

Corporate Governance Report

Good corporate governance is about ensuring that a company is managed as efficiently as possible on behalf of the shareholders. Corporate governance determines how rights and responsibilities are distributed among a company's various bodies in accordance with internal processes and the laws and regulations in effect. Pandox is a Swedish public limited company with its registered office in Stockholm. The B shares were listed on Nasdaq Stockholm on 18 June 2015. Corporate governance within Pandox is based on Swedish laws, the Articles of Association, the Nasdaq Stockholm Rule Book for Issuers and the Swedish Corporate Governance Code ("the Code"). The Code describes good practice in the stock market for all Swedish companies whose shares are listed for trading on a regulated market in Sweden. The Code is to be applied from the date of the market listing.

The Code has been revised, and the revised version of the Swedish Corporate Governance Code applies from 1 November 2015.

A company does not need to follow all of the rules in the Code as the Code itself allows companies to deviate from the rules on condition that any deviations as well as the alternative solutions chosen are described and the reasons for them explained in the corporate governance report (according to the so-called "comply or explain principle").

All companies are, however, obliged to comply with the Code's Chapter 10 Information on Corporate Governance. In a

corporate governance report published on the Company's website, the Board is to provide information to shareholders and the capital market on an annual basis about the Company's corporate governance and how the Company is applying the Swedish Corporate Governance Code.

Pandox's Corporate Governance Report has been prepared for the first time for the 2015 financial year. Pandox complies with the Code with no deviations.

SHAREHOLDERS AND THE SHARE

The active participation of the shareholders at shareholders' meetings promotes a good balance of power between the owners, the Board and Group management.

The Company's share capital amounted to SEK 375,000,000 as of 31 December 2015; 75,000,000 are A shares and 75,000,000 are B shares. Each A share entitles the holder to three votes at shareholders' meetings, while each B share entitles the holder to one vote at shareholders' meetings. At year-end the Company's market capitalisation amounted to MSEK 23,385.

Pandox's Articles of Association contain a conversion clause and a pre-emption clause for Pandox's A shares. All B shares are transferable without restriction.

Shareholders' meeting

At the shareholders' meeting the shareholders exercise their right to vote on key issues, such as adoption of the income statement and balance sheet, appropriation

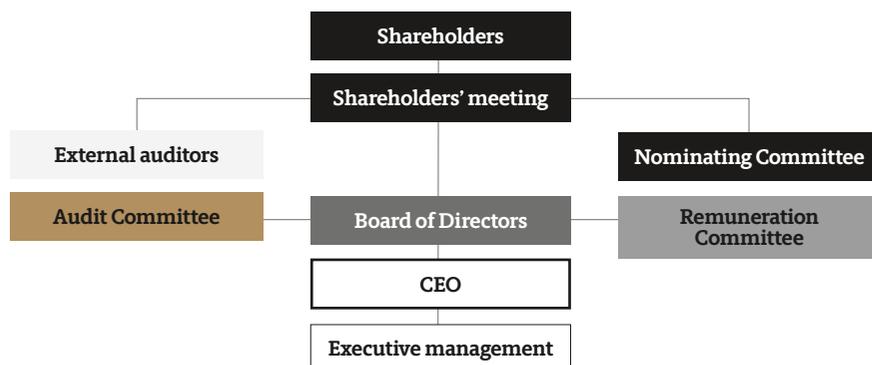
of the Company's profits, discharging the board members and the Chief Executive Officer from liability, election of board members and auditors, and on fees for board members and auditors.

The Annual General Meeting (AGM) must be held within six months of the end of the financial year. In addition to the AGM, extraordinary shareholders' meetings may be convened. The Board of Directors is to convene extraordinary shareholders' meetings if a group of minority shareholders holding at least one tenth of all shares in the Company requests such a meeting. The same applies if the Company's auditors request an extraordinary shareholders' meeting. The Board of Directors may also initiate an extraordinary shareholders' meeting. Resolutions at shareholders' meetings are normally passed with a simple majority. In certain matters, however, the Swedish Companies Act states that a qualified majority is required. According to the Articles of Association, notice to attend shareholders' meetings is to be issued through an announcement in Post- och Inrikes Tidningar (Sweden's official gazette) and published on Pandox's website. An advertisement is also to be placed in the Swedish national daily newspaper, Svenska Dagbladet, informing the public that a notice has been issued.

