ANNUAL REPORT 2010

CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED MANAGEMENT REPORT

Wake Up To a Better World

NH HOTELES

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NH Valle Dorado, Mexico DF

INDEX

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholder of
NH Hoteles, S.A.:

1. We have audited the consolidated financial statements of NH Hoteles, S.A. (the Parent) and the Subsidiaries composing, together with the Parent, the NH Hoteles Group (the Group – see Note 1), which comprise the consolidated statement of financial position at 31 December 2010 and the related consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statement for the year then ended. The Parent's directors are responsible for the preparation of the Group's consolidated financial statements in accordance with the regulatory financial reporting framework applicable to the Group (identified in Note 2.1 to the accompanying consolidated financial statements) and, in particular, with the accounting principles and rules contained therein. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework. Our work did not include an examination of the financial statements of certain Group companies whose assets at 31 December 2010 and revenue in 2010 represented approximately 22% and 28%, respectively, of the Group's total figures, and which contributed a profit of approximately EUR 23 million to the consolidated net result for 2010. The financial statements of these companies were examined by other auditors, as indicated in Appendix I to the notes to the accompanying consolidated financial statements. Our opinion as expressed in this report is based, with respect to the ownership interests in these companies, solely on the reports of the other auditors.

2. In our opinion, based on our audit and on the reports of the other auditors referred to paragraph 1 above, the accompanying consolidated financial statements for 2010 present fairly, in all material respects, the consolidated equity and consolidated financial position of NH Hoteles, S.A. and Subsidiaries at 31 December 2010, and the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, in conformity with the regulatory financial reporting framework

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applicable to the Group and, in particular, with the accounting principles and rules contained therein.

3. The accompanying consolidated directors' report for 2010 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2010. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of the Group.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Pablo Hurtado March

28 February 2011

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2010

EVOLUTION OF THE BUSINESS AND THE GROUP'S SITUATION

The economic situation of the twenty-four countries where the NH Group has a presence underwent a slight improvement in 2010 compared to the preceding year. In the European Union (EU), where the NH Group concentrates 85% of its activity, GDP grew 1.6% compared to 2009. A new upward trend in consumption was confirmed in the last quarter of the year in countries like Germany or the Netherlands. In Spain, the European country with the weakest economic situation and where the Group obtains 15% of its EBITDA, growth was estimated to be 0.3% at the end of the year, 0.3 percentage points above 2009.

Tourism around the world grew last year by between 7% (hotel occupation) and 9% (international air traffic), depending on which figure is analysed. The rise in the number of tourists ranged between 4% and 12% in the countries where NH Group operates.

The upturn which began in the US and European economies in the second half of 2009 has had a sustained effect on renewed demand for travel and hotel accommodation, just as NH Group had forecast. During 2010 levels of occupation in different business units recovered, reaching the same ratios recorded in 2008.

This moderate upturn in demand in the hotel industry in 2010 involved a series of characteristics, which are set out below:

- A growing sensitivity to price already dominates all customer segments, not only due to the moderate recovery in consumption but also as a result of the diversification of distribution channels.

- Recovery in demand is concentrated among hotel chains with a consolidated brand and a guarantee provided by any of their hotels, based on a reputation built up over many years of service.

- Demand is comprised of an increasingly diverse number of geographic points of origin and customer groups differentiated by age, profession, etc., which benefits companies with a more international scope in their advertising and marketing campaigns.

The evolution of the hotel industry's main economic ratios in 2010 was marked by a consolidated upturn in occupation levels across all geographic areas where the Group operates. Only in countries where economic recovery has been strong, in excess of 2%, the increase of occupation levels has been accompanied by an increase in average prices. This has been the case for countries like Germany, the Netherlands or Argentina, to single out three of the countries that have undergone a greater growth in sales and operating margins.

Within a context of a significant rise in occupation, the Group has maintained its rationalization and cost reduction plan implemented in the middle of 2008 in order to transfer the greatest possible percentage of the increase in its sales to profits. The main measures of this plan continue being in force, including:

- **Freezing of investments:** Reduction of CAPEX, which limits new expansion projects to variable income or management projects, thus minimising NH Hoteles' investment commitments. Other investments are focussed on maintenance and any expenditure required by legal undertakings made to public bodies.

- **Sale of non-strategic assets.** NH Hoteles has fulfilled 70% of its commitment to sell non-strategic assets for 300 million euros. In 2010, the greater frequency of offers allowed the Group to make non-strategic asset sales in several of its markets at more favourable prices than in 2009. The five transactions carried out were effectuated with EBITDA multiples of between 12 and 21 times, figures above those of comparable recent transactions. All these transactions were paid in full on the date of the asset sale. NH Group expects to conclude the sales plan in the first quarter of 2011.

- **Workforce flexibility**, adjusting the number of employees to real occupation levels. This has enabled the company to reduce the average number of employees per room from 0.32 to 0.31 in 2010 against a background of rising occupation levels.

- **Cost optimisation:** Development of the booking centre, broadening distribution channels and discriminating in favour of more expensive channels, cost reductions and rationalising energy consumption. More specifically, the implementation of greater procurement volumes and the consequent savings achieved by the procurement network through Coperama should be highlighted. The Group signed an agreement with Husa Hotels on 13 December 2009 to create a cooperating platform in the area of purchasing. This project also provides service to other hotel chains such as Sercotel, thereby improving industry competitiveness and allowing for greater savings.

- **Writing off unprofitable hotels** through the termination of lease contracts and the sale of hotels with negative EBITDA which show no signs of recovery. As part of the rationalisation and non-strategic asset sale policy, the loss of these hotels and their rooms has been offset by the incorporation of other hotels under management agreements and by greater revenue per room across the rest of the hotel portfolio without this having a negative impact on NH Group sales or operating profits during FY2010.

- **Recovery of unprofitable hotels:** Focusing operating and financial teams on hotels through the implementation of specific measures to significantly reduce or reverse their negative EBITDA. The implementation of these measures led NH Group to improve results compared to budget in 93% of these hotels.

- **Negotiating and refinancing rental agreements** of rented hotels through reductions in rental instalments and freezing rental increases.

- Raising awareness among employees through the **"We All Form Part of Sales"** programme.

The increase of hotel activity, measured by the growth in occupancy, along with the containment and rationalisation of costs and investments, has not prevented the Group's hotels from maintaining their quality and service standards, an asset in terms of reputation among customers. Thus, by the end of 2010, a total of 66,323 Customer Satisfaction Surveys were completed, 65% more than in the preceding year. These surveys received an average score of 8.41, slightly above the figure recorded in 2009.

NH Group Hoteles won the Best European Resort Development Award in 2010, along with specific awards for the Gran Hotel Convento di Amalfi and the Donnafugata Golf, Resorts & Spa in Italy.

As disclosed in the table below, it should be highlighted that the Group continues generating positive operating cash flow through its recurring operations, excluding CAPEX and the change in working capital, even without considering the asset sale plan described above.

PROFIT AND LOSS ACCOUNT NOT REPRESENTING CASH INFLOW OR OUTFLOW	
	12 M 2010 (Thousands euros)
Income from Hotel Activity	1,294.1
Income from Real Estate Activity	12.8
Non-recurring Activity	2.2
TOTAL INCOME	**1,309.0**
Personnel costs	(478.3)
Direct Management expenses	(416.6)
Other non-recurring expenses	(19.3)
Leases and property rates	(284.6)
Financial expenses	(42.7)
TOTAL EXPENSES	**(1,241.6)**
TOTAL OPERATING CASH FLOW	**67.4**

Note: This Consolidated Cash Flow Statement was drawn up using hotel management criteria, which are not necessarily in compliance with the accounting criteria used to draw up the Consolidated Cash Flow Statement of the NH Hoteles Group.

Forty nine Hesperia hotels were incorporated in 2010, as set forth in the agreement signed the previous year. The integration process, which involved the inclusion of these hotels in the procurement, customer service, and other front office functionality systems, was carried out systematically and in compliance with the deadlines laid down in the initial plan. Integration was accompanied by improvements in the operating results of these hotels, in line with those obtained by other hotels managed by all NH business units, whether in Spain, the Benelux or the Caribbean.

The Group has a specific research and development department which focuses its efforts on the creation of new high added value services and products. The aim is to gain thorough knowledge of customer expectations in order to keep one step ahead and provide more personalised services in keeping with customers' demands, thus improving quality levels and customer satisfaction.

THE ENVIRONMENT

NH Hoteles obtained highly significant environmental performance results in 2010. These were based on the implementation of the strategic 2008/2012 plan, which targeted energy and water efficiency, as well as waste and CO_2 emission reductions.

Aware of the importance that climate change strategy has for society as well as its economic repercussion for our shareholders, reduction targets of 20% were set for the above-mentioned variables, which are monitored on a quarterly basis. NH Group was the first Spanish listed company to publish the results of its environmental plan together with its economic variables as yet another element in its transparency policy for investors and society as a whole. Awareness of this policy within the company is reinforced each year through an employee training plan.

In 2010, environmental improvements such as a 16.25% reduction in energy consumption or savings amounting to 28.27% in water consumption had a clear impact on energy savings. As a matter of fact, reducing consumption enabled the company to offset increased energy costs in 2010 as well as to improve energy per customer and water per customer cost ratios. These ratios were reduced by 10% in 2010. Since implementation of the Strategic Environmental Plan in 2008 NH Group generated savings amounting to € 21.6 million in 2009 and 2010.

NH Hoteles reports the impact of its operations on climate change through the Carbon Disclosure Project. This international programme analyses 2,500 companies worldwide, 85 of which are Spanish. In 2010, NH Group obtained a rating of "B" (Fast Followers), situating it among the ten best Spanish companies in this matter.

It is also worth highlighting the Group's significant research and development work on the environment in 2010. Along with its suppliers, the Group won the Corresponsables Foundation Award for Innovation in the Large Corporation Category for its project "NH Sustainable Club". By means of joint innovation on this issue, the Group is seeking to ensure that the company as well as the hotel industry, and thus society, view the environment not as a problem but rather as an opportunity for improvement. Several hotels managed or owned by NH Group have received other important awards, such as the Environmental Award 2009 from the Ministry of Environment of the Madrid Regional Government, the Chamber of Commerce and the CEIM, won by the Hesperia Hermosilla hotel, or the European Commission's GreenBuilding Certification awarded to NH Príncipe de la Paz (Madrid), NH Podium (Barcelona) and NH Central Convenciones (Seville).

RESULTS

Because of its capacity to combine a cost and investment reduction programme without affecting the quality of service, and due to its presence in different countries, NH Group has been of the major beneficiaries of the hotel activity upturn in 2010. For this reason, RevPAR increased by 9.6% compared to the 19.7% fall in RevPAR recorded in 2009. NH Group's hotel sales increased by 9.9% compared to the preceding year. Total income in 2010 amounted to 1,334.8 million euros.

NH Group's salaries and the rest of recurring operating expenses amounted to 898 million euros in 2010, 4.0% higher than the preceding year. The containment of operating expenses resulting from the rationalization and saving cost plan explained above has enabled the growth of these outflows to be 6 percentage points lower than that of operations and sales. As with the increase of sales, occupation levels grew by a similar percentage: 9.7%.

Management profit amounted to 417.6 million euros, 75.8 million euros more than the figure recorded by NH Group in 2009.

Leases and property rates were kept at the same levels as the previous year, 269.7 million euros, thanks to the renegotiation of some rental agreements, which made it possible to offset the incremental effect of a greater number of rented rooms.

NH Group's EBITDA in 2010 amounted to 147.8 million euros, a 111% improvement compared to the figure recorded in the preceding year.

Financial expenses were reduced by 14% to 42.7 million euros based on the reduction in NH Group borrowing and a greater resistance to the increase of debt costs. This is an exceptional circumstance when compared to other companies in the industry or to all industries, and resulted from an improvement in the company's financial and economic situation during 2010. However, the sale of non-strategic assets in Mexico and the United Kingdom during the course of the year produced negative exchange rate differences totalling 24.2 million euros.

CONSOLIDATED MANAGEMENT STATEMENT (in million euros)

NH HOTELES, S.A. PROFIT AND LOSS ACCOUNT AT 31 DECEMBER 2010					
	2010		2009		2010/2009
	M EUR.	%	M EUR.	%	VAR. %
Income from Hotel Activity	1,294.1	97%	1,191.4	98%	9%
Income from Real Estate Activity	12.8	1%	22.1	2%	(42%)
Non-recurring Income	28.0	2%	4.4	0%	538%
TOTAL INCOME	**1,334.9**	**100%**	**1,217.9**	**100%**	**10%**
Cost of Real Estate Sales	(3.0)	(0%)	(8.0)	(1%)	(62%)
Personnel Costs	(478.3)	(36%)	(458.9)	(38%)	4%
Direct Management Expenses	(416.6)	(31%)	(396.3)	(33%)	5%
Non-recurring Expenses	(19.3)	(1%)	(12.9)	(1%)	50%
MANAGEMENT PROFIT	**417.6**	**31%**	**341.8**	**28%**	**22%**
Leases and Property Rates	(269.7)	(20%)	(271.7)	(22%)	(1%)
EBITDA	**147.8**	**11%**	**70.1**	**6%**	**111%**
Asset impairment provision	(9.4)	(1%)	(37.1)	(3%)	(75%)
Depreciation	(123.2)	(9%)	(124.8)	(10%)	(1%)
EBIT	**15.2**	**1%**	**(91.9)**	**(8%)**	**(117%)**
Financial Expenses	(42.7)	(3%)	(49.9)	(4%)	(14%)
Non-recurring Financial Result	(24.2)	(2%)	11.2	1%	
Change in fair value of financial instruments	0.6	0%	1.8	0%	(64%)
Equity Method Profit (Loss)	(1.5)	(0%)	(6.6)	(1%)	(78%)
EBT	**(52.5)**	**(4%)**	**(135.4)**	**(11%)**	**(61%)**
Corporate Income Tax	5.1	0%	20.3	2%	(75%)
PROFIT before Minority Interests	**(47.4)**	**(4%)**	**(115.1)**	**(9%)**	**(59%)**
Minority Interests	6.1	0%	18.0	1%	(66%)
NET PROFIT (LOSS)	**(41.3)**	**(3%)**	**(97.1)**	**(8%)**	**(57%)**

Note: This consolidated operating statement, on which the figures of this management report are based, was drawn up using hotel management grouping criteria that do not necessarily coincide with the accounting standards applied to the consolidated financial statements of NH Group.

OVERVIEW OF NH RISK POLICY

NH's operations are mainly focused on the hotel industry and particularly on urban hotels, which are characterised by a relatively high level of operational leverage that may require high levels of investment in fixed assets, especially in real estate activity. These have a lengthy economic cycle, which makes it necessary to finance investments mainly through financial borrowing. The Group's policy has always been to maintain financial orthodoxy by attempting to ensure that solvency ratios always remain high.

The management of the risks to which NH Hoteles is exposed in the course of its operations is one of the basic pillars of its actions. Risk management is geared to preserving the value of assets and consequently the investment of the Company's shareholders. Minimising risks and optimising management of such risks by analysing the corresponding risk maps are among the objectives of the Group's Management.

Financial risk management is centralised at the Corporate Finance Division. The necessary procedures exist to control exposure to interest and exchange rate variations and credit and liquidity risks on the basis of the Group's financial position and structure and economic environment variables.

The size of NH Hoteles and its high levels of penetration and brand recognition enable the Group to gain access to a larger number of expansion opportunities in a more selective manner with the aforementioned greater emphasis on the rate of return and less or no need for investment, always attempting to minimise the risk inherent to the industry in which the Group operates. The industry is characterised by an activity that is sensitive to economic cycles and therefore to exposure to price change risks, which the Group has always managed by offsetting it with occupation.

The Group's credit risk can mainly be attributed to commercial debts. The amounts are shown net of any provisions for insolvencies and the risk is very low as the customer portfolio is spread among a large number of agencies and companies. Furthermore, part of the accounts receivable are guaranteed through insurance policies, securities, guarantees and advance payments made by tour operators. In 2010, for the first time, over half of NH Group sales were concentrated in the Company's website, its telephone booking centre or through electronic agencies. Compared with traditional channels or agencies, electronic channels and the Group's own channels reduce collection times and practically eliminate liquidity risks.

Concerning interest rate risks, the Group is exposed to fluctuations in the interest rates of its financial assets and liabilities, which may have an adverse effect on its results and cash flows. In order to mitigate the effect of these fluctuations, the Group has contracted a series of financial instruments, interest rate swaps and collars (a combination of swaps and options) to ensure that approximately 30% of net debt is indexed to fixed interest rates. Information on derivative financial instruments held by the Group at 31 December 2009, as well as on the policies applied to such instruments, is set out in Note 19 of the attached Consolidated Annual Report.

The Group has subsidiaries in several countries with operating currencies other than the euro, the Group's currency of reference. The operating results and financial position of these subsidiaries (mainly located in Mexico and Argentina) are recorded in their corresponding currencies and converted later at the applicable exchange rate for their inclusion in the financial statements. In 2009 the euro fluctuated against other major currencies and this has affected sales, equity and cash flows. In order to ensure such risks are mitigated as much as possible the Group takes out debt in the same currency as the investment, always taking into account that the income generated in geographic areas with currencies other than the euro remains below 7% of total income.

Regarding liquidity risks, NH Group has a suitable debt maturity calendar, which is set out in Note 17 of the attached Consolidated Annual Report. The Group intends to start refinancing its debt over the course of 2011.

The level of consolidated net financial debt at 31 December 2010 amounted to 958 million euros in accordance with the definition of the syndicated loan. The Group's net level of borrowing fell by 124 million euros compared to the previous year-end. This has led to a substantial improvement in financial leverage ratios compared to those recorded at the end of 2009. At the end of that year, a significant reduction in the Group's EBITDA generated a financial leverage ratio (net financial debt/ EBITDA) higher in double digits. An 11% reduction in net financial debt and 111% rise in EBITDA in 2010 have resulted in a 6.5-fold increase at year end 2010, less than half the figure recorded for 2009, with a 13.4-fold increase. Another financial leverage ratio (net financial debt /equity) experienced a 0.70-fold increase compared to the 0.77-fold increase of the preceding year, a figure below the 1x ratio which has always been put forward the Group's goal. As in the preceding year, the business unit which concentrated the largest investments was the Italian business unit.

Regarding maintaining operating sources of cash flow, this depends on the evolution of the hotel industry, on maintaining and managing the current asset management policies of the Group's customers and suppliers, as well as on execution of the non-strategic assets sales mentioned above. These variables depend on the overall economic cycle and on the markets' short-term supply and demand situation. The Group's business units have the capacity to generate regular and significant cash flow from their operations. Likewise, the Group regularly makes cash and bank forecasts, which allow it to assess its liquidity needs and fulfil the payment obligations it has undertaken without the need to obtain funds under onerous terms and conditions.

SHARES AND SHAREHOLDERS

NH Hoteles, S.A. share capital at the end of 2010 was comprised of 246,617,430 fully subscribed and paid-up bearer shares with a par value of two euros each. All these shares are entitled to identical voting and economic rights and are traded on the Continuous Market of the Madrid, Barcelona and Bilbao Stock Exchanges.

This figure was reached after the conclusion of a capital increase of 221,955,687 euros carried out following approval by the General Shareholders' Meeting held on 16 June 2009, through the issue of 98,646,972 shares with a par value of two euros plus a share issue premium of 0.25 euros per share.

The new share capital was duly registered at the Companies Registry on 23 July and the new shares were listed on 30 July 2009.

According to the latest notifications received by the Company and the notices given to the National Securities Market Commission before the end of every financial year, the most significant shareholdings at 31 December were as follows:

	2010	2009
Grupo Inversor Hesperia, S.A.	25.09%	25.09%
Caja Ahorros de Valencia, Castellón y Alicante	5.66%	5.66%
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	5.04%	5.04%
Caja de Ahorros y Monte de Piedad de Madrid	10.04%	10.04%
Hoteles Participados, S.L.	5.43%	5.43%
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastian	6.14%	6.14%
Pontegadea Inversiones, S.L.	5.07%	5.07%
Intesa Sanpaolo S.p.A.	5.65%	5.65%
Shares allocated to Employee Remuneration Schemes	1.27%	1.38%
Shares owned by NH employees	1.30%	1.28%

The Company and the National Securities Market Commission were served notice of two shareholders' agreements on 28 and 29 December 2009. The first of these is formed by Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja); Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja); and Caja de Ahorros y Monte de Piedad de Madrid (Cajamadrid), grouping together a total of 20.74% of share capital. The other agreement includes Hoteles Participados, S.L. and Caja de Ahorros y Monte de Piedad de Guipuzkoa y San Sebastián (Kutxa), which groups together a total of 11.57% of share capital.

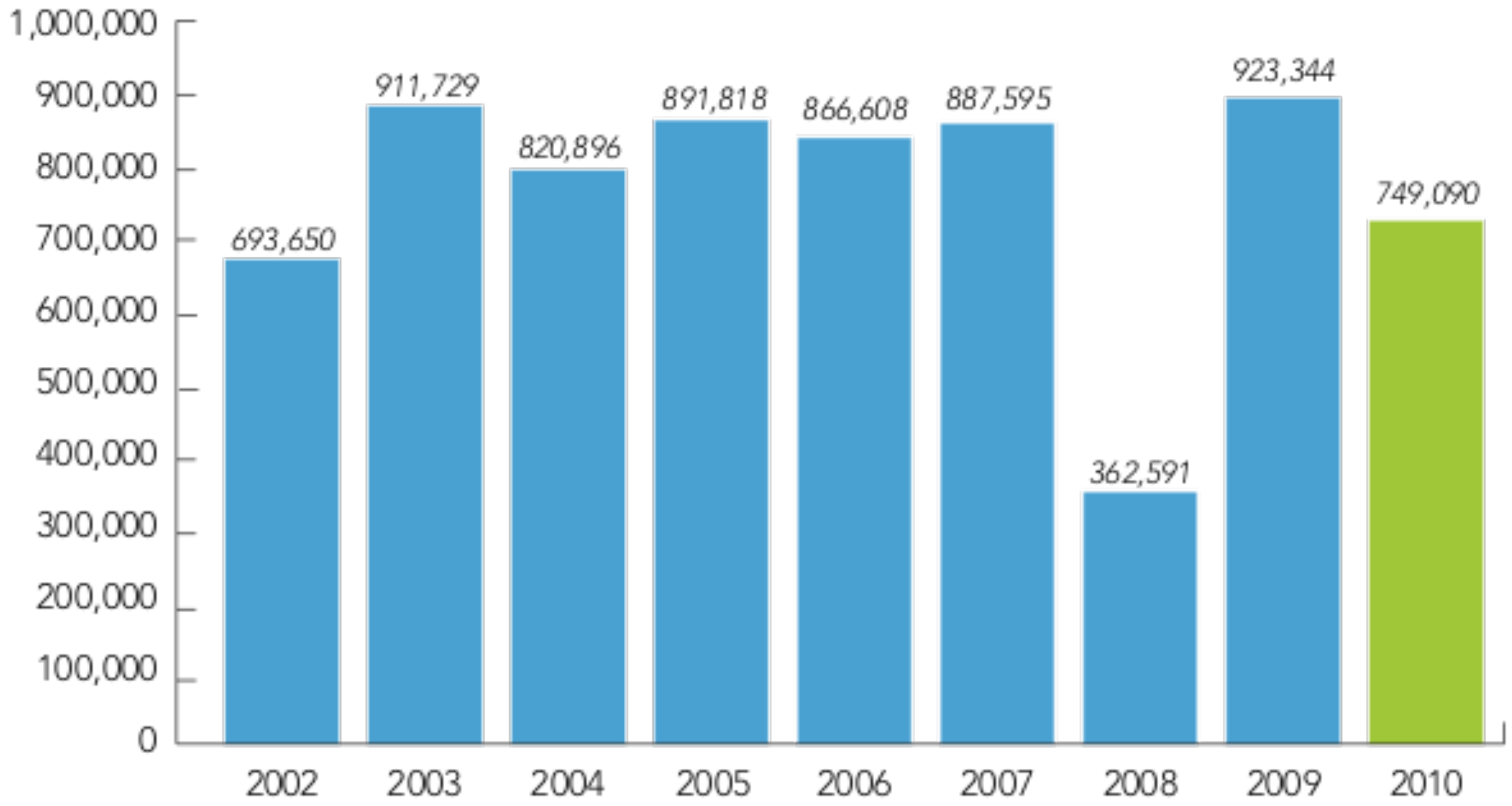
These syndication agreements did not alter the Company's bodies of governance.

NH Hoteles, S.A.'s average share price listing was 3.22 euros per share (3.56 euros per share in 2009). The lowest share price of 2.33 euros per share (1.83 euros per share in 2009) was recorded in June and the highest share price of 4.39 euros per share in January (5.26 euros per share in 2009).

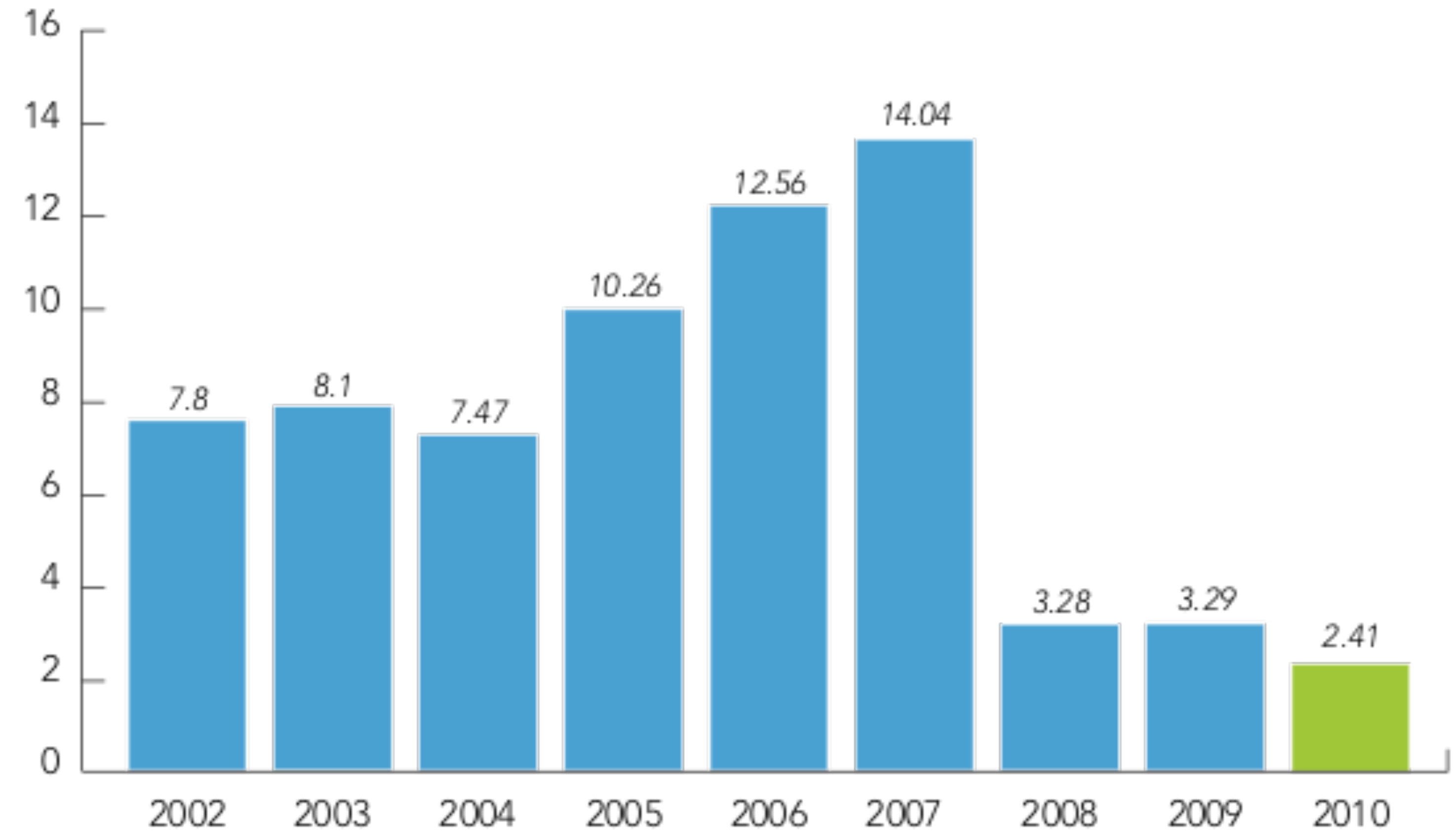
At year-end, NH Hoteles held 109,000 treasury shares representing 0.044% of its share capital at a total cost of 370 thousand euros.

A total of 191,767,196 shares in NH Hoteles, S.A. were traded on the Continuous Market over the course of 2010 (234,529,568 shares in 2009), which accounted for 0.77 times (0.95 times in 2009) the total number of shares into which the Company's share capital is divided. Average daily share trading on the Continues Market amounted to 749,090 securities.

AVERAGE DAILY TRADING IN SECURITIES 2002-2010

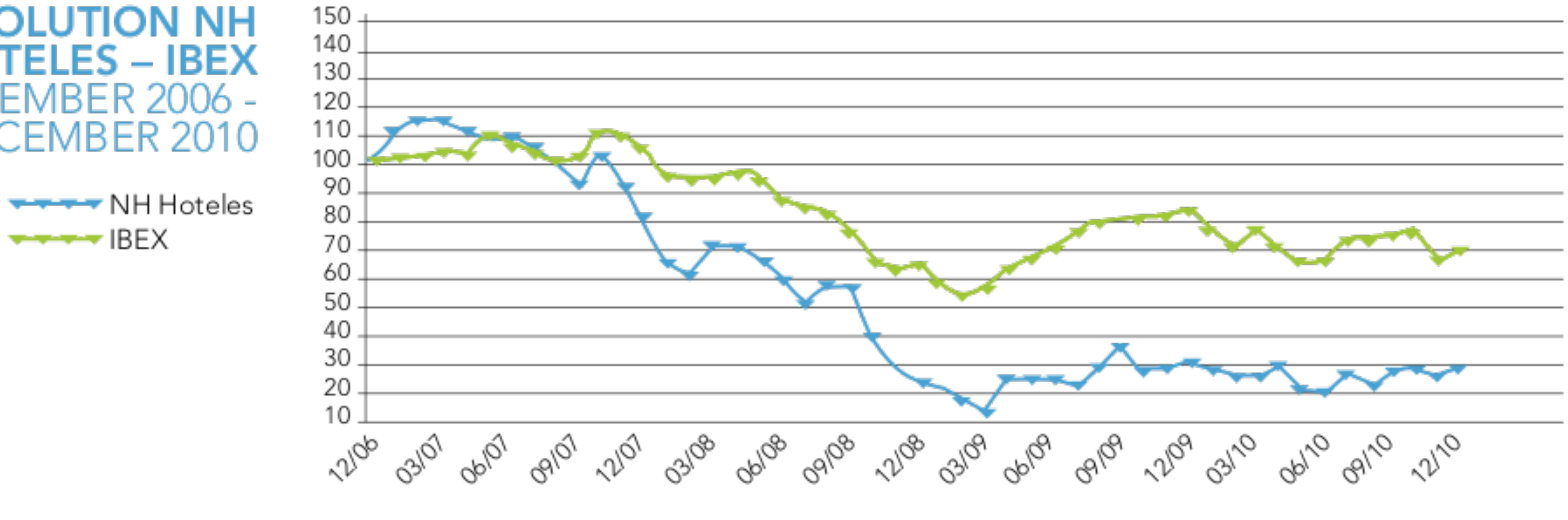


AVERAGE DAILY TRADING (Million euros) 2002-2010

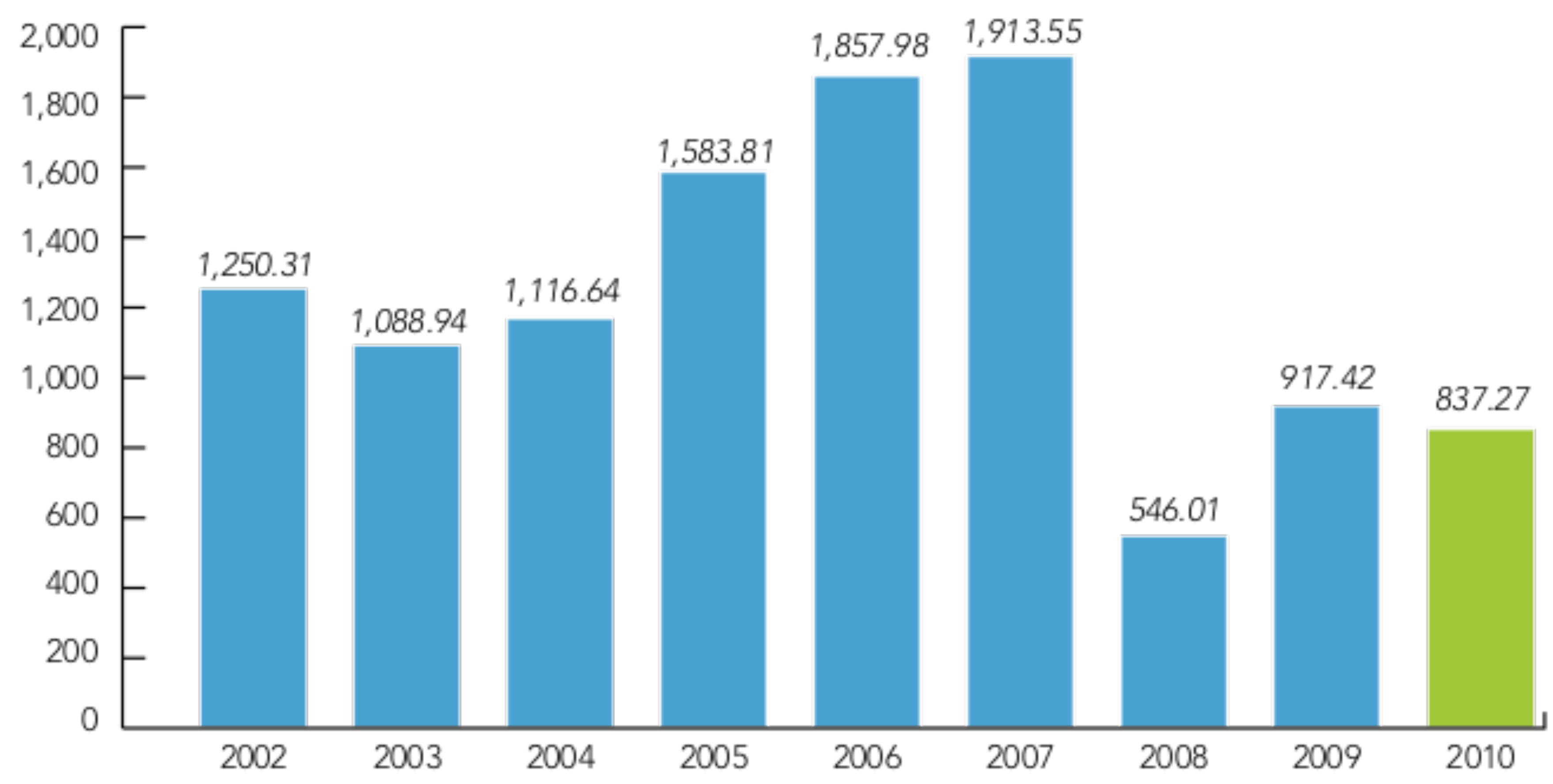


The evolution of the share price and stock market capitalisation over the last four years are set out in the following graphs:

EVOLUTION NH HOTELES – IBEX DECEMBER 2006 - DECEMBER 2010



CAPITALIZATION 2002-2010
(Million euros)



ADDITIONAL INFORMATION REQUIRED UNDER ARTICLE 116 BIS OF THE SECURITIES MARKET ACT (LEY DEL MERCADO DE VALORES)

Pursuant to the provisions of Article 116 bis of Act 24/1988 of 28 July on the Securities Market enacted by Act 6/2007 of 12 April, the Board of Directors of NH Hoteles, S.A. hereby issues this explanatory Report on aspects of the Management Report required by the aforementioned Act for submission to the Company's General Shareholders' Meeting.

a. The structure of share capital, including any securities not traded on a regulated EU market indicating, as appropriate, the different classes of shares and, for every class of shares, the rights and obligations conferred by them and the percentage of share capital they represent.

The share capital of NH Hoteles, S.A. totals 493,234,860.00 euros and is represented by 246,617,430 shares, which have been duly entered into the corresponding Registry, with a par value of two euros each. The shares are grouped together in a single series and sequentially numbered from 1 to 246,617,430, both inclusive, and are fully subscribed and paid out.

The shares have been admitted to trading on the Continuous Market of the Madrid, Barcelona and Bilbao Stock Markets.

b. Any constraints on the transferability of securities.
There are no legal or bylaw constraints on the transferability of the shares representing the Company's share capital.

c. Direct or indirect significant shareholdings in share capital.

The list of significant shareholdings in the share capital of NH Hoteles, S.A. at 31 December 2010 in accordance with the public registries is as follows:

1. Direct and indirect holders of significant shareholdings, excluding Directors

SHAREHOLDER'S NAME OR TRADE NAME	NUMBER OF DIRECT VOTING RIGHTS	NUMBER OF INDIRECT VOTING RIGHTS (*)	% OF TOTAL VOTING RIGHTS
CASTRO SOUSA, JOSE ANTONIO	1,000	62,345,188	25.280%
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	-	24,766,704	10.043%
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	11,206,208	-	4.544%
BANCAJA INVERSIONES, S.A.	13,955,675	-	5.659%
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIAN	-	15,147,973	6.142%
CK CORPORACION KUTXA-KUTXA KORPORAZIOA, S.L.	15,147,973	-	6.142%
ORTEGA GAONA, AMANCIO	-	12,512,971	5.074%
PONTEGADEA INVERSIONES, S.L.	12,512,971	-	5.074%
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGON Y RIOJA (IBERCAJA)	12,432,716	-	5.041%
INTESA SANPAOLO S.p.A.	5,791,685	8,148,802	5.653%

(*) Through:

INDIRECT SHAREHOLDER'S NAME OR TRADE NAME	DIRECT SHAREHOLDER'S NAME OR TRADE NAME	NUMBER OF DIRECT VOTING RIGHTS	% OF TOTAL VOTING RIGHTS
CASTRO SOUSA, JOSE ANTONIO	GRUPO INVERSOR HESPERIA, S.A	62,345,188	25.280%
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	SOCIEDAD DE PROMOCION Y PARTICIPACION EMPRESARIAL CAJA MADRID	13,560,496	5.499%
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	CORPORACIÓN FINANCIERA CAJA DE MADRID	11,206,208	4.544%
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIAN	CK CORPORACION KUTXA-KUTXA KORPORAZIOA, S.L.	15,147,973	6.142%
ORTEGA GAONA, AMANCIO	PONTEGADEA INVERSIONES, S.L.	12,512,971	5.074%
INTESA SANPAOLO S.p.A.	PRIVATE EQUITY INTERNATIONAL S.A.	8,148,802	3.304%

2. Members of the Company's Board of Directors who hold voting rights through shares in the Company:

DIRECTOR'S NAME OR TRADE NAME	NUMBER OF DIRECT VOTING RIGHTS	NUMBER OF INDIRECT VOTING RIGHTS (*)	% OF TOTAL VOTING RIGHTS
BURGIO, GABRIELE	1,628,920	-	0.661%
GRUPO INVERSOR HESPERIA, S.A.	61,870,384		25.088%
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	-	13,955,675 through BANCAJA INVERSIONES. S,A,	5.659%
HOTELES PARTICIPADOS, S.L.	13,385,269	-	5.428%
DE NADAL CAPARA, JOSÉ	18,770	-	0.008%
RODRÍGUEZ DOMÍNGUEZ, MIGUEL	3,000	-	0.001%
SAMARANCH SALISACHS, JUAN ANTONIO	82,000	-	0.033%
SOCIEDAD DE PROMOCION Y PARTICIPACION EMPRESARIAL CAJA MADRID	13,560,496	-	5.499%
SOCIEDAD DE PROMOCION Y PARTICIPACION EMPRESARIAL CAJA MADRID THROUGH THE INDIRECT SHAREHOLDER CAJA DE AHORROS Y MONTE DE PIEDAD as regards the shares held by the Company it owns CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	11,206,208	-	4.544%
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGON Y RIOJA (IBERCAJA)	12,432,716	-	5.041%
Arratíbel Olaziregi, Iñaki, THROUGH THE SHAREHOLDER CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.	15,147,973	-	6.142%
Arratíbel Olaziregi, Iñaki	100	-	0.000%
CIBEIRA MOREIRAS, ROBERTO	600		0.000%
CIBEIRA MOREIRAS, ROBERTO, THROUGH THE SHAREHOLDER Pontegadea Inversiones, S.L.	12,512,971	-	5.074%
ILLA RUIZ, FRANCISCO JAVIER	1		0.000%
CASIRAGHI, ROSALBA	1	-	0.000%
CASIRAGHI, ROSALBA THROUGH INTESA SAN PAOLO S.p.A.	5,791,685	8,148,802	5.652%
LLOPART PEREZ, JUAN	160		0.000%
ITURRIAGAGOITIA RIPOLL, NURIA	1,353		0.001%

Percentage of votes held by the Board of Directors: 69%

This percentage is represented by the voting rights directly and indirectly held by the Company's Directors.

Indirectly held voting rights include the rights held through related parties in accordance with legal definitions and through shareholders they represent on a permanent basis on Company's Board.

d. Any constraints to voting rights.

Pursuant to the provisions set forth in Article 15 of the Company's Corporate Bylaws, resolutions shall be approved by a majority of votes among the shares attending or duly represented. Each share is entitled to one vote. No shareholder may issue more votes exceeding the equivalent of 20% of the shares issued with an entitlement to vote, irrespective of the number of shares such shareholder may hold. This constraint shall not apply at any General Meeting in which a shareholder attending or duly represented at the Meeting may hold more than 51% of the shares issued with entitlement to vote in accordance with the list of attendees. The Chairman of the Meeting shall inform of such circumstance when they declares the meeting open.

It has likewise been set forth that a vote in favour of at least 51% of the share capital shall be necessary to amend this article.

e. Shareholders' agreements.

The Company is aware of the existence of two shareholder syndicates. One of these is comprised of Bancaja Inversiones, S.A., Sociedad de Promoción y Participación Empresarial Caja Madrid, Corporación Financiera Caja de Madrid, S.A. and Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja), which jointly accounts for 20.74% of the Company's capital. The other groups together the shares held by Hoteles Participados, S.L. and CK Corporación Kutxa-Kutxa Korporazioa, S.L., which accounts for 11.570% of NH Hoteles, S.A.'s capital.

Notices of the aforementioned Shareholders' Agreements were duly served to the National Securities Market Commission (CNMV) on 28 and 29 December 2009, respectively. Each of them aims to constitute a Shareholders' Syndicate by virtue of which all the shareholders undertake to exercise their voting rights arising from the syndicated shares jointly and, above all, to vote in the same way at General Shareholders' Meeting, said vote being decided by the majorities specifically established in said Shareholders' Agreements.

f. Rules applying to the appointment and replacement of members of the body of governance and to the amendment of the Company's bylaws.

1. Appointment and replacement of the members of the Board of Directors

The rules governing the appointment, replacement and removal from office of the Directors are set forth in the Company's Corporate Bylaws and Board of Directors Regulations.

In this regard, Article 20 of the Corporate Bylaws sets forth that the Company shall be managed and represented by the Board of Directors, which shall be composed of no less than five and no more than twenty Directors, and that the appointment of Directors and the determination of their number shall be the responsibility of the General Meeting.

The above-mentioned article of the Bylaws likewise sets forth that Directors shall hold office for three years, that the office of Director may be revoked and resignations may be tendered at any time and that Directors may be re-elected to office an indefinite number of times for periods of equal duration.

Appointment of Directors:

Any proposals for the appointment of Directors which the Board of Directors may submit for the General Meeting's consideration and any appointment resolutions such body may adopt by virtue of the powers of co-option legally attributed to it shall be made at the proposal of the Appointments and Remuneration Committee in the case of Independent directors, and following a preliminary report issued by said Committee has in the case of other Directors.

Proprietary Directors shall be appointed by the holders of significant stable shareholdings. Other Directors shall ensure with their votes that such appointments through co-option or appointment proposals are duly approved by the Board of Directors.

Article 11 of the Board Regulations sets forth that the Board of Directors and the Appointments and Remuneration Committee shall make every effort to ensure that Non-Executive Directors are persons of recognised solvency, competence and experience who are willing to devote sufficient time to the Company and that special care should be taken in the appointment of any people called upon to cover the office of independent directors.

It is expressly set forth that the Board of Directors shall propose or appoint Independent Directors who meet the conditions laid down in Article 9.4 of the Regulations, which reflects the recommendations included in the Unified Code of Good Governance.

For all purposes, both the Bylaws and the Board Regulations state that those subject to any incapacity, disqualification, prohibition and conflict of interest set forth in prevailing legislation may under no circumstances be put forward for appointment as Directors.

To this effect, Article 11.3 of the Board Regulations expressly states that "any person who directly or indirectly has interests of any kind or who maintains an employment, professional or commercial relationship of any kind whatsoever with competing companies shall be deemed incompatible to hold the office of Director, except where the Board of Directors should resolve to dispense with this rule with a favourable vote of at least 70% of its members".

Replacement of Directors through co-option:

The Board may temporarily fill any vacancies following a Director's resignation, incapacity, decease, etc., whatever their number may be, by submitting such appointments for approval at the first General Meeting held. Any person thus appointed must necessarily be a shareholder and shall stand down from office on the date that would have corresponded to the Directors they have replaced.

Removal of Directors:

The removal of Directors is expressly set forth in Article 14 of the Board Regulations, which sets forth that Directors shall be removed from office when the period for which they have been elected has elapsed or whenever so decided by the General Meeting using the powers granted to it by law.

It is likewise set forth that Directors shall place their office at the disposal of the Board of Directors and tender their resignation in any of the following circumstances:

a) When they reach the 70 years of age. Any Directors performing executive functions shall stand down when they reach 65 years of age, though they may continue holding the office of Director, should the Board so resolve. In such cases, the resignation shall be made at the first Board meeting held after the General Shareholders' Meeting that approves the accounts for the financial year in which the Director reaches the age limit.

b) When they are removed from the executive offices with which their appointment as a Director was associated or where the reasons for which they have been appointed are no longer valid. It shall be construed that such a circumstance comes about for a Proprietary Director when the entity or business group said Director represents ceases to hold a significant shareholding in the Company's share capital or when, -in the case of an independent Director-, they become an executive of the Company or of any of its subsidiaries.

c) Where they are subject to any incapacity, disqualification, prohibition or conflict of interests, which shall be construed to include the aforementioned circumstance, set forth in Article 11.3 of the Board Regulations.

d) Where they are seriously reprimanded by the Appointments and Remuneration Committee for failing to comply with one or more of their obligations as Directors.

e) When their permanence on the Board may affect the Company's good standing or reputation in the market or jeopardise its interest in any other way whatsoever.

2. Amendments to the Corporate Bylaws

The rules that apply to amendments to the Corporate Bylaws are set forth in Article 285 and following of the Capital Companies Act, which require the General Shareholders' Meeting's approval with the majorities laid down in Articles 194 and 201 of the aforementioned Act.

Exceptionally, amendment of Article 15 of the Corporate Bylaws, on the 20% limitation on the voting rights a single shareholder may issue, requires the favourable vote of at least 51% of share capital.

At the General Meeting held on 24 June 2010, Article 20 of the Corporate Bylaws was amended with regard to the remuneration policy of the members of the Board of Directors.

g. Powers of Board of Directors' members and, in particular, the possibility of issuing or repurchasing shares

Powers of the Executive Chairman-Executive Director:

The Executive Chairman also holds the office of Executive Director and their appointment or renewal consequently involves the delegation of all the Board's powers and competences that can be legally delegated. They are responsible for the management of the Company's business, always in keeping with the decisions taken and the criteria set by the General Shareholders' Meeting and the Board of Directors.

In accordance with Article 17 of the Regulations, the Chairman- Executive Director holds the power to execute the Board's resolutions and, as appropriate, those of the Standing Committee, bodies which the Chairman permanently represents, with the most wide-ranging powers. In the event of an emergency, they may adopt any measures deemed suitable for the Company's interests.

Powers of the Board of Directors:

The Board of Directors assumes, holds and exercises, both in and out of the courts, the full management, administration and representation of the Company in any actions included under its corporate purpose and in all capital activities, notwithstanding the powers that correspond to the General Shareholders' Meeting.

More specifically, Article 22 of the Corporate Bylaws of NH Hoteles, S.A. sets forth that the Board is responsible and holds competence for:

1. Manage, organise and monitor the life and functioning of the Company, with respect to both the personnel and matters concerning the assets and course of the Company's business activities.

2. Convene the General Stockholders' Meetings and implement the agreements reached therein.

3. Recognise and repay business debts and claim and collect all amounts owed or outstanding to the Company, irrespective of those persons or Entities under obligation of payment including the State, the Autonomous Region, the Province, the Municipality or Official Bodies in general, and irrespective of the cause or security invoking the right of the Company.

4.- Enter into all types of contract related to the corporate purpose; appoint and dismiss employees; contract works, services, supplies, insurance policies, financial guarantees and deposits; take out leases and evict tenants, hold-over tenants and squatters; make transactions and enter into undertakings; take part in contests and auctions; attend Stockholders' Meetings with full speaking and voting rights; request and renounce concessions and authorisations; constitute, modify and dissolve companies and joint ownerships; lend money, make and accept guarantees, including mortgage loans, and cancel them; and, in general, enter into, modify, renew and dissolve all types of contract.

5. Buy, sell, swap, mortgage and, under any other heading, acquire, dispose of or tax all types of tangible and intangible assets, or undivided or specific proprietary interests therein, and rights in rem; make declarations of works, demarcations, land divisions, divisions of materials, segregation, groupings, form horizontal properties and make any other modifications of estates or mortgaged entities; and, in general, to carry out any type of act of disposal and rigorous ownership over corporate assets without exception.

