

REPORT OF THE BOARD OF DIRECTORS
PRESENTING THE ADDITIONAL RESOLUTIONS
TO BE SUBMITTED TO THE SHAREHOLDERS' MEETING OF JULY 12, 2016

To the Shareholders,

Based on recommendations put forward by the Compensation, Appointments and Corporate Governance Committee, your Board of Directors decided at its meeting of June 21, 2016 to submit for your approval at the Shareholders' Meeting of July 12, 2016, the appointment of six new Board members.

The proposed changes to the Board's membership – which follow on from the resignation as directors of Virginie Morgon and Jonathan Grunzweig, which became effective at the close of the Annual Shareholders' Meeting of April 22, 2016 – are designed to ensure that the Board meets requirements in terms of gender balance, skill diversity and proportion of independent directors. To achieve this aim, the Board of Directors proposes that you appoint three independent women directors.

The proposed changes also reflect governance agreements relating to the FRHI acquisition which, subject to the adoption of the first and second resolutions submitted for your approval, provide for the appointment of two directors recommended by Qatar Investment Authority (QIA) and one director recommended by Kingdom Holding Company (KHC).

To this end, in the **fourth to sixth resolutions**, you are asked to approve the appointment of Ali Bouzarif, Aziz Aluthman Fakhroo and Sarmad Zok for the three-year term specified in the bylaws, expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2018. In the **seventh to ninth resolutions**, you are asked to appoint Jiang Qiong Er, Isabelle Simon and Natacha Valla as independent directors for the same three-year term, expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2018, after completion of applicable governance procedures regarding Jiang Qiong Er and Natacha Valla.

Please find below information on the career paths of the six men and women proposed as directors and a list of the positions held.

Aziz Aluthman Fakhroo is a graduate of Paris ESLSA Business School. He founded and was CEO of IDEALYS SARL, a 3D industrial simulation company, prior to joining Qatar Investment Authority (QIA) in 2007. Appointed Director of Mergers & Acquisitions of QIA, he was responsible of numerous acquisitions between 2007 and 2013 for over US\$ 25 billion. He was appointed Director of Public Investment Management Department within the Ministry of Finance of Qatar in January 2014 and Director of Public Budget Department within the same ministry in March 2015.

**Positions held at June 21, 2016**

<u>Positions</u>	<u>Companies</u>
Member of the Board	OOREDOO GROUP*
Chairman	OOREDOO MYANMAR Ltd
Member of the Board	OOREDOO KUWAIT*
Member of the Board	UNITED ARAB SHIPPING COMPANY
Member of the Board	AXA REAL ESTATE DVIII
Member of the Board	QATAR RAIL
Member of the Board	CANARY WHARF Plc
Member of the Board	CHELSFIELD LLP

Former positions held in the past five years

<u>Positions</u>	<u>Companies</u>
Member of the Board	CITIC CAPITAL

*listed company

Ali Bouzarif is a graduate of Solvay Business School and CFA Charterholder. He began his career as a manager at Deloitte in Brussels prior to joining Qatar Investment Authority (QIA) in 2007. He was Associate Director, Co-Head of M&A and Head of Co-Investments of QIA. He notably led the execution of over 50 transactions globally for a total consideration in excess of US\$ 80 billion. He is today Head of Investment Execution at QIA.

Positions held at June 21, 2016

<u>Positions</u>	<u>Companies</u>
Head of Investment Execution	QATAR INVESTMENT AUTHORITY
Member of the Board	HEATHROW AIRPORT
Member of the Board	CANARY WHARF GROUP
Member of the Board	GBT AMERICAN EXPRESS
Member of the Board	CAISSE DE DEPOTS ET CONSIGNATIONS – QIA JV
Member of the Board	AVENTICUM CAPITAL MANAGEMENT
Member of the Board	THE CERNIN GROUP

Former positions held in the past five years

<u>Positions</u>	<u>Companies</u>
Member of the Board	ATV SABAH
Member of the Board	MIRAMAX
Member of the Investment Committee	FONDO STATEGICO ITALIANO – QIA JV



Sarmad Zok holds a Bachelor of Science in Hotel Management and a Master of Arts in Property Valuation and Law from the City University Business School (UK)). He began his career in hotel development prior to founding and developing Kingdom Establishment's hospitality investment practice in Saudi Arabia. He held various positions within the Kingdom group and has notably been Chairman & Chief Executive Officer of Kingdom Hotel Investments since 2001 and Executive Board Director of Kingdom Holding Company since 2010. Key responsibilities include managing and directing hotel interests of the Kingdom group globally and participating in the group's global investment strategy and governance.