When the date and location of the shareholders' meeting has been established, the details are to be published on Pandox's website in advance of the AGM no later than in connection with the third quarter interim report.

Shareholders wishing to participate in the meetings must be listed in the register of shareholders maintained by Euroclear Sweden AB five days before the meeting, and must register with Pandox to participate in the shareholders' meeting by the deadline indicated in the notice of the meeting. Shareholders may attend the meetings in person or by proxy and may also be assisted by no more than two people (the number of assistants is to be indicated when registering to attend). Shareholders may normally register in a number of ways to attend shareholders' meetings. This is described in more detail in the notice of the meeting. Shareholders are entitled to vote for all of the shares they hold.

Overall corporate governance structure



Shareholders wishing to have a matter placed on the agenda of the shareholders' meeting are required to submit a written request to the Board of Directors. Requests are normally to be received by the Board of Directors no later than seven weeks before the shareholders' meeting.

Annual General Meeting 2015

The last Annual General Meeting (AGM) took place on 5 May 2015 in Stockholm. The following resolutions were passed at the 2015 AGM:

- Adoption of the income statement and balance sheet, and of the consolidated income statement and consolidated balance sheet.
- Appropriation of the Company's earnings according to the adopted balance sheet.
- Discharge of the members of the Board and the CEO from liability.
- Fees for the Board and the Company's auditors. SEK 600,000 to the Chairman of the Board and SEK 400,000 to each of the other elected members of the Board. Additional fees of SEK 50,000 each for board members for work performed on the Audit Committee. Decision that compensation for committee work is to be paid in the amount of SEK 50,000 to each of the two members of the Remuneration Committee. Decision on fees for auditors according to approved invoices.
- Re-election of board members and auditors as well as deputy auditors.
- Re-election of Christian Ringnes as Chairman of the Board.
- Decision on appointing a Nominating Committee in advance of the 2016 AGM.
- Adoption of the new Articles of Association.
- Share split (6:1), and that the share capital following the split is to consist of 75,000,000 class A shares and 75,000,000 class B shares.

Extraordinary shareholders' meeting

The following resolutions were passed at an extraordinary shareholders' meeting on 23 November 2015.

- It was established that the number of board members will be seven.
- Ann-Sofi Danielsson was elected as a new board member for the period until

the conclusion of the next AGM, replacing Christian Sundt who resigned his position on the Board.

- The fee for board members elected by the shareholders' meeting will remain the same as resolved by the AGM; a fee for the Chairman of the Board of SEK 600,000 and SEK 400,000 each for the other elected board members.
- A fee of SEK 50,000 is to be distributed to each of the two members of the Remuneration Committee.
- An annual fee not exceeding SEK 350,000 to the Audit Committee, to be distributed among the Audit Committee members as determined by the Board of Directors.

The minutes of shareholders' meetings are available on Pandox's website.

Board of Directors

The Board of Directors is Pandox's next highest decision-making body, after the shareholders' meeting. According to the Swedish Companies Act, the Board of Directors is responsible for the administration and organisational structure of Pandox. This includes establishing targets and strategies, ensuring that routines and systems are in place to evaluate performance in relation to established targets, and ongoing evaluation of Pandox's financial performance and position and its operational management. The Board is also responsible for ensuring that the Annual Report and interim reports are prepared at the right time. The Board also appoints the Chief Executive Officer. The Board may

delegate tasks to individuals within or outside the Board, but may not relieve itself of ultimate responsibility for the Company's organisational structure and administration, nor of its responsibility to ensure satisfactory control of the Company's financial situation.

The members of the Board are normally elected at the Annual General Meeting for the period until the conclusion of the following AGM. According to Pandox's Articles of Association, the Board of Directors, to the extent it is elected by the shareholders' meeting, is to consist of at least four and not more than seven members with no deputies.

According to the Code, the Chairman of the Board is to be elected by the AGM and has special responsibility for guiding the work of the Board and for ensuring that the Board's work is well-organised and performed efficiently.

The Board is to establish written work procedures for its own duties. If there is an established distribution of duties among the members of the Board, this should also be stated in the work procedures. This is relevant when the Board has committees tasked with preparatory work in specific areas, for example the Audit Committee and the Remuneration Committee.

