

CORPORATE GOVERNANCE REPORT

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

Corporate Governance at Rezidor

At Rezidor Hotel Group AB (publ) ("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 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 2017 financial year has been subject to audit procedures as outlined in the auditor's report on page 65.

The starting point of the Swedish Companies Act is that all shareholders must be treated equally and, furthermore, the shareholders' meeting, the Board of Directors or the CEO may not make a decision that might give an undue advantage to some shareholders at the expense of the company or other shareholders. 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. A shareholder may not give instructions directly to the CEO. Rezidor has a strong independent management team that conducts its business in the interest of all shareholders. 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 2017, Rezidor had 2,508 shareholders according to the register of shareholders maintained by Euroclear Sweden AB. The ten largest shareholders owned shares corresponding to 85.2% of the outstanding shares and votes (meaning the number of outstanding shares and votes after deducting the shares held by Rezidor in treasury) in the company. HNA Tourism Group Co, Ltd. ("HNA") represents the largest single shareholder and holds indirectly 60.9% of the registered shares

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 2007
 - The Articles of Association
 - Nominating Committees since 2013
 - AGM's since 2013 and related documentation
 - The Board, Committees and their work
 - The Company's management
 - Compensation to management

and 62.0% of the outstanding shares, according to the register maintained by Euroclear Sweden AB. HNA has informed the company that at year-end 2017, in total 13,100,000 of HNA's shares in the company have been pledged as security pursuant to a loan agreement entered into by HNA. The company has further been informed by HNA that, according to applicable rules and regulations, the pledged shares also during the time of the agreement shall be included in HNA's shareholding. Please note however that the pledged shares are not included in HNA's shareholding as set out above (which is based on information from Euroclear Sweden AB as per December 31, 2017). HNA's shareholding as set out above together with the pledged shares (in total 119,217,553 shares) represents 68.4% of the total number of shares and votes and 69.7% of the total number of outstanding shares and votes in the company. Rezidor's share capital amounts to EUR 11,625,766, distributed among 174,388,857 shares. The number of shares outstanding after deducting 3,222,541 shares held by Rezidor in treasury was 171,166,316 at year end 2017. 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 70-71.

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 2017

Rezidor's AGM in 2017 was held at the Radisson Blu Royal Viking Hotel in Stockholm on April 28, 2017. The AGM was attended by 89 shareholders personally or by proxy, representing 63.6% of the outstanding shares and votes in the Company. The members of the Board of Directors Staffan Bohman, Göran Larsson (employee representative) and Charlotte Strömberg

attended the AGM. Also present were the President & CEO, the Deputy President & CFO, the General Counsel, other key executives and Rezidor's auditor as well as the chairman of the Nominating Committee. All documents required for the 2017 AGM and the minutes from the meeting had been made available on Rezidor's website in both Swedish and English.

Annual General Meeting 2018

The 2018 AGM will take place on April 26, 2018 at Radisson Blu Royal Viking, Vasagatan 1, Stockholm. Shareholders who wish to participate must be recorded in the shareholders' register maintained by Euroclear Sweden AB, on April 20, 2018 and also notify Rezidor of their intention to attend no later than by 16.00 p.m. CEST on April 20, 2018. For additional information on the 2018 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 our Board of Directors and the allocation of remuneration in respect of committee work, if any. Such recommendations are presented at the AGM. The Nominating Committee, with the assistance of the Audit Committee, also prepares a proposal for the AGM regarding the election of auditors of Rezidor, when applicable, and makes recommendations for the auditors' fees. The Nominating Committee shall also make a recommendation regarding the procedure to be used in appointing members of the Nominating Committee for the next AGM.

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
- Principles for compensation and other employment terms for key management

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 2017 AGM included:

- A dividend to be paid for the year 2016 of EUR 0.05 per share and the remaining funds of MEUR 252.6 to be carried forward
- The following Board members were elected: Di Xin (also elected as Chairman), Daoqi Liu, Charles B. Mobus Jr., Xiang Song, Wolfgang M. Neumann, Kin Ching Lo, Andreas Schmid and Thomas Staehelin
- PwC was elected as auditor
- The total remuneration to the Board of Directors elected at the AGM would amount to maximum EUR 223,500

Members

In accordance with the decision made by the 2017 AGM, the Nominating Committee for the AGM on April 26, 2018 has been established. Based on the list of shareholders per August 31, 2017 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 26, 2017. The Nominating Committee consists of Kin Ching Lo representing HNA Tourism Group Co. Ltd., Trelawny Williams representing Fidelity International, Abhishek Agrawal representing Polygon Global Partners LLP and Di Xin, the chairman of the Board. The members of the Nominating Committee have appointed Kin Ching Lo to chair the committee, which represents a deviation from section 2.4 of the Swedish Code of Corporate Governance. The reason for the deviation is that the members of the Nominating Committee consider Kin Ching Lo, as representative of the largest shareholder, to be the most suitable chairman. The Nominating Committee for the 2018 AGM had one meeting in February 2018 and one meeting in March 2018. The Nominating Committee's proposals will be presented in the notice of the AGM and on Rezidor's website. The members of the Nominating Committee did not receive any compensation for their work in the committee.