Positions held at June 21, 2016

<u>Positions</u>	<u>Companies</u>
Chairman & Chief Executive Officer	KINGDOM HOTEL INVESTMENTS
Member of the Board	KINGDOM HOLDING COMPANY*
Member of the Board	FOUR SEASONS HOLDINGS Inc.
Member of the Board	FRHI HOLDINGS Limited
Member of the Board	MÖVENPICK HOTELS AND RESORTS MANAGEMENT AG
Member of the Board	KINGDOM 5-KR-35, Ltd
Manager A (Member of the Board)	SHERCOCK Sarl
Manager B (Member of the Board)	HOTEL GEORGE V BV
Member of the Board	KINGDOM 5-KR-59, Ltd
Member of the Board	YOTEL INVESTMENTS LIMITED
Member of the Board	BLACKROCK FRONTIERS INVESTMENT TRUST
Plc*	
Member of the Board (Chairman)	KINGDOM BEIRUT SAL

* Listed company

Former positions held in the past five years

<u>Positions</u>	<u>Companies</u>
Member of the Board	KINGDOM 5-KR-181, Ltd.
Member of the Board	KINGDOM 01 FZ LLC

Jiang Qiong Er is a graduate of the design school at Tongji University (China) and studied furniture and interior design at the *École Nationale Supérieure des Arts Décoratifs* in Paris. She is the founder of several design companies and of the Chinese subsidiary of ArtCurial. In 2008, she creates, in a partnership with Hermès, Shang Xia, China's first luxury brand, of which she is Chief Executive Officer and Artistic Director. In 2013, she was awarded the title of *Chevalier des Arts et Lettres* by the French President and, in 2016, she was awarded the title of *Chevalier de l'Ordre National du Mérite* by the French President.



Positions held at June 21, 2016

Position

Company

Chief Executive Officer
Director

Shang Xia
China Lodging Group

Isabelle Simon is a graduate of Sciences Po Paris, HEC and Harvard Law School (LL.M.). She also holds a DEA postgraduate diploma in English and North American business law from Paris I Panthéon-Sorbonne and a DESS postgraduate diploma in international taxation from the Université Jean Monnet. She is also a qualified lawyer, and has been admitted to the Paris Bar and the New York Bar. Isabelle Simon began her career in 1995 at law firm Cleary Gottlieb Steen & Hamilton, where she practiced as a lawyer in Paris and New York. In 2003, she joined the Investment Banking Division of Goldman Sachs as Executive Director. In 2009, she joined the Publicis Group as Senior Vice President, heading the M&A and Legal departments and managing the Group's external development strategy and minority holdings. In 2011, Isabelle Simon became Deputy Chief Executive Officer of Société des Bains de Mer de Monaco, where she headed notably the Real Estate, Marketing and Sales, Artistic, Communications and Legal departments and was responsible for internal and external development operations. In 2015, she was appointed Group Secretary & General Counsel, and a member of the Executive Committee, of the Thales Group.

Positions held at June 21, 2016

Position

Company

Group Secretary & General Counsel
Member of the Supervisory Board
Permanent representative of Thales
Permanent representative of Thales
Director and General Secretary
Director
Director

Thales
Thales Alenia Space SAS
Thales Avionics SAS
Thales Communications & Security SAS
Thales Foundation
Neopost
Wefcos

Natacha Valla holds a PhD of Economics awarded by the European University Institute of Florence (Italy). Following a period as visiting scholar at the International Monetary Fund, from 2001 to 2008 she served as an economist in charge of monetary policy stance and implementation at the European Central Bank. In 2005, Natacha Valla was seconded to the Research Directorate of the *Banque de France*, before being appointed Executive Director at Goldman Sachs in 2008, where she was responsible for economic research. Since 2014, she served as the Deputy Director of CEPII, a French think tank in international economics. Since December 2015, she is in charge of economics policy and strategy at the European Investment Bank (EIB).



