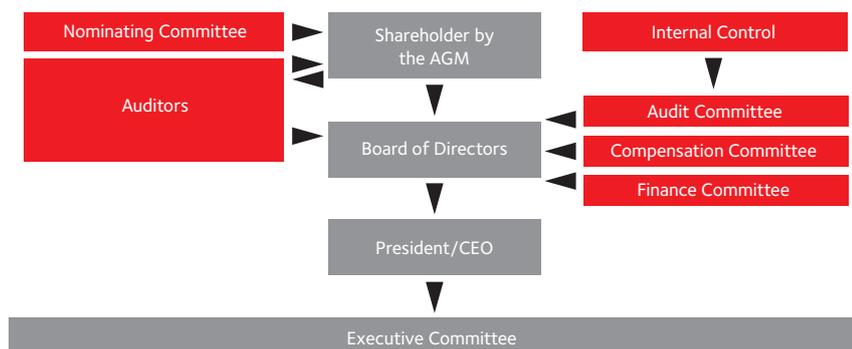
- Corporate governance reports since 2006
  - The Articles of Association
  - Nominating Committees since 2007
  - AGM’s since 2007 and related documentation
  - The Board, Committees and their work
  - The Company’s management
  - Compensation to management
- 

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 Executive Committee. The CEO’s administration of the Company, as well as the annual report, is audited by Rezidor’s auditor. The picture to the left illustrates how governance is organised at Rezidor.

## Ownership Structure

At year-end 2012, Rezidor had 3,365 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 87.9% of the votes and capital.

## Corporate Governance at Rezidor



Carlson, a privately held hospitality and travel company, represents the largest single shareholder and hold 50.03% of the registered shares and 51.3% of the outstanding shares. Rezidor's share capital amounted to EUR 10,000,000, distributed among 150,002,040 shares. The number of shares outstanding after deducting the number of shares owned by Rezidor was 146,320,902 at year end 2012. Each share entitles the holder to one vote and all shares carry equal rights to participate in the company's profits and assets.

### 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 2012

Rezidor's AGM in 2012 was held at the Radisson Blu Strand Hotel in Stockholm on April 25, 2012. The AGM was attended by 111 shareholders personally or by proxy, representing 73.87% of the total number of shares and votes of the Company. The persons proposed for re-election to the Board attended the AGM, as well as the two employee Board representatives. Also present were the CEO, key executives, Rezidor's auditor as well as the members of the Nominating Committee. All documents required for the 2012 AGM and the minutes from the meeting have been made available on Rezidor's website in both Swedish and English. The resolutions passed during the meeting included the following:

- It was decided that no dividend will be paid for the year 2011 and that the distributable funds are brought forward.
- The following members were re-elected: Hubert Joly (also elected as Chairman), Elizabeth Bastoni, Staffan Bohman, Göte Dahlin, Anders Moberg, Wendy Nelson, Trudy Rautio and Barry W. Wilson.
- It was decided that the total remuneration to the Board of Directors elected at the AGM would amount to maximum 385,000 EUR, to be allocated as shown in the table on page 85.
- The Board of Directors received authorization until the AGM 2013 to decide on acquisitions of a certain portion of the Company's shares.

### Annual General Meeting 2013

The 2013 AGM will take place on April 24, 2013 at the Stockholm Waterfront Congress Centre, Nils Ericsons Plan 4. Shareholders who wish to participate must be recorded in the shareholders' register maintained by Euroclear Sweden AB, on April 18, 2013 and also notify Rezidor of their intention to attend no later than by 16.00 p.m. CEST on April 18, 2013.

### 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 also prepares a proposal for the AGM regarding the election of auditors of Rezidor, when applicable, and makes recommendations for remuneration of the auditors. 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.