The Board of Directors

Under the Swedish Companies Act, the Board of Directors shall be elected by the

shareholders and is ultimately responsible for the organisation and the management of the Company. The Articles of Association provide that the Board of Directors shall consist of not less than three – and not more than fifteen – members. Each year, the Board of Directors specifies its way of working in written Rules of Procedure clarifying the Board's responsibilities. The Rules of Procedure regulate the internal division of duties between the Board and its committees, including the role of the Chairman and the Vice Chairman, the Board's decision-making procedures, its meeting schedule, procedures governing the convening, agenda and minutes of meetings, as well as the Board's evaluation on accounting, auditing matters and financial reporting. In addition, the Board of Directors has established separate written work plans for the Audit Committee and the Compensation Committee. The Rules of Procedure also govern how the Board will receive information and documentation of importance for its work to facilitate the making of well-founded decisions. The Board has also issued instructions for the CEO, as well as for the financial reporting to the Board. Moreover, it has adopted other special steering documents, including a Finance Policy, a Communication and Investor Relations Policy and a Code 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, former General Counsel of Rezidor, was the Secretary at the Board meetings during 2017, except for one meeting for which minutes were taken by the external Legal Counsel Erik Åslund. 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 Raf Leemans, Vice President, Rewards & Organization (two meetings), Jenny Winkler, former General Counsel (two meetings) and external Legal Counsel Erik Åslund (one meeting).

The Chairman of the Board

At the 2017 AGM Di Xin was elected as the Chairman of the Board of Directors. At the statutory Board meeting the same day following the AGM, Daoqi Liu 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 com-

The 2018 Nominating Committee

Member	Representing
Kin Ching Lo, Chairman	HNA Tourism Group Co, Ltd.
Trelawny Williams	Fidelity International
Abhishek Agrawal	Polygon Global Partners LLP
Di Xin	The Board of Directors of Rezidor Hotel Group AB (publ)

mittees 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 through a resolution of shareholders, and vacancies on the Board may likewise only be filled by a resolution of shareholders. Following the 2017 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". The Directors' biographies can be found on page 67.

Work of the Board in 2017

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 2017, the Board held 13 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 2018 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 2017, the Board has been working in accordance with the adopted Rules of Procedure. The main activities during 2017 were as follows:

- adopting a 5-year operating plan in October
- adopting a budget for 2018 in December
- evaluating profit targets and profit improvement opportunities
- discussing and approving of certain hotel projects and investments meeting defined criteria
- 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, except for Wolfgang M Neumann, who was employed by Rezidor until June 30, 2017. Based on the Nominating Commit-

tee's assessment published in March 2017 relating to the 2017 AGM and the Swedish Code of Corporate Governance, the following assessment is made regarding the independency of the members of the Board. Di Xin, Daoqi Liu, Charles B. Mobus, Jr. and Xiang Song 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 HNA. Wolfgang M. Neumann and Kin Ching Lo are not independent Directors in relation to the Company and the Management but are independent in relation to major shareholders. Andreas Schmid and Thomas Staehelin are independent Directors in relation to the Company and the Management as well as in relation to major shareholders.

Independent Committee

The Board has formed an Independent Committee, consisting of the independent Board members. The Independent Committee has had four meetings during 2017 in relation to HNA Sweden Hospitality Management AB's mandatory offer to the shareholders of Rezidor as well as certain transactions between Rezidor and Radisson Hospitality, Inc.

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. In 2017, Göran Larsson, who joined the Board in 2009, was re-appointed and Ulf Petersson was appointed as employee representatives until the 2020 AGM.

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 and planning managerial succession

Remuneration to the Board of Directors approved by the 2015–2017 AGMs

	2015	2016	2017
Board	385,000	305,000	200,000
Audit Committee	22,000	22,000	15,500
Compensation Committee	18,000	14,000	8,000
Total	425,000	341,000	223,500

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 2017 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 2017 evaluation have also been compared with the results from previous Board evaluations to identify if any area deviates from results of previous years. The objective of the evaluation is to provide insight into the Board members' opinions about the performance of the Board and the role of the Chairman and identify measures that could make the work of the Board more effective. A secondary objective is to form an overview of the areas the Board believes should be afforded greater scope and where additional expertise might be needed within the Board. The Chairman of the Board has presented the results of the evaluation to the Board as well as to the Nominating Committee.