6. Operate with Banks – including the Bank of Spain -, Savings Banks and all other types of credit company, engaging in activities permitted by legislation and banking practices; open, dispose and cancel current accounts, pass- or savings books and deposits of any type; formalise every type of banking document and contract, such as: loan or credit agreements, mercantile securities, bill discounts; dispose of credit accounts and cancel them; issue, endorse, negotiate, accept, guarantee and contest bills of exchange, promissory notes, cheques and commercial paper in general; guarantee, jointly and severally, every type of debenture derived from banking institutions on behalf of third parties; take out, modify, accept and cancel movable and real estate mortgages, pledges with or without displacement and any other type of substantive guarantee.

7. Represent the Company before all manner of authorities, civil servants, Central, Provincial, Municipal or Regional Governmental Bodies, as well as before all types of Tribunal and Court of Law, with respect to any matters, claims or court cases in which the Company has an interest, with sufficient powers to exercise all manner of rights and powers, actions and exceptions, claims or challenges; to present documents and ratify itself therein, challenge, object to, propose and accept evidence, institute proceedings, including those set aside on appeal and up for review, settle, swear before arbiters of Law or impartiality, accept, renounce, desist and carry out, in general, whatever it deems convenient for the best protection and defence of its corporate interests; and grant powers to Attorneys and Legal Representatives to the degree that it is freely entitled to determine, although these might exceed those aforementioned.

8. Agree upon the distribution of interim dividends to the shareholders, without the respective financial year having concluded or without the financial statements having been approved, all of this in conformance with the legislation currently in force.

9. Bestow powers of all types, even with the capacity to replace or subpoena and revoke them.

10. And with respect to all the above, which is illustrative and non-restrictive, for which reason it shall always have to be extremely broadly interpreted, execute public and private deeds without any exception whatsoever.

Delegation to issue debentures, bonds and other fixed-income securities

Pursuant to the provisions set forth in Article 153.1 b), Article 282 and the following and in Article 293 of the Consolidated Text of the Public Limited Companies Act and Article 319 of the Companies Registry Regulations, a resolution was taken at the General Shareholder's Meeting held on 24 June 2010 to delegate to the Board of Directors the power to issue marketable securities in accordance with the conditions set forth below:

1. Securities that may be issued

The securities referred to by the aforementioned delegation may include:

a) Simple bonds or debentures, promissory notes and other similar fixed-income securities, and also preferred shares;

b) Debentures and/or bonds that may be exchanged for shares already issued by the Company or by any other entity, whether or not it belongs to the Group headed by the Company, and/or that may be converted into newly issued shares in the Company, along with warrants on newly issued shares or shares in the Company already in circulation.

2. Term of delegation

The securities subject to such delegation may be issued once or several times at any time within a maximum term of five (5) years, counting from the date this resolution was adopted.

3. Maximum amount of delegation

a) The total maximum issue or issues of simple bonds or debentures and other similar fixed-income securities, promissory notes and preferred shares agreed upon in accordance with this delegation shall be five hundred million euros (€500,000,000).

b) The maximum issue or issues of exchangeable and/or convertible debentures and/or bonds, as well as warrants, shall also be five hundred million euros (€500,000,000). This limit shall be completely independent from the above.

4. Scope of delegation

The delegation of powers agreed herein entitles the Board to, by way of example, determine for each issue the amount, denomination (bonds or debentures – including subordinated bonds and debenture), the date of issue, the interest rate, the means of reimbursement, the issue guarantees, as well as other conditions required to ensure that the securities are issued correctly.

5. Exclusion of preferential subscription rights

Pursuant to Article 293 of the Public Limited Companies Act, the Board of Directors is specifically empowered to exclude shareholders from exercising preferential subscription rights in convertible bond and warrant issues involving the subscription of newly issued shares when so justified in the interests of the Company. In any event, should a decision be taken to exercise the power to bar preferential subscription rights, the Board shall draw up the obligatory director's report, along with the corresponding report from the auditor of accounts referred to in Articles 292 and 293 of the Public Limited Companies Act.

6. Rules and methods of conversion and/or exchange

In the event of a convertible and/or exchangeable debenture and/or bond issue, the Board of Directors shall determine the rules and modalities of the conversion and/or exchange for each of the specific issues that may be carried out in accordance with the following criteria:

Any securities issued under this resolution shall be exchangeable for shares in the Company or for shares in any other company, whether or not it belongs to the Group, and/or convertible into shares in the Company in keeping with a determined or determinable conversion and/or exchange rate. The Board of Directors shall be empowered to determine whether they are convertible and/or exchangeable and to determine whether they are to be necessarily or voluntarily convertible and/or exchangeable. Should they be voluntarily exchangeable or convertible at the holder or the issuer's option, the Board may determine the frequency and the term within the time limit(s) set forth in the resolution of issue, which may not exceed ten (10) years from the date of issue.

The conversion and/or exchange ratio for shares in the Company shall usually be fixed and, for this purpose, the convertible and/or exchangeable debentures or bonds shall be valued at their par value and the shares at the fixed exchange ratio determined in the Board of Director's resolution, or at an exchange ratio determined on the date or dates set forth in the Board of Director's resolution based on the listed price of shares in the Company on the date(s) or the period(s) taken as a reference in the same resolution. In any event, the price of the shares may not be less than the arithmetic mean of the closing prices of the shares in the Company on the Continuous Market during the period established by the Board of Directors, which may not be more than three (3) months or less than (15) days prior to the date the Board meeting is held at which the issuance of the debentures or bonds is approved pursuant to this empowerment.

Notwithstanding the provisions of paragraph b) above, a resolution may be taken to issue debentures or bonds with a variable conversion and/or exchange ratio. In such a case, the price of the shares for the purposes of conversion and/or exchange shall be the arithmetic mean of the closing prices of Company shares on the Continuous Market during a period to be determined by the Board of Directors, which may not be more than three (3) months and less than five (5) days prior to the date of conversion and/or exchange, with a premium or, as appropriate, a discount on said price per share. The premium or discount may be different for each conversion and/or exchange date of each issue (or, as appropriate, each tranche of an issue), though any discount set on the price per share may not exceed 45% of the list price of the shares during the period prior to the date of conversion and/or exchange of the debentures or bonds into shares set by the Board of Directors, there being no such limitations for the premium.

The same rules set forth in paragraphs a) and b) above shall apply to exchanges for shares in another company (whether or not it belongs to the Group) to the extent to which they may be appropriate and with any necessary modifications, albeit referring to the listings of the shares in said company on the relevant market. Under no circumstances, however, may the share price for the purposes of the conversion ratio of the debentures into shares be less than their par value. In accordance with the provisions set forth in Article 292.3 of the Public Limited Companies Act, debentures may not be converted into shares when the par value of the former is lower than that of the latter. Neither may convertible debentures be issued for an amount less than their par value.

Should the issue be convertible and exchangeable, the Board may establish that the Company can reserve the right to opt, at any time, between a conversion into new shares or an exchange for shares in circulation, specifying the nature of the shares to be delivered at the time of the conversion or exchange. The Company may even opt to hand over a combination of newly issued shares and pre-existing shares, or an equivalent amount in cash. In any event, the Company shall respect the right to equal treatment of all holders of fixed-income securities who convert and/or exchange them on the same date.

Where a conversion and/or exchange may proceed, share fractions, if any, which should be delivered to the holder of the debentures or bonds, shall be rounded down by default to the nearest lower whole number, and each holder shall receive in cash any difference that may proceed in such cases.

As set forth in Article 293.2 of the Public Limited Companies Act, the Board of Directors shall issue a report setting out and detailing the rules and modalities of the conversion that apply to the specific issue in question at the time the issuance of the convertible and/or exchangeable bonds or debentures is approved under the aegis of the authorisation contained herein. Such report shall be accompanied by the corresponding report from the auditor of accounts referred to in Article 292 of the Public Limited Companies Act, and said auditor shall be other than the Company's auditor and appointed for such a purpose by the Companies Registry. Likewise, said reports shall be placed at the disposal of shareholders and, as appropriate, to the holders of convertible and/or exchangeable fixed-income securities, and information thereof shall be given at the first General Shareholders' Meeting to be held after the resolution on the issue is taken.

7. Rules and methods of exercising warrants

The following criteria shall apply to any warrant issues, to which the provisions set forth in the Public Limited Companies Act for convertible debentures shall apply by analogy:

a) Any warrants issued pursuant to this agreement may give entitlement to the subscription of new shares in the Company and/or to the acquisition of shares in circulation in the Company or in another company, whether or not it belongs to the Group, or to a combination of both during the warrant exercise period laid down by the Board of Directors, which may not exceed the term of ten (10) years counting from the date of issue.

b) The price for exercising warrants may be fixed or variable on the basis, in the latter case, of the moment the warrants are exercised. The price shall be determined by the Board of Directors at the moment of the issue or determined at a subsequent time in accordance with the criteria set forth in the resolution. In any event, the share price to be considered may not be less than the greater of the values set forth above for the case of a convertible debenture or bond issue with a fixed or variable exchange ratio, as appropriate. Should the underlying asset of the warrants be shares in another company (whether or not it belongs to the Group), the same rules shall apply, to the extent to which they may be appropriate and with any necessary adaptations, albeit referring to the listings of the shares in said company on the relevant market.

c) Where warrants are issued with a simple or par value exchange ratio – i.e., one share for every warrant –, the sum of the premium paid for every warrant and its strike price may under no circumstances be less than the list price of Company shares set in accordance with the provisions set forth in the preceding paragraph, nor less than their par value. In the case of warrants with a multiple exchange ratio – i.e., other than one share for every warrant –, the sum of the premium paid out for all the warrants issued and their aggregate strike price may under no circumstances be less than the result of multiplying the number of underlying shares of all the warrants issued by the list price of Company shares set in accordance with the provisions set forth in the preceding paragraph, nor less than their par value.

d) Should the underlying asset of the warrants be shares in another company (whether or not it belongs to the Group), the rules set forth in paragraphs b) and c) above shall apply, to the extent to which they are appropriate and with any necessary adaptations, albeit referring to the listings of the shares in said company on the relevant market.

e) The Board may establish that the Company shall reserve the right to opt for delivering new or old shares, or a combination of both, at the time the warrants are exercised, specifying the nature of the shares to be handed over at the time the warrants are exercised, and may even choose to deliver a combination of newly issued and pre-existing shares. In any event, the Company shall respect the right to equal treatment of all the holders of warrants who exercise them on the same date.

f) When a warrant issue is approved pursuant to this authorisation, the Board of Directors shall issue a report setting out and detailing the rules and modalities that apply to the specific issue in question based on the aforementioned criteria. Pursuant to Article 292.2 of the Public Limited Companies Act, said report shall be accompanied by the report of the auditor of accounts referred to therein.

8. Rights of the holders of convertible securities

The holders of any convertible and/or exchangeable securities and warrants that may be issued in accordance with the authorisation contained herein shall be entitled to all the rights granted under prevailing legislation, particularly, and while the conversion and/or exchange of the debentures is still possible, those relating to the statutory anti-dilution clause.

9. Increase of capital

The delegation to issue convertible debentures and/or bonds and warrants on newly issued shares shall include the following powers:

a) The power to increase capital by the amount required to meet applications for conversion or to exercise warrants on newly issued shares. Such power shall be conditional on the total increases of share capital agreed upon by the Board of Directors, including those agreed upon when making use of the powers delegated herein as well as any other that may have been delegated through other authorisations issued by the General Meeting, not exceeding the limit of half the current share capital, as set forth in Article 153.1 b) of the Consolidated Text of the Public Limited Companies Act. This authorisation to increase capital includes the power to issue and place into circulation, once or on several occasions, the shares representing said increase and that are required to effect conversion or the exercise, along with the power to redraft the Corporate Bylaws Article establishing the share capital figure and to cancel, as appropriate, any part of such increase of capital not required for the conversion into shares or for the exercising the warrants.

b) The power to set out and specify the aforementioned conversion and/or exchange or warrant exercise rules and modalities established, and particularly to determine the time of conversion and/or exchange or warrant exercise, which may be limited to a pre-established period; the entitlement to conversion and/or exchange, which may lie either with the Company or with the holders of the debentures, bonds and/or warrants; the way the holders of bonds, debentures or warrants shall be satisfied, (which may be through conversion, exchange, a combination of both or even an obligatory conversion, the specific determination of which shall be freely decided upon by the Board on the basis of what it may deem most suitable, even at the very moment of execution); and, in general, any other elements or conditions required or appropriate to each issue.

10. Admission to trading

When deemed appropriate, the Company shall apply for the admission to trading on official or unofficial secondary markets, be they Spanish or foreign, of the convertible and/or exchangeable securities or warrants issued by virtue of this delegation. Likewise, the Board of Directors shall be expressly empowered to transfer to the Standing Committee, to the Chairman of the Board of Directors, to the Executive Director, to the Secretary or Deputy Secretary and/or any Directors part or all of the powers thus delegated to the Company's Board of Directors relating to the performance of any formalities and actions before the competent authorities of the different Spanish or foreign securities markets needed in order to achieve the securities' admission to trading.

It is hereby expressly stated that, should a subsequent application for exclusion from trading be made, said application shall be adopted with the same formalities as the application for admission to trading to the extent to which they may apply. Should this be the case, the interests of the shareholders and bondholders who may contest or vote against such resolution shall be guaranteed. Likewise, it is hereby expressly stated that the Company shall comply with rules that may exist or may in the future be laid down on the Stock Markets, particularly on trading and the continuance and exclusion thereof.

11. Guarantee for securities issues made by subsidiaries

The Board of Directors shall likewise be empowered to guarantee on behalf of the Company and within the limits set forth above any new issues of securities made by Group companies, within the term of this resolution.

12. Power of replacement

The Board of Directors shall be especially authorised to delegate any powers conferred upon it by means of this resolution in accordance with Article 141.1 of the Consolidated Text of the Public Limited Companies Act.

This resolution shall overrule any authorisation conferred upon Board of Directors in accordance with the resolution five approved at the Company's General Shareholders' Meeting held on 16 June 2009.

Delegation to repurchase shares.

The General Shareholders' Meeting held on 24 June 2010 resolved to authorise a new term of five (5) years for the Board of Directors to take as collateral and/or directly or indirectly acquire treasury shares through purchase by any means and at a price not less than (i) the par value and (ii) the list price at the time of placing the purchase order, or at a price exceeding their list price at time of acquisition. At no time whatsoever, may the par value of the shares thus acquired, along with any taken as collateral, exceed the maximum amount legally set forth at a given time.

The Board of Directors shall be expressly empowered to freely dispose of any shares acquired in accordance with the aforementioned authorisation in order to fulfil any undertakings concerning "Remunerations schemes through the delivery of stock options" or "indexed to the share price" that have gained the mandatory approval for implementation in the Company, as well as to pay through their list price any bonuses that may arise from any remuneration schemes in force in the Company.

h. Significant agreements executed by the Company that have entered into force, have been amended or have been terminated in the event of a change of control of the Company due to a public takeover bid and their effects, except where their disclosure could seriously harm the Company. Such exception shall not apply where the Company is legally obliged to disclose this information.

NH Hoteles, S.A. Group has entered into agreements with the shareholders of Residential Marlín S.L. and of Los Alcornoques de Sotogrande, S.L. These agreements set forth that the personal characteristics of the shareholders are essential for the development of the projects, laying down that any change of effective control in either the shareholders or the parent companies will enable the other shareholder to split off from the company with entitlement to a reimbursement of its corporate assets plus any resulting damages.

The syndicated loan entered into on 2 August 2007 by a group company, NH Finance, S.A., as the borrower, and a syndicate of banks for the amount of 650 million euros includes a clause which sets forth that the early redemption thereof shall come about when circumstances occur that give rise to a takeover of NH Hoteles, S.A.

In addition, NH Hoteles Group has taken out loans and credits with a joint limit of 35 million euros that contain an early redemption clause in the event of a takeover of NH Hoteles, S.A.

There are hotel management agreements signed by subsidiaries of the Group in which the owner (or lessor) of the hotels may exercise the power to terminate such agreements in the event of a takeover of NH Hoteles S.A., which is construed as one or more persons acting together being able to exercise 50.01 % of the voting rights. Should such power be exercised, the owners of the hotels shall pay the management company certain amounts which vary depending on the moment the power is exercised to compensate for the effects arising from termination of the agreement.

In the management agreements entered into by Hoteles Hesperia, S.A. (currently the owner of 99% of NH Hoteles España, S.L.) and the respective owners of the hotels referred, it is stated that the owners may opt for terminating the management agreement should NH Hoteles, S.A. be taken over, with the owners being obliged to pay Hoteles Hesperia, S.A. an amount equivalent to the Average Annual Remuneration, as stipulated in said agreements.

Lastly, Article 9 of the Corporate Bylaws of Coperama Servicios a la Hostelería, S.L. sets forth that the members shall have preferential acquisition rights over the shareholdings referred should the company through which the ownership of said shareholdings is held be taken over by a new owner who is a competitor of the other members. For these purposes, a takeover is considered to have taken place when a third party directly or indirectly holds more than 50% of the company's share capital or of its voting rights. The member subject to the takeover must report such circumstance and offer the other members the possibility of acquiring stock at fair value.

i. Arrangements between the Company and its administrative or management officers or employees establishing indemnities when these stand down or are removed from office unfairly, or if the labour relationship comes to an end due to a public takeover bid.

Apart from the Executive Director and four employees, the Company does not have any arrangements other than those set forth in the Workers Statute (Estatuto de Trabajadores) or in the Senior Management Decree 1382/1985, which set forth indemnities when such officers resign, are removed from office unfairly or if the labour relationship comes to an end due to a public takeover bid.

In the case of the Chairman-Executive Director and the aforementioned employees, and for the purpose of encouraging loyalty and long service in the company, indemnities has been set forth that may exceed that resulting from the application of the aforementioned law should said employees be unfairly dismissed or due to a change of controlling interest.

FUTURE OUTLOOK

The hotel industry is particularly sensitive to the economic environment and company activity. The economic recovery in most of the main markets where NH Group operates enables us to predict that the recovery in sales and other economic results will be maintained.

Apart from Spain and Portugal, the outlook for other European countries such as Germany, Netherlands, Italy, etc. point to a continuous economic growth hence a positive trend in the operating and financial results of NH Group. In more recently developed areas such as Argentina, Mexico and Central Europe, greater growth in sales than that recorded in other business units is expected to continue in 2011, as was the case in 2010. On the other hand, however, there is in general little visibility with regard to customer bookings in the city hotel sector. Except for some specific events, bookings are being increasingly made less in advance, making it difficult to establish any kind of forecast for the year.

The Company's plans for the year point to a new increase in occupation levels and also a confirmed improvement in prices over the year, which would allow for similar sales growth as those recorded this year.

SUBSEQUENT DISCLOSURES

According to Relevant Disclosure sent to the National Securities Market Commission (CNMV) on 18 February 2011:

"At the Group's Board of Directors' Meeting held on 18 February 2011, the Executive Chairman, Gabriele Burgio, informed of his decision to stand down from his functions as a Director, Chairman and Executive Director of the Company, considering that once the main objectives of the Business Plan approved in July 2009 to deal with the crisis economic had been met, the Company finds itself in an ideal situation to benefit from the initiation of the recovery with a substantial improvement in margins, which has been reflected in the Company's share price.

Mr Burgio's resignation will take effect as of 1 March once the Board has drawn up the financial statements for 2010.

Gabriele Burgio took on executive responsibilities in 1997, when the Company had 66 hotels in Spain. After an intense period of development and internationalisation, he has managed to situate it as one of the world's leading hotel companies with 400 hotels in twenty-four countries, making NH a leading brand in city hotels in the main European and Latin America countries.

After having received a preliminary report from the Appointments and Remuneration Committee, the Board of Directors resolved to appoint Mariano Pérez Claver, a professional with wide-ranging experience in the business and financial world, as the Company's new Chairman and Chief Executive Officer, also with effect from 1 March 2010.

Mariano Pérez Claver is currently the Chairman of SOS Corporación Alimentaria, S.A., an office which he has held since June 2009."

In addition, the Group reached an agreement on 23 February 2010 with the owners of Hotel Costes regarding Hotel Lotti located in Paris, which the Group owns fully.

The aforementioned alliance entails the sale of 33% of Hotel Lotti. This alliance aims to generate synergies arising from the joint commercial management of both hotels due to their adjacent locations in the centre of Paris.

Likewise, the parties have agreed on the possibility of further developing this commercial alliance, including the possibility of selling all interests in Hotel Lotti to the owners of Hotel Costes in 2011.

ANNUAL CORPORATE GOVERNANCE REPORT

LISTED PUBLIC LIMITED COMPANIES
IDENTIFICATION DETAILS OF THE ISSUER

FISCAL YEAR ENDED: **31/12/2010**
TAX ID CODE (CIF): **A28027944**
Corporate Name: **NH HOTELES, S.A.**

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

To understand and complete this form correctly, please read the instructions provided at the end.

A - STRUCTURE OF THE COMPANY

A.1. Complete the following table regarding the capital structure of the company:

Date of last modification	Share Capital (Euros)	Number of shares	Number of voting rights
23/07/2009	493,234,860.00	246,617,430	246,617,430

Indicate if there are different share classes with different associated rights:

NO

A.2. List the direct and indirect significant shareholders in your company as at the end of the year, excluding directors:

Name or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
MR JOSE ANTONIO CASTRO SOUSA	1,000	62,345,188	25.281
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	0	24,766,704	10.043
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIAN	0	15,147,973	6.142
CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.	15,147,973	0	6.142
BANCAJA INVERSIONES, S.A.	13,955,675	0	5.659
INTESA SANPAOLO, S.P.A.	5,791,685	8,148,802	5.653
MR AMANCIO ORTEGA GAONA	0	12.,512,971	5.074
PONTEGADEA INVERSIONES, S.L.	12,.512,971	0	5.074
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGON Y RIOJA (IBERCAJA)	12,432,716	0	5.041
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	11,206,208	0	4.544

Name or company name of the indirect shareholder	Via: Name or company name of the direct shareholder	Number of direct voting rights	% of total voting rights
MR JOSE ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A	62,345,188	25.280
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	11,206,208	4.544
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	13,560,496	5.499
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIAN	CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.	15,147,973	6.142
INTESA SANPAOLO, S.P.A.	PRIVATE EQUITY INTERNATIONAL	8,148,802	3.304
MR AMANCIO ORTEGA GAONA	PONTEGADEA INVERSIONES, S.L.	12,512,971	5.074

Indicate the most significant movements in the shareholding structure of the company during the year:

A.3. Complete the following tables with information on the members of the company's Board of Directors that hold voting rights on shares in the company:

Director name or company name	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
MR GABRIELE BURGIO	1,628,920	0	0.661
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	0	13,955,675	5.659
MR FRANCISCO JAVIER ILLA RUIZ	1	0	0.000
GRUPO INVERSOR HESPERIA, S.A	61,870,384	0	25.088
HOTELES PARTICIPADOS, S.L.	13,385,269	0	5.428
MR IÑAKI ARRATÍBEL OLAZIREGI	100	0	0.000
MR JOSE DE NADAL CAPARÁ	18,770	0	0.008
MR JUAN ANTONIO SAMARANCH SALISACHS	82,000	0	0.033
MR JUAN LLOPART PEREZ	160	0	0.000
MR MIGUEL RODRÍGUEZ DOMÍNGUEZ	3,000	0	0.001
MRS NURIA ITURRIAGAGOITIA RIPOLL	1,353	0	0.001
MR ROBERTO CIBEIRA MOREIRAS	600	0	0.000
MRS ROSALBA CASIRAGHI	1	0	0.000
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	13,560,496	0	5.499

Name or company name of the indirect shareholder	Via: Name or company name of the direct shareholder	Number of direct voting rights	% of total voting rights
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	BANCAJA INVERSIONES, S.A.	13,955,675	5.659

% of total voting rights held by the Board of Directors	42.376

Complete the following table with information on the members of the company's Board of Directors that hold rights on shares in the company:

Director name or company name	Number of direct option rights	N° of indirect option rights	Equivalent number of shares	% of total voting rights
MR GABRIELE BURGIO	600,000	0	600,000	0.405

A.4 Indicate, as appropriate, the family, commercial, contractual or corporate relationships existing between significant shareholders, in so far as they are known by the company, unless they have little relevance or are derived from ordinary commercial business of the company:

A.5 Indicate, as appropriate, the commercial, contractual or corporate relationships existing between significant shareholders, and the company and/or its group, unless they have little relevance or are derived from the ordinary commercial business of the company:

A.6 Indicate if the company has been notified of any shareholder agreements that affect it according to Article 112 of the Securities Market Act (LMV). If appropriate, describe them briefly and list the shareholders bound by the agreement:

YES

% share capital affected: 20.74

Short description of the agreement:

Creation of a shareholders' syndicate that shall comprise all the company shares held by said shareholders while the Shareholders' Agreement exists, with the exception of those shares acquired as a result of the provision of financial services to clients or from treasury and trading activities. Through this syndicate, all shareholder members are required to exercise the voting rights derived from their syndicated shares as a single unit. Furthermore, all syndicated shares shall vote at General Meetings as a single unit and in the way decided by the majorities specified in the Shareholders' Agreement.

Participants in the shareholder agreement
BANCAJA INVERSIONES, S.A.
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGON Y RIOJA (IBERCAJA)

% share capital affected: 11.570

Short description of the agreement:

Creation of a shareholders' syndicate that shall comprise all the company shares held by said shareholders while the Shareholders' Agreement exists, with the exception of those shares acquired as a result of the provision of financial services to clients or from treasury and trading activities. Through this syndicate, all shareholder members are required to exercise the voting rights derived from their syndicated shares as a single unit. Furthermore, all syndicated shares shall vote at General Meetings as a single unit and in the way decided by the majorities specified in the Shareholders' Agreement.

Participants in the shareholder agreement
CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.
HOTELES PARTICIPADOS, S.L.

Indicate if the company is aware of the existence of concerted actions among its shareholders. If so, give a brief description:

NO

In the event of any modification or termination of these pacts, agreements or agreed actions during the year, please describe them below:

A.7 State whether any individual or legal entity exercises or could exercise control over the company according to Article 4 of the Securities Market Act (LMV). If so, give details here:

NO

A.8 Complete the following tables regarding the company's treasury stock:

At fiscal year end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
109,000	0	0.150

(*) Through:

Total	0

Describe any significant changes, according to Royal Decree 1362/2007, that occurred during the year:

Capital gain/(loss) from disposals of treasury stock during the period (thousands of euros)	0

A.9 Describe the conditions and the term of the current mandate of the Board of Directors to carry out acquisitions or transfers of treasury stock, as conferred by the General Shareholders' Meeting.

The General Shareholders' Meeting of 24 June 2010 granted the Board of Directors a period of five (5) years to take as collateral and/or to acquire, directly or indirectly, treasury stock, by purchasing same by any means for a price not lower than either (i) their nominal value, and (ii) the share price at the time of issuing the purchase order, whichever is lower, and not higher than the share price at the time of their acquisition. In no event may the nominal value of the purchased shares, together with the nominal value of the shares taken as collateral, exceed the legally established maximum amount at any given time.

The Board of Directors is expressly authorised to freely hold the shares purchased under the aforementioned authorisation in order to comply, as appropriate, with the commitments assumed under any "Share Option-based Remuneration Schemes" or "Share-based Remuneration Schemes", implemented in the company, subject to the required approvals; as well as to pay, at the listed share price, variable remuneration payments (bonuses) arising from Company remuneration plans.

A.10. Indicate, as applicable, the legal and Bylaw restrictions on exercising voting rights, as well as the legal restrictions on acquiring or transferring shareholdings in the company. State whether there are legal restrictions on exercising voting rights:

NO

Maximum percentage of voting rights that a single shareholder can exercise due to legal restrictions	0

State whether there are Bylaw restrictions on exercising voting rights:

YES

Maximum percentage of voting rights that a single shareholder can exercise due restrictions established in Company Bylaws	20.000

Description of the legal and Bylaw restrictions on exercising voting rights
According to Article 15 of the Bylaws of NH Hoteles, S.A., no shareholder, regardless of the number of shares owned, may issue more votes than those corresponding to 20% of the issued shares with voting rights. This limitation will not apply to those General Shareholders' Meeting in which, in accordance with the list of attendees, a shareholder present or represented at the Meeting owns more than 51% of the issued shares with voting rights. For the purpose of calculating voting rights, companies belonging to the same group shall be considered as a single shareholder in accordance with Article 42 of the Code of Commerce.

State whether there are legal restrictions on acquiring or transferring shareholdings in the company:

NO

A.11 State whether the General Shareholders' Meeting has agreed to adopt neutralisation measures against takeovers bids, pursuant to Law 6/2007.

NO

If so, explain the approved measures and the terms under which the restrictions would be lifted.

B - ADMINISTRATIVE STRUCTURE OF THE COMPANY

B.1. Board of Directors

B.1.1. State the maximum and minimum number of directors established in the bylaws:

Maximum number of directors	20
Minimum number of directors	5

B.1.2. Complete the following table with the members of the Board:

Name or company name of the director	Representative	Position on the Board	First appointed	Last appointment	Election
MR GABRIELE BURGIO	-	CHAIRMAN AND CHIEF EXECUTIVE OFFICER	12/01/1993	16/06/2009	VOTED BY SHAREHOLDERS' MEETING
MR ANTONIO VIANA BAPTISTA	-	DIRECTOR	16/06/2009	16/06/2009	VOTED BY SHAREHOLDERS' MEETING
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	AURELIO IZQUIERDO GOMEZ	DIRECTOR	17/02/2002	24/06/2010	VOTED BY SHAREHOLDERS' MEETING
MR FRANCISCO JAVIER ILLA RUIZ	-	DIRECTOR	27/10/2009	03/12/2009	VOTED BY SHAREHOLDERS' MEETING
GRUPO INVERSOR HESPERIA, S.A	JOSE ANTONIO CASTRO SOUSA	DIRECTOR	24/06/2010	24/06/2010	VOTED BY SHAREHOLDERS' MEETING
HOTELES PARTICIPADOS, S.L.	IGNACIO EZQUIAGA DOMINGUEZ	DIRECTOR	29/04/2004	24/06/2010	VOTED BY SHAREHOLDERS' MEETING
MR IÑAKI ARRATÍBEL OLAZIREGI	-	DIRECTOR	28/10/2008	16/06/2009	VOTED BY SHAREHOLDERS' MEETING
MR JOSE DE NADAL CAPARÁ	-	DIRECTOR	08/05/1997	17/06/2008	VOTED BY SHAREHOLDERS' MEETING
MR JUAN ANTONIO SAMARANCH SALISACHS	-	DIRECTOR	03/12/2009	03/12/2009	VOTED BY SHAREHOLDERS' MEETING
MR JUAN LLOPART PEREZ	-	DIRECTOR	23/03/2010	24/06/2010	VOTED BY SHAREHOLDERS' MEETING
MR MIGUEL RODRÍGUEZ DOMÍNGUEZ	-	DIRECTOR	29/04/2004	24/06/2010	VOTED BY SHAREHOLDERS' MEETING
MRS. NURIA ITURRIAGAGOITIA RIPOLL	-	DIRECTOR	16/06/2009	16/06/2009	VOTED BY SHAREHOLDERS' MEETING
MR ROBERTO CIBEIRA MOREIRAS	-	DIRECTOR	01/03/2010	24/06/2010	VOTED BY SHAREHOLDERS' MEETING
MRS. ROSALBA CASIRAGHI	-	DIRECTOR	12/05/2009	16/06/2009	VOTED BY SHAREHOLDERS' MEETING
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	ANGEL CORDOBA DIAZ	DIRECTOR	17/06/2008	24/06/2010	VOTED BY SHAREHOLDERS' MEETING

Total number of directors	**15**

Indicate whether any directors have left the Board of Directors during the period:

Director name or company name	Type of director at time of departure	Departure date
MR JULIO C. DIAZ-FREIJO CERECEDO	PROPRIETARY DIRECTOR	01/03/2010
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	PROPRIETARY DIRECTOR	23/03/2010

B.1.3. Complete the following tables about the different types of Board members:

EXECUTIVE DIRECTORS

Name or company name of director	Committee that proposed the appointment	Position in the company's organisation chart
MR GABRIELE BURGIO	BOARD OF DIRECTORS	CHAIRMAN-CHIEF EXECUTIVE OFFICER

Total number of executive directors	**1**
% of total Board	**6.667**

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of director	Committee that proposed the appointment	Name or company name of the significant shareholder represented or that proposed the appointment
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	NOMINATING AND COMPENSATION COMMITTEE	CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)
MR FRANCISCO JAVIER ILLA RUIZ	NOMINATING AND COMPENSATION COMMITTEE	GRUPO INVERSOR HESPERIA, S.A
GRUPO INVERSOR HESPERIA, S.A	--	GRUPO INVERSOR HESPERIA, S.A
HOTELES PARTICIPADOS, S.L.	NOMINATING AND COMPENSATION COMMITTEE	HOTELES PARTICIPADOS, S.L.
MR IÑAKI ARRATÍBEL OLAZIREGI	NOMINATING AND COMPENSATION COMMITTEE	CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIAN
MR JUAN LLOPART PEREZ	NOMINATING AND COMPENSATION COMMITTEE	CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID
MR ROBERTO CIBEIRA MOREIRAS	NOMINATING AND COMPENSATION COMMITTEE	PONTEGADEA INVERSIONES, S.L.
MRS. ROSALBA CASIRAGHI	NOMINATING AND COMPENSATION COMMITTEE	INTESA SANPAOLO, S.P.A.
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	NOMINATING AND COMPENSATION COMMITTEE	CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID

Total number of proprietary directors	**9**
% of total Board	**60.000**

INDEPENDENT EXTERNAL DIRECTORS

Name or company name of director: MR ANTONIO VIANA BAPTISTA
Profile: MBA; Honours of Distinction; INSEAD, Fontainebleau (France); Masters in European Economics.

Name or company name of director: MR JOSE DE NADAL CAPARÁ
Profile: DEGREE IN CHEMICAL ENGINEERING FROM IQS, BARCELONA (1962-68), MBA FROM ESADE BUSINESS SCHOOL, BARCELONA (1966-69) MARKETING LECTURER, MASTERS IN CHEMICALS BUSINESS MANAGEMENT FROM IQS, BARCELONA (1980-83)

Name or company name of director: MR MIGUEL RODRÍGUEZ DOMÍNGUEZ
Profile: BUSINESSMAN

Name or company name of director: MRS. NURIA ITURRIAGAGOITIA RIPOLL
Profile: Degree in economics and business sciences from the Universidad de Deusto; General Management Program from the IESE business school; International Marketing, Accounts and Finance, Business Policy, Human Resources Management from Buckingham College of Higher Education (UK).

Total number of independent directors	4
% of total Board	26.667

OTHER EXTERNAL DIRECTORS

Name or company name of director	Committee that proposed the appointment
MR JUAN ANTONIO SAMARANCH SALISACHS	NOMINATING AND COMPENSATION COMMITTEE

Total number of other external directors	1
% of total Board	6.667

State the reasons why they cannot be considered as proprietary or independent directors, and their relationship with the company, its directors or shareholders:

Name or company name of director: MR JUAN ANTONIO SAMARANCH SALISACHS
Company, director or shareholder with whom they are associated: NH HOTELES, S.A.
Reasons: The company GBS Finanzas, S.A., in which the Director is a senior director, has occasionally had business dealings with the NH Hoteles group, although always prior to his appointment as a Director.

Indicate the changes that, as applicable, have occurred to the status of each director during the period:

B.1.4 Explain, as applicable, the reasons why proprietary directors have been appointed at the request of shareholders whose holding is less than 5% of the capital.

Indicate whether formal requests for representation on the Board from shareholders whose shareholding is equal to or greater than other shareholders at whose request proprietary directors have been appointed, have not been acted upon. Explain the reasons why they have not been acted on, as applicable.

NO

B.1.5 Indicate whether any director has left their position prior to the completion of their mandate; whether the director has explained their reasons to the Board, and by what means; and, in the event that the written communication was sent to the whole of the Board, explain the reasons given:

YES

Name of the director: MR JULIO C. DIAZ-FREIJO CERECEDO

Reason for departure: Decision of the significant shareholder, Pontegadea Inversiones, S.L., to substitute Mr Diaz Freijo Cerecedo with Mr Roberto Cibeira Moreiras.

Name of the director: SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID

Reason for departure: Decision of the major shareholder, Sociedad de Promoción y Participación Empresarial Caja Madrid, to resign as a director that is a legal entity and to appoint Mr Juan Llopart in its place. Notwithstanding the above, on 24 June 2010, Sociedad de Promoción y Participación Empresarial Caja Madrid was reappointed as a proprietary director, appointing Mr Angel Córdoba Diaz as its representative.

B.1.6. State the powers that have been delegated to the Executive Director(s), if such authorisations exist:

Name or company name of director: MR GABRIELE BURGIO

Short description:
ALL THE POWERS THAT CORRESPOND TO THE BOARD OF DIRECTORS, EXCEPT THOSE THAT CANNOT BE DELEGATED BY LAW OR THE COMPANY'S BYLAWS.

B.1.7 Identify, as applicable, the members of the Board that hold administrative or management positions in other companies that form part of the group of the listed company:

Name or company name of director	Name of the group entity	Position
MR GABRIELE BURGIO	GRUPO FINANCIERO DE INTERMEDIACIÓN Y ESTUDIOS. S.A.	PERSON REPRESENTING THE SOLE ADMINISTRATOR OF NH HOTELES. S.A.
MR GABRIELE BURGIO	KRASNAPOLSKY HOTELS & RESTAURANTS. BV	MEMBER OF THE SUPERVISORY BOARD
MR GABRIELE BURGIO	NH DOMO DISEÑO Y DECORACIÓN. S.L.	JOINT DIRECTOR
MR GABRIELE BURGIO	SOTOGRANDE. S.A.	DIRECTOR
MR GABRIELE BURGIO	NH ITALIA. S.R.L.	CHAIRMAN AND DIRECTOR
MR FRANCISCO JAVIER ILLA RUIZ	NH HOTELES ESPAÑA. S.L.	DIRECTOR

B.1.8. State, as applicable, the directors of your company that are members of the Board of Directors of other entities listed on official stock exchanges in Spain, other than companies in your group, which the company has been notified of:

Name or company name of director	Name of the listed entity	Position
MR GABRIELE BURGIO	GRUPO FERROVIAL. S.A.	DIRECTOR
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	ARCALIA PATRIMONIOS SOCIEDAD DE VALORES. S.A.	DIRECTOR
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	BANCAJA EMISIONES. S.A.	CHAIRMAN
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	BANCAJA CAPITAL. S.A.	CHAIRMAN
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	BANCO DE VALENCIA. S.A.	CHAIRMAN
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	BANCAJA US DEBT. S.A.	CHAIRMAN
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	ENAGAS. S.A.	VICE-CHAIRMAN
MR JUAN ANTONIO SAMARANCH SALISACHS	AUTOPISTAS CONCESIONARIA ESPAÑOLA. S.A.	DIRECTOR
MR JUAN LLOPART PEREZ	BANCO FINANCIERO Y DE AHORROS. S.A.	DIRECTOR
MR MIGUEL RODRÍGUEZ DOMÍNGUEZ	COMPAÑIA ESPAÑOLA PARA LA FABRICACIÓN MECÁNICA DEL VIDRIO. S.A.	DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	SOS CORPORACIÓN ALIMENTARIA. S.A.	DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	MECALUX. S.A.	DIRECTOR

B.1.9. State, and as applicable explain, if the company has rules on the number of boards that its directors may belong to:

YES

Explanation of the rules
Article 29 of the Regulations of the Board expressly establishes that directors must dedicate the necessary time and effort to performing their duties, and must notify the Nominating and Compensation Committee of any circumstances that may interfere with the required dedication. Similarly, directors may not belong to more than 10 boards of directors, excluding the Board of NH Hoteles, S.A. and the boards of holding companies and family companies, without the express authorisation from the Nominating and Compensation Committee based on the individual circumstances in each case.

B.1.10. In relation to Recommendation 8 of the Unified Code, indicate the company's general policies and strategies that plenary sessions of the Board have the right to approve:

The investment and financing policy	YES
The definition of the corporate group structure	YES
The corporate governance policy	YES
The corporate social responsibility policy	YES
The strategic or business plan, as well as management objectives and the annual budget	YES
The policy on remuneration and performance evaluations of senior managers	YES
The risk control and management policy, as well as regular monitoring of internal information and control systems	YES
The dividend and treasury stock policy, and in particular, the limits of the same.	YES

B.1.11. Complete the following tables regarding the combined remuneration of the directors accrued during the year:

a) In the company subject to this report:

Remuneration concept	In thousands of euros
Fixed Remuneration	775
Variable Remuneration	250
Expenses	104
Benefits stipulated by Bylaws	531
Options on shares and/or other financial instruments	0
Others	103
Total	**1,763**

Other Benefits	In thousands of euros
Advances	0
Loans granted	8,305
Pension plans and funds: Contributions	0
Pension plans and funds: Contractual obligations	0
Life insurance premiums	45
Guarantees granted by the company in favour of directors	0

b) For participation by company directors on other boards of directors and/or in the senior management of group companies:

Remuneration concept	In thousands of euros
Fixed Remuneration	0
Variable Remuneration	0
Expenses	2
Statutory Benefits	15
Options on shares and/or other financial instruments	0
Others	0
Total	**17**

Other Benefits	In thousands of euros
Advances	0
Loans granted	0
Pension plans and funds: Contributions	0
Pension plans and funds: Contractual obligations	0
Life insurance premiums	0
Guarantees granted by the company in favour of directors	0

c) Total remuneration by type of director:

Type of director	By company	By group
Executive directors	1,166	17
External proprietary directors	356	0
External independent directors	203	0
Other external directors	38	0
Total	**1,763**	**17**

d) In relation to the income attributable to the parent company

Total remuneration of directors (thousands of euros)	**1,780**
Total remuneration of directors/income attributable to the parent company (expressed as a %)	**-5.2**

B.1.12 Identify the members of the senior management team that are not executive directors and indicate their total remuneration for the year:

Name or company name	Position
MR ROBERTO CHOLLET IBARRA	CHIEF FINANCIAL OFFICER
MR LEOPOLDO GONZÁLEZ-ECHENIQUE CASTELLANOS DE UBAO	GENERAL SECRETARY
MR JESUS IGNACIO ARANGUREN GONZALEZ-TARRÍO	CHIEF STRATEGY OFFICER
MR IGNACIO DIAZ LOPEZ	CORPORATE INTERNAL AUDIT MANAGER
MR FRANCISCO ALEJANDRO ZINSER CIESLIK	CHIEF OPERATIONAL OFFICER

Total remuneration of senior management (thousands of euros)	**2,086**

B.1.13 Indicate, on an aggregate basis, whether members of the company's or group's senior management team, including executive directors, are afforded guarantees or golden parachute clauses in the event of dismissal or takeovers. Indicate whether these contracts must be communicated to, and/or approved by the governing bodies of the company or its group:

Number of beneficiaries	**5**

	Board of Directors	General Shareholders' Meeting
Body that authorises the clauses	YES	NO

Is the General Shareholders' Meeting notified of the clauses?	NO

B.1.14. State the process for determining the remuneration of the members of the Board of Directors and the relevant bylaw clauses:

Process for determining the remuneration of members of the Board of Directors and the clauses in the bylaws
Article 35 of the Regulations of the Board of Directors establishes that the Directors shall be entitled to receive the remuneration set by the Board of Directors in accordance with the legal and statutory provisions, based on a prior report from the Nominating and Compensation Committee. The Board of Directors will endeavour to ensure that the remuneration of the Board is in line with market rates in companies of a similar size and activity. Article 20 of the company's bylaws indicates that the remuneration of directors shall consist of an annual fixed allocation as well as expenses for attending the meetings of the Board of Directors and its delegated and advisory committees, and that the amounts of this remuneration shall be determined by the General Shareholders' Meeting. Additionally and independent of the remuneration described in the above paragraph, share-based remuneration systems, or those involving assigning shares or stock options, may be put in place for directors. Implementation of these remuneration systems must be agreed by the General Shareholders' Meeting, which shall determine the value of the shares that are taken as a reference, the number of options, the exercise price of the stock options, the duration of this remuneration system and any other conditions deemed appropriate. Likewise, similar remuneration systems may be established for other company personnel, directors or otherwise, provided they comply with the law. In addition to the remuneration referred to in the above two paragraphs, executive directors are entitled to receive additional remuneration for the executive duties they perform beyond those contemplated in the post of director. In particular, this remuneration shall be comprise the following items: (a) a fixed component, adapted to the services and responsibilities assumed; (b) a variable component, referenced to a company executive directorship performance indicator; (c) an attendance component, comprising suitable insurance and benefits systems; and (d) indemnity in the event of dismissal or any other type of termination of the legal relationship with the company that is not due to breaches attributable to the director. The determination of the amount of the remuneration components referred to in this paragraph shall be based on market conditions and shall take into account the responsibility and degree of commitment involved in the role assigned to each executive director. The General Shareholders' Meeting of 24 June 2010 agreed to set the total annual fixed component and the attendance expenses of the Board of Directors and its committees, with effect from 2010, at one million one hundred thousand Euros (1,100,000 Euros) in accordance with the aforementioned Article 20 of the company's bylaws. The Board of Directors shall draft an annual report on the remuneration of directors and senior managers. The minimum content and the requirement to submit this report to the General Shareholders' Meeting shall be governed by the law and other applicable regulations at any given time.

Indicate whether the plenary sessions of the Board are reserved for approving the following decisions.

The appointment and removal of senior managers, as well as their compensation clauses, as proposed by the Chief Executive Officer of the company.	NO
The remuneration of directors and, in the case of executives, any additional remuneration for executive responsibilities and any other conditions that their contracts should reflect.	YES

B.1.15 Indicate whether the Board of Directors approves a detailed remuneration policy and specify the issues covered by said policy:

YES

Amount of the fixed components, with a breakdown, as applicable, of the expenses for participating on the Board and its committees, and an estimate of the corresponding annual fixed remuneration	YES
Variable remuneration items	YES
Main characteristics of the benefits systems with an estimate of their amount or equivalent annual cost.	YES
Conditions that must apply to the contracts of those who, being executive directors, perform senior management functions.	YES

B.1.16 Indicate whether the Board submits a report on the remuneration policy of the directors as a separate point on the agenda to be voted on by the General Shareholders' Meeting, for consultation purposes. If so, explain the aspects of the report concerning the remuneration policy approved by the Board for future years, the most significant changes in these policies compared to the policy applied during the year and an overview of how the remuneration policy was applied during the year. Describe the role carried out by the Remuneration Committee and if external advice has been used, identify the external consultants that provided it:

NO

Issues defined in the remuneration policy
The Board of Directors approves a report on the remuneration policy of members of the Board of Directors with the contents established in Recommendation 40 of the Unified Code of Good Governance, which is made available to shareholders at the time of the General Shareholders' Meeting.

Role of the Remuneration Committee
The Nominating and Compensation Committee plays an important role in all matters related to the remuneration policies of company directors and senior management, and is the body that proposes the aforementioned remuneration to the Board.

Has external advice been used?	

Identity of the external consultants

B.1.17 Indicate, as applicable, the identity of the members of the Board that are also members of the Board of Directors, managers or employees of companies that hold significant shareholdings in the listed company and/or in group entities:

Name or company name of director	Company name of significant shareholder	Position
MR FRANCISCO JAVIER ILLA RUIZ	GRUPO INVERSOR HESPERIA, S.A	EXECUTIVE DIRECTOR
MRS. ROSALBA CASIRAGHI	INTESA SANPAOLO, S.P.A.	MEMBER OF THE AUDIT AND CONTROL COMMITTEE
MRS. ROSALBA CASIRAGHI	INTESA SANPAOLO, S.P.A.	MEMBER OF THE SUPERVISORY BOARD

State, as applicable, the relevant relationships other than those in the point above, of members of the Board of Directors that links them with significant shareholders and/or in entities in the group:

B.1.18 State whether there has been any modification to the regulations of the Board during the year:

NO

B.1.19 State the procedures for appointing, re-electing, evaluating and removing directors. Name the competent bodies, the procedures to be followed and the criteria used in each procedure.

Selection procedures for members of the Board

The directors are appointed by the General Shareholders' Meeting, or provisionally by the Board of Directors in accordance with the provisions contained in the Capital Companies Act and the company's bylaws.

The proposals to appoint directors that the Board of Directors puts to the General Shareholders' Meeting for its consideration, and the appointments decided by said Board by virtue of its legal empowerment to co-opt members, must follow the provisions of the Regulations of the Board of Directors and be proposed by the Nominating and Compensation Committee in the case of independent directors, and based on a prior report from said Committee in the case of all other types of directors.

1. Appointment of external directors

The Regulations of the Board of Directors make special mention of the selection and appointment of external directors, due to their unique characteristics compared to executive directors.

The Board of Directors and the Nominating and Compensation Committee have a duty to ensure, within the scope of their respective competencies, that the election of candidates falls on people with a solid reputation, proven skills and experience, and who are prepared to dedicate a sufficient part of their time to the Company, taking the utmost care in choosing people who may be selected to be independent directors.

The basic characteristics of the appointment of the aforementioned external directors are briefly explained below:

1.1 Proprietary Directors

Proprietary Directors are directors that represent or that have a shareholding in the Company that is greater than or equal to what is legally considered significant, or that may have been appointed due to their status as shareholders even though their shareholding does not reach the legally established amount.

For the purposes of this definition, it shall be assumed that a director represents a shareholder when:

a) The director has been appointed by means of the shareholder's right to representation.

b) The person is a director, senior manager, employee or regular service provider of this shareholder, or to companies belonging to the same group.

c) The company documentation states that the shareholder accepts that the director has been appointed by it or represents it.

d) The director is a spouse, a person connected to the shareholder by a similar level of affinity, or a relative of up to the second degree of kinship of a significant shareholder.

2.2 Independent Directors

Independent directors are considered to be those directors appointed because of their personal and professional attributes, who can perform their duties without being influenced by relations with the company, its significant shareholders or its managers.

The following people may not qualify as independent directors under any circumstances:

a) Those that have been employees or executive directors of companies in the group, unless 3 or 5 years have passed, respectively, since the relationship was terminated.

b) Those that receive any amount or benefit for a concept other than the remuneration for being a director, from the company or its group, unless the amount or benefit is insignificant.