The Board works according to the written work procedures, which are revised annually and adopted at the statutory board meeting every year. The work procedures regulate, among other things, board practices, functions and distribution of duties between the board members and the CEO. In conjunction with the statutory

PANDOX'S BOARD OF DIRECTORS 2015

Name	Fees, SEK 000s	Attendance at meetings				Independent of the Company ²⁾	Independent of owners ³⁾
		Board of Directors	Audit Committee ¹⁾	Remuneration Committee			
Christian Ringnes, Chairman	650	15 of 15	3 of 3	2 of 2	Yes	No	
Leiv Askvig	400	15 of 15	3 of 3	—	Yes	No	
Olaf Gauslå	470	15 of 15	3 of 3	—	Yes	No	
Bengt Kjell	470	15 of 15	3 of 3	—	Yes	Yes	
Helene Sundt	400	14 of 15	3 of 3	—	Yes	No	
Mats Wäppling	450	15 of 15	3 of 3	2 of 2	Yes	Yes	
Christian Sundt	—	11 of 15	3 of 3	—	Yes	No	
Ann-Sofi Danielsson	530	3 of 15	—	—	Yes	Yes	

At an extraordinary shareholders' meeting on 23 November 2015 Ann-Sofi Danielsson was elected as a new board member, replacing Christian Sundt who resigned his position on the Board.

¹⁾ The Audit Committee was formed on 23 November 2015. Until this date the Board in its entirety performed the duties of an audit committee.

²⁾ Independent in relation to the Company and the executive management team.

³⁾ Independent in relation to major shareholders.

meeting the Board adopts instructions for the CEO, including financial reporting instructions.

The Board conducts an annual evaluation of its work methods and routines. The objective of this evaluation is to ensure that efficient processes are in place for gathering information, reporting, performing analysis, planning and decision-making. A further objective is to ensure that the Board possesses the necessary skills and expertise. The result of the evaluation is reported to the Nominating Committee and provides information on which the Committee can base its work. All board members as well as the CEO were interviewed by the Nominating Committee in November 2015 about the Board's work methods and routines. In addition, a special analysis was conducted of the Board's composition in preparation for the appointment of a new board member in November 2015. Particular attention was paid to specific skills needed, independence in relation to the principal owners and gender distribution on the Board.

The Board is to evaluate the work of the CEO on an ongoing basis.

The Board holds meetings based on a schedule established annually. In addition to these board meetings, additional meetings may be convened by the Board to address matters that cannot wait until the next ordinary board meeting. In addition to board meetings, the Chairman and the

CEO meet on a regular basis to discuss Pandox's governance and management.

In 2015 the Board held 15 meetings, one of which was the statutory meeting.

The members of the Board have the appropriate and collective expertise taking into account Pandox's operations. In 2015, in addition to focusing on the Company's operations, the Board was active and involved in the process of preparing to list the B shares on Nasdaq Stockholm.

Audit Committee

On 23 November 2015 Pandox's Board of Directors appointed an Audit Committee consisting of Ann-Sofi Danielsson (chairman), Bengt Kjell and Olaf Gauslå. The Audit Committee's duties, which are not to affect the Board's general responsibilities and duties, consist of overseeing Pandox's financial reporting and the efficiency of Pandox's internal control and risk management, and involve staying informed about the audit of the annual accounts and consolidated accounts, reviewing and monitoring the auditor's impartiality and independence, and paying particular attention if the auditor is providing Pandox with services other than audit services, as well as assisting in the preparation of proposals for the election of auditors at the AGM. The Audit Committee also examines the Annual Report and interim reports and oversees the audit. The Audit Committee does not perform any auditing tasks.