Board Committees

In order to increase the efficiency of its work and enable a more detailed analysis of certain issues, the Board has formed two committees: the Audit Committee and the Compensation Committee. The mem-

bers of the committees are appointed for a maximum of one year at the statutory Board meeting and perform their duties as assigned by the instructions adopted for each committee annually. The primary objective of the committees is to provide preparatory and administrative support to the Board. However, they are also empowered to make decisions on matters that the Board, pursuant to the committee instructions, delegates to them and on other issues in their respective areas of responsibility that are not considered essential in nature or that fall within the overall decision-making powers of the Board. The committees are required to inform the Board of any such decisions. The issues considered and the decisions taken at committee meetings are recorded in the minutes and reported at the next Board meeting. Representatives from the Company's specialist functions participate in committee meetings.

Remuneration of the Board

The amount of remuneration granted to the Board of Directors, including the Chairman, is determined by a resolution at the AGM. Compensation for the work of the members of the Board of Directors elected by the shareholders was taken by a resolution by the shareholders at the 2017 AGM. No remuneration is paid to members of the Board of Directors employed by Rezidor or the main shareholder HNA. 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

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. The CEO presents matters and proposes decisions, in addition to 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 per December 31, 2017 consisted of six persons (including the CEO). The Executive Committee's biographies can be found on page 69.

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, long term incentive programmes, 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 2017 AGM. In 2017, the Board exercised its option according to the policy to deviate from the compensation principles approved by the AGM. Please see page 9 in the Board of Directors Report for further details.

Board committees' work during 2017

	Audit Committee	Compensation Committee
Members	Kin Ching Lo, Chariman (as from April) Xiang Song (as from April) Thomas Staehelin (as from April) Staffan Bohman, Chairman (until April) David P. Berg (until January) Charlotte Strömberg (until April)	Daoqi Liu, Chariman (as from April) Charles B. Mobus Jr. (as from April) Andreas Schmid (as from April) Trudy Rautio, Chairman (until April) Anders Moberg (until April) Wendy Nelson (until April)
Number of meetings	5	5
Work during 2017	<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 2017 and setting objectives for 2018 • assessing capabilities of the executive committee members • reviewing and approving 2017 compensation for executive committee members and recommending CEO compensation for Board approval • reviewing management succession plans and key talent development, including diversity initiatives.

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 2017 and the period 2015–2017 is presented on the next page.

Long-term Incentive Programmes

In 2014, 2015, 2016 and 2017 the AGM's have approved long-term performance based incentive programmes to be offered to executives within Rezidor. The four programmes run for a three year performance period. The objective of the performance based programmes are to offer a competitive remuneration package that helps align executives with shareholder interests by increasing the proportion of remuneration linked to company performance.

Financial reporting

The Board monitors the quality of financial reporting through instructions to the CEO and reporting instructions via the Audit Committee. The Audit Committee reviews

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

Auditors

Auditors in Swedish limited companies are elected by the AGM and tasked with

auditing the Company's financial reporting and administration of the company by the Board and the CEO. At the 2017 AGM the registered public accounting firm PricewaterhouseCoopers ("PwC") was elected as auditor for Rezidor for a period until the end of the 2018 AGM with Eric Salander as the responsible auditor. Eric Salander (born 1967) 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 2000. In addition to Rezidor, Eric Salander is also responsible for the audits of Thule and Lifco. 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 2017 Annual Report. The auditor attended all five meetings of the Audit Committee during the year. On one occasion the

Attendance record and Board remuneration in 2017

	Attendance				Fees (EUR)			
	Board	Audit Committee	Compensation Committee	Independent Committee	Board	Audit Committee	Compensation Committee	Total
Di Xin	63%				N/A			N/A
Daoqi Liu	88%		100%		N/A		N/A	N/A
Charles B. Mobus Jr.	100%		100%		20,000		2,000	22,000
Xiang Song	100%	100%			N/A	N/A		N/A
Wolfgang M. Neumann	100%			100%	20,000			20,000
Kin Ching Lo	75%	100%		100%	20,000	4,500		24,500
Andreas Schmid	88%		100%	100%	20,000		2,000	22,000
Thomas Stahelin	88%	100%		100%	20,000	3,250		23,250
Trudy Rautio	100%		100%		40,000		3,000	43,000
Staffan Bohman	100%	100%		100%	32,500	4,500		37,000
Anders Moberg	80%		100%	100%	20,000		2,000	22,000
Wendy Nelson	100%		100%		20,000		2,000	22,000
David P. Berg	N/A				10,000	1,625		11,625
Charlotte Strömberg	100%	100%		100%	20,000	3,250		23,250
Göran Larsson	100%			100%	N/A			N/A
Ulf Petersson	100%			100%	N/A			N/A
Total					242,500	17,125	11,000	270,625