### The 2013 Nominating Committee

Member	Representing	Number of shares August 31, 2012	Share of votes August 31, 2012 (based on number of registered shares)
William Van Brunt, Chairman	Carlson	75,044,733	50.03%
Peter van Berlekom	Nordea Investment Funds	19,474,855	12.98%
Björn Franzon	Swedbank Robur Fonder AB	8,231,855	5.49%

### **Members**

In accordance with the decision made by the 2012 AGM, the Nominating Committee for the AGM on April 24, 2013 has been established. Based on the list of shareholders per August 31, 2012 the three largest shareholders, each of which was offered the possibility to appoint one representative of the Nominating Committee. The names of the committee members and the shareholders they represent were made public on October 23, 2012. The Nominating Committee had two meetings in 2012, 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. Further, under the Swedish Companies Act, the CEO and at least half of the members of the Board of Directors of a company must be residents of a country within the European Economic Area, unless the Swedish Companies Registration Office grants an exemption from this requirement. In order to fulfill the residency requirements Rezidor was granted an exemption on March 13, 2012 for Barry W. Wilson to be re-elected as a member of the Board. 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 Chair-

man, 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, the Compensation Committee and the Finance Committee. The Rules of Procedure also governs 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 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, Compensation and Finance 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 General Counsel of Rezidor, Marianne Ruhngård, was the Secretary at all Board meetings and all committee meetings

during 2012 with the exception of two meetings of the Compensation Committee where minutes were taken by Michael Farrell, Rezidor's Head of Human Resources.

### ***The Chairman of the Board***

At the 2012 AGM Hubert Joly was elected as the Chairman of the Board of Directors and at the statutory Board meeting the same day following the AGM, Staffan Bohman was appointed Vice Chairman. On September 13, 2012 Hubert Joly resigned from his position as Chairman and Trudy Rautio was elected by the Board as new Chairman on September 27, 2012 to serve for the period until the end of the 2013 AGM. 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 2012 AGM, the Board of Directors was composed of

eight directors elected by the shareholders at the AGM, including the Chairman, and two employee representatives elected by the Swedish labour organisation “Hotell- och restaurangfacket”. Hubert Joly’s resignation on September 13, 2012 reduced the number of directors elected by the shareholders to seven directors. The Directors’ biographies can be found on page 90 in the Annual Report.

### *Work of the Board in 2012*

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 2012, the Board held twelve 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 July a two-day meeting on strategic issues. In November, there was a meeting concerning the 2013 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 2012, the Board has been working in accordance with the adopted Rules of Procedure. The main activities during 2012 were as follows:

- adopting a budget for 2013 and a business plan for 2013–2015
- 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 the development strategy for the brands and approving of the strategic alliance agreement for the Regent brand
- keeping informed about the financial position of the Company and the group, evaluating bank facilities and capital requirements
- keeping informed about the Company’s

activities in the area of asset management and approving of certain transactions

- planning and implementing the succession of the President & CEO, Kurt Ritter
- evaluating internal controls
- evaluating activities in relation to defined focus hotels.

The Board liaises with the auditors regarding plans for the audit procedure and reviews what measures to take based on the auditors’ reporting. Major business areas on functional groups are given an opportunity to give an in-depth presentation of their operations at a Board meeting at least once a year.

### *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 Group. Based on the Nominating Committee’s assessment published on 23 March 2012 relating to the AGM 2012 and the Swedish Code of Corporate Governance, the following assessment is made regarding the independence of the members of the Board.