   For the purposes of this section, neither the dividends nor supplementary pension that the director receives in relation to his/her former professional or employment relationship shall be taken into account, provided that such additional payments are not contingent and as a result, the Company that pays them cannot suspend, modify or revoke their payment without being in breach of its obligations.

c) Those that are, or have been, during the last three years, a partner in the external auditor's firm or responsible for the audit report, whether in relation to the audit of the listed company during this period, or of any other company in its group.

d) Those that are executive directors or senior managers of another company in which an executive director or senior manager of the Company is an external director.

e) Those that maintain, or have maintained during the last year, a significant business relationship with the Company or with any Company in its group, whether on their own behalf or as a significant shareholder, director or senior manager of an entity that has or has had this relationship.

   Business relations are defined as the supply of goods or services, including financial or advisory services, or consultancy.

f) Those that are significant shareholders, executive directors or senior managers of an entity that receives, or has received during the last three years, significant donations from the Company or its group.

   People or entities that have solely been patrons of a foundation that receives donations shall not be included in this section.

g) Those that are spouses, persons connected by a similar type of affinity, or relative of up to of the second degree of kinship of an executive director or senior manager of the Company.

h) Those that have not been proposed, whether for appointment or renewal, by the Appointments Committee.

i) Those that are in any of the situations indicated in points a), e), f) or g) of this article in relation to another significant shareholder or representative on the Board. In the case of being a relation as indicated in letter g), the limitation shall not only apply in connection with the shareholder, but also with its proprietary directors in the investee company. Proprietary directors that cease to be entitled to their position as a result of the sale of the shareholder's stake they represent may only be re-elected as independent directors when the shareholder they represented until this time has sold all of its shares in the Company.

In order to establish a reasonable balance between both types of external directors, the Board shall use the ownership structure of the Company as a basis to ensure that the relation between each type of director reflects the relationship between stable and floating capital.

2. Appointment of the Chairman and the Chief Executive Officer of the Company

The Executive Chairman, or in the absence of this position, the Chief Executive Officer, shall be the chief executive of the Company and as a result, their appointment or renewal shall include the delegation, when so agreed, of all powers and competencies of the Board that can be legally delegated, and they shall be responsible for the effective management of the businesses of the Company, always in accordance with the decisions and criteria set by the General Shareholders' Meeting and the Board of Directors.

The Executive Chairman, or in the absence of this position, the Chief Executive Officer, shall have the power to execute the resolutions of the Board and, as applicable, those of the Management Committee, both of which they permanently represent with the broadest powers, being able to adopt the measures that they judge to be appropriate in the interests of the Company, in cases of emergency.

3. Appointment of the Vice-Chairman of the Board

The Board may elect one or more Vice-chairmen (executive or otherwise) from among the directors to substitute the Chairman in cases of delegation, absence or illness, and in general in all cases, functions and attributes considered appropriate by the Board or by the Chairman themselves.

The Chairman shall be substituted by one of the Vice-chairman entrusted with executive functions in the Company, or in the absence of such a Vice-chairman, by the oldest Vice-chairman.

4. Appointment of Secretary of the Board

The appointment and dismissal of the Secretary shall be proposed by the Appointments Committee and approved by a plenary session of the Board.

5. Duration of mandate

Directors shall exercise their position for a period of three years.

However, directors appointed by co-optation shall hold their position until the date of the next meeting of the General Shareholders' Meeting.

Directors that arriving at the end of their mandate, or that for any other reason cease to hold their position, may not provide their services to another entity that has a similar or equivalent corporate purpose to the Company or to any of the companies in its group, for a period of two years.

The Board of Directors, if it so decides, may release the outgoing director from this obligation or reduce its applicable period.

Proposals to re-elect directors put before the General Shareholders' Meeting by the Board of Directors must be subject to a formal procedure, which must include a report issued by the Nominating and Compensation Committee that evaluates the quality and dedication of the proposed directors to the position during their mandate.

The Nominating and Compensation Committee is the competent body for reviewing the criteria that must be followed regarding the composition of the Board of Directors and the selection of candidates.

The Board shall annually evaluate the quality and effectiveness of the functioning of the Board, based on a prior report from the Nominating and Compensation Committee, as well as the performance of the Chairman and/or Chief Executive Officer of the Company.

Removal of Directors

Directors shall step down from their position when the period for which they were appointed has expired or when agreed by the General Shareholders' Meeting based on the powers legally attributed to it.

Members of the Board of Directors must surrender their position to the Board and agree to the corresponding resignation in the following circumstances:

a) When they reach 70 years of age. Any Directors performing executive functions shall stand down when they reach 65 years of age, though they may continue holding the office of Director, should the Board so resolve. In such cases, removal from office shall come about at the first Board meeting held after the General Shareholders' Meeting approving the accounts for the financial year in which the Director reaches the age limit.

b) When they are removed from the executive offices with which their appointment as a Director was associated or where the reasons for which they have been appointed are no longer valid. It shall be construed that such a circumstance comes about for a Proprietary Director when the entity or business group said Director represents ceases to hold a significant shareholding in the Company's share capital or when, in the case of an independent Director, they become an executive of the Company or of any of its subsidiaries.

c) Where they are subject to any incapacity, disqualification, prohibition or conflict of interests, which shall be construed to include the aforementioned circumstance, set forth in Article 11.3 of the Board Regulations.

   All those directly or indirectly holding interests of any type or that have an employment, professional or mercantile relationship, or relations of any other type with competitor companies, shall be considered as incompatible for the position of director, except when the Board of Directors, with a favourable vote of at least 70% of its members, agrees to set aside this condition.

d) Where they are seriously reprimanded by the Nominating and Compensation Committee for failing to comply with one of more of their obligations as Directors.

e) When their permanence on the Board may affect the Company's good standing or reputation in the market or jeopardise its interest in any other way whatsoever.

B.1.20 State the cases in which directors are obliged to resign.

Directors shall step down when the period for which they were appointed comes to an end or when agreed by the General Shareholders' Meeting based on the powers legally attributed to it.

Members of the Board of Directors must surrender their position to the Board and agree to the corresponding resignation in the following cases:

a) When they reach the 70 years of age. Any Directors performing executive functions shall stand down when they reach 65 years of age, though they may continue holding the office of Director, should the Board so resolve. In such cases, removal from office shall come about at the first Board meeting held after the General Shareholders' Meeting approving the accounts for the financial year in which the Director reaches the age limit.

b) When they are removed from the executive offices with which their appointment as a Director was associated or where the reasons for which they have been appointed are no longer valid. It shall be construed that such a circumstance comes about for a Proprietary Director when the entity or business group said Director represents ceases to hold a significant shareholding in the Company's share capital or when, in the case of an independent Director, they become an executive of the Company or of any of its subsidiaries.

c) Where they are subject to any incapacity, disqualification, prohibition or conflict of interests, which shall be construed to include the aforementioned circumstance, set forth in Article 11.3 of the Board Regulations.

All those directly or indirectly holding interests of any type or that have an employment, professional or mercantile relationship, or relations of any other type with competitor companies, shall be considered as incompatible for the position of director, except when the Board of Directors, with a favourable vote of at least 70% of its members, agrees to set aside this condition.

d) Where they are seriously reprimanded by the Nominating and Compensation Committee for failing to comply with one of more of their obligations as Directors.

e) When their permanence on the Board may affect the Company's good standing or reputation in the market or jeopardise its interest in any other way whatsoever.

B.1.21 Explain whether the post of Chief Executive Officer of the company is also held by the chairman of the Board. If so, state the measures that have been taken to limit the risks of concentrating powers in a single person:

YES

Measures to limit risks
Article 17 of the Regulations of the Board of Directors state that the Executive Chairman shall hold the position of Chief Executive Officer of the Company [.], who shall be responsible for the effective management of the businesses of the Company, always in accordance with the decisions and criteria set by the General Shareholder's Meeting and the Board of Directors. As a result, the decisions of the Chairman shall be subject to and controlled by the General Shareholders' Meeting and the Board of Directors in all cases. Similarly, all resolutions and decisions of special relevance to the Company must be previously approved by the Board of Directors or the corresponding control committee. Furthermore, certain resolutions can only be adopted upon receipt of the reports and proposals drawn up by different Board committees. In addition, the Regulations of the Board (Article 21.2) empower directors to ask the Chairman to include items on the agenda, and the Chairman is obliged to include these when the request has been made at least ten days prior to the date set for the meeting and is accompanied by the relevant documentation needed for said items to be communicated to the other members of the Board. Lastly, it should be expressly noted that when the Chairman of the Board is also the Chief Executive Officer of the company, the Board shall appoint one of the independent directors to coordinate and represent the concerns of the external directors and to oversee the evaluation of the Chairman by the Board (Article 21.5 of the Regulations of the Board).

State and explain, as applicable, whether rules have been established to authorise one of the independent directors to call meetings of the Board or to include new points on the agenda, in order to coordinate and represent the concerns of the external directors, and to oversee evaluation by the Board.

YES

Explanation of the rules
Article 21 of the Regulations of the Board (Article 21.2) empowers directors to ask the Chairman to include items on the agenda, and the Chairman is obliged to include these when the request has been made at least ten days prior to the date set for the meeting and is accompanied by the relevant documentation needed for said items to be communicated to the other members of the Board, Likewise, when the Chairman of the Board is also the Chief Executive Officer of the company, the Board shall appoint one of the independent directors to coordinate and represent the concerns of the external directors and to oversee the evaluation of the Chairman by the Board.

B.1.22 Are reinforced majorities, different from legal majorities required for any type of decision?

YES

State how resolutions of the Board of Directors are adopted, indicating at least the minimum quorum and the type of majority required to pass resolutions:

Description of the resolution:
For any resolution, other than the above

Quórum	%
Half plus one of the members of the Board of Directors.	51.00

Type of majority	%
Absolute majority of those attending	51.00

Description of the resolution:
Appointments of directors that directly or indirectly hold interests of any type or that have an employment, professional or mercantile relationship, or relations of any other type with competitor companies.

Quorum	%
Half plus one of the members of the Board of Directors.	51.00

Type of majority	%
70% of its members	70.00

B.1.23 State whether there are specific requirements, other than those relating to directors, in order to be appointed Chairman.

NO

B.1.24 State whether the Chairman has the casting vote:

YES

Matters on which there is a casting vote
Resolutions will be passed by absolute majority of the votes of the directors attending the meeting. In the event of a tie, the Chairman, or the Vice-chairman substituting them, shall have the casting vote.

B.1.25 State whether the bylaws or the regulations of the Board establish any limit on the age of directors:

YES

Age limit Chairman	Age limit Executive Director	Age limit director
65	65	70

B.1.26 State whether the bylaws or the regulations of the Board establish a limited mandate for independent directors:

NO

Maximum number of years	0

B.1.27 In the event of few or no female directors, explain the reasons and initiatives taken to correct this situation.

Explanation of the reasons and initiatives
NH Hoteles, S.A. currently has two female directors who were appointed in 2009. In all cases, the Nominating and Compensation Committee has been expressly assigned the role of ensuring that the selection procedure does not suffer from any implicit bias that hamper the selection of female directors, and that women that fulfil the professional profile sought are included among potential candidates (Article 26.b of the Regulation).

In particular, Indicate whether the Nominating and Compensation Committee has established procedures to ensure that the selection processes do not suffer from any implicit bias that hamper the selection of female directors, and deliberately seeks candidates that match the profile required:

YES

State the main procedures
Article 26.b) of the Regulations expressly establishes that the Nominating and Compensation Committee shall be responsible, among other duties, for reporting on the proposals to appoint and dismiss directors and senior managers of the Company and of its subsidiaries. In the case of vacancies on the Board of Directors, the Nominating and Compensation Committee shall ensure that the selection procedure does not suffer from any implicit bias that hampers the selection of female directors, and that women that fulfil the professional profile sought are included among potential candidates.

B.1.28 State whether there are formal processes for delegating votes in the Board of Directors. If so, describe them here.

Article 22 of the Regulations of the Board of Directors states that directors must attend Board meetings in person. In exceptional cases when this is not possible, they shall ensure that any representation conferred on another member of the Board includes, as far as possible, the appropriate instructions. Said delegations may be made in writing or by any other means that ensures the truth and validity of the representation in the Chairman's opinion.

B.1.29 State the number of meetings that the Board of Directors has held during the year. Also indicate, as applicable, the number of times that the Board has met without its chairman attending:

Number of Board meetings	13
Number of Board meetings not attended by the Chairman	0

State the number of meetings that the various committees attached to the Board have held during the year:

Number of meetings of the executive or delegate committee	0
Number of meetings of the Audit Committee	8
Number of meetings of the Nominating and Compensation Committee	11
Number of meetings of the Nominating Committee	0
Number of meetings of the Compensation Committee	0

B.1.30 State the number of meetings that the Board of Directors has held during the year without the attendance of all of its members. The calculation of non-attendance includes representations made without specific instructions:

Number of non-attendances by directors during the year	9
Non-attendances as a percentage of total votes during the year	9.900

B.1.31 State whether the individual and consolidated financial statements that are presented to the Board to be approved are certified in advance:

NO

Identify, as applicable, the person(s) that have certified the Company's individual and consolidated financial statements to be drafted by the Board:

B.1.32 Explain, if applicable, the mechanisms established by the Board of Directors to prevent the individual and consolidated financial statements drafted by it from being submitted to the General Shareholder's Meeting with qualifications in the audit report.

Article 40.2 of the Regulations of the Board establishes that the Board of Directors shall try to definitively prepare the financial statements so that there are no auditor qualifications. Nevertheless, when the Board considers that its criteria should remain unchanged, it shall publicly explain the content and scope of the discrepancies.

B.1.33 Is the Secretary of the Board also a director?

NO

B.1.34 Explain the procedures for appointing and removing the Secretary of the Board, indicating if the appointment and removal have been reported by the Nominating and Compensation Committee and approved by a plenary session of the Board.

Appointment and removal procedure
In accordance with Article 19.4 of the Regulations of the Board, the appointment and removal of the Secretary shall be reported by the Appointments Committee and approved by a plenary session of the Board.

Does the Nominating and Compensation Committee notify the appointment?	YES
Does the Nominating and Compensation Committee notify the removal?	YES
Is the appointment approved by a plenary session of the Board?	YES
Is the removal of the Secretary approved by the Board?	YES

Is the Secretary of the Board responsible for specifically monitoring the recommendations on good governance?

YES

Comments
As indicated in Article 19.3 of the Regulations of the Board, in all cases the Secretary shall ensure the formal and material legality of the actions of the Board and shall ensure that its procedures and rules of governance are respected.

B.1.35 State, if applicable, the mechanisms established by the Company to preserve the independence of the auditor, the financial analysts, the investment banks and the ratings agencies.

The Board of Directors has established a stable and professional relationship with the Company's external accounts auditor through the Audit and Control Committee, strictly respecting its independence. Accordingly, the Audit and Control Committee monitors any situations that may jeopardise the independence of the Company's external auditors, and in particular supervises the percentage of the total revenues of the audit firm the fees paid for this service represent. Article 25 b.6) therefore states that the Audit and Control Committee is responsible, among other matters, for, "Maintaining contact with the accounts auditor in order to receive information about those matters that may jeopardise the independence of the auditor, and any other issues related to the process of auditing the financial statements, as well as receiving information and communicating with the accounts auditor as required by audit legislation and technical audit regulations".

In addition, the Audit and Control Committee shall ensure the independence and efficiency of the internal audit function, proposing the selection, appointment, re-election and dismissal of the manager of the internal audit service. Likewise, it shall be responsible for proposing the budget of the Internal Audit Department and for receiving periodic information about its activities, as well as verifying that senior management takes into consideration the conclusions and recommendations of its reports. Lastly, the Committee shall supervise the drafting process and the integrity of the financial information relating to the Company and, as appropriate, to the group, reviewing compliance with regulatory requirements, the appropriate scope of consolidation and the correct application of accounting criteria.

B.1.36 State whether during the year the Company has changed its external auditor. If so, please identify the incoming and outgoing auditors:

NO

Outgoing auditor	Incoming auditor

In the event that there were disagreements with the outgoing auditor, explain the content of the disputes:

NO

B.1.37 State whether the audit firm carries out other work for the company and/or its group other than audit work and if so, state the total fees paid for such work and the percentage this represents of the fees billed to the company and/or its business group:

YES

	Company	Group	Total
Amount from other work other than audit work (thousands of euros)	537	414	951
Amount for work other than audit work / Total amount invoiced by the audit firm (%)	27,400	21,120	24,260

B.1.38 State whether the audit report of the financial statements for the previous year included qualifications or reservations. If so, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of these qualifications or reservations.

NO

B.1.39 State the number of consecutive years that the current audit firm has carried out the audit of the financial statements of the company and/ or its group. Furthermore, indicate how many years the current audit firm has been auditing the accounts as a percentage of the total number of years over which the annual accounts have been audited.

	Company	Group
Number of consecutive years	9	9

	Company	Group
Number of years audited by the current audit firm / Number of years that the company has been audited (%)	37.5	37.5

B.1.40 State the shareholdings held by members of the Board of Directors of the Company in the capital of entities engaged in the same, similar or complementary activity as the Company's corporate purpose, both in relation to the Company and its group, insofar as these have been communicated to the Company. Also, state the positions held or functions exercised in these companies:

Name or company name of director	Name of the investee company	% shareholding	Position or duties
MR GABRIELE BURGIO	MOLA 15, S.L.	10.000	NONE
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	HOTEL ALAMEDA VALENCIA, S.L.	100.000	NONE
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	HOTEL BARCELONA GOLF,S.A.	17.480	NONE
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	GRAN HOTEL XIRIVELLA, S.L. UNIPERSONAL	48.620	NONE
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	PLAYA HOTELS RESORTS, S.L.	7.240	NONE
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	PROHORESA	29.930	NONE
MR FRANCISCO JAVIER ILLA RUIZ	HOTELES Y GESTIÓN, S.A.	1.086	NONE
MR FRANCISCO JAVIER ILLA RUIZ	HOTEL COMTAT DE VIC, S.A.	23.500	NONE
GRUPO INVERSOR HESPERIA, S.A	CENTURION PLAYA, S.A.	65.950	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	HOTELES ALMERIA, S.A.	66.290	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	INFOND, S.A.	89.520	JOINT & SEVERAL DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	HOTEL COLIBRI, S.A.	100.000	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	GERENCIAS Y SERVICIOS TURISTICOS, S.A.	85.490	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	CORDOBATEL, S.A	65.470	DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	HOTEL FONTORIA, S.A.	100.000	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	PLAYA DEL OESTE, S.A.	58.280	DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	HOTELS HESPERIA ANDORRA, S.A.	99.990	NONE
GRUPO INVERSOR HESPERIA, S.A	HOTEL CONDE DE ARANDA, S.A.	100.000	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	DESARROLLO TURISTICO ISLA BONITA, C.A.	100.000	NONE
GRUPO INVERSOR HESPERIA, S.A	HOTELERA SAN JUST, S.A.	84.730	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	HOTELERA METROPOL, S.A.	85.820	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	HOTELERA DEL NOROESTE, S.A.	100.000	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	HOTELERA DEL TORMES, S.A.	100.000	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	HOTELERA PASEO DE GRACIA, S.A.	100.000	JOINT & SEVERAL DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	HOTELERA DEL ESTE, S.A.	100.000	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	HOTELERA SALVATIERRA, S.A.	100.000	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	BERCUMA, S.L.	86.280	JOINT & SEVERAL DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	DESJUST, S.L.	100.000	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	BRISTOL SERVICES, S.L.	100.000	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	HOTEL HESPERIA MADRID, S.L.	100.000	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A	INVERSIONES HMR, C.A.	35.700	NONE
GRUPO INVERSOR HESPERIA, S.A	HESPERIA AMSTERDAM, B.V.	100.000	NONE
GRUPO INVERSOR HESPERIA, S.A	CORPORACIÓN HOTELERA HEMTEX, S.A.	100.000	NONE
GRUPO INVERSOR HESPERIA, S.A	HESPERIA VICTORIA UK LIMITED	100.000	NONE
GRUPO INVERSOR HESPERIA, S.A	BONANOVA SQUACH GARDEN, S.A.	100.000	SOLE DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	INVERSORA DE HOTELES VACACIONALES, S.A.	25.000	NONE

B.1.41 State whether there is a procedure by which directors may access external advice. If so, describe said procedure:

YES

Description of the procedure
Article 28 of the Regulations of the Board of Directors expressly states that directors may request the use of legal, accounting or financial advisers, or other experts, paid for by the Company, to help them in the discharge of their duties. Such help must relate to specifically defined and complex problems that arise in the course of their work.

B.1.42 State whether there is a procedure by which directors may access the information required to prepare for the meetings of the administrative bodies with sufficient time. If so, describe said procedure:

YES

Description of the procedure
Article 27 of the Regulations of the Board establishes the rights and duties of the members of the Board of Directors regarding receiving or providing information. The regulations state that all directors have the right and obligation to obtain any information that that they deem necessary or appropriate at any given time to correctly discharge their duties. To this end, the Board has been assigned the broadest possible powers to gain information about any aspect of the Company; to examine its books, registers and documents and any other information concerning its operations that may be necessary or appropriate for the diligent exercise of its duties. This right to information also extends to the different subsidiaries that comprise the consolidated group, and must always being exercised in good faith.

B.1.43 State whether the company has established rules that require directors to report and, as applicable, resign in those cases where company's credibility and reputation may be harmed. If so, describe said rules:

YES

Explain the rules
Article 14.2.e) of the Regulations of the Board of Directors of NH Hoteles, S.A. expressly establishes that directors must present their resignation "When their permanence on the Board may affect the Company's good standing or reputation in the market or jeopardise its interest in any other way whatsoever. It also establishes that in all events, those subject to any incapacity, disqualification, prohibition or conflict of interests set forth in current legislation may not be put forward as Board members.

B.1.44 State whether any member of the Board of Directors has notified the Company that they have been prosecuted or issued with a summons for oral proceedings in relation to the offences indicated in Article 124 of the Spanish Public Limited Companies Act:

NO

State whether the Board of Directors has studied the case. If so, explain and give the reasons for the decision taken regarding whether the director continues or not in their position.

NO

Decision made	Explanation

B.2. Committees attached to the Board of Directors

B.2.1 List all the committees attached to the Board of Directors and their members:

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Type
MR GABRIELE BURGIO	CHAIRMAN	CHIEF EXECUTIVE OFFICER
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	MEMBER	PROPRIETARY DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	MEMBER	PROPRIETARY DIRECTOR

AUDIT COMMITTEE

Name	Position	Type
MR ANTONIO VIANA BAPTISTA	CHAIRMAN	INDEPENDENT
HOTELES PARTICIPADOS, S.L.	MEMBER	PROPRIETARY DIRECTOR
MR IÑAKI ARRATÍBEL OLAZIREGI	MEMBER	PROPRIETARY DIRECTOR
MR JUAN LLOPART PEREZ	MEMBER	PROPRIETARY DIRECTOR

NOMINATING AND COMPENSATION COMMITTEE

Name	Position	Type
MRS. NURIA ITURRIAGAGOITIA RIPOLL	CHAIRMAN	INDEPENDENT DIRECTOR
MR FRANCISCO JAVIER ILLA RUIZ	MEMBER	PROPRIETARY DIRECTOR
MR JOSE DE NADAL CAPARÁ	MEMBER	INDEPENDENT DIRECTOR

B.2.2 Indicate whether the following duties correspond to the Audit Committee.

Supervise the drafting process and integrity of the financial information relating to the Company and, as applicable, to the group, reviewing compliance with regulatory requirements, the appropriate scope of consolidation and the correct application of accounting criteria.	YES
Periodically review the internal control and risk management systems so that the main risks are identified, managed and made known.	YES
Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, re-election and removal of the manager of the internal audit service; propose the budget for this service; receive periodic information about its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.	YES
Establish and supervise a mechanism that allows employees to confidentially, and where applicable anonymously, communicate potential irregularities, particularly financial and accounting, which they discover within the company.	YES
Present to the Board of Directors proposals to select, appoint, re-elect and substitute the external auditor, as well as the conditions of its contract.	YES
Receive information about the audit plan and its results from the external auditor on a regular basis and verify that senior management takes its recommendations into account.	YES
Ensure the independence of the external auditor.	YES
In the case of groups, encourage the group auditor to take responsibility for the audits of the companies that comprise it.	YES

B.2.3 Give a description of the rules governing the organisation and functioning, as well as the responsibilities of each committee attached to the Board.

Committee name NOMINATING AND COMPENSATION COMMITTEE

Short description

a) Composition

The Nominating and Compensation Committee shall comprise a minimum of three and a maximum of five directors. All members of the Committee shall be non-executive directors and the majority of its members must be independent directors.

The Chairman of the Nominating and Compensation Committee must be an independent director and be appointed by the Committee itself from among its members.

b) Competences

The Nominating and Compensation Committee shall have the following duties, notwithstanding any other tasks that may be assigned to it by the Board of Directors:

- Report on proposals to appoint and dismiss directors and senior managers of the Company and its subsidiaries. In the case of vacancies arising on the Board of Directors, the Nominating and Compensation Committee shall ensure that the selection procedure does not suffer from any implicit bias that may hamper the selection of female directors and that women that fulfil the professional profile sought are included among the potential candidates.
- Approve the remuneration scales applied to senior managers of the Company.
- Approve the standard contracts applied to senior managers.
- Determine the remuneration scheme applied to the Chairman and, as applicable, the Chief Executive Officer.
- Examine and organise, as required, the succession of the Chairman and Chief Executive Officer and submit proposals to the Board, as applicable, to ensure that any succession occurs in an orderly and well-planned manner.
- Propose the remuneration scheme applied to members of the Board of Directors and periodically review them to ensure they are suitable for the tasks carried out by them, in accordance with Article 35 of these regulations.
- Report on incentive plans.
- Carry out an annual review of the remuneration policy applied to directors and senior managers.
- Report on the proposals to appoint members of the Executive Committee and the other committees attached to the Board of Directors.
- Prepare and maintain a register of the positions of directors and senior managers of the Company; and
- Perform any other duties that may be assigned to it under these regulations.

The Board of Directors shall be informed of all the tasks carried out by the Nominating and Compensation Committee during its first meeting, and in all events the corresponding documentation shall be made available to the Board so that it can take these actions into consideration when performing its duties.

c) Functioning

The Committee shall meet as often as considered necessary by its Chairman, or when requested by two of its members or the Board of Directors.

Committee name: EXECUTIVE OR DELEGATE COMMITTEE

Short description

a) Composition

The Executive Committee shall comprise the Chairman of the Board and at least three but no more than nine directors, appointed by the Board of Directors.

In terms of the qualitative composition of the Executive Committee, the Board shall ensure that the different types of director represented will be similar to that of the main Board and its secretary will be the secretary of the Board.

In all events, the valid appointment or re-election of members of the Executive Committee shall require the favourable vote of at least two thirds of the members of the Board of Directors.

b) Functioning

The Executive Committee shall meet as many times as called by its chairman.

The Chairman and Secretary of the Board of Directors shall perform the same functions in the Executive Committee, although one or more Vice-chairmen and a Vice-secretary may also be appointed. The Executive Committee shall be validly convened when half plus one of the members are present or represented at the meeting.

Resolutions shall be passed by a majority of the directors at the meeting (in person or represented), with the Chairman holding the casting vote in the event of a tie.

c) Relationship with the Board of Directors

The Executive Committee shall notify the Board of the matters discussed and the decisions made at its meetings.

This Committee is currently inactive, pending a meeting to decide its new composition.

Committee name: AUDIT COMMITTEE

Short description

a) Composition

The Audit and Control Committee shall comprise a minimum of three and a maximum of five directors, appointed by the Board of Directors. All members of the Committee must be external or non-executive directors.

Members of the Audit and Control Committee, particularly its Chairman, shall be appointed on the basis of their knowledge and experience in accountancy, auditing or risk management.

The Chairman of the Audit and Control Committee must be an independent director and be appointed from among its non-executive members. The Chairman must also be replaced every four years; previous chairmen may be re-elected one year after their previous mandate has ended.

b) Competences.

The primary function of the Audit and Control Committee, notwithstanding any other task that the Board of Directors may assign it, shall be to support the Board in its supervisory duties, specifically:

- Report at the General Shareholders' Meeting, through its Chairman, on the issues that shareholders may raise in relation to the Committee's area of competence.

- Propose to the Board of Directors the appointment of the accounts auditor as referred to in Article 204 of the Spanish Public Limited Companies Act, to be put to the General Shareholders' Meeting, together with, as applicable, the conditions of its contract, the scope of its professional mandate and the termination or renewal of its appointment.

- Monitor the independence and the efficacy of the internal audit function; propose the selection, appointment, re-election and removal of the manager of the internal audit service; propose the budget for this service; receive periodic reports on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

- Supervise the drafting and integrity of the financial information relating to the Company and, as appropriate, to the group, reviewing compliance with regulatory requirements, the appropriate scope of consolidation and the correct application of accounting criteria.

- Establish and supervise a mechanism that allows employees to confidentially and if necessary anonymously communicate potentially important irregularities, particularly of a financial and accounting nature, which they discover within the Company.

- Maintain contact with the accounts auditor in order to receive information on matters that may jeopardise the independence of the auditor, and any other issues related to the process of auditing the financial statements, as well as receiving information and establishing communications with the accounts auditor required under accounts auditing legislation and technical audit regulations.

- Supervise compliance and internal codes of conduct as well as rules of corporate governance.

- Report to the Board on the financial information that the Company must periodically publish as a listed company before it adopts the corresponding decisions.

- Report to the Board on all matters concerning related-party transactions, defined by the prevailing Public Limited Companies Act (Art. 127ter, LSA).

- Report to the Board on the creation or acquisition of shareholdings in special purpose vehicles or entities registered in countries or territories considered as tax havens, as well as any other similar transactions or operations that, due to their complexity, could affect the transparency of the group.

- Perform any other duties assigned to the Committee by these regulations or assigned by the Board of Directors.

c) Organisation

The Audit and Control Committee shall meet at least once every quarter and as often as considered necessary by its Chairman, or when requested by two of its members or the Board of Directors.

The Audit and Control Committee may summon any employee or manager of the Company, and also the Company's accounts auditor, to attend its meetings.

B.2.4 State the powers that each committee has to advise, consult and, as applicable, to delegate:

Committee name: NOMINATING AND COMPENSATION COMMITTEE

Short description

- Report on proposals to appoint and dismiss directors and senior managers of the Company and its subsidiaries. In the case of vacancies arising on the Board of Directors, the Nominating and Compensation Committee shall ensure that the selection procedure does not suffer from any implicit bias that may hamper the selection of female directors and that women that fulfil the professional profile sought are included among the potential candidates.

- Approve the standard contracts for senior managers; determine the remuneration scheme of the Chairman and, as applicable, the Chief Executive Officer.

- Examine and organise, as required, the succession of the Chairman and Chief Executive Officer and make proposals to the Board, as appropriate, so that any succession occurs in an orderly and well planned manner.

- Propose the remuneration scheme for directors to the Board of Directors and periodically review it to ensure it is suitable for the functions performed by them, in accordance with Article 35 of these regulations. Report on incentive plans.
- Carry out an annual review of the remuneration policy applied to directors and senior managers.
- Report on the proposals to appoint members of the Executive Committee and the other committees attached to the Board of Directors.
- Prepare and maintain a register of the positions of directors and senior managers of the Company, and perform any other functions that may be assigned to this Committee in these regulations.

Committee name: EXECUTIVE OR DELEGATE COMMITTEE

Short description

General decision-making capacity and, consequently, with express delegation of all the powers corresponding to the Board of Directors, except those that cannot be delegated by law or the Company's bylaws.The Board of Directors may also entrust the Executive Committee with additional responsibilities.

Committee name: AUDIT COMMITTEE

Short description

The primary function of the Audit Committee shall be to support the Board of Directors in its supervisory duties using all the powers granted to it under the Spanish Public Limited Companies Act (LSA), the Company Bylaws, and the Regulations of the Board of Directors in relation to audit and control.

B.2.5 Indicate, as applicable, the existence of the regulations governing the committees attached to the Board, where they are available for consultation and any amendments that have been made to them during the year. Also state whether an annual report on the activities of each committee has been voluntarily drafted.

Committee name: NOMINATING AND COMPENSATION COMMITTEE

Short description

The Regulations of the Board of Directors include an detailed list of all the rules relating to the composition, organisation and competencies of the Nominating and Compensation Committee (Article 26 of the Regulations).

The aforementioned regulations are permanently available on the website of NH Hoteles, S.A.

On 23 January 2007, the Board of Directors approved a new text of the Regulations of the Board of Directors, primarily to include the recommendations of the Unified Code of Good Governance insofar as they affect the organisation and competencies of the Nominating and Compensation Committee.

Subsequently, on 22 April 2008, the text of the regulations was partially modified again in order to adapt them to the Conthe Code. These modifications included an amendment to introduce a new section in Article 26, b) 1, which expressly includes the competence of the Nominating and Compensation Committee to ensure that the selection procedure does not suffer from any implicit bias that hampers the selection of female directors and that women that fulfil the professional profile sought are included among potential candidates.

Additionally, reports on the activities carried out by the Audit and Control Committee as well as by the Nominating and Compensation Committee are approved annually.

Committee name: EXECUTIVE OR DELEGATE COMMITTEE

Short description

Regulations governing the composition, organisation and competencies attributed to the Executive Committee are expressly included in Articles 23 and 24 of the Regulations of the Board. The Regulations of the Board can be consulted at any time on the website of NH Hoteles, S.A, under the section 'Shareholder Information'.

On 23 January 2007, the Board of Directors approved a new text of the Regulations of the Board of Directors, principally to incorporate the recommendations contained in the Unified Code of Good Governance. No modifications relating to the regulation and organisation of the Executive Committee were approved during 2008.

Committee name: AUDIT COMMITTEE

Short description

Article 25 of the Regulations of the Board of Directors governs everything relating to the composition, organisation and competencies attributed to the Audit and Control Committee.

The aforementioned regulations are published on the website of NH Hoteles, S.A, www.nh-hotels.com, in the section on 'Shareholder Information'.

On 23 January 2007, the Board of Directors approved a new text of the Regulations of the Board of Directors in order to adapt them to the recommendations contained in the Unified Code of Good Governance. These amendments included the modification of Article 25, with a text that faithfully reflects the recommendations contained in the Unified Code of Good Governance relating to the composition, organisation and competencies attributed to the Audit Committee. No new modifications have been made that may affect the regulations of this Committee during the past year.

Moreover, reports on the activities carried out by the Audit and Control Committee are approved annually.

B.2.6 State whether the composition of the executive committee reflects the participation on the Board of different categories of directors:

NO

If not, explain the composition of its executive committee
To date, the Executive Committee has not met in order to take decisions relating to its new composition.

C - RELATED-PARTY TRANSACTIONS

C.1 Indicate whether the plenary session of the Board is empowered to approve the transaction that the company carries out with directors, significant shareholders or representatives on the Board, or with parties related to them, following receipt of a favourable report from the Audit Committee or any other committee entrusted with this task:

YES

C.2 Describe the relevant operations that involve a transfer of assets or liabilities between the Company or entities in its group and the Company's significant shareholders:

Name or company name of significant shareholder	Individual or name of the company or entity in its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	NH HOTELES, S.A.	CONTRACTUAL (Loan policy with a 27,500 limit)	Financing agreements, loans and capital contributions (borrower)	27,166
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	35,900
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	14,872
INTESA SANPAOLO, S.P.A.	GRANDE JOLLY, S.R.L.	CONTRACTUAL (Loan policy with a 5,500 limit)	Financing agreements, loans and capital contributions (borrower)	5,500
INTESA SANPAOLO, S.P.A.	GRANDE JOLLY, S.R.L.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	5,865
INTESA SANPAOLO, S.P.A.	JOLLY HOTEL HOLLAND NV	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	4,375
INTESA SANPAOLO, S.P.A.	JOLLY HOTELS USA, INC	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	2,087
INTESA SANPAOLO, S.P.A.	NH HOTELES, S.A.	CONTRACTUAL (Credit policy with a 15,000 limit)	Financing agreements, loans and capital contributions (borrower)	10,490
PONTEGADEA INVERSIONES, S.L.	LOS ALCORNOQUES DE SOTOGRANDE, S.L.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	5,546
PONTEGADEA INVERSIONES, S.L.	NH HOTEL RALLYE PORTUGAL LTD.	CONTRACTUAL	Leases	702
PONTEGADEA INVERSIONES, S.L.	NH HOTELES ESPAÑA, S.L.	CONTRACTUAL	Leases	8,987
PONTEGADEA INVERSIONES, S.L.	RESIDENCIAL MARLIN, S.L.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	14,960
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA (IBERCAJA)	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	3,322
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA (IBERCAJA)	NH HOTELES, S.A.	CONTRACTUAL (Loan policy with a 6,000 limit)	Financing agreements, loans and capital contributions (borrower)	5,215

C.3 List the relevant operations that involve a transfer of assets or liabilities between the Company or entities in its group and the Company's directors or managers:

Name or company name of the director or manager	Individual or name of the company or entity in its group	Nature of the operation	Type of operation	Amount (€ 000s)
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contribution (borrower)	23,479
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	NH HOTELES, S.A.	CONTRACTUAL (Loan policy with a 15,000 limit)	Financing agreements, loans and capital contribution (borrower)	14,872
MR GABRIELE BURGIO	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements: loans and capital contributions (lender)	8,305
GRUPO INVERSOR HESPERIA, S.A	HOTELES HESPERIA, S.L.	CONTRACTUAL	Management or partnership agreements	5,240
HOTELES PARTICIPADOS, S.L.	DESARROLLO INMOBILIARIO SANTA FE	CONTRACTUAL	Financing agreements, loans and capital contribution (borrower)	5,270
HOTELES PARTICIPADOS, S.L.	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contribution (borrower)	19,001
HOTELES PARTICIPADOS, S.L.	NH HOTELES, S.A.	CONTRACTUAL (Loan policy with a 1,000 limit)	Financing agreements, loans and capital contribution (borrower)	929
MR JESUS IGNACIO ARANGUREN GONZALEZ-TARRÍO	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements: loans and capital contributions (lender)	3,437
MR ROBERTO CHOLLET IBARRA	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements: loans and capital contributions (lender)	2,578
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contribution (borrower)	38,001
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	NH HOTELES, S.A.	CONTRACTUAL	Commitments acquired	56,282

C.4 Describe the relevant transactions carried out by the company with other companies belonging to the same group, provided they are not eliminated in the process of drafting the consolidated financial statements and do not form part of the normal business of the Company in relation to its purpose and conditions:

Corporate name of entity in its group: HARRINGTON HALL HOTEL LIMITED
Amount (thousands of euros) 10711
Short description of the transaction: LOAN

Corporate name of entity in its group: LOS ALCORNOQUES DE SOTOGRANDE, S.L.
Amount (thousands of euros): 5546
Short description of the transaction: LOAN

Corporate name of entity in its group: RESCO SOTOGRANDE, S.L.
Amount (thousands of euros): 169
Short description of the transaction: CURRENT ACCOUNT

Corporate name of entity in its group: RESIDENCIAL MARLIN, S.L.
Amount (thousands of euros): 1036
Short description of the transaction: PROVISION OF SERVICES

Corporate name of entity in its group: RESIDENCIAL MARLIN, S.L.
Amount (thousands of euros): 14960
Short description of the transaction: LOAN

Corporate name of entity in its group: RESIDENCIAL MARLIN, S.L.
Amount (thousands of euros): 698
Short description of the transaction: CURRENT ACCOUNT

C.5 State whether any of the members of the Board of Directors have found themselves in a conflict of interest during the year, according to Article 127 ter of the Spanish Public Limited Companies Act (LSA).

NO

C.6 Describe the mechanisms established to detect, determine and resolve possible conflicts of interest between the Company and/or its group, and their directors, managers or significant shareholders.

Article 32 of the Regulations of the Board includes the mechanisms to detect, determine and resolve possible conflicts of interest between the Company and/or its group, and their directors. The literal meaning of aforementioned article is that directors shall perform their duties with absolute loyalty to the interests of the Company.

Directors must therefore comply with the following obligations and requirements:

a) Directors may not use the name of the Company nor cite their position as directors in order to carry out transactions on their own behalf or on behalf of parties related to them.

b) Directors may not make investments or carry out transactions associated with the Company's assets, of which they have knowledge through the performance of their duties, for their own benefit or for the benefit of those related to them, when such transactions have been offered to the Company, or in which the Company has an interest, except when the Company has rejected them without the involvement of the director.

c) Directors may not make use of the Company's assets nor their position within the Company to their economic advantage unless an appropriate consideration has been made.

   If the benefit is received in their position as a shareholder, it shall only be deemed fair insofar as it respects the principle of the equal treatment of shareholders.

d) Directors must notify the Board of Directors of any direct or indirect situation of conflict of interest arising with the Company. In the case of a conflict, the affected director shall abstain from involvement in the transaction to which the conflict refers.

e) Directors shall abstain from voting on issues that affect matters in which they or those related to them have a direct or indirect interest.

f) No director may directly or indirectly carry out professional or commercial operations or transactions with the Company or with any of the companies in its group when said transactions do not form part of the ordinary business of the Company or are not carried out under market conditions, unless a prior report on them has been made to the Board of Directors, which in turn has received a prior report from the Nominating and Compensation Committee, and the Board approves the transaction with a favourable vote of at least 80% of the directors present or represented at the meeting.

g) Directors must notify the that they stake, or those related to them, hold in the capital of any company engaged in the same, similar or complementary type of activity as the corporate purpose of the Company, the position or functions that they hold in said companies, as well as their engagement on their own behalf or that of a third party in the same, similar or complementary types of activity as that of the corporate purpose.

The Board of Directors, at the proposal of the Nominating and Compensation Committee, may bar directors from holding significant positions in entities that compete with the Company or with any of the companies in its group.

For the purposes of the above, related parties are defined as those defined in Article 127 ter. 5 of the LSA.

Similarly, the Internal Code of Conduct establishes the duties and general loyalty commitment that directors and senior managers of the Company have agreed to make and that in general terms involve conflicts of interest, the rules of conduct regarding privileged information, the dissemination of relevant information and transactions with securities.

Likewise, the Audit and Control Committee is responsible for ensuring compliance with the internal codes of conduct, as well as the rules on corporate governance, among other issues.

C.7 Is more than one company in the Group listed in Spain?

YES

Identify the subsidiary companies listed:

Listed Subsidiary Company
SOTOGRANDE, S.A.

Indicate whether the respective areas of activity and the corresponding business relations between them have been publicly defined in detail, as well as the areas and relations of the listed subsidiary company with the other companies in the Group:

YES

Define any business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other companies in the group
The relationships derived from the management contracts that exist between the companies.

State the mechanisms created for resolving any conflicts of interest between the listed subsidiary and the other companies in the Group:

Mechanisms for resolving possible conflicts of interest
The mechanisms for resolving possible conflicts of interest that may arise between NH Hoteles, S.A. and the listed company that forms part of its group, Sotogrande, S.A., are defined by the Audit and Control Committees attached to the respective companies, which propose the corresponding solutions that are approved, as appropriate, by the Board of Directors of each company.

D - RISK CONTROL SYSTEMS

D.1 General description of the risk policy of the Company and/or its group, detailing and evaluating the risks covered by the system, together with an explanation of why these systems are appropriate for each type of risk.

The NH Group defines a global risk map for the Group as a basic tool for managing the risks to which it is exposed. This risk map was initially drawn up in 2007 and since then it has been updated annually with the collaboration of the different corporate departments of the Group. The principal purpose of the risk map is to provide the Group with an effective instrument for guarding against the possible occurrence of the risks identified.

The business risk control systems of the activities of Grupo NH Hoteles, S.A. can be classified in the following way:

- Control of financial risk

- Control of strategic development risk

- Control of business, operational and environmental risk

- Control of regulatory risk

- Other preventative procedures

1. Control system for financial risk

The group controls its financial risks using the following mechanisms:

1.1 Procedures Manual: The relevant operations carried out by the NH Hoteles Group are standardised through an internal procedures manual covering purchase cycles, asset management, treasury, end of month processes, etc. The regulations applicable to accounting matters for all national and foreign companies in the Group are also regulated.

1.2 Internal Audit: The Internal Audit Department carries out an on-going function that mainly focuses on identifying risk situations and evaluating their management. To this end it has defined an annual audit plan that aims to verify the correct application of the established rules and procedures, both at the level of corporate departments and for different hotels, among other objectives.

1.3 Audit Committee: The Audit Committee, reporting directly to the Board of Directors, is responsible for supervising the correct functioning of all the Group's internal control systems. It also periodically analyses the principal risks of the businesses and the systems established for their management and control. It is also the body responsible for relations with the Group's external auditors.

1.4 Centralised Management: The Group, through the Corporate Finance Department, implements a unified, centralised management policy based on non-speculative criteria to control financing policies, interest rates and exchange rates.

2. Strategic Risk Control Systems

2.1 The NH Hoteles Group has a team of professionals that analyse strategic opportunities of various types. This team selects the alternatives best aligned with the Group's global strategy and submits them to the Expansion and Management Committee, and subsequently to the Executive Committee and the Board of Directors.

2.2 The Group has identified a number of employees that form an Integration Committee for each acquisition, in order to standardise the policies and procedures in the different critical areas (human resources, information systems, sales management and marketing...)

2.3 The Expansion Committee, which reports to the Management Committee, analyses the opportunities that arise. It comprises members from each area in order to analyse all the opportunities and risks of the businesses that arise in the Group.

3. Risk control systems for business, transaction control and environmental risks.

3.1 The Management Committee meets on a weekly basis and analyses the information contained in the balanced scorecard tables produced by the Corporate Management Control Department to evaluate the progress of transaction, as well as monitoring the commercial evaluation aspects obtained from the IT system.

It also sets the policy to be applied by each Company department and monitors the application of the market policy for the Committee.

3.2 In 2010 a specific analysis was made of the risks that affect the daily operations of the Group's hotels. This analysis was accompanied by an in-depth review of the automatic and manual controls implemented in the centres. The result was the map of controls used by the Company, which must be constantly reviewed by the managers of each centre. The internal audit team supervises and controls implementation of said map, providing the necessary solutions for its correct use.

3.3 The Group, and particularly with regard to its principal activity (golf hotel management), has a policy aimed at maximising respect for the environment. The engineering and environment corporate area is therefore responsible for providing the Company with the basic mechanisms that enable it to comply with environmental legislation. The majority of its daily activity comprises direct interaction with hotels, analysis and ensuring compliance with the specific regulations.

4. Control systems for regulatory risk

This group includes all risks associated with legislation that could affect the Company's business, relating to drafting contracts (clients and suppliers), compliance with legal, administrative, international, state, regional or municipal regulations, as well as renewal of rental and management agreements. An approval procedure linking different levels within the organisation is in place, which ensures the correct approval of contracts. Furthermore, all risks affecting this sector are periodically reviewed by the Internal Audit Department as part of its annual planning.

The Company also subcontracts companies that ensure compliance with requirements for hygiene, occupational safety, the security of its facilities, fire prevention, etc.

5. Other preventative procedures

5.1 Occupational health and safety

The occupational health and safety plans involve planning processes that are susceptible to causing risks and establishing the appropriate safety measures.

The Company organises numerous training courses for employees and subcontractors.

5.2 Insurance
The NH Hoteles group follows an extensive coverage policy by taking out insurance policies for the risks to which it is exposed. It also has a policy of continuously reviewing this coverage.

D.2 State whether any of the different types of risk (operational, technological, financial, legal, reputational, tax...) that affect the company and/or its group have materialised during the year:

YES

If so, indicate the circumstances that caused them and whether the control systems established worked.

Risk arising during the year
The risks inherent in the activity

Circumstances that caused it
The activities of NH Hoteles, S.A.

Functioning of the control systems
The risk control and prevention systems have been shown to function effectively, and so to date the resources employed are considered to have worked satisfactorily.

D.3 State whether there is a committee or other governing body responsible for establishing and supervising these control mechanisms.

YES

If so, describe its functions.

Name of the committee or body
Audit and Control Committee

Description of functions
The Audit Committee, reporting directly to the Board of Directors, is responsible for supervising the correct functioning of all the Group's internal control systems. It also periodically analyses the principal risks associated with the business and the systems established to manage and control these risks. It is also the body responsible for relations with the external auditors of the Group.

In general, the Audit Committee supports the Board of Directors in its supervisory duties, using all of the powers granted to it by the Spanish Public Limited Companies Act (LSA), the Company's bylaws, and the Regulations of the Board of Directors in relation to audit and control.

Name of the committee or body
Internal Audit Department.

Description of functions
Identification and evaluation of risk situations; definition of an annual audit plan aimed, among other things, at verifying correct application of established rules and procedures, both at the level of corporate departments and in different hotels.

D.4 Identification and description of the processes of compliance with the various regulations that affect the company and/or its group.

Occupational Risk Prevention Department
The occupational risk prevention systems are subject to a continuous process of evaluation and internal audit. The scope covers central services as well as the various hotels.

Internal Audit
The Internal Audit Department, reporting directly to the Chairman and answerable to the Board of Directors through the Audit and Control Committee, helps manage the risks that the Group encounters in reaching its objectives.

The Audit Department therefore continuously analyses the risk control systems and procedures, the organisation models and management variables in the most relevant areas of Grupo NH Hoteles, S.A. The corresponding conclusions are passed on to the managers of the areas evaluated and to the senior management of the group, including, as applicable, recommendations for specific actions to implement potential improvements.

It should also be noted that the Audit Department actively participates in the prevention and control of fraud.

General Secretariat
The General Secretariat is the competent body for evaluating and mitigating legal risks, as well as overseeing the legal compliance function.

Internal Code of Conduct
In addition, on 26 June 2003 the Board of Directors of NH Hoteles, S.A. approved the Internal Code of Conduct of NH Hoteles, S.A. and its group of companies, in relation to the securities markets, compliance with which is mandatory for those to whom it applies, and which regulates everything relating to the rules of conduct regarding securities, conflicts of interest, rules of conduct in relation to privileged information, as well as transactions with securities, among other issues.

Security Policy
All Company employees sign a security policy document that sets out the IT and electronic communications security policies of NH Hoteles. The document aims to clearly and succinctly explain to all employees the security policy of NH Hoteles with regard to the use of IT resources, access to facilities, software applications and the use of e-mail and internet in the workplace, in order to clearly define actions that are forbidden in relation to the use of these work tools.