Remuneration to the Executive Committee¹⁾

TEUR	Base remuneration ²⁾	Variable remuneration ³⁾	Pension	Housing, schooling and company cars	Total
CEO	2,625	1,334	108	148	4,215
The Executive Committee (incl. CEO)	5,074	3,497	473	560	9,604

Remuneration to the Executive Committee 2015–2017

	2015	2016	2017
CEO	1,635	1,993	4,215
The Executive Committee (incl. CEO)	6,191	7,804	9,604

1) The remuneration numbers, which are reported gross before the deduction of tax, exclude social security costs. On 4 May 2017, the Board appointed Mr. Federico González-Tejera as new CEO, replacing Mr. Wolfgang M. Neumann. Remuneration of two CEOs has been reported in table below.

2) Base remuneration includes exit settlement costs for one Executive Committee member.

3) Variable remuneration includes the cost of the retention bonus for four Executive Committee members of TEUR 1,171.

Board met with Rezidor's auditor without the CEO or anyone else from the Management present. PwC submits an audit report covering Rezidor Hotel Group AB (publ), the Group and a majority of subsidiaries. During 2017, the auditors have had consulting assignments outside of the audit, mainly concerning advice on accounting matters as well as corporate and other income tax related matters. 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 2017, see Note 40.

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. 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 2017 and 2018 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 reviewed 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 many 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 Dis-

trict Directors and Human Resources Managers. In addition, the General Manager must certify that he/she is not engaged in any conflict of interest. The whistle-blower 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 monthly. 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 regarding financial reporting. The external auditors provide feedback and may suggest additional considerations for the assessment of risks. The risk assessment process has identified several critical processes such as revenue, pur-

chasing, payroll, financial reporting, IT, related party transactions, cash handling procedures, inventories and equipment, receivables, bank relations and processes, legal requirements regarding operational licensing and insurance as well as contract management for outsourced services. The internal audit of these processes includes, as applicable, segregation of duties, authorisation for payment, contract handling, cost control, recording of revenues and follow-up routines. The annual plan for internal audit is developed based on the assessment of risks.

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

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

Control activities

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

Managers and financial department employees in the hotels perform controls as part of their daily business to comply with central as well as local policies and guidelines. Regular internal audits are performed to evaluate whether controls operate as intended. These audits are scheduled and performed based on Rezidor's formal annual risk assessment. Action plans are implemented and followed-up to improve control activities that are lacking or found to be ineffective. Rezidor has established specific fraud mitigation programmes and controls and these procedures are known throughout the Company.

The specific internal audits of hotels and area, regional and corporate support offices are primarily aimed at internal control within operation and administration, with a focus on processes that impact financial reporting and risk of irregularities, improper favouritism of another party at the Company's expense, and the risk of losses. The teams for the internal audits consist of persons independent of the audited units, occasionally supported by external specialists 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 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 monthly 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 to benchmark and improve internal control procedures. The yearly audit plans and results of the audits are submitted periodically to the Audit Committee.

Rezidor's goal is that internal control policies are known and followed in the Group. Policies and guidelines regarding the financial process are communicated to all affected parties in the Group through direct distribution via electronic mail and via the Group's intranet, where all policies and guidelines are available.

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

A system, supported by an external

company, that allows employees to anonymously (turn whistle-blower) alert corporate management and the Audit Committee on ethical, financial and other issues in the organization has been in place for the past five years.

Monitoring

Regular internal meetings are used on different levels in the organisation for management and employees. A group including Executive Committee members, Area Vice Presidents and the Internal Audit Team meets on a regular basis to review and follow up on the results from the various internal audits carried out. These reviews include the results from specific internal audits of the financial reporting from corporate, area and regional support offices as well as from leased and managed hotels. The Executive Committee and the Board monitor Rezidor's operations and financial reporting on a regular basis. The Audit Committee and the Board review reports from external auditors, internal audits and other internal control activities. The Company, as well as the individual hotels, area, regional and corporate support offices, conduct follow-ups regarding 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 2017 included in the printed version of this document on page 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 19, 2018

PricewaterhouseCoopers AB

Eric Salander
Authorised Public Accountant
Auditor in charge

Erik Bergh
Authorised Public Accountant