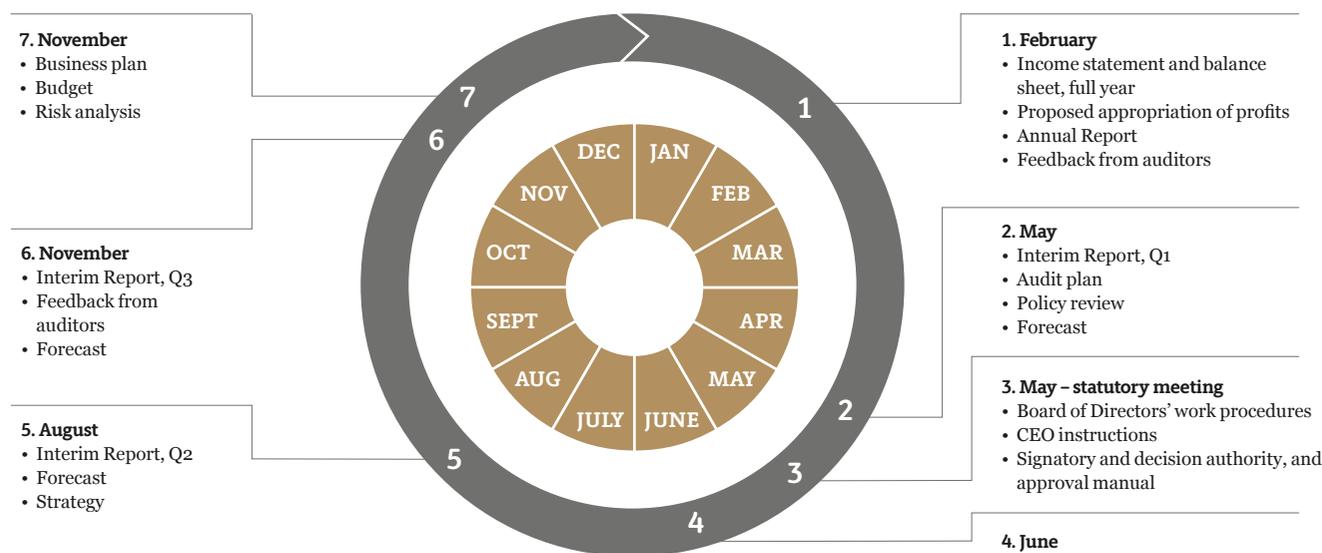
Before the Audit Committee was formed on 23 November 2015, the Board in its entirety performed the duties of an audit committee. The Board held three meetings in this capacity in 2015.

Remuneration Committee

Pandox has a Remuneration Committee consisting of two members: Christian Ringnes and Mats Wäppling. Remuneration Committee duties:

- Preparing for board decisions on remuneration principles and on remuneration and other employment terms with respect to the CEO and senior executives.
- Monitoring and evaluating ongoing programmes and programmes concluded during the year regarding variable remuneration for senior executives.
- Monitoring and evaluating the application of remuneration guidelines for senior executives on which the AGM is legally obliged to vote, and the applicable remuneration structures and compensation levels within the Company.
- Reviewing and preparing proposals on all share-related incentive schemes to put before the executive management team. These proposals are submitted for a decision by the Board of Directors, which then submits proposals for a resolution at the AGM. The AGM resolution is to include the significant terms and conditions of the scheme.

Board duties, annual cycle*



* In 2015 a total of 15 board meetings were held. The high number in relation to the normal annual cycle for the Board's work is mainly due to the process of preparing for the market listing on 18 June 2015 and the acquisition in Germany.

The Remuneration Committee held two meetings in 2015.

Chief Executive Officer and other senior executives

The Chief Executive Officer (CEO) reports to the Board of Directors and is responsible for Pandox's day-to-day administration and operations. Actions and measures which, taking into account the scope and nature of the Company's business, are of an unusual nature or of great significance, do not fall under the category of day-to-day administration. The CEO is required to prepare information and report to the Board on matters that are outside the day-to-day administration of the Company.

The distribution of duties between the board members and the CEO is described in the work procedures for the Board and instructions for the CEO. The CEO is also responsible for preparing reports and compiling information in advance of Board meetings and reporting on these materials at the board meetings.

According to the instructions on financial reporting, the CEO is responsible for Pandox's financial reporting procedures and must therefore ensure that the Board receives sufficient information on which to continuously evaluate Pandox's financial position.

The CEO is to keep the Board continuously informed about the performance of Pandox's operations, sales development, results and financial position, liquidity and credit status, important business events and about all other events, circumstances or situations that may be assumed to be of significant importance to Pandox's shareholders.

Audit

Pandox's auditors are appointed by the shareholders' meeting and are to examine the Company's Annual Report and accounting records as well as the administration of the Company by the Board and the CEO. After each financial year, the auditor must submit an audit report for the Company and the Group to the Annual General Meeting. The auditors are commissioned by and report to the shareholders' meeting and are not to allow themselves to be influenced in their work by the Board or the executive management team.