### *Board Committees’ work 2012*

	Audit Committee	Compensation Committee	Finance Committee
<b>Members</b>	Staffan Bohman, Chairman Trudy Rautio Göte Dahlin	Trudy Rautio, Chairman (from 27 September 2012) Staffan Bohman Elizabeth Bastoni Anders Moberg <i>1) Hubert Joly was Committee Chairman until 13 September 2012</i>	Trudy Rautio, Chairman Barry W. Wilson Wendy Nelson
<b>Number of meetings</b>	9	7	5
<b>Work in 2012</b>	<ul style="list-style-type: none"> <li>• reviewing of financial reports</li> <li>• reviewing of auditor’s observations from audit work and audit guidelines</li> <li>• reviewing of the Company’s risk situation</li> <li>• review of irregularities and whistle blowing cases</li> <li>• reviewing of internal control results and approval of internal audit plan for 2013</li> <li>• evaluating adequacy of safety &amp; security function and internal control</li> <li>• evaluating of auditor’s work and decision about thresholds to be applied for non-audit work by auditors</li> </ul>	<ul style="list-style-type: none"> <li>• developing an executive remuneration philosophy</li> <li>• benchmarking of executive compensation</li> <li>• designing an exceptional short term incentive plan for 2012</li> <li>• designing variable compensation plans in form of short term (MIC) and long term (LTIP) incentive schemes</li> <li>• evaluating the achievement of strategic objectives for the executive committee during 2011</li> <li>• assessing the capabilities of the executive committee members</li> <li>• reviewing and approving 2012 compensation for executive committee members and recommending CEO compensation for Board approval</li> <li>• reviewing and approving strategic objectives for 2012 for the executive committee members</li> </ul>	<ul style="list-style-type: none"> <li>• reviewing new hotel projects against defined criteria and evaluating post implementation reports of approved hotel projects</li> <li>• monitoring of the Company’s liquidity situation and credit facilities</li> <li>• evaluating and review of Finance Policy, including project policy</li> <li>• keeping informed about Company’s asset management activities</li> <li>• reviewing of the Company’s tax situation</li> <li>• reviewing and assessment of financial targets</li> <li>• evaluating insurance coverages and risk management issues</li> </ul>

Göte Dahlin, Barry W. Wilson, Staffan Bohman and Anders Moberg are independent Directors in relation to the Company and the Management as well as in relation to major shareholders. Hubert Joly was and Trudy Rautio, Elizabeth Bastoni and Wendy Nelson 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" have appointed two employee representatives to the Board, Emil Bäckström and Göran Larsson. The employee Board representatives joined the Board in the 2009 fiscal year. The term of their appointments will expire at the AGM in 2014.

### *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 2012 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 its tasks as well as a section which addresses the role of the Chairman. The results of the 2012 evaluation have also been compared with the results from previous Board evaluations so as to identify if any area deviates from results from 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 three committees: the Audit Committee, the Compensation Committee and the Finance 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 commit-

### *Attendance record and Board remuneration in 2012*

	Attendance record				Fees (EUR)				
	Board	Audit Committee	Compensation Committee	Finance Committee	Board	Audit Committee	Compensation Committee	Finance Committee	Total
<b>Trudy Rautio<sup>2)</sup></b>	100%	100%	100%	100%	52,844	6,500	3,485	6,000	68,829
<b>Hubert Joly<sup>1)</sup></b>	100%		100% <sup>5)</sup>		25,110		2,318		27,427
<b>Staffan Bohman</b>	92%	100%	100% <sup>4)</sup>		50,000	9,000	4,000		63,000
<b>Elizabeth Bastoni</b>	100%		100% <sup>6)</sup>		36,000		4,000		40,000
<b>Göte Dahlin</b>	100%	100%			36,000	6,500			42,500
<b>Anders Moberg</b>	92%		100%		36,000		4,000		40,000
<b>Wendy Nelson</b>	100%			100%	36,000			4,000	40,000
<b>Barry W. Wilson</b>	92%		100% <sup>3)</sup>	100%	36,000			4,000	40,000
<b>Göran Larsson</b>	100%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Emil Bäckström</b>	100%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total</b>					<b>307,953</b>	<b>22,000</b>	<b>17,803</b>	<b>14,000</b>	<b>361,756<sup>7)</sup></b>

<sup>1)</sup> Hubert Joly resigned from the Board on September 13, 2012.

<sup>2)</sup> Trudy Rautio was by the Board appointed Chairman of the Board and of the Compensation Committee on September 27, 2012.

<sup>3)</sup> Barry Wilson was a member of Compensation Committee until 25 April 2012.

<sup>4)</sup> Staffan Bohman was appointed Vice Chairman of the Board and became a member of the Compensation Committee on 25 April 2012.

