Lamps which create a special atmosphere in one of our hotels

ANNUAL REPORT 2011

CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED MANAGEMENT REPORT

Wake Up To a Better World

NH HOTELES

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ANNUAL REPORT 2011

CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED MANAGEMENT REPORT

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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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 Shareholders of NH Hoteles, S.A.:

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 2011 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 statements for the year then ended. As indicated in Note 2.1 to the accompanying consolidated financial statements for 2011, the Parent's directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. 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.

In our opinion, the accompanying consolidated financial statements for 2011 present fairly, in all material respects, the consolidated equity and consolidated financial position of NH Hoteles, S.A. and Subsidiaries at 31 December 2011, and the consolidated results of their operations, the changes in their consolidated equity and their consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

The accompanying consolidated directors' report for 2011 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 2011. 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 Group's accounting records.

DELOITTE, S.L.

Registered in ROAC UNDER NO. S0692

Pablo Hurtado March

26 April 2012

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CONSOLIDATED MANAGEMENT REPORT

FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2011

EVOLUTION OF BUSINESS AND THE GROUP'S SITUATION

The year 2011 has been a year of changes at NH Hoteles. On one hand, growth in the markets where NH Group operates began to slow down resulting in a slightly lower rate of increase than in the previous year, contrary to what had been forecast until summer 2011. Although the euro zone recorded a growth rate of 1.9% in 2010, it is estimated that growth in 2011 will eventually be 1.6%. At the same time, activity in the four European areas where NH Group operates Germany Central Europe, Benelux, Italy and Spain was more consistent than in the previous year. In 2010 growth in Germany stood at 3.6%, in Italy and the Netherlands it was 1.5% and 1.7% respectively, as opposed to stagnation in Spain (0.1%). On the other hand, Spanish economy is expected to grow by 0.7% in 2011, as against 0.4% in Italy. Growth rate in Germany and the Netherlands will be slightly below 3%.

This weak economic growth in Spain, Italy, United Kingdom and Portugal did not prevent NH Hoteles' results from improving on the figures for 2010 as a consequence of the rise in hotel activity in these countries being substantially higher than overall economic growth, coupled with better occupation data and prices in our hotels.

Tourist activity around the world in 2011 maintained the same vigorous pace of growth seen in 2010. A 3.2% world-wide rise is forecast, compared to 3.3% in the preceding year. The long term growth rate for 2011-2021 has maintained an average of 4%. Europe and Asia Pacific were the regions which performed best in 2011. Growth in the countries located in these areas was 4.5%, based on data up to October. According to figures for the entire year, the number of tourists in Spain increased, reaching 56.7 million, 7.6% more than in 2010.

In order to adapt to a changing economic environment, NH Hoteles modified its organisational structure to bring it in line with needs and targets, as well as to provide it with technical and business capacity to develop its future strategy. Thus, the Board of Directors approved a new organisation chart for the Group in September by creating new Strategy and Business Development, Means, and Organisation and Systems divisions. It also adopted a new, more integrated organisational model to manage business units based in different countries where the Group operates, as other multinational companies in the industry already did. To this end, the "German" and the "Central and Eastern European" business units were merged to become "Central Europe".

During the year, the Company launched an efficiency improvement plan affecting all its processes and aimed at reducing costs by 10% over the next two years. The results of this plan have begun to emerge this year.

Within a context of increased occupation levels and higher prices without compromising quality, NH Hoteles launched an Efficiency Plan 2011. The plan was approved by the Board of Directors in September and introduces new rationalisation measures. To sum up, the measures with the greatest impact on Group's results and cash flow generation are the following ones:

- FREEZING OF INVESTMENTS: Reduction of CAPEX, which limits new expansion projects to variable income or management projects, thus minimising NH Hoteles' investment commitment. Other investments are focussed on maintenance and expenditure required by legal undertakings made to public bodies. By reducing the previous items, this year the Group has been able to focus part of its investment on modernising and improving facilities of the main hotels, given their high levels of profitability in terms of revenue and profit per room. Total investment in 2011 amounted to 55.9 million euros, 37.4% less than in the previous year.
- SALE OF NON-STRATEGIC ASSETS. NH Hoteles completed its undertaking to sell non-strategic assets with the sale of the Hotel Lotti in October 2011. The plan, which had begun in February 2010 with the sale of several Mexican hotels for 57 million euros, was concluded 18 months later and totalized 345 million euros, 115% of the 300 million euro target that had initially been set. Income amounting to 170 million euros was obtained from these sales in 2011, as opposed to 175 million euros in 2010. Nevertheless, the transactions made reached 21.8 times EBITDA, compared to an average ratio of 16 times EBITDA in the previous year. Anyhow, this figure exceeds the average ratio obtained through comparable transactions. The sale price for the hotels sold reveals their importance due to their location in major European and Latin American cities. All the sale transactions involved receipt of the sale price at the moment of conveyance. Lastly, their impact on the year's accounts amounted to a net pre-tax profit of 53.8 million euros before minority interests.
- WORKFORCE FLEXIBILITY, adjusting the number of employees to the real level of activity recorded. This has enabled the Company to reduce the average number of employees per room from 0.31 to 0.29 in 2011, against a background of rising occupation levels.
- REDUCTION OF OPERATING COSTS: Implementation of the Efficiency Plan this year has led to an additional saving of 27 million euros through a reduction of budgeted costs, particularly the 7 million euro reduction in personnel expenses.
- WRITING OFF UNPROFITABLE HOTELS: Termination of lease agreements and the sale of hotels with negative EBITDA and showing no signs of recovery. As part of the rationalisation policy, three hotels under management have been removed from the portfolio of NH Hoteles: the Hesperia Centurión, the Hesperia Chalet del Golf, both in Spain, and the NH Capo Dei Greci in Sicily (Italy), along with two leased hotels, the NH Gottingen Hotel in Germany and the NH Fuenlabrada Hotel in Spain, which together accounted for 690 rooms. The two leased hotels no longer contribute 0.4 million euros of negative EBITDA from NH Hoteles' results. The NH Venus Sea Garden Hotel in Siracusa, Sicily has gone from being a rental agreement to a franchise agreement. The removal of these hotels and their rooms from the portfolio has been balanced by the inclusion of other hotels, most of which are under management and few under lease agreements. These new hotels contributed with 1,370 rooms.
- NEGOTIATING AND REFINANCING HOTEL RENTAL AGREEMENTS through reductions in rental instalments and freezing rent rises. In the above mentioned Efficiency Plan, the savings obtained by renegotiating or terminating these agreements totalized 5 million euros in 2011.
- Raising awareness among employees through the "WE ALL FORM PART OF SALES" programme. This programme is aimed at raising all employees' awareness that generating business and helping increase income through their commercial tasks are part of their responsibilities. At NH Hoteles Group all employees are also meant to be sales representatives.

End customers, who are even more demanding in tourist destinations with an oversupply of hotel rooms, did not report any negative effect on quality as a result of direct action taken on operating costs. NH Hoteles has continued to apply a quality management strategy through its "Quality Focus" tool, which is based on promoting and maintaining a culture of uniform quality with an international team that ensures NH's undertaking to customers of ensuring the best quality/price ratio is fulfilled.

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 tune with their demands, thus improving quality levels and customer satisfaction.

A clear indicator of our product's outstanding quality management is the outcome of the customer satisfaction surveys which have been conducted. Furthermore, the sample has increased substantially this year to reach more than 210,000 surveys. The surveys measure different categories of satisfaction (on a scale of 0 to 10) including: bookings, check in and check-out, cleanliness of rooms and common areas, facilities and maintenance, breakfast, room service and hotel staff. As the table below reveals, the number of surveys rose by 53% and the overall assessment score was maintained with regard to 2010.

	2011	2010
Overall satisfaction	8,0	8,0
# of Assessments	212.127	139.000

The consolidation of the first procurement platform of the Spanish hotel industry, Coperama (a NH Hoteles investee company with a 75% stake), continues to bear fruit. Sixty five new customers joined in 2011, thus consolidating a portfolio of 417 establishments including hotel chains (NH Hoteles, Hesperia, Husa, Sercotel, Zenit and Insignia) and independent clients (hotel owners, groups and restaurants). More than 100 procurement contracts were signed this year, reaching a total procurement volume of 250 million euros, a procurement coverage ratio of 90%, and 80% fulfilment among consolidated chains and 45% among new customers in 2011. This data highlights the project's success. All of Coperama's clients and suppliers have endorsed the social and environmental commitments affirmed by NH Hoteles.

The European Hotel Design Award for best hotel refurbishment was awarded to NH Hoteles Group in 2011 for the NH Palacio de Tepa Hotel in Spain. Within its resort hotel activity, the Group has won several awards: the R&D Hospitality Award for the sustainability of the refurbishment done to the Gran Hotel Convento di Amalfi in Italy, the Conde Nast Traveller Award to the Secrets Royal Beach Peak Cana Hotel (Dominican Republic) in the Best International Resort category, and the Project Innovation Category Award and TUI Nordic Award to the Hesperia Lanzarote Hotel, which was also granted the Silver Blue Award in recognition of the quality of its products and customer service. In addition, the company NH Hoteles, S.A. won the ADN Corporate Award for the "We are all Sales" programme as the best initiative in the tourist industry business model. It also won Grupo Expansión's Súper Empresa 2011 Award as the best company to work for in Mexico, Argentina, Chile and Uruguay, along with the Top Employer CRF Award in Switzerland for the non-monetary benefits and opportunities offered to employees in that country. It was also recognised as the Company with the Best Reputation in the Spanish Tourist Industry according to the Corporate Reputation Monitor (Merco).

THE ENVIRONMENT

By 2011, NH Hoteles had already managed to meet the targets set in its Strategic Environmental Plan 2008-2012. This Plan lays down targets on energy and water efficiency, as well as on waste and CO_2 emission reductions.

Aware of the importance 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.

The Company worked on implementing energy control procedures and systems based on the ISO 50001 international standard in 2011, and obtained certification for its energy monitoring programme in October 2011. NH Hoteles is the very first hotel chain in the world to obtain this energy efficiency certification, which was backed by the energy consumption results obtained in 2011, reflecting a 9.9% improvement in energy efficiency. More specifically, consumption per customer per night fell from 41.2 kwh/customer to 37.1 kwh/customer.

This improvement in efficiency allowed the Group to present consolidated results in its strategic plan, recording a 22.7% fall in energy consumption and savings of 27.6% in water consumption, which have resulted in a clear reduction in energy costs. These energy improvements have allowed the Company to absorb the increased electricity, gas and water prices introduced in 2011. NH Hoteles' carbon footprint fell by 40% in 2008.

In 2011, NH Hoteles made progress in the transparency of its environmental management and was granted the TÜV Rhineland carbon footprint assessment certification in accordance with the standard GHG Protocol. CO_2 emission reductions since 2008 account for 40% of the average level recorded in 2007.

In 2011, the Company continued its important task of conducting, together with its suppliers, environmental research and development through its innovative Sustainable NH Club project. NH Hoteles received several important awards throughout the year, such as the "Muévete Verde" award granted by the Madrid regional authority for its contribution to the promotion of electric mobility, the TRI Award which recognises NH Hoteles' environmental policy, and the Sourcing Community Award to the Sustainable NH Club for implementing sustainable initiatives in conjunction with the Company's suppliers.

RESULTS

NH Hoteles took one step further in 2011 to respond to variations in demand in a context of slow, country-variable growth through on the spot management of costs and efficiency. During the first nine months, sales growth averaging over 5% enabled the Group to post positive net results from the very first quarter. An Efficiency Plan was put in place after the second quarter, which has contributed to significant savings in Direct Management Costs and Personnel Expenses. As a result, NH Hoteles' annual revenue in 2011 amounted to 1,428.3 million euros with year on year growth of 7.0%, while aggregated operating costs totalled 1,225.9 million euros with an annual variation of 3.3%, a substantially lower figure. This allowed annual EBITDA to reach 202.4 million euros with year on year growth of 36.9% compared to its operating profit in 2010.

Hotel sales amounted to 1,339.2 million euros, a rise of 3.6% over the preceding year. RevPar increased by 4.5%, two thirds of which came from an increase in occupation levels and one third from price increases. Management income should be highlighted among hotel revenues in 2011, which amounted to 15 million euros, a 31.5% rise on the preceding year.

Revenue from Real Estate Activity, which totalled 17 million euros, also increased by 21% in relation to the figure recorded in 2010. However, the greatest growth in income came as a result of non-strategic asset sales, which made a net pre-tax contribution of 53 million euros before minority interests, the most significant of which were the sales of the Hotel Lotti in Paris and the Artos transaction. In the Artos transaction, NH Hoteles exercised a purchase option it held on ten hotels which were operated under a leasing scheme in Germany and Austria. At the same time, the Company sold five hotels to the INVESCO investment fund, with which it entered into a new operating lease agreement without a purchase option. According to this agreement, the rent became variable with a guaranteed minimum, the initial amount of which is similar to the amount the Group had been paying. The sale generated net capital gains of 32.29 million euros and also led to a temporary increase of 12 million euros in net financial debt.

NH Group's salaries and other recurrent operating costs in 2011 amounted to 899.9 million euros, 0.6% higher than in the preceding year, despite an average inflation rate of between 2% and 2.5% in the group of countries where NH operates. This growth of only 5 million euros in absolute terms is more significant when compared to the percentage increase recorded in 2010 (4%) or with the 3.6% rise in Hotel Activity revenue.

Management profit amounted to 493.8 million euros, 76.2 million euros more than the figure recorded by NH Group in 2010.

Lease and municipal property rates were kept at the same levels as the preceding year, 291.4 million euros and 20.4% of revenue, 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 2011 amounted to 202.4 million euros, a 36.9% improvement with regard to the figure recorded in the preceding year.

Recurrent and no recurrent financial expenses totalled 53.2 million euros, 20.6% down from the 67.1 million euros posted in 2010. This was due to a reduction in NH Group's borrowing and to the elimination of financial expenses or negative exchange rate differences linked to non-strategic asset sale transactions which had taken place in prior years. These two factors have had a greater impact than the rise in the average cost of NH Hoteles' financial debt due to the increase in margins resulting from the renewal of short term credit lines, as well as the rise in the cost of its syndicated debt.

NH Hoteles' pre-tax profit in 2011 amounted to 4.3 million euros which, after Corporation Tax, which was positive due to negative tax bases, and minority interests, gave a net profit of 6.2 million euros. The improvement undergone by the Company's activity over the last three years has allowed it to post its first net profit since 2008.

CONSOLIDATED MANAGEMENT STATEMENT (Euros in millions)

	2011		2010		2011/2010
	M EUR.	%	M EUR.	%	VAR. %
Income from Hotel Activity	1,339.2	94%	1,292.8	97%	4%
Income from Real Estate Activity	17.0	1%	14.0	1%	21%
Non-recurrent income	72.1	5%	28.0	2%	158%
TOTAL INCOME	**1,428.3**	**100%**	**1,334.8**	**100%**	**7%**
Cost of Real Estate Sales	(2.0)	(0%)	(3.0)	(0%)	(33%)
Personnel Costs	(479.9)	(34%)	(478.3)	(36%)	0%
Direct Management expenses	(420.0)	(29%)	(416.6)	(31%)	1%
Non-recurrent Expenses	(32.6)	(2%)	(19.3)	(1%)	69%
MANAGEMENT PROFIT	**493.8**	**35%**	**417.6**	**31%**	**18%**
Leases and property rates	(291.4)	(20%)	(269.7)	(20%)	8%
EBITDA	**202.4**	**14%**	**147.8**	**11%**	**37%**
Asset impairment provision	(15.3)	(1%)	(9.4)	(1%)	63%
Depreciation	(119.0)	(8%)	(123.2)	(9%)	(3%)
EBIT	**68.1**	**5%**	**15.2**	**1%**	**349%**
Financial expenses	(51.3)	(4%)	(42.7)	(3%)	20%
Non-recurrent exchange rate differences	(1.9)	(0%)	(24.4)	(2%)	(92%)
Change in fair value of financial instruments	(6.6)	(0%)	0.7	0%	(1,043%)
Equity Method Profit (Loss)	(4.0)	(0%)	(1.5)	(0%)	167%
EBT	**4.3**	**0%**	**(52.7)**	**(4%)**	**108%**
Company Tax	6.2	0%	5.1	0%	21%
PROFIT before Minority Interests	**10.5**	**1%**	**(47.6)**	**(4%)**	**122%**
Minority Interests	(4.3)	(0%)	6.1	0%	(170%)
NET PROFIT (LOSS)	**6.2**	**0%**	**(41.5)**	**(3%)**	**115%**

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 Hoteles Group.

It should be highlighted that the Group doubled its positive operating cash flow through its regular operations, excluding CAPEX and the change in working capital, even without taking into account the asset sale plan described above. As can be seen in the following table, operating cash flow amounted to 149 million euros compared to 67.4 million euros in 2010:

PROFIT AND LOSS ACCOUNT EXCLUDING ELEMENTS NOT REPRESENTING CASH OUTFLOWS AND INFLOWS	
	12 M 2011
	M EUR.
Income from Hotel Activity	1,339.2
Income from Real Estate Activity	17.0
Non-recurrent Activity	72.1
TOTAL INCOME	**1,428.3**
Personnel costs	(479.9)
Direct Management expenses	(420.0)
Other non-recurrent expenses	(32.6)
Leases and property rates	(295.5)
FINANCIAL EXPENSES	(51.3)
TOTAL EXPENSES	**(1,279.3)**
TOTAL OPERATING CASH FLOW	**149.0**

Note: This Consolidated Cash Flow Statement was drawn up using hotel management criteria, which do not necessarily coincide with the accounting criteria used in drawing up the Consolidated Cash Flow Statement of NH Hoteles, S.A. Group.

OVERVIEW OF NH RISK POLICY

NH's operations are mainly focussed 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 real estate. 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 to the Group to gain access to a larger number of expansion opportunities in a more selective fashion 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, surety, guarantees and advance payments made by tour operators. The increasing importance of the NH Group website, its telephone booking centre or electronic agencies was maintained in 2011. Together, they accounted for 59.2% of hotel revenue, as opposed to 53.6% in 2010. 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 its net debt has been hedged against extreme interest rate variations. Information on derivative financial instruments held by the Group at 31 December 2011, as well as on the policies applied to such instruments, is set out in Note 19 of the 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 booked in their corresponding currencies and converted later at the applicable exchange rate for their inclusion in the financial statements. In 2011 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 6% of total income.

Regarding liquidity risks, NH Group has a suitable debt maturity calendar, which is set out in Note 17 of the Consolidated Annual Report for 2011. The Group intends to finalise the process of refinancing its debt, which began in September of 2011, during the first quarter of 2012.