Positions held at June 21, 2016

<u>Position</u>	<u>Company</u>
Director	LVMH
Director	ASF – COFIROUTE (Vinci)
Director	SUERF – EUROPEAN MONEY AND FINANCE FORUM
Director	COMMISSION ECONOMIQUE DE LA NATION
Director	CONSEIL D'ANALYSE ECONOMIQUE
Member of the <i>Comité Scientifique</i>	ACPR – AUTORITE DE CONTROLE PRUDENTIEL ET DE RESOLUTION

At the close of the Shareholders' Meeting and after these resolutions have been adopted, the total number of directors elected by the Shareholders will exceed twelve. As a result, in accordance with article 12 of the Company's bylaws, a second director representing employees will be designated by the European Works Council after this Meeting.

The Board of Directors will then comprise fifteen members elected by the Shareholders' Meeting, of which six women (40% of the total) and nine independent directors (60% of the total), and two directors representing employees.

To avoid having to renew the terms of too many directors at the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2018, the Board is considering staggering the directors' terms, so that some of them will be submitted for renewal before their term has expired.

Lastly, in the **tenth resolution**, you are asked to approve an increase in the overall amount set aside for directors' fees, which has remained unchanged since 2011 at €575,000 (i.e. a theoretical average per director of €48,000, on the basis of 12 directors). Your Board proposes that this amount be increased to €1,120,000 to align it with market practices and to take into account the significant increase in the number of members on the Board. On the basis of 16 directors (the Chairman and Chief Executive Officer does not receive directors' fees), the theoretical average per director would be €70,000. It should be noted that no changes will be made to the principles for allocating directors' fees, which are included in the Board of Directors' bylaws and are based primarily on attendance.



AGENDA OF THE SHAREHOLDERS' MEETING OF JULY 12, 2016

- Approval of the contribution of 1,718,134 FRHI shares to the Company, its valuation and consideration
- Increase of the Company's capital following the contribution of 1,718,134 FRHI shares to the Company
- Powers to carry out formalities
- **Appointments and ratifications of Directors**
- **Directors' fees**



PROPOSED RESOLUTIONS SUBMITTED TO THE SHAREHOLDERS' MEETING

ON JULY 12, 2016

Extraordinary resolutions

First resolution (*Approval of the contribution of 1,718,134 FRHI shares to the Company, its valuation and consideration*). – The Extraordinary Meeting, having considered:

- the Board of Directors' report;
 - the "Document E" filed with the French financial markets authority (AMF);
 - the reports issued by Mr. Kling and Mr. Potdevin in their capacity as independent appraisers dated June 8, 2016. The independent appraisers were appointed by order of the President of the Paris Commercial Court on December 21, 2015;
 - the private contribution agreement signed on June 6, 2016 (the "**Contribution Agreement**"), under the terms of which the companies Lodge Investment Company ("**Lodge**"), Voyager Fund Enterprise I Ltd ("**Voyager**"), Kingdom Hotels (Europe) LLC ("**Kingdom**") and FRH Investment Holdings Inc. ("**Omers**"), (together, the "**Contributors**") undertook to contribute 1,718,134 FRHI Holdings Limited ("**FRHI**") shares, of which 1,071,610 class A shares, 323,262 class C shares and 323,262 class D shares (the "**Contribution**"), subject to the approval of the said contribution and its valuation and consideration by this Meeting;
1. notes that the Contribution transaction is inseparable from the acquisition by the Company of the remainder of the shares comprising FRHI's share capital, which must take place on the same day as the Contribution, in accordance with the terms of a share sale agreement between the Contributors and the Company, dated December 9, 2015;
 2. approves, pursuant to article L. 225-147 of the French Commercial Code (*Code de commerce*), all of the terms and conditions of the Contribution Agreement and, accordingly, the Contribution, based on the following breakdown:
 - Lodge will contribute 323,331 class A FRHI shares to the Company,
 - Voyager will contribute 557,949 class A FRHI shares to the Company,
 - Kingdom will contribute 169,407 class A FRHI shares, 323,262 class C FRHI shares and 323,262 class D FRHI shares to the Company,
 - Omers will contribute 20,923 class A FRHI shares to the Company;
 3. approves the valuation of the 1,718,134 FRHI shares contributed to the Company at an aggregate amount of €1,672,800,310.24, representing €1,199.3 per class A FRHI share, or per pair of class C and class D FRHI shares contributed;
 4. approves the consideration for the Contribution, under the terms of which the Contributors will receive 46,700,000 new Company shares as soon as they are issued under the conditions provided for in the Contribution Agreement. This will break down as follows:
 - Lodge will receive 10,825,060 new Company shares,
 - Voyager will receive 18,680,000 new Company shares,
 - Kingdom will receive 16,494,440 new Company shares,
 - Omers will receive 700,500 new shares.