E. GENERAL SHAREHOLDERS' MEETING

E.1 Indicate whether differences exist between the minimum quorum established in the Spanish Public Limited Companies Act (LSA) and the quorum of the General Shareholder's Meeting. If so, explain these differences.

NO

	% quorum different from that set forth in Article 102 of the LSA for general cases	% quorum different from that set forth in Article 103 of the LSA for the specific cases of Art. 103
Quorum required for 1st call	0	0
Quorum required for 2nd call	0	0

E.2 Indicate whether there are differences with the methods established in the LSA in relation to passing company resolutions. If so, explain these differences.

YES

Title	Value
Modification of Article 15 of the Company bylaws	51,000

Describe how it differs from the LSA.

Description of the differences
Article 15 of the Company's bylaws indicates that the resolutions of the General Shareholders' Meeting shall be taken by a majority of the votes of the shares presented and represented. Each share gives the right to one vote. No shareholder, regardless of the number of shares it owns, may issue more votes than those corresponding to 20% of the shares with voting rights. This limitation shall not apply to those General Shareholders' Meeting in which, in accordance with the list of attendees, a shareholder that is present or represented at the Meeting owns more than 51% of the shares with voting rights. As an exception to the aforementioned rule (majority of votes present and represented), Article 15 indicates that "A favourable vote of at least 51% of the share capital shall be required to modify this Article"

E.3 List shareholder's rights in relation to General Shareholder's Meetings that differ from those established in the LSA.

Right to information:

Article 9 of the Regulations of the Board states that from the date of publication of the notice of the General Shareholders' Meeting, the Company shall make available to shareholders the documents and information, required by law or the Company bylaws, relating to the different points included on the agenda; it must also include the same on the Company's website from the aforementioned date. Notwithstanding the above, shareholders may also immediately and freely obtain said documents and information, under those situations and terms provided for under the law, from the Company's registered address, as well as requesting them to be sent or delivered free of charge.

Likewise, to help shareholders attend and participate in the Meeting, from the date of publication of the notice of the General Shareholders' Meeting the Company shall include on its website, in addition to the legally required documents and information, everything it believes relevant for the aforementioned purposes in so far as it is available, particularly, but not limited to, the following:

a) The complete text of all the proposed resolutions to be put to the General Shareholders' Meeting that have been approved at that time by the Board of Directors, notwithstanding any modifications made by the Board before the date of the Meeting when legally possible.

b) Information about the venue for the General Shareholders' Meeting, describing how to locate the room, as applicable.

c) Procedure for obtaining attendance cards or certificates issued by the legally authorised entities.

d) Means and procedures for conferring representation in the General Shareholders' Meeting.

e) The means and procedures for exercising the right to distance voting, should these exist.

f) Any other relevant information for following the meeting, such as the existence or absence of simultaneous translation facilities, the audiovisual broadcasting of the Meeting or information in other languages.

This information may be subject to changes at any time, in which case the relevant modifications or clarifications will be published on the Company's website.

The Company will deliver, with sufficient notice, the information and documentation referred to in the aforementioned Section 1 and Subsection a) of Section 2 of this Article, to the Spanish Securities and Exchanges Commission (CNMV) and other relevant market regulating bodies.

Article 10 of the aforementioned regulations also includes everything relating to shareholders' rights to information and states that from the moment the notice of the General Shareholders' Meeting is published, until seven day prior to the date of the first call, any shareholder may request the information or clarifications they deem appropriate, in writing, from the Company's Board of Directors, or may prepare, in writing, any questions they deem appropriate regarding the matters included on the Meeting agenda published in the notice of the Meeting, or regarding the publicly available information that the Company may have filed with the National Securities Market Commission since the immediately preceding General Shareholders' Meeting was held.

The Board of Directors must provide in writing, until the day of the General Shareholders' Meeting, the information or clarifications requested, and respond to any questions, in writing. Responses to questions and requests for information shall be dealt with by any member of the Board of Directors expressly authorised by the Board for this purpose, via the Secretary of the Board.

During the General Shareholders' Meeting, the Company's shareholders may verbally request any information or clarifications they consider appropriate regarding the items on the agenda, and if the shareholder's request cannot be satisfied at that time, the directors shall be required to provide this information in writing within seven days following the end of the General Shareholders' Meeting.

The directors shall be obliged to provide the information requested in relation to the above two sections, except when, in the opinion of the chairman, publication of the requested information may damage the Company's interests.

Information cannot be refused when the request is supported by shareholders that represent at least one quarter of the share capital.

Shareholders' suggestions.

Notwithstanding shareholders' right, under those situations and terms provided for under the law, to request the inclusion of specific items on the agenda of the Meeting they are requesting, shareholders may make suggestions regarding the organisation, running and competencies of the General Shareholders' Meeting at any given time, subject to accreditation of their status as shareholders.

Right to attendance.

Article 12 of the regulation includes everything related to the right to attendance. It establishes that shareholders may attend the General Shareholders' Meeting if they own the statutory minimum number of shares registered in their name in the corresponding book entry registry five days before the date of the Meeting, provided that they can accredit this fact by means of the appropriate registered attendance card or certificate issued by any of the participating entities in charge of the register, or directly by the Company itself, or in any other format allowed under prevailing legislation. This card or certificate may be used by shareholders as a document for granting representation in the Meeting in question. Shareholders that do not own the minimum number of shares required to attend may, at any given time, delegate representation of their shares as indicated in the following Article, to a shareholder entitled to attend the Meeting, or also join with other shareholders in the same situation in order to reach the minimum number of shares required, in which case they must appoint one of the shareholders in the group to represent them. Groups must be formed anew for each General Shareholders' Meeting and be accredited in writing.

The chairman may authorise the attendance of any person deemed appropriate, although the Meeting may revoke this authorisation.

Right to delegation and representation

Article 13 of the Regulations of the General Shareholders' Meeting state that all shareholders entitled to attend the Meeting, may be represented by another party, even if said party is not a shareholder. The representation must be accepted by the representative and must be granted individually for each General Shareholders' Meeting, either by means of the printed delegation form on the attendance card, or by any other lawful means, notwithstanding the provisions of Article 108 of the LSA for cases of family representation and the granting of general powers of attorney.

Representation can also be granted via electronic or online means of communication that duly guarantee the representation and the identity of the represented party. Representation granted by these means shall be accepted when the electronic document that confers the representation includes the recognised electronic signature used by the represented party, or another form of signature that provides adequate guarantees of authenticity and identification of the shareholder conferring representation, and complies with the other requirements legally established at that time.

Documents that include delegation or representation for the General Shareholders' Meeting shall reflect the voting instructions of the represented party. If no express instructions are given, the representative shall vote in favour of the resolutions proposed by the Board of Directors on the matters included in the agenda. If no voting instructions have been given because the General Shareholders' Meeting will be voting on matters that, at the time the delegation was granted, were not included on the agenda and were therefore unknown, the representative may vote in the way they consider most benefits the interests of the Company and the represented party. The same shall apply when the corresponding proposal or proposals put to the vote have not been drafted by the Board of Directors.

If the identity of the party to which the shareholder has conferred their representation is not indicated on the representation or delegation document, the representation shall be deemed to be granted to the Chairman of the Board of Directors of the Company, or to the party assigned to this role, or to the party standing in for the Chairman in the General Shareholders' Meeting.

In cases in which a public request for representation has been made in accordance with Article 107 of the LSA, the restriction on exercising the right to vote established in Article 114 of the Securities Market Act regarding cases of conflicts of interest shall apply to the director appointed as representative.

Representation can always be withdrawn. The attendance in person at the Meeting by the party represented shall invalidate the representation.

Right to vote

The shareholders present or represented at the Meeting may exercise their right to vote on the resolutions put to the Meeting. Resolutions shall be adopted by the legally established majorities, with one vote corresponding to one share.

Shareholders that are natural persons without the full capacity to act, and shareholders that are legal entities, shall be represented by parties legally accredited to represent them.

In all circumstances, both for cases of voluntary representation and for legal representation, no more than one representative may be present at the Meeting.

The Chairman of the General Shareholders' Meeting, or if delegated, the Secretary, shall settle all issues that arise regarding the validity and effectiveness of the documents granting any shareholder the right to attend the General Shareholders' Meeting as an individual, or by grouping their shares with other shareholders, as well as the delegation or representation in favour of another person, considering only those documents that lack the minimum essential legal and statutory requirements as invalid or unacceptable, provided that these defects have not been corrected.

E.4 Indicate, as applicable, the measures adopted to promote the participation of shareholders in General Shareholder's Meetings.

In order to encourage shareholders' participation in General Shareholders' Meetings, the Company makes available to shareholders all the documents and information dealing with the different items on the agenda. These documents and information are also included on the Company's website from the aforementioned date. Notwithstanding the above, shareholders may also immediately and freely obtain these documents and information, under those situations and terms provided for under the law, from the Company's registered address, as well as requesting them to be sent or delivered free of charge.

Likewise, from the date of publication of the notice of the General Shareholders' Meeting, to help shareholders attend and participate in the Meeting, from the date of publication of the notice of the General Shareholders' Meeting the Company shall include on its website, in addition to the legally required documents and information, everything it believes relevant for the aforementioned purposes in so far as it is available, particularly, but not limited to, the following:

a) The complete text of all the proposed resolutions to be put to the General Shareholders' Meeting that have been approved at that time by the Board of Directors, notwithstanding any modifications made by the Board before the date of the Meeting when legally possible.

b) Information about the venue for the General Shareholders' Meeting, describing how to locate the room, as applicable.

c) Procedure for obtaining attendance cards or certificates issued by the legally authorised entities.

d) Means and procedures for conferring representation in the General Shareholders' Meeting.

e) The means and procedures for exercising the right to distance voting, should these exist.

f) Any other relevant information for following the meeting, such as the existence or absence of simultaneous translation facilities, the audiovisual broadcasting of the Meeting or information in other languages.

From the moment the notice of the General Shareholders' Meeting is published, until seven day prior to the date of the first call, any shareholder may request the information or clarifications they deem appropriate, in writing, from the Company's Board of Directors, or may prepare, in writing, any questions they deem appropriate regarding the matters included on the Meeting agenda published in the notice of the Meeting, or regarding the publicly available information that the Company may have filed with the National Securities Market Commission since the immediately preceding General Shareholders' Meeting was held.

The Board of Directors must provide in writing, until the day of the General Shareholders' Meeting, the information or clarifications requested, and respond to any questions, in writing. Responses to questions and requests for information shall be dealt with by any member of the Board of Directors expressly authorised by the Board for this purpose, via the Secretary of the Board.

During the General Shareholders' Meeting, the Company's shareholders may verbally ask for the information or clarifications that they consider appropriate, regarding the matters included on the agenda, and in the event that the shareholder's right is not upheld at this time, the directors shall be required to provide this information in writing within the seven days following the end of the General Shareholders' Meeting.

In all events, and for the purpose of facilitating communication between shareholders and the Company, an Investor Relations and Shareholders Department is available to shareholders, which they may contact via e-mail or telephone in order to settle any issues arising in relation to the corporate governance of the Company.

In addition to all of the above, NH Hoteles, S.A. has created a webpage informing shareholders and investors in general about the most relevant occurring in the Company. The corporate website includes important information and documents on corporate governance and is designed to be a communication channel with shareholders, providing them with up to date information about every relevant aspect.

The directors shall be obliged to provide the information requested under the provisions of the two preceding sections, except in cases where, in the opinion of the Chairman, publication of the requested information may damage the Company's interests, unless the request is supported by shareholders that represent at least one quarter of the Company's share capital.

E.5 Indicate whether the position of Chairman of the General Shareholders' Meeting coincides with the position of Chairman of the Board of Directors. Describe, where applicable, what measures are taken to guarantee the independence and correct conduct of the General Shareholders' Meeting:

YES

Describe the measures
The Regulations of the Board of Directors, which governs everything related to calling, preparing and conducting the General Shareholders' Meeting, as well as shareholders' rights, guarantee the correct conduct of the Meeting. A notary public is also present to take the minutes of the Meeting and to perform the functions associated with making these records, such organising the order of speeches established for the Meeting, and taking notes or recording verbatim contributions that shareholders wish to make.

E.6 Indicate, as applicable, and changes made during the financial year to the Regulations on General Shareholders' Meetings.

There have been no modifications to the Regulations of the General Shareholders' Meeting during the year.

The last modification to these regulations was approved in the Extraordinary Shareholders' Meeting held on 5 March 2007 in order to adapt them to the recommendations of the Unified Code of Good Governance.

E.7 Give details of attendance at the general shareholders' meetings held during the year to which this report refers:

Attendance details					
Date of General Meeting	% physical presence	% represented	% distance voting		Total
			Electronic vote	Others	
24/06/2010	12.774	68.232	0.000	0.000	81.006

E.8 Briefly outline the resolutions adopted in the general meetings held during the year to which this report refers and the percentage of votes with which each resolution was adopted.

Ordinary General Meeting of 24 June 2010

One:
Approval of the financial statements and management report. Percentage of votes attending that approved the resolution: 99.6600%

Two:
Renewal, ratification, appointment and removal of directors.

2.1 Appointment of a director, exercising the right to proportional representation by Grupo Inversor Hesperia, S.A., as a Proprietary director.

2.2 Appointment of Mr Miguel Rodriguez as an independent director. Percentage of votes attending that approved the resolution: 99.9481%

2.3 Re-election of Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) as a proprietary director. Percentage of votes attending that approved the resolution: 93.4980%

2.4 Re-election of Hoteles Participados, S.L as a proprietary director. Percentage of votes attending that approved the resolution: 93.1232%

2.5 Ratification of Mr Roberto Cibeira Moreiras as a proprietary director. Percentage of votes attending that approved the resolution: 93.4980%

2.6 Ratification of Mr Juan Llopart Pérez as a proprietary director. Percentage of votes attending that approved the resolution: 93.5564%

2.7 Appointment of Sociedad de Promoción y Participación Empresarial Caja de Madrid, S.A. as a proprietary director. Percentage of votes attending that approved the resolution: 93.1232%

Three:
Delegation of powers to the Board of Directors to increase the capital. Percentage of votes attending that approved the resolution: 99.1596%

Four:
Amendment of Article 20 of the Company's bylaws.

4.1. Approval of amendment. Percentage of votes attending that approved the resolution: 99.7821%

4.2. Annual remuneration. Percentage of votes attending that approved the resolution: 99.9961%

Five:
Delegation of powers to the Board of Directors to issue marketable securities. Percentage of votes attending that approved the resolution: 99.2007%

Six::
Authorisation to acquire treasury stock. Percentage of votes attending that approved the resolution: 99.7837%

Seven:
Appointment of the accounts auditor of the Company and its consolidated group. Percentage of votes attending that approved the resolution: 99.9980%

Eight:
Delegation of the authority to formalise, interpret, correct and execute the resolutions adopted by the General Shareholders' Meeting. Percentage of votes attending that approved the resolution: 99.9980%

E.9 State whether there are any statutory restrictions that establish the minimum number of shares required to attend the General Shareholder's Meeting.

NO

E.10 State and explain the policies followed by the company in relation to delegating votes in the General Shareholders' Meeting.

All shareholders entitled to attend the General Shareholders' Meeting may be represented by another party, even if said party not a shareholder. Representation must be conferred under the terms and with the scope established in the Spanish Public Limited Companies Act, in writing and granted for each specific meeting. This restriction shall not apply when the representative is the spouse, ascendant or descendent of the represented party, or when the representative has a general power of attorney granted in a public document to administer all the assets that the represented shareholder owns in Spanish territory.

Representation may also be granted via remote methods of communication that duly guarantee the identity of the represented party and the representative.

In accordance with the Regulations of the General Shareholders' Meeting and the Company's bylaws, representation may also be granted via electronic or online means of communication that duly guarantee the attributed representation and the identity of the represented party. Representation granted by these means shall be accepted when the electronic document that confers the representation includes the recognised electronic signature used by the represented party, or another form of signature that provides adequate guarantees of authenticity and identification of the shareholder conferring their representation, and complies with other legally established requirements.

Documents that include delegations or representation for the General Shareholders' Meeting shall reflect the voting instructions of the represented party. If no express instructions are given, the representative shall vote in favour of the resolutions proposed by the Board of Directors on the items on the agenda.

The chairman of the General Shareholders' Meeting, or if delegated, the secretary, shall settle all issues that arise regarding the validity and effectiveness of the documents of any shareholder that grant the right to attend the General Shareholders' Meeting as an individual, or by grouping their shares with other shareholders, as well as the delegation or representation in favour of another person, considering only those documents that lack the minimum essential legal and statutory requirements as invalid or unacceptable, provided that these defects have not been corrected.

In all cases, Article 13 of the Company's bylaws expressly indicates that the attendance in person at the meeting by the person represented shall invalidate the representation.

E.11 Indicate whether the company is aware of the policy of institutional investors regarding participate, or not, in the company's decisions:

NO

E.12 State the address and method of accessing corporate governance content on your website.

All information of interest to shareholders, including the corporate governance reports approved annually, is available at all times on the website of NH Hoteles, S.A., www.nh-hotels.com, under the section entitled "Shareholder Information".

F. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the Company's degree of compliance with the recommendations of the Unified Code of Good Governance. In cases of non-compliance, explain the recommendations, rules, practices and criteria applied by the company.

1. The bylaws of listed companies should not limit the maximum number of votes that a single shareholder may cast, nor contain other restrictions that stand in the way of a company take-over through the acquisition of its shares in the market.

See sections: A.9, B.1.22, B.1.23 and E.1, E.2

Explain

According to Article 15 of the bylaws of NH Hoteles, S.A., no shareholder, regardless of the number of shares it may own, may issue more votes than those corresponding to 20% of the issued shares with voting rights. This limitation will not apply to those General Shareholders' Meetings in which, according to the list of attendees, a shareholder that is present or represented at the Meeting owns more than 51% of the issued shares with the right to vote.

2. When a parent company and a subsidiary company are both stock market listed, both must provide detailed disclosure on:

a) Their respective areas of activity and possible business relations between them, as well as between the listed subsidiary and the other companies in the group;

b) The mechanisms in place for resolving potential conflicts of interest that may arise.

See sections: C.4 and C.7

Complies

3. Although not expressly required under mercantile law, operations that involve a structural change to the company, especially the following, are subject to the approval of the General Shareholders' Meeting:

a) The transformation of listed companies into holding companies through "subsidiarisation" or the incorporation of essential activities into subsidiary entities, which to date were carried out by the company itself, even though the parent maintains full control over them;

b) The acquisition or disposal of essential operational assets when this involves an effective modification of the corporate purpose;

c) Operations equivalent to effectively winding up the company.

Partially complies

The "subsidiarisation" referred to in section a) of this recommendation has not been subject to the approval of the General Shareholders' Meeting of the Company since the "subsidiarisation" process of the Company that is the majority owner of the hotel assets in Spain has concluded, and thus replicates the corporate structure of the group in the other countries and regions in which it operates.

4. Detailed proposals of the resolutions to be adopted by the General Shareholders' Meeting, including the information referred to in Recommendation 28, should be published at the same time as the announcement of the General Meeting is published.

Complies

5. The General Shareholders' Meeting votes separately on those subjects that are essentially independent so that shareholders are able to exercise their voting preferences separately. And that this rule is applied, particularly to:

a) The appointment or ratification of directors, who must be voted for individually;

b) In the event of amendments to the bylaws, to each essentially independent article or group of articles.

See section: E.8

Complies

6. Companies allow split votes, so that financial intermediaries that legitimately appear as shareholders, but are acting on behalf of different clients, can cast their votes according to their clients' instructions.

See section: E.4

Complies

7. The Board carries out its functions with a unity of purpose and independent criteria, treating all shareholders equally, guided by the interests of the company, which is understood to be the constant maximisation of the financial value of the company.

It should also ensure that the company respects all laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories in which it operates; and observes the principles of social responsibility to which it has voluntarily subscribed.

Complies

8. The principal objective of the Board should be to approve the Company's strategy and the organisational requirements for implementing the same, as well as to supervise and control management to ensure it achieves the objectives set and fulfils the company's objectives and corporate purpose. Therefore, the plenary sessions of the Board reserves the authority to approve:

a) The general strategies and policies of the company, in particular:

i) The strategic or business plan, as well as management objectives and annual budgets;

ii) The investment and financing policy;

iii) The definition of the corporate group structure;

iv) The corporate governance policy;

v) The corporate social responsibility policy;

vi) The policy on remuneration and performance evaluations of senior managers;

vii) The risk control and management policy, as well as the periodic monitoring of internal information and control systems.

viii)The dividend policy, and also treasury stock policy and limits.

See sections: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

i) The appointment and potential removal of senior managers, as well as their compensation clauses, as proposed by the Chief Executive Officer of the company.

See section: B.1.14

ii) The remuneration of directors and, in the case of executives, any additional remuneration for executive responsibilities and any other contractual conditions.

See section: B.1.14

iii) The financial information that the company, as a listed company, must periodically disclose.

iv) All investments or operations that, due to their significant value or special characteristics, are considered strategic, except those that are approved by the General Shareholders' Meeting.

v) The creation or acquisition of shareholdings in special purpose vehicles or those registered in countries or territories considered tax havens, as well as other similar transactions or operations that, due to their complexity, could impair the transparency of the group.

c) Operations that the company may carry out with directors, significant shareholders or those represented on the Board, or with any person related to them ("related party transaction").

Authorisation of the Board shall not be required however, for related party transactions that simultaneously meet the following three conditions:

1. That are carried out under agreements with standardised conditions and are applied in a general way to numerous clients;

2. That are carried out at established rates or prices, which in general are set by the supplier of the good or service;

3. Operations with a quantity that does not exceed 1% of the company's annual revenues.

The Board is advised to approve related party transaction that receive a prior favourable report from the Audit Committee or from any other committee that has been authorised to this end; and that the directors involved not only abstain from voting (without the right to delegation), but also vacate the meeting room while the Board deliberates and votes on the issue.

It is advisable that the competencies attributed to the Board in these matters should not be delegated, except in the aforementioned points b) and c), which may be adopted for reasons of urgency by the Executive Committee, and subsequently ratified by a plenary session of the Board.

See sections: C.1 and C.6

Partially complies

The Company complies with the recommendation in this section, except for those points established in section b.i.), for which the Board of Directors considers that the decision regarding the appointment and possible removal of senior managers must correspond and continue to correspond to the Chief Executive Officer of the Company. Notwithstanding the above, the Regulations of the Board of Directors attributes responsibility to the Nominating and Compensation Committee to provide a prior report on the appointment or dismissal of the managers that report directly to the Chief Executive Officer.

9. That, in the interests of effectiveness and participation, the Board should comprise no less than five and no more than 15 members.

See section: B.1.1

Complies

10. External proprietary directors and independent directors comprise a significant majority of the Board of Directors, and the number of executive directors is kept to a minimum, taking into account the complexity of the corporate group and the percentage shareholdings of the executive directors in the company.

See sections: A.2, A.3, B.1.3 and B.1.14

Complies

11. If there is an external director who cannot be considered a proprietary director or an independent director, the company should explain this circumstance and their relationship either with the company or its managers, or its shareholders.

See section: B.1.3

Complies

12. Among the external directors, the proprietary/independent director ratio should reflect the existing ratio between the capital of the company represented by the proprietary directors and the remaining capital.

This criterion of strict proportionality can be relaxed so that the percentage of proprietary directors is greater than the total percentage of capital they represent:

1. In large cap companies in which few or no shareholdings are legally considered significant, but which include block stockholdings of considerable value.

2. In companies in which there are numerous shareholders represented on the Board and these shareholders have no links between them.

See sections: B.1.3, A.2 and A.3

Complies

13. The number of independent directors represents at least one third of the total directors.

See section: B.1.3

Explain

Having increased the number of directors to 15 with the appointment of two new proprietary directors, the presence of independent director has been reduced, representing 26.667% of the total members of the Board.

14. Each specific directorship is explained by the Board to the General Shareholders' Meeting, which must make or ratify the appointment, and is confirmed or, as applicable, reviewed annually in the Annual Corporate Governance Report following verification by the Appointments Committee; and this report also explains the reasons why proprietary directors may have been appointed at the request of shareholders who hold less than 5% of the capital; and states the reasons for denying, as applicable, formal requests for representation on the Board from shareholders whose holding is equal to or above that of other shareholders at whose request proprietary directors have been appointed.

See sections: B.1.3 and B.1 4

Complies

15. When the number of directors is few or none, the Board explains the reasons and the initiatives adopted to correct this situation; and in particular, the Appointments Committee ensure that when new vacancies arise:

a) The selection procedures do not suffer from any implicit bias that hampers the selection of female directors;

b) The company deliberately seeks and includes women who match the professional profile sought among the potential candidates.

See sections: B.1.2, B.1.27 and B.2.3

Complies

16. The chairman, as the person responsible for the efficient conduct of the Board, ensures that directors receive sufficient information in advance; promotes discussion and the active participation of directors during Board meetings, ensuring their freedom to make judgements and express opinions; and organises and coordinates with the chairmen of the relevant committees to periodically evaluate the Board as well as the Managing Director or the Chief Executive, as applicable.

See section: B.1.42

Complies

17. When the chairman of the Board is also the Chief Executive Officer of the company, an independent director shall be authorised to call meetings of the Board or to include new items on the agenda; to coordinate and represent the concerns of the external directors; and to organise the Board's evaluation of the chairman.

See section: B.1.21

Complies

18. The secretary of the Board takes pains to ensure that the actions of the Board:

a) Comply with the conditions and the spirit of the laws and regulations, including those approved by regulatory entities;

b) Comply with the company's bylaws and with the regulations of the Shareholders' Meeting, the Board of Directors and any other company regulations;

c) Take into account the recommendations on good governance contained in this Unified Code that the company has accepted.

And in order to safeguard the independence, impartiality and professionalism of the secretary, their appointment and removal is notified by the Appointments Committee and approved by a plenary session of the Board; and this appointment and removal procedure is part of the Regulations of the Board of Directors.

See section: B.1.34

Complies

19. The Board meets with the required frequency to efficiently carry out its duties, following the schedule of dates and issues established at the start of the year, even though each director may propose other unforeseen items for the agenda.

See section: B.1.29

Complies

20. Non-attendance by directors is limited to essential cases and quantified in the Annual Corporate Governance Report. And in the event that representation is unavoidable, is it granted with instructions.

See sections: B.1.28 and B.1.30

Partially complies

Although Article 22 of the Regulations of the Board of Directors expressly states that directors must attend board meetings in person, and that in exceptional cases when this may not be possible they shall try to ensure that representation by another member of the Board includes, as far as possible, the appropriate instructions, these instruction are not always made in writing and may also be made verbally.

21. When directors or the secretary raise concerns about a proposal or, in the case of directors, about the performance of the company, and such concerns are not resolved by the Board, these concerns are recorded in the minutes at the request of the director raising them.

Complies

22. Once a year, a plenary session of the Board evaluates:

a) The quality and efficiency of the Board;

b) The performance of the chairman of the Board and the Chief Executive of the company based on the report provided by the Appointments Committee;

c) The performance of its committees based on the reports provided by them.

See section: B.1.19

Complies

23. All directors can exercise their right to receive any additional information they deem necessary on issues within the Board's competence. And, unless otherwise stated by the bylaws or the regulations of the Board, they address their requirements to the chairman or the secretary of the Board.

See section: B.1.42

Complies

24. All directors have the right to obtain from the company the advice required to discharge their duties. The company facilitates the appropriate channels for exercising this right, which in special circumstances may involve external advice at the expense of the company.

See section: B.1.41

Complies

25. Companies establish an orientation programme that provides new directors with a quick but sufficient understanding of the company and of its rules of corporate governance. And directors are also offered programmes to improve their knowledge when circumstances demand.

Complies

26. Companies require directors to dedicate the time and effort required to discharge their duties effectively and, as a result:

a) That directors notify the Appointments Committee of any other professional obligations that could interfere with the commitment required;

b) That companies regulate the number of boards their directors may belong to.

See sections: B.1.8, B.1.9 and B.1.17

Complies

27. The proposal to appoint or re-elect directors made by the Board to the General Shareholders' Meeting, as well as their provisional, co-opted appointment, is approved by the Board:

a) Upon a proposal by the Appointments Committee in the case of independent directors.

b) Upon a prior report from the Appointments Committee in the case of other directors.

See section: B.1.2

Complies

28. Companies publish and update the following information about their directors on their website:

a) Professional profile and biography;

b) Other boards they sit on, irrespective of whether these are listed companies;

c) Indication of the type of director, stating in the case of proprietary directors, the shareholder that they represent or with which they have ties.

d) Date of their first appointment as a director in the company as well as the date of subsequent re-appointments, and;

e) Shares and share options held by the director.

Complies

29. Independent directors do not hold their directorship for more than 12 consecutive years.

See section: B.1.2

Explain

There is only one independent director in this situation, Mr José de Nadal, who has been a director of NH Hoteles, S.A. since 1997.

30. Proprietary directors present their resignation when the shareholder they represent sells its entire shareholding. And the number of proprietary directors is also reduced when the shareholders in question reduce their holdings to a level that requires fewer such directors.

See sections: A.2, A.3 and B.1.2

Complies

31. The Board of Directors does not propose the removal of any independent director before the statutory period for which the director has been appointed concludes, unless the Board has just cause, based on a report by the Appointments Committee. In particular, just cause shall be understood to include the case of a director has failed to discharge the duties inherent in their position, or falls under any of the circumstances described in part five of chapter III of the definitions of this Code.

The removal of independent directors may also be proposed as a result of mergers, takeovers or other similar corporate actions that change the structure of the company's capital when said changes obey the criteria of proportionality indicated in Recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

Complies

32. Companies establish rules that require directors to inform and, as applicable, resign when circumstances arise that could damage the company's credibility and reputation, and in particular to notify the Board of any criminal proceedings in which they are involved, and the subsequent developments of any court action.

If a director is indicted or tried for any of the offences set forth in Article 124 of the Spanish Public Limited Companies Act, the Board shall examine the case as soon as possible and, based on the specific circumstances, decide whether the director should continue in their post. The Board reports and explains all such occurrences in the Annual Corporate Governance Report.

See sections: B.1.43 and B.1.44

Complies

33. All directors clearly express their opposition when they believe that a proposal for a decision presented to the Board may not be in the Company's interests. Particularly independent and other directors who are not affected by any potential conflict of interest should oppose decisions that may be detrimental to shareholders not represented on the Board.

When the Board adopts significant or repeated decisions about which a director has serious reservations, the director draws the appropriate conclusions and, if they decide to resign, explains the reasons in the letter referred to in the following recommendation.

This recommendation also applies to the secretary of the Board, even though they may not be a director.

Complies

34. When, due to resignation or for other reasons, a director vacates their post before the end of their term, they explain the reasons in a letter sent to every member of the Board. And, notwithstanding the fact that this departure is reported as a significant event, the reason for the departure is reported in the Annual Corporate Governance Report.

See section: B.1.5

Partially complies

Departures of directors are communicated verbally by the outgoing director to the Board of Directors. The reason for the departure is reported in the Annual Corporate Governance Report.

35. The remuneration policy approved by the Board specifies at least the following issues:

a) Amount and breakdown, as applicable, of fixed components of the expenses for participation on the Board and its Committees and an estimate of the annual fixed remuneration from which they originate;

b) Variable remuneration concepts, including specifically:

i) The types of directors to which they apply, as well as an explanation of the relevant percentage of variable remuneration concepts compared to fixed.

ii) Performance valuation criteria on which entitlement to share-based remuneration is based, including share options or any variable component;

iii) Main parameters and basis of any annual bonus system or other non-cash benefits; and

iv) An estimate of the sum total of variable payments arising from the proposed remuneration plan, based on the degree of fulfilment of the reference premises or targets.

c) Main characteristics of the benefits systems (for example, supplementary pensions, life insurance and similar benefits), with an estimate of their amount and equivalent annual cost.

d) Conditions that must apply to the contracts of those who hold senior management positions as well as executive directors, which should include:

i) Duration;

ii) Notice periods; and

iii) Any other clauses relating to employment bonuses as well as indemnities or "golden parachute" agreements for early cancellation or termination of the contractual relationship between the company and the executive director.

See section: B.1.15

Complies

36. Remuneration in shares in the company or in group companies, share options or share-based instruments, variable remuneration linked to the performance of the company or benefits systems are all limited to executive directors.

This recommendation will not include the provision of shares when it is conditional upon directors to hold them until their departure as a director.

See sections: A.3 and B.1.3

Complies

37. The remuneration of external directors is sufficient to compensate the dedication, qualifications and responsibility required for the position; but not so high as to compromise their independence.

Complies

38. Remuneration linked to the results of the company take into account any reservations that may be included in the external auditor's report that diminish such results.

Complies

39. In the case of variable remuneration, payment policies incorporate the technical safeguards required to ensure that such remuneration is in line with professional performance of the beneficiaries and is not simply derived from the general evolution of the markets or the business sector of the company or from other similar circumstances.

Complies

40. The Board submits a report on the remuneration policy of the directors as a separate item on the agenda, for consultation purposes, to be voted on by the General Shareholders' Meeting. This report is made available to shareholders, either separately or in any other format that the company deems appropriate.

The report will especially focus on the remuneration policy approved by the Board for the current year as well as, if applicable, estimates for future years. It will deal with all issues referred to in Recommendation 35, except for those cases that may involve the disclosure of sensitive commercial information. It will emphasise the most significant changes in these policies compared to those applied during the previous year. It will also include an overall summary of how the remuneration policy was applied the previous year.

The Board also reports on the role of the Compensation Committee in drafting the remuneration policy, and if external advice has been used, the identity of the external consultants used is stated.

See section: B.1.16

Partially complies

Every year the Board of Directors drafts a report including nearly all the information referred to in Recommendation 35, making it available to the General Shareholders' Meeting, although it is not subject to voting.

41. The report details the individual remuneration of the directors during the year and includes:

a) The breakdown of the remuneration of each director, which will include as applicable:

i) Attendance expenses or other fixed remuneration as a director;

ii) Any additional remuneration as chairman or as a member of another committee of the Board;

iii) Any remuneration in the form of profit-sharing or bonuses and the reason why they have been granted;

iv) Contributions made on behalf of the direct to defined contribution pension plans; or the increase in the consolidated rights of the director in relation to contributions to defined benefit schemes;

v) Any compensation agreed or paid in the event of termination of duties;

vi) Remuneration received as a director of other companies in the group;

vii) Remuneration for carrying out senior management duties by executive directors;

viii) Any other remuneration other than the above, whatever its nature or the group entity that pays it, particularly when it is considered a related party transaction or if omission distorts the true perception of the total remuneration received by the director.

b) The individual breakdown of share awards, share options or any other share-based instrument delivered to directors, detailing:

i) Number of shares or options granted for the year, and their exercise conditions;

ii) Number of options exercised during the year, indicating the number of shares affected and the exercise price;

iii) Number of options unexercised at the end of the year, indicating their price, date and other exercise conditions;

iv) Any changes made during the year to the exercise conditions of options already granted.

c) Information about the relationship during the previous year between the remuneration received by executive directors and the results or other performance indicators of the company.

Partially complies

The annual report reflects the majority of the information referred to in sections a) and b), but not the information described in section c).

42. When there is a Delegate or Executive Committee (hereafter "Executive Committee"), the participation structure of the different types of directors is similar to that of the main Board and its secretary is the Secretary of the Board.

See sections: B.2.1 and B.2.6

Partially complies

The executive committee has not met during 2010, so it has not been possible to appoint directors to cover the vacancies produced on the Board in the previous two years, although is the Company intends to appoint new members to the executive committee, in compliance with Recommendation 42 of the Unified Code of Good Governance, so that the participation structure of the different types of directors will be similar to that of the Board and its secretary will be the secretary of the Board.

43. The Board is always aware of the issues and the decisions adopted by the Executive Committee and each member of the Board receives a copy of the minutes of the Committee's meetings.

Complies

44. In addition to the Audit Committee required by the Spanish Securities Market Act (LMV), the Board of Directors also creates a committee, or two separate committees, for appointments and remuneration.

The rules regarding the composition and functioning of the Audit Committee and the committee(s) for appointments and remuneration appear in the Regulations of the Board of Directors and include the following:

a) The Board appoints the members of these committees taking into account the knowledge, skills and experience of the directors and the tasks of each committee; it discusses their proposals and reports, and receives, during the first plenary session following their meetings, the report on their activities and the work carried out;

b) These committees are exclusively formed of external directors, comprising at least three members. The foregoing does not exclude the attendance of executive directors or senior managers when the members of the committee expressly agree.

c) The chairmen are independent directors.

d) They have access to external advice when they deem it necessary to perform their duties.

e) Their meetings are recorded in minutes and copies are sent to every Board member.

See sections: B.2.1 and B.2.3

Complies

45. Supervision of compliance with the internal codes of conduct and the rules on corporate governance is the responsibility of the Audit Committee, the Appointments Committee, or if separate, the committees for compliance or corporate governance.

Complies

46. Members of the Audit Committee, particularly its chairman, are appointed on the basis of their knowledge and experience in accountancy, audit or risk management.

Complies

47. Listed companies have an internal audit which, supervised by the Audit Committee, ensures the correct operation of the information and internal control systems.

Complies

48. The manager of the internal audit presents their annual work plan to the Audit Committee; they directly report the incidents that occur and submit an activity report to the Committee at the end of every year.

Complies

49. The risk management and control policy identifies at least the following:

a) The different types of risk (operational, technological, financial, legal, reputational…) that the company is subject to, including contingent liabilities and other off-balance-sheet risks among the financial or economic risks;

b) The level of risk that the company considers acceptable;

c) The measures planned to mitigate the impact of identified risks should they materialise;

d) The internal control and information systems that will be used to control and manage the aforementioned risks, including contingent liabilities or off-balance-sheet risks.

See sections: D

Complies

50. The following correspond to the Audit Committee:

1. In relation to internal control and information systems:

a) Supervise the drafting process and the integrity of the financial information relating to the company and, as appropriate, to the group, ensuring compliance with regulatory requirements, the appropriate scope of consolidation and the correct application of accounting criteria.

b) Periodically review the internal control and risk management systems so that the principal risks are identified, managed and appropriately recorded.

c) Ensure the independence and effectiveness of the internal audit; propose the selection, appointment, re-election and removal of the internal audit service manager; propose the budget for this service; receive periodic information about its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

d) Establish and supervise a mechanism that allows employees to confidentially, and as applicable anonymously, communicate any potential irregularities, particularly financial and accounting, they discover within the Company.

2. In relation to the external auditor:

a) Submit proposals to select, appoint, re-elect and substitute the external auditor, as well as the conditions of their contract, to the Board of Directors.

b) Receive information about the audit plan and its results from the external auditor on a regular basis and verify that senior management takes its recommendations into account.

c) Ensure the independence of the external auditor, and for this purpose:

i) That the company notifies the Spanish Securities and Exchanges Commission of the change of auditor as a significant event and accompanies it with a statement about the existence of disagreements with the outgoing auditor and the content of such disagreements, if they exist.

ii) That it ensures that the company and the auditor follow prevailing regulations on the provision of services other than audit services, the limits on the concentration of business with the auditor and, in general, any other regulations established to ensure the independence of the auditors;

iii) That in the case of the resignation of the external auditor, to examine the circumstances that may have caused it.

d) In the case of groups, encourage the group auditor to take responsibility for the audits of the companies that comprise it.

See sections: B.1.35, B.2.2, B.2.3 and D.3

Complies

51. The Audit Committee may summon any company employee or manager, including appearances without the presence of another manager.

Complies

52. The Audit Committee notifies the Board, prior to it adopting the corresponding decisions, about the following issues indicated in Recommendation 8:

a) The financial information that, as a listed company, the company must periodically publish. The Committee must ensure that the interim accounts are drafted using the same accounting criteria as the annual accounts, and therefore consider the appropriateness of a limited review by the external auditor.

b) The creation or acquisition of shareholdings in special purpose vehicles or those registered in countries or territories considered tax havens, as well as any other similar transactions or operations that, due to their complexity, could impair the transparency of the group.

c) Related party transactions, unless another supervision and control committee is has been appointed to draw up the report.

See sections: B.2.2 and B.2.3

Complies

53. The Board of Directors endeavours to present the accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report and that in the few cases where these exist, both the chairman of the Audit Committee as well as the auditors clearly explain to the shareholders the content and scope of such reservations or qualifications.

See section: B.1.38

Complies

54. The majority of the members of the Nominating Committee (or Nominating and Compensation in the case of a single committee) are independent directors.

See section: B.2.1

Complies

55. In addition to the functions indicated in the preceding Recommendations, the following correspond to the Appointments Committee:

a) Evaluate the skills, knowledge and experience required by the Board in order to define the abilities and functions required by candidates to cover each vacancy, and to assess the time and dedication required to correctly carry out their functions.

b) Examine and organise, as required, the succession of the Chairman and Chief Executive Officer and make proposals to the Board, as appropriate, so that any succession occurs in an orderly and well planned way.

c) Notify the Board of appointments and departures of senior managers proposed by the Chief Executive Officer.

d) Inform the Board about gender diversity issues indicated in Recommendation 14 of this Code.

See section: B.2.3

Complies

56. The Appointments Committee consults the chairman and the Chief Executive Officer of the company, particularly regarding issues concerning executive directors.

And that any director can request the Appointments Committee to take into consideration potential candidates to cover any director vacancies, if they considers the candidate appropriate.

Complies

57. In addition to the functions indicated in the preceding Recommendations, the following correspond to the Remuneration Committee:

a) Propose to the Board of Directors:

i) The remuneration policy for directors and senior managers;

ii) The individual remuneration of executive directors and the other conditions of their contracts.

iii) The basic conditions of contracts of senior managers.

b) Ensure that the remuneration policy established by the company is followed.

See sections: B.1.14 and B.2.3

Complies

58. The Remuneration Committee consults the Chairman and the Chief Executive Officer of the company, particularly in relation to issues regarding executive directors and senior managers.

Complies

G. OTHER USEFUL INFORMATION

If you consider that there is any relevant principle or aspect relating to the corporate governance practices applied by your company that has not been included in this report, please comment and explain their content below.

SECTION A.3.:

The information contained in table A.3 sets out exclusively the number of voting rights held directly by private individuals and legal entities that have the status of members of the Board of Directors. This number does not include the voting rights held by legal entities that have requested and assigned proprietary directors.

With regard to the 600,000 direct option rights held by Mr Gabriele Burgio, it should be noted that these will be settled at maturity by means of a contract for difference, as stipulated in the plan submitted to the Spanish Securities and Exchanges Commission.

SECTION A.5.:

All relations of a commercial, contractual or corporate nature made between significant shareholders and the Company and/or its group have been described in section C.2 and C.3 (in so far as the significant shareholders are also Company directors). These relations have not been included in section A.5 since these transactions are considered to arise from the ordinary course of the Company's business.

SECTION B.1.2.:

Although this section states that on 23 March 2010, the legal entity Sociedad de Promoción y Participación Empresarial Caja Madrid ceased to be a director after resigning its position and appointing Mr Juan Llopart to replace it, it should be noted that subsequently on 24 June 2010, this company was once again appointed as a proprietary director of NH Hoteles, S.A.

SECTION B.1.3.:

In relation to the proprietary directors Mr Juan Llopart Pérez and Sociedad de Promoción y Participación Caja Madrid, S.A., it should be noted that although this section states that they were appointed by the indirect shareholder Caja de Ahorros y Monte de Piedad de Madrid, in reality they were appointed at the proposal of the (direct) significant shareholders, Sociedad de Promoción y Participación Caja Madrid, S.A. and Corporación Financiera Caja de Madrid, S.A., entities of the Caja de Ahorros y Monte de Piedad de Madrid group. However, since only one significant shareholder can be recorded in the system, the indirect and parent shareholder of the aforementioned shareholders, Caja de Ahorros y Monte de Piedad de Madrid, was chosen.

SECTION: B.1.11.:

In accordance with Article 20 of the bylaws of NH HOTELES, S.A., directors' remuneration shall consist of an annual fixed concept as well as expenses for attending the meetings of the Board of Directors and its delegate and advisory committees, and the amounts of this remuneration shall be determined by the General Shareholders' Meeting.

In addition to the remuneration referred to in the above paragraph, Article 20 of the bylaws establishes that executive directors shall have the right to receive additional remuneration for the executive functions that they may carry out, other than the role of director. In particular, this remuneration shall be comprised of the following concepts:

(a) a fixed component, which reflects the services and responsibilities assumed;

(b) a variable component, linked to a Chief Executive Officer or company performance indicator;

(c) an attendance component, which shall cover the appropriate insurance and benefits systems; and

(d) compensation in the event of separation or any other type of termination of the legal relationship with the company that is not due to breaches attributable to the director. The determination of the amount of the remuneration components referred to in this paragraph shall be based on market conditions and shall take into account the responsibility and degree of commitment demanded from each executive director.

In all cases the Board of Directors shall draft an annual report on the remuneration of directors and senior managers. The minimum content and the process of submitting this report to the General Shareholders' Meeting shall be in accordance with the law and other applicable regulations at any given time.

The amounts received during 2010 by each individual director as their annual fixed remuneration as a member of the Board of Directors and the expenses for attendance of the various committees, were as follows:

CHAIRMAN OF THE BOARD AND OF THE EXECUTIVE COMMITTEE:

Mr Gabriele Burgio
- Fixed remuneration as a director 2010: 37,800 Euros
- Attendance expenses for Executive Committee: 0 Euros
- Total: 37,800 Euros

DIRECTORS:

Mr Iñaki Arratibel Olaziregui
- Fixed remuneration as a director: 37,800 Euros
- Attendance expenses for Audit Committee: 14,794.08 Euros
- Total: 52,594.08 Euros

CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)
- Fixed remuneration as a director: 37,800 Euros
- Attendance expenses for Executive Committee: 0 Euros
- Total: 37,800 Euros

Mrs Rosalba Casiraghi
- Fixed remuneration as a director: 37,800 Euros
- Total: 37,800 Euros

Mr Roberto Cibeira Moreiras
- Fixed remuneration as a director: 31,689.86 Euros
- Total: 31,689.86 Euros

Mr José De Nadal
- Fixed remuneration as a director: 37,800 Euros
- Attendance expenses for the Nominating and Compensation Committee: 20,341.86 Euros
- Total: 58,141.86 Euros

Mr Julio Diaz-Freijó Cerecedo (until his resignation on 1.03.2010)
- Fixed remuneration as a director: 6,110.14 Euros
- Attendance expenses for Executive Committee: 0 Euros
- Total: 6,110.14 Euros

GRUPO INVERSOR HESPERIA, S.A. (GHISA)
- Fixed remuneration as a director: 19,676.71 Euros
- Total: 19,676.71 Euros

HOTELES PARTICIPADOS, S.L.
- Fixed remuneration as a director: 37,800 Euros
- Attendance expenses for Audit Committee: 7,385.06 Euros
- Total: 45,185.06 Euros

Mr Francisco Javier Illa Ruiz
- *Fixed remuneration as a director: 37,800 Euros*
- Attendance expenses for the Nominating and Compensation Committee: 18,492.60 Euros
- Total: 56,292.60 Euros

Mrs Nuria Iturriagagoitia Ripoll
- Fixed remuneration as a director: 37,800 Euros
- Attendance expenses for the Nominating and Compensation Committee: 18,492.60 Euros
- Total: 56,292.60 Euros

Mr Juan Llopart Pérez
- Fixed remuneration as a director: 29,411.51 Euros
- Attendance expenses for Audit Committee: 9,246.30 Euros
- Total: 38,657.81 Euros

Mr Miguel Rodríguez Dominguez:
- Fixed remuneration as a director: 37,800 Euros
- Total: 37,800 Euros

Mr Juan Antonio Samaranch Salisachs
- Fixed remuneration as a director: 37,800 Euros
- Total: 37,800 Euros

SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID
- Fixed remuneration as a director: 28,168.76 Euros
- Attendance expenses for Audit Committee: 2,478.34 Euros
- Total: 30,647.10 Euros

Mr Antonio Viana-Baptista
- Fixed remuneration as a director: 37,800 Euros
- Attendance expenses for Audit Committee: 12,944.82 Euros
- Total: 50,744.82 Euros

SECTION B.1.12

In relation to the aggregate remuneration paid to senior management members during 2010, only the fixed remuneration has been reflected. A decision had still not been made regarding the level of variable remuneration to be paid at the date of the Nominating and Compensation Committee report. The provision made by the Company to cover this concept totals 632,000 Euros.

SECTION B.1.40:

It should be noted that Bancaja's interests in various companies with the same, similar or complementary type of activity are made through Bancaja's subsidiaries. In relation to the shareholdings of Grupo Inversor Hesperia, S.A. in the share capital of companies with the same, similar or complementary activity type as NH Hoteles, S.A., it should be noted that the activity carried out by these companies consists of owning hotels that are operated by NH Hoteles, S.A.

In relation to the reference made to the shareholding of Sociedad de Promoción y Participación Empresarial Caja Madrid, S.A. (SPPE) in the company Inversora de Hoteles Vacacionales, S.A., it should be expressly noted that in fact it is the company Estrategia Inversiones Empresariales, SCR de Régimen Simplificado, S.A., a company of the Caja Madrid group that is 100% owned by SPPE, which owns 25% of the aforementioned company.

SECTION B.2.1:

The Executive Commission is currently inactive and has not held a meeting since the start of 2009.

The different committees have their respective secretaries (non-members), who are Mr Jose Maria Mas Millet, secretary of the Nominating and Compensation Committee and the Executive Committee, and Mr Roberto Chollet Ibarra, secretary of the Audit and Control Committee.

SECTION C.2:

In relation to the lease agreements between the significant shareholder PONTEGADEA INVERSIONES, S.L. and various companies of the NH HOTELES, S.A. group, it should be noted that these agreements have actually been signed by the company PONTEGADEA INMOBILIARIA, S.L., an entity that is 100% owned (indirectly) by PONTEGADEA INVERSIONES, S.L.

SECTION C.3:

The loans mentioned in the table in this section, made between HOTELES PARTICIPADOS, S.L. and NH FINANCE, S.A. have actually been signed by the two shareholders that own 50% of the company HOTELES PARTICIPADOS, S.L., (Caja Murcia and Caixa Nova).

SECTION F.25:

It is systematic practice in the company and is part of its internal procedures, that when new directors are selected, they are given informative and refresher sessions with the different management structures to provide them with information about internal aspects of the Company to help them to perform their duties better as directors of NH Hoteles, S.A.

You may include any other information, clarification or table in this section, related to the previous sections of the report, which may be relevant but not repetitive. Specifically, please indicate whether the company is subject to legislation other than Spanish in relation to corporate governance and, as applicable, include the information that must be provided and that is different to the information required by this report.

Binding definition of independent director:

Indicate whether any of the independent directors maintains or has maintained any relation with the company, its significant shareholders or its managers, the significance or importance of which would have disqualified the director from being considered as independent in accordance with the definition included in Section 5 of the Unified Code of Good Governance:

NO

Sign and date: This annual corporate governance report has been approved by the company's Board of Directors in its session of 28/02/2011

Indicate whether any directors voted against or abstained in relation to the approval of this report.

NO

CONSOLIDATED BALANCE SHEETS

NH HOTELES, S.A. AND SUBSIDIARIES

Consolidated Financial Statements for 2010 drawn up in accordance with the International Financial Reporting Standards adopted by the European Union.

**Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS's as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.*

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2010 AND 31 DECEMBER 2009
(THOUSANDS EUROS)

ASSETS	NOTE	31.12.10	31.12.09
NON-CURRENT ASSETS:			
Tangible fixed assets	8	2,199,307	2,386,093
Goodwill	6	120,408	121,134
Intangible assets	7	115,925	123,368
Real estate investments	9	7,864	5,671
Investments valued through the equity method	10	69,992	70,753
Non-current financial investments		177,051	158,809
Loans and accounts receivable not available for trading	11.1	155,607	147,649
Other non-current financial investments	11.2	21,444	11,160
Deferred tax assets	22	119,574	105,290
Other non-current assets		1,580	1,281
TOTAL NON-CURRENT ASSETS		**2,811,701**	**2,972,399**

ASSETS	NOTE	31.12.10	31.12.09
CURRENT ASSETS:			
Inventories	12	118,973	126,037
Trade accounts receivable	13	127,394	119,816
Non-trade accounts receivable		75,779	67,798
Public Administration accounts receivable	22	47,408	46,470
Other non-trade receivables		28,371	21,328
Current financial investments	14	94	14,217
Cash and cash equivalents	15	173,117	221,585
Other current assets		13,839	16,218
TOTAL CURRENT ASSETS		**509,196**	**565,671**
TOTAL ASSETS		**3,320,897**	**3,538,070**

**Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS's as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.*

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2010 AND 31 DECEMBER 2009
(THOUSANDS EUROS)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE	31.12.10	31.12.09
SHAREHOLDERS' EQUITY:			
Share capital	16.1	493,235	493,235
Parent Company's Reserves	16.2	510,434	498,812
Reserves in fully consolidated companies	16.3	276,673	375,258
Reserves in companies consolidated through proportional consolidation	16.3	2,277	3,293
Reserves in companies consolidated through the equity method	16.3	(10,174)	(5,023)
Equity valuation adjustments	16.4	(6,577)	(9,931)
Currency translation differences	16.3	(59,540)	(75,774)
Treasury shares	16.5	(370)	(1,100)
Consolidated Profit/(Loss) for the year		(41,296)	(97,100)
Shareholders' equity attributable to shareholders of the Parent Company		1,164,662	1,181,670
Minority interests	16.6	204,155	209,254
TOTAL SHAREHOLDERS' EQUITY		**1,368,817**	**1,390,924**

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE	31.12.10	31.12.09
NON-CURRENT LIABILITIES:			
Debts with credit institutions	17	663,793	942,555
Lease creditors		420	278
Other non-current liabilities	18	97,344	181,566
Provisions for contingencies and expenses	21	40,106	54,114
Deferred tax liabilities	22	257,155	255,511
TOTAL NON-CURRENT LIABILITIES		**1,058,818**	**1,434,024**

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTE	31.12.10	31.12.09
CURRENT LIABILITIES:			
Debts with credit institutions	17	507,966	394,003
Lease creditors		398	806
Trade creditors and other accounts payable	23	226,880	235,958
Public Administration creditors	22	30,633	34,765
Provisions for contingencies and expenses	21	5,129	10,756
Other current liabilities	24	122,256	36,834
TOTAL CURRENT LIABILITIES		**893,262**	**713,122**

TOTAL LIABILITIES AND EQUITY		**3,320,897**	**3,538,070**

Notes 1 to 33 set forth in the Consolidated Annual Report and Annexes I/II form an integral part of the Consolidated Balance Sheet at 31 December 2010.
The Consolidated Balance Sheet at 31 December 2009 is presented solely for the purposes of comparison.

CONSOLIDATED COMPREHENSIVE PROFIT AND LOSS STATEMENTS

**Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS's as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.*

CONSOLIDATED COMPREHENSIVE PROFIT AND LOSS STATEMENTS FOR 2010 AND 2009
(THOUSANDS EUROS)

	NOTE	2010	2009
Net turnover	26.1	1,281,940	1,209,750
Other operating income	26.1	16,714	5,185
Net gain (loss) on disposal of non-current assets	7, 8 y 26.1	2,142	(326)
Procurements		(83,559)	(91,329)
Purchases	12	(83,559)	(91,020)
Inventory impairments	12	-	(309)
Personnel expenses	26.3	(425,757)	(425,071)
Depreciation allowance	7, 8 y 9	(123,683)	(124,810)
Net losses from asset impairment	6, 7, 8 y 9	(2,240)	(36,832)
Other operating expenses	26.4	(656,402)	(617,880)
Profit (Loss) from entities valued through the equity method	10	(1,450)	(6,580)
Financial income	26.2	5,111	9,770
Change in fair value of financial instruments	20 y 26.2	649	1,286
Financial expenses	26.6	(61,902)	(57,698)
Net exchange rate differences (Income/(Expenses))		(21,941)	(357)
Impairment of financial investments	2.5.5	-	(488)
Gain (Loss) on disposal of financial investments		17,825	-
LOSSES BEFORE TAX FROM CONTINUING OPERATIONS		**(52,553)**	**(135,380)**
Corporate Income Tax	22	5,109	20,270
LOSS FOR THE FINANCIAL YEAR		**(47,444)**	**(115,110)**
Currency translation differences		18,772	(20,066)
Due to valuation of financial instruments		3,354	(3,637)
Income and expenses directly attributed to shareholders' equity		22,126	(23,703)
TOTAL COMPREHENSIVE LOSS		**(25,318)**	**(138,812)**
Year's losses attributable to:			
Shareholders of the Parent Company		(41,296)	(97,100)
Minority interests		(6,148)	(18,010)
Comprehensive loss attributable to:			
Shareholders of the Parent Company		(21,708)	(120,433)
Minority interests	16.6	(3,610)	(18,379)
Loss per share in Euros (basic and diluted)	5	(0.17)	(0.48)

Notes 1 to 33 set forth in the Consolidated Annual Report and Annexes I/II form an integral part of the Consolidated Comprehensive Profit and Loss Statement for 2010. The Consolidated Comprehensive Profit and Loss Statement for 2009 is presented solely for the purposes of comparison.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

**Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS's as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.*

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR 2010 AND 2009
(THOUSANDS EUROS)

	Share Capital	Issue premium	Parent Company Reserves		Reserves in companies consolidated through			Currency translation differences	Adjustments in equity valuation	Treasury Shares	Profits Attributable to the Parent Company	Total	Minority interests	Total Equity
			Legal Reserve	Voluntary Reserves	Full consolidation	Proportional consolidation	the equity method							
Balances at 31 December 2008	295,941	394,264	33,474	36,636	374,205	(160)	(2,733)	(56,076)	(6,296)	(38,027)	26,792	1,058,020	233,698	1,291,718
Adjustment due to change in accounting standard (Note 2.1.1)	-	-	-	-	-	-	-	-	-	-	(3,624)	(3,624)	-	(3,624)
Balances at 31 December 2008	295,941	394,264	33,474	36,636	374,205	(160)	(2,733)	(56,076)	(6,296)	(38,027)	23,168	1,054,396	233,698	1,288,094
Recognised income and expenses for the period	-	-	-	-	-	-	-	*(19,698)*	*(3,635)*	-	*(97,100)*	*(120,433)*	*(18,379)*	*(138,812)*
Increase of capital	197,294	22,067	-	-	-	-	-	-	-	41	-	219,402	1,760	221,162
Distribution of Profit (Loss) 2008-														
- To Reserves	-	-	1,858	13,097	7,050	3,453	(2,290)	-	-	-	(23,168)	-	-	-
- To Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in treasury shares	-	(291)	-	-	-	-	-	-	-	36,886	-	36,595	-	36,595
Acquisition of minority interests	-	-	-	-	(2,431)	-	-	-	-	-	-	(2,431)	(3,299)	(5,730)
Other movements	-	(2,293)	-	-	(3,566)	-	-	-	-	-	-	(5,859)	(4,526)	(10,385)
Balances at 31 December 2009	493,235	413,747	35,332	49,733	375,258	3,293	(5,023)	(75,774)	(9,931)	(1,100)	(97,100)	1,181,670	209,254	1,390,924
Adjustment due to change in accounting standard (Note 2.1.1)												-	-	-
Opening adjusted balance at 31 December 2009	493,235	413,747	35,332	49,733	375,258	3,293	(5,023)	(75,774)	(9,931)	(1,100)	(97,100)	1,181,670	209,254	1,390,924
Recognised income and expenses for the period	-	-	-	-	-	-	-	*16,234*	*3,354*	-	*(41,296)*	*(21,708)*	*(3,610)*	*(25,318)*
Increase of capital	-	-	-	-	-	-	-	-	-	-	-	-	255	255
Distribution of Profit (Loss) 2009-														
- To Reserves	-	-	1,289	11,603	(103,825)	(1,016)	(5,151)	-	-	-	97,100	-	-	-
- To Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in treasury shares	-	-	-	-	(407)	-	-	-	-	730	-	323	-	323
Acquisition of minority interests	-	-	-	-	(998)	-	-	-	-	-	-	(998)	(1,207)	(2,205)
Other movements	-	-	-	(1,270)	6,645	-	-	-	-	-	-	5,375	(537)	4,838
Balances at 31 December 2010	493,235	413,747	36,621	60,066	276,673	2,277	(10,174)	(59,540)	(6,577)	(370)	(41,296)	1,164,662	204,155	1,368,817

Notes 1 to 33 set forth in the Consolidated Annual Report and Annexes I/III form an integral part of the Consolidated Statement of Changes in Shareholders' Equity for the year ending on 31 December 2010.
The Consolidated Statement of Changes in Shareholders' Equity for the year ending on 31 December 2009 is solely presented for the purposes of comparison.

CONSOLIDATED CASH FLOW STATEMENTS

**Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS's as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.*

CONSOLIDATED CASH FLOW STATEMENTS FOR 2010 AND 2009 (THOUSANDS EUROS)	NOTE	FINANCIAL YEAR 2010	FINANCIAL YEAR 2009
1. OPERATING ACTIVITIES			
Consolidated profit (loss) before tax		(52,553)	(135,380)
Adjustments to profit (loss):			
Depreciation of tangible and intangible assets (+)	7, 8 y 9	123,683	124,810
Losses from asset impairment (net) (+/-)	7, 8 y 21	2,240	37,141
Provision allowances (net) (+/-)		-	15,762
Gains/Losses from the sale of tangible and intangible assets (+/-)		(2,142)	326
Gains/Losses from investments valued through the equity method (+/-)	10	1,450	6,580
Financial income (-)		(5,111)	(9,770)
Financial expenses and changes in fair value of financial instruments (+)		61,253	56,769
Net exchange rate differences (Income/(Expenses))		21,941	-
Other non-monetary items (+/-)		4,140	488
Adjusted result		154,901	96,726
Net change in assets / liabilities:			
(Increase)/Reduction in inventories		2,914	2,213
(Increase)/Reduction in trade and other receivables		(29,325)	9,356
(Increase)/Reduction in other current assets		1,325	(11,490)
Increase/(Reduction) in trade creditors		(2,327)	16,801
Increase/(Reduction) in other current liabilities		(7,538)	(21,478)
Increase/(Reduction) in provisions for contingencies and expenses		(15,569)	(8,826)
Tax on profits paid		(4,311)	(14,605)
Total net cash flow from operating activities (I)		**100,070**	**68,697**
2. INVESTMENT ACTIVITIES			
Financial income		4,818	9,443
Investments (-):			
Group companies, joint ventures and associated companies		(7)	(15,095)
Tangible and intangible assets and real estate investments		(70,659)	(171,494)
Non-current financial investments		(18,101)	(17,803)
Financial investments and other current financial assets		(94)	(13)
Other Assets		(299)	-
		(89,160)	**(204,405)**
Disposals (+):			
Group companies, joint ventures and associated companies		92,485	15
Tangible and intangible assets and real estate investments		33,488	27,455
Non-current financial investments		-	38
Financial investments and other current financial assets		(7,776)	7,381
Other Assets		-	4,890
		118,197	**39,779**
Total net cash flow from investment activities (II)		**33,855**	**(155,183)**
3. FINANCING ACTIVITIES			
Dividends paid out (-)		-	-
Interest paid for debts (-)		(61,406)	(61,632)
Changes in (+/-):			
Equity instruments			
- Capital		-	197,294
- Reserves		4,700	53,232
- Minority interests		(1,489)	(3,708)
Liability instruments (+/-):			
- Debts with credit institutions		(123,511)	136,978
- Leases		(222)	1,040
- Bonds and other tradable securities		-	(30)
- Other non-current liabilities		(2,190)	(32,135)
Total net cash flow from investment activities (III)		**(184,118)**	**291,039**
4. GROSS INCREASE/ REDUCTION OF CASH OR EQUIVALENT ASSETS (I+II+III)		**(50,193)**	**204,553**
5. Effect of changes in exchange rates on cash and equivalent assets (IV)		**(1,022)**	**113**
6. Effect of changes in scope of consolidation (V)		**703**	**-**
7. NET INCREASE/ REDUCTION OF CASH OR EQUIVALENT ASSETS (I+II+III)		**(48,468)**	**204,440**
8. Cash or equivalent assets at beginning of the year		**221,585**	**17,032**
9. Cash or equivalent assets at the end of the year (7+8)		**173,117**	**221,585**

Notes 1 to 33 set forth in the Consolidated Annual Report and Annexes I/II are an integral part of the Consolidated Cash Flow Statement for 2010.
The Consolidated Cash Flow Statement for 2009 is presented solely for the purposes of comparison.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACTIVITY AND COMPOSITION OF THE PARENT COMPANY

NH HOTELES, S.A. (hereinafter the Parent Company) was incorporated as a public limited company in Spain on 23 December 1881 under the trade name "Material para Ferrocarriles y Construcciones, S.A.", which was subsequently changed to "Material y Construcciones, S.A." (MACOSA) and later to "Corporación Arco, S.A."

In 1992, Corporación Arco, S.A. took over Corporación Financiera Reunida, S.A. (COFIR), while at the same time adopting the trade name of the company taken over and amending its corporate purpose to the new activity of the Parent Company, which focused on the management of its shareholding portfolio.

In 1998, Corporación Financiera Reunida, S.A. (COFIR) merged with Grupo Catalán, S.L. and its subsidiaries and Gestión NH, S.A. through the absorption of these companies by the former. Subsequently, Corporación Financiera Reunida, S.A. (COFIR) took over NH Hoteles, S.A., adopted its trade name and broadened its corporate purpose to allow for the direct performance of hotel activities, activities in which it had already been engaged indirectly through its subsidiaries.

Information on these mergers can be found in the financial statements of the years in which said transactions took place.

In October 1999, a public takeover bid for 100% of the capital of Sotogrande, S.A. was launched, which has allowed the Company to hold a permanent controlling interest exceeding 75%.

An essentially European expansion strategy was initiated in 2000, aimed at creating a strong global brand in the city hotel segment through the incorporation of the Dutch hotel company "Krasnapolsky Hotels and Restaurants N.V.", followed by the acquisition of the Mexican company "Nacional Hispana de Hoteles, S.R.L de C.V." in June 2001 and the purchase of the German hotel company "Astron Hotels" in 2002.

Between 2003 and 2005, the organic growth of the Group enabled it to break into different European markets, such as the Italian and Rumanian markets, as well as into new cities such as London. It also entered the quality tourist sector, with a significant real estate component, in 2005 with projects in Cap Cana (Dominican Republic) and the Mayan Riviera (Mexico).

Having consolidated acquisitions made in preceding periods, the Group continued its international expansion strategy in 2007 and 2008 through the acquisition of the Italian Framon and Jolly Hotel chains.

The Group entered into an agreement with Grupo Inversor Hesperia, S.A. (hereinafter "Hesperia") in 2009 to merge their respective hotel management businesses. The Group thus came to manage forty-nine hotels owned or managed by Hesperia.

The Parent Company heads a group of subsidiary companies engaged in the same activity, which together with NH Hoteles, S.A. comprise Grupo NH Hoteles (hereinafter the "Group" – see Annexes I, II and III).

At the end of 2010, NH Hoteles was operating hotels in twenty-four countries, with 400 hotels and 59,339 rooms, of which around 84% are located in Spain, Germany, Italy and the Benelux.

NH Hoteles, S.A. has its registered address in Madrid.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATION PRINCIPLES

2.1. Basis of presentation of the Financial Statements

The consolidated financial statements for 2010 were drawn up by the Directors of NH Hoteles, S.A. at the Board meeting held on 28 February 2011 in accordance with the legislative framework that applies to the Group. Said framework is set forth in the Code of Commerce and business law, and in the International Financial Reporting Standards (hereinafter IFRS) adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and in Act 62/2003 of 30 December on Fiscal, Administrative and Social Measures, and as such present a true image of Group's equity and financial situation at 31 December 2010 and of the results of Group's transactions, changes in equity and cash flows during the financial year ending on said date.

The consolidated financial statements of the Group and the entities that comprise it corresponding to 2010 are pending approval by their respective General Shareholders' Meetings or Members. Nonetheless, the directors of the Parent Company understand that said financial statements will be approved without any significant changes.

Since the accounting standards and valuation criteria applied in the preparation of the Group's consolidated financial statements for 2010 may differ from those used by some of its component companies, the necessary adjustments and reclassifications have been made to standardize them and adapt them to the IFRS adopted by the European Union.

2.1.1. Standards and interpretations effective in this period

In this financial year, the Group adopted the following standards and interpretations which entered in force in 2010 and apply to the Group's consolidated financial statements:

Review of IFRS 3 - Business combinations

The new IFRS 3 requires that business combinations are registered using the acquisition method, calculating goodwill as the difference between the sum of the consideration transferred plus any minority interests (with a new option to value them at fair value) plus the fair value of any previous stake in the company acquired minus the identifiable net assets belonging to the company acquired.

This new methodology substantially amends the preceding criterion on the one hand, by allowing minority interests to be valued at fair value and, on the other hand, by registering at fair value any previous stake and crediting it to results.

Furthermore, acquisition costs, such as professional fees, no longer form part of the consideration transferred for the purposes of calculating goodwill. The new standard states that they should be registered in the comprehensive consolidated profit and loss statement.

Lastly, contingent consideration should be measured at fair value on the date of acquisition. The subsequent valuation of such liabilities will generally be recognised in the consolidated comprehensive profit and loss statement. Changes in goodwill will only be allowed should more accurate information be obtained regarding fair value on the date of acquisition within the time limit of one year established as the provisional accounting period.

The Group did not combine any businesses in 2010.

Amendment to IAS 27 - Consolidated individual and financial statements

In accordance with this amendment, any acquisitions and disposals that do not constitute a takeover are registered in equity. No loss or gain is recognised and goodwill is not re-valued if an acquisition is made that increases the parent company stake in an existing subsidiary company or a disposal is made that does not lead to a loss of control.

This modification allows a corresponding part of the overall result to be allocated to minority interests, even when this causes a debit balance (negative equity).

In this regard, the Group increased its stake in Donnafugata Resort S.r.l. due to a dilution of minority interests in 2010. The difference between the consideration paid and the reduction in minority interests, which amounted to approximately 659 thousand euros, was recognised in equity.

Amendment to IAS 39 - Financial instruments: recognition and valuation – Elements assignable as a hedged item

This modification aims to clarify two specific issues connected with recording hedges: (a) when inflation is being hedged; and (b) cases in which purchased options can be used as a hedge. Concerning the hedging of inflation risks, the amendment states that inflation may only be hedged to the extent that it is a contractually identified portion of the cash flows to be hedged. Regarding options, only their intrinsic value may be used as a hedging instrument, not the value of time.

In this regard, the Group has taken into consideration this amendment to record hedges (see Note 19).

Amendment to IFRS 2 - Share-based payments – Payments based on group shares

This amendment clarifies how a subsidiary should record payment agreements based on shares when, by virtue of these, said subsidiary receives goods and employee or supplier services but another group entity (or shareholder of another group entity) has the obligation to pay for said employees or suppliers.

In this case, the entity receiving the goods or services in the transaction has to record said goods or services irrespective of which group entity (or shareholder) settles the transaction and irrespective of whether the transaction is settled in shares or cash from another Group company.

This amendment has had no impact at all on the Group's consolidated financial statements, as no payments based on shares have been made.

IFRS improvements published in April 2009

The annual improvements published in April of 2009 gave rise to a series of amendments to certain standards and interpretations.

The Directors of the Parent Company consider that the entry into force of these improvements does not significantly affect the consolidated financial statements.

New interpretations

IFRSIC 12 – "Service concession arrangements" addresses service concession arrangements in which a private sector operator (the operator) builds or acquires new or existing infrastructure for use in the supply of public services. More specifically, it only applies where a public or private sector body (the grantor) controls or regulates the services the operator has to provide, including who should supply such services and at what price and, furthermore, the grantor controls any significant residual interest in the relevant infrastructure at the end of the term of the arrangement or when the useful life of such assets coincides with the term of the concession/licence.

IFRSIC 15 – "Agreements for the construction of real estate" establishes how property developers' revenue should be recognised when units, such as flats or houses, are sold before construction work is completed. More specifically, it provides guidance on whether IAS 18 "Revenue" or IAS 11 "Construction Contracts" should be applied.

It concludes that the IAS 11 should apply if the buyer is capable of specifying the main structural elements of the design of the development before construction work begins or specify structural changes once the construction work is in progress. In all other cases IAS 18 will apply.

When IAS 11 applies, the revenue should be recognised in keeping with the level of the construction work in progress.

When IAS 18 applies, it should be determined whether it is an agreement for the sale of services or goods and the revenue will be duly recognised. Hence, revenue is recognised either at a specific moment or in an ongoing fashion, depending on the specific facts and circumstances.

Application of this standard has not led to changes in the accounting policies for revenue that have been applied to date.

IFRSIC 16 – "Hedges of a net investment in a foreign operation" clarifies three main aspects connected with exchange rate hedges.

IFRSIC 17 – "Distribution of non-cash assets to owners" addresses how the distribution of assets other than cash to shareholders ("dividends in kind") should be recorded.

IFRSIC 18 – "Transfers of assets from customers" deals with recording agreements under which an entity receives an asset from a customer to be used to connect the customer to a supply network or provide them with service.

The Directors of the Parent Company consider that the entry into force of these interpretations does not significantly affect the consolidated financial statements.

2.1.2. Standards and interpretations issued and not in force

The following standards and interpretations had been published by the IASB on the date these consolidated financial statements were drawn up but had not yet become effective either because that date was subsequent to the date of these consolidated financial statements or because they had not been endorsed by the European Union:

Standards, modifications and interpretations		Application mandatory for financial years starting
Approved for use in EU		
Amendment to IAS 32	Financial instruments: Classification of share rights	1 February 2010
Review of IAS 24	Related-party disclosures	1 January 2011
Amendment to IFRSIC 14	Prepayments of minimum funding requirements	1 January 2011
IFRSIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
Not approved for use in EU (1)		
IFRS 9	Financial instruments: Classification and measurement	1 January 2013
IFRS improvements	Amendment to a series of standards	Various (mainly from 1 January 2011)
Amendment to IFRS 7	Financial instruments: Financial asset transfers	1 July 2011

(1) Standards and interpretations not adopted by the European Union at the time these financial statements were drawn up.

The Directors of the Parent Company have assessed the potential impacts of these standards' future application and consider that their entry into force will not have a significant effect on the consolidated financial statements.

2.2. Information on 2009

As required by IAS 1, the information on 2009 contained in this consolidated annual report is presented for solely comparative purposes with the information on 2010 and consequently does not in itself constitute the Group's consolidated financial statements for 2009.

2.3. Currency of presentation

These consolidated financial statements are presented in euros. Any foreign currency transactions have been recorded in accordance with the criteria described in Note 4.9.

2.4. Responsibility for the information, estimates made and sources of uncertainty

The Directors of the Parent Company are responsible for the information contained in these consolidated financial statements.

Estimates made by the management of the Group and of the consolidated entities (subsequently ratified by their Directors) have been used in the Group's consolidated financial statements to quantify some of the assets, liabilities, revenue, expenses and undertakings recorded. These estimates essentially refer to:

- Losses arising from asset impairment.
- The hypotheses used in the actuarial calculation of liabilities for pensions and other undertakings made to the workforce.
- The useful life of the tangible and intangible assets.
- The valuation of consolidation goodwill.
- The market value of specific assets.
- The estimation of onerous agreements.

These estimates were made on the basis of the best available information on the facts analysed. Nonetheless, it is possible that future events may take place that make it necessary to modify them, which would be done in accordance with IAS 8.

No fact existed on the date these consolidated financial statements were issued that could be a source of significant uncertainty regarding the accounting effect such facts could have in future financial years.

In 2010, the Group proceeded to re-estimate the useful life of the La Reserva Golf Course, which was initially linked to the pace of playing right sales. As a consequence of the current economic situation and in particular of the tourist industry, the business plan initially put forward for this golf course has not been met over the last few years. The Group has therefore proceeded to depreciate this golf course's assets on the basis of their remaining useful life. This change of estimation means increasing annual expenditure for depreciation in 2010. More specifically, this was increased by 563,000 euros.

In addition, the useful life of the assets connected with the Servicios de Agua Sotogrande concession was re-estimated in 2010 based on an internal study conducted by the Group's Technical Department. All the assets connected with the concession were initially depreciated with a useful life of 10 years without differentiating the nature of each asset. On the basis of the study conducted, these assets have been classified into categories depending on their useful life, which ranges from ten to thirty years. As a consequence of this change of estimation, the depreciation allowance for 2010 was reduced by 500,000 euros.

2.5. Consolidation principles applied

2.5.1. Subsidiaries (See Annex I)

Subsidiaries are considered as any company included within the scope of consolidation in which the Parent Company directly or indirectly controls their management due to holding the majority of voting rights in the governance and decision-making body, with the capacity to exercise control. This capacity is shown when the Parent Company holds the power to manage an investee entity's financial and operating policy in order to obtain profits from its activities.

The financial statements of subsidiaries are consolidated with those of the Parent Company by applying the full consolidation method. Consequently, all significant balances and effects of any transactions taking place between them have been eliminated in the consolidation process.

Stakes held by minority members in the Group's equity and results are respectively presented in the "Minority interests" heading of the consolidated balance sheet and of the consolidated comprehensive profit and loss statement.

The profit or loss of any subsidiaries acquired or disposed of during the financial year are included in the consolidated comprehensive profit and loss statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

2.5.2. Joint ventures (See Annex II)

Joint ventures are considered to be any ventures in which the management of the investee companies is jointly held by the Parent Company and third parties not related to the Group, without any of them holding a greater degree of control than the others. The financial statements of joint ventures are consolidated by the proportional consolidation method, so that aggregation of balances and subsequent eliminations are carried out in proportion to the stake held by Group in relation to the capital of said entities.

If necessary, any adjustments required are made to the financial statements of said companies to standardise their accounting policies with those used by the Group.

2.5.3. Associated companies (See Annex III)

Associated companies are considered as any companies in which the Parent Company holds the capacity to exercise significant influence, though it does not exercise either control or joint control. In general terms, it is assumed that significant influence exists when the percentage stake (direct or indirect) held by the Group exceeds 20% of the voting rights, as long as it does not exceed 50%.

Capredo Investments GmbH is a vehicle lacking any inherent activity used for making final investments in a series of companies domiciled in the Dominican Republic in which the Group holds an effective stake of 25%. Hence, this vehicle has been considered an associated company.

Associated companies are valued in the consolidated financial statements by the equity method; in other words, through the fraction of their net equity value the Group's stake in their capital represents once any dividends received and other equity write-offs have been considered.

2.5.4. Foreign currency conversion

The following criteria have been applied to convert into euros the different headings of the consolidated balance sheet and the consolidated comprehensive profit and loss statement of foreign companies included within the scope of consolidation:

- Assets and liabilities have been converted by applying the effective exchange rate prevailing at year-end.
- Equity has been converted by applying the historical exchange rate. The historical exchange rate existing at 31 December 2003 of any companies included within the scope of consolidation prior to the transitional date has been considered as the historical exchange rate.
- The consolidated comprehensive profit and loss statement has been converted by applying the average exchange rate of the financial year.

Any difference resulting from the application these criteria have been included in the "Translation differences" line under the "Equity" heading.

Any adjustments arising from the application of IFRS at the time of acquisition of a foreign company with regard to market value and goodwill are considered as assets and liabilities of such company and are therefore converted using the exchange rate prevailing at year-end.

2.5.5. Changes in the scope of consolidation

The most significant changes in the scope of consolidation during 2010 and 2009 that affect the comparison between financial years were the following:

a.1. Changes in the scope of consolidation in 2010

a.1.1. Incorporations

The companies which were incorporated into the scope of consolidation in 2010, along with method of consolidation employed were the following:

Company	Method of consolidation	Effective date of acquisition
Parque de la 93, S.A.	Full consolidation	25/11/2010
Sotocaribe, S.L.	Equity method	25/06/2010

Parque de la 93, S.A., which owns a hotel project in the city of Bogota, Colombia, was incorporated into the scope of consolidation in the second half of 2010.

The breakdown of their assets and liabilities is as follows:

	Fair Value
Tangible fixed assets	13,005
Cash and cash equivalents	703
Other current liabilities	**(59)**
Net assets acquired	13,649
Cost	**13,649**

If said business combination had taken place on 1 January 2009, the net turnover and result of Grupo NH for 2010 would have increased by 9,000 euros.

Along with other members unrelated to the Group, the Group incorporated Sotocaribe, S.L on 25 June 2010, in which it holds a 35.5% stake, for the purpose of making it the parent company of the Group's real estate investments in Mexico.

On the same date, Sotocaribe, S.L. implemented an increase of capital in which the Group contributed its stake in the share capital of Desarrollos Isla Blanca, S.L. and in Desarrollos Isla Poniente, S.L. No consolidation differences whatsoever resulted from this transaction.

On 13 January 2010, a deed was executed by means of which Donnafugata Resort S.r.l. approved an increase of capital amounting to 5,074,000 euros. The Group subscribed 3,327,000 euros, thereby increasing its stake from 54.97% to 58.82%.

Several companies were incorporated in 2010, including: De Nederlanse Club Ltd., Heiner Gossen Hotelbetrieb GmbH, HEMV Amsterdam B.V. and HHM Jolly B.V.

a.1.2. Exits

The companies Servicios e Inmuebles Turísticos S.A. de C.V., Chartwell Inmobiliaria de Monterrey, S.A. de C.V. and Chartwell Inmobiliaria de Juárez S.A. de C.V. were sold on 22 February 2010 for a total of 42 million euros. These companies own three hotels located in the Mexican cities of Guadalajara, Monterrey and Ciudad Juárez respectively. The capital gain recorded for this transaction amounted to 3 million euros.

The companies Jolly Hotels St. Ermin's B.V. and Jolly Hotels UK Ltd. in United Kingdom were sold on 10 May 2010 for a total of 75 million euros. These companies own one hotel in London. The loss recorded for this transaction amounted to 12 million euros.

The resulting effect of the exit of the above-mentioned companies on the consolidated balance sheet at 31 December 2010 is as follows:

	Thousands Euros
Tangible fixed assets	147,523
Goodwill	471
Intangible assets	10
Other long-term debts	(42,850)
Current assets and liabilities	10,254
Net assets disposed of	**115,408**
Recycling of translation differences IFRS 1	(17,874)
Consideration	(83,917)
Loss before minority interests	**13,617**
Minority interests	(3,935)
Consolidated loss	**9,682**

a.2. Changes in the scope of consolidation in 2009

a.2.1. Incorporations

The only company incorporated into the scope of consolidation in 2009, along with the consolidation method employed, is shown below:

Company	Method of consolidation	Effective date of acquisition
Hoteles Hesperia, S.A.	Full Consolidation	27/10/2009

The purchase and sale agreement for shares in "Hoteles Hesperia, S.A." was entered into by "Grupo Inversor Hesperia, S.A.", "NH Hoteles, S.A." and "NH Hoteles España, S.L." on 27 October 2009 for the purpose of integrating "Hoteles Hesperia, S.A." into the Group.

Hoteles Hesperia added a total of 49 hotels to the Group, of which 45 are located in major Spanish cities, one in Andorra, one in London and two in Isla Margarita, Venezuela.

The final price for the transfer of the above-mentioned shares was appraised by an independent expert in the first quarter of 2010.

The breakdown of the business combination is as follows (in thousands of euros):

	Book value	Adjustments	Fair value
Tangible fixed assets	1,520	-	1,520
Intangible fixed assets	4,280	8,404	12,684
Recognised tax credits	-	1,241	1,241
Deferred tax assets	-	1,437	1,437
Deferred tax liabilities	-	(3,354)	(3,354)
Other long-term debts	(12)	(2,014)	(2,027)
Working capital	279	-	279
Non-current financial investments	108	-	108
Net assets acquired	**6,175**	**5,714**	**11,889**
Cost of business combination			**11,889**

If said business combination had taken place on 1 January 2009, the turnover and results of Grupo NH Hoteles for 2009 would have been increased by approximately 10.96 million euros and reduced by 0.47 million euros, respectively.

a.2.2. Others corporate transactions

Additionally, Sotogrande, S.A. subscribed a cash increase of capital in Donnafugata Resort S.r.l., which caused a dilution of minority interests to the amount of 46,000 euros.

On 18 June 2009, NH Hoteles, S.A. swapped 750,000 treasury shares for minority interests in Hoteles Palacio de Castilla, S.A. and Nuevos Espacios Hoteleros, S.L.

NH Hoteles, S.A. fully subscribed a non-cash increase of capital in Sotogrande, S.A. in 2009 by contributing its stake in Desarrollos Isla Poniente, S.L. This transaction caused a dilution of minority interests in Sotogrande, S.A. amounting to 482,000 euros.

On 25 March 2009, Sotogrande, S.A. granted members representing approximately 30% of the capital of its Italian subsidiary Donnafugata Resort S.r.l. a sale option on their stake in said company. The accounting of this option involved recording a liability of 5,176,000 euros and a reduction of reserves and minority interests amounting to 3,254,000 and 1,922,000 euros, respectively.

3. DISTRIBUTION OF EARNINGS

The Directors of the Parent Company will propose to the Ordinary General Shareholders' Meeting the following distribution of earnings for 2010:

	Thousands of euros
To legal reserve	6,500
To restricted reserve	2,123
To voluntary reserves	56,379
Parent Company Profit	**65,002**

4. VALUATION STANDARDS

The main principles, accounting policies and valuation standards applied by the Group to draw up these consolidated financial statements, which comply with IFRS in force on the date of the relevant financial statements, have been the following:

4.1. Tangible fixed assets

Tangible fixed assets are valued at their original cost. They are subsequently valued at their reduced cost resulting from cumulative depreciation and, as appropriate, from any impairment losses they may have suffered.

Due to the transition to IFRS, the Group reappraised the value of some land to its market value on the basis of appraisals made by an independent expert for a total amount of 217 million euros. The reappraised cost of such land was considered as a cost attributed to the transition to the IFRS. The Group followed the criterion of not revaluing any of its tangible fixed assets at subsequent year-ends.

Enlargement, modernization and improvement costs entailing an increase in productivity, capacity or efficiency, or a lengthening of the assets' useful life are recorded as higher cost of such assets. Conservation and maintenance costs are charged against the consolidated comprehensive profit and loss statement for the year in which they are incurred.

The Group depreciates its intangible fixed assets following the straight line method, distributing the cost of the assets over their estimated useful lives, in accordance with the following table:

	Estimated years of useful life
Buildings	33-50
Plant and machinery	10-30
Other fixtures, tools and furniture	5-10
Other fixed assets	4-5

4.2. Real estate investments

These reflect the land, buildings and real estate constructions held either for rental or to obtain a capital gain on their sale.

Real estate investments are valued at their original cost. Buildings are valued according to the cost of the corresponding certifications of the works executed plus any expenses associated with the project (works management, fees, architect's fees, etc.) and depreciated on a straight-line basis depending on their useful life, which is the same as that used in tangible fixed assets for similar elements.

Interest costs attributable to these investments are activated during the construction period up to the moment they are ready for sale and are considered as an increased investment cost. Should financial income be obtained from temporary investment of surpluses, said income reduces the cost of the investment.

Revenue and gains or losses arising from the sale of the assets to buyers and the execution of deeds of sale, being the time at which the inherent rights and obligations are transferred, are recognised. Rental income is attributed to the results on an accrual basis.

An accrual basis is used to recognise rental costs, charging all maintenance, management and depreciation costs of the rented assets to profit and loss.

The Group periodically determines the fair value of real estate investment elements, using appraisals performed by independent experts as a reference (see Note 9).

4.3. Consolidation goodwill

Consolidation goodwill reflects excess acquisition cost when compared to the Group's interest in the market value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity on the date of acquisition.

Any positive difference between the cost of interests in the capital of consolidated and associated entities and the corresponding theoretical book values acquired, adjusted on the date of the first consolidation, are recognised as follows:

1. If they are assignable to specific equity elements of the companies acquired, by increasing the value of any assets whose market value is above their net book value appearing in the balance statements.
2. If they are assignable to specific intangible assets, by explicitly recognising them in the consolidated balance sheet, provided their market value on the date of acquisition can be reliably determined.
3. Any remaining differences are entered into the books as goodwill, which is assigned to one or more specific cash-generating units (in general hotels) which are expected to make a profit.

Goodwill will only be recorded when it has been acquired for valuable consideration.

Any goodwill generated through the acquisition of associated companies is recorded as an increased value of the interest.

Any goodwill generated through acquisitions prior to the IFRS transitional date, 1 January 2004, is kept at its net value recorded at 31 December 2003 in accordance with Spanish accounting standards.

Goodwill is not depreciated. In this regard, the Group estimates, using the so-called "Impairment Test", the possible existence of permanent losses of value that would reduce the recoverable value of goodwill to an amount less that the net cost recorded at the end of each year and provided evidence of a loss of value exists. Should this be the case, they are written down in the consolidated comprehensive profit and loss statement. Any write-downs entered into the books cannot be subject to subsequent review.

All goodwill is assigned to one or more cash-generating units in order to conduct the impairment test. The recoverable value of each cash-generating unit is determined either as the value in use or the net sale price that would be obtained for the assets assigned to the cash-generating unit, whichever is higher. The value in use is calculated on the basis of estimated future cash flows discounted at a pre- tax rate that reflects the current market valuation with respect to the cost of money and the specific risks associated with the asset.

The discount rates used by NH Hoteles Group for these purposes range between 9.1% and 14%, depending on the different risks associated with each specific asset.

4.4. Intangible assets

Intangible assets are those non-monetary assets as well as those specifically identifiable as such, wich have been acquired from third parties or developed by the Group. Only those whose cost can be estimated in an objective way and from which future economic profits are expected are recognised.

Any assets deemed to contribute indefinitely to the generation of profits are considered to have an indefinite useful life. The remaining intangible assets are considered as having a "specific useful life".

Intangible assets with an indefinite useful life are not depreciated and are hence subjected to the "impairment test" at least once a year (see Note 4.3).

Intangible assets with a definite useful life are depreciated according to the straight-line method on the basis of the estimated years of useful life of the relevant asset.

The following are the main items recorded under the "Intangible assets" heading:

i) Rights of use: This item reflects the right of operating Hotel NH Plaza de Armas in Seville acquired in 1994, whose depreciation is imputed to the consolidated comprehensive profit/loss over the thirty years of the term of the agreement at a growing rate of 4% per year.

ii) "Rental agreement premiums" reflect the amounts paid as a condition to obtain certain hotel lease agreements. They are depreciated on a straight-line basis depending on the term of the lease.

iii) "Concessions, patents and trademarks" basically reflect the disbursements made by Gran Círculo de Madrid, S.A. for the refurbishment and remodelling works of the building where the Casino de Madrid is located. The depreciation of such works is calculated on a straight-line basis by taking into account the term of the concession for operating and managing the services provided in the building where the Casino de Madrid is located, which finalises on 1 January 2037.

iv) "Software applications" include different computer programs acquired by different consolidated companies. These programs are valued at their original cost price and depreciated at 25% per year on a straight-line basis.

4.5. Impairment in the value of tangible and intangible assets excluding goodwill

The Group assesses the possible existence of a loss of value each year that would oblige it to reduce the book values of its tangible and intangible assets. A loss is deemed to exist when the recoverable value is less than the book value.

The recoverable amount is either the net sale value or the value in use, whichever is higher. The value in use is calculated on the basis of estimated future cash flows discounted at a pre-tax rate that reflects the current market valuation with respect to the cost of money and the specific risks associated with the asset.

The discount rates used by NH Hoteles Group for these purposes range between 9.1% and 14%, depending on the different risks associated with each specific asset.

If the recoverable amount of an asset is estimated to be lower than its book value, the latter is reduced to the recoverable amount by recognising the corresponding write-off using the consolidated comprehensive profit and loss statement.

If an impairment loss is subsequently reversed, the book value of the asset is increased to the limit of the original value at which such asset was recorded before the loss of value was recognised.

Information on impairment losses detected in the financial year appears in Note 8 of this consolidated annual report.

4.6. Leases

The Group generally classifies all leases as operating leases. Only those leases which substantially transfer to the lessee the liabilities and advantages arising from the property and under the terms of which the lessee holds an acquisition option on the asset at the end of the agreement under conditions that could be clearly deemed as more advantageous than market conditions are classified as financial leases.

4.6.1. Operating leases

In operating lease transactions, ownership of the leased asset and substantially all the risks and advantages arising from the ownership of the asset remain with the lessor.

When the Group acts as the lessor, it recognises the income from operating leases according to the straight-line method in keeping with the terms of the agreements entered into. These assets are depreciated in accordance with the policies adopted for similar own use tangible assets. When the Group acts as the lessee, lease expenses are charged to the consolidated comprehensive profit and loss statement on a straight-line basis.

4.6.2. Financial leases

The Group recognises financial leases as assets and liabilities in the consolidated balance sheet at the start of lease term at the market value of the leased asset or at the actual value of the minimum lease instalments, should the latter be lower. The interest rate established in the agreement is used to calculate the actual value of the lease instalments.

The cost of assets acquired through financial leasing agreements is recorded in the consolidated balance sheet according to the nature of the asset described in the agreement.

The financial expenses are distributed over the period of the lease in accordance with a financial criterion.

4.7. Financial instruments

4.7.1. Financial assets

Financial assets are recognised in the consolidated balance sheet when they are acquired and initially recorded at their fair value. The financial assets held by Group companies are classified as follows:

- Marketable financial assets: These include any assets acquired by the companies with the aim of taking short-term advantage of any changes their prices may undergo or any existing differences between their purchase and sale price. This item also includes any financial derivatives that are not considered accounting hedges.

- Financial assets at maturity: These are assets subject to a fixed or determinable redemption amount which mature over time. The Group declares its intention and its capacity to keep these in its power from the date of acquisition to their maturity date.

- Outstanding loans and accounts receivable generated by the Company: These are financial assets generated by the companies in exchange for deliveries of cash or the supply of goods or services.

Marketable financial assets are valued after their acquisition at fair value, and any changes are included in the net profit/loss for the financial year.

Fair value of a financial instrument on a given date is construed as the amount for which it could be bought or sold on that same date by two knowledgeable parties acting freely and prudently under conditions of mutual independence.

Financial assets at maturity and accounts receivable issued by the Group are valued at their depreciated cost and any interest accrued is recognised in the consolidated comprehensive profit and loss statement on the basis of their effective interest rate. Depreciated cost is construed as the initial cost minus any charges or depreciation of the principal, taking into account any potential reductions arising from impairment or default.

Specifically, the general criterion used by the Group to calculate any valuation corrections made to trade and other accounts receivable consists of provisioning for any balances expired at more than 180 days for the hotel business and at one year for real estate business.

4.7.2. Cash and cash equivalents

This heading of the consolidated balance sheet reflects the position of cash, demand accounts and other highly liquid short-term investments that can be quickly converted into cash and which are not subject to any value change risks.

4.7.3. Financial liabilities

Bank loans

Any loans received from banking institutions are recorded at the amount received, net of any costs incurred in the transaction. They are subsequently valued at depreciated cost. Financial expenses are recorded on an accrual basis in the consolidated comprehensive profit and loss statement using the effective interest rate method, and their amount is added to liabilities to the extent to which they are not settled in the period they were produced.

Trade creditors and other accounts payable

Trade accounts payable are initially recorded at fair value and are subsequently valued at depreciated cost using the effective interest rate method.

Derivative financial instruments and hedge accounting

Derivatives used to hedge against the risks the Group's operations are exposed to, mainly exchange and interest rate risks, are valued at market value on the date they are contracted. Any subsequent changes in their market value are recorded as follows:

- Concerning fair value hedges, the differences produced in both the hedging elements as well as in the hedged elements (regarding the kind of risk hedged) are directly recognised in the consolidated comprehensive profit and loss statement.

- For cash flow hedges, valuation differences in the effective part of the hedge elements are temporarily recorded in the equity heading "Equity valuation adjustments" and not recognised as results until the losses or gains of the hedged element are recorded in profit or loss or until the hedged element matures. The ineffective part of the hedge is directly entered into the consolidated comprehensive profit and loss statement.

Hedge accounting is interrupted when the hedging instrument expires or is sold or finalised or exercised, or when it no longer meets the hedge accounting criteria. At that time, any cumulative gain or loss corresponding to the hedging instrument that has been recorded in equity is kept there until the expected transaction is undertaken.

When the transaction covered by the hedge is not expected to take place, the net cumulative gains or losses recognised in equity are transferred to the profit or loss for the period. Any changes in the fair value of derivative financial instruments which fail to meet hedge accounting criteria are recognised in the consolidated comprehensive profit and loss statement as they arise.

The derivatives involved in other financial instruments or in other important agreements are recorded separately as derivatives only when their risks and characteristics are not closely related to those of the important agreements and as long as such important agreements are not valued at fair value through the recognition of any changes occurred to fair value in the consolidated comprehensive profit and loss statement.

Valuation techniques and hypotheses that apply to the measurement of fair value

The fair values of financial assets and liabilities are determined as follows:

- The fair value of financial assets and liabilities under standard terms and conditions which are traded in active liquid markets are based on the prices listed on the market.

- The fair value of other financial assets and liabilities (excluding derivatives) is determined in accordance with generally accepted valuation models on the basis of cash flow discounting using the price of observable market transactions and contributor listings of similar instruments.

- In order to determine the fair value of interest rate derivates, cash flow discounting is used based on the implicit flow determined by the interest rate curve according to market conditions. In order to determine the options fair value, the Group uses the Black & Scholes valuation model and its variants, using for this purpose market volatilities for the strike and maturity prices of said options.

Any financial instruments valued after their initial recognition at fair value are classified as level 1 to 3 based on the extent to which fair value can be observed:

- Level 1: Includes any instruments indexed to listed prices (without adjustment) of identical assets or liabilities in active markets.

- Level 2: Includes any instruments indexed to other observable inputs (which are not the listed prices included under Level 1) for assets or liabilities, be it directly (i.e., prices) or indirectly (i.e., derived from prices).

- Level 3: Includes any instruments indexed to valuation techniques, which include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

4.7.4. Equity instruments

An equity instrument represents a residual interest in the equity of the Parent Company once all its liabilities are subtracted.

Equity instruments issued by the Parent Company are recorded in equity for the amount received, net of the issue expenses.

4.8. Inventories

The criteria followed to value the different elements that comprise inventories are as follows:

Real estate operations (through Sotogrande, S.A.)

All costs incurred are identified by area and product in order to determine the cost of each item at the moment it is sold. This method assigns to the cost of the sale a proportional part of the total value of the land and of the development costs based on the percentage the square metres sold represents of the total square metres available for sale in each area.

All land and plots held for sale are classified under current assets though their construction and sale period may exceed one year.

i) Undeveloped land: Undeveloped land is valued at original cost, which includes any legal expenses for deeds of sale, registration and any taxes not directly recoverable from the Inland Revenue.

ii) Developed land: Developed land is valued at cost or market value, whichever is lower. The cost mentioned above includes the cost of land, development costs and the cost of technical projects. Taking into consideration the peculiar characteristics the Company's business (development and sale of a property measuring approximately 16 million square metres over a period of approximately 50 years), the value of developed land includes the personnel expenses and overheads incurred by the technical department in connection with the development and design of the different projects. The personnel expenses and overheads directly attributable to such projects amounted to approximately 21,000 euros in 2010 (326,000 euros in 2009).

iii) Buildings constructed and under construction: These are valued at cost price, which includes the proportional part of the cost of land and infrastructures and any costs directly incurred in connection with the different promotions (projects, building licences, certifications of works, declaration of new works, registration at registry, etc.). The Group takes into account the market value and the term for realising the sales of its finished products, making the necessary value adjustments whenever needed.

Hotel operations

Catering edible products are valued at original cost or at realisation value, whichever is lower.

4.9. Transactions and balances in foreign currency

The Group's functional currency is the euro. Consequently, any transactions in currencies other than the euro are considered as "foreign currency" and are recorded according to the prevailing exchange rate on the date the transactions are performed.

Cash assets and liabilities denominated in foreign currencies are converted into the functional currency at the prevailing exchange rate on the date of each consolidated balance sheet. Any gains or losses thus revealed are directly attributed to the consolidated comprehensive profit and loss statement.

4.10. Classification of financial assets and debts into current and non-current

In the consolidated balance sheet attached, financial assets and debts are classified on the basis of their maturity; that is to say, those whose maturity date is equivalent to or less than twelve months are classified as current and those whose maturity date exceeds such period as non-current.

In this regard, mortgage loans connected with real estate inventories whose initial maturity date schedule includes maturity dates at more than 12 months totalling 9,404,000 euros are classified as current liabilities (see Note 17).

4.11. Income and expenses

Income and expenses are recorded on an accrual basis, i.e., when the real flow of goods and services they represent occurs irrespective of the moment when the monetary or financial flows arising from them arise.

More specifically, income is calculated at the fair value of the consideration to be received and represents the amounts to be charged for the goods and services delivered within the ordinary framework of operations, subtracting any discounts and taxes.

Income and expenses arising from interest are accrued on the basis of a financial timing criterion depending on the outstanding principal to be charged for or paid and the effective interest rate that applies.

In accordance with IAS 18, the Group follows the criterion of recording sales of real estate under construction and, consequently, any profits from the same at the moment the significant risks and benefits of such real property are transferred to the buyer and the buyer has taken effective control over the property.

As a general rule and following the principle of correlation between income and expenses, any commission fees for sales staff and others of a general nature (sales representatives, advertising, etc.) not specifically attributable to real estate developments, though solely connected to the same, incurred from the moment the developments are initiated up to the moment the sales are entered into the books under the "Other current assets" heading of the assets side of the consolidated balance sheet, so that they may be attributed to expenses at the moment the sales are recorded, provided the margin from the sale agreements entered into pending entry into the books exceeds the amount of such costs at the end of each year.

4.12. Official subsidies

Group companies follow the criteria set out below to record official subsidies:

- Non-reimbursable capital subsidies (connected with assets) are valued at the amount granted, recorded as deferred income and attributed to results in proportion to the depreciation of the assets financed by such subsidies during the financial year.

- Operating subsidies are recorded as income at the moment of their accrual.

4.13. Tax on profits

The cost of the year's tax on profits is calculated through the sum of the current tax resulting from applying the tax rate on the year's taxable base and then applying any admissible tax write-offs plus any changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities include any temporary differences, being any amounts expected to be payable or recoverable due to differences between the book values of the assets and liabilities and their tax value, as well as any tax losses pending offsetting and any credits resulting from unapplied tax write-offs. Said amounts are recorded by applying to the relevant temporary difference or credit the tax rate at which they are expected to be recovered or settled.

In some countries, the tax rate varies depending on whether a transfer of assets is made. In these cases, the Group's policy consists of applying the effective tax rate at which they are expected to be recovered or settled. In the opinion of the Directors of the Group, the deferred tax thus calculated covers the amount which may eventually be settled, if any, in the foregoing case.

Deferred tax liabilities for all taxable temporary differences are recognised, except for those in which the temporary difference arises from the initial recognition of goodwill whose depreciation may not be written-off for tax purposes or the initial recognition of other operating assets and liabilities which do not affect either the tax or accounting result.

Deferred tax assets identified as temporary differences, meanwhile, are only recognised if it is deemed probable that the consolidated entities will make sufficient tax profits in the future to make them effective and they do not come from the initial recognition of other assets and liabilities in a transaction which does not affect either the tax or accounting result. Other deferred tax asset (tax losses and write-offs pending offset) are only recognised if it is deemed likely that the consolidated companies will make sufficient tax profits in the future to make them effective.

At each year-end, deferred taxes (both assets and liabilities) are reviewed in order to verify that they remain in force and the relevant corrections are made in accordance with the outcome of the analyses conducted.

4.14. Undertakings made to the workforce

Spanish hotel companies are obliged to make a specific number of monthly salary payments to any employees who leave the company due to retirement, permanent incapacity to work or upon reaching a certain age, as well as to those who have attained a certain level of seniority and meet certain pre-established requirements.

The liabilities arising from these labour commitments are recorded under the "Provisions for contingencies and expenses" heading of the consolidated balance sheet attached (see Note 21).

In accordance with Real-Decree Law 16/2005, the Group has outsourced the above-mentioned undertakings, financing all the services accrued in advance.

4.15. Onerous agreements

The Group considers onerous agreements to be those in which the inevitable costs of fulfilling the obligations they entail exceed the economic benefits expected from them.

The Group follows the criterion of recording a provision for the current value of the aforementioned difference between the cost and benefit of the agreement.

The pre-tax discount rates used reflect the current market valuae of money, as well as the specific risks associated with these agreements. More specifically, a rate between 9.1% and 11.3% has been used.

4.16. Share-based remuneration schemes

These schemes are valued at the time of granting, using a financial method based on a binomial model which takes into consideration the strike price, volatility, the exercise period, the expected dividends, the risk-free interest rate and the hypotheses made concerning the financial year.

In accordance with IFRS 2, above-mentioned valuation is attributed to profit or loss under personnel expenses during the period established for the employee to remain in the company before exercising the option. Said value is imputed on a straight-line basis to the consolidated comprehensive profit and loss statement from the date the scheme was implemented to the exercise date. As set forth in the Rules of the Scheme, settlement is to be made in cash. Therefore, the valuation obtained is recognised with a counter liability in favour of employees. Furthermore, the Group re-estimates the initial valuation mentioned above every year by recognising in the year's profit or loss both the part corresponding to the year in question and those corresponding to previous years.

Subsequently, the difference between the settlement and the recognised liability, as described above, for any transactions settled is recognised in the consolidated comprehensive profit and loss statement once the required permanence period has transpired. Ongoing transactions at year-end are likewise charged to the consolidated comprehensive profit and loss statement for the amount of the difference between the recognised liability to date and the corresponding updated value.

Lastly, as set out in Note 19 of this consolidated annual report, in order to hedge against any possible financial liabilities from such remuneration scheme, the Group has contracted a financial instrument to hedge the future cash flows needed to settle this remuneration scheme. This financial instrument (an equity swap arrangement) is considered as a derivative and recorded in accordance with the general rules that apply to such instruments (see Note 4.7).

4.17. Treasury shares

Pursuant to IAS 32, treasury shares are presented by reducing the Group's equity.

The gains and losses obtained by the Group on the disposal of these treasury shares are recorded in the "Share premium" heading of the consolidated balance sheet.

4.18. Provisions

The Group follows the policy of provisioning for the estimated amounts arising from ongoing litigation, indemnities or obligations, as well as for any surety or guarantees granted by Group companies which could involve a the Group in a payment obligation (either legal or implicit), provided the amount can be reliably estimated.

4.19. Severance payments

In accordance with current employment regulations and certain employment contracts, the Group is obliged to pay indemnities to employees who are dismissed under certain conditions. The Group paid a total of 5,638,000 euros for this item in 2010 (4,414,000 euros 2009).

The consolidated balance sheet at 31 December 2010 reflects a provision for this item for the amount of 2,118,000 euros.

4.20. Environmental policy

Investments arising from environmental activities are valued at their original cost and activated as increased fixed asset or inventory costs in the financial year in which they are incurred.

Any expenses arising from environmental protection and improvement are attributed to the profit or loss for the year when they are incurred, irrespective of the moment when the cash or financial flows arising from them arise.

Provisions for likely or certain liabilities, ongoing litigation and outstanding indemnities or obligations of an indeterminate amount connected with the environment and not covered by the insurance policies taken out are incorporated at the moment the liability or obligation linked to the indemnities or payment arises.

4.21. Consolidated cash flow statements

The following terms with their corresponding explanation are used in the consolidated cash flow statements prepared using the indirect method:

- Cash flows: Inflows or outflows of cash or cash equivalents. The latter are construed as highly liquid short-term investments with a little risk of change in their value.
- Operating activities: The typical activities of the entities comprising the consolidated group, along with other activities that cannot be classified as investment or financing activities.
- Investment activities: Activities involving the acquisition, disposal or drawing down by other means of long-term assets and other investments not included under cash and cash equivalents.
- Financing activities: Activities resulting in changes in the amount and composition of equity and liabilities and which do not form part of the operating activities.

5. LOSS PER SHARE

The basic profit per share is determined by dividing the net profit or loss attributed to the Group (after taxes and minority interests) by the weighted average number of shares in circulation during the financial year, as shown below:

	Thousand of euros		Change
	2010	2009	
Profit (Loss) for the year (thousands of euros)	(41,296)	(97,100)	(64.38%)
Weighted average number of shares issued (thousands of shares)	246,617	201,483	22.40%
Weighted average number of treasury shares (thousands of shares)	142	965	(85.28%)
Weighted average number of shares in circulation (thousands of shares)	246,475	200,518	22.92%
Loss per share	**(0.17)**	**(0.48)**	**(71.02%)**

6. GOODWILL

The balance included under this heading corresponds to the net goodwill arising from the acquisition of certain companies, and is broken down as follows (thousands of euros):

Companies	2010	2009
NH Hoteles Deutschland GmbH and NH Hoteles Austria GmbH	108,068	108,674
Polis Corporation, S.A.	8,019	7,775
Others	4,321	4,685
Total	**120,408**	**121,134**

The movements in this heading of the consolidated balance sheet in 2010 and 2009 were as follows (thousands of euros):

Company	Goodwill 31.12.08	Translation differences	Goodwill 31.12.09
NH Hoteles Deutschland GmbH and NH Hoteles Austria GmbH	108,674	-	108,674
Polis Corporation, S.A.	8,861	(1,086)	7,775
Others	4,670	15	4,685
Total	**122,205**	**(1,071)**	**121,134**

Company	Goodwill 31.12.09	Exit from consolidation	Write-offs	Translation differences	Goodwill 31.12.10
NH Hoteles Deutschland GmbH and NH Hoteles Austria GmbH	108,674	-	(606)	-	108,068
Polis Corporation, S.A.	7,775	-	-	244	8,019
Others	4,685	(471)	-	107	4,321
Total	**121,134**	**(471)**	**(606)**	**351**	**120,408**

Any recoverable goodwill values have been assigned to each cash-generating unit, mainly rental agreements, by using five-year projections on the results, inves-tments and working capital.

7. INTANGIBLE ASSETS

The breakdown and movements in this heading during 2010 and 2009 are as follows (thousands of euros):

	Balance at 31.12.08	Change in consolidation scope	Inclusions/ Allowances	Write-offs	Balance at 31.12.09	Change in consolidation scope	Inclusions/ Allowances	Write-offs	Balance at 31.12.10
COST									
Rights of use	32,492	-	1,238	(4,625)	29,105	-	-	(3)	29,102
Rental agreement premiums	74,118	11,165	1,596	(15,517)	71,362	-	-	(1,396)	69,966
Concessions, patents and trademarks	30,573	2,881	1,899	(173)	35,180	-	94	55	35,329
Software applications	41,156	299	1,348	(347)	42,456	(17)	5,825	(701)	47,563
	178,339	**14,345**	**6,081**	**(20,662)**	**178,103**	**(17)**	**5,919**	**(2,045)**	**181,960**
CUMULATIVE DEPRECIATION									
Rights of use	(11,687)	-	(4,434)	3,739	(12,382)	-	(3,858)	492	(15,748)
Rental agreement premiums	(10,623)	(1,548)	(3,565)	11,372	(4,364)	-	(3,129)	85	(7,408)
Concessions, patents and trademarks	(6,736)	-	(944)	3	(7,677)	-	(926)	263	(8,340)
Software applications	(26,786)	(113)	(3,129)	291	(29,737)	7	(3,914)	498	(33,146)
	(55,832)	**(1,661)**	**(12,072)**	**15,405**	**(54,160)**	**7**	**(11,827)**	**1,338**	**(64,642)**
Impairment	**-**	**-**	**(575)**	**-**	**(575)**	**-**	**(818)**	**-**	**(1,393)**
NET BOOK VALUE	**122,507**				**123,368**				**115,925**

7.1. Rights of use

On 28 July 1994, NH Hoteles, S.A. was granted a right of use on Hotel NH Plaza de Armas in Seville, which is owned by Red Nacional de los Ferrocarriles Españoles (RENFE), for a thirty-year period beginning on the date the agreement was executed. NH Hoteles, S.A. will pay RENFE the amount of 30.20 million euros in accordance with a payment schedule which concludes in 2014.

The Group has reflected the entire amount agreed upon in transaction in the "Rights of use" heading. In order to correctly accrue this price, the result of spreading out the cost of the right over the thirty-year term of the agreement is assigned to the consolidated comprehensive profit and loss statement as an increasing instalment with a percentage annual growth of 4%. Additionally, the outstanding short and long-term amounts, 1.49 million euros and 4.49 million euros respectively at 31 December 2010 (1.49 million euros and 5.9 million euros at 31 December 2009), are reflected in the "Other current liabilities" and "Other non-current liabilities" headings (see Notes 24 and 18) of the consolidated balance sheet attached.

7.2. Rental agreement premiums

There were no significant movements in 2010. However, in 2009 the "Change in scope of consolidation" column reflects the difference following the first consolidation of Hoteles Hesperia, S.A. for the amount of 11.17 million euros, which were assigned to the management agreements obtained through the acquisition of this company. In addition, the most significant write-offs in 2009 essentially included the termination of the management agreements for the Italian hotels Gran Hotel Bristol located in Rapallo, along with Gran Hotel Timeo and Hotel Villa Sant Andrea both located in Taormina.

8. TANGIBLE FIXED ASSETS

The breakdown and movements under this heading during 2010 and 2009 are as follows (thousands of euros):

	Balance at 31.12.08	Change in consolidation scope	Currency translation differences	Inclusions/ Allowances	Write-offs	Assignments (Note 9)	Balance at 31.12.09	Change in consolidation scope	Currency translation differences	Inclusions/ Allowances	Write-offs	Assignments	Balance at 31.12.10
COST													
Land and buildings	2,189,563	-	(10,279)	28,141	(40,953)	201	2,166,673	(177,203)	24,329	9,430	(54,233)	52,958	2,021,954
Plant and machinery	666,752	470	(1,001)	60,378	(4,926)	61,642	783,315	(7,224)	(12,181)	48,363	(20,490)	2,102	793,885
Other fixtures, tools and furniture	526,471	1,676	940	13,136	(20,630)	-	521,593	(13,569)	5,619	11,048	(20,007)	4,709	509,393
Other fixed assets	21,597	5	(154)	931	(7,867)	-	14,512	(60)	2,842	998	(3,320)	(615)	14,357
Fixed assets in progress	75,852	600	(397)	62,827	(1,480)	(61,642)	75,760	12,633	445	6,137	(4,880)	(59,154)	30,941
	3,480,235	**2,751**	**(10,891)**	**165,413**	**(75,856)**	**201**	**3,561,853**	**(185,423)**	**21,054**	**75,976**	**(102,930)**	**-**	**3,370,530**
CUMULATIVE DEPRECIATION													
Buildings	(281,546)	-	-	(32,380)	8,923	(164)	(305,167)	32,578	(16,776)	(32,620)	21,108	5,058	(295,819)
Plant and machinery	(360,809)	(205)	(211)	(45,262)	3,341	-	(403,146)	7,077	9,794	(43,357)	19,445	(4,495)	(414,682)
Other fixtures, tools and furniture	(358,973)	(1,038)	(1,008)	(33,562)	5,545	-	(389,036)	11,153	(907)	(33,586)	19,708	(568)	(393,236)
Other fixed assets	(10,476)	-	-	(1,259)	394	-	(11,341)	97	-	(2,003)	1,482	5	(11,760)
	(1,011,804)	**(1,243)**	**(1,219)**	**(112,463)**	**18,203**	**(164)**	**(1,108,690)**	**50,905**	**(7,889)**	**(111,566)**	**61,743**	**-**	**(1,115,497)**
Impairment	**(65,942)**	**-**	**-**	**(36,257)**	**35,129**	**-**	**(67,070)**	**-**	**-**	**(10,394)**	**21,738**	**-**	**(55,726)**
NET BOOK VALUE	**2,402,489**						**2,386,093**						**2,199,307**

In 2010 and 2009, the "Change in scope of consolidation" column reflects the effect of the inclusions/write-offs of tangible fixed assets of certain companies that were included /excluded from the Group's consolidation in each of those years (see Note 2.5.5).

The "Translation differences" column reflects the effect of changes in the exchange rate used in the conversion of the different tangible fixed asset items.

The most significant movements in this heading during 2010 and 2009 were as follows:

i) The most significant additions to this heading during 2010 and 2009 broken down by business units were as follows:

	Thousands of euros	
	2010	2009
Spain	9,753	21,094
Benelux	11,004	23,483
Germany	11,528	11,533
Italy	32,529	89,842
Latin America	9,850	13,651
Rest of Europe	1,312	5,810
	75,976	**165,413**

In Spain, the most significant additions in 2010 corresponded to the comprehensive refurbishment of the offices in Madrid (1.9 million euros) and the works to recondition the NH Palace of Oquendo hotel (1 million of euros) in Cáceres.

The most significant addition in the Benelux had to do with to the refurbishment and fitting out of the NH Galaxy hotel (4.2 million euros) in Amsterdam.

In Germany, the most significant additions were the investments made to inaugurate the NH Dresden Altmarkt hotel (3.7 million euros) in Dresden and the NHow Berlin hotel (1.6 million euros) in Berlin.

In Italy, the most significant additions in 2010 were the investments made to inaugurate the Donnafugata Golf Resort & Spa in Sicily (19 million euros), which includes a hotel and two golf courses, and the NH Portal Rossa hotel (7.6 million euros) in Florence.

In Latin America, the most significant additions corresponded to the inauguration of the NH Valle Dorado hotel (1.03 million euros). Furthermore, the most significant additions to the Fixed assets in progress account included the costs incurred to inaugurate the NH Quétaro hotel (1.8 million euros) in Quétaro, Mexico and the Parque de la 93 hotel (4.22 million euros) in Colombia.

ii) The most significant write-offs came about in Italy through the sale of the NH Ischia Thermal Spa Resort hotel with a net book value of 30.34 million euros, which generated a net profit of 8 million euros before minority interests, and in Switzerland through the sale of the NH Luzern with a net book value of 9.4 million euros, which generated a net profit of 3.4 million euros. The net book values of these hotels included an impairment provision of 8 and 2.5 million euros respectively.

The Group has made an asset impairment provision allowance for hotel assets located mainly in Spain and Mexico amounting to 10,394,000 euros this year. Furthermore, a provision allowance of 11,190,000 euros for hotel assets located in Italy was reversed. At 31 December 2010, there were tangible fixed asset elements with a net book value of 782.02 million euros (937.38 million euros in 2009) to guarantee several mortgage loans (see Note 17).

The Group has taken out insurance policies to cover any possible risks to which the different elements of its tangible fixed assets are subject, and to cover any possible claims that may be filed against it in the course of its activities. It is understood that such policies sufficiently cover the risks to which the Group is exposed.

Firm investment undertakings in fixed assets amounted to 22.36 million euros at 31 December 2010. Said investments will be made between 2011 and 2013.

9. REAL ESTATE INVESTMENTS

The movements under this heading of the consolidated balance sheet in 2010 and 2009 were as follows:

	Thousands of euros						
	Balance at 1/01/2009	Allowances	Assignments (Note 8)	Balance at 31/12/2009	Allowances	Assignments (Note 12)	Balance at 31/12/2010
Cost:							
Buildings	7,203	-	(201)	7,002	-	4,887	11,889
Advances and tangible fixed assets in progress	**792**	**-**	**-**	**792**	**-**	**(792)**	**-**
	7,995	**-**	**(201)**	**7,794**	**-**	**4,095**	**11,889**
Cumulative depreciation:							
Buildings	(2,012)	(275)	164	(2,123)	(290)	-	(2,413)
Impairment	-	-	-	-	(1,612)	-	(1,612)
Net value	**5,983**			**5,671**			**7,864**

The assignments in 2010 are mainly the result of the reclassification of the public car park in the Ribera del Marlín development, which was recorded under inventories at 31 December 2009 because the Group intends to operate the car park under a rental agreement.

The most significant investments included in this heading of the consolidated balance sheet through Sotogrande were as follows:

- Premise D.02 Sotogrande Marina
- Premise E.07 Sotogrande Marina
- Finca Hípica Valderrama
- International School
- Terrazas Ribera del Marlin
- Ribera del Marlin public car park

The Group's real estate investments mainly correspond to real estate to be operated under rental agreements. The use of said investments are broken down as follows:

	Square Metres	
	2010	2009
Offices	219	219
Sports centre	11,215	11,215
Terraces R. Marlin	2,778	2,778
Public car park	11,272	-
Educational centre	5,445	5,445
	30,929	19,657

The fair value of the Group's real estate investments at 31 December 2010, calculated on the basis of appraisals made by independent third parties, amounted to approximately 12.5 million euros (10 million euros in 2009).

Rental income from the Group's real estate investments amounted to 370,000 euros in 2010 (369,000 euros in 2009). Likewise, operating expenses directly connected with real estate investments amounted to 19,000 euros (12,000 euros in 2009).

At year-end 2010 there was no kind of constraint on making new real estate investments to collect the corresponding income or on the resources that could be obtained from a possible disposal.

The Group has taken out insurance policies to cover any possible risks to which the different elements of its real estate investments are subject, as well as to cover any possible claims that may be filed against it in the course of its activities. It is understood that such policies sufficiently cover the risks to which the Group is exposed.

10. INVESTMENTS VALUED USING THE EQUITY METHOD

The breakdown at 31 December 2010 and 2009 of interests in companies consolidated using the equity method is as follows (thousands of euros):

Company	Net Balance at 31.12.08	Inclusions	Write-offs	Profit (Loss) 2009	Translation differences	Net Balance at 31.12.09
Desarrollos Isla Poniente, S.L.	29,268	-	-	(199)	(1,254)	27,815
Desarrollos Isla Blanca, S.L.	18,191	-	-	(849)	(2,570)	14,772
Capredo Investments GmbH	14,600	1,969	-	(2,172)	1,544	15,941
Promociones Marina Morelos, S.A. de C.V.	7,437	1,148	-	(1,429)	272	7,428
Losan Investment, Ltd.	1,680	-	-	(1,657)	(23)	-
Inmobiliaria 3 Puente, S.A. de C.V.	1,481	-	(15)	92	24	1,582
Palacio de la Merced, S.A.	1,108	-	-	5	-	1,113
Mil Novecientos Doce, S.A. de C.V.	794	1,108	-	(293)	9	1,618
Consorcio Grupo Hotelero T2, S.A. de C.V.	58	485	-	(78)	(1)	464
Fonfir1, S.L.	20	-	-	-	-	20
Total	**74,637**	**4,710**	**(15)**	**(6,580)**	**(1,999)**	**70,753**

Company	Net Balance at 31.12.09	Inclusions	Write-offs	Assignments	Profit (Loss) 2010	Translation differences	Net Balance at 31.12.10
Sotocaribe, S.L.	-	7	-	42,587	(2,226)	5,749	46,117
Desarrollos Isla Poniente, S.L.	27,815	-	-	(27,815)	-	-	-
Desarrollos Isla Blanca, S.L.	14,772	-	-	(14,772)	-	-	-
Capredo Investments GmbH	15,941	-	-	-	589	1,831	18,361
Promociones Marina Morelos, S.A. de C.V.	7,428	-	(7,428)	-	-	-	-
Inmobiliaria 3 Puente, S.A. de C.V.	1,582	-	-	-	155	231	1,968
Palacio de la Merced, S.A.	1,113	-	-	-	154	-	1,267
Mil Novecientos Doce, S.A. de C.V.	1,618	-	-	-	(15)	233	1,836
Consorcio Grupo Hotelero T2, S.A. de C.V.	464	-	-	-	(107)	66	423
Fonfir1, S.L.	20	-	-	-	-	-	20
Total	**70,753**	**7**	**(7,428)**	**-**	**(1,450)**	**8,110**	**69,992**

The most relevant financial information on the main stakes held in joint ventures is set out in Annex III of this consolidated annual report.

11. NON-CURRENT FINANCIAL INVESTMENTS

11.1. Loans and accounts receivable not available for trading

The breakdown of this heading at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Subordinated loans to companies owning hotels operated by the Group through leases (*)	86,633	82,996
Credits to staff (Note 27)	14,458	14,320
Loans to joint ventures (Note 27) (*)	16,037	14,304
Lease advance payments	7,291	7,385
Accounts receivable from joint ventures (Note 27)	4,469	4,473
Loans to associated companies (Note 27) (*)	2,250	2,250
Long-term deposits and surety	9,997	10,226
Others	14,472	11,695
Total	155,607	147,649

The classification by maturity corresponds to the items marked with an asterisk.

The breakdown by maturity of the different loans granted, as well the agreed interest rate, is as follows:

Balance at 31/12/2010	Maturity						Average interest rate
	2011	2012	2013	2014	2015	Remainder	
104,920	16,037	-	-	-	-	88,883	From 1.3% to 4.89%

The "Subordinated loans to companies owning hotels operated by the Group through leases" heading includes a series of loans granted by Grupo NH Hoteles to companies which own hotel real estate in countries such as Germany, Austria, Luxembourg, the Netherlands, Italy and Spain, and which are operated by the Group under a leasing agreement.
These transactions, which are mainly aimed at refinancing and reducing rents, are currently being used for the Group's growth. The main features of these agreements are as follows:

- Hotel rents are not subject to evolution of the inflation rate or to that of any other index.
- The above-mentioned subordinated loans accrue interest at a fixed rate of 3% per year (2.48 million euros in 2010 and 2.39 million euros in the preceding year).
- New rental agreements establish a purchase right on properties subject to agreements that, as a general rule, may be executed in the fifth, tenth and fifteenth year from the entry into force of the agreement.
- The model used for these rental agreements has been analysed and independent experts consider them to be operating leases.

The "Lease advance payments" heading includes advance payments made to the owners of certain hotels operated under a rental scheme for the purchase of decoration and furniture; these are discounted from future rental payments.

11.2. Other non-current financial investments

This heading of the consolidated balance sheet comprised the following interests valued at cost at 31 December 2010 and 2009:

Company	Thousands of euros	
	2010	2009
Varallo Comercial, S.A.	7,956	3,146
Hotelera del Mar, S.A.	4,947	4,734
NH Panama, S.A.	3,269	2,968
Others investments	6,054	1,080
Other provisions	(782)	(768)
Total	21,444	11,160

These companies were not consolidated at 31 December 2010 as they were inactive on such date.

12. INVENTORIES

The composition and movements for this heading of the consolidated balance sheet at 31 December 2010 and 2009 was as follows (thousands of euros):

	Balance at 31/12/08	Assignments	Net Change in Inventories	Balance at 31/12/09	Assignments (Note 9)	Net Change in Inventories	Balance at 31/12/10
Developed land	45,315	1,226	1	46,542	-	16	46,558
Undeveloped land	10,917	-	1,209	12,126	-	135	12,261
Finished works	61,829	(1,226)	(3,419)	57,184	(4,095)	(2,768)	50,321
Ancillary materials and others	10,498	-	(313)	10,185	-	(352)	9,833
Total	**128,559**	**-**	**(2,522)**	**126,037**	**(4,095)**	**(2,969)**	**118,973**

	2010			2009		
	Net Change in Inventories	Purchases	Total Procurements	Net Change in Inventories	Purchases	Total Procurements
Developed land	(16)	16	-	(1)	2	1
Undeveloped land	(135)	135	-	(1,209)	1,209	-
Finished works	2,768	541	3,309	3,419	4,534	7,953
Trade inventories	352	79,898	80,250	313	82,753	83,066
Total	**2,969**	**80,590**	**83,559**	**2,522**	**88,498**	**91,020**

The Group currently owns approximately 1,535,000 square metres of land subject to the urban development regulations of the San Roque General Urban Zoning Plan approved by the Cadiz Provincial Town Planning Commission on 2 November 1987, which generally classifies the land owned by the Group as land for scheduled development. The average cost of developed land amounted to 42 euros per square metre and the cost of undeveloped land was of 22 euros per square metre at 31 December 2010.

On 23 April 2007, the Group entered into a legal-administrative town planning agreement with the San Roque Town Council pursuant to Act 7/2002 of 17 December on the Urban Zoning of Andalusia. The maximum plot area in said agreement totalled 633,893 m² with 2,887 housing units, which greatly exceeded the figures set forth in the Plan's initial review in February 2005. The review was left without effect and the maximum plot area was raised to the figure assigned in the aforementioned General Plan of 1987.

Based on the appraisals conducted by American Appraisal España, S.L. and by Tasaciones Inmobiliarias, S.A. on 31 and 24 December 2010, respectively, the market value of the Company's real inventories is as follows:

	Thousands of euros
Developed land	62,810
Undeveloped land	207,407
Finished works	52,077
Total	**322,294**

At 31 December 2010, the amount of inventories used as security for mortgage loans amounted to 29,401,000 euros (35,279,000 euros in 2009) (see Note 17).

13. TRADE RECEIVABLES

This heading reflects different accounts receivable from the Group's operations. The breakdown at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Trade receivables for services provided	138,454	125,357
Trade receivables for real estate product sales	6,939	6,510
Provision for bad debts	(17,999)	(12,051)
Total	**127,394**	**119,816**

As a general rule, these receivables do not accrue any interest at all and are due at less than 90 days with no restrictions on how they may be used.

Movements in provision for bad debts during the years ending 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Balance at 1 January	12,051	14,304
Translation differences	22	(23)
Allowances	7,898	2,113
Applications	(1,972)	(4,343)
Balance at 31 December	**17,999**	**12,051**

The analysis of the aging of financial assets in arrears but not considered as impaired at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Less than 30 days	28,370	23,268
From 31 to 60 days	18,779	10,208
More than 60 days	17,794	20,332
Total	**64,943**	**53,808**

14. CURRENT FINANCIAL INVESTMENTS

The composition of this heading of the attached consolidated balance sheet at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Other current financial assets	-	14,137
Marketable financial assets	94	80
Total	**94**	**14,217**

The investment in Parque de la 93, S.A., which was incorporated on 25 April 2008, was recorded in the "Other current financial assets" heading in 2009. This company is the owner of a hotel project in the city of Bogota, Colombia, and was included in the scope of consolidation in 2010 (see Note 2.5.5).

15. CASH AND CASH EQUIVALENTS

This heading essentially includes the Group's cash position, along with any loans granted and bank deposits that mature at no more than three months. The average interest rate obtained by the Group for its cash and cash equivalents balances during 2010 and 2009 was a variable Euribor-indexed rate. These assets are recorded at their fair value.

There are no restrictions on how cash may be used.

16. EQUITY

16.1. Subscribed share capital

Share capital at 31 December 2010 was represented by 246,617,430 bearer shares at a par value of 2 euros each.

All shares are entitled to identical voting and economic rights and are traded on the Madrid, Barcelona and Bilbao Stock Exchanges.

According to the latest notifications received by the Parent Company and the notices given to the National Securities Market Commission before the end of every financial year, the most significant shareholdings at 31 December were as follows:

	2010	2009
Grupo Inversor Hesperia, S.A.	25.09%	25.09%
Caja de Ahorros de Valencia, Castellón y Alicante	5.66%	5.66%
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragon y Rioja	5.04%	5.04%
Caja de Ahorros y Monte de Piedad de Madrid	10.04%	10.04%
Hoteles Participados, S.L.	5.43%	5.43%
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastian	6.14%	6.14%
Pontegadea Inversiones, S.L.	5.07%	5.07%
Intesa Sanpaolo S.p.A.	5.65%	5.65%
Shares allocated to Employee Remuneration Schemes	1.27%	1.38%
Shares owned by NH employees	1.30%	1.28%

At year-end 2010 and 2009, the various members of the Board of Directors were the holders or stable proxies of shareholdings respectively representing approximately 69% and 64% of share capital, respectively.

The main aims for Grupo NH Hoteles capital management are to ensure short and long-term financial stability, positive evolution in NH Hoteles, S.A. share price and suitable financing for investments while maintaining borrowing levels. All the above is geared at ensuring Grupo NH Hoteles maintains its financial strength and the solidity of its financial ratios, enabling it to support its businesses and maximise value for its shareholders.

Over the last few years, the strategy adopted by Grupo NH Hoteles has not changed, and the Company has kept a financial leverage ratio of 0.76 x, below the ratio of 1x it has always set as a goal for the Group. The leverage ratios at 31 December 2010 and 2009 were the following:

	Thousands of euros	
	2010	2009
Bank borrowings (*) (Note17)	1,173,579	1,340,705
Derivative liability instruments (Note 19)	46,546	52,637
Gross debt	**1,220,125**	**1,393,342**
Marketable financial assets (Note 14)	94	80
Cash and cash equivalents (Note 15)	173,117	221,585
Liquid assets	**173,211**	**221,665**
Total Net Debt	**1,046,914**	**1,171,677**
Total Equity	1,375,528	1,390,924
Financial leverage	**0.76**	**0.84**

(*) Short and long-term bank borrowing, excluding costs of arranging loans and accrued interest pending maturity.

16.2. Parent Company Reserves

i) Legal reserve

In accordance with the Consolidated Text of the Capital Companies Act, 10% of the net profit for each year must be allocated to the legal reserve until it reaches at least 20% of share capital. The legal reserve may be used to increase capital provided the remaining balance does not fall below 10% of the increased capital amount. With the exception of the aforementioned purpose, and when it does not exceed 20% of share capital, this reserve may only be used to offset losses, provided no other reserves are available for this purpose.

ii) Share premium

The Consolidated Text of the Capital Companies Act expressly allows the balance of this reserve to increase capital and lays down no restrictions on how it is used.

iii) Other non-available reserves

No distribution of dividends may take place until the goodwill item (excluding consolidation goodwill) recorded in the individual financial statements of the companies included within the scope of consolidation of Grupo NH Hoteles has been fully written off, unless the amounts of available reserves are at least equal to the unamortised balances.

Reserves totalling 370,000 euros could not be distributed at 31 December of 2010 (1,100,000 at 31 December 2009), as this figure corresponds to the treasury share reserve.

16.3. Subsidiary reserves

The breakdown by entity of the balances in this heading of the consolidated balance sheets – once the effect of consolidation adjustments are taken into account - and translation differences recognised in equity as a result of the consolidation process is shown below:

	Thousands of euros			
	2010		2009	
	Reserves	Translation differences	Reserves	Translation differences
Full and proportional consolidation				
NH Participaties N.V. and subsidiaries	265,445	(41)	254,307	(470)
Sotogrande, S.A. and subsidiaries	71,512	373	73,630	(7,207)
Latinoamericana de Gestión Hotelera, S.A. and subsidiaries	53,139	(51,074)	50,459	(66,907)
NH Italia S.r.l. and subsidiaries	124	(211)	(92)	(3,363)
NH Private Equity B.V. and subsidiaries	73	-	73	-
NH Central Europe GmbH & Co. KG and subsidiaries	(65,905)	(3)	(63,671)	5
Caribe Puerto Morelos, S.A. de C.V.	3,347	(498)	3,309	(1,084)
Other foreign hotel companies	(10,260)	(7,600)	(13,919)	3,738
Other Spanish hotel companies	(38,525)	-	74,455	-
Subtotal	**278,950**	**(59,054)**	**378,551**	**(75,288)**
Consolidation using the equity method				
Palacio de la Merced, S.A.	(421)	-	(426)	-
Fonfir, S.L.	(4)	-	(4)	-
Harrington Hall Hotel Ltd.	(1,630)	370	(1,629)	370
Losan Investment Ltd.	(2,392)	(856)	(735)	(856)
Capredo Investment GmbH	(4,208)	-	(2,036)	-
Inmobiliaria 3 Puente S.A. de CV	(202)	-	79	-
Mil Novecientos Doce, S.A. de C.V.	(67)	-	(69)	-
Consorcio Grupo Hotelero T2, S.A. de C.V.	(1)	-	(1)	-
Sotocaribe, S.L.	(1,249)	-	-	-
Desarrollos Isla Poniente, S.L.	-	-	(202)	-
Subtotal	**(10,174)**	**(486)**	**(5,023)**	**(486)**
TOTAL	**268,776**	**(59,540)**	**373,528**	**(75,774)**

16.4. Equity valuation adjustments

Cash flow hedges

This consolidated balance sheet heading reflects the net changes in the value of financial derivatives designated as cash flow hedging instruments (see Note 4.7.3).

Movements in the balance of this heading during 2010 and 2009 are shown below:

	Thousands of euros	
	2010	2009
Opening balance	(9,931)	(6,296)
Inclusions	-	(3,635)
Write-offs	3,354	-
Ending balance	**(6,577)**	**(9,931)**

A negative reserve was recognised in 2010 for equity adjustments connected with the cash flow hedging relationships of interest rate swaps (IRS) and collars amounting to 3,354,000 euros.

The negative reserve for equity adjustments for valuation of interest rate derivatives in force at 31 December 2010 amounting to 6,577,000 euros will take place between 2011 and 2014 as the loan agreements subject to hedging mature (see Note 19).

16.5. Treasury shares

At year-end, the Group held 109,000 shares in NH Hoteles, S.A. (91,057 shares at year-end 2009), which represented 0.044% of its share capital at a cost of 370,000 euros (1,100,000 euros at year-end 2009).

16.6. Minority interests

The breakdown by companies of the balance of the "Minority interests" heading in the consolidated balance sheet at 31 December 2010 and 2009, along with the profit or loss corresponding to minority interests in 2010 and 2009 are shown below:

	Thousands of euros			
	2010		2009	
Entity	Minority Interests	Comprehensive Profit (Loss) Attributed to Minority interests	Minority Interests	Comprehensive Profit (Loss) Attributed to Minority interests
NH Italia S.p.A. and subsidiaries	164,243	(5,147)	169,892	(19,513)
Latinoamericana de Gestión Hotelera, S.A. and subsidiaries	16,300	1,076	15,381	1,823
Sotogrande, S.A. and subsidiaries	7,511	(1,259)	8,770	(946)
NH Participaties N.V. and subsidiaries	3,536	160	3,376	272
Other Spanish hotel companies	12,565	1,560	11,835	(15)
	204,155	**(3,610)**	**209,254**	**(18,379)**

The movements in this heading in 2010 and 2009 are summarised below:

	Thousands of euros	
	2010	2009
Opening balance	**209,254**	**233,698**
Increases of capital	255	1,760
Comprehensive profit (loss) attributed to minority interests	(3,610)	(18,379)
Changes in scope of consolidation	-	(4,510)
Changes in percentage stakes	(1,207)	(3,299)
Dividends paid to minority interests	(336)	-
Other movements	(201)	(16)
Ending balance	**204,155**	**209,254**

In 2010, the "Increases of capital" heading reflects the amount paid out by minority interests in the increase of capital of the hotel groups Querétaro S.A. de C.V. totalling 255,000 euros.

The "Changes in percentage stakes" heading in 2010 essentially reflects the acquisition from minority interests of Inmobiliaria y Financiera Aconcagua S.A. for 412,000 euros, the acquisition from minority interests of the company NH Las Palmas for 150,000 euros, and changes in stake held by minority interests in the subsidiaries belonging to the latter company, NH Lagasca S.A. and Hanuman Investment S.L. amounting to 55,000 and 1,000 euros, respectively, and the acquisition from minority interests of NH Orio S.r.l. for 87,000 euros.

17. BANK BORROWINGS

The breakdown of bank borrowings at 31 December 2010 and 2009 is as follows (thousands of euros):

	Limit	Available	Drawn Down	2010	2011	2012	2013	2014	Remainder
Mortgage guarantee loans	**174,531**	**2,084**	**172,447**	**-**	**84,179**	**19,490**	**17,840**	**15,890**	**35,048**
Fixed rate	4,898	-	4,898	-	80	405	410	320	3,683
Variable Rate	169,633	2,084	167,549	-	84,099	19,085	17,430	15,570	31,365
Asset guarantee loans	**81,810**	**90**	**81,720**	**-**	**65,095**	**7,973**	**5,023**	**3,002**	**627**
Fixed rate	9,244	-	9,244	-	2,167	2,205	2,243	2,002	627
Variable Rate	72,566	90	72,476	-	62,928	5,768	2,780	1,000	-
Subordinated loans	**75,000**	**-**	**75,000**	**-**	**-**	**-**	**-**	**-**	**75,000**
Variable Rate	75,000	-	75,000	-	-	-	-	-	75,000
Syndicated loans	**617,500**	**-**	**617,500**	**-**	**162,500**	**455,000**	**-**	**-**	**-**
Variable Rate	617,500	-	617,500	-	162,500	455,000	-	-	-
Credit lines	**248,556**	**21,644**	**226,912**	**-**	**193,877**	**33,035**	**-**	**-**	**-**
Variable Rate	248,556	21,644	226,912	-	193,877	33,035	-	-	-
Debt arrangement costs			(5,973)		(1,838)	(1,066)	(221)	(188)	(2,660)
Debt due to interest			4,153		4,153				
Borrowing at 31.12.2010	**1,197,397**	**23.818**	**1,171,759**	**-**	**507.966**	**514.432**	**22,642**	**18.704**	**108.015**
Borrowing at 31.12.2009	**1,372,533**	**31.828**	**1,336,558**	**394.003**	**221.460**	**523.480**	**28.282**	**41.160**	**128.173**

Mortgage loans, whether syndicated or not, can be broken down as follows (thousands of euros):

	Mortgaged asset	Fixed interest rate	Variable interest rate	Total	Net book value of mortgaged asset
Spain	NH Calderón	-	9,015	9,015	39,496
	NH Lagasca	-	11,000	11,000	18,238
	NH Ppe. de la Paz	-	5,532	5,532	9,532
	NH Alanda	-	4,437	4,437	24,745
	Promocion R. Marlin-50%, Las Cimas	-	13,523	13,523	29,403
	NH Sotogrande	-	6,642	6,642	12,391
Total Spain		**-**	**50,150**	**50,150**	**133,805**
Mexico	Grupo Htelero Quetaro	-	2,985	2,985	7,594
	Santa Fe Project	-	5,270	5,270	10,722
Total Mexico		**-**	**8,256**	**8,256**	**18,317**
Netherlands	NH Groningen	-	3,528	3,528	6,893
Total Netherlands		**-**	**3,528**	**3,528**	**6,893**
Italy	Donnafugata	-	36,042	36,042	58,084
	Villa San Mauro	-	3,968	3,968	6,731
	Rome Vittorio Veneto	253	11,114	11,367	91,941
	Turin Liguria	-	3,000	3,000	22,057
	La Spezia	-	1,667	1,667	18,513
	Florence	-	3,000	3,000	38,017
	Catania	-	5,834	5,834	12,643
	Trieste	-	4,667	4,667	22,309
	Turin Ambasciatori	-	5,625	5,625	16,443
	Milanofiori and conv. centre	-	16,200	16,200	49,011
	Genoa	-	6,524	6,524	28,149
(Netherlands)	Carlton (Amsterdam)	-	4,368	4,368	78,455
(USA)	Madison Tower (New York)	-	2,087	2,087	85,113
(France)	Lotti Parigi (Paris)	-	1,520	1,520	86,228
Total Italy		**253**	**105,616**	**105,869**	**613,694**
Switzerland	NH Fribourg	4,644	-	4,644	9,314
Total Switzerland		**4,644**	**-**	**4,644**	**9,314**
Total		**4,898**	**167,549**	**172,447**	**782,023**

The following loans are included in the "Syndicated loans" heading:

- A syndicated loan granted to NH Finance, S.A. by thirty-four European banking institutions on 2 August 2007 amounting to 650 million euros.

  This loan matures on 2 August 2012 and accrues annual interest equivalent to the Euribor rate plus a differential that ranges between 0.60% and 0.70% depending on the "Net financial debt/EBITDA" ratio. The aforementioned loan is to be paid in half-yearly installments, the first of which fell in August 2010, amounting to 32.5 million euros, and the following fell in February 2011 amounting to 65 million euros. The next repayment is due on 2 August amounting to 97.5 million euros and the two remaining payments are for amounts equivalent to 30% and 40% until the loan is fully redeemed.

  This loan is dependent on achieving certain financial ratios. At 31 December 2010, none of these ratios was in danger of giving the lending institutions ground for demanding early maturity thanks to an application to the participating institutions for a fulfilment waiver, which was unanimously approved on 24 December 2010. From this date, and up to submission of the covenant fulfilment report for 2011, it was agreed to increase the spread by 0.5% and to apply a commission fee of 0.5% on the outstanding principal. Currently, the spread is 1.70% due to the fulfilment waiver obtained under the same terms and conditions as the preceding year.

Likewise, the following loans are included in the "Asset guarantee loans" heading:

- A syndicated loan taken out through Banco Bilbao Vizcaya Argentaria and granted to NH Hoteles, S.A. for a maximum amount of 42.07 million euros in order to finance the acquisition of Promociones Eurobuilding, S.A. in 1997 through a public takeover bid (a company taken over by NH Hoteles, S.A. in 2002). The outstanding amount at 31 December 2010 was of 5.8 million euros. This loan accrues interest at a rate equivalent to the Euribor plus a differential. It has been progressively repaid from 2001 up to its final maturity in May 2011.

- A loan taken out with Bank Bilbao Vizcaya Argentaria and granted to NH Hoteles, S.A. for 30.0 million euros in order to purchase two hotels in Belgium (NH Bruges and NH Ghent) on 27 September 2007. It is indexed to the Euribor rate and updated on a half-yearly basis.

- An ICO (Official Credit Institution) loan granted by Caja de Cataluña to NH Hoteles, S.A. on 30 July 2010 to refinance a debt for the same amount taken out on 26 July 2006. The loan amount is of 20.0 million euros. It is indexed to the ICO rate and matures in July 2011.

- A loan for 7.0 million euros granted to Jolly Hotels S.p.A. (now called Grande Jolly S.p.A.) by Banca Populare di Vicenza which accrues interest indexed to the Euribor rate and matures in June 2014.

Additionally, two loans for a joint amount of 75 million euros, which had been totally drawn down at 31 December 2010, are included in the "Subordinated loans" heading. Said loans accrue interest at a rate equivalent to the Euribor plus a differential of 1.70% and have a term of 30 years with a single repayment at the end of their lives.

The average interest rates of the Group's financing 2010 and 2009 were as follows:

	2010	2009
Mortgage loans		
Fixed interest rate	3.34%	3.87%
Variable interest rate	Euribor +1.03%	Euribor +1.15%
Asset guarantee loans		
Fixed interest rate	3.69%	3.80%
Variable interest rate	Euribor +1.55%	Euribor +1.08%
Subordinated loan		
Variable interest rate	Euribor +1.70%	Euribor +1.70%
Credit lines	Euribor +2.02%	Euribor +1.71%

18. OTHER NON-CURRENT LIABILITIES

The breakdown of the "Other non-current liabilities" heading of the attached consolidated balance sheets at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
At fair value:		
Put and call options on the Jolly Hotels transaction	-	87,393
Share.based remuneration Scheme 2007-2013 (Note 20)	35,359	32,784
Interest rate derivatives (Note 19)	11,187	19,853
Sale option on Donnafugata Resort (Note 2.5.5)	5,668	5,176
At amortised cost:		
Capital subsidies	10,583	10,964
Residencial Marlin, S.L.	14,960	13,238
Indemnity for termination of the Bühlerhöhe Hotel lease agreement (Note 21)	11,238	-
Right of use Hotel Plaza de Armas (Note 7.1)	4,485	5,980
Loans with members	1,293	1,416
Los Alcornoques de Sotogrande, S.L.	1,078	1,066
Other liabilities	1,493	3,696
	97,344	**181,566**

The liability corresponding to a put option in favour of Joker Partecipazioni S.r.l. was recorded in the "Outstanding payment for the Jolly Hotels transaction" heading on 31 December 2009. This liability was classified as a short-term liability on 31 December 2010 (see Note 24).

The financial liabilities arising from the recording of put options granted to minority interests has been classified as level 3 in accordance with the calculation hierarchy established by IFRS 7, while the remuneration scheme and the other financial derivative instruments have been classified as level 2.

Subsidies received to build hotels and golf courses are basically included in the "Capital subsidies" heading at 31 December 2010, as follows:

	Thousands of euros	
	2010	2009
Sotogrande	2,368	2,599
Donnafugata	6,200	6,200
Parco Degli Aragonesi	1,994	2,139
Other subsidies	21	26
	10,583	10,964

At 31 December 2010, the Directors of the Parent Company considered that all the requirements stipulated for such subsidies had been fulfilled and therefore deemed them as non-reimbursable.

The amounts included in the "Residencial Marlin, S.L." and "Los Alcornoques de Sotogrande, S.L." headings correspond to the proportional part (50%) of the participative loans granted to said companies by the minority partner of Sotogrande, S.A. (50% in these company) (see Note 27).

The lease agreement on NH Bühlerhöhe Hotel terminated in September 2010. The liability corresponding to the part of the indemnity to be paid to the hotel's owner for the termination of the lease agreement has been recorded in the "Indemnity for termination of the Bühlerhöhe Hotel lease agreement" heading with long-term maturity. The Group had allocated a provision 9,400,000 euros for this item at 31 December 2009 (see Note 21).

19. DERIVATIVE FINANCIAL INSTRUMENTS

The breakdown of the derivative financial instruments in the consolidated balance sheets for 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
	Financial liabilities	Financial liabilities
Interest rates derivatives (Note 18)	11,187	19,853
Share-based remuneration scheme 2007-2013 (Notes 18 and 20)	35,359	32,784
Total	**46.546**	**52.637**

19.1. Interest rate derivatives

The following is a breakdown of derivative financial instruments and their corresponding fair values at 31 December 2010 and 2009, along with the notional maturity dates to which they are linked. This information is presented (thousands of euros) separating the derivatives considered as accounting hedges (in accordance with the requirements set forth in IAS 39) from any considered as inefficient.

Subsidiary Company	Instrument	Fair value 31.12.2010	Fair value 31.12.2009	Outstanding notional amount			
		Liability	Liability	31.12.2010	31.12.2011	31.12.2012	31.12.2013 and following
Efficient hedges							
NH Finance	Collar	(6,577)	(12,644)	342,000	252,000	-	-
Donnafugata Resort	IRS	-	(265)	-	-	-	-
NH Hoteles	Collar	-	(18)	-	-	-	-
Total efficient hedges		**(6,577)**	**(12,927)**	**342,000**	**252,000**	**-**	**-**
Inefficient hedges							
NH Finance	Options	(4,398)	(5,710)	342,000	252,000	-	-
Donnafugata Resort	Cap	(212)	-	13,784	13,287	12,258	11,187
Jolly Hotels UK	Collar	-	(1,216)	-	-	-	-
Total inefficient hedges		**(4,610)**	**(6,926)**	**355,784**	**265,287**	**12,258**	**11,187**
Total hedges		**(11,187)**	**(19,853)**	**697,784**	**517,287**	**12,258**	**11,187**

In order to determine the fair value of interest rate derivates (IRS, collars and others), the Group uses cash flow discounting on the basis of the implicit discount rates determined by the euro interest rate curve according to market conditions on the date of valuation.

These financial instruments have been classified as level 2 instruments in accordance with the calculation hierarchy established in the IFRS 7.

Efficient hedges

The Group hedges the interest rate risk of part of the syndicated financing (through NH Finance, S.A.) and other variable interest rate financing lines in euros at with interest rate swaps (IRS) and collars. In IRS, interest rates are swapped so that the Group receives a variable interest rate from the bank (3-month Euribor rate) in exchange for a fixed interest payment for the same nominal amount. The variable interest rate received from the derivative offsets the interest payment of the financing line being hedged. The end result is a fixed interest payment for the financing line hedged. Similarly, a cap and a floor rate for the = Euribor rate of the financing line are set in collars. The collars contracted in 2007 to hedge the syndicated financing line have floors of 3.50% and caps of 4.50% for the Euribor rate, and those contracted in the first half of 2008 have floors of 2.65% and 3.30% and a cap of 4.50% for the Euribor rate.

The figure recognised in Equity as the effective part of the cash flow hedging relationships of the IRS and collars, net of any taxes, totalled plus 3,296,000 euros at 31 December 2010 (minus 3,635,000 euros at 31 December of 2009). The Group had designated the relevant hedging relationships at 31 December 2010 and 2009 and they are fully effective. Exposure to fluctuations in the Euribor variable rate of the financing line hedged are covered by these hedges.

The Group has chosen to exclude the temporary value of hedges in order to improve their efficiency. Recording the temporary value in the consolidated balance sheets has resulted in a positive effect of 443,000 euros.

In 2010, the Group interrupted the recording of the Donnafugata derivative instrument as an accounting hedge as it was deemed that it had failed to meet the necessary requirements to be considered as such. The change in the fair value of this interest rate derivative has had a positive effect of 53,000 euros attributed to the consolidated comprehensive profit and loss statement.

Inefficient hedges

These instruments basically involve knock-in options and structured swaps on several of the Group's financing lines. The most significant hedges are the knock-in options contracted by NH Finance, S.A. for the syndicated financing, by which the Company undertakes to pay the bank an interest rate ranging from 3.2% to 4.2%, depending on the contract, provided the Euribor rate reaches a specific set barrier which ranges from 2.65% to 3.50% depending on the contract.

The change in the fair value of these interest rate derivatives has had a positive effect of 3,756,000 euros in 2010 (8,000 euros in 2009) attributed to the consolidated balance sheet.

19.2 Sensitivity analysis of derivative financial instruments

Interest rate sensitivity analysis

Changes in the fair value of the interest rate derivatives contracted by the Group depend on the long-term change in the euro interest rate curve. The fair value of these derivatives totalled a negative amount of 11,187,000 euros at 31 December 2010 (19,853,000 euros at 31 December of 2009).

A breakdown of the sensitivity analysis on the fair values of the derivatives contracted by the Group at the 2010 and 2009 year-ends in both Equity ("efficient hedges") as well as in Profit (Loss) ("inefficient hedges") is shown below.

Sensitivity	Thousands of euros			
	Equity		Profit (Loss)	
	2010	2009	2010	2009
+0.5% (rise in the rate curve)	1,406	2,961	55	406
-0.5% (fall in the rate curve)	(1,416)	(3,102)	(35)	(303)

The sensitivity analysis shows that the interest rates derivatives designated as "accounting hedges" increased positive values with rises in the interest rate curve due to the fact that they are IRS or collars, in which the interest rate paid by the Company is set or limited upwards. Therefore the Group is covered against rises in interest rates.

Derivative sensitivity at 31 December 2010 will affect the Group's Equity and its consolidated balance sheets to the extent to which market circumstances could change.

20. SHARE-BASED REMUNERATION SCHEMES

A Share-Based Remuneration Scheme approved in May 2007 was in force in the Group at 31 December 2010. The changes in the number of rights granted within the framework of this Remuneration Scheme in 2010 and 2009 were as follows:

	Plan 2007
In force at 31 December 2008	**3,582,804**
Cancelled options	(175,297)
In force at 31 December 2009	**3,407,507**
Cancelled options	(283,990)
In force at 31 December 2010	**3,123,517**

On 29 May 2007, the General Shareholders' Meeting announced and approved a stock option plan called "Plan 2007" for specific employees of the Group, dividing these into two groups. At termination of the Plan, these employees will have received, as appropriate, remuneration equivalent to the difference between the exercise or "strike" price of the option and the settlement price, this being the list price of the shares over the last ten stock market sessions prior to the exercise date.

The main characteristics of the Plan are as follows:

- Beneficiaries: Employees of NH Hoteles, S.A. and its group of companies who have been designated by the Appointments and Remuneration Committee. One hundred and thirty-one employees were beneficiaries at 31 December, 2010, and have been awarded a total of 3,123,517 options.

- Number maximum of assignable options: 3,790,000 options.

- Strike price: 17.66 euros for the first group comprising twenty-eight executives and 15.27 euros for the second group made up of 103 executives.

As required by the Plan Regulations, said prices have to be reduced by 0.71 euros, the theoretical value of the preferential subscription right of the increase of capital carried out in June 2009.

This Plan is valued and recognised in the consolidated comprehensive profit and loss statement, as indicated in Note 4.16. The impact of the Plan on the consolidated comprehensive profit and loss statement for 2010 led to a reduction in personnel expenses amounting to 131,00 euros (a reduction of 150,000 euros in 2009). The main hypotheses used in the evaluation of this Plan, which was granted in 2007, are as follows:

- Period of employment before being able to exercise the option: Up to five years, the maximum duration of the Plan. The Plan may be exercised in thirds on an annual basis.

- Risk-free rate: 1.76%

- Return per dividend: 0.36%

The Group entered into an equity swap agreement in November 2007 to hedge against any possible financial liabilities arising from the exercise of this Share-Based Incentive Plan. Subsequently, a novation amending this agreement was signed on 13 June 2009 to complement the financial hedge and adjust it to new market conditions.

The main features of this agreement, after it was amended, are as follows:

- The number of shares, which were initially equivalent to the maximum number of options granted, was increased to a total of 6,316,666 after the increase of capital approved by the Parent Company General Shareholders' Meeting on 16 June 2009.

- The Group will pay the financial institution a return based on the Euribor rate plus a spread to be applied on the result of multiplying the number of units by the initial price.

- The Group may totally or partially rescind the agreement in advance and, should this be the case, if the share is listed below its initial price, the Group will pay the financial institution said difference. Should the list price be above the initial price, but below the strike prices, the Group will receive the difference between both amounts.

Applying accounting standards, the Group allocated a provision of 35.36 million euros (Note 18) under liabilities in the consolidated balance sheet at 31 December 2010 in order to hedge against any eventual loss the financial institution could suffer as a result of the negative evolution of the price of the shares covered by the swap. Change in fair value of this financial instrument had a negative effect of 3.6 million euros on the consolidated comprehensive profit and loss statement in 2010 (a positive effect of 3.8 million euros in 2009).

Sensitivity analysis of NH Hoteles share price

Changes in the fair value of the NH Hoteles share price derivative contracted by the Group depend mainly on changes in the shares' listing, but also on the evolution of the euro interest rate curve and on dividend estimates made by market agents. The net fair value of this derivative amounted to minus 35,359,000 euros at 31 December 2010 (minus 32,784,000 euros at 31 December 2009).

A breakdown of the sensitivity analysis on the fair values of the derivatives contracted by the Group is shown below:

Sensitivity on Results	Thousands of euros	
	2010	2009
+10% (rise in the share price)	2,145	2,350
-10% (fall in the share price)	(2,145)	(2,350)

The sensitivity analysis shows that the negative fair value of the derivatives falls with increases in the share price, while their negative fair value increases with falls in the share price.

21. PROVISIONS FOR LIABILITIES AND CHARGES

The breakdown of the "Provisions for liabilities and charges" heading at 31 December 2010 and 2009, together with the main movements recorded in said years are as follows:

	Thousands of euros					
	Balance at 31/12/2008	Incorporations into consolidation	Allowances	Applications/ Reductions	Assignments	Balance at 31/12/2009
Provisions for contingencies and extraordinary costs:						
Onerous agreements	13,226	-	16,384	-	(10,633)	18,977
Provisions for pensions and similar obligations	23,862	7	1,883	(3,455)	-	22,297
Provision for Share-Based Remuneration Scheme (Note 20)	117	-	150	-	-	267
Other claims	10,188	2,015	5,741	(5,371)	-	12,573
	47,393	**2,022**	**24,158**	**(8,826)**	**(10,633)**	**54,114**
Provisions for contingencies and running costs:						
Onerous agreements	6,304	-	-	(6,181)	10,633	10,756
Other claims	2,215	-	-	(2,215)	-	-
	8,519	**-**	**-**	**(8,396)**	**10,633**	**10,756**
Total	**55,912**	**2,022**	**24,158**	**(17,222)**	**-**	**64,870**

	Thousands of euros				
	Balance at 31/12/2009	Allowances	Applications/ Reductions	Assignments (Note 18)	Balance at 31/12/2010
Provisions for contingencies and extraordinary costs:					
Onerous agreements	18,977	11,777	(10,912)	(14,529)	5,313
Provisions for pensions and similar obligations	22,297	956	(3,029)	-	20,224
Provision for Share-Based Remuneration Scheme (Note 20)	267	-	(131)	-	136
Other claims	12,573	3,357	(1,497)	-	14,433
	54,114	**16,090**	**(15,569)**	**(14,529)**	**40,106**
Provisions for contingencies and running costs:					
Onerous agreements	10,756	-	(10,756)	5,129	5,129
	10,756	**-**	**(10,756)**	**5,129**	**5,129**
Total	**64,870**	**16,090**	**(26,325)**	**(9,400)**	**45,235**

Onerous agreements

The Grupo NH Hoteles has classified as onerous a series of hotel rental agreements set to terminate between 2011 and 2028. Although positive in terms of gross operating profit (G.O.P), the operation of these hotels produces a net operating profit deficit (EBITDA) and the termination of such agreements could involve payment in full of the rent for the remaining years.

Provisions for pensions and similar obligations

The "Provisions for pensions and similar obligations" heading mainly includes the provision allocated by the Group to cover the pension plans agreed with its workforce amounting to 17,591,000 euros (18,484,000 euros at 31 December 2009). This heading includes the T.F.R. (Trattamento di fine rapporto), or amount paid to all workers in Italy at the moment they are made redundant for any reason. This is another remuneration element, subject to deferred payment and allocated annually in proportion to fixed and variable remuneration both in kind and in cash, which is valued on a regular basis. The annual amount to be reserved is equivalent to the remuneration amount divided by 13.5. The annual cumulative fund is reviewed at a fixed interest rate of 1.5% plus 75% of the increase in the consumer price index (CPI).

The projected unit credit method is used to calculate the obligations associated with this pension plan.

The breakdown of the main hypotheses used to calculate actuarial liabilities is as follows:

	2010	2009
Discount rates	5.75%	5.75%
Expected annual rate of salary rise	2.50%	2.50%
Expected return from assets allocated to the plan	4.75%-5.75%	4.75%-5.75%

22. TAX NOTE

Balances with Public Administrations

The debit balances with Public Administrations at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Deferred tax assets		
Tax credits	71,882	46,119
Tax assets due to asset impairments	29,674	28,851
Deferred tax assets on salaries	920	920
Derivative financial instruments	9,436	14,362
Other withholding taxes	7,662	15,038
Total	**119,574**	**105,290**

	Thousands of euros	
	2010	2009
Short-term Public Administration accounts receivable		
Corporate Income Tax	3,640	7,877
Value Added Tax	36,346	31,968
Minimum Tax	390	719
Other Tax receivables	7,032	5,906
Total	**47,408**	**46,470**

The balances of the "Deferred tax assets" heading mainly correspond to the deferred tax assets that were triggered as a consequence of the depreciation of certain assets, and from the activation of tax losses.

The movements of the "Deferred tax assets" heading in 2010 and 2009 are as follows:

	Thousands of euros	
	2010	2009
Opening balance	**105,290**	**53,053**
Incorporations into consolidation	-	2,678
Asset impairments	823	7,615
Additions due to derivative instruments	3,929	1,457
Tax assets	25,763	37,343
Others	(16,231)	3,144
Total	**119,574**	**105,290**

Additions for tax credits are mainly due to the tax losses generated by Group companies, most of which were contributed by the Spanish business unit (23.5 million euros). A decision has been taken to record the deferred tax assets indicated above as they are most likely to be recovered, taking into account the Group's future outlook and certain tax planning actions.

In accordance with Article 12.5 of the Consolidated Text of the Corporate Income Tax Act, the Spanish tax group is offsetting the tax loss carry-forwards of the financial goodwill arising from the acquisition of the Astron Group in 2002 (80%) and 2005 (20%) from the tax base. The amount of tax loss carry-forwards in this financial year totalled 8.9 million euros.

Since the above-mentioned goodwill was subject to partial impairment in prior years and the corresponding tax withholding had not been created, the tax loss carry-forwards mentioned above have not created any temporary differences.

At 31 December 2010, the difference between the tax and the accounting costs amounted to 5.04 million euros. Hence, the corresponding deferred tax liability should arise in 2011 for the part of the tax loss carry-forward write-off that exceeds such amount.

The composition of the credit balances with Public Administrations at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Deferred tax liabilities		
Asset revaluations	257,155	255,511
Total	**257,155**	**255,511**
Short-term Public Administration creditors		
Value Added Tax	4,241	2,452
Personal Income Tax	5,321	3,673
Capital Gains Tax	243	1,898
Social Security	9,037	8,487
Others	11,791	18,255
Total	**30,633**	**34,765**

The deferred tax balance mainly corresponds to revaluations made to several assets belonging to the Group.

The movements in deferred tax liabilities during 2010 were as follows:

	Thousands of euros	
	2010	2009
Opening balance	**255,511**	**258,358**
Change due to incorporations into scope of consolidation	-	3,354
Others	1,644	(6,201)
Ending balance	**257,155**	**255,511**

Corporate Income Tax expenses

NH Hoteles Group operates its business in various countries. Hence, Group companies determine Corporate Income Tax expenses in accordance with the prevailing legislation of their tax jurisdictions.

Corporate Income Tax is calculated on the economic or accounting profit or loss resulting from the application of generally accepted accounted standards in each country, and does not necessarily coincide with the tax result, this being construed as the tax base of the tax.

The reconciliation between the accounting profit or loss and the Corporate Income Tax base is as follows (thousands of euros):

	2010	2009
Accounting profit/loss (after tax and before minority interests)	**(47,444)**	**(115,110)**
Corporate Income Tax	(5,109)	(20,270)
Accounting profit/loss (before minority interests)	**(52,553)**	**(135,380)**
Permanent differences	(54,985)	51,427
Temporary differences	(3,584)	74,161
Consolidation adjustments	50,783	(64,235)
Prior tax base	**(60,339)**	**(74,027)**
Tax losses offset	-	(2,052)
Tax base	**(60,339)**	**(76,079)**

Parent Company's consolidated tax group

NH Hoteles, S.A. and the companies with a tax domicile in Spain in which it held a direct or indirect stake of at least 75% during the 2010 tax period is subject to the tax consolidation scheme governed by Chapter VII, Title VII of the Consolidated Text of the Corporate Income Tax Act approved by Royal Legislative Decree 4/2004 of 5 March.

The NH Hoteles, S.A. tax group comprised the following companies in 2010:

NH Hoteles, S.A.	Gran Círculo de Madrid, S.A.
NH Establecimientos Complementarios Hoteleros, S.A.	Sotogrande, S.A.
NH Hotel Rallye, S.A.	NH Logroño S.A.
NH Central Reservation Office, S.L.	Iberinterbrokers, S.L.
Cofir, S.L.	Fast Good Península Ibérica, S.L.
Inversores y Gestores Asociados, S.A.	Latinoamericana de Gestión Hotelera, S.L.
NH Hoteles España, S.L.	NH Atardecer Caribeño, S.L.
Lenguados Vivos, S.L.	Sotoduero Caribe Investment, S.L.
Grupo Financiero de Intermediación y Estudios, S.A.	Nuevos Espacios Hoteleros, S.A.
Hotelera Onubense, S.A.	Hoteles Hesperia, S.A.
NH Hotel Ciutat Of Reus, S.A.	Club Deportivo Sotogrande, S.A.

Coperama Servicios a la Hostelería, S.L. left the Consolidated Tax Group in 2010. This company did not have any outstanding profit or loss arising from internal operations to be incorporated into the Group's tax base which had been eliminated from the tax base in prior years.

Hoteles Hesperia, S.A., Club Deportivo Sotogrande, S.A. and Nuevos Espacios Hoteleros, S.A. joined the Consolidated Tax Group in 2010.

Any accounts receivable or payable generated for this item are settled by NH Hoteles, S.A., the Group's Parent Company, although the Group's policy is not to offset any tax losses contributed by the rest of the companies forming part of the Consolidated Tax Group (except in the case of Sotogrande, S.A.).

The Group undertook restructuring transactions under the "Special Mergers, Spin-Offs, Asset Contributions and Security Swap Scheme" in previous financial years. The legally required statements are to be found in the Annual Report of the relevant financial year.

In 2010, NH Hoteles, S.A. contributed to NH Hoteles España, S.L. shares in the following companies:

- Explotaciones Hoteleras Cóndor, S.A. (the shares contributed accounted for 55% of this company's capital and the rest of the capital was acquired by NH Hoteles España, S.L. in 2010).
- NH Establecimientos Complementarios Hoteleros, S.A. (the shares contributed accounted for 100% of this company's capital).
- NH Marin, S.A. (the shares contributed accounted for 50% of this company's capital).
- NH Ciutat de Mataró, S.A. (the shares contributed accounted for 50% of this company's capital).
- NH Logroño, S.A. (the shares contributed accounted for 76.47% of this company's capital).
- Palacio de la Merced, S.A. (the shares contributed accounted for 25% of this company's capital).
- Nuevos Espacios Hoteleros, S.A. (the shares contributed accounted for 100% of this company's capital).
- NH Ciutat de Reus, S.A. (the shares contributed accounted for 90.1% of this company's capital).

In 2010, NH Hoteles, S.A. also contributed shares accounting for 100% of the capital of the Uruguayan company Toralo, S.A. to Latinoamericana de Gestión Hotelera, S.L.

Both NH Hoteles España, S.L. and Latinoamericana de Gestión Hotelera, S.L. chose to subject the above-mentioned contributions to the Special Tax Scheme for Mergers, Spin-Offs, Asset Contributions, Security Swaps and Change of Registered Address of a European Company or Cooperative from one EU Member State to another Member State governed by Chapter VIII, Title VII of Royal Legislative Decree 4/2004 of 5 March, which approved the Consolidated Text of the Corporate Income Tax Act.

For the purposes set forth in the Consolidated Text of the Corporate Income Tax Act, it is hereby stated that the securities received by NH Hoteles España S.L. and Latinoamericana de Gestión Hotelera, S.L. have been recorded by NH Hoteles, S.A. at the same book value as the securities contributed.

Financial years subject to tax inspection

The last four financial years of the Consolidated Tax Group are open to inspection in accordance with tax legislation.

Regarding the financial years open to inspection, contingent liabilities not susceptible to objective quantification may exist, which are not significant in the opinion of the Group's Directors.

Write-offs applied by the consolidated tax group of the Parent Company

Write-offs generated during the financial year are essentially due to staff training activities, double taxation and donations.

No write-offs for investments in environmental impact reduction measures were applied or credited to calculate Corporate Income Tax.

At 31 December 2010, the Tax Group held the following tax incentives carry-forwards (thousands of euros):

Year of Origin	Write-off pending	Amount
2001 to 2010	Investment in export activity	46,571
2001 to 2010	Others	3,842
		50,413

Similarly, the consolidated tax group of the Parent Company took advantage in prior years of the "Deferral of extraordinary profits for re-investment" scheme. The essential characteristics of such re-investment are as follows (thousands of euros):

Year of origin	Revenue subject to deferral	Prior years	Año 2010	Amount Outstanding	Last year of deferral
1999	75,145	48,029	681	26,435	2049
2000	3,737	3,203	535	-	2010
2001	4,335	3,097	619	620	2011

All these revenues were reinvested through various financial interests, except for those originating in 1999, which were re-invested in the acquisition of real estate.

Revenue from previous year written off for the re-investment of extraordinary profits in accordance with the provisions set forth in Article 42 of the Consolidated Text of the Corporate Income Tax Act is shown below (thousands of euros).

Financial year	Date of transfer	Revenue subject	Write-off		Company generating the capital gain	Company reinvesting
			Applied	Outstanding		
2002	February	25,738	4,375	-	NH Hoteles, S.A.	NH Hotel Rallye, S.A.
2002	February	3,282	558	-	NH Pamplona, S.A.	NH Hotel Rallye, S.A.
2002	April	8	-	1	Sotogrande, S.A.	NH Hotel Rallye, S.A.
2002	December	1,087	185	-	NH Hoteles, S.A.	NH Hotel Rallye, S.A.
2003	May	3,085	617	-	NH Establecimientos Hoteleros, S.A.	NH Hotel Rallye, S.A.
2003	September	3,037	607	-	NH Hoteles, S.A.	NH Hotel Rallye, S.A.
2004	March	365	73	-	NH Hoteles, S.A.	NH Hotel Rallye, S.A.
2005	May	700	140	-	NH Hoteles, S.A.	NH Hotel Rallye, S.A.
2005	May	19	4	-	NH Hoteles, S.A.	NH Hotel Rallye, S.A.
2006	January	735	147	-	Sotogrande, S.A.	Sotogrande, S.A.
2006	December	3,480	696	-	NH Hoteles, S.A.	Sotogrande, S.A.
2006	December	3,100	-	-	NH Hoteles, S.A.	Sotogrande, S.A.
2008	June	7,021	-	843	NH Hoteles España S.L.	NH Hotel Rallye, S.A.
2008	June	19,630	-	2,356	NH Hotel Rallye, S.A.	NH Hotel Rallye, S.A.
2008	June	3,627	-	435	Hotelera Onubense, S.A.	NH Hotel Rallye, S.A.
2008	June	1,583	-	190	Gran Círculo de Madrid, S.A.	NH Hotel Rallye, S.A.

The capital gains generated in 2002 and 2003 were re-invested in the acquisition of 80% of the Astron Group (today NH Hoteles Deutschland GmbH and NH Hoteles Austria GmbH) in November 2002. The obligation to keep the investment during a three-year period finalised in November 2005.

Capital gains from 2004 and 2005 were reinvested in 2005 through the acquisition of 38% of Nacional Hispana de Hoteles, S.R.L. de C.V. (the parent company of a group of hotel companies in Mexico). The obligation to keep the investment during a three-year period finalised in January 2008.

Capital gains from 2006 were reinvested in the acquisition in July of 2006 of 50% of Desarrollos Isla Blanca, S.L., amounting to 19.53 million euros. The obligation to keep the investment during a three-year period finalised in July 2009.

Finally, extraordinary profit from 2008 was re-invested in 2009 through the Group's acquisition of new shares in its Italian subsidiary through NH Hotel Rallye, S.A.. These shares were issued as a result of an increase of capital amounting to 73 million euros allocated to acquire new hotels and refurbish existing hotels.

Tax loss carry-forwards and outstanding write-offs

At 31 December 2010, the consolidated tax group of which NH Hoteles, S.A. is the parent company had the following tax loss carry-forwards:

Tax losses	Amount (Thousands of euros)	Year of Expiry
Financial Year 2007	8,992	2022
Financial Year 2008	20,424	2023
Financial Year 2009	96,752	2024
Financial Year 2010	74,173	2025
Total	**200,341**	

At year-end, the Italian Business Unit had tax loss carry-forwards for the amount of 14,584,000 euros, which expire in 2015.

NH Central Reservation Office, S.L. (formerly Retail Invest, S.A.) and Latinoamericana de Gestión Hotelera, S.A. obtained tax losses prior joining the Group of which NH Hoteles, S.A. is the parent company.

Likewise, Hoteles Hesperia, S.A. and Nuevos Espacios Hoteleros, S.A. had tax loss carry-forwards before joining the tax group.

The amounts of the above-mentioned tax loss carry-forwards that can only offset positive results of the aforementioned companies when the Group obtains a positive tax base, are as follows (thousands of euros):

Year of origin	Amount Thousands of euros	Offsetting Deadline
1995	3,403	2010
1996	4,132	2011
1997	11,236	2012
1998	4,648	2013
1999	197	2014
2000	55	2015
2001	15,662	2016
2002	19,037	2017
2003	25,901	2018
2004	8,437	2019
2005	1,491	2020
2006	15,240	2021
2007	2,332	2022
2008	2,303	2023
2009	138	2024
	114,212	

23. TRADE CREDITORS

The breakdown of this heading in the consolidated balance sheet at 31 December 2010 and 2009 is as follows (thousands of euros):

	Thousands of euros	
	2010	2009
Trade creditors	207,307	217,479
Advance payments from customers	19,573	18,479
	226,880	**235,958**

The "Trade creditors" heading reflects the accounts payable arising from the Group's regular trading activities.

The "Advance payments from customers" heading mainly includes advance payments from Sotogrande, S.A. customers amounting to 2.66 million euros (2.57 million euros at 31 of December 2009).

As regards the information required by the Third Additional Provision of Act 15/2010 of 5 July for these first financial statements after entry into force of the Act on 31 December 2010, an outstanding unpaid balance of 3,802,000 euros with suppliers accumulated a payment delay beyond the legal deadline for payment.

This balance refers to suppliers which by their very nature are trade creditors for debts with suppliers of goods and services. Therefore, it includes data on the suppliers heading under current liabilities in the balance sheet.

The maximum legal deadline for payment that applies to Spanish companies in accordance with Act 3/2004 of 29 December Setting Forth the Measures to Combat Commercial Transaction Delinquency is 85 days.

24. OTHER NON-CURRENT LIABILITIES

The composition of this heading at 31 December 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	2009
Outstanding payment for the Jolly Hotels transaction	87,393	-
Outstanding remunerations	31,841	26,832
Outstanding lease payments	-	710
Rent reviews	1,065	1,342
Other creditors	1,957	7,950
	122,256	**36,834**

The liability corresponding to a put option in favour of Joker Partecipazioni S.r.l. is recognised in the "Outstanding payment for the Jolly Hotels transaction" heading, which was exercised in prior years and is due in 2011 (see Note 18).

On the date these financial statements were drawn up, the Group had obtained the necessary financing to cover its payment on the due date in 2011.

25. THIRD-PARTY GUARANTEES AND CONTINGENT ASSETS AND LIABILITIES

Financial institutions had granted surety to the Group for an amount totalling 32.37 million euros (38.43 million euros at 31 December 2009) which, in general terms, guarantee the fulfilment of certain obligations taken on by the consolidated companies in the performance of their activities.

At 31 December 2010, the Group had taken out insurance policies to cover risks arising from damage to material goods, loss of profits and third-party liability. The principal insured sufficiently covers the assets and risks mentioned above.

Undertakings with third parties

- On 29 March 2005 and 10 March 2006, shareholders' agreements were entered into by NH Hotel Rallye, S.A. and Losan Hoteles, S.L. concerning Harrington Hall Hotel Ltd. (the owner of the Harrington Hall Hotel) and Losan Investment Ltd. (the owner of the Kensington Hotel) by means of which, should the former receive an offer to purchase 100% of the shares in either of the two companies at a price deemed to be a market price, Losan Hoteles, S.L. may require NH Hotel Rallye, S.A. to transfer its shares to the third party who made the offer and the latter will be obliged to accept. However, NH Hotel Rallye, S.A. will have preferential acquisition rights over shares held by Losan Hoteles, S.L. in Harrington Hall Hotel Ltd. and Losan Hoteles Ltd.

- On 1 December 2005, an agreement was reached with Intesa Sanpaolo S.p.A. for this company to acquire NH Italia S.r.l. share capital. In the agreement, a put option was granted to Intesa Sanpaolo S.p.A. on the stake thus acquired from March 2008 to March 2015. The price will be set at the fair value and determined by an independent investment bank. The price will be settled in NH Hoteles, S.A. shares. The investment made by Intesa Sanpaolo in NH Italia S.r.l., which amounted to 164.24 million euros (169.89 million euros at 31 December 2009), is recognised in the "Minority interests" heading of the consolidated attached balance sheets (see Note 16.6).

- Article 9 of the Corporate Bylaws of Coperama Servicios a la Hostelería, S.L. sets forth that shareholders shall have preferential acquisition rights over the shareholdings in question should the company through which the ownership of said shareholdings is held be taken over by a new owner who is a competitor of the other members. For these purposes, a takeover is considered to have taken place when a third party directly or indirectly holds more than 50% of the company's share capital or of its voting rights. The member in which the change of control has come about must report such circumstance and offer to the other members the possibility of acquiring its stake at fair value.

- Sotogrande, S.A. granted a put option on 25 March 2009 to the minority interests of Donnafugata Resort S.r.l., which represent 32.41% of its share capital. On 20 October 2010, the shareholders of Compagnia Inmobiliare Azionaria S.p.A. and Repinvest Sicily S.r.l. gave notice of their intention to partially exercise the above-mentioned put option in accordance with the agreement executed by the parties in March 2009. As a consequence of said notice, an independent expert has been commissioned to appraise the company. The expert had not yet issued his opinion on the date these financial statements were drawn up.

- Within the context of operations in the Caribbean, an undertaking was made by the Parent Company as part of the Real Arena complex management agreement to obtain a minimum return to guarantee coverage of the 35 million dollars obtained to finance construction of the hotel.

Contingent assets and liabilities

The main contingent assets and liabilities of Grupo NH Hoteles on the date these consolidated financial statements were drawn up are set out below:

- In 2008, a Group company in Italy terminated a service agreement with the construction company in charge of building a tourist complex being developed by said company on the grounds of several breaches of contract. As a consequence of said termination, the construction company filed a claim against the Italian company demanding damages of 15 million euros.

  A counter-claim was then filed by the NH Group company in Italy on the grounds that the termination was the result of a contractual breach, on the basis of which compensation for damages amounting to approximately 33 million euros is being claimed from the construction company. Though the proceedings are still in the preliminary investigation phase, the court has already appointed a technical expert to appraise the damages.

- The management agreements entered into by Hoteles Hesperia, S.A. and the respective owners of Hesperia hotels establish that the owners may opt to terminate the management agreement in the event NH Hoteles, S.A. is taken over, with the owners being obliged to pay Hoteles Hesperia, S.A. an amount equivalent to the Average Annual Remuneration, as set forth in said agreements.

- The owner of a tourist complex has initiated arbitration proceedings against a NH Group company in Italy claiming damages for a delay in construction works and demanding demolition of part of the works and the execution of some additional works. For its part the NH Group company has claimed for damages and a second arbitrator has been appointed. Should it be impossible to reach settlement, the parties will appoint a third arbitrator to resolve the dispute.

- The minority shareholder of one of the NH Group companies in Italy has filed a joint claim against several NH Group companies in Italy, the Parent Company and two directors of one of the defendants. The claimant is contesting the Shareholders' Meeting of one of the defendant companies held on 4 December 2009 and is claiming compensation for the damages caused, the reimbursement of amounts paid by virtue of a hotel services agreement and payment of legal costs.

- NH Group has appeared in the mandatory insolvency proceedings of Viajes Marsans, S.A. to claim outstanding amounts. Likewise, the Parent Company has initiated collection proceedings against the personal guarantors of Viajes Marsans S.A., filing a claim for the execution of some promissory notes. A provision for said bad debt has been made in these consolidated financial statements.

- An action has been brought against the Parent Company as a guarantor of some promissory notes issued by a Group company to purchase a hotel in Argentina. The claimants are requesting the exchange rate difference between the Argentine peso and the dollar, which has been posted in the Courts, along with interest and costs amounting to approximately 334,000 euros.

- As the result of injunction proceedings brought before the Court of Rotterdam, the Parent Company has been ordered to guarantee, pending final ruling, the contractual obligations of NH The Netherlands B.V. to the developer of a hotel project in Rotterdam arising from a turnkey purchase and sale agreement. The above-mentioned corporate guarantee has been posted by the Parent Company.

- Jardinería Sotogarden, S.L. brought ordinary civil proceedings against Sotogrande S.A. for one million euros for the costs of the works executed on a plot of the Sotogrande development. The final judgment was issued on 1 September 2010, which condemned Sotogrande S.A. to pay said amount. An appeal against this judgment has been lodged by the Group. The Directors of the Parent Company do not feel that settlement of this dispute will lead to any additional liabilities that would affect the Group's equity.

- NH Hoteles, S.A. Group has entered into agreements with the shareholders of Residential Marlín S.L. and Los Alcornoques de Sotogrande, S.L. These agreements set forth that the personal characteristics of the shareholders are essential for the development of the projects, laying down that any change of effective control in either the shareholders or the parent companies will enable the other shareholder to split off from the company with entitlement to a reimbursement of its corporate assets plus any resulting damages

- Sotogrande, S.A. has entered into agreements with the shareholders of Corporación Hotelera Dominicana, S.A.; Corporación Hotelera Oriental, S.A.; Inmobiliaria CHDOM, S.A.; and Inmobiliaria CHDOR, S.A., which set forth that Sotogrande, S.A. undertakes to maintain its interest in Capredo Investments GmbH, the company which currently holds a direct stake in the aforementioned companies. A breach of this agreement will lead to damages being granted to the local shareholders.

- The syndicated loan amounting to 650 million euros signed on 2 August 2007 by the group company NH Finance, S.A., as the borrower, and a syndicate of banks includes an early redemption clause in the event of a change of circumstances resulting in a takeover of NH Hoteles, S.A.

- In addition, NH Hoteles Group has taken out loans and credits with a joint limit of 35 million euros that contain an early redemption clause in the event of a takeover of NH Hoteles, S.A.

- The Group is aware of a construction project for a third runway at Frankfurt am Main airport, which is expected to enter into service by the end of 2012. The NH Frankfurt Airport Hotel is located in this acoustic area of influence of said runway. The Group therefore intends to bring any legal actions within its power to defend its interests once the impact of the runway on the hotel's income has been analysed.

- The Group has brought legal action in France to obtain compensation for the damages, including loss of profits, suffered as a result of the refurbishment and enlargement works of Hotel Lotti located in Paris. These works were carried out at the beginning of 2000 by the managers of the former Jolly hotel chain before it was taken over by the Group. Said action has been brought against the architect, the engineers and other parties taking part in the construction process (and against their respective insurance companies) of the aforementioned works, which forced the Group to correct technical and administrative irregularities after it took over control, along with other construction defects detected. The claim filed by the Group amounts to approximately 18 million euros.

At 31 December 2010 other legal actions were brought by the Group which cannot be objectively quantified. The Directors of the Parent Company consider that the hypothetical loss incurred by the Group as a result of such actions would not significantly affect equity.

26. INCOME AND EXPENSES

26.1. Income

The breakdown of the balance of this heading in the consolidated comprehensive profit and loss statements for 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Hotel occupancy	820,570	744,260
Catering	337,010	327,540
Meeting rooms and others	84,611	82,620
Real Estate	14,507	20,757
Golf and Sports Clubs	3,074	3,158
Rents and other services	22,168	31,415
Net turnover	**1,281,940**	**1,209,750**
Operating subsidies	144	237
Other operating income	16,570	4,948
Other operating income	**19,697**	**5,185**
Net gain (loss) on disposal of assets	**2,142**	**(326)**

The "Other operating income" heading reflects income from the fees invoiced to hotels operated under a management arrangement and also services provided by NH Hoteles Group to third parties.

The breakdown of net turnover by geographic markets in 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Spain - Hotels	332,961	330,407
Spain - Real Estate	15,062	20,757
Benelux	291,557	264,709
Italy	281,921	275,723
Germany	232,168	205,231
Latin America	62,227	55,036
Rest of Europe	66,044	57,887
	1,281,940	**1,209,750**

The figure resulting from the disposal of assets in 2010 corresponds to the sale of NH Luzern located in Lucerne, Switzerland; NH Ischia Thermal Spa Resort in Ischia, Italy; NH Regensburg hotel in Regensburg, Germany; and a property in Antwerp, Belgium. It likewise includes the write-off of NH Schlosshotel Bühlerhöhe hotel in Baden-Baden, Germany from the fixed assets heading.

26.2. Financial income and changes in the fair value of financial instruments

The breakdown of the balance of this heading in the consolidated comprehensive profit and loss statement is as follows:

	Thousands of euros	
	2010	2009
Income from marketable securities	988	759
Interest income	3,859	8,786
Other financial income	264	225
	5,111	**9.770**
Income from derivative instruments	**649**	**1,286**

26.3. Personnel expenses

The composition of this heading in the consolidated comprehensive profit and loss statement is broken down as follows:

	Thousands of euros	
	2010	2009
Wages, salaries and similar	296,739	304,867
Social security contributions	71,167	72,744
Indemnities	5,638	4,414
Contributions to pension plans and similar	8,487	9,347
Other social expenses	43,726	33,699
	425,757	**425,071**

The average number of people employed by the Parent Company and the companies consolidated through full consolidation in 2010 and 2009 broken down by professional categories is as follows:

	2010	2009
Group general management	5	6
Department Managers and Heads	1,395	742
Technical staff	538	558
Sales representatives	540	469
Administrative staff	1,048	645
Rest of workforce	11,185	11,487
Average number of employees	**14,711**	**13,907**

The breakdown by sex and professional categories of the workforce at 31 December 2010 and 2009 is as follows:

	31-12-2010		31-12-2009	
	Males	Females	Males	Females
Group's general management	5	-	6	-
Department Managers and Heads	768	637	750	629
Technical staff	130	421	141	392
Sales representatives	201	350	212	331
Administrative staff	783	255	770	240
Rest of workforce	6,325	4,811	6,265	4,687
Average number of employees	**8,212**	**6,474**	**8,144**	**6,279**

The average number of people suffering from a disability equivalent to or greater than 33% directly employed by the Parent Company and the companies consolidated through full consolidation in 2010 and broken down by professional categories is as follows:

	2010
Group's general management	-
Department Managers and Heads	1
Technical staff	1
Sales representatives	1
Administrative staff	1
Rest of workforce	23
Average number of employees	**27**

No people suffering from a disability equivalent to or greater than 33% were employed in 2010 by multi-group companies consolidated using the proportional consolidation method.

The average age of the Group's workforce was approximately 37 years and average seniority in the Group amounted to 7.3 years.

26.4. Other operating expenses

The composition of this heading of the consolidated profit and loss account for 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Leases	269,740	272,190
External charges for services	365,928	322,290
Allowances for contingency and expense provisions	20,734	23,400
	656,402	**617,880**

In 2010 and 2009, the fees for auditing of accounts and other services provided by Deloitte, S.L. and other companies linked to the auditor through controlling interests, common ownership or management, as well as by the auditing firms of the different companies that comprise NH Hoteles Group are recorded in this heading, which were as follows:

2010-

Services billed	Thousands of euros		
	Principal Auditor	Others	Total
Auditing services	1,009	496	1,505
Other verification services	111	-	111
Total auditing and related services	**1,120**	**496**	**1,616**
Tax advice services	356	61	417
Other services	484	52	536
Total services billed	**1,960**	**609**	**2,569**

2009-

Services billed	Thousands of euros		
	Principal Auditor	Others	Total
Auditing services	1,082	530	1,612
Other verification services	6	-	6
Total auditing and related services	**1,088**	**530**	**1,618**
Tax advice services	220	38	258
Other services	37	-	37
Total services billed	**1,345**	**568**	**1,913**

26.5. Operating leases

At 31 December 2010 and 2009, the Group had made undertakings concerning future minimal rental instalments by virtue of operating non-cancellable lease agreements, which expire as set out in the table below.

The current value of the rental instalments has been calculated by applying a discount rate in keeping with the Group's weighted average cost of capital and includes the undertakings which NH Hoteles Group estimates will have to be covered in the future to guarantee a minimum return from hotels operated under a management agreement.

	Thousands of euros	
	2010	2009
Less than one year	274,023	266,820
Between two and five years	1,018,603	1,026,735
More than five years	725,183	857,462
Total	**2,017,809**	**2,151,017**

The life of the operating lease agreements signed by the NH Hoteles Group ranges from ten to twenty-five years.

The breakdown by business unit of the current value of the rental instalments at 31 December 2010 is as follows (thousands of euros):

	Less than one year	Between two and five years	More than five years	Total
Spain	88,498	350,460	260,279	699,237
Germany and Central Europe	106,680	383,879	254,007	744,566
Italy	44,003	157,597	96,050	297,650
Benelux	31,963	117,931	113,947	263,841
Latin America	2,879	8,736	900	12,515
Total	**274,023**	**1,018,603**	**725,183**	**2,017,809**

The breakdown by business unit of the current value of the rental instalments at 31 December 2009 is as follows (thousands of euros):

	Less than one year	Between two and five years	More than five years	Total
Spain	92,970	367,506	317,951	778,427
Germany and Central Europe	97,523	373,907	286,130	757,560
Italy	43,007	165,053	117,411	325,471
Benelux	30,951	113,318	134,891	279,160
Latin America	2,369	6,951	1,079	10,339
Total	**266,820**	**1,026,735**	**857,462**	**2,151,017**

26.6. Financial expenses and changes in fair value of financial instruments

The breakdown of this heading of the consolidated profit and loss account for 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Expenses for interest	50,882	48,180
Financial expenses for means of payment	11,020	9,499
Other financial expenses	-	19
	61,902	57,698

27. RELATED-PARTY TRANSACTIONS

The main balances and transactions the Group performed in 2010 and 2009 with different related parties are as follows:

Loans and accounts receivable not available for trading

The composition of this heading at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Loans to staff (Note 11.1)	14,458	14,320
Loans to joint ventures:		
Residencial Marlin, S.L.	14,960	13,238
Los Alcornoques de Sotogrande, S.L.	1,077	1,066
Accounts receivable from joint ventures:		
Los Alcornoques de Sotogrande, S.L.	4,469	4,473
Other accounts receivable from joint ventures	1,036	735
Current accounts with joint ventures:		
Residencial Marlin, S.L.	698	708
Resco Sotogrande, S.L.	169	105
Loans to associated companies		
Harrington Hall Hotel Ltd.	2,250	2,250
Corporación Hotelera Dominicana, S.A.	504	101
Sotocaribe, S.L.	685	-
Current accounts and interest with associated companies	6,211	4,819
Total	**46,517**	**41,815**

The "Credits to staff" heading includes the financing amounting to 14.46 million euros granted to the Group's directors in 1998 to purchase shares in the Parent Company. Said financing was converted into a loan in 2001 and sufficiently guaranteed at 31 December 2010. It grants the borrowers the entitlement to extend the term of the loans up to 30 April 2013 at most (see Note 11.1). These loans have accrued interest amounting to 138,000 euros in this financial year.

The "Loans to joint ventures" heading includes the proportional part (50%) of the participative subordinated loans granted by Sotogrande, S.A. to Residencial Marlin, S.L. and Los Alcornoques de Sotogrande, S.L. for the acquisition of plots. These participative loans accrue a Euribor-indexes interest rate, which is increased at the moment the profits of each company exceed a previously set amount.

Both the above-mentioned loans mature in December 2011. At 31 December 2010, the Directors of Sotogrande, S.A. intended to extend the loans to Residencial Marlin, S.L. and Los Alcornoques de Sotogrande, S.A. at maturity (see Note 11.1).

The "Accounts receivable from joint ventures - Los Alcornoques de Sotogrande, S.L." heading includes the outstanding balance from Los Alcornoques de Sotogrande, S.L., one of the Group's joint ventures. The maturity of this outstanding balance is subject to approval of the new San Roque General Urban Zoning Plan.

The "Other accounts receivable from joint ventures" heading includes the current balance at 31 December 2010 for the services provided by Sotogrande, S.A. for the execution works, as well as the commission fees invoiced for the sale of apartments and retail outlets.

The "Loans to associated companies- Harrington Hall Hotel Ltd." heading includes the subordinated loan granted by the Group to Harrington Hall Hotel Ltd. for the amount of 2,250,000 euros to refinance the entity's financial debt prior to its acquisition (see Note 11.1).

The "Current accounts and interest with associated companies" heading includes the interest accrued during the financial year by the above-mentioned loan to Harrington Hall Hotel Ltd., as well as a current account jointly held with this company.

The financial income generated by the above loans and accounts receivable have been as follows:

	Thousands of euros	
	2010	2009
Credits to staff	138	-
Loans to joint ventures	189	398
Loans to associated companies	56	95
Total	**383**	**493**

Accounts receivable from related parties

In accordance with the hotel management agreement entered into with Grupo Inversor Hesperia, S.A., management fees in favour of NH Hoteles Group amounting to 5.2 million euros were due in 2010, of which 4.1 million euros remained outstanding at 31 December 2010 after adding VAT.

Financing agreements with banks which are shareholders of the Group

The breakdown of the debts with banks which are shareholders of the Group at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Caja Madrid	101,067	114,220
Banca Intesa Sanpaolo	28,317	51,848
Bancaja	38,621	39,992
La Kutxa	14,252	15,000
Caixanova	18,074	18,974
Caja Murcia	7,126	7,500
Ibercaja	8,537	9,461
Total	**215,994**	**256,995**

Financial expenses accrued connected with the financing agreements with credit institutions which are shareholders of the Parent Company amounted to 6,493,000 euros in 2010 (7,791,000 euros in 2009).

In addition, the Group has an equity swap agreement with Caja Madrid amounting to 56,281,000 euros to hedge against any possible financing liabilities arising from the Share-Based Remuneration Scheme 2007-2011 (see Note 20). The financial expenses linked to this agreement totalled 1,161,000 euros (2,412,000 euros at 31 of December of 2009).

Other related-party agreements

The Group entered into several operating lease agreements with Pontegadea Inversiones, S.L. totalling 9,689,000 euros in 2010 (10,243,000 euros in 2009).

Pontegadea Inversiones, S.L. has likewise granted the following loans to joint ventures:

	Thousands of euros	
	2010	2009
Loans to joint ventures:		
Residencial Marlin	14,960	13,238
Los Alcornoques de Sotogrande	1,077	1,066
Total	**16,037**	**14,304**

The "Loans to joint ventures" heading includes the proportional part of the participative subordinated loans granted by Pontegadea Inversiones, S.L. to Residencial Marlin, S.L. and Los Alcornoques de Sotogrande, S.L. with maturity dates on 31 December 2011 and 25 December 2011 (see Note 11.1). These participative loans accrue interest at a rate indexed to the Euribor rate, which is increased at the moment the profits of each company exceed a previously set amount. At 31 December 2010, the Directors of Sotogrande, S.A. considered that these loans would be renewed at maturity.

The financial expenses accrued from these loans amounted to 189,000 euros in 2010 (398,000 euros in 2009).

The remuneration of the Board of Directors and members of the Parent Company's senior management is broken down in Notes 29.1 and 29.2 of these consolidated financial statements.

28. INFORMATION BY SEGMENTS

The information by segments is primarily structured around the Group's different business lines and then according to geographic distribution.

Main segments – Business

The business lines described below have been established on the basis of the organisational structure of NH Hoteles Group existing at the end of 2010, taking into account both the nature of the products and services offered and the target customer segments.

In 2010, NH Hoteles Group focused its operations on two main business lines: hotels and real estate. These constitute the basis upon which the Group presents the information on its main segments.

The Group does not include its catering operations as a main segment because it cannot be separated from the accommodation activity; both constitute a single business, the hotel business.

Secondary segments – Geographic

The Group's operations are located in Spain, the Benelux, Germany, Italy, the rest of Europe, South America and the rest of the world.

The information by segments set out below is based on the reports drawn up by NH Hoteles Group and is generated through a computer application which categorises transactions by business lines and geography.

Ordinary income corresponds to income directly attributable to the segment plus a relevant proportion of the Group's general income that can be distributed to it using fair rules of distribution. The ordinary income of each segment does not include interest or dividend income or the gains arising from the sale of investments or transactions aimed at redeeming or discharging debt. Ordinary income by segments interests includes the share of the profit or loss of associate entities and joint ventures consolidated under the equity method. The corresponding proportion of the income from joint ventures consolidated using the proportional consolidation method is also included.

The profit or loss of the segment is presented before any adjustments corresponding to minority interests are made.

The assets and liabilities of the segments are those which are directly connected with the segments' operations.

The information by segments of these operations is presented below.

28.1. Information on main segments

	Thousands Euros					
	Hotel Business		Real Estate Business		Total	
	2010	2009	2010	2009	2010	2009
INCOME-						
Sales and other operating income	1,282,724	1,193,546	15,930	21,389	1,298,654	1,214,935
Net gain on disposal of non-current assets	2,142	(326)	-	-	2,142	(326)
Total income	1,284,866	1,193,220	15,930	21,389	1,300,796	1,214,609
PROFIT (LOSS)-						
Share of profits in associated companies	187	(6,580)	(1,637)	-	(1,450)	(6,580)
Financial income	7,410	8,692	285	1,078	7,695	9,770
Net exchange rate differences	(21,497)	(357)	-	-	(21,497)	(357)
Change in fair value of financial instruments	649	1,286	-	-	649	1,286
Financial expenses	(63,604)	(55,674)	(1,326)	(2,024)	(64,930)	(57,698)
Loss due to impairment of financial investments	17,825	(488)	-	-	17,825	(488)
Profit (Loss) before tax	(45,166)	(133,169)	(7,387)	(2,211)	(52,553)	(135,380)
Tax	3,816	19,374	1,293	896	5,109	20,270
Profit (Loss) for the year	(41,350)	(113,795)	(6,094)	(1,314)	(47,444)	(115,110)
Minority interests	(6,148)	(18,010)	-	-	(6,148)	(18,010)
Profit (Loss) attributable to the Parent Company	(35,202)	(95,785)	(6,094)	(1,314)	(41,296)	(97,100)

	Thousands Euros					
	Hotel Business		Real Estate Business		Total	
	2010	2009	2010	2009	2010	2009
OTHER INFORMATION						
Inclusions of fixed assets	84,503	170,642	3,342	852	87,845	171,494
Depreciation	(124,525)	(125,940)	842	1,130	(123,683)	(124,810)
Net losses from asset impairment	(2,240)	(36,832)	-	-	(2,240)	(36,832)
Statement of financial position						
ASSETS						
Assets by segments	3,078,713	3,230,859	172,192	236,458	3,250,905	3,467,317
Shareholdings in associated companies	5,514	70,753	64,478	-	69,992	70,753
Total consolidated assets	**3,084,227**	**3,301,612**	**236,670**	**236,458**	**3,320,897**	**3,538,070**
LIABILITIES						
Liabilities and equity by segments	3,084,227	3,301,612	236,670	236,458	3,320,897	3,538,070
Total Consolidated Liabilities and Shareholders' Equity	**3,084,227**	**3,301,612**	**236,670**	**236,458**	**3,320,897**	**3,538,070**

28.2. Information on secondary segments

The following table shows the breakdown of certain of the Group's consolidated balances in accordance with the geographic distribution of the entities giving rise to them:

	Thousands Euros					
	Net turnover		Total assets		"Inclusions of tangible fixed assets and intangible assets"	
	2010	2009	2010	2009	2010	2009
Spain	348,021	351,164	1,122,876	1,188,271	21,223	25,701
Benelux	291,558	264,709	686,857	700,567	11,024	23,571
Italy	281,921	275,723	929,352	1,091,270	32,819	12,651
Germany	232,168	205,231	296,674	275,724	11,535	90,102
Latin America	62,227	55,036	254,382	249,526	9,896	13,652
Rest of Europe	66,043	57,887	30,756	32,712	1,348	5,817
Total	**1,281,938**	**1,209,750**	**3,320,897**	**3,538,070**	**87,845**	**171,494**

29. REMUNERATION AND OTHER STATEMENTS MADE BY THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The amounts due in 2010 and 2009 to the members of the Parent Company's bodies of governance, Board of Directors (15 members), Standing Committee (4 members), Audit and Compliance Committee (4 members) and Appointments and Remuneration Committee (3 members) for the remuneration of the Chief Executive Officer, statutory fees and per diem allowances were as follows:

29.1. Remuneration of the Board of Directors

Type of Directors	Thousands of euros	
	2010	2009
Executive Directors	1,183	1,964
External Proprietary Directors	356	248
External Independent Directors	203	336
Other External Directors	38	3
Total	1,780	2,551

These amounts include the per diem allowances and statutory fees received by Parent Company Directors in both fully and proportionally consolidated companies, as well those consolidated under the equity method, which amounted to 17,000 euros in 2010 (127,000 euros in 2009).

The total amount of the remuneration received for all items by all Directors in 2009 expressly includes the amounts due to the Chief Executive Officer as the beneficiary of the 2007-2009 Three-Year Remuneration Plan. This sum was generated during the above-mentioned period and became due on 31 December 2009. Said plan was fully provisioned for by the Group.

29.2. Remuneration of Senior Management

The remuneration of members of the Management Committee at 31 December 2010 and 2009, excluding any who simultaneously held the office of members of the Board of Directors (whose remuneration has been set out above), is detailed below:

	Thousands of euros	
	2010	2009
Remuneration in cash	2,011	2,906
Remuneration in kind	75	170
Total	2,086	3,076

The total remuneration received by all senior management in 2010 includes, among others, the amount received by certain executives as beneficiaries of the Three-Year Remuneration Plan, amounting to 225,000 euros (652,000 euros in 2009)

29.3. Information on conflicts of interest among the Directors

At year-end of 2010, the members of the Board of Directors of NH Hoteles, S.A. and certain individuals associated with them, as defined in the Consolidated Text of the Capital Companies Act, held interests in the capital of the following companies engaged in the same, similar or complementary type of operations as those comprising the corporate purpose of NH Hoteles, S.A.

Holder	Investee Company	Activity	Number of shares
Gabriele Burgio	Mola 15, S.L.	Real Estate	10%
Caja Ahorros de Valencia, Castellón y Alicante	Hotel Barcelona Golf, S.A.	Hotel Business	17.48%
Caja Ahorros de Valencia, Castellón y Alicante	Hotel Alameda Valencia SL	Hotel Business	100.00%
Caja Ahorros de Valencia, Castellón y Alicante	Gran Hotel Xirivella, S.L.	Hotel Business	48.62%
Caja Ahorros de Valencia, Castellón y Alicante	Playa Hotels & Resorts, S.L.	Hotel Business	7.24%
Caja Ahorros de Valencia, Castellón y Alicante	Prohore, S.A.	Hotel Business	29.93%
Sociedad de Promoción y Participación Empresarial Caja Madrid	Inversora de hoteles vacacionales, S.A.	Construction and Tourist Promotions	25%
Francisco Javier Illa Ruíz	Hotel Comtact de Vic, S.A.	Hotel Business	23.50%
Francisco Javier Illa Ruíz	Hoteles y Gestión, S.A.	Hotel Business	1.086%
Grupo Inversor Hesperia, S.A.	Bonanova Squash Garden, S.A	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Bristol Services, S.L.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Centurion Playa, S.A.	Hotel Business	65.95%
Grupo Inversor Hesperia, S.A.	Hotel Colibri, S.A.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Hotel Conde de Aranda, S.A.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Cordobatel, S.A.	Hotel Business	65.47%
Grupo Inversor Hesperia, S.A.	Gerencias y Serv. Turisticos, S.A.	Hotel Business	85.49%
Grupo Inversor Hesperia, S.A.	Hotelera Metropol, S.A.	Hotel Business	85.82%
Grupo Inversor Hesperia, S.A.	Infond, S.A.	Hotel Business	89.52%
Grupo Inversor Hesperia, S.A.	Desjust, S.L.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Hotelera Sant Just, S.A.	Hotel Business	84.73%
Grupo Inversor Hesperia, S.A.	Playa del Oeste, S.A.	Hotel Business	58.28%
Grupo Inversor Hesperia, S.A.	Hotelera del Noroeste, S.A.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Hotelera del Tormes, S.A.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Hotel Hesperia Madrid, S.L.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Hoteles Almeria, S.A.	Hotel Business	66.29%
Grupo Inversor Hesperia, S.A.	Hotelera Salvatierra, S.A.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Hotelera del Este, S.A.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Hotel Fontoria, S.A.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Hotelera Paseo de Gracia, S.A.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Bercuma, S.L.	Hotel Business	86.28%
Grupo Inversor Hesperia, S.A.	Hotels Hesperia Andorra, S.A.	Hotel Business	99.99%
Grupo Inversor Hesperia, S.A.	Corp. Hotelera Hemtex, S.A.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Desarrollo Turistico Isla Bonita, C.A.	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Hesperia Victoria UK Ltd	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Hesperia Amsterdam BV	Hotel Business	100.00%
Grupo Inversor Hesperia, S.A.	Inversiones HMR, C.A.	Hotel Business	35.70%

The breakdown of the offices held in companies engaged in the same, similar or complementary type of operations as those comprising the corporate purpose of NH Hoteles, S.A. and which do not belong to the Group or are not associated to it, by members the Parent Company's Board of Directors and individuals associated with them is as follows:

Holder	Investee Company	Activity	Functions
Gabriele Burgio	Ferrovial, S.A.	Real Estate	Director
Francisco Javier Illa Ruiz	Desarrollo Turístico Isla Bonita, C.A.	Hotel Business	Member of the Management Team
	Hesperia Amsterdam B.V.	Hotel Business	Joint Director
	Corporación Hotelera Hemtex, S.A.	Hotel Business	Member of the Management Team
	Hesperia Victoria UK Limited	Hotel Business	Sole Director
	Hotels Hesperia Andorra, S.A.	Hotel Business	Board Sec. and Attorney-in-Fact
	HMR	Hotel Business	Member of the Management Team
	RH2005	Hotel Business	Member of the Management Team
Roberto Cibeira Moreiras	Epic Hotel LLC	Hotel Business	Member of the Board

30. SUBSEQUENT DISCLOSURES

According to relevant disclosure sent to the National Securities Market Commission (CNMV) on 18 February 2010:

"At the Group's Board of Directors' Meeting held on 18 February 2011, the Executive Chairman, Gabriele Burgio, informed of his decision to stand down as Director, Chairman and Executive Director of the Company, considering that once the main objectives of the Business Plan approved in July 2009 to deal with the economic crisis had been met, the Company is now in an ideal situation to benefit from the initiation of the recovery with a substantial improvement in margins, and this has been reflected in the Company's share price.

Mr Burgio's resignation will take effect on 1 March once the financial statements for 2010 have been drawn up by the Board.

Gabriele Burgio took on executive responsibilities in 1997, when the Company had sixty-six hotels in Spain. After an intense period of development and internationalisation, he has managed to situate it as one of the world's leading hotel companies with 400 hotels in twenty-four countries, making NH a leading brand in city hotels in the most important European and Latin America countries.

After having received a preliminary report from the Appointments and Remuneration Committee, the Board of Directors resolved to appoint Mariano Pérez Claver, a professional with wide-ranging experience in the business and financial world, as the Company's new Chairman and Chief Executive Officer, also with effect on 1 March 2010.

Mariano Pérez Claver is currently the Chairman of SOS Corporación Alimentaria, S.A., an office which he has held since June 2009."

In addition, the Group reached an agreement on 23 February 2010 with the owners of Hotel Costes regarding Hotel Lotti located in Paris, which the Group owns fully.

The aforementioned alliance entails the sale of 33% of Hotel Lotti. This alliance aims to generate synergies arising from the joint commercial management of both hotels due to their adjacent locations in the centre of Paris.

Likewise, the parties have agreed on the possibility of further developing the commercial alliance, including the possibility of selling all Group interest in Hotel Lotti to the owners of Hotel Costes in 2011.

31. INFORMATION ON ENVIRONMENTAL POLICY

The management of the integrated water cycle within the area of coverage of Sotogrande Development and its surroundings is one of the operations carried out by the Group through Sotogrande, S.A. This includes the treatment and purification of wastewater, aimed at minimising damage to the environment.

As part of its treatment and purification operations the Group owns two wastewater treatment plants capable of supplying a population of up to 20,000 inhabitants. These stations are intercommunicated, so that treated effluents are discharged into the sea through an underwater outfall. Likewise, the Company has built a tertiary treatment system in one of the treatment stations. This further purifies water, making it suitable to irrigate part of the Real Club de Golf de Sotogrande and the pitches of the Santa María Polo Club, with whom agreements have been signed for this purpose. The tertiary treatment plant has been in service since July 2003. The entry into service of this tertiary system has increased water resources by 300,000 m^3 / year.

Furthermore, the Group is currently focusing its actions on urban land with partially approved plans as part of its promotional and development activities for the Sotogrande Development. In these circumstances, no preliminary environmental impact studies need be conducted on its real estate or tourist developments. Nonetheless, the Group's policy aims to achieve maximum respect for the environment, and for this purpose it has contracted the services of an environmental consulting firm to provide environmental diagnoses and consulting on the Parent Company's actions.

The amount of the environmental assets described net of depreciation at 31 December 2010 is 1,523,000 euros (1,671,000 euros in 2009).

The Group had not allocated any provisions for environmental contingencies and claims at year-end 2010 and 2009.

32. EXPOSURE TO RISK

The Group's financial risk management is centralised at the Corporate Finance Division. This Division has put the necessary measures in place to control exposure to changes in interest and exchange rates on the basis of the Group's structure and financial position, as well as credit and liquidity risks. If necessary, hedges are made on a case-by-case basis. The main financial risks faced by the Group's policies are described below:

Credit risk

The Group's main financial assets include cash and cash equivalents (see Note 15), as well as trade and other accounts receivable (see Note 13). In general terms, the Group holds its cash and cash equivalents in institutions with a high level of creditworthiness and part of its trade and other accounts receivable are guaranteed through guarantees, surety and advance payments by tour operators.

The Group has no significant concentration of third-party credit risk due to the diversification of its financial investments as well as to the distribution of trade risks with short collection periods among a large number of customers.

Interest rate risk

The Group's financial assets and liabilities are exposed to fluctuations in interest rates, and this may have an adverse effect on its results and cash flows. In order to mitigate this risk, the Group has established policies and contracted financial instruments to ensure that approximately 30% of net financial debt is indexed to fixed interest rates.

In accordance with the reporting requirements set forth in IFRS 7, the Group has conducted a sensitivity analysis on possible interest rate fluctuations in the markets in which it operates. On the basis of such requirements, the Group considers that a 50 basis point rise in interest rates would lead to a 3,405,000 euro increase in the Group's financial expenses.

Aside from the impact any changes in the interest rates could have on financial assets and liabilities which comprise the net cash position, changes could arise in the valuation of the financial instrument contracted by the Group (see Note 19). The effects of changes in the interest rates on efficient derivatives are recorded against equity, while the effects on inefficient derivates are recorded in the consolidated comprehensive profit and loss statement. The Group has chosen to exclude the temporary value of designating hedges in order to improve their efficiency. Note 19 of the consolidated annual report attached hereto sets out the sensitivity analysis conducted on the above-mentioned derivatives in the faces of changes in interest rates.

Lastly, the long-term financial assets set out in Note 11 of this annual report are also subject to interest rate risks.

Exchange rate risk

The Group is exposed to exchange rate fluctuations that may affect its sales, results, equity and cash flows. These mainly arise from:

- Investments in foreign countries (essentially Mexico, Argentina, the Dominican Republic, Colombia, Panama, Great Britain and the United States).

- Transactions made by Group companies operating in countries whose currency is other than the euro (essentially Mexico, Argentina, the Dominican Republic, Venezuela, Great Britain and the United States).

In order to ensure these risks are mitigated, the Group has established policies and contracted certain financial derivatives (see Note 19). More specifically, the Group endeavours to align the composition of its financial debt with cash flows in the different currencies. Likewise, financial instruments are contracted in order to reduce exchange rate differences from transactions denominated in foreign currencies.

The Group has conducted a sensitivity analysis on the possible exchange rate fluctuations that might occur in the markets in which it operates. For this analysis, the Group has taken into consideration fluctuations in the main currencies with which it operates other than its functional currency (the US dollar, the Argentine peso, the Mexican peso and the pound sterling). On the basis of this analysis, the Group considers that a 5% depreciation in the corresponding currencies would have the following impact on equity:

	Thousands of euros	
	Equity	Profit (Loss)
US dollar	(3,392)	(126)
Pound sterling	-	(81)
Argentine peso	(4,446)	(231)
Mexican peso	(4,343)	(189)
Colombian peso	(851)	-

Liquidity risk

Exposure to adverse situations in debt or capital markets could hinder or prevent the Group from meeting the financial needs required for its operations and for implementing its Strategic Plan.

Management of this risk is focused on thoroughly monitoring the maturity schedule of the Group's financial debt, as well as on proactive management and maintaining credit lines that allow any cash needs forecast to be met.

The Group's liquidity position in 2011 is based on the following points:

- Cash and cash equivalents amounting to 173,117,000 euros available at 31 December 2010.

- Undrawn credit lines amounting to 21,644,000 euros available as 31 December 2010.

- The Group's business units have the capacity to generate cash flow from their operations in a recurrent and significant manner. Cash flow from operations in 2010 amounted to 100,070,000 euros.

- The Group's capacity to increase its financial borrowing; given that the financial leverage ratio stood at 0.76 at 31 December 2010 (see Note 16).

On 22 March 2010, NH Hoteles, S.A. entered into an agreement with Banco Bilbao Vizcaya Argentaria, S.A. aimed at increasing liquidity in its subsidiary Sotogrande, S.A. and advertising shares. Thus, an undertaking was made to respond to purchase orders for shares in the above-mentioned company. Likewise, liquidity and advertising shares will be fostered when there are purchase or sale positions in the market.

Lastly, the Group makes cash position forecasts on a systematic basis for each business unit and geographic area in order to assess their needs. This liquidity policy ensures payment undertakings are fulfilled without having to request funds at onerous conditions, and allows the Group's liquidity position to be monitored on a continuous basis.

Market risks

The Group is exposed to risks connected with the evolution of the share price in listed companies. This risk arises in the share-based remuneration schemes linked to Parent Company shares. In order to mitigate this market risk, the Group entered into the equity swap arrangement described in Note 20 of this annual report. Likewise, Note 19 mentioned above describes the sensitivity analysis of this financial derivative with regard to changes of +/- 10% in Parent Company shares.

33. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of IFRS's adopted by the European Union. Certain accounting practices applied by the Group that conform IFRS's may not conform with other generally accepted accounting principles.

ANNEX I: SUBSIDIARIES

The data on the Company's subsidiaries at 31 December 2010 are presented below:

Investee Company	Registered address of investee company	Main activity of the Investee Compan	Parent company's % stake in investee company	% of voting rights controlled by parent company	Net book value at parent company	Thousands Euros			
						Assets	Liabilities	Equity	(Profit) Loss for the Year
Astron Kestrell,, Ltd. (**)	Plettenberg Bay	Hotel Business	100%	100%	(1,326)	909	(2,235)	1,296	30
Atlantic Hotel Exploitatie, B.V.	The Hague	Hotel Business	100%	100%	1,027	1,904	(877)	(1,224)	197
Blacom, S.A.	Buenos Aires	Investment Company	100%	100%	4,197	1,446	(6)	(1,436)	(4)
Caribe Puerto Morelos, S.A. de C.V. (*)	Mexico DF	Hotel Business	100%	100%	1,821	2,439	(2)	(2,850)	413
Chartwell de México, S.A. de C.V. (*)	Mexico DF	Real Estate	100%	100%	4,967	5,158	(191)	(4,869)	(97)
Chartwell de Nuevo Laredo, S.A. de C.V. (*)	Nuevo Laredo, Mexico	Hotel Business	100%	100%	316	2,768	(2,452)	102	(418)
Chartwell Inmobiliaria de Coatzacoalcos, S.A. de C.V. (*)	Coatzacoalcos, Mexico	Hotel Business	100%	100%	2,966	2,779	187	(2,870)	(96)
City Hotel, S.A. (*)	Buenos Aires	Hotel Business	50%	50%	5,899	14,565	(3,202)	(10,875)	(488)
Club Deportivo Sotogrande, S.A.	San Roque	Tourist Services	93%	93%	2,503	4,285	(141)	(4,329)	185
Cofir, S.L.	Madrid	Holding	100%	100%	59	59	-	(61)	2
Columbia Palace Hotel, S.A. (*)	Montevideo	Hotel Business	100%	100%	5,320	10,838	(5,498)	(4,947)	(392)
De Nederlandse Club Ltd.	West Somerset	Without Activity	100%	100%	-	-	-	-	-
De Sparrenhorst,, B.V.	Nunspeet	Hotel Business	100%	100%	15,636	21,033	(5,397)	(15,221)	(415)
Desarrollo Inmobiliario Santa Fe, S.A. de C.V.	Mexico DF	Real Estate	50%	50%	3,202	12,104	(5,701)	(5,462)	(942)
Donnafugata Resort, S.r.l.	Italy	Tourist Services	86%	86%	13,318	79,852	(75,677)	(11,484)	7,309
Edificio Metro, S.A. (*)	Buenos Aires	Hotel Business	100%	100%	3,974	9,529	(1,041)	(8,664)	176
Establecimientos Complementarios Hoteleros, S.A.	Barcelona	Hotel Business	100%	100%	335	5,816	(5,481)	(1,041)	706
Expl. mij. Grand Hotel Krasnapolsky, B.V.	Amsterdam	Hotel Business	100%	100%	13,751	19,289	(5,538)	(14,375)	624
Expl. Mij. Hotel Best, B.V.	Best	Hotel Business	100%	100%	423	721	(297)	(503)	80
Expl. mij. Hotel Caransa, B.V.	Amsterdam	Without activity	100%	100%	311	-	311	(311)	-
Expl. mij. Hotel Doelen, B.V.	Amsterdam	Hotel Business	100%	100%	5,096	5,676	(581)	(4,368)	(727)
Expl. Mij. Hotel Naarden, B.V.	Naarden	Hotel Business	100%	100%	251	904	(652)	(684)	432
Expl. mij. Hotel Schiller, B.V.	Amsterdam	Hotel Business	100%	100%	6,313	18,426	(12,113)	(5,609)	(703)
Exploitatiemij. Tropenhotel, B.V.	Hilversum	Hotel Business	100%	100%	(6)	516	(522)	8	(2)
Explotaciones Hoteleras Condor, S.L.	Barcelona	Hotel Business	55%	55%	(301)	657	(958)	(29)	330
Fast Good Islas Canarias, S.A.	Las Palmas	Catering	50%	50%	1,368	21	1,308	(1,407)	78
Fast Good Península Ibérica, S.A. (*)	Madrid	Catering	100%	100%	1,330	2,553	(1,223)	(2,546)	1,216
Franquicias Lodge, S.A. de C.V. (*)	Mexico DF	Real Estate	100%	100%	171	174	(3)	(169)	(2)
Gran Círculo de Madrid, S.A. (*)	Madrid	Hotel Business	99%	99%	38,926	17,384	21,541	(38,992)	67
Grande Jolly, S.r.l. (*)	Milan	Hotel Business	100%	100%	413,512	692,810	(313,723)	(390,371)	11,285
Grupo Financiero de Intermediación y Estudios, S.A.	Madrid	Holding	25%	25%	165	1	(18,829)	18,169	659
Grupo Hotelero Monterrey, S.A. de C.V.	Mexico DF	Hotel Business	100%	100%	651	2,239	(1,588)	(742)	90
Grupo Hotelero Querétaro, S.A. de C.V.	Mexico DF	Real Estate	63%	63%	2,558	7,489	(3,445)	(4,248)	204
Hanuman Investment, S.L.	Tenerife	Hotel Business	50%	50%	3,415	9,923	(6,513)	(3,420)	10
Heiner Gossen Hotelbetrieb GmBH	Mannheim, Germany	Hotel Business	100%	100%	-	(730)	(7)	454	284
HEM Atlanta Rotterdam, B.V.	Hilversum	Hotel Business	100%	100%	4,994	5,956	(961)	(4,741)	(253)
HEM Epen Zuid Limburg, B.V.	Hilversum	Hotel Business	100%	100%	(1,647)	2,658	(4,305)	1,669	(22)
HEM Forum Maastricht, B.V.	Wittem	Hotel Business	100%	100%	1,533	2,690	(1,157)	(1,189)	(344)
HEM Jaarbeursplein Utrecht, B.V.	Maastricht	Hotel Business	100%	100%	6,156	8,696	(2,540)	(4,972)	(1,184)
HEM Janskerkhof Utrecht, B.V.	Utrecht	Hotel Business	100%	100%	829	1,307	(479)	(752)	(77)
HEM Marquette Heemskerk, B.V.	Hilversum	Hotel Business	100%	100%	(973)	499	(1,472)	841	132
HEM Onderlangs Arnhem, B.V.	Hilversum	Hotel Business	100%	100%	380	1,148	(768)	(316)	(64)
HEM Spuistraat Amsterdam, B.V.	Arnhem	Hotel Business	100%	100%	12,389	14,805	(2,416)	(10,797)	(1,592)
HEM Stadhouderskade Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%	4,967	6,875	(1,908)	(5,267)	299

Investee Company	Registered address of investee company	Main activity of the Investee Compan	Parent company's % stake in investee company	% of voting rights controlled by parent company	Net book value at parent company	Thousands Euros			
						Assets	Liabilities	Equity	(Profit) Loss for the Year
HEM Van Alphenstraat Zandvoort, B.V.	Hilversum	Hotel Business	100%	100%	2,595	3,818	(1,223)	(2,643)	48
HEMV Amsterdam BV	Amsterdam	Hotel Business	100%	100%	56,296	83,019	(22,082)	(59,569)	(1,367)
HHM Jolly BV	Amsterdam	Holding	100%	100%	4,012	713	-	(713)	-
Highmark Geldrop, B.V.	Geldrop	Hotel Business	100%	100%	(1,441)	1,198	(2,639)	1,179	262
Highmark Hoofddorp, B.V.	Hoofddorp	Hotel Business	100%	100%	(9,884)	2,925	(12,809)	8,700	1,184
Hispana Santa Fe, S.A. de C.V.	Mexico DF	Hotel Business	50%	50%	(1)	41	(43)	-	3
Hotel Ciutat de Mataró, S.A.	Barcelona	Hotel Business	50%	50%	471	1,625	(1,471)	(790)	636
Hotel de Ville, B.V.	Groningen	Hotel Business	100%	100%	(1,097)	591	(1,688)	831	267
Hotel Expl. Mij Amsterdam Noord, B.V.	Amsterdam	Hotel Business	100%	100%	(3,300)	10,123	(13,422)	1,973	1,327
Hotel Expl. Mij Leijenberghlaan Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%	4,580	6,210	(1,631)	(3,968)	(611)
Hotel expl. mij. Capelle a/d IJssel B.V.	Capelle a/d Ijssel	Hotel Business	100%	100%	4,088	4,452	(364)	(4,055)	(33)
Hotel expl. mij. Danny Kayelaan Zoetermeer, B.V.	Hilversum	Hotel Business	100%	100%	(499)	1,346	(1,845)	299	200
Hotel expl. mij. Stationsstraat Amersfoort, B.V.	Amersfoort	Hotel Business	100%	100%	28,533	45,375	(16,842)	(26,885)	(1,649)
Hotel Expl.mij. Diegem, N.V. (**)	Diegem	Hotel Business	100%	100%	72,821	90,399	(9,262)	(81,883)	746
Hotelbetriebe Bayreuther Strabe, GmbH	Germany	Hotel Business	100%	100%	-	131	(31)	84	(184)
Hoteleira Brasil Ltda.	Brazil	Hotel Business	100%	100%	824	823	(183)	(641)	2
Hotelera de la Parra, S.A. de C.V. (*)	Mexico DF	Hotel Business	100%	100%	12,556	25,335	(12,779)	(12,739)	183
Hotelera del Mar, S.A.	C. Mar de Plata	Hotel Business	20%	20%	1,370	-	-	-	-
Hotelera Lancaster, S.A. (*)	Buenos Aires	Hotel Business	50%	50%	1,215	4,954	(951)	(3,508)	(496)
Hoteles Hesperia, S.A. (*)	Barcelona	Hotel Business	100%	100%	6,145	11,142	(4,997)	(6,020)	(126)
Immobiliare 4 Canti, Srl. (*)	Messina	Hotel Business	50%	50%	434	5,783	(4,915)	(1,047)	178
Inmobiliaria y Financiera Aconcagua SA (*)	Buenos Aires	Hotel Business	50%	50%	749	2,756	(962)	(1,424)	(369)
Inversores y Gestores Asociados, S.A.	Madrid	Holding	100%	100%	42	-	42	(6)	(36)
Jan Tabak, N.V. (**)	Bussum	Hotel Business	80%	80%	(1,702)	-	-	-	-
JH Belgium, S.A. (*)	Brussels	Hotel Business	100%	100%	712	2,354	(1,598)	(1,404)	647
JH Deutschland, GmbH (*)	Cologne	Hotel Business	96%	96%	11,417	5,882	(1,057)	(3,156)	(1,669)
JH France S.A. (*)	Paris	Hotel Business	100%	100%	24,859	88,378	(25,126)	(64,749)	1,496
JH Holland, N.V. (*)	Amsterdam	Hotel Business	100%	100%	90,503	33,561	(10)	(33,561)	10
JH USA, Inc. (*)	Wilmington	Hotel Business	100%	100%	8,701	89,583	(19,088)	(70,509)	14
Koningshof, B.V.	Veldhoven	Hotel Business	100%	100%	28,533	45,375	(16,842)	(26,885)	(1,649)
Krasnapolsky Belgian Shares, B.V.	Hilversum	Holding	100%	100%	(8,522)	-	(8,522)	8,522	-
Krasnapolsky Events, B.V.	Amsterdam	Without Activity	100%	100%	-	-	-	-	-
Krasnapolsky H&R Onroerend Goed, B.V.	Amsterdam	Real Estate	100%	100%	102,801	168,898	(66,096)	(96,905)	(5,896)
Krasnapolsky Hotels & Restaurants, N.V.	Amsterdam	Holding	100%	100%	465,985	452,817	13,168	(434,760)	(31,225)
Krasnapolsky Hotels Ltd. (**)	Somerset West	Hotel Business	100%	100%	(145)	1,954	(2,099)	316	(171)
Krasnapolsky ICT, B.V.	Hilversum	Other Activity	100%	100%	16	16	-	(16)	-
Krasnapolsky International Holding, B.V.	Amsterdam	Holding	100%	100%	191	-	191	-	(191)
Latina Chile SA (*)	Santiago de Chile	Hotel Business	100%	100%	13,008	11,728	(1,268)	(9,803)	(657)
Latina de Gestión Hotelera, S.A. (*)	Buenos Aires	Hotel Business	100%	100%	141,698	118,566	(37,602)	(76,351)	(4,612)
Latinoamericana de Gestión Hotelera, S.L.	Madrid	Holding	100%	65%	33,828	82,389	(189,206)	114,527	(7,710)
Leeuwenhorst Congres Center, B.V.	Noord-wijkerhout	Hotel Business	100%	100%	50,181	66,504	(16,323)	(47,744)	(2,437)
Lenguados Vivos, S.L.	Madrid	Hotel Business	100%	100%	12,271	4,785	7,486	(12,552)	281
Liberation Exploitatie, B.V.	Sprang Capelle	Hotel Business	100%	100%	(4,349)	1,348	(5,698)	3,849	501
Marquette Beheer, B.V.	Hilversum	Real Estate	100%	100%	265,586	265,592	(6)	(252,639)	(12,947)
Museum Quarter, B.V.	Hilversum	Hotel Business	100%	100%	1,730	1,838	(108)	(2,572)	842
Nacional Hispana de Hoteles, S.A. (*)	México DF	Hotel Business	100%	100%	72,580	74,823	49	(71,894)	(2,977)
NH Atardecer Caribeño, S.L.	Madrid	Real Estate	100%	100%	1,665	3,589	(1,924)	(1,973)	308
NH Belgium cvba	Diegem	Holding	100%	100%	132.183	71.938	(1.421)	(70.257)	(260)

Investee Company	Registered address of investee company	Main activity of the Investee Compan	Parent company's % stake in investee company	% of voting rights controlled by parent company	Net book value at parent company	Thousands Euros			
						Assets	Liabilities	Equity	(Profit) Loss for the Year
NH Caribbean Management, B.V.	Hilversum	Management	100%	100%	(100)	-	(100)	100	-
NH Central Europe Management, GmbH	Berlín	Holding	100%	100%	25	47	(2)	(42)	(3)
NH Central Europe, GmbH & Co. KG (*)	Germany	Hotel Business	100%	100%	268,293	123,586	(809)	(121,908)	(869)
NH Domo y Decoración, S.L.	Madrid	Decoration	50%	50%	-	-	-	(1)	-
NH Finance, S.A. (**)	Luxembourg	Financial company	100%	100%	22,622	623,927	(627,501)	(7,098)	10,672
NH Hotel Ciutat de Reus, S.A.	Barcelona	Hotel Business	90%	90%	1,458	2,272	(802)	(1,348)	(122)
NH Hotel Rallye, S.A. (*)	Barcelona	Hotel Business	100%	100%	176,924	566,463	(389,539)	(184,369)	7,445
NH Hoteles Austria, GmbH (*)	Viena	Hotel Business	100%	100%	16,640	8,761	(4,540)	(4,640)	419
NH Hoteles Deutschland, GmbH (*)	Berlin	Hotel Business	100%	100%	106,434	46,042	(40,417)	(30,260)	24,635
NH Hoteles España, S.L. (*)	Barcelona	Hotel Business	100%	100%	148,911	155,901	(6,990)	(151,219)	2,308
NH Hoteles Participaties, NV (**)	Amsterdam	Holding	100%	100%	225,554	599	(89)	(479)	(31)
NH Hoteles Switzerland GmbH	Fribourg	Hotel Business	100%	100%	9,211	11,620	(7,677)	106	(4,049)
NH Hotels Polska, Sp. Zo.o.	Poland	Hotel Business	100%	100%	-	30	(1)	14	(42)
NH Hotels Czequia, s.r.o.	Prague	Hotel Business	100%	100%	9	(1,037)	(225)	30	1,232
NH Hotels USA, Inc.	Houston, USA	Real Estate	100%	100%	256	317	(61)	(227)	(29)
NH Hungary Hotel Management, Ltd. (*)	Budapest	Hotel Business	100%	100%	1,041	96	(194)	(273)	371
NH Italia, S.r.l. (*)	Milan	Hotel Business	56%	56%	247,237	559,981	(181,261)	(379,580)	860
NH Italy Management, S.r.l.	Milan	Hotel Business	100%	100%	58,179	100,292	(78,335)	(27,226)	5,269
NH Lagasca, S.A.	Barcelona	Hotel Business	100%	100%	5,494	19,682	(14,189)	(4,873)	(621)
NH Las Palmas, S.A. (*)	Gran Canaria	Hotel Business	75%	75%	13,605	14,340	(597)	(13,192)	(551)
NH Logroño, S.A.	Logroño	Hotel Business	76%	76%	1,797	862	912	(1,872)	99
NH Management Black Sea S.R.L.	Bucharest	Hotel Business	100%	100%	300	1,317	(88)	(1,065)	(164)
NH Marin, S.A. (*)	Malaga	Hotel Business	50%	50%	2,795	1,999	998	(2,594)	(404)
NH Orio, Srl. (*)	Milan	Hotel Business	100%	100%	2,181	2,715	(1,532)	(1,150)	(34)
NH Private Equity B.V.	Amsterdam	Holding	100%	100%	(10,707)	7,571	(18,278)	7,156	3,552
NH Rallye Portugal Lda.	Portugal	Hotel Business	100%	100%	2,005	6,682	(5,651)	(1,154)	123
NH The Netherlands, B.V. (vh GTI, B.V.)	Hilversum	Holding	100%	100%	425,681	457,793	(32,112)	(403,451)	(22,230)
NH Tortona, Srl.	Milan	Hotel Business	70%	70%	2,264	6,293	(6,091)	(110)	(93)
Nuevos Espacios Hoteleros, S.L.	Madrid	Hotel Business	100%	100%	270	10,171	(9,900)	(120)	(150)
OGBM Atlanta Rotterdam B.V.	Rotterdam	Real Estate	100%	100%	18,226	18,971	(745)	(17,273)	(953)
OGBM Bogardeind Geldrop BV	Geldrop	Real Estate	100%	100%	8,783	9,071	(287)	(8,346)	(437)
OGBM Capelle a/d IJssel BV	Capelle a/d Ijssel	Real Estate	100%	100%	8,346	8,183	163	(7,971)	(375)
OGBM Danny Kayelaan Zoetermeer BV	Zoetermeer	Real Estate	100%	100%	8,078	8,682	(604)	(7,678)	(400)
OGBM Ijsselmeerweg Naarden BV	Naarden	Real Estate	100%	100%	13,714	13,988	(274)	(13,021)	(693)
OGBM Kruisweg Hoofddorp BV BV	Hoofddorp	Real Estate	100%	100%	51,360	52,714	(1,354)	(48,901)	(2,459)
OGBM Maas Best BV	Best	Real Estate	100%	100%	5,902	5,976	(74)	(5,602)	(300)
OGBM Marquette Heemskerk BV	Heemskerk	Real Estate	100%	100%	5,563	5,552	11	(5,325)	(238)
OGBM Prins Hendrikkade Amsterdam BV	Amsterdam	Real Estate	100%	100%	73,022	75,924	(2,902)	(69,401)	(3,621)
OGBM Stadhouderskade Amsterdam BV	Amsterdam	Real Estate	100%	100%	58,549	61,507	(2,958)	(55,756)	(2,793)
OGBM Van Alphenstraat Zandvoort BV	Zandvoort	Real Estate	100%	100%	12,559	11,799	761	(11,883)	(676)
Olofskapel Monumenten, B.V.	Amsterdam	Real Estate	100%	100%	756	1,171	(415)	(597)	(159)
Operadora Nacional Hispana, S.A. de C.V.	Mexico DF	Real Estate	100%	100%	4,904	12,487	(7,583)	(4,508)	(396)
Palatium Amstelodamum, N.V.	Amsterdam	Hotel Business	100%	100%	7,071	10,216	(3,145)	(7,400)	329
Polis Corporation, S.A.	Buenos Aires	Hotel Business	100%	100%	13,892	9,178	(437)	(8,232)	(508)
Restaurant D'Vijff Vlieghen, B.V.	Amsterdam	Catering	100%	100%	1,913	2,439	(526)	(1,756)	(157)
Retail Invest, S.L. (*)	Madrid	Hotel Business	100%	100%	(4,868)	2,761	(7,629)	(1,664)	6,532
Servicios Chartwell de Nuevo Laredo, S.A. de C.V. (*)	Nuevo Laredo, Mexico	Hotel Business	100%	100%	13	24	(12)	(25)	12
Servicios Corporativos Chartwell Coatzacoalcos, S:A. de C.V. (*)	Coatzacoalcos, Mexico	Hotel Business	100%	100%	-	2,624	(2,313)	(81)	230

Investee Company	Registered address of investee company	Main activity of the Investee Compan	Parent company's % stake in investee company	% of voting rights controlled by parent company	Net book value at parent company	Thousands Euros			
						Assets	Liabilities	Equity	(Profit) Loss for the Year
Servicios Corporativos Chartwell Monterrey, S.A. de C.V. (*)	Monterrey, Mexico	Real Estate	100%	100%	(52)	22	(74)	16	36
Servicios Corporativos de Tlalnepantla, S.A. de C.V.	Mexico DF	Hotel Business	100%	100%	(2)	3	(5)	1	1
Servicios Corporativos Hoteleros, S.A. de C.V. (*)	Mexico DF	Hotel Business	100%	100%	678	1,274	(597)	(597)	(80)
Servicios Corporativos Krystal Zona Rosa, S.A. de C.V. (*)	Mexico DF	Hotel Business	100%	100%	(27)	239	(266)	28	(1)
Servicios de Operación Turística, S.A. de C.V. (*)	Guadalajara, Mexico	Hotel Business	100%	100%	(189)	198	(10)	(116)	(72)
Servicios Hoteleros Tlalnepantla, S.A. de C.V. (*)	Mexico DF	Hotel Business	100%	100%	(6)	2	(8)	5	1
Sotogrande, S.A. (*)	Cadiz	Real Estate	98%	98%	231,952	291,323	(59,359)	(238,564)	6,600
Stadskasteel Oudaen, B.V.	Utrecht	Without Activity	100%	100%	(1,067)	-	(1,067)	1,067	-
t Goude Hooft, B.V.	The Hague	Without Activity	100%	100%	(1,076)	-	(1,076)	1,076	-
Toralo S.A. (*)	Uruguay	Hotel Business	100%	100%	20,116	8,986	(269)	(8,401)	(316)
VSOP VIII, B.V. (**)	Groningen	Hotel Business	50%	50%	1,196	8,395	(6,003)	(2,153)	(238)

(*) Companies audited by Deloitte
(**) Companies audited by PriceWaterhouseCoopers

ANNEX II: ASSOCIATED COMPANIES

Company	Registered Address	Activity	% shareholding	% voting right controlled by NH Hoteles	Thousands Euros				
					Net book value	Investee Company Details			
						Assets	Liabilities	Equity	(Profit) Loss for the Year
Capredo Investments, GmbH (*)	Switzerland	Holding	50%	50%	16,643	45,505	(192)	(45,313)	(1,683)
Consorcio Grupo Hotelero T2, S.A. de C.V.	Mexico D.F.	Hotel Business	10%	10%	76	94	(70)	(28)	4
Fonfir 1, S.L.	Madrid	Real Estate	50%	50%	20	203	(3)	(34)	(165)
Harrington Hall Hotel, Ltd. (*)	London	Hotel Business	25%	25%	1,259	47,429	(57,423)	13,230	(3,236)
Inmobiliaria 3 Poniente, S.A. de C.V.	Mexico	Hotel Business	27%	27%	1,697	337	(32)	(289)	(16)
Losan Investment, Ltd.	London	Hotel Business	30%	30%	3,248	5,546	-	7,224	(12,771)
Mil Novecientos Doce, S.A. de C.V.	Mexico	Hotel Business	25%	25%	1,026	641	(304)	(401)	63
Palacio de la Merced, S.A.	Burgos	Hotel Business	25%	25%	1,532	16,825	(9,627)	(6,581)	(617)
Promociones Marina Morelos, S.A. de C.V. (*)	Cancun	Hotel Business	26%	26%	10,293	83,364	(54,938)	(29,854)	1,428
Fomento Inmobiliario del Caribe, S.A. de C.V.	Mexico	Real Estate	50%	25%	52,694	66,065	(297)	(66,664)	896
Sotocaribe, S.L.	Madrid	Real Estate	36%	36%	62,353	261,976	77,516	(185,470)	(1,503)

(*) Companies audited by Deloitte

ANNEX III: JOINT VENTURES

The data on the three real estate companies with registered addresses in San Roque, Cadiz which are consolidated with the Parent Company using the proportional consolidation method are presented below. At 31 December 2010, the Parent Company's percentage interest in the investee companies and the percentage of voting rights controlled by the Parent Company amounted to 50%, are as follows:

Investee Company	Net book value at parent company	Thousands Euros			
		Assets	Liabilities	Equity	(Profit) Loss for the Year
Los Alcornoques de Sotogrande, S.L.	250	13,610	(13,256)	(354)	(106)
Resco Sotogrande, S.L.	2,157	11,356	(8,745)	(3,611)	(630)
Residencial Marlin, S.L. (*)	-	79,309	(85,932)	6,623	(12,261)
Borokay Beach, S.L.	6,103	18,237	(12,494)	(6,462)	719

(*) Companies audited by Deloitte

ANNUAL REPORT OF THE AUDIT COMMITTE

1) Functions, competencies and functioning of the Audit Committee

The Audit and Control Committee's primary function is to provide the Board of Directors with support in its oversight and control functions, the most important of which consist of ensuring that generally accepted accounting standards are correctly applied and the integrity of the internal control systems used to draw up the individual and consolidated Annual Accounts is maintained.

As a consequence of the entry into force of new legislation on transparency and corporate governance, the Committee's regulations have come to form part of the Articles of Association. Hence, Article 25 of the Articles of Association regulates the Committee's composition, functioning and competencies, empowering the Board of Directors to implement and complement the aforementioned rules in its regulations.

On 31 March 2004, the Board of Directors approved the Board of Directors Regulations which developed the Audit and Control Committee's framework, the way it is run and its composition. Two amendments were subsequently approved (on 23 January 2007 and 22 April 2008) in order to adapt their contents to the Recommendations set forth in the Unified Code of Good Governance, which was approved by the Board of the CNMV (National Securities Market Commission) on 22 May 2006.

Consequently, both the text of the Articles of Association, as well as the regulations contained in the Board Regulations govern all matters concerning the composition, competencies and functioning of the Audit Committee,.which can essentially be summarised as follows:

a) Composition.

The Audit and Control Committee shall comprise at least three and at most five Directors appointed by the Board of Directors. All the members of said Committee must be external or non-executive Directors.

The Audit and Control Committee's Chairman shall be an independent Director appointed from among its non-executive Director members. The Chairman must be replaced every four years and may be re-elected to said office once four years have elapsed from his/her removal from office.

b) Competencies.

Notwithstanding any other tasks it may be entrusted with by the Board of Directors, the Audit and Control Committee's primary function consists of providing support to the Board of Directors in its oversight functions and, more specifically, it holds at least the following competencies:

1) By means of its Chairman, to report, within the sphere of its competence, on any issues raised by shareholders at the General Shareholders' Meeting.

2) To propose to the Board of Directors the appointment of the Auditor of Accounts referred to by Article 264 of the Capital Companies Act for submission to the General Shareholders' Meeting, as well as, where appropriate, the conditions under which the Auditor's services are engaged, the scope of their professional mandate and the revocation or renewal of their appointment.

3) To safeguard the independence and efficiency of the internal auditing area; to propose the recruitment, appointment, reappointment and removal of the person in charge of internal auditing; to propose said service's budget; to receive periodic information about its activities; and to verify that senior management is aware of the conclusions and recommendations made in internal audit reports.

4) To supervise the process of preparing and the integrity of financial reporting relating to the Company and, should it be the case, to the Group, reviewing compliance with regulations, correct scope of consolidation and the proper application of accounting standards.

5) To set and oversee a mechanism that allows employees to report in confidence and, if appropriate, anonymously, any irregularities that could be potentially important, especially any financial and accounting irregularities they may notice within the company.

6) To maintain relationships with the Auditor of Accounts to receive information on any matters that could jeopardise their independence and regarding any other matters related to the account auditing process, as well as on any other disclosures laid down by account auditing legislation and technical auditing standards.

7) To supervise compliance and internal codes of conduct, as well as the rules of corporate governance.

8) To provide preliminary information to the Board on its adoption of relevant decisions on the financial reporting which the company is obliged to publish on a regular basis due to its condition as a listed company.

9) To inform the Board about all matters connected with related-party transactions, which shall be construed as they are defined by the prevailing Capital Companies Act.

10) To inform the Board about the creation or acquisition of any equity investments in special purpose vehicles and companies registered in tax havens, as well as about any other transactions or operations of a similar nature which, due to their complexity, might negatively affect the group's transparency.

11) To exercise any other competencies said Committee has been assigned by virtue of these Regulations or by the Board of Directors.

c) Functioning.

The Audit and Control Committee shall meet at least once a quarter and as many times as may be necessary after being called by its Chairman at his/her own initiative or upon the request of two of its members or of the Board of Directors.

The Audit and Control Committee may require any of the Company's employees or executives to attend its meetings, in addition to the Company's Auditor of Accounts.

2) Composition of the Audit Committee

The composition of the Audit and Control Committee fulfils the regulations laid down by the Board Regulations of NH Hoteles, S.A.,.which faithfully reflect the Recommendations of the Unified Code of Good Governance.

In 2010, a change came about in the composition of the Audit Committee as a result of Mr Angel Córdoba Díaz (who acted on behalf of "Sociedad de Promoción y Participación Empresarial Caja Madrid S.A.") tendering his resignation. He was replaced by Mr Juan Llopart Pérez.

After this change, the composition of the Audit Committee was as follows:

Chairman: Mr Antonio Viana-Baptista

Members:
Mr Mr Iñaki Arratíbel Olaziregi
Mr Ignacio Ezquiaga Domínguez (acting on behalf of Hoteles Participados, S.L.)
Mr Mr Juan Llopart Pérez

Secretary: Mr Mr Roberto Chollet Ibarra

3) Relationships with External Auditors

The parent company of Grupo NH Hoteles has been audited by well-renowned companies since 1986. Between 1986 and 1992 it was audited by Peat Marwick, and by Arthur Andersen between 1993 and 2001. It has been audited by Deloitte since 2002.

The Consolidated Annual Accounts for financial year 2010 were audited by five independent firms:

- Deloitte is the principal auditor and, as such, issues an auditing opinion on the consolidated annual accounts. It verified the accounts of the companies which form part of the Spain (except Portugal), Italy, Germany, Mexico, MERCOSUR and Sotogrande Business Units, which account for 78% of consolidated assets and 72% of turnover.

- PriceWaterhouse Coopers audited the Netherlands/Belgium and Austria/Switzerland (except Hungary) Business Units, which account for 22% of assets and 28% of turnover

Deloitte was appointed as the Group's principal auditor for a one-year period at the General Shareholders' Meeting of NH Hoteles held on 24 June 2010 and the auditors of the different Business Units mentioned above were appointed at their respective General Shareholders' Meetings held over the course of the first half of 2010. This firm has been the Group's principal auditor since 2002, though changes occurred regarding the partner responsibility for the audit in 2003, 2005 and 2007. The total fees received by the firm for its professional auditing services for financial year 2010 amounted to 1.01 million euros (1.09 million euros in 2009).

PriceWaterhouseCoopers (PWC) was also appointed for a one-year period as the auditor of the Business Units mentioned above at their respective General Shareholders' Meetings held during the first quarter of 2010. PWC has been the auditor of the Dutch, Belgian and Swiss companies since 1998, of the Austrian companies since 2004 and of a Luxembourg company since 2009.

The companies in Portugal are audited by Batista, Costa y Asociados; the US companies are audited by McGladrey & Pullen, LLP and the Hungarian company by Ernst & Young. The total fees for the auditing services provided in financial year 2010 by all these auditing firms amounted to 0.50 million euros (0.53 million euros in 2009).

4) Contents and Results of the Audit Committee's Work

The Audit Committee held eight meetings in 2010, which covered the following matters:

a) Analysis and assessment, along with the external auditors, of the Financial Statements and the Annual Reports for 2009 and 2010, ensuring that the auditing opinion was issued under conditions of absolute independence.

b) Review of periodic financial reporting prior to its analysis and approval by the Board of Directors in order to ensure said reporting is reliable, transparent and drawn up using uniform accounting standards and principles.

c) Monitoring of the Internal Audit Plan for 2010, including an examination of its conclusions and the implementation, as appropriate, of the necessary corrective measures.

d) Review and updating of the Group's Risk Map. Analysis and assessment thereof.

e) Examination of the Annual Corporate Governance Report prior to its submission to the Board of Directors for analysis and approval, placing special emphasis on analysing how the situations of Directors and Executives had been recorded.

f) Analysis of related-party transactions in order to verify that they had been performed under market conditions, as has been the case.

g) Monitoring the most significant projects carried out by the internal auditing team. Performance of audits in Italy. Analysis of the specific scheduling of audits conducted on this business unit. Analysis of the risks and controls implemented.

5) Priorities for 2011

This Committee's priorities for this year, apart from those related to drawing up and issuing public financial reporting, are focused on:

1. **Finalising the implementation of the company's processes and procedures at the Italy Business Unit.**
   - Developing a specific structure of processes for said Business Unit.
   - Updating, measuring and validating the controls implemented through the Procedures Manual

2. **Developing and implementing the Procedures Manuals for the Holiday Hotels (Resorts) area:**
   - Analysis and assessment of processes by area.
   - Training on and implementation of processes and controls for different stakeholders

3. **Initiation of the development and design project for the Financial Reporting Control System.**
   Determining the main processes, reviewing specific risks and the structure of controls to mitigate such risks.

To conclude this report, it should be highlighted that this Committee has had access to external experts (auditors, appraisers or consultants) and members of the economic and financial management teams whenever it has deemed it necessary in order to carry out the aforementioned work.

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