<sup>5)</sup> Hubert Joly was Chairman of the Compensation Committee from 25 April 2012 until 13 September 2012.

<sup>6)</sup> Elizabeth Bastoni was the Chairman of the Compensation Committee until 25 April 2012.

<sup>7)</sup> Due to Hubert Joly's resignation from the Board the total compensation to the Board was lower than the maximum amount of EUR 385,000.

tee 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 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 2012 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 are shown in the table on page 85.

#### **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 2012 consisted of nine persons (including the CEO).

#### **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 objectives, 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 2012 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 is presented below.

#### **Share-related Incentive Programmes**

The Annual General Meetings in 2010 and 2011 approved proposals for a long-term share related performance-based incentive programme ("performance based share programmes") to be offered to executives within Rezidor. The two 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; the proportion of remuneration linked to company performance increases and that it encourages 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 OMX Stockholm exchange. More detailed descriptions of the two performance based share programmes can be found in Note 33.

#### **Financial reporting**

The Board monitors the quality of financial reporting through instructions to the CEO and reporting instructions regarding the reporting 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 2009

#### **Remuneration of the Executive Committee<sup>1)</sup>**

TEUR	Base salaries	Variable salaries	Post employment compenstion	Pension	Housing and company car	Total
Kurt Ritter (CEO)	1,950	315	52	395	156	2,868
The Executive Committee (incl. CEO)	5,348	459	52	642	544	7,045

<sup>1)</sup> The remuneration numbers, which are reported gross before the deduction of tax, exclude social security costs.

AGM Deloitte AB was reelected as auditor for Rezidor for a period until the end of the 2013 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 Karolinska Development, Mekonomen 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 2012 Annual Report. The auditor attended five 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 2012, the auditors have had consulting assignments outside the audit, mainly concerning issues related to the interpretation of IFRS, questions regarding internal control and IT-related areas; none of which impact 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 2012, 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 over financial reporting at Rezidor Hotel Group AB ("Rezidor") is organised. Internal control over 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 therefore limited to internal control over financial reporting. In accordance with the statement from the Council 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 2012. Rezidor applies the COSO framework as a base for the internal control structure. The Board annually evaluates the need for and organisation of an internal audit process. The structure of the process for 2012 has been approved by the Board. The process is managed from the Rezidor corporate office in Brussels. The process includes internal audit training as well as preparation and distribution of accounting and control policies and procedures. This report supplements the Annual Report. It has been audited by the 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, Regional Human Resources Managers and Head Office 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.

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 followup 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 accessible on the intranet and regularly updated to comply with accounting and audit regulations. Rezidor is also committed to building competen-

cies and ensures that employees, including those in finance and accounting functions, receive the appropriate training. Other control measures in effect are specific accounting procedures, 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 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. The internal audit of these processes includes, as applicable, segregation of duties, authorisation for payment, contract handling, cost control, registration of revenues and follow-up routines. The annual plan for internal audit is developed based on assessment of risks.

The risk assessment process can be adjusted during the year to ensure that changes are managed in the process.

The Audit Committee and the Board of Directors analyse and approve the previous year's result from the internal audit and 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 the Rezidor's formal 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, regional offices and the corporate office 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 management consultants who are specialised in IT processes and security. In addition a self-assessment process related to internal control have been developed and completed by the hotels. The self-assessment for each hotel is subject to certain internal audits on a three year rotating basis in order to verify the information. A number of hotels are also visited on a surprise basis in order to follow-up on the implementation of the recommendations from the internal audit teams. In depth audits in target areas such as Treasury, Financial Reporting, Purchasing, Process for payment of Travel Agent Commissions and Contracts and Contract Management for Outsourced Services 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.

A system, with the support of 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 last three 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 and regional offices as well

as from leased 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, regional offices and corporate office, follow up in relation 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 2012 included in the printed version of this document on pages 81–89, 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 15, 2013

*Deloitte AB*

Thomas Strömberg  
*Authorised Public Accountant*