The level of consolidated net financial debt at 31 December 2011, in accordance with the definition of the syndicated loan, amounted to 910 million euros, wiping 48 million euros off the Group's net level of borrowing when compared to the previous year-end. As explained in Note 8 of the consolidated annual accounts, financing for the investments made in Italy over the last few years involved an increase in borrowing, jointly amounting to 100 million euros, which was financed by the Group's cash generation.

A 4.5% reduction in net financial debt and a 36.9% rise in EBITDA in 2011 resulted in a Debt/EBITDA ratio of 4.5 at year-end 2011, two points lower than the 6.5 recorded in 2010. Another financial leverage ratio (net financial debt /net assets) stood at 0.75 compared to the preceding year's figure of 0.76, below the 1x ratio which has always been put forward as the Group's goal.

As regards maintaining operating sources of cash flow, this depends on the evolution of the hotel business, on maintaining current asset management policies of the Group's customers and suppliers, as well as on the execution of the non-strategic asset 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 2011 comprised 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 Stock Exchanges.

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:

	2011	2010
Grupo Inversor Hesperia, S.A.	25.09%	25.09%
Banco Financiero y de Ahorros, S.A. (formerly Caja de Ahorros y Monte de Piedad de Madrid)	15.75%	10.04%
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE	-	5.66%
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA	5.04%	5.04%
HOTELES PARTICIPADOS, S.L.	5.43%	5.43%
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	6.25%	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	0.88%	1.27%
SHARES OWNED BY NH EMPLOYEES	0.63%	1.30%

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.

Caja de Ahorros y Monte de Piedad de Madrid and Bancaja, among other savings banks, merged to form Banco Financiero y de Ahorros, S.A. in 2011. Likewise, Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián (Kutxa) and other Basque savings banks merged on 1 January 2012 to form Kutxabank.

The syndication agreements between Banco Financiero y de Ahorros, S.A. and Caja de Ahorros y Monte de Piedad Zaragoza, Aragón y Rioja (Ibercaja), on the one hand, and Hoteles Participados, S.L. and Kutxabank, on the other, were maintained until 31 December 2012, as the respective entities notified the National Securities Market Commission (CNMV).

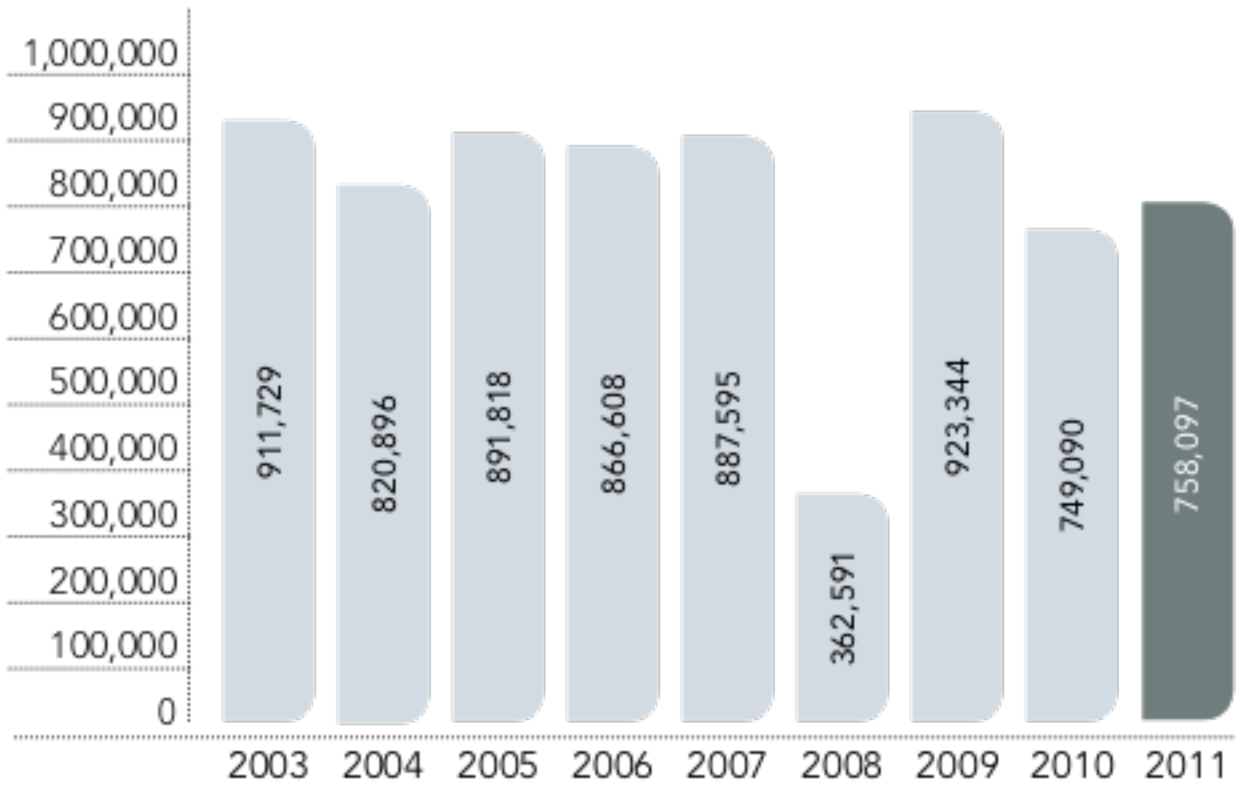
NH Hoteles, S.A.'s average share price listing was 3.92 euros per share (3.22 euros in 2010). The lowest share price of 1.90 euros per share was recorded in December (2.33 euros in June 2010) and the highest share price of 6.30 euros per share in May (4.39 euros in January 2010).

At year-end, NH Hoteles held 2,056,429 treasury shares representing 0.83% of its share capital at a total cost of 11,914,000 euros.

A total of 201,770,177 shares in NH Hoteles, S.A. were traded on the Continuous Market over the course of 2011 (191,767,196 shares in 2010), which accounted for 0.82 times (0.77 times in 2010) the total number of shares into which the Company's share capital is divided. Average daily share trading on the Continuous Market amounted to 785,097 securities (749,090 securities in 2010).

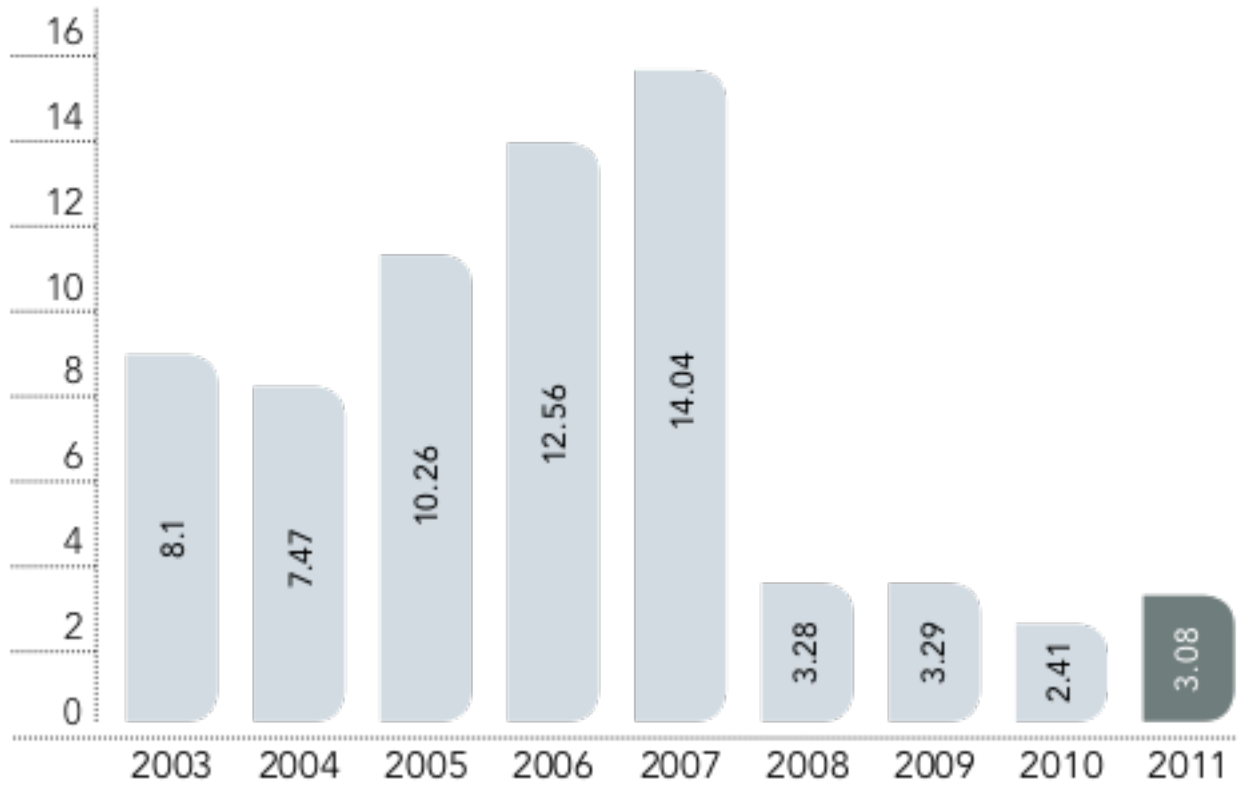
AVERAGE DAILY TRADING IN SECURITIES

2003-2011



AVERAGE DAILY TRADING (MILLION EUROS)

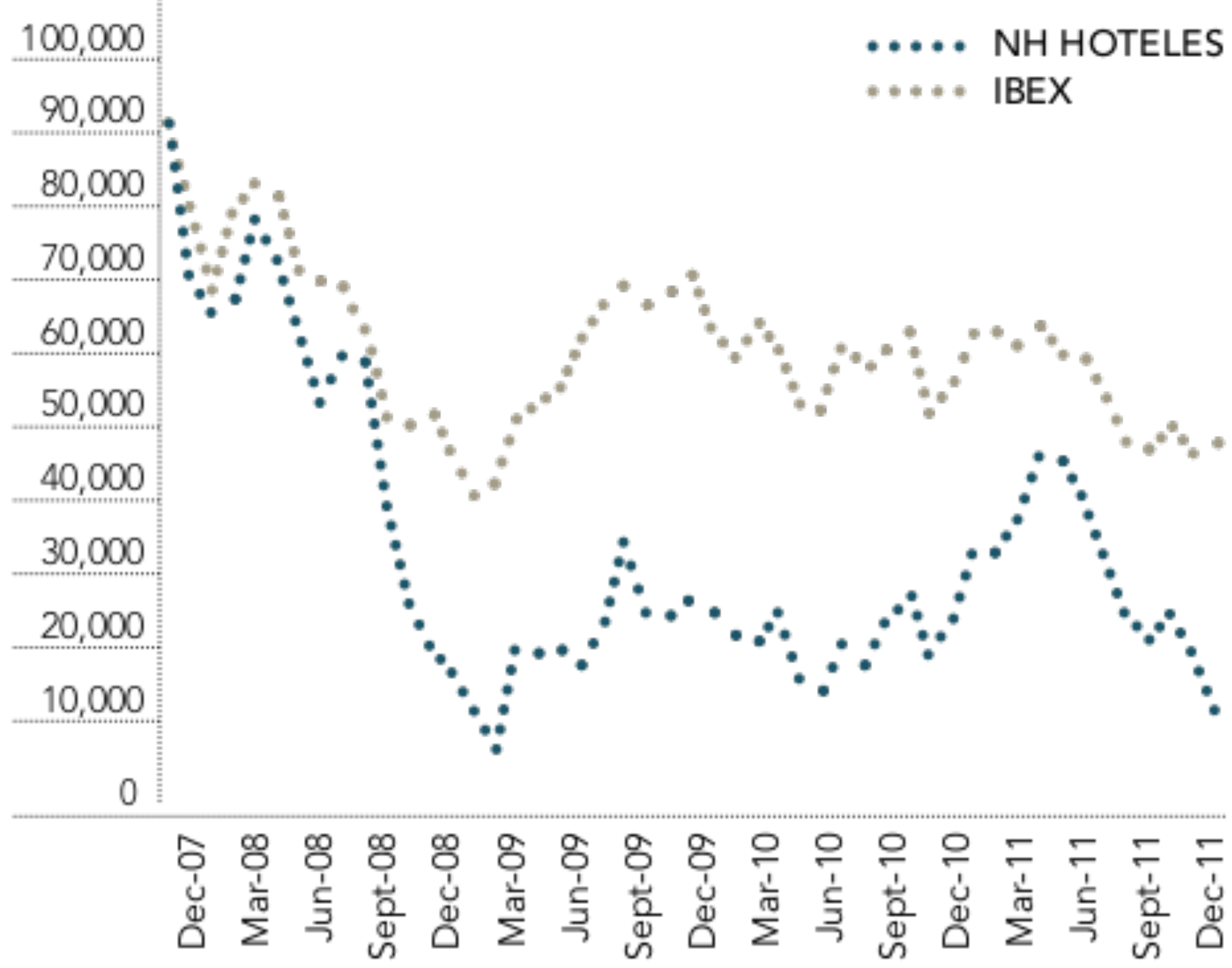
2003-2011



The evolution of the share price and stock market capitalisation over the last four years can be seen in the following graphs.

EVOLUTION NH HOTELES – IBEX

DECEMBER 2007- DECEMBER 2011



CAPITALISATION 2003-2011

(MILLION EUROS)

FUTURE OUTLOOK

The hotel industry is especially sensitive to the economic climate and corporate activity. It has, however, been posting better growth and occupation levels than other production activities each year over the past few years. The forecasts made by World Travel & Tourism Center (WTTC) for the next ten years point to global year on year growth rates of between 3% and 4% and an increased weight of tourism and catering in global GDP.

Over the last five years, large hotel companies like NH Hoteles, with important turnover and hotels, operating in many countries, with access to international distribution channels, etc. have been posting economic results which have substantially exceeded the results recorded by smaller companies with fewer hotels, which are far more sensitive to price and occupation level fluctuations.

As has been mentioned above, NH Hoteles will continue to have preferential access to sales channels and make continuous progress in lowering operating and personnel expenses to face, in the coming months, the continuing slowdown in economic growth that has been seen in Europe over the last two years. Thus, the cost reductions set forth in the Efficiency Plan will enable NH Hoteles to continue recording higher EBITDA growth than at the beginning of 2011, as has been the case in the last six months up to February this year and despite the fact that the percentage growth in sales, though positive, has been lower. At last, the geographic diversification of NH Hoteles' activities means that countries like Germany, England, Austria, Netherlands and Mexico having a better economic outlook for 2012 will more than offset the lower growth in economic activity in Spain or Italy.

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 entire year point to another increase in occupation levels and revenue, along with additional cost reductions, which will allow its operating and net profit to improve once more.

SUBSEQUENT DISCLOSURES

The process of refinancing the Group had come to an end by the date these consolidated annual accounts were drawn up, following closure of the corresponding negotiations with creditor financial institutions. The agreement was signed before a notary public with the 33 institutions which hold 100% of the total amount of debt to be refinanced.

The transaction includes refinancing 729.8 million euros with maturities of between three and five years. It includes the outstanding balance of the syndicated loan signed in August 2007 (455 million euros) and practically all of the Group's credit lines (275 million euros).

The new syndicated loan is split into three tranches: A1, 315.8 million euros, which is to be repaid in increasing amounts over five years with different annual percentages; A2, 150 million, which to be repaid at the end of the agreement's term; and B, amounting to 250 million euros, which is to be repaid in three years at most with the proceeds of asset sales. In addition, a loan of 14 million euros has been taken out with a single maturity date in 2015.

The collateral set out below has been agreed upon to ensure the aforementioned financing:

- Lien on 89.30% of Sotogrande, S.A.'s share capital;
- Lien on 55.5% of NH Italia S.r.l.'s share capital;
- Mortgage on the "NH Eurobuilding" hotel;
- Mortgage on eight hotels in the Netherlands (including the "NH Krasnapolsky" and the "NH Barbizon Palace");
- Lien on 100% of HEM Diegem N.V.'s share capital, the Belgian company which owns all the hotels in Belgium.
- Joint and several first demand guarantees extended by 25 Group companies.

The applicable interest rate will be the three month EURIBOR rate plus a differential of 450 basis points, which may be adjusted either upward or downward on the basis of compliance with the Financial Debt/EBITDA ratio and the degree of fulfilment of the Tranche B repayment schedule. The structuring fee is 2% of the syndicated loan's amount.

Within 45 days of signing the syndicated loan, the Group must enter into a hedging agreement for no less than fifty per cent of the Tranche A1 amount drawn down and outstanding repayment at any time and for a term of no less than four years. The institutions which provide the hedge will have the same guarantees attached to the loan.

In addition, the Group has obtained a refinancing undertaking from IMI / Banca Intesa for 75 million euros. The term for this loan is for three years, with an optional additional two years at the discretion of NH Group's Italian subsidiary. The agreement will be signed in July once the corporate restructuring process in Italy has come to an end.

The arrangement of the syndicated loan, the 14 million euro loan and the agreement reached in Italy, the joint amount of which exceeds 805 million euros, culminated the process of refinancing the Group, allowing it to focus all its efforts on continuing to improve its efficiency and results.

ANNUAL CORPORATE GOVERNANCE REPORT

LISTED PUBLIC LIMITED COMPANIES
IDENTIFICATION DETAILS OF THE ISSUER

YEAR-END DATE: **31/12/2011**
TAX ID CODE (CIF): **A28027944**
Trade 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 whether there are different classes of shares with different rights:

NO

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

Name or trade name of director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
MR JOSÉ ANTONIO CASTRO SOUSA	1,000	62,345,188	25.281
BANCO FINANCIERO Y DE AHORROS, S.A.	0	38,833,834	15.747
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	0	15,413,673	6.250
CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.	15,413,673	0	6.250
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, ARAGÓN Y RIOJA (IBERCAJA)	12,432,716	0	5.041
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	11,206,208	0	4.544

Name or trade name of indirect shareholder	Via: Name or trade name of direct shareholder	Number of direct voting rights	% of total voting rights
MR JOSÉ ANTONIO CASTRO SOUSA	EUROFONDO, S.A.	474,804	0.193
MR JOSÉ ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A.	61,870,383	25.088
BANCO FINANCIERO Y DE AHORROS, S.A.	BANCAJA INVERSIONES, S.A.	13,956,080	5.659
BANCO FINANCIERO Y DE AHORROS, S.A.	CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	11,206,208	4.544
BANCO FINANCIERO Y DE AHORROS, S.A.	SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	13,560,496	5.499
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.	15,413,673	6.250
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:

Name or trade name of director	Date of transaction	Description of transaction
BANCO FINANCIERO Y DE AHORROS, S.A.	23/05/2011	Exceded 15% of share capital

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:

Name or trade name of director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
MR MARIANO PÉREZ CLAVER	50,250	0	0.020
GRUPO INVERSOR HESPERIA, S.A.	61,870,383	0	25.088
MR CARLOS GONZÁLEZ FERNÁNDEZ	25,050	0	0.010
MR FRANCISCO JAVIER ILLA RUIZ	1	0	0.000
HOTELES PARTICIPADOS, S.L.	13,385,269	0	5.428
MR IÑAKI ARRATÍBEL OLAZIREGI	100	0	0.000
MR JUAN LLOPART PÉREZ	160	90,000	0.037
MR MIGUEL RODRÍGUEZ DOMÍNGUEZ	3,000	0	0.001
MS NURIA ITURRIAGAGOITIA RIPOLL	1,353	0	0.001
MR ROBERTO CIBEIRA MOREIRAS	600	0	0.000
MS ROSALBA CASIRAGHI	1	0	0.000
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	13,560,496	0	5.499

Name or trade name of the indirect shareholder	Via: Name or trade name of direct shareholder	Number of direct voting rights	% of total voting rights
MR JUAN LLOPART PÉREZ	LLOPART EUROCONSEJO, S.L.	90,000	0.036

% of total voting rights held by the Board of Directors	36.083

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

A.4. Indicate, as appropriate, the family, commercial, contractual or corporate relationships existing between major 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 major 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, ARAGÓN 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:
The shareholders forming part of the aforementioned syndication agreements – that is to say, the one comprised of Hoteles Participados, S.L. and CK Corporación Kutxa-Kutxa Korporazioa, S.A., which holds an 11.570% stake in the share capital of NH Hoteles, and the other comprised of Bancaja Inversiones, S.A., Sociedad de Promoción y Participación Empresarial Caja Madrid, Corporación Financiera Caja Madrid and Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja), which holds a 20.74% stake in the share capital of NH Hoteles – have taken the decision to extend each of the aforementioned syndication agreements for an additional year until 31 December 2012.