Second resolution (*Increase of the Company's capital following the contribution of 1,718,134 FRHI shares to the Company*). – Subject to the approval of the above resolution and in accordance with article L. 225-147 of the French Commercial Code, the Extraordinary Meeting:

1. notes the fulfillment of all the conditions precedent mentioned in article 3.1 of the Contribution Agreement and, accordingly, the completion of the Contribution, subject only to the approval of this resolution;

2. decides to increase the Company's capital and notes that the increase will be carried out for a total par value of €140,100,000 through the issue of 46,700,000 new shares, each with a par value of €3 (three euros), to the Contributors in consideration for the Contribution, as follows:

- Lodge will receive 10,825,060 new Company shares,
- Voyager will receive 18,680,000 new Company shares,
- Kingdom will receive 16,494,440 new Company shares,
- Omers will receive 700,500 new Company shares;

3. decides that, as a result, article 6 of the Company's bylaws, as in effect on the date of the Meeting, will now read as follows:

"Article 6 – Issued Capital

The issued capital amounts to €852,466,974. It is divided into 284,155,658 ordinary shares with a par value of €3 each, paid up in full.";

4. decides that the difference between the value of the Contribution, i.e., €1,672,800,310.24, and the par value of the capital increase, i.e., €140,100,000, represents a share premium of €1,532,700,310.24, which will be recorded in additional paid-in capital in the Company's statement of financial position;

5. decides that the Board of Directors will have full powers to enable it, at its sole discretion and if it deems appropriate, to deduct the fees, charges and taxes related to the Contribution, its completion and its consequences from the share premium and to deduct the amounts necessary to bring the legal reserve up to a tenth of the new capital. These powers may be delegated in accordance with the law;

6. decides that the new Company shares, issued in consideration for the Contribution, will carry dividend and voting rights from the date of their issue, will rank *pari passu* with existing shares comprising the Company's capital, will have the same rights and will be subject to all the Company's bylaws, and an application for admission for trading on the Euronext Paris regulated market will be lodged from their issue;

7. authorizes, as necessary, the Chairman and CEO to prepare, negotiate and sign all contracts, undertakings, deeds, confirmations, additional documents or any other documents and to undertake all useful or necessary formalities for the completion of the Contribution and the capital increase approved by this resolution and particularly to request the admission of new shares issued for trading on the regulated Euronext Paris market and to carry out all useful or necessary formalities for the modification of the bylaws approved in this resolution.



Ordinary resolutions

Third resolution (*Powers to carry out formalities*).

The shareholders give full powers to the bearer of an original, extract or copy of the minutes of this Meeting to carry out any and all filing and other formalities required by law.

Fourth resolution (*Appointment of Ali Bouzarif as a Director*). – The Ordinary Meeting decides to appoint Ali Bouzarif as a Director for a three-year period expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2018.

Fifth resolution (*Appointment of Aziz Aluthman Fakhroo as a Director*). – The Ordinary Meeting decides to appoint Aziz Aluthman Fakhroo as a Director for a three-year period expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2018.

Sixth resolution (*Appointment of Sarmad Zok as a Director*). – The Ordinary Meeting decides to appoint Sarmad Zok as a Director for a three-year period expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2018.

Seventh resolution (*Appointment of Jiang Qiong Er as a Director*). – The Ordinary Meeting decides to appoint Jiang Qiong Er as a Director for a three-year period expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2018.

Eighth resolution (*Appointment of Isabelle Simon as a Director*). – The Ordinary Meeting decides to appoint Isabelle Simon as a Director for a three-year period expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2018.

Ninth resolution (*Appointment of Natacha Valla as a Director*). – The Ordinary Meeting decides to appoint Natacha Valla as a Director for a three-year period expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2018.

Tenth resolution (*Directors' fees*). – The Ordinary Meeting decides to set the aggregate annual amount of directors' fees at €1,120,000.