

Chairman's Letter

Strong foundation for future successes

The market and geopolitical forces of 2016 have tested the resiliency of the Rezidor Hotel Group once again. I am proud to say that the more than 43,700 team members have once again demonstrated their ability to not only weather such storms, but to continue to make progress against their strategic initiatives. My profound gratitude is extended to the many colleagues who directly faced the impact of terrorist activities in Nice, in Brussels and in Turkey. The personal tragedies resulting from these attacks is almost beyond comprehension, and these markets continue to suffer from low demand.

The company nonetheless delivered an acceptable level of financial performance with a like-for-like RevPAR increase of 3.2% and room openings of 3,585. The overall performance incorporated continued asset management activities with a resultant € 29 million termination cost. While such one-time costs have been sizeable, the overall impact of asset management activities over the last five years have yielded ca €17 million EBITDA contribution and ca 1.8% uplift in EBITDA margin. The company has also made significant progress in completing its work on transfer pricing and has finally reached an effective tax rate that is in line with the markets in which it operates.

In addition to the ongoing monitoring and assessment of performance against its objectives, the Rezidor Board focused on four primary areas during 2016:

1. Strategy development
2. Controls oversight
3. Management succession and compensation
4. The sale process initiated by the majority owner of Rezidor

STRATEGY DEVELOPMENT

The Rezidor Hotel Group has continued to expand its reach into developing markets and has solidified its leadership position in many of those markets. With recognition for the inherent risk of emerging markets, Rezidor has secured properties through management contracts and has therefore limited its financial commitments. Rezidor has also begun the expansion of its new economy brand, prizeotel. Finally, the company has reinvigorated its emphasis on customer-focused initiatives and will be measuring progress against these initiatives as part of the compensation program in 2017.

CONTROLS OVERSIGHT

The Board remained vigilant in its oversight of financial controls through both

internal and external audit processes.

The supporting evidence of compliance in the area of financial reporting is obtained from the audit processes and other corroborating evidence. The Audit Committee of the Board reviewed the results of the external auditors as well as the work of the Internal Audit department and activities such as the results of the whistle-blower program. The Audit Committee and the Board followed closely the progress on the various transfer pricing processes and its overall implementation. Finally, the board

has had annual progress reports on the implementation of digital programs as well as reports from the Security Department to ensure that the appropriate safeguards are in place to protect, to the extent possible, both the people and the assets of the company.

**OPENING OF
3,585
NEW ROOMS**

Rezidor is externally recognised for both ethics and governance, having received the Ethisphere Award for seven years in a row.

MANAGEMENT SUCCESSION AND COMPENSATION

The Compensation Committee benchmarked the compensation policies and practices for the Company and they also reviewed the succession plans for the organization and the assessment of key talent. This assessment also included a report on the results of the work underway to increase diversity in the management of the organization.

The Board regularly received ongoing business education sessions on a variety of topics. This served to provide additional operational insight as well as to familiarize the board with potential future leaders.

Finally, with the announcement of the sale process early in the year, the Board implemented a limited retention programme for key management to ensure that the ongoing business would be minimally impacted by the diversion and uncertainty of a prolonged sales process.

SALE PROCESS

In December 2016, Carlson Hotels Inc., the majority owner of Rezidor, announced the sale of its stake to HNA Tourism Group Co, Ltd. (HNA). This sales process required the formation of an Independent Committee of the Board and attention by the Board to management retention, among other matters. HNA has indicated a desire to continue to invest and grow the business, which should be beneficial to all stakeholders.

FINAL THOUGHTS

In accordance with its stated dividend policy, the Board will provide a dividend recommendation of €0.05 per share, which will be decided upon at the Annual General Meeting.

On behalf of the Rezidor Board of Directors, I would like to extend our deep appreciation for the hard work, dedication and passion of all the people in Rezidor. You truly make **Every Moment Matter** for each of our guests, ensuring that staying in any



Trudy Rautio, Chairman of the Board

of our properties is a unique and special experience. We know that your jobs are never easy, but they are certainly made more difficult by the horrific terrorist incidents in recent years. Yet, your **Yes, I Can!** spirit is undiminished, and it is this spirit that will be the most important asset to both the new owners and the continuing owners of the Rezidor Hotel Group. It will be the foundation for the future success,

just as it was in the past. Your ongoing achievements will now earn the applause of the outgoing Board from the sidelines!

Trudy Rautio
Chairman of the Board of Directors, 2016