→ 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 year end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
2,056,429	0	0.800

(*) 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 par 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 par value of the purchased shares, together with the par 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 By law 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 By law restrictions on exercising voting rights:

NO

Maximum percentage of voting rights that a single shareholder can exercise due restrictions established in Company By laws	0

Description of legal and By law restrictions on the exercise of voting rights

Indicate whether there are any legal restrictions on the acquisition or transfer of share capital holdings:

NO

→ A.11. Indicate whether the General Meeting has resolved to adopt neutralisation measures against a takeover bid by virtue of the provisions set forth in Act 6/2007.

NO

En su caso, explique las medidas aprobadas y los términos en que se producirá la ineficiencia de las restricciones:

B. STRUCTURE OF THE COMPANY'S CORPORATE GOVERNANCE

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 details of Board members:

Name or trade name of director	Representative	Position on the Board	First appointed	Last appointed	Election procedure
MR MARIANO PÉREZ CLAVER	--	CHAIRMAN. CEO	28/02/2011	29/06/2011	VOTED BY SHAREHOLDERS MEETING
GRUPO INVERSOR HESPERIA, S.A.	JOSÉ ANTONIO CASTRO SOUSA	DEPUTY CHAIRMAN	24/06/2010	24/06/2010	VOTED BY SHAREHOLDERS MEETING
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	AURELIO IZQUIERDO GÓMEZ	DIRECTOR	17/02/2002	24/06/2010	VOTED BY SHAREHOLDERS MEETING
MR CARLOS GONZÁLEZ FERNÁNDEZ	--	DIRECTOR	29/06/2011	29/06/2011	VOTED BY SHAREHOLDERS MEETING
MR FRANCISCO JAVIER ILLA RUIZ	--	DIRECTOR	27/10/2009	03/12/2009	VOTED BY SHAREHOLDERS MEETING
HOTELES PARTICIPADOS, S.L.	IGNACIO EZQUIAGA DOMÍNGUEZ	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 JUAN LLOPART PÉREZ	--	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
MS 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
MS ROSALBA CASIRAGHI	--	DIRECTOR	12/05/2009	16/06/2009	VOTED BY SHAREHOLDERS MEETING
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	ÁNGEL CÓRDOBA DÍAZ	DIRECTOR	17/06/2008	24/06/2010	VOTED BY SHAREHOLDERS MEETING

Total number of directors	**13**

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

Name or trade name of director	Type of director at time of departure	Departure date
MR GABRIELE BURGIO	EXECUTIVE DIRECTOR	28/02/2011
MR JUAN ANTONIO SAMARANCH SALISACHS	OTHER EXTERNAL DIRECTOR	13/06/2011
MR JOSÉ DE NADAL CAPARÁ	INDEPENDENT	29/06/2011
MR ANTONIO VIANA BAPTISTA	INDEPENDENT	27/07/2011

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

EXECUTIVE DIRECTORS

Name or trade name of director	Committee that proposed the appointment	Position in the company's organisation chart
MR MARIANO PÉREZ CLAVER	APPOINTMENTS AND REMUNERATION COMMITTEE	CHAIRMAN - CHIEF EXECUTIVE OFFICER

Total number of executive directors	**1**
% of total Board	**7.692**

EXTERNAL PROPRIETARY DIRECTORS

Name or trade name of director	Committee that proposed the appointment	Name or trade name of the significant shareholder represented or that proposing the appointment
GRUPO INVERSOR HESPERIA, S.A.	-	GRUPO INVERSOR HESPERIA, S.A.
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	APPOINTMENTS AND REMUNERATION COMMITTEE	BANCO FINANCIERO Y DE AHORROS, S.A.
MR FRANCISCO JAVIER ILLA RUIZ	APPOINTMENTS AND REMUNERATION COMMITTEE	GRUPO INVERSOR HESPERIA, S.A.
HOTELES PARTICIPADOS, S.L.	APPOINTMENTS AND REMUNERATION COMMITTEE	HOTELES PARTICIPADOS, S.L.
MR IÑAKI ARRATÍBEL OLAZIREGI	APPOINTMENTS AND REMUNERATION COMMITTEE	CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN
MR JUAN LLOPART PÉREZ	APPOINTMENTS AND REMUNERATION COMMITTEE	BANCO FINANCIERO Y DE AHORROS, S.A.
MR ROBERTO CIBEIRA MOREIRAS	APPOINTMENTS AND REMUNERATION COMMITTEE	PONTEGADEA INVERSIONES, S.L.
MS ROSALBA CASIRAGHI	APPOINTMENTS AND REMUNERATION COMMITTEE	INTESA SANPAOLO, S.P.A.
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	APPOINTMENTS AND REMUNERATION COMMITTEE	BANCO FINANCIERO Y DE AHORROS, S.A.

Total number of proprietary directors	**9**
% of total Board	**69.231**

INDEPENDENT EXTERNAL DIRECTORS

Name or trade name of director: MR CARLOS GONZÁLEZ FERNÁNDEZ
Profile: Mr. Fernández holds an Economics degree from the Universidad de Bilbao and is a chartered accountant. He spent 35 years of his professional career at Arthur Andersen, a firm which merged with Deloitte in 2003. He was first appointed Chairman of Arthur Andersen in 2000 and was subsequently Chairman of the firm resulting from the merger, Deloitte, from 2003 to 2009.

Name or trade name of director: MR MIGUEL RODRÍGUEZ DOMÍNGUEZ
Profile: Businessman.

Name or trade name of director: MS 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	**3**
% of total Board	**23.077**

OTHER EXTERNAL DIRECTORS

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

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

B.1.4. Explain, should it be the case, the reasons why proprietary directors have been appointed at the request of shareholders whose holdings are below 5% of share 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 ANTONIO VIANA BAPTISTA
Reason for departure: Difficulty of making the functions of director of NH Hoteles, S.A. compatible with the office of Chairman of the company Credit Suisse.

Name of the director: MR GABRIELE BURGIO
Reason for departure: Stood down from his executive position to which his appointment as a Director was linked, as set forth in Article 14. b) of the Board of Directors Regulations.

Name of the director: MR JUAN ANTONIO SAMARANCH SALISACHS
Reason for departure: Personal reasons.

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

Name or trade name of director: MR MARIANO PÉREZ CLAVER
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 trade name of director	Trade name of group company	Position
MR MARIANO PÉREZ CLAVER	GRUPO FINANCIERO DE INTERMEDIACIÓN Y ESTUDIOS, S.A.	NAT. PERS. REPRESENTING SOLE DIRECTOR
MR MARIANO PÉREZ CLAVER	KRASNAPOLSKY HOTELS & RESTAURANTS, B.V.	DIRECTOR
MR MARIANO PÉREZ CLAVER	NH ITALIA, S.R.L.	CHAIRMAN
MR MARIANO PÉREZ CLAVER	SOTOGRANDE, S.A.	CHAIRMAN
GRUPO INVERSOR HESPERIA, S.A.	SOTOGRANDE, S.A.	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 trade name of director	Name of listed company	Position
MR MARIANO PÉREZ CLAVER	REALIA BUSINESS, S.A.	DIRECTOR
MR MARIANO PÉREZ CLAVER	DEOLEO, S.A.	CHAIRMAN
MR JUAN LLOPART PÉREZ	DEOLEO, S.A.	DIRECTOR
MR JUAN LLOPART PÉREZ	BANKIA, S.A.U.	DIRECTOR
MR MIGUEL RODRÍGUEZ DOMÍNGUEZ	COMPAÑÍA ESPAÑOLA PARA LA FABRICACIÓN MECÁNICA DEL VIDRIO, S.A.	DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	MECALUX, S.A.	DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	DEOLEO, 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 Appointments and Remuneration 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 Appointments and Remuneration 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	900
Variable Remuneration	417
Diets for attending Commissions	113
Fees stipulated by bylaws	532
Options on shares and/or other financial instruments	900
Others	5,440
Total	**8,302**

Other Benefits	In thousands of euros
Advances	0
Loans granted	0
Pension plans and funds: Contributions	0
Pension plans and funds: Obligations undertaken	0
Life insurance premiums	52
Guarantees extended by the company in favour of board members	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
Diets for attending Commissions	2
Fees stipulated by bylaws	28
Options on shares and/or other financial instruments	0
Others	0
Total	**30**

Other Benefits	In thousands of euros
Advances	0
Loans granted	0
Pension plans and funds: Contributions	0
Pension plans and funds: Obligations undertaken	0
Life insurance premiums	0
Guarantees extended by the company in favour of board members	0

c) Total remuneration by type of director:

Type of director	By company	By group
Executive directors	7,695	16
External proprietary directors	410	13
External independent directors	178	1
Other external directors	19	0
Total	**8,302**	**30**

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

Total remuneration of directors (thousands of euros)	8,332
Total remuneration of directors/income attributable to the parent company (expressed as a %)	32.0

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 trade name	Position
MR ROBERTO CHOLLET IBARRA	FINANCE DIRECTOR
MR LEOPOLDO GONZÁLEZ-ECHENIQUE CASTELLANOS DE UBAO	GENERAL SECRETARY
MR JESÚS IGNACIO ARANGUREN GONZÁLEZ-TARRÍO	GENERAL MANAGER, ASSETS AND REVENUE
MR IGNACIO DÍAZ LÓPEZ	CORPORATE INTERNAL AUDIT MANAGER
MR FRANCISCO ALEJANDRO ZINSER CIESLIK	GENERAL MANAGER, STRATEGY AND DEVELOPMENT
MR FRANCISCO JAVIER MATAS MARTÍNEZ	GENERAL MANAGER, ORGANISATION AND TECHNOLOGY
MS IDA GUTIÉRREZ DE ESCOFET	CORPORATE INSTITUTIONAL RELATIONS MANAGER
MR IÑIGO CAPELL ARRIETA	GENERAL MANAGER, RESOURCES
MR RAMÓN ARAGONÉS MARÍN	GENERAL MANAGER, OPERATIONS

Total remuneration of senior management (thousands of euros)	3,079

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 42 of the Bylaws and Article 36 of the Board Regulations set forth that the remuneration of directors shall consist of a set annual amount and allowances for attending meetings of the Board of Directors and of its standing and advisory committees, the amounts of which shall be set 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. Along with the Annual Corporate Governance Report, it is expressly set forth that the Board shall draw up an annual director remuneration report, which shall include complete, clear and comprehensible information on the company's remuneration policy approved by the Board for the year in course, as well as for future years, as appropriate. It shall also include an overall summary of the remuneration policy implemented during the year, as well as a breakdown of the individual remuneration due to each of the directors. The annual director remuneration report, the company's remuneration policy approved by the Board for the year in course, the policy for future years, the overall summary of how the remuneration policy was implemented during the financial year, as well as the breakdown of the individual remuneration due to each director shall be disclosed and brought before the Ordinary General Shareholders' Meeting as a separate point on the agenda for a consultative vote. At the General Meeting held on 29 June 2011, and in accordance with the Article of the Bylaws mentioned above, a resolution was taken to set the gross total amount of the fixed remuneration and attendance allowances for the Board of Directors at one million one hundred thousand euros (€1,100,000) with effect as of 2011, excluding other kinds of remuneration corresponding to the executive director for items other than sitting on the Board.

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 Director 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:

YES

Issues defined in the remuneration policy
Article 42 of the Bylaws and Article 36 of the Board Regulations faithfully reflect the new Article 61 c of Act 24/1988 of 28 July on the Securities Market, which expressly sets forth that, along with the Annual Corporate Governance Report, the Board shall draw up an annual director remuneration report, which shall include complete, clear and comprehensible information on the company's remuneration policy approved by the Board for the year in course, as well as for future years, as appropriate. It shall also include an overall summary of the remuneration policy implemented during the year, as well as a breakdown of the individual remuneration due to each of the directors. The annual director remuneration report, the company's remuneration policy approved by the Board for the year in course, the policy for future years, the overall summary of how the remuneration policy was implemented during the financial year, as well as the breakdown of the individual remuneration due to each director shall be disclosed and brought before the Ordinary General Shareholders' Meeting as a separate point on the agenda for a consultative vote. In this regard, it should be noted that, in accordance with the Bylaw and regulation provisions mentioned above, the annual director remuneration report for 2010 was brought before the General Meeting held on 29 June 2011 as a separate item on the agenda for a consultative vote, the result of which were as follows: - Votes in favour: 98.06% - Votes against: 0.02% - Abstentions: 1.92%

Role of the Remuneration Committee
The Appointments and Remuneration 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.

Have external consultants been used?	

Identity of the external consultants

B.1.17. Indicate, as appropriate, the identity of the members of the Board who 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 trade name of director	Trade name of significant shareholder	Position
MR FRANCISCO JAVIER ILLA RUIZ	GRUPO INVERSOR HESPERIA, S.A.	JOINT DIRECTOR
MS ROSALBA CASIRAGHI	INTESA SANPAOLO, S.P.A.	MEMBER OF THE AUDIT AND CONTROL COMMITTEE
MS 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:

YES

Description of amendments

At its meeting held on 24 May 2011, the Board of Directors resolved to amend the wording of the Board Regulations, essentially due to the need to adapt the text to the new legislative amendments which entered into force in 2011, which can basically be summed up as follows:

- Act 12/2010 of 30 of June amending the Auditing of Accounts Act and actions in the fiscal, labour-related and liberalising spheres to promote investment and job creation, as well as the Securities Market Act, among other legal provisions:

  This Act introduced new reporting and shareholder participation mechanisms (such as the Electronic Shareholders' Forum), and changed the composition and competencies of the Audit Committee.

- Revised Text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July:

  As this is a revised text of provisions previously contained in the Limited Companies Act and the Public Limited Companies Act, the contents of the Board Regulations were adapted to the new legislative text.

- Royal Decree-Law 13/2010 of 3 December on actions in the fiscal, labour-related and liberalising spheres to promote investment and job creation.

  By virtue of this legal provision, the possibility of posting the meeting announcement on the company's website (instead of in provincial newspapers) was introduced, among other measures.

- Act 2/2011, of 4 March on Sustainable Economy.

  The aforementioned Act amended, among others, the Securities Market Act (introducing a new Article 61 c to the Act), setting forth the obligation of drafting an annual director remuneration report which shall be disclosed and brought before the Ordinary General Shareholders' Meeting for a consultative vote.

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 Appointments and Remuneration 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 Appointments and Remuneration 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.

1.2. 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 a company 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 a company 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) Anyone finding themselves in any of the circumstances set forth in paragraphs a), e), f) or g) with respect to a significant shareholder or party represented on the Board. In the case of the family relationships set forth in paragraph g), the limitation shall not only apply with respect to the shareholder but also the shareholder's proprietary directors in the investee company.

Proprietary directors whose condition as such ceases to be the case as a result of the shareholder who put forward their appointment selling their interests may only be reappointed as independent directors when the shareholder they have represented up to that moment has sold all their 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 Director of the Company

The Executive Chairman, or in the absence of this position, the Chief Executive Director, 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 Director, 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.

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 Appointments and Remuneration Committee that evaluates the quality and dedication of the proposed directors to the position during their mandate.

The Appointments and Remuneration 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 Appointments and Remuneration Committee, as well as the performance of the Chairman and/or Chief Executive Director of the Company.

6. Removal of Directors

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.

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 age of seventy. Directors performing executive functions shall stand down from such office when they reach the age of sixty-five, though they may continue holding the office of director, should the Board so resolve.

b) Where they are removed from the executive offices to which their appointment as a director was associated or where the reasons for which they were appointed no longer exist. It shall be construed that such a circumstance comes about for a proprietary director where the company or business group such director represents ceases to hold a significant shareholding in the company's share capital or where, in the case of an independent director, he/she becomes an executive of the company or of any of its subsidiaries.

c) Where they fulfil any of the situations for incapacity, incompatibility or prohibition set forth in legal provisions, along with any of the other circumstances laid down in the Board Regulations.

d) Where they are seriously reprimanded by the Appointments and Remuneration Committee for having breached any of their obligations as directors.

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

To be a member of the Board, directors shall not be involved in any of the situations for incapacity, incompatibility or prohibition set forth in prevailing legislation.

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.

In addition, 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 age of seventy. Directors performing executive functions shall stand down from such office when they reach the age of sixty-five, though they may continue holding the office of director, should the Board so resolve.

b) Where they are removed from the executive offices to which their appointment as a director was associated or where the reasons for which they have been appointed disappear. It shall be construed that such a circumstance comes about for a proprietary director when the company or business group such director represents ceases to hold a significant shareholding in the company's share capital or where, in the case of an independent director, he/she becomes an executive of the company or of any of its subsidiaries.

c) Where they fulfil any of the situations for incapacity, incompatibility or prohibition set forth in legal provisions, along with any of the other circumstances laid down in the Board Regulations. For such a purpose, any person with direct or indirect interests of any kind or who has any kind of employment, professional or commercial relationship of any kind whatsoever with competing companies shall be deemed unfit to hold the office of Director, except where the Board of Directors resolves to waive this rule with a favourable vote of at least 70% of its members

d) Where they are seriously reprimanded by the Appointments and Remuneration Committee for having breached any of their obligations as directors.