The auditors are also responsible for reporting on any instance where a board member or the CEO is guilty of neglect or has acted in a way that may result in a liability to pay compensation.

According to Pandox's Articles of Association, Pandox is to have two auditors and two deputy auditors. Pandox's auditors are Per Gustafsson and Willard Möller and the deputy auditors are Pär Olle Lövgren and Ulf Sundborg. Pandox's auditors and deputy auditors are presented in the section under the heading: Board, senior executives and auditors, on page 108.

The Board of Directors meets with Pandox's external auditors without executive management being present at least once a year to receive and address the auditors' opinions.

The Audit Committee also meets the auditors on a regular basis to be informed about and address their opinions on the interim reports and the year end report, the results of the auditor's scrutiny of internal control over financial reporting and to address other issues.

Pandox has no specific internal audit department. The Board evaluates the need for such a department on an annual basis.

Nominating Committee

The Nominating Committee is a body tasked by the shareholders' meeting to prepare for decisions at shareholders' meetings on election and fee-related issues and, where applicable, procedural issues for the subsequent Nominating Committee to address.

The Nominating Committee is tasked with submitting proposals for the election of the Chairman and other members of the Board, and on fees and other remuneration for board assignments for each member of the Board. The Nominating Committee is also to provide proposals for the election and compensation of auditors in consultation with the Audit Committee.

The AGM in 2015 adopted principles for appointing members to the Nominating Committee in advance of the AGM for the financial year 2016. In preparation for the AGM for the financial year 2016, the Nominating Committee is to consist of representatives of the four largest shareholders in terms of voting rights as of 30 September 2015 as well as the Chairman of the Board. Changes in the composition of the Nominating Committee are to be published immediately. The composition of the Nominating Committee formed in advance of an AGM is to be published no later than six months before the AGM. On 8 October it was announced that the Nominating Committee had been appointed in accordance with principles adopted by the AGM and consisted of the following:

- Anders Ryssdal, Eiendomsspar Sverige AB (Nominating Committee chairman)
- Christian Ringnes, Chairman of the Board of Pandox
- Lars-Åke Bokenberger, AMF Insurance and Funds
- Marianne Flink, Swedbank Robur Funds
- Johannes Wingborg, Länsförsäkringar Fondförvaltning AB

Shareholders wishing to submit proposals to the Nominating Committee can do so by e-mail to valberedningen@pandox.se or by post to Pandox AB, Valberedning, PO Box 15, SE-101 20 Stockholm. The Nominating Committee's proposals will be published in the notice of the 2016 AGM and on Pandox's website. The AGM will be held on 3 May 2016 in Stockholm.

INTERNAL CONTROL

According to the Swedish Companies Act and the Swedish Corporate Governance Code, Pandox's Board of Directors is to be responsible for the Company's internal control. This report has been prepared in accordance with the Annual Accounts Act and the Code and is mainly intended to describe internal control over financial reporting.

The framework used as a basis for Pandox's work on and description of internal governance and control is provided by COSO, the Committee of Sponsoring Organisations of the Treadway Commission. COSO provides a structure for internal control based on five components: control environment, risk assessment, control activities, monitoring activities, and information and communication.

Control environment

The Board of Directors has the overall responsibility for ensuring good internal control and effective risk management. Every year the Board of Directors adopts work procedures that define the Board's responsibilities and the distribution of duties among the board members. The Board exercises its control by annually adopting policy documents, CEO instructions, delegation rules, instructions for financial reporting, business targets and strategies, as well as business plans and a budget.

Good internal control over financial reporting is based on the control environment. In 2015 Pandox focused on defining, documenting and implementing an organisational structure, decision paths, delegation, responsibilities and powers. These efforts have strengthened Pandox's

corporate culture and control environment, and have resulted in a number of updated group-wide governing documents:

- Work procedures for the Board and its committees
- CEO instructions, including instructions for financial reporting
- Decision and approval authority manual
- Financial Handbook
- Financial Policy
- Insider Policy
- Communication Policy
- IT Policy
- Environmental Policy
- Code of Conduct

These governing documents form the basis for ensuring the financial reporting.

