

Corporate Governance Report

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

At Rezidor 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 Hotel Group AB (publ) ("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 is based on Swedish legislation and regulations, primarily the Swedish Companies Act and the Swedish Annual Accounts Act, but also the Listing Agreement with Nasdaq Stockholm, the Swedish Code of Corporate Governance, the Articles of Association and other relevant rules. This Corporate Governance Report for the 2016 fiscal year has been subject to audit procedures as outlined in the auditor's report on page 65.

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 number 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 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 below illustrates how governance is organised at Rezidor.

Ownership Structure

At year-end 2016, Rezidor had 3,674 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 77.8% (excluding Rezidor) of the outstanding shares. HNA Tourism Group Co, Ltd. 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 170,808,498 at year end 2016. 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 71.

Corporate Governance at Rezidor



Read more on Rezidor's 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

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 2016

Rezidor's AGM in 2016 was held at the Radisson Blu Royal Viking Hotel in Stockholm on April 21, 2016. The AGM was attended by 150 shareholders personally or by proxy, representing 76.1% of the total number of shares and votes of the Company, 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 to the Board attended the AGM, as well as the employee Board representative. Also present were the Deputy President & CFO, other key executives and Rezidor's auditor as well as the three members of the Nominating Committee. All documents required for the 2016 AGM and the minutes from the meeting have been made available on Rezidor's website in both Swedish and English.

Annual General Meeting 2017

The 2017 AGM will take place on April 28, 2017 at Radisson Blu Royal Viking Hotel, Vasagatan 1, Stockholm. Shareholders who wish to participate must be recorded in the shareholders' register maintained by Euroclear Sweden AB, on Saturday April 22, 2017 and also notify Rezidor of their intention to attend no later than by 16.00 p.m. CEST on Monday April 24, 2016. For additional information on the 2017 AGM and how to register attendance, see page 72.

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 the 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 2016 AGM, the Nominating Committee for the AGM on April 28, 2017 has been established. Based on the list of shareholders per August 31, 2016 the three largest known shareholders have been contacted, each of which was offered the possibility to appoint one representative of the Nominating Committee. In addition, the chairman of the Board is part of the Nominating Committee, however without voting rights. The committee members and the shareholders they represent were made public on October 31, 2016.

On December 7, 2016, HNA Tourism Group Co, Ltd. announced the completion of its purchase of Carlson Hotels Inc. from Carlson Hospitality Group, Inc. This transaction included Carlson's stake in Rezidor, representing 51.3% of outstanding shares. After the closing of the transaction, HNA informed Rezidor that it was to replace Carlson's representative on the Nominating Committee with Mr. Charles Mobus. The other two representatives, Mr. Tomas Risbecker representing AMF Försäkring och Fonder, and Mr. Fredrik Carlsson representing Provobis Holding AB, remained the same. The members of the Nominating

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 2016 AGM included:

- A dividend to be paid for the year 2015 of EUR 0.07 per share and the remaining funds of MEUR 259.1 to be carried forward.
- The following members were re-elected: Trudy Rautio (also elected as Chairman), Staffan Bohman, Anders Moberg, Wendy Nelson, David P. Berg and Charlotte Strömberg.
- The total remuneration to the Board of Directors elected at the AGM would amount to maximum EUR 341,000.
- It was decided to implement a share based, long term incentive plan covering the financial years 2016 to 2018.

Committee appointed Mr. Mobus to chair the committee. The Nominating Committee for the 2017 AGM had two meetings in the beginning of 2017.

On March 13, 2017, Mr. Carlsson informed Rezidor of his resignation from the Nominating Committee based on Provobis Holding AB's sale of its shares in Rezidor. On March 16, 2017, Mr. Risbecker informed Rezidor of his resignation from the Nominating Committee based on AMF Försäkring och Fonder's sale of its shares in Rezidor. Rezidor has been unable to replace Mr. Carlsson and Mr. Risbecker on the Nominating Committee based on the short time remaining before the scheduled AGM.

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 min-

utes 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 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. Jenny Winkler, General Counsel of Rezi-

dor, was the Secretary at the Board meetings during 2016. Minutes from the Audit Committee meetings were taken by Andreas Fondell, Rezidor's Head of Group Accounting. Minutes from the Compensation Committee meetings were taken by Michael Farrell, Rezidor's Head of Human Resources, except for one meeting for which minutes were taken by Raf Leemans, Senior Director International Compensation & Benefits of Rezidor.

The Chairman of the Board

At the 2016 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 of 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

The 2017 Nominating Committee

Member	Representing	Number of shares August 31, 2016	Share of votes August 31, 2016 (based on number of registered shares)
Kerry Olson, Chairman ¹⁾	Carlson Group	87,552,187	50.2%
Charles Mobus, Chairman ¹⁾	HNA Tourism Group Co, Ltd.	N/A	N/A
Tomas Risbecker ²⁾	AMF Försäkring och Fonder	7,190,151	4.1%
Fredrik Carlsson ³⁾	Provobis Holding AB	5,650,666	3.2%
Trudy Rautio	The Board of Directors of Rezidor Hotel Group AB	N/A	N/A

1) Mrs. Kerry Olson was replaced by Mr. Charles Mobus after the completion of HNA Tourism Group Co, Ltd's purchase of Carlson Hotels Inc.

2) Resigned on March 16, 2017, based on AMF Försäkring och Fonder's sale of its shares in Rezidor.

3) Resigned on March 13, 2017, based on Provobis Holding AB's sale of its shares in Rezidor.

through a resolution of shareholders, and vacancies on the Board may likewise only be filled by a resolution of shareholders. Following the 2016 AGM, the Board of Directors was composed of six 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 67 in the Annual Report.

Work of the Board in 2016

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 2016, the Board held 12 meetings, including the statutory Board meeting. Four of the Board meetings were coordinated with the dates of the presentation of the external financial reports. In December, there was a meeting concerning the 2017 budget. Audit related matters are reported by the chair of the Audit Committee regularly to the Board and have been addressed as a special item during a Board meeting at least once during the year and in conjunction therewith, the Board met with Rezidor's auditor without the CEO or any other member of management being present. During 2016, the Board has been working in accordance with the adopted Rules of Procedure.

The main activities during 2016 were as follows:

- adopting a budget for 2017
- 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
- 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.

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 30, 2016 relating to the 2016 AGM and the Swedish Code of Corporate Governance, the following assessment is made regarding the independency of the members of the Board. 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, 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.

Independent Committee

The Independent Committee, meaning the independent Board members, have met

six times during 2016 in relation to the Carlson/HNA transaction.

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. Göran Larsson, who joined the Board in 2009, was 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 2016 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 addressed the role of the Chairman.

The results of the 2016 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

The Board deals with and decides on issues such as:

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

Remuneration to the Board of Directors approved by the 2014–2016 AGMs

	2014	2015	2016
Board	385,000	385,000	305,000
Audit Committee	28,500	22,000	22,000
Compensation Committee	18,000	18,000	14,000
Total	431,500	425,000	341,000

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 Chair-

man, 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 2016 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 the next 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 2016 consisted of seven persons (including the CEO) until October and thereafter six persons.

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 2016 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 2016 and the period 2014–2016 is presented on the next page.

Share-related Incentive Programmes

In 2013, 2014, 2015 and 2016 the AGM's have approved long-term equity settled performance-based incentive programmes to be offered to executives within Rezidor. The 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 details regarding the programmes is presented 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

Board committees' work 2016

	Audit Committee	Compensation Committee
Members	Staffan Bohman, Chairman Douglas M. Anderson (until April) David P. Berg Charlotte Strömberg (as from April)	Trudy Rautio, Chairman Anders Moberg Wendy Nelson Charlotte Strömberg (until April)
Number of meetings	6	6
Work in 2016	<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 audit 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"> • 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 2016 and setting objectives for 2017 • assessing capabilities of the executive committee members • reviewing and approving 2016 compensation for executive committee members and recommending CEO compensation for Board approval • reviewing management succession plans and key talent development, including diversity initiatives.

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 2016 AGM Deloitte AB was re-elected as auditor for Rezidor for a period until the end of the 2017 AGM with Erik Olin as the responsible

auditor. Erik Olin (born 1973) 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 2008 and is also responsible for the audits of NetEnt, CLX Communications and Telia Sverige.

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 2016 Annual Report. The auditor attended all six 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 2016, the auditors have had consulting assignments outside of the audit, mainly concerning matters related to advice on corporate and other income tax related matters, 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 2016, see Note 41.

Internal Control over Financial Reporting

The purpose of this section of the report is to give shareholders and other stakeholders a better view and understanding of how internal control over financial reporting at 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 thus limited to internal control over financial reporting.

In accordance with the statement from the Board for Swedish Corporate Governance in November 2015, this internal control report is restricted to a description of

Attendance record and Board remuneration in 2016

	Attendance				Fees (EUR)			
	Board	Audit Committee	Compensation Committee	Independent Committee	Board	Audit Committee	Compensation Committee	Total
Trudy Rautio	100%		100%		80,000		6,000	86,000
Staffan Bohman	92%	83%		100%	65,000	9,000		74,000
Douglas M. Anderson (until April)	60%	75%			20,000	3,250		23,250
Göte Dahlin (until April)	100%			100%	20,000			20,000
Anders Moberg	92%		100%	100%	40,000		4,000	44,000
Wendy Nelson	100%		100%		40,000		4,000	44,000
David P. Berg	92%	67%			40,000	6,500		46,500
Charlotte Strömberg	100%	100%	100%	100%	40,000	3,250	2,000	45,250
Göran Larsson	100%			100%	n/a			n/a
Total					345,000	22,000	16,000	383,000

Remuneration to the Executive Committee¹⁾

TEUR	Base remuneration ²⁾	Variable remuneration	Pension	Housing, schooling and company cars	Total
CEO	699	1,149	70	75	1,993
The Executive Committee (incl. CEO)	4,534	2,267	398	605	7,804

Remuneration to the Executive Committee 2014–2016

	2014	2015	2016
CEO	756	1,635	1,993
The Executive Committee (incl. CEO)	5,959	6,191	7,804

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

2) Base remuneration includes exit settlement costs for two Executive Committee members.

how the internal control is organised and makes no statement on how well it functioned during the fiscal year 2016. Rezidor applies the COSO framework as a base for the internal control structure. The Board evaluates the need for and organisation of an internal audit process annually. The structure of the process for 2016 and 2017 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 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, area and regional offices as well as the corporate support 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, occasionally 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 is in place that allows employees to anonymously alert corporate management

and the Audit Committee on ethical, financial and other issues in the organization.

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 Report

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 Report for the year 2016 included in the printed version of this document on pages 58–65 and that it has been prepared in accordance with the Annual Accounts Act.

Our examination of the Corporate Governance Report is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the

corporate governance report. This means that our examination of the Corporate Governance Report 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. We believe that the examination has provided us with sufficient basis for our opinions.

A Corporate Governance Report has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, March 21, 2017

Deloitte AB

ERIK OLIN

Authorised Public Accountant