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

B.1.21. Explain whether the post of chief executive director 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 Director 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 Director 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 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 Director 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 other than legal majorities required for any kind 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

Quorum	%
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. Explain if there are any specific requirements to be appointed chairman, other than those applicable to directors:

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. Indicate whether the bylaws or board regulations provide any age limits for board members:

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 Appointments and Remuneration 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 Appointments and Remuneration 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 Appointments and Remuneration 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 Appointments and Remuneration 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 proxy 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 appointment 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	19
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	12
Number of meetings of the Appointments and Remuneration Committee	8
Number of meetings of the Appointments Committee	0
Number of meetings of the Remuneration 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 proxies appointed without specific instructions:

Number of non-attendances by directors during the year	8
Non-attendances as a percentage of total votes during the year	7.300

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 41.2 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 Appointments 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 Appointments Committee notify the appointment?	YES
Does the Appointments 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 laid down by Article 19.3 of the Board Regulations, the Secretary shall ensure the legal and material formality of all the Board's actions and ensure that its procedures and rules of governance are duly 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.

Through the Audit and Control Committee, the Board of Directors has established a stable professional relationship with the company's external auditor of accounts and strictly respects their independence. In this regard Article 25 b) expressly sets forth among the competence of the Board that of establishing suitable relationships with the auditors of accounts in order to receive information on any matters which could place their independence at risk and submit these to the Committee for examination, and any other matters concerning the process of account auditing and any other communications laid down in account auditing legislation and technical auditing standards. In any event, it shall receive written confirmation on an annual basis from the auditors of accounts or auditing firms of their independence from the company or from any entities related to them, either directly or indirectly, as well as information on any additional service of any kind whatsoever provided to such entities by the aforementioned auditors of accounts or by persons related to them in accordance with the provisions set forth in Act 19/1988 of 12 July on the Auditing of Accounts. Likewise, the Audit and Control Committee shall issue a report on an annual basis expressing an opinion on the independence of the auditors of accounts or auditing firms, prior to the date the audit report is issued. Such report must, in any event, mention the provision of the additional services referred to in the preceding paragraph.

In addition, the Audit and Control Committee also safeguards the independence and efficiency of the internal auditing unit and proposes the recruitment, reappointment and removal of the person in charge of the internal auditing service. It is also in charge of proposing a budget for the Internal Auditing Department and receiving periodic reports on its activities, along with verifying that senior management take into account the conclusions and recommendations of its reports.

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)	661	102	763
Amount for work other than audit work / Total amount invoiced by the audit firm (%)	71.430	7.460	33.280

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	10	10
Number of years audited by the current audit firm / Number of years that the company has been audited (%)	41.7	41.7

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 trade name of director	Name of the investee company	% shareholding	Position or duties
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.	HOTELS HESPERIA ANDORRA, S.A.	99.990	NONE
GRUPO INVERSOR HESPERIA, S.A.	DESARROLLO TURISTICO ISLA BONITA, C.A.	100.000	NONE
GRUPO INVERSOR HESPERIA, S.A.	CORPORACIÓN HOTELERA HEMTEX, S.A.	100.000	NONE
GRUPO INVERSOR HESPERIA, S.A.	BONANOVA SQUACH GARDEN, S.A.	100.000	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	SOLE 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.	HOTEL HESPERIA MADRID, S.L.	100.000	SOLE DIRECTOR
GRUPO INVERSOR HESPERIA, S.A.	PLAYA DEL OESTE, S.A.	58.280	DIRECTOR
GRUPO INVERSOR HESPERIA, S.A.	INVERSIONES HMR, C.A.	35.700	NONE
GRUPO INVERSOR HESPERIA, S.A.	HOTEL CONDE DE ARANDA, S.A.	100.000	SOLE DIRECTOR
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 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 DIRECTOR
MR FRANCISCO JAVIER ILLA RUIZ	HOTEL COMTAT DE VIC, S.A.	23.500	NONE
MR FRANCISCO JAVIER ILLA RUIZ	HOTELES Y GESTIÓN, S.A.	1.086	NONE
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. The decision to employ such services must be communicated to the Chairman of the Company and implemented through the Secretary of the Board, unless the Board of Directors considers that such help is not necessary or appropriate.

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 taken	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
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	MEMBER	PROPRIETARY DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	MEMBER	PROPRIETARY DIRECTOR

AUDIT COMMITTEE

Name	Position	Type
MR CARLOS GONZÁLEZ FERNÁNDEZ	CHAIRMAN	INDEPENDENT
HOTELES PARTICIPADOS, S.L.	MEMBER	PROPRIETARY DIRECTOR
MR IÑAKI ARRATÍBEL OLAZIREGI	MEMBER	PROPRIETARY DIRECTOR
MR JUAN LLOPART PÉREZ	MEMBER	PROPRIETARY DIRECTOR

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Type
MS NURIA ITURRIAGAGOITIA RIPOLL	CHAIRMAN	INDEPENDENT
MR FRANCISCO JAVIER ILLA RUIZ	MEMBER	PROPRIETARY DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	MEMBER	PROPRIETARY 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
Safeguard the independence and efficiency of the internal auditing area; propose the recruitment, appointment, reappointment and removal of the person in charge of internal auditing; propose such service's budget; receive periodic reports on its activities; verify that senior management take into account the conclusions and recommendations of its reports	YES
Set and oversee a mechanism that allows employees to confidentially and, if deemed appropriate, anonymously report any irregularities that could be potentially important, especially financial and accounting irregularities they may detect 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

APPOINTMENTS AND REMUNERATION COMMITTEE

BRIEF DESCRIPTION

a) Composition

The Appointments and Remuneration 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 Appointments and Remuneration Committee must be an independent director and be appointed by the Committee itself from among its members.

b) Competencies

The Appointments and Remuneration 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 Appointments and Remuneration 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 Director.
- Examine or organise, as considered most appropriate, the Chairman's and the chief executive's succession, and if necessary bring proposals before the Board so that such successions are effected in an orderly well-planned fashion.
- 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.
- Draw up and keep a record of the situation of the company's directors and senior executives; and
- Exercise any other competencies assigned to the Committee in these Regulations.

The Board of Directors shall be informed of all the tasks carried out by the Appointments and Remuneration 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) Operation

The Appointments and Remuneration 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

BRIEF 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 whenever called by its Chairman. Whoever holds the offices of Chairman and Secretary of the Board of Directors shall act as the Chairman and Secretary of the Executive Committee, and one or several Deputy Chairmen and a Deputy Secretary may be appointed. The Executive Committee shall reach quorum when a half plus one of its members are either present or duly represented by proxy.

Resolutions shall be passed by a majority of the directors at the meeting (in person or by proxy), 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

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.

The members the Audit and Control Committee, and particularly its Chairman, shall be appointed after taking into account their knowledge and experience in accounting or auditing matters, or both.

The Audit and Control Committee's Chairman shall be an independent director and appointed from among its non-executive director members. The Chairman must be replaced every four years and may be re-elected to such office four years after his/her removal from office.

b) Competencies

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:

Its competencies shall include at least the following:

1. Report to the General Meeting on any matters broached within the sphere of its competence.

2. Oversee the efficacy of the company's internal controls, its internal auditing, as appropriate, and its risk management, as well as to discuss with the auditors of accounts and auditing firms any significant weaknesses detected in the internal control system during the course of an audit.

3. Oversee the process of drawing up and submitting mandatory financial reporting.

4. Propose the appointment of the auditors of accounts or auditing firm, in accordance with legislation applicable to the company, to the company's governing body so that it may be brought before the General Shareholders' Meeting or other of the company's equivalent bodies, depending on its legal nature.

5. Establish suitable relationships with the auditors of accounts or auditing firms in order to receive information on any matters which could place their independence at risk and submit these to the Committee for examination, and any other matters concerning the process of account auditing and any other communications laid down in account auditing legislation and technical auditing standards. In any event, it shall receive written confirmation on an annual basis from the auditors of accounts or auditing firms of their independence from the company or from any entities related to them, either directly or indirectly, as well as information on any additional service of any kind whatsoever provided to such entities by the aforementioned auditors of accounts or by persons related to them in accordance with the provisions set forth in Act 19/1988 of 12 July on auditing accounts.

6. Issue a report on an annual basis, which expresses an opinion on the independence of the auditors of accounts or accounting firm, prior to the date the audit report is issued. Such report must, in any event, mention the provision of the additional services referred to in the preceding paragraph.

7. Safeguard the independence and efficiency of the internal auditing area; propose the recruitment, appointment, reappointment and removal of the person in charge of internal auditing; propose such service's budget; receive periodic reports on its activities; verify that senior management take into account the conclusions and recommendations of its reports

8. Set and oversee a mechanism that allows employees to confidentially and, if deemed appropriate, anonymously report any breaches of the Code of Conduct.

9. Supervise compliance and internal codes of conduct, as well as the rules of corporate governance

10. Inform the Board about all matters connected with related-party transactions, which shall be construed as they are defined by the Revised Text of the Capital Companies Act.

11. 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; and

12. Exercise any other competencies such Committee has been assigned by these Regulations or which may be 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.

Through its Chairman, the Audit and Control Committee shall report to the Board about its activities and the work it has carried out at the meetings arranged for such purpose, or immediately after them, whenever the Chairman of the Audit and Control Committee should deem it necessary. The minutes of its meetings shall be placed at the disposal of any member of the Board who may request them.

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

COMMITTEE NAME

APPOINTMENTS AND REMUNERATION 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 Appointments and Remuneration 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 Director.

- Examine or organise, as considered most appropriate, the Chairman's and the chief executive's succession, and if necessary bring proposals before the Board so that such successions are effected in an orderly well-planned fashion.

- 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

Its essential function shall be to provide support to the Board of Directors regarding its oversight functions. In order to do so, it has been vested with all the powers granted in accordance with prevailing legislation (especially the recently approved Act 12/2010 of 30 June amending the Auditing of Accounts Act and actions in the fiscal, labour-related and liberalising spheres to promote investment and job creation) as well as the Bylaws and the Board of Directors Regulations on matters having to do with auditing 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

APPOINTMENTS AND REMUNERATION COMMITTEE

SHORT DESCRIPTION

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

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

On 24 May 2011, the Board of Directors resolved to partially amend the wording of the Regulations in order to adapt it to the latest legislative amendments. However, such amendments have not affected either the operation of the Committee or its composition.

Reports on the activities performed by both the Audit and Control Committee and the Appointments and Remuneration Committee have been approved on an annual basis.

COMMITTEE NAME

EXECUTIVE OR DELEGATE COMMITTEE

SHORT DESCRIPTION

The regulations governing the composition, function and competencies assigned to the Executive Committee are expressly set forth in Articles 23 and 24 of the Board Regulations, which can be consulted at any time on the NH Hoteles, S.A. website under the Shareholder Information section.
The amendments made to the Board Regulations do not affect the regulations governing the composition or function of the Executive Committee.

COMMITTEE NAME

AUDIT COMMITTEE

SHORT DESCRIPTION

Article 25 of the Board of Directors Regulations governs the composition, functioning and competencies assigned to the Audit and Control Committee. Such Article was amended by the Board of Directors on 24 May 2011 in order to adapt it to the provisions set forth inAct 12/2010 of 30 of June amending the Auditing of Accounts Act and actions in the fiscal, labour-related and liberalising spheres to promote investment and job creation, as well as the Securities Market Act, among other legal provisions.

The aforementioned Regulations have been posted on the NH Hoteles website, www.nh-hotels.com, under the Shareholder Information section.
It should additionally be noted that reports on the activities performed by the Audit and Control Committee have been approved on an annual basis.

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
Although the Executive Committee was inactive throughout 2011 (no meetings have been held since 2009), the Board resolved to reactivate the Board of Directors' Executive Committee at its meeting held on 18 January 2012 and appointed the following directors as its new members: **Chairman:** Mr Mariano Pérez Claver **Members:** Grupo Inversor Hesperia, S.A. represented by José Antonio Castro Sousa) Mr Juan Llopart Pérez Mr Iñaki Arratíbel Olaziregi Mr Carlos González Fernández Mr Giles Pélisson The Committee is therefore comprised of one executive director, three proprietary directors and two independent directors.

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 trade name of significant shareholder	Name or trade name of company or group company	Nature of the relationship	Type of transaction	Amount (in thousand euros)
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	10,500
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)	1,456
INTESA SANPAOLO, S.P.A.	GRANDE JOLLY, S.R.L.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	4,172
INTESA SANPAOLO, S.P.A.	JOLLY HOTEL HOLLAND, N.V.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	3,125
INTESA SANPAOLO, S.P.A.	NH HOTELES, S.A.	CONTRACTUAL (Credit policy with a 15,000 limit)	Financing agreements, loans and capital contributions (borrower)	4,655
INTESA SANPAOLO, S.P.A.	NH ITALIA, S.R.L.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	60,000
PONTEGADEA INVERSIONES, S.L.	NH HOTEL RALLYE PORTUGAL, LTD.	CONTRACTUAL	Leases	739
PONTEGADEA INVERSIONES, S.L.	NH HOTELES ESPAÑA, S.L.	CONTRACTUAL	Leases	9,313
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)	2,450
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)	5,889
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	45,500
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	NH HOTELES ESPAÑA, S.L.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	5,000
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	NH HOTELES ESPAÑA, S.L.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	7,000
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	NH HOTELES, S.A.	CONTRACTUAL (Loan policy with a 27,500 limit)	Financing agreements, loans and capital contributions (borrower)	26,614
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	35,000
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	10,000
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	SOTOGRANDE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	2,000

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 trade name of director or manager	Name or trade name of company or group company	Nature of the operation	Type of transaction	Amount (€ 000s)
GRUPO INVERSOR HESPERIA, S.A.	HOTELES HESPERIA, S.L.	CONTRACTUAL	Management or partnership agreements	5,833
HOTELES PARTICIPADOS, S.L.	DESARROLLO INMOBILIARIO SANTA FE	CONTRACTUAL	Financing agreements loans and capital contributions (borrower)	4,787
HOTELES PARTICIPADOS, S.L.	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements loans and capital contributions (borrower)	27,475
HOTELES PARTICIPADOS, S.L.	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements loans and capital contributions (borrower)	7,565
MR JESÚS IGNACIO ARANGUREN GONZÁLEZ-TARRÍO	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements: loans and capital contributions (lender)	3,540
MR ROBERTO CHOLLET IBARRA	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements: loans and capital contributions (lender)	2,656
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	NH HOTELES, S.A.	CONTRACTUAL	Undertakings 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:

Trade name of group company HARRINGTON HALL HOTEL LIMITED
Amount (in thousand euros) 4394
Short description of the transaction LOAN

→ 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 c 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 Board Regulations sets forth the mechanisms to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and their directors, stating that directors shall perform their functions with absolute loyalty to the company's corporate interests.

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 make professional or trade operations or transactions with the company or with any of its group companies, where such transactions are beyond the scope of the company's ordinary business or where they are not carried out under market conditions, unless the Board of Directors is informed thereof in advance and approves the transaction, after having received a report from the Audit and Control Committee, with a favourable vote of at least 80% of the Directors attending or represented by proxy at the meeting.

g) Directors shall likewise give notice of any direct or indirect interests they or the related parties referred to by Article 231 of the Revised Text of the Capital Companies Act may hold in the capital of a company having the same, analogous or complementary kind of activity as that which constitutes the company's corporate purpose. They shall also notify the offices they may hold or the functions they may perform in such company

The persons referred to by Article 231 of the Revised Text of the Capital Companies Act shall be construed as related parties.

The situations of conflict of interest set out in the preceding paragraphs shall be reported in the Annual Report and in the annual Corporate Governance Report.

Likewise, the NH Hoteles' Internal Code of Conduct, which was approved by the Board of Directors on 24 May 2011, governs in detail the Conflict of Interest Procedure which applies to Directors and members of senior management, among others, who must abstain from attending and intervening in deliberations and voting on any matters in which they have a conflict of interest. The Secretary of NH Hoteles, S.A.'s Audit and Control Committee shall draw up a Record of Conflicts of Interest affecting People Subject to Substantive Rules on Conflicts of Interest, which shall be constantly updated with detailed information on each of the situations which may come about. The information contained in such Record shall be placed at the disposal of the Audit and Control Committee. Such Committee has been entrusted with the function of safeguarding compliance with internal codes of conduct and corporate governance, among other matters.

→ 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

State any possible business relationships between the parent company and the listed subsidiary, and between the latter and other group companies
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.

As a basic risk management tool, the NH Group has an Overall Group Risk Map. Such risk map was drawn up for the first time in 2007. Since then, it has been updated on an annual basis with the collaboration of the group's different corporate divisions. The main aim of this map is to provide the group with an efficient instrument to guard against the possible emergence of the risks identified.

Regarding the company's risk management, work has been done in 2011 on two fronts:

a) Integrating the risk map into an in-house computer management tool that is also used by the company for its processes and procedures. This software allows risk management to be improved by describing the controls affecting each one of the risks and enhancing the capacity to manage their assessment.

b) It improves the controls implemented to mitigate operating risks, which are the risks that directly affect hotel activities. The development of these controls within the company's front-office tool and the incorporation of as yet non-existent controls form part of this work. A second phase of this project will take place in 2012.

The business risk control systems of the activities of the NH Group can be classified in the following way:

- Control of financial risk
- Control of strategic development risk
- Control of business, operating and environmental risks - Control of regulatory risks
- Other preventative procedures

1. Financial risk control systems

The group controls its financial risks through the following mechanisms:

1.1 Procedures Manual: Any relevant operations performed by the NH Hoteles Group are standardised through an internal procedures manual for procurement, asset management, cash and bank, month-end closing, etc. In addition, the accounting standards which apply to all Spanish and foreign companies of the group have been regulated.

1.2 Internal Auditing: The Internal Auditing Department performs work on an ongoing basis essentially aimed at identifying situations of risk and assessing their management. It has therefore defined an annual auditing plan, the purpose of which is to verify that the standards and procedures which have been established are properly implemented at both a corporate department level as well as at the different hotels.

1.3 Audit Committee: The Audit Committee reports directly to the Board of Directors and is in charge of ensuring that all of the group's internal control systems work properly. In addition, it periodically analyses the main risks affecting the business and the systems established for their management and control. It is the body responsible for establishing relationships with the group's external auditors.

1.4 Centralised Management: The group's management of financing, interest rate and exchange rate policies is centralised solely through the Economic and Financial Division using non-speculative criteria.

In accordance with the provisions set forth in Article 61 of the Securities Market Act, a detailed description of the financial reporting control systems is attached hereto as an Annex.

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 reports directly to the Management Committee and analyses any transactions put forward. It is comprised of members from each of the areas who analyse all the business risks and opportunities which may arise for the group.

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

3.1 The Management Committee meets on a weekly basis. It analyses the information contained in the management charts drawn up by the Corporate Control Management Department to assess the development of transactions, and closely monitors aspects of the business assessment obtained through the computer 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 The group has a policy in place aimed at attaining maximum respect for the environment, especially regarding its main activity, golf hotel management. In this regard, the Corporate Engineering and Environmental Area is in charge of providing the company with the basic mechanisms needed to properly manage environmental regulations. This is carried out directly with the hotels, and together with analyses and reviews of compliance with the specific regulations issued for such purpose, forms the basis of their day-to-day activity.