The Board's and executive management's actions, demonstrating solid expertise and an ethical approach, have great significance for establishing a sound control environment and are an important aspect of Pandex's corporate culture.

In 2015 Pandex recruited a number of individuals to enhance the Company's IFRS expertise with respect to external reporting of financial information, as well as expertise in external communication for a listed company.

Risk assessment

The Group's business segments are exposed to a number of risks; see the risk section on page 52.

Risk assessment with respect to financial reporting involves identifying the procedures and income statement and balance sheet items in which there is a risk that errors, incomplete information or irregularities may arise if there is insufficient control built into the routines. Risk assessment includes analysing whether any

errors could occur and if so, how they may occur and in which part of the process.

Pandex's risk assessment has identified items where the risk of significant errors is the highest. These are items involving substantial transactions or where the processes are highly complex and require strong internal control.

An assessment of the risk of errors in financial reporting is performed annually for each line in the income statement, statement of financial position and cash flow statement. For items that are significant and/or associated with an elevated risk of errors, special procedures are employed to minimise the risks. The three main areas of risk are:

- Property valuation
- Investment and renovation programmes
- Financing activities

Pandex has a well-established operational risk model called the Pandex Model. The Pandex Model is used to evaluate and document identified risks associated with the hotel properties. The Model's methods increase cash flow and limit the risk associated with each of the hotels.

The Pandex Model has four phases:

- Market analysis
- Market strategy
- Profitability optimisation
- Agreement optimisation

Twice a year a review of all of the hotels and properties is performed and updates are made based on the Pandex Model. Recurring business risk areas are: hotel occupancy, property management, contract issues and asset management. The biggest risks are documented in a "Hot Pile" and are followed up at monthly executive management meetings. Topics discussed at the meetings include any impact from macroeconomic forces, the hotel

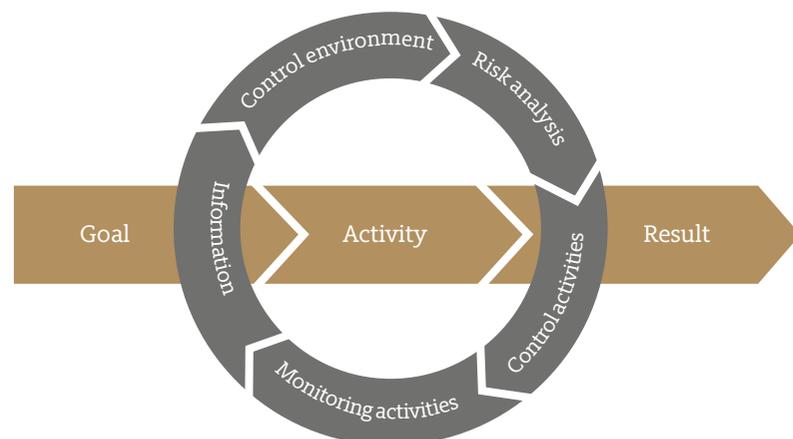
market, geography, diversification, demand, supply, competitors, etc.

Pandex performs internal valuations of its property portfolio every quarter. In addition, all properties are valued annually by external professional property appraisers who are independent of Pandex. Their assumptions and valuations form an important element in establishing the property value during the internal valuation process. The valuation model consists of an accepted and proven cash flow model, where the future cash flows the hotel properties are expected to generate are discounted. The valuation is based on the business plan for the hotel concerned, which is updated at least twice a year and takes into account aspects such as progress in underlying operator activities, market development, the contract situation, operating and maintenance issues and investments aimed at maximising the hotel property's cash flow and yield in the long term.

In its role as an active hotel property owner, Pandex makes every effort to develop and position its hotels through a programme of investment and renovation. Pandex has made substantial investments in recent years. Pandex has a long-term investment management perspective for the property portfolio and works according to maintenance plans covering three to five years. For investments exceeding MSEK 6, a memorandum is submitted to the Board for approval. An investment budget is established every year in connection with the preparation of the budgets and business plan for adoption by the Board of Directors. The outcome of the investments is monitored in relation to the budget and reported at board meetings.