3.3 A project geared at analysing and improving existing controls at centres through the specific enhancement and development of the computer tools used by the company (front-office and back-office) was initiated in 2011. It has a two-fold aim:

- To improve existing controls on day-to-day operations: automation and simplification

- To add new additional controls to existing controls.

The main objective is to reduce the risks of fraud and to reinforce existing manual controls over production through the gradual incorporation of growing number of preventive and corrective controls.

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 can also rely on subcontracted companies which ensure compliance with occupational health and safety, security at facilities, fire fighting, etc.

As part of the company's procedures, each centre has an obligatory file which must report all agreements entered into with third parties, duly updated and signed.

5. Other preventive procedures

5.1 Regarding 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 a policy of having wide-ranging coverage by taking out insurance policies for risks. In addition, ongoing reviews are conducted on such 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.

Risk arising during the year
Financial risks

Circumstances that caused it
Financial crisis, falling sales, impaired results.

Functioning of the control systems
The company is involved in a refinancing process which it expects to conclude in the first quarter of 2012.

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 the NH Group. 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 likewise be pointed out that the Audit Department plays an active role in fraud prevention and control.

Legal Department

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

On 24 May 2011, the Board of Directors of NH Hoteles, S.A. approved the Internal Code of Conduct Regulations for NH Hoteles, S.A. and its Group of Companies Listed on the Securities Market. Compliance is obligatory for all those it is aimed at and governs, among other matters, standards of conduct regarding values, conflicts of interest, insider information and securities transactions. On that same date, the Board also approved a new Code of Conduct which is obligatory for employees, senior management and directors. It is also binding on shareholders and suppliers regarding any matters that expressly concern them. The Code of Conduct sets forth rules that reinforce the undertaking to implement the highest ethical standards of honesty, integrity and respect in the performance of our activities, and goes beyond compliance with prevailing legislation. Among other matters, the Code includes procedures for related-party transactions and conflicts of interest, as well as rules to deal with fraudulent practices.

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 at second call	0	0

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

NO

Describe how it differs from the LSA.

→ 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.

In any event, the website shall contain the Bylaws, the General Meeting Regulations, the Board of Directors Regulations and, as appropriate, the Regulations of the Board of Directors' Committees, the Annual Report, the Internal Code of Conduct, Corporate Governance Reports, the announcements of ordinary and extraordinary General Meetings, the proposals submitted to be voted, and the documents and information which must be placed at the disposal of shareholders from the date of the announcement, according to prevailing legislation. It shall also contain information on General Meetings which have been held, and in particular, on the composition of the General Meeting at the moment it was convened and the resolutions adopted, along with the number of votes cast for and against; existing channels of communication with the company and the means and procedures to appoint proxies at General Meetings; the means and procedures for remote voting, as well as relevant disclosures.

Such information may be subject to change at any time; in which case, the relevant amendments and clarifications shall be posted on the company's website.

Additionally, an Electronic Shareholders' Forum has been set up to facilitate shareholder communications prior to upcoming General Meetings, and to serve as an instrument to post proposals to be added to the agenda, requests for support for such proposals, initiatives aimed at reaching a the percentage needed to exercise minority rights or voluntary proxy solicitations.

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.

At the General Meeting, the Company's shareholders may verbally request any information and clarifications they deem necessary about the issues included in the agenda, and should it be impossible to fulfil the shareholder's right at that moment, the directors shall be obliged to provide such information in writing within seven days from the end of the 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 appointing proxies for 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 PROXY

Article 13 of the General Meeting Regulations sets forth that any shareholder who is entitled to attend a General Meeting may be represented in it by another person, even though such person is not a shareholder. The proxy has to be accepted by the proxy holder and has to be specifically granted for each General Meeting, either through the proxy form printed on the voting card or by any other means allowed by the Law.

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

The documents in which such delegations or proxies for the General Meeting appear shall reflect voting instructions. If no such express voting instructions appear, it shall be construed that the proxy holder shall vote in favour of the proposals put forward by the Board of Directors for resolutions on the items included in the agenda.

Should there be no such voting instructions because the General Meeting is to take a vote on resolutions which did not appear on the agenda and therefore unknown on the date the proxy was granted, the proxy holder may cast the vote in the way he/she deems most suitable, taking into account the company's interests. The same shall apply to any corresponding proposal or proposals brought before the Meeting which were not drawn up by the Board of Directors.

If the identity of the party the shareholder has appointed as proxy is not indicated on the representation or delegation document, the proxy 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 the event of public requests for proxies, the provisions set forth in Article 186 of the Revised Text of the Capital Companies Act and, as appropriate, Article 514 of said legal text shall apply. In particular, the document on which the power of attorney appears shall contain or have attached the agenda, along with instructions to exercise the right to vote and an indication of how the proxy holder must cast the vote should there be no precise instructions. In such cases, the director or person obtaining the proxy may not exercise the right to vote corresponding to the shares thus represented by proxy on any items on the agenda in which they have a conflict of interest, and also with respect to any resolutions on (i) his/her appointment or ratification, dismissal, suspension or removal from office as a director; (ii) derivative actions proposed against him/her; (iii) the approval or ratification of the company's transactions with the director in question, with the companies controlled by him/her or which he/she may represent or with any people acting on his/her behalf.

Foreseeing the possibility of conflicts, the proxy may be granted to another person on a subsidiary basis.

Proxies may be revoked at any time. Personal attendance at the General Meeting shall revoke the proxy.

RIGHT TO VOTE

The shareholders present or represented by proxy 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 proxy and for legal proxy, no more than one proxy may be present at the Meeting.

The Chairman of the General Shareholders' Meeting or, through delegation, the Secretary thereof, shall settle any questions which may arise concerning the validity and efficacy of documents from which any shareholders' right to attend General Meetings on an individual basis or through pooling their shares with other shareholders are derived, as well as any regarding delegating or granting proxies to another person. They shall solely deem as invalid and ineffective those documents which fail to meet essential minimum legal or statutory requirements, provided such defects have not been corrected.

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

From the date the General Meeting announcement is published, the company shall place at the disposal of its shareholders any documents and information on the items included on the agenda which must be provided to them legally or statutorily, and shall post such documents and information on the company's website from such date. Without prejudice to the foregoing, shareholders shall be able to obtain such documents and information at the company's registered address immediately and at no charge, or request their delivery free of charge in legally established circumstances and under legally established terms.

Likewise, from the date the General Meeting's announcement is published, the company shall post on its website any documents and information that may legally be required as they become available, as well any others the company may deem suitable for these purposes in order to foster shareholder attendance and participation at General Meetings.

In any event, the website shall contain the Bylaws, the General Meeting Regulations, the Board of Directors Regulations and, as appropriate, the Regulations of the Board of Directors' Committees, the Annual Report, the Internal Code of Conduct, Corporate Governance Reports, the announcements of ordinary and extraordinary General Meetings, the proposals submitted to be voted, and the documents and information which must be placed at the disposal of shareholders from the date of the announcement, according to prevailing legislation. It shall also contain information on General Meetings which have been held, and in particular, on the composition of the General Meeting at the moment it was convened and the resolutions adopted, along with the number of votes cast for and against; existing channels of communication with the company and the means and procedures to appoint proxies at General Meetings; the means and procedures for remote voting, as well as relevant disclosures

Such information may be subject to change at any time; in which case, the relevant amendments and clarifications shall be posted on the company's website.

Additionally, an Electronic Shareholders' Forum has been set up to facilitate shareholder communications prior to upcoming General Meetings, and to serve as an instrument to post proposals to be added to the agenda, requests for support for such proposals, initiatives aimed at reaching a the percentage needed to exercise minority rights or voluntary proxy solicitations.

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 shall be obliged to provide in writing the information or clarifications thus requested, as well as to respond in writing to any questions thus formulated up to the date the General Meeting is due to be held. The responses to the questions and the requests for information thus made shall be handled by the Secretary of the Board of Directors, by any of the Board members or by any person expressly empowered to do so by the Board of Directors. The directors shall be obliged to provide the information requested, except in cases where, in the Chairman's judgement, disclosure of the information thus requested would prejudice the company's interests, unless the request has received the backing of shareholders representing at least one-fourth of the company's share capital.

At the General Meeting, the Company's shareholders may verbally request any information and clarifications they deem necessary about the issues included in the agenda, and should it be impossible to fulfil the shareholder's right at that moment, the directors shall be obliged to provide such information in writing within seven days from the end of the 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.

→ 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 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.

The General Meeting held on 29 June 2011 passed a resolution to amend some articles of the General Shareholders' Meeting Regulations in order to adapt them to recently enacted legislation, which can be basically summed up as follows:

- Revised Text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July:

  As this is a revised text of provisions previously contained in the Limited Companies Act and the Public Limited Companies Act, the contents of the Board Regulations were adapted to the new legislative text.

- Act 12/2010 of 30 of June amending the Auditing of Accounts Act and actions in the fiscal, labour-related and liberalising spheres to promote investment and job creation, as well as the Securities Market Act, among other legal provisions:

  This Act introduced the prohibition of clauses limiting the maximum number of votes, with effect from 1 July 2011. By virtue thereof, this limitation was eliminated from the Regulations' text.

  Furthermore, Act 12/2010 introduced new reporting and shareholder participation mechanisms, such as the Electronic Shareholders' Forum, which is reflected in the new Article 10.3.

- Royal Decree-Law 13/2010 of 3 December on actions in the fiscal, labour-related and liberalising spheres to promote investment and job creation.

  By virtue of this legal provision, the possibility of posting the meeting announcement on the company's website (instead of in provincial newspapers) was introduced.

  It was likewise deemed appropriate to incorporate other recommendations from the Unified Code of Good Governance, in addition to those introduced in recent years, such as Recommendation 9, which proposes bringing "transactions whose effect would be equivalent to winding up the company" before the General Meeting for approval.

→ **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	% in person	% by proxy	% distance voting		Total
			Electronic vote	Others	
29/06/2011	25.950	51.600	3.490	0.000	81.040

→ **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 29 June 2011

1: Examination and approval of the Financial Statements and Management Report of the company and of its consolidated group corresponding to the financial year ended at 31 December 2010. Proposal for the distribution of profits and approval of the Board of Directors' management.

Percentage of votes in attendance which approved the resolution: 99.99%

2: Ratification, appointment and removal of directors.

2.1 To ratify and appoint Mr Mariano Pérez Claver as a member of the Board of Directors for a period of three years as an executive director.

Percentage of votes in attendance which approved the resolution: 97.07%

2.2. To appoint the trading company "Grupo Financiero de Intermediación y Estudios, S.A." as a member of the Board of Directors for a period of 3 years as a proprietary director.

Percentage of votes in attendance which approved the resolution: 96.96%

2.3. Through a resolution of the Board of Directors adopted today, to ratify the appointment by co-option, made at the proposal of the Appointments and Remuneration Committee, of Mr Carlos González Fernández as an independent director to cover the vacancy which came about as a result of the resignation tendered by Mr José Antonio Samaranch Salisachs on 13 June.

Percentage of votes in attendance which approved the resolution: 100%

2.4. Subject to the condition precedent consisting of the disbursement of the increase of capital referred to for informative purposes in item VIII.2 of the Agenda, to increase the number of members of the Board of Directors from the current fifteen to seventeen members and to appoint the following as proprietary directors of the company for the statutory three-year period:

o HNA Capital Holding Co. Ltd.
o HNA Group Co. Ltd.

Percentage of votes in attendance which approved the resolution: 97.40%

3: *Amendment of the Bylaws*

3.1. Amendment of articles

Percentage of votes in attendance which approved the resolution: 99.99%

3.2. Addition of articles

Percentage of votes in attendance which approved the resolution: 99.99%

4: Amendment of the General Meeting Regulations

Percentage of votes in attendance which approved the resolution: 99.99%

5: Appointment of Auditor of Accounts

Percentage of votes in attendance which approved the resolution: 99.95%

6: Setting remuneration for the Board and its Committees

Percentage of votes in attendance which approved the resolution: 99.99%

7: Powers of attorney

Percentage of votes in attendance which approved the resolution: 99.99%

8: Matters brought before the General Meeting on an informative or consultative basis

8.1. Information on the amendment of Board Regulations

8.2. Report to the General Shareholders' Meeting of the resolution adopted by the Board on the increase of share capital and placing at the disposal of shareholders the reports issued by the directors and the auditor of accounts on said resolution to capital increase.

8.3. Submission of Report 116 b of the Securities Market Act

8.4. Consultative vote on the director remuneration report.

Percentage of votes in attendance which approved the resolution: 98.06%

→ **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

Number of shares required to attend the General Meeting	

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

Voting on the proposals for items included in the agenda of any kind of General Meeting may be delegated to proxy holders or exercised by shareholders by post, electronic means or any other means of remote communication, provided the identity of the subject exercising his/her right to vote can be guaranteed. Any shareholders who cast their votes by remote means shall be counted as being in attendance for the purpose of quorum.

All shareholders entitled to attend the General Shareholders' Meeting may be represented by proxy by another party, even if said party is not a shareholder. Proxy 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 proxy is the spouse, ascendant or descendent of the represented party, or when the proxy has a general power of attorney granted in a public document to administer all the assets that the represented shareholder owns in Spanish territory.

Proxies may also be granted through any remote means of communication which duly guarantee the identities of the person represented by proxy and of the proxy holder which the Board of Directors or the company may, as appropriate, establish. A proxy granted by such means shall be admitted where the electronic document through which it is granted includes the recognised electronic signature of the party thus represented, or any other kind of signature which can guarantee the authenticity and identity of the shareholder granting the proxy and which furthermore fulfils the requirements set forth in any legal provisions that may be in force at the time.

The documents in which such delegations or proxies for the General Meeting appear shall reflect voting instructions. If no such express voting instructions appear, it shall be construed that the proxy holder shall vote in favour of the proposals put forward by the Board of Directors for resolutions on the items included in the agenda.

Should there be no such voting instructions because the General Meeting is to take a vote on resolutions which did not appear on the agenda and therefore unknown on the date the proxy was granted, the proxy holder may cast the vote in the way he/she deems most suitable, taking into account the company's interests. The same shall apply to any corresponding proposal or proposals brought before the Meeting which were not drawn up by the Board of Directors.

Should the proxy or delegation document fail to indicate the specific person to whom the shareholder wishes to grant proxy, it shall be construed to have been granted to the Chairman of the company's Board of Directors or to the person he/she may designate, or to whoever may replace him/her as Chairman of the General Meeting.

The Chairman of the General Shareholders' Meeting, its Secretary or those designated by them shall be construed to have been empowered to determine the validity of any proxies granted and the fulfilment of the requirements to attend the Meeting.

Proxies may be revoked at any time. The personal attendance of a shareholder represented by proxy at the Meeting shall revoke the proxy.

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 proxy and for legal proxy, no more than one proxy may be present at the Meeting.

The Chairman of the General Shareholders' Meeting or, through delegation, the Secretary thereof shall resolve any doubts which may arise concerning the validity and efficacy of documents from which any shareholders' right to attend General Meetings on an individual basis or through the pooling of their shares with other shareholders are derived, as well as any regarding delegating or granting proxies to another person. They shall solely deem as invalid and ineffective those documents which fail to meet essential minimum legal or statutory requirements, as long as such defects have not been corrected.

In the event of public proxy requests, the provisions set forth in Article 186 of the Revised Text of the Capital Companies Act and, as appropriate, Article 514 of such legal text shall apply. In particular, the document on which the power of attorney appears shall contain or have attached the agenda, along with instructions to exercise the right to vote and an indication of how the proxy holder must cast the vote should there be no precise instructions. In such cases, the director or person obtaining the proxy may not exercise the right to vote corresponding to the shares thus represented by proxy on any items on the agenda regarding which they may have a conflict of interest and, in any event, with respect to any resolutions on (i) his/her appointment or ratification, dismissal, suspension or removal from office as a director; (ii) the bringing of derivative actions against him/her; (iii) the approval or ratification of the company's transactions with the director in question, with the companies controlled by him/her or which he/she may represent or with any people acting on his/her behalf.

Foreseeing the possibility of conflicts, the proxy may be granted to another person on a subsidiary basis.

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, are available at all times on the NH Hoteles, S.A. website 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

<u>Complies</u>

→ **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 recent Bylaw amendment approved by the General Shareholders' Meeting on 29 June 2011 expressly included the transactions mentioned in items b) and c) of this Recommendation as matters to be brought before the General Meeting for its approval. This is not the case for the transactions described in item a).

→ **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

Partially complies

Approved the amendment of the by laws, that only aimed adapting the wording to newly enacted legislation. The General Meeting held on 29 June 2011. Said legislative amendments (for instance, the entry into force of the Revised Text of the Capital Companies Act approved by Royal Legislative Decree 1/2010 of 2 July) have made it necessary to review and adapt the entire wording of the Bylaws. That is why each article or group of articles were not submitted to approval by the General Meeting. However, the amendment of the articles, on the one hand, and the addition of new articles, on the other, were indeed submitted to separate votes.

→ **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 senior executive remuneration and performance assessment policy;

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 removal of senior managers, as well as their compensation clauses, as proposed by the Chief Executive Director of the company.**

  See section: B.1.14

- **ii) The remuneration of directors and, in the case of executives, the additional remuneration for their executive functions and other conditions that are to be respected in their contracts.**

  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 setting or acquisition of stakes in special-purpose entities or those domiciled in countries or territories deemed to be tax havens, as well as any other transactions or operations of an analogous nature which could erode the group's transparency due to their complexity.**

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

<u>Partially complies</u>

The Company complies with the recommendation in this section apart from that set forth in item b.i) regarding the decision on the appointment and possible removal of senior management which the Board of Directors considers that should be the duty of the company's Chief Executive Officer. Without prejudice to the foregoing, the Board of Directors Regulations assigns the Appointments and Remuneration Committee the competence of issuing a prior report on the appointment and dismissal of executives who 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

<u>Complies</u>

→ **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

<u>Complies</u>

→ **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

<u>Not applicable</u>

→ **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

<u>Complies</u>

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

See section: B.1.3

<u>Explain</u>

At 31/12/2011, the percentage of independent directors amounted to 23% (three independent directors out of a total of thirteen directors). However, on 18/01/2012, a new independent director, Mr Gilles Pélisson, was appointed, thereby increasing the number of independent directors to four and consequently complying with the recommended minimum.

→ **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 female 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, one of the independent directors is to be empowered to call meetings of the Board or to include new items on the agenda; to coordinate and take note of the concerns of the external directors; and to direct the evaluation of the Chairman by the Board.**

See section: B.1.21

Complies

→ **18. The Secretary of the Board in particular ensures 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 is to meet as frequently as required to efficiently perform its functions, following the program of dates and matters established at the start of the year, and each director may propose other items not initially provided on the agenda.**

See section: B.1.29

Complies

→ **20. Non-attendance by directors is to be reduced to inevitable cases and it is to be quantified in the Annual report on Corporate Governance. If appointing a proxy is unavoidable, such appointment is to be done with instructions.**

See sections: B.1.28 and B.1.30

Partially complies

Although Article 22 of the Board Regulations states that directors shall personally attend Board meetings, and when they are unable to do so in exceptional circumstances shall attempt to grant a proxy in favour of another member of the Board, including the relevant instructions in so far as possible, such instructions are not always in writing any may also be issued 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 must be able to exercise their right to obtain the additional information they deem necessary regarding matters within the Board's competence. And, unless established otherwise by the Bylaws or the Board regulations, they are to address their requests 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. Proposals on the appointment or re-election of directors submitted by the Board to the General Meeting of Shareholders, as well as their provisional appointment by co-optation, are to be passed 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

Complies

→ **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

Complies

→ **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 paid by way of the award of shares in the company or in group companies, share options or share-based instruments, variable remuneration linked to the performance of the company and pension and similar systems shall be 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 shall be established as necessary to compensate them for the time, skills and responsibilities required by the office. However, it shall not be so high as to compromise their independence.**

Complies

→ **38. Remuneration linked to the results of the company shall take into consideration any possible qualifications in the auditor's report that might reduce 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 Remuneration 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

Complies

→ **41. The Annual Report shall include details of the individual remuneration earned by the directors during the year, as well as:**

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 company 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 individualised breakdown of any share awards to directors, stock options or any other share-based instrument, detailing the following:

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

As at 31/12/2011, the Executive Committee remained inactive, as it had not held a meeting since 2009. However, the Board of Directors resolved to reactivate the Committee on 18/01/2012. The participation of different kinds of directors is similar to that of the Board and its Secretary and Chairman are the Board Chairman and Secretary, thereby complying with this Recommendation.

→ **43. The Board shall at all times be informed of the issues considered and the decisions adopted by the Executive Committee, and all of the members of the Board shall receive a copy of the minutes to meetings of theExecutive Committee.**

Complies

→ **44. Apart from the Audit Committee required by the Securities Market Act, the Board of Directors should set up an Appointments and Remuneration Committee or two separate committees.**

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) Minutes should be drafted on each meeting, a copy of which should be sent to all Board members.

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, reputation-related, etc.) to which the company is exposed, including contingent liabilities and other off-balance sheet risks among financial and 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 process of preparing and safeguard the integrity of the financial reporting relating to the company and, should it be the case, to the group, reviewing compliance with regulations, the adequate delimitation of the consolidated group and the proper application of accounting standards.

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 employee or director of the company, and may require the appearance of the same without the presence of any other director.

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 financial statements, and therefore consider the appropriateness of a limited review by the external auditor.

b) Setting or acquisition of stakes in special-purpose entities or those domiciled in countries or territories deemed to be tax havens, as well as any other transactions or operations of an analogous nature which could erode the group's transparency due to their complexity.

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 shall seek to file financial statements that are free from reservations or qualifications in the audit report to the General Meeting, and in the exceptional circumstances in which they may exist, both the Chairman of the Audit Committee and the auditors shall provide the shareholders with a clear explanation of the content and scope of such reservations or qualifications.

See section: B.1.38

Complies

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

See section: B.2.1

Explain

As at 31/12/2012, the composition of the Appointments and Remuneration Committee was comprised of the independent director, Ms Nuria Iturriagagoitia, as the Chairperson, and two proprietary directors, Mr. Francisco Javier Illa Ruiz and the company Sociedad de Promoción y Participación Caja Madrid, represented by Mr Ángel Córdoba Díaz. On 18/01/2012, a new independent director, Mr. Gilles Pélisson, was appointed, who was also appointed as a member of the aforementioned Committee. This Committee is therefore comprised of two proprietary directors and two independent directors.

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 or organise, as considered most appropriate, the Chairman's and the chief executive's succession, and if necessary bring proposals before the Board so that such successions are effected in an orderly well-planned fashion.

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

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 Director 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 consider 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) Safeguard compliance with the remuneration policy established by the company.

See sections: B.1.14 and B.2.3

Complies

58. The Remuneration Committee consults the Chairman and the Chief Executive Director 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.

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.:

The table reflects the composition of the Board of Directors of NH Hoteles, S.A. at 31 December 2011. It should be mentioned that the Board of Directors accepted the resignation tendered by Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) on 18 January 2012 and that it appointed Corporación Financiera Caja Madrid to replace it. The change was due to the internal restructuring of the conglomerate of entities comprising Grupo Financiero de Ahorros. In addition, Mr Gilles Pélisson was appointed as a new independent director at the Board meeting mentioned above held on 18 January 2012.

Furthermore, it should be pointed out that, at the General Meeting held on 29 June 2011, Grupo Financiero de Intermediación y Estudios, S.A. was appointed as a new proprietary director. Such company has yet to accept its appointment. Thus, in accordance with the provisions set forth in Article 214.3 of Royal Legislative Decree 1/2010 of 2 July approving the Revised Text of the Capital Companies Act, its appointment has yet to take effect.

SECTION B.1.3.:

With regard to the proprietary directors Mr Juan Llopart Pérez, Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) and Sociedad de Promoción y Participación Caja Madrid, S.A., it should be noted that though it has been indicated in this section that they were appointed by the indirect shareholder Banco Financiero y de Ahorros, they were actually appointed by the significant (direct) shareholders Sociedad de Promoción y Participación Caja Madrid, S.A. and Corporación Financiera Caja de Madrid, S.A., entities which belong to Grupo Caja Madrid. However, given that the system only allows one significant shareholder to be indicated, the decision has been taken to include the indirect shareholder and parent company of the aforementioned shareholders, the company Banco Financiero de Ahorros.

SECTION: B.1.11.:

In accordance with Article 42 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.

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.

Along with the Annual Corporate Governance Report, the Board shall draw up an Annual Director Remuneration Report, which shall include complete, clear and comprehensible information on the company's remuneration policy approved by the Board for the year in course, as well as for future years, as appropriate. It shall also include an overall summary of the remuneration policy implemented during the year, as well as a breakdown of the individual remuneration due to each of the directors. Such report will be disclosed and subject to a consultative vote as a separate point of the agenda at the General Shareholders' Meeting.

The amounts due on an individual basis to each director in 2011 for their fixed remuneration for belonging to the Board of Directors and the attendance allowances for attending the different Committee meetings were as follows:

EXECUTIVE DIRECTOR HOLDING OFFICE AT 31/12/2011:

Mr Mariano Pérez Claver (appointed with effect as from 1/03/2011)
- Annual remuneration as a Board member: 31,689.86 euros
- Total: 31,689.86 euros.

NON-EXECUTIVE DIRECTORS HOLDING OFFICE AT 31/12/2011:

Mr Iñaki Arratíbel Olaziregi
- Annual remuneration as a Board member: 37,800 euros
- Attendance allowance, Audit Committee: 22,191.12 euros
- Total: 59,991.12 euros

Caja de Ahorros de Valencia, Castellón y Alicante (BANCAJA)
- Annual remuneration as a Board member: 37,800 euros
- Attendance allowance, Executive Committee: 0 euros
- Total: 37,800 euros

Ms Rosalba Casiraghi
- Annual remuneration as a Board member: 37,800 euros
- Total: 37,800 euros

Mr Roberto Cibeira Moreiras
- Annual remuneration as a Board member: 37,800 euros
- Total: 37,800 euros

Mr Carlos González Fernández (since his appointment on 29/06/2011)
- Annual remuneration as a Board member. 19,262.46 euros
- Attendance allowance, Audit and Control Committee: 9,246.30 euros
- Total: 28,508.76 euros

Grupo Inversor Hesperia, S.A. (GIHSA)
- Annual remuneration as a Board member: 37,800 euros
- Total: 37,800 euros

Hoteles Participados, S.L.
- Annual remuneration as a Board member: 37,800 euros
- Attendance allowance, Audit Committee: 12,141.60 euros
- Total: 49,941.60 euros

Mr Francisco Javier Illa Ruiz
- Annual remuneration as a Board member: 37,800 euros
- Attendance allowance, Appointments and Remuneration Committee: 14,794.08 euros
- Total: 52,594.08 euros

Ms Nuria Iturriagagoitia Ripoll
- Annual remuneration as a Board member: 37,800 euros
- Attendance allowance, Appointments and Remuneration Committee: 14,794.08 euros
- Total: 52,594.08 euros

Mr Juan Llopart Pérez
- Annual remuneration as a Board member: 37,800 euros
- Attendance allowance, Audit Committee: 18,492.60 euros
- Total: 56,292.60 euros

Mr Miguel Rodríguez Domínguez:
- Annual remuneration as a Board member: 37,800 euros
- Total: 37,800 euros

SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID
- Annual remuneration as a Board member: 37,800 euros
- Attendance allowance, Appointments and Remuneration Committee: 2,428.32 euros
- Total: 40,228.32 euros

EXECUTIVE DIRECTOR HOLDING OFFICE AT SOME POINT IN 2011, WHO NO LONGER HELD OFFICE ON 31/12/2011

Mr Gabriele Burgio (left the company on 28/02/2011)
- Annual remuneration as a Board member: 6,110.14 euros
- Total: 6,110.14 euros

NON-EXECUTIVE DIRECTORS HOLDING OFFICE AT SOME POINT IN 2011, WHO NO LONGER HELD OFFICE ON 31/12/2011

Mr Juan Antonio Samaranch Salisachs (tendered his resignation on 19/06/2011)
- Annual remuneration as a Board member: 18,641.10 euros
- Total: 18,641.10 euros

Mr Antonio Viana Baptista (tendered his resignation on 17/07/2011)
- Annual remuneration as a Board member: 21,540.82 euros
Attendance allowance, Audit Committee: 9,246.30 euros
- Total: 30,787.12 euros

Mr José de Nadal Capará (his office expired on 19/06/2011 as he was not reappointed)
- Annual remuneration as a Board member: 18,641.10 euros
- Attendance allowance, Appointments and Remuneration Committee: 9,246.30 euros
- Total: 27,887.40

The compensation and remuneration of the post-contractual no-competition agreement received by Mr Gabriele Burgio, which amounted to 6,566 thousand euros for all items, are included in the total amount received in 2011 by executive directors set out in Section B.1.11. He effectively left the group on 28 February 2011.

→ SECTION B.1.12.:

As regards the aggregate remuneration due to members of senior management during 2011, only their fixed remuneration has been reflected.

→ SECTION B.1.38.:

Due to the refinancing process, the Company is confident of having the refinancing process. Concluded before the maximum date established legally for the emission of the Auditor's Report.

→ SECTION B.1.40.:

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.:**

As at 31 December 2011, the Executive Committee remained inactive as it had not held any meetings during 2011. Without prejudice to the above, the Board of Directors resolved to reactivate the Executive Committee at its meeting held on 18 January 2012 and appointed to it the following new members:

Chairman: Mr Mariano Pérez Claver

Members: Grupo Inversor Hesperia, S.A. (represented by José Antonio Castro Sousa)
Mr Juan Llopart Pérez
Mr Iñaki Arratíbel Olaziregi
Mr Carlos González Fernández
Mr Giles Pélisson

The Executive Committee also has a Secretary and Deputy Secretary, who are the Board's Secretary, Mr José María Mas Millet, and Deputy Secretary, Mr Leopoldo González Echenique Castellanos de Ubao.

→ **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., a company that is 100% owned (indirectly) by PONTEGADEA INVERSIONES, S.L.

The transactions set out in Section C.2, which were supposedly carried out between some NH Hoteles group companies and Corporación Financiera Caja Madrid, were actually effectuated with Bankia. Though Bankia is not a direct shareholder of NH Hoteles, it is an indirect shareholder because it fully owns the company Corporación Financiera Caja Madrid, which holds a 4.544% stake in NH Hoteles.

→ **SECTION C.3.:**

The loans between HOTELES PARTICIPADOS, S.L. and the company NH FINANCE, S.A. mentioned in the table contained in this section were actually entered into by different companies which form part of the HOTELES PARTICIPADOS, S.L. group.

It should likewise be pointed out that two transactions have been joined together in a single mention due to technical reasons. Both these transactions were effectuated by Hoteles Participados, S.L. and NH Hoteles, S.A., namely a credit policy, 4,989,000 euros of which had been drawn down as at 31/12/2011, and a loan amounting to 2,576,000 euros.

→ **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 have or have had any relationship with the company, its significant shareholders or executives, which, if it had been sufficiently significant or important, would have meant that the director could not be considered independent pursuant to the definition set out in part 5 of the Unified Code of Governance:

NO

Sign and date:
This annual corporate governance report has been approved by the company's Board of Directors in its session of 28/03/2012

Indicate whether any directors voted against or abstained in relation to the approval of this report.

NO

APENDIX TO THE 2011 ANNUAL CORPORATE GOVERNANCE REPORT, INCLUDING ASPECTS COVERED BY ARTICLE 61B OF ACT 24/1988, OF 28 OF JULY, ON THE SECURITIES MARKET

Act 2/2011, on Sustainable Economy, amends Act 24/1988, of 28 July, on the Securities Market (henceforward, LMV), introducing a new chapter VI, entitled "On the annual corporate governance report". Chapter VI contains, among others, a new Article 61b on the dissemination and content of the Annual Corporate Governance Report. Article 61b repeals and revises the content of Articles 116, on the Annual Corporate Governance Report and 116b, which established the obligation to include additional information in the Management Report. In addition, it requires the Annual Corporate Governance Report to include a description of the main features of the internal risk control and management systems used in the financial reporting process.

The 2011 Annual Corporate Governance Report has been based on the format provided on the CNMV website. The provisions of this Annexe have been added this Report wherever they are lacking in the CNMV template, including detailed information on the text of new Article 61b of the LMV, which is broken down under the following subheadings:

→ 1. Securities that are not traded in a regulated European Union market, indicating, where relevant, the various types of shares, and the rights and obligations relating to each type of share.

NH Hoteles, S.A. is listed on the Spanish and New York stock markets at Level 1 ADR.

→ 2. Any restriction on the transmissibility of securities and any restriction on voting rights

There are no restrictions in the company bylaws on the transmissibility of the shares from share capital.

The restrictions on voting rights are the same as those for any other public limited company, with no specific restrictions on this right in the company bylaws other than those stipulated by law.

→ 3. Regulations applicable to modification of the company bylaws.

The regulations applicable to modification of the company bylaws are those established in Articles 285 and subsequent of Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Capital Companies Act (henceforward Capital Companies Act), which require the approval of the General Shareholders' Meeting by the majorities stipulated in Articles 194 and 201 of this Act.

In the General Meeting held on 29 June 2011, the bylaws were adjusted to reflect the legislative changes in the area of Company Law, and some recommendations on corporate governance issued in the Unified Code of Good Governance published by the Spanish National Securities Market Commission were also introduced. The bylaws were also given a new more systematic and well-ordered structure. The new legislative developments are basically as follows:

- Act 12/2010, of 30 June, amending Act 19/1988, of 12 July, on the Auditing of Accounts, Act 24/1988, of 28 July, on the Securities Market and the revised text of the Public Limited Companies Act approved by Royal Legislative Decree 1564/1989, of 22 December, to adapt it to EU regulations: this legal provision introduces, as of 1 July 2011, the prohibition on clauses limiting the maximum number of votes. As a result, the limitation was removed from the text of the bylaws (previous Article 15).

In addition, Act 12/2010 introduces new instruments on the provision of information to shareholders and their participation (for example in the Electronic Shareholder Forum); it also modifies the make-up and powers of the Audit Committee.

- The consolidated text of the Capital Companies Act, approved by Legislative Royal Decree 1/2010, of 2 July, Capital Companies Act: as this is a revised text of the previous text of the Limited Liability Companies Act and the Public Limited Companies Act, the content of the bylaws was adapted to reflect the text of this new legislation.

- Royal Decree-Act13/2010, of 3 December, on fiscal, labour and liberalisation measures to promote investment and job creation: this legal provision introduces the possibility of announcing the General Shareholder's Meeting on the company website (rather than in provincial newspapers).

- Act 2/2011, of 4 March, on Sustainable Economy: among other things this amends the Securities Market Act (introducing a new Article 61c), which includes the obligation to publish an Annual Report on Directors' Remuneration, which is to be disseminated and put to the vote, for consultation purposes, in the Ordinary General Shareholders' Meeting.

→ 4. Significant agreements signed by the company and that come into force, are modified or are terminated in the case of a change in control of the company resulting from a public acquisition offer and the effects thereof.

The NH Hoteles group has agreements signed with the partners of Residencial Marlín S.L. and Los Alcornoques de Sotogrande, S.L. that, given that the personal characteristics of the partners are essential for smooth running of projects involving these companies, establish that any change in effective control, either in the partners or in their respective parent companies, will result in a procedure enabling the other partner to leave the company with the right to have his or her shareholdings refunded and be compensated for any damages caused.

The €650 million syndicated loan signed by group company NH Finance, S.A., as borrower, and a syndicate of banks on 2 August 2007 contains a clause establishing its early maturity in any circumstances giving rise to a change in control of the company NH Hoteles, S.A.

In addition, the NH Hoteles Group has been granted loans and credits with a joint limit of €35 million containing a clause establishing their early maturity in the event of circumstances that give rise to a change in control of the company NH Hoteles, S.A.

Hotel management contracts have been signed by Group subsidiaries in which the owner (or landlord) of the hotels may exercise the right to terminate these contracts in the case of a change in control of NH Hoteles S.A., understood as any situation in which one or more people acting together control at least 50.01% of the voting rights. Should such right be exercised, the owner of the hotels must pay the managing company sums that will vary depending on the time at which it is exercised, as compensation for the impact of the contract being terminated. For example, the management contracts signed between Hoteles Hesperia, S.A. (which is 99% owned by NH Hoteles España, S.L.) and the respective owners of the hotel establishments in question state that, should there be any change in the control of NH Hoteles, S.A., the owner could choose to terminate the management contract, being required to pay Hoteles Hesperia, S.A. an amount linked to its annual average income, as stipulated in the contracts.

Lastly, Article 9 the company bylaws of Coperama Servicios a la Hostelería, S.L. states that the partners shall have a preferential share acquisition right if there is any change in the control of the company that holds the shares and the new partner is a competitor of the other partners. For these purposes, control shall be understood to have changed if a different third party directly or indirectly holds more than 50% of the company's share capital or voting rights. The partner having changed their interest must notify the other partners of this fact and offer them the chance to acquire his or her shares at a reasonable price.

→ 5. The agreements between the company and its directors and managers or employees relating to compensation if they resign or are unfairly dismissed, or if the employment relationship between them comes to an end as the result of a public acquisition offer.

The Company has agreed to set compensation for the CEO and four employees at an amount above that which could in fact apply to them according to the terms of the Workers' Statute or Royal Decree 1382/1985, of 1 August, which governs the special employment relationship for senior executives in cases of unfair dismissal and changes of control.

→ 6. Description of the main features of the internal risk control and management systems relating to the financial reporting process.

⊕ 1. The company's control environment

1.1. Bodies and/or functions responsible for: (i) the existence and maintenance of an appropriate and effective FICS; (ii) its implementation; (iii) its supervision

The Financial Department is responsible for establishing the design, implementation and overall monitoring of the Group's Internal Financial Information Control System. This responsibility requires it to maintain the necessary control structure and ensure that it functions effectively and continuously. The objective of this Internal Control System is to provide the entity with a reasonable level of security with regard to the reliability of the financial information generated.

The entity's Board of Directors is responsible for overseeing this control structure, in line with the provisions of Article 5 of the Regulation of the Board of Directors.

In order to carry out this previously-described oversight function, the Board of Directors turns to the Audit and Control Committee, which is obliged, through its internal auditing function, to implement measures and action plans to ensure that this oversight function is properly fulfilled, as described in Article 25 of the Regulation of the Board of Directors.

1.2. Existence of the following elements, especially in relation to the financial information generation process:

1.2.1. Departments and/or mechanisms assigned: (i) to design and oversee the organisational structure; (ii) to clearly define areas of responsibility and authority, with a suitable distribution of tasks and functions; and (iii) the existence of sufficient procedures for these to be properly disseminated within the entity

Definition and reviewing of the Group's organisational structure is the responsibility of the Management Committee. Any significant changes in the organisational chart are approved by the Board of Directors after being submitted by the Appointments and Remuneration Committee. The organisational chart is available for all employees to consult on the Group's corporate intranet.

The lines of both hierarchical and operational responsibility are duly communicated to all the Group's employees. Internal Group communication channels are used to do this, some of the most important of which are the intranet, management meetings and the notice boards in place in each hotel.

In order to fulfil the objectives and responsibilities relating to maintenance and supervision of the Financial Information Control process, specific functions have been defined within the organisational structure, and these apply to those responsible for each process involved with Financial Information. The objectives of these functions are to ensure compliance with the implemented controls, analyse how they function, and provide information about any changes or incidents that may occur.

This structure includes, from the lowest to the highest levels of responsibility, the supervisors of each process defined within the control area, the managers of each business unit and the managers of each corporate area directly related with Internal Financial Information Control System processes. The Financial Department receives this information from the different managers, and it is also responsible for ensuring the proper functioning of this internal control system.

1.2.2. Code of Conduct, approval body, level of dissemination and instruction, body responsible for analysing non-compliance and for proposing corrective actions and penalties

The Board of Directors of NH Hoteles, S.A. is responsible for approving the Code of Conduct. This document applies to all NH group employees, and applies not only to employees and members of the Board of Directors, but also, in certain cases, to its clients and suppliers.

On 24 May 2011, the Board of Directors approved a new Code of Conduct, which has replaced the previous document that was approved in 2003.

The Code of Conduct has been provided both offline and online to all the Group's employees along with additional training material ("Practical Guide For Employees", "Frequently-Asked Questions"), and these documents are permanently available for employees to consult on the Company intranet. A procedure has been put in place to send the new Code of Conduct to each employee with an individual email address and ask them to sign it the signed document is them saved in a database maintained by the Human Resources Department. Periodic communication campaigns have been carried out aimed at all other employees.

An action plan is in place to provide employees with online courses designed to ensure they have sufficient knowledge of the Code of Conduct.

Any modification of the Code of Conduct must be previously approved by the Board of Directors, and employees and any other people affected must be notified.

The Code of Conduct contains the following points specifically relating to financial information and the recording of transactions:

- Section 3.2.4 c) states that "NH Hoteles shall ensure that all records of financial and accounting activity are prepared in an accurate and reliable manner, cooperating with and facilitating the work of the internal audit, inspection and intervention units and other internal control units, as well as that of external auditors and competent authorities, in all cases collaborating with the Justice department".

- Section 3.2.7 a) expressly states that "the Group acts on the basis of the principle of transparency of information, understood as the commitment to submit reliable information, both financial and of any other kind, to the markets. This means that the company's economic-financial information, both internal and external, must faithfully reflect its true economic, financial and asset-related situation, in line with generally-accepted accounting principles".

The same section stresses that "those who have the requirement to do so must provide financial information that is truthful, complete and understandable. In no case shall they knowingly provide information that is incorrect, inaccurate, or imprecise, with the following conduct being clearly and specifically prohibited:

- to keep records of transactions recorded on media other than normal accounting records that are not entered into official books;

- to record non-existent expenditure, income, assets or liabilities;

- to make entries in accounting books, incorrectly indicating their object;

- to use false documents;

- to deliberately destroy documents before the end of the legally-required time limit for retaining them ".

1.2.3. Defined complaints channel

A procedure has been established for lodging complaints about breaches of the principles enshrined in the Code of Conduct, and this enables employees to provide confidential information about any non-compliance with the principles set out in the Code of Conduct.

The procedure for reporting and dealing with possible non-compliance and reports relating to the Code of Conduct is administered by the manager of the Group's Internal Audit Department, who acts independently, giving an account of the most significant incidents over the course the year to the Company's Audit and Control Committee.

Complaints should preferably be submitted electronically, using the channel expressly provided for this purpose on the NH Hoteles intranet (codeofconduct@nh-hotels.com). Complaints sent in this way will reach the manager of the Internal Audit Department, thereby guaranteeing their confidentiality. Complaints can also be sent by post, addressed to the Internal Audit Manager of NH Hoteles, S.A., at the following address: Santa Engracia 120, 28003 Madrid, Spain.

The Manager of the Internal Audit Department is responsible for analysing the information provided, requesting the corresponding evidence and reports and, where relevant, presenting the files with all the information available to the Chairman of the Board of Directors of NH Hoteles, S.A. All relevant complaints are presented to the Chairman of the Audit and Control Committee.

Since the new Code of Conduct came into force, no relevant complaint of any kind that could lead to any measures being taken has been received.

1.2.4. Training and periodic skills-updating programmes on, at least, accounting standards, audit, internal control and risk management for staff involved in preparing and reviewing financial information and carrying out FICS evaluations.

The Company has put in place two action channels relating to the Internal Financial Information Control System:

- Initial training programmes on the objectives and characteristics of the Internal Financial Information Control System: these programmes are aimed at members of the financial information control structure, process managers and business unit managers.

  The objective is to report on the most relevant aspects of the financial information generation process, specifically, the Company's operating systems, comprising the control system, the people responsible for overseeing the controls defined for each process, notification of improvements or modifications, understanding of the supervision system in place, etc. These training programmes were carried out at the start of the evaluation project and will take place once a year.

- Continuity programmes: the objective of these programmes is to maintain the efficiency and efficacy of the control system through periodic training throughout the entire control structure. These programmes will be decided on a one-off basis according to the needs reported by the departments involved

  Meanwhile, the Financial Department, the staff of which are the most heavily involved in producing the Financial Information, have an annual training plan that is outsourced to external consultants, covering significant areas within their area of activity considered to be of particular relevance to them in carrying out their functions: accounting regulations, consolidation regulations and specific financial information applicable to the sector.

2. Main characteristics of the risk identification process

Risks relating to the Financial Information System are determined and evaluated within the general risk map produced by the Company, which is periodically reviewed and updated.

The risks defined within the Company's risk map are classified according to COSO criteria, including the following categories:

- Strategic risks: those caused by the uncertainty associated with changes in the competitive, company or industry environment.

- Financial risks: all risks caused by the uncertainty associated with fluctuations in interest rates, foreign exchange rates or difficulties and variations in the conditions for accessing financing.

- Unforeseen risks: in general, these relate to damage to the company's own assets and liabilities arising from damages caused to third parties and damages caused by natural hazards.

- Operational risks: these include risks associated with uncertainty in processes, operations and staff or due to inadequate internal systems.

The Company currently has a risk management process in place, which is properly documented and contained on a company IT application.

In designing the risk management process associated with generating Financial Information the Company has focused on the following objectives:

- Definition of the Financial Information Control System processes and subprocesses.

- Determination of the relevant risk categories and types for each of the different Internal Financial Information Control System processes defined in the point above.

Corresponding subcategories have been defined for each of these risk categories.

The Accounting, Reporting and Internal Control subcategories are differentiated and defined within the section on the group's operational risks.

- Definition and analysis of controls for each specific risk and establishment of their degree of effectiveness.

  A risk matrix has been established for each of the subprocesses detailed above, in which the most relevant risks for each process are defined, along with the operational controls and their effectiveness in mitigating the risks that affect them.

- Determination and monitoring of the scope of the Internal Financial Information Control System. Definition of its scope involves determining the relevance of each of the Group's Business Units, and whether they should be included within the Financial Information Control System, as well as identifying which significant operational and support processes should be analysed within each Business Unit. Both quantitative and qualitative criteria have been taken into account in determining this scope.

The determination and review of this scope, as previously described, are fully documented within the Financial Information Control System, and must be overseen by the Group's Financial Department. It is approved annually by the Audit and Control Committee.

This process covers all the basic objectives of financial information: existence and occurrence; completeness; valuation; disclosure, breakdown and comparability; rights and obligations.

Aside from the previously-described process, the Financial Department carries out a monthly accounting consolidation process.

This process starts with the consolidated accounts being received from the various Business Units each month. These are checked and approved to ensure they comply with the established principles of control, co-management and significant influence.

The last phase of this process includes verification of the standardisation adjustments affecting the income statement (monthly) and the balance sheet (quarterly).

This means all the Business Units share a documentation and consolidation system that is approved by the Financial Department, which reviews it once a year.

It is important to stress that the Company has a single Accounts Plan for the entire Group, as well as shared management IT tools in all the Business Units.

3. Main features of the Control Activities

The Internal Financial Information Control System defined within the group's control structure involves detailed work to identify not just the group companies to which it should apply, but also the map of the most significant processes within each of them. The most relevant processes include reporting, accounting closure, consolidation, opinions and estimates.

In order to ensure the reliability of the Financial Information, accounting errors that may arise from the following control objectives are always borne in mind:

• **Completeness:** balances or transactions that should be recorded but are not.

• **Transaction cut-off:** those booked in a period other than when they were accrued.

• **Accuracy:** transactions recorded with errors (amounts, conditions).

• **Occurrence/ Existence:** transactions that have taken place within the period.

• **Valuation/Allocation:** record of transactions involving incorrect sums due to inadequate valuation calculations.

• **Presentation/ Classification:** classification errors in the various entries of the financial statements.

The controls and procedures defined within the Internal Financial Information Control System support the relevant processes to ensure the proper functioning of the information systems, such as secure access, monitoring of changes in the systems, operational continuity and separation of functions.

Supervision of the management of activities outsourced to third parties, as well as any possibly relevant evaluation, calculation or valuation tasks commissioned from independent experts are also covered by this control structure.

The Group's Financial Department sends the Management Report to the Board of Directors once a month, to be reviewed. This report includes all the most relevant financial and management information, the income statement and the main economic indicators and ratios. A balance sheet is also submitted each quarter

The Board of Directors periodically requests an analysis of specific issues, as well as the details of particular financial transactions that, because of their importance, need to be studied in greater depth.

The Chairman of the Audit and Control Committee periodically reviews this financial information during its meetings and, as required, requests the attendance of either external and/ or internal auditors.

4. Information and Communication

The Company's Organisation and Systems Department is responsible for unifying, analysing and publishing all the standards and procedures that apply to the Company, particularly operational, administrative (including accounting), quality and regulatory rules. It is the responsibility of each of the departments (financial, operations, purchases, commercial, etc.) to issue and oversee regulations that relate to their area and form an integral part of the Company's internal control.

Although the functions relating to accounting criteria are the responsibility of the Organisation and Systems Department, the Financial Department is responsible for defining and applying the accounting criteria, with this department being in charge of ensuring these are updated and approved.

To do this, the Company currently has a common Accounts Plan, an Accounting Regulations Manual and a Consolidation Manual, which apply in all the countries in which the Group operates and are updated at least once a year. This body of regulations contains the requirements of international financial reporting standards (IFRS), which are the accounting regulations used within the Group.

Interpretation and application of the financial reporting regulations is the responsibility of the Group's Financial Department, which updates and checks any possible new regulatory developments relating to the generation of financial information twice a year.

5. Supervision of the system

The Audit and Control Committee is responsible for supervising internal control, which it does by means of the Internal Audit Department, which attends the sessions of the Audit and Control Committee whenever the committee feels this to be necessary.

The Audit and Control Committee regularly carries out the following supervisory and control functions, as specified in Article 25 b) of the Regulation of the Board of Directors:

- Supervision of internal control and risk management, evaluating and supervising the effectiveness of the internal control and risk management systems, including those affecting the reliability of financial reporting.

- Supervision of regulated financial information, analysing the process whereby the regulated financial information is produced and presented.

- Supervision of audit activities.

This means that, with regard to the foregoing, the Groups' Financial Information Control System makes it possible to:

- Provide management and the Board of Directors with sufficient information to determine whether the internal financial information control system is functioning correctly.

- Identify and correctly control defects before they can have any significant impact on the quality of the financial information.

- Maintain proper control operations, aimed at prioritising risks and maintaining constant supervision by identifying the controls for the most significant risks, identifying key controls, and lastly, checking that these controls are sufficient.

The Internal Audit Department evaluates this type of risk continuously throughout the year. The actions taken by this Department are defined in its Annual Plan, which includes verification and evaluation of the operational controls implemented in the key business processes, especially those relating to the hotel business.

This supervision of the Internal Financial Information Control System ends with the most significant results and shortfalls being reported to those in charge, their managers and the Audit and Control Committee, and remedies are proposed in an action plan.

As part of the process of reviewing and reporting the results, the internal audit team meets with the centre managers upon completion of each review task and on a quarterly basis with the managers of the Business Units. Incidents are discussed during these meetings and future action plans defined

The Audit Plan is approved annually by the Audit and Control Committee, and applies to all the Group's business units.

The Internal Audit team has a presence in the Group's main business units, some of the most significant of which are Spain, Germany, Benelux and Italy, and its ongoing work helps to guarantee the effectiveness of the oversight tasks needed to ensure proper application of the Company's internal control system.

CONSOLIDATED
BALANCE SHEETS

NH HOTELES, S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR 2011 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 2011 AND 31 DECEMBER 2010
(Thousands Euros)

	Note	31.12.11	31.12.10
NON-CURRENT ASSETS:			
Tangible fixed assets	8	2,108,812	2,199,307
Goodwill	6	119,968	120,408
Intangible assets	7	107,575	115,925
Real estate investments	9	6,775	7,864
Investments valued through the equity method	10	73,727	69,992
Non-current financial investments		108,690	177,051
Loans and accounts receivable not available for trading	11.1	96,184	155,607
Other non-current financial investments	11.2	12,506	21,444
Deferred tax assets	21	134,936	119,574
Other non-current assets		1,328	1,580
Total non-current assets		**2,661,811**	**2,811,701**

	Note	31.12.11	31.12.10
CURRENT ASSETS:			
Inventories	12	116,228	118,973
Trade accounts receivable	13	121,191	127,394
Non-trade accounts receivable		73,032	75,779
Public Administration accounts receivable	21	43,963	47,408
Other non-trade receivables		29,069	28,371
Current financial investments		-	94
Cash and cash equivalents	14	91,143	173,117
Other current assets		11,365	13,839
Total current assets		**412,959**	**509,196**
TOTAL ASSETS		**3,074,770**	**3,320,897**

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 2011 AND 31 DECEMBER 2010
(Thousands Euros)

	Note	31.12.11	31.12.10
SHAREHOLDERS' EQUITY:			
Share capital	15.1	493,235	493,235
Parent Company's Reserves	15.2	577,806	510,434
Reserves in fully consolidated companies	15.3	170,744	276,673
Reserves in companies consolidated through proportional consolidation	15.3	(1,526)	2,277
Reserves in companies consolidated through the equity method	15.3	(11,624)	(10,174)
Equity valuation adjustments	15.4	(376)	(6,577)
Currency translation differences	15.3	(83,429)	(59,540)
Treasury shares	15.5	(11,914)	(370)
Consolidated Profit/(Loss) for the year		6,231	(41,296)
Shareholders' equity attributable to shareholders of the Parent Company		**1,139,147**	**1,164,662**
Minority Interests	15.6	204,650	204,155
Total shareholders' equity		**1,343,797**	**1,368,817**

	Note	31.12.11	31.12.10
NON-CURRENT LIABILITIES:			
Debts with credit institutions	16	225,923	663,793
Lease creditors		565	420
Other non-current liabilities	17	85,048	97,344
Provisions for contingencies and expenses	20	30,846	40,106
Deferred tax liabilities	21	246,204	257,155
Total non-current liabilities		**588,586**	**1,058,818**

	Note	31.12.11	31.12.10
CURRENT LIABILITIES:			
Debts with credit institutions	16	831,122	507,966
Lease creditors		416	398
Trade creditors and other accounts payable	22	235,678	226,880
Public Administration creditors	21	35,672	30,633
Provisions for contingencies and expenses	20	1,241	5,129
Other current liabilities	24	38,258	122,256
Total current liabilities		**1,142,387**	**893,262**

TOTAL LIABILITIES AND EQUITY		**3,074,770**	**3,320,897**

Notes 1 to 32 set forth in the Consolidated Annual Report and Annexes I/III form an integral part of the Consolidated Balance Sheet at 31 December 2011. The Consolidated Balance Sheet at 31 December 2010 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 PROFIT AND LOSS STATEMENTS FOR 2011 AND 2010
(Thousands Euros)

	Note	31.12.11	31.12.10
Net turnover	26.1	1,330,986	1,281,940
Other operating income	26.1	38,869	16,714
Net gain (loss) on disposal of non-current assets	7, 8 y 26.1	33,905	2,142
Procurements	12	(78,078)	(83,559)
Personnel expenses	26.3	(441,452)	(425,757)
Depreciation allowance	7, 8 y 9	(119,887)	(123,683)
Net losses from asset impairment	7, 8 y 9	(7,369)	(2,240)
Other operating expenses	26.4	(698,862)	(656,402)
Profit (Loss) from entities valued through the equity method	10	(3,985)	(1,450)
Financial income	26.2	5,720	5,111
Change in fair value of financial instruments	26.6	(6,825)	649
Financial expenses	26.6	(68,646)	(61,902)
Net exchange rate differences (Income/(Expenses))		12	(21,941)
Gain (Loss) on disposal of financial investments		19,913	17,825
PRETAX PROFIT / LOSS FROM CONTINUING OPERATIONS		**4,301**	**(52,553)**
Company Tax	21	6,200	5,109
PROFIT / LOSS FOR THE FINANCIAL YEAR		**10,501**	**(47,444)**
Currency translation differences		(25,272)	18,772
Due to valuation of financial instruments		6,201	3,354
Income and expenses directly attributed to shareholders' equity		**(19,071)**	**22,126**
TOTAL COMPREHENSIVE LOSS		**(8,570)**	**(25,318)**
Year's profit / loss attributable to:			
Shareholders of the Parent Company		6,231	(41,296)
Minority Interests		4,270	(6,148)
Comprehensive loss attributable to:			
Shareholders of the Parent Company		(11,457)	(21,708)
Minority Interests	15.6	2,887	(3,610)
Profit / Loss per share in Euros (basic and diluted)	**5**	**0.03**	**(0.17)**

Notes 1 to 32 set forth in the Consolidated Annual Report and Annexes I/III form an integral part of the Consolidated Comprehensive Profit and Loss Statement for 2011. The Consolidated Comprehensive Profit and Loss Statement for 2010 is presented solely for the purposes of comparison.

CONSOLIDATED STATEMENTS
OF CHANGES IN 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 2011 AND 2010

(Thousands Euros)

	Share capital	Share premium	Parent Company's Reserves		Reserves in companies consolidated by			Currency translation differences	Equity valuation adjustments	Treasury Shares	Results attributable to Parent Company	Total	Minority Interests	Total Shareholders' Equity
			Legal reserve	Voluntary Reserves	Full consolidation	Proportional consolidation	the equity method							
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**
Net profit (loss) for 2010	-	-	-	-	-	-	-	-	-	-	(41,296)	(41,296)	(6,148)	(47,444)
Currency translation differences	-	-	-	-	-	-	-	16,234	-	-	-	16,234	2,538	18,772
Cash flow hedges	-	-	-	-	-	-	-	-	3,354	-	-	3,354	-	3,354
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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**
Net profit (loss) for 2011	-	-	-	-	-	-	-	-	-	-	6,231	6,231	4,270	10,501
Currency translation differences	-	-	-	-	-	-	-	(23,889)		-	-	(23,889)	(1,383)	(25,272)
Cash flow hedges	-	-	-	-	-	-	-	-	6,201	-	-	6,201	-	6,201
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recognised income and expenses for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(23,889)**	**6,201**	**-**	**6,231**	**(11,457)**	**2,887**	**(8,570)**
Increase of capital	-	-	-	-	-	-	-	-	-	-	-	-	1,295	1,295
Distribution of Profit (Loss) 2010:														
- To Reserves	-	-	6,500	58,502	(101,045)	(3,803)	(1,450)	-	-	-	41,296	-	-	-
- To Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in treasury shares	-	-	-	-	-	-	-	-	-	(11,544)	-	(11,544)	-	(11,544)
Acquisition of minority interests	-	-	-	-	124	-	-	-	-	-	-	124	(124)	-
Dividend shareout	-	-	-	-	-	-	-	-	-	-	-	-	(2,982)	(2,982)
Other movements	-	-	-	2,370	(5,008)	-	-	-	-	-	-	(2,638)	(581)	(3,219)
Balances at 31 December 2011	**493,235**	**413,747**	**43,121**	**120,938**	**170,744**	**(1,526)**	**(11,624)**	**(83,429)**	**(376)**	**(11,914)**	**6,231**	**1,139,147**	**204,650**	**1,343,797**

Notes 1 to 32 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 2011. The Consolidated Statement of Changes in Shareholders' Equity for the year ending on 31 December 2010 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 2011 AND 2010 (Thousands Euros)			
	Note	FINANCIAL YEAR 2011	FINANCIAL YEAR 2010
1. OPERATING ACTIVITIES			
Consolidated profit (loss) before tax		4,301	(52,553)
Adjustments to profit (loss):			
Depreciation of tangible and intangible assets (+)	7, 8 and 9	119,887	123,683
Losses from asset impairment (net) (+/-)	7,8 and 20	7,369	2,240
Provision allowances (net) (+/-)		(3,564)	-
Gains/Losses from the sale of tangible and intangible assets (+/-)		(33,905)	(2,142)
Gains/Losses from investments valued through the equity method (+/-)	10	3,985	1,450
Financial income (-)		(5,720)	(5,111)
Financial expenses and changes in fair value of financial instruments (+)		75,471	61,253
Net exchange rate differences (Income/(Expenses))		(12)	21,941
Other non-monetary items (+/-)		(31,735)	4,140
Adjusted result		**136,077**	**154,901**
Net change in assets / liabilities:			
(Increase)/Reduction in inventories		2,605	2,914
(Increase)/Reduction in trade and other receivables		8,031	(29,325)
(Increase)/Reduction in other current assets		2,227	1,325
Increase/(Reduction) in trade creditors		(16,749)	(2,327)
Increase/(Reduction) in other current liabilities		13,007	(7,538)
Increase/(Reduction) in provisions for contingencies and expenses		(3,839)	(15,569)
Tax on profits paid		(8,745)	(4,311)
Total net cash flow from operating activities (I)		**132,614**	**100,070**
2. INVESTMENT ACTIVITIES			
Financial income		5,692	4,818
Investments (-):			
Group companies, joint ventures and associated companies		(6,032)	(7)
Tangible and intangible assets and real estate investments		(67,556)	(70,659)
Non-current financial investments		(73)	(18,101)
Financial investments and other current financial assets		-	(94)
Other Assets		-	(299)
		(73,661)	(89,160)
Disposals (+):			
Group companies, joint ventures and associated companies		89,929	92,485
Tangible and intangible assets and real estate investments		80,425	33,488
Non-current financial investments		728	-
Financial investments and other current financial assets		-	(7,776)
Other Assets		252	-
		171,334	**118,197**
Total net cash flow from investment activities (II)		**103,365**	**33,855**
3. FINANCING ACTIVITIES			
Dividends paid out (-)		-	-
Interest paid for debts (-)		(68,469)	(61,406)
Changes in (+/-):			
Equity instruments			
- Capital		-	-
- Reserves		(3,714)	4,700
- Minority interests		(2,975)	(1,489)
Liability instruments:			
Debts with credit institutions (+)		35,355	(123,511)
Debts with credit institutions ()		(270,412)	-
- Leases		-	(222)
- Bonds and other tradable securities		-	-
Other noncurrent liabilities (+/)		(5,722)	(2,190)
Total net cash flow from investment activities (III)		**(315,937)**	**(184,118)**
4. GROSS INCREASE/ REDUCTION OF CASH OR EQUIVALENT ASSETS (I+II+III)		**(79,958)**	**(50,193)**
5. Effect of changes in exchange rates on cash and equivalent assets (IV)		**2,016**	**(1,022)**
6. Effect of changes in scope of consolidation (V)		**-**	**703**
7. NET INCREASE/ REDUCTION OF CASH OR EQUIVALENT ASSETS (I+II+III)		**(81,974)**	**(48,468)**
8. Cash or equivalent assets at beginning of the year		**173,117**	**221,585**
9. Cash or equivalent assets at the end of the year (7+8)		**91,143**	**173,117**

Notes 1 to 32 set forth in the Consolidated Annual Report and Annexes I/III form an integral part of the Consolidated Cash Flow Statement for 2011. The Consolidated Cash Flow Statement for 2010 is presented solely for the purposes of comparison.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

NH HOTELES, S.A. AND SUBSIDIARIES
REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2011

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 Group broke into different European markets, such as the Italian and Rumanian markets, as well as into new cities such as London, through organic growth. 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 NH Hoteles Group (hereinafter the "Group" – see Annexes I, II and III).

At the end of 2011, NH Hoteles was operating hotels in twenty five countries, with 397 hotels and 59,052 rooms, of which around 82% 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 annual accounts for 2011 were drawn up by the Directors of NH Hoteles, S.A. at the Board meeting held on 29 March 2012 in accordance with the legal 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 the Group's equity and financial situation at 31 December 2011 and of the results of Group's transactions, changes in equity and cash flows during the financial year ending on said date.

The process of refinancing NH Hoteles Group came to an end on 20 April 2012 (see Note 30). This refinancing substantially modifies the Group's financing structure. The Parent Company's Directors therefore took the decision to reformulate its annual accounts for 2011 at the Board of Directors meeting held on 25 April 2012.

The consolidated financial statements of the Group and the entities that comprise it corresponding to 2011 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 2011 may differ from those used by some of its component companies, the necessary adjustments and reclassifications have been made to standardise 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 2011 and apply to the Group's consolidated financial statements:

- **AMENDMENT TO IAS 32 - FINANCIAL INSTRUMENTS - CLASSIFICATION OF SHARE RIGHTS**

This amendment addresses the classification of issued share acquisition rights (rights, options or warrants) denominated in a foreign currency. In accordance with this amendment, when such rights have been given to all shareholders, enabling them to acquire a fixed number of shares for a set amount, and other specific requirements laid down by the standard are met, they are to be dealt with as equity instruments, irrespective of the currency of that set amount.

This amendment has not involved any change to the Group's consolidated annual accounts.

- **REVIEW OF IAS 24 - RELATED PARTY DISCLOSURES**

This review of IAS 24 introduces a partial exemption for some disclosures when the relationship is due to being subsidiary entities or government related entities (or equivalent governmental institution) and the scope which applies to the disclosures is reviewed, given the addition in the definition of "related party" of some relationships between jointly controlled companies and associates of the same investor, which were not explicit in the standard previously.

The entry into force of this standard has not involved any change in the definition of the Group's related parties.

- **AMENDMENT OF IFRIC 14 - PREPAYMENTS OF MINIMUM FUNDING REQUIREMENTS**

The amendment of the interpretation introduces the recognition of assets related to pension plan actuarial surpluses as an asset, which only applies in specific cases where the entity is subject to a minimum funding obligation of the plan and is entitled to use said asset to meet that obligation. In such cases, said surplus can be dealt with as an asset.

The Group did not book any minimum funding requirement prepayments in 2011.

- **AMENDMENT OF IFRIC 19 - EXTINGUISHING FINANCIAL LIABILITIES WITH EQUITY INSTRUMENTS**

This interpretation addresses the accounting treatment from a debtor's standpoint of a financial liability's settlement, in full or in part, through the issuance of equity instruments to its creditor. The interpretation does not apply to this kind of transactions when the counterparties in question are shareholders or related parties acting as such, or when the debt for equity instruments swap was already set forth in the terms of the original contract. The issuance of equity instruments shall be measured in all cases by their fair value on the date the liability is settled, and any difference between this value and the liability's book value shall be recognised in profit.

This interpretation has not involved any change in the Group's accounting policies because accounting standards that are in keeping with this new IRFIC have been applied to similar transactions in the past. In any case, the Group has not made any transactions of this kind this year.

- **IFRS IMPROVEMENTS PUBLISHED IN MAY 2010**

The annual improvements published in May 2010 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 and interpretations does not significantly affect the consolidated annual accounts.

2.1.2. Standards and interpretations issued and not in force

The most significant standards and interpretations published by the IASB on the date these consolidated annual accounts were drawn up but had not yet entered into force either because the date of their entry into force was subsequent to the date of these consolidated annual accounts or because they had not been endorsed by the European Union, were the following:

Standards, amendments and interpretations	Contents	Application mandatory for financial years starting from
Approved for use in the European Union		
Amendment to IFRS 7 - Financial Instruments: Breakdown Transfers of financial asset (published in October of 2010)	Broadens and reinforces the breakdown of financial asset transfers.	Annual periods starting from 1 July 2011
Yet to be approved for use in the European Union		
IFRS 9 - Financial Instruments: Classification and valuation (published in November 2009 and October 2010)	Replaces the classification and valuation requirements set by IAS 39 for financial assets and liabilities and account write offs	Annual periods starting from 1 January 2015*
Amendment to IAS 12 - Taxes on Income - deferred taxes on real estate properties (published in December 2010)	On the calculation of deferred taxes on real estate properties according to the IAS 40 fair value model	Annual periods starting from 1 January 2012
IFRS 10 - Consolidated Financial Statements (published in May 2011)	Replaces the current consolidation requirements set by IAS 27	Annual periods starting from 1 January 2013
IFRS 11 - Joint Arrangements (published in May 2011)	Replaces the current IAS 31 on joint ventures	Annual periods starting from 1 January 2013
IFRS 12 - Disclosure of Interests in Other Entities (published in May 2011)	Single standard which sets forth the disclosure of interests in subsidiaries, associates, joint ventures and unconsolidated entities.	Annual periods starting from 1 January 2013
IFRS 13 - Fair Value Measurement (published in May 2011)	Sets forth the framework for valuation at fair value	Annual periods starting from 1 January 2013
IAS 27 (Reviewed) - Separate Financial Statements (published in May of 2011)	The standard is reviewed, given that the issuance of IFRS 10 now only includes the separate financial statements of an entity.	Annual periods starting from 1 January 2013
IAS 28 (Reviewed) - Investments in Associates and Joint Ventures (published in May 2011)	Reviewed in parallel with the issuance of IFRS 11. Joint arrangements.	Annual periods starting from 1 January 2013
Amendment of IAS 1 - Presentation of Other Comprehensive Income (published in June of 2011)	Minor amendment on the presentation of the other comprehensive income	Annual periods starting from 1 January 2012
Amendment of IAS 19 - Employee Benefits (published in June of 2011)	The amendments basically affect defined benefit plans, given that one of the essential changes resides in eliminating the "fluctuation band".	Annual periods starting from 1 January 2013
Amendment of IFRS 9 and IFRS 7 - Effective Date and Transition Disclosures (published in December 2011)	Deferral of the effective date for IFRS 9 and amendments to transition requirements and disclosures.	N/A
Amendment of IAS 32 - Offsetting Financial Assets and Liabilities (published in December 2011)	Additional clarifications on the rules for offsetting financial assets and liabilities in IAS 32 and introduction of new disclosures in IFRS 7	Annual periods starting from 1 January 2014
Amendment of IFRS 7 - Offsetting Financial Assets and Liabilities (published in December 2011)		Annual periods starting from 1 January 2013
IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine (published in October 2011)	The International Financial Reporting Interpretations Committee addresses the accounting treatment of the costs of stripping waste materials in surface mines	Annual periods starting from 1 January 2013

** The original effective date was 1 January 2013. On 16 December 2011, the IASB approved to defer that date to 1 January 2015.*

The entry into force of these standards will involve significant impacts in the following cases:

• IFRS 9 - FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT

IFRS 9 will in the future replace the part of the current IAS 39 addressing classification and measurement. There are significant differences with the law in effect regarding to the current standard on financial assets, including, among others, the approval of a new classification model based on two categories, amortised cost and fair value, the disappearance of the current classifications "Held to maturity investments" and "Financial assets available for sale", impairment analyses only applied to investments at amortised cost, and the no separation of derivatives involved in financial asset contracts.

Regarding financial liabilities, the classification categories set out by IFRS 9 are similar to those currently applied in IAS 39. There will therefore be no significant differences, apart from the requirement to book changes in fair value connected with credit risks as an equity component in the case of financial liabilities included under the fair value option.

So far, the future impact of adoption of this standard has not been analysed.

• AMENDMENT TO IAS 12 - TAXES ON INCOME DEFERRED REAL ESTATE TAXES

The amendment introduces an exception to the general principles set forth in IAS 12, which affects deferred taxes on real estate properties valued in accordance with the fair value model of IAS 40 - Investment Property. In order to calculate deferred taxes, the assumption is introduced in these cases that the book value of these assets will be fully recovered through sale.

This amendment will probably have no impact on the Group. A preliminary analysis indicates that it will not lead to any changes in the deferred real estate taxes currently booked in the balance sheet.

• IFRS 10 - CONSOLIDATED FINANCIAL STATEMENTS, IFRS 11 JOINT ARRANGEMENTS, IFRS 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES, IAS 27 (REVIEWED) SEPARATE FINANCIAL STATEMENTS AND IAS 28 (REVIEWED) INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

IFRS 10 changes the currently existing definition of control. The new definition of control consists of three elements which have to be met: power over the investee, exposure or the right to variable returns from the investment and the ability to affect those returns through power over the investee.

The Group is currently analysing how this new definition of control will impact its consolidated companies and, at today's date, it would not lead to the inclusion of any additional entity.

IFRS 11 Joint Arrangements will replace IAS 31, which is currently in force. The fundamental change which IFRS 11 addresses with regard to the current standard is the elimination of the proportional consolidation option for jointly controlled entities, which would be consolidated by the equity method.

This new standard will have an effect on the Group's consolidated annual accounts, as the proportional consolidation option has been used to consolidate joint ventures in its financial statements (see Note 15.3 and Annex II). Thus, the impact of consolidation of joint ventures by the equity method instead of by proportional consolidation would involve a lower net turnover figure of 3,162,000 euros and lower operating costs of 5,852,000 euros, which have been calculated with reference to the current figures.

The amendments to IAS 27 and IAS 28 run parallel to the issuance of the new IFRS mentioned above.

In any case, no further changes other than the above will affect the Group.

Lastly, IFRS 12 is a disclosure standard which groups together all the accounting disclosure requirements on interests in other entities (be they subsidiaries, associates, joint ventures or other interests), including new disclosure requirements.

Its entry into force would therefore probably broaden the disclosures currently required by the Group on interests in other entities and other investment vehicles.

IFRS 13 Fair Value Measurement. This new standard was issued as the sole regulatory source to calculate the fair value of asset or liability elements which are valued in this way, as required by other standards. IFRS 13 changes the current definition of fair value and introduces new nuances to be taken into consideration. It also adds to the disclosures required on this issue.

The Group has analysed the potential impacts the new definition of fair value would have on the valuation of asset and liability elements. It will probably not give rise to significant changes regarding the assumptions, methods and calculations currently made.

Amendment of IAS 19 Employee Benefits. The change brought about by this amendment will essentially affect the accounting treatment of defined benefit plans, as it eliminates the "fluctuation band" that currently makes it possible to choose to defer a certain proportion of actuarial gains and losses. All actuarial gains and losses will be immediately recognised in other comprehensive income once the amendment enters into force. It will also involve changes in the presentation of cost components in the comprehensive profit and loss statement, which will be grouped together and presented in a different way.

So far, the future impact of adoption of this standard has not been analysed.

2.2. Information on 2010

As required by IAS 1, the information from 2010 contained in this consolidated annual report is presented solely for comparison with the information from 2011 and consequently does not in itself constitute the Group's consolidated annual accounts for 2010.

2.3. Currency of presentation

These consolidated financial statements are presented in euros. Any foreign currency transactions have been booked 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.
- Hypotheses used in the actuarial calculation of liabilities for pensions and other undertakings made to the workforce.
- Useful life of the tangible and intangible assets.
- Valuation of consolidation goodwill.
- Market value of specific assets.
- Estimation of onerous agreements.
- Calculation of provisions and evaluation of contingencies.

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.

As can be seen in the balance sheet, current liabilities considerably exceed current assets. As is described in Note 30, the Parent Company concluded the process