Interest expense is, and has in the past been, Pandex's biggest expense item. Interest expense is affected by market interest rates and by credit institution margins, as well as by Pandex's strategy with respect to fixed interest rates. The majority of Pandex's credit facilities have a variable rate of interest. In order to manage interest rate risk and increase the predictability of Pandex's earnings, interest-rate derivatives, mainly interest-rate swaps, are used. Variable interest rates are partially swapped through interest-rate swaps, which gives Pandex fixed interest rates. Pandex has a Financial Policy that establishes risk mandates and ensures that the Company has access to long-term financing. The Financial Policy is updated annually by the Board of Directors. Pandex works closely with its lenders and external experts to ensure the Company plans well in advance with respect to its financing requirements.

Pandex's model for internal control



In addition to a focus on operational risk, Pandox made an assessment in 2015 of the main risks relating to financial reporting. This assessment is reflected in how the financial processes are documented in the Financial Handbook.

In connection with Pandox's annual strategy and budgetary work, the executive management team presents a map of the Group's top risks to the Board of Directors.

Control activities

To avoid errors, a number of control activities have been introduced to ensure that control objectives are achieved. In 2015 Pandox reviewed its processes and routines to guarantee a high standard in financial reporting. Pandox's most important financial processes, such as closing the accounts, consolidation, monitoring results and reporting, have been documented in a Financial Handbook. This has also involved identifying and documenting control activities linked to financial processes. The control measures involve guaranteeing the quality of financial reporting. Measures have been implemented at the general level in the analysis of results and key ratios, as well as at the detailed level by incorporating a number of items to check in day-to-day processes and routine descriptions. Each month at financial meetings, the Company's performance is examined in relation to the budget, forecast and the outcome the previous year. The executive management team also holds monthly meetings. The Board and Audit Committee review financial reporting procedures quarterly.

The CFO and the business intelligence and control departments are all responsible for creating the environment required to achieve transparent and accurate financial

reporting. Pandox's executive management and the Board also fill an important control function in respect of the external financial reporting process.

Monitoring activities

Pandox monitors performance in relation to both operational and financial goals on a monthly basis. The performance follow-up meeting is attended by the CEO, CFO, Business Intelligence, Group Controllers and Business Area Managers. Material differences are investigated immediately by the CFO and significant issues are reported to the Board. Any high risk areas identified are monitored by the Board at least every quarter. The Audit Committee always examines the external reports before they are published for the stock market.

These monitoring processes are the basis for guaranteeing the quality of Pandox's financial reporting.

The CFO reports annually to the Board on an evaluation of internal control over financial reporting.

In addition to this, Pandox's external auditors examine the Company's internal control over financial reporting and annual reporting, and perform a review of the third quarter interim report. Any shortcomings and/or errors identified by the auditors are reported to Pandox's executive management or, in the case of serious issues, directly to the Board.

Information and communication

One prerequisite for good internal control is that its various components and intentions are known throughout the organisation. In other words, clear and well-structured communication on internal control is very important.

To ensure that there is an efficient exchange of knowledge and experience among the financial departments, financial meetings are convened on a regular basis at which relevant issues are addressed. Governing guidelines, policies and instructions are available on the Group's intranet. Access to the documents for internal information on the intranet is regulated by rules of authorisation. The documents are updated on an ongoing basis as needed. Changes are communicated separately via e-mail and at meetings attended by controllers and financial managers. Access to financial data for the Group is also controlled at the central level based on authorisation rules.

During the year a Head of Investor Relations was employed. This person is responsible for all external information and communication, including the external website.

Need for an internal audit

Pandox has a very dedicated and committed executive management team whose members are directly involved in many different issues at various levels within the Group. Pandox also has a strong central control department consisting of individuals with previous experience as auditors who work with the Business Intelligence department to analyse and monitor financial and operational development within all of the Group's business segments. The employees in the financial department have many years of experience in this area and significant experience of Pandox's business. Taking all of this into consideration, Pandox's Board has determined that at this time there is no need for a separate internal audit department.

Auditors' report of the Corporate Governance Statement

To the annual meeting of the shareholders in Pandox AB, Corporate identity number 556030-7885

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2015 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the Corporate Governance Statement has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the Corporate Governance

Statement and assessed its statutory content based on our knowledge of the company. 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 audit 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 30 March 2016

Per Gustafsson
Authorised Public
Accountant

Willard Möller
Authorised Public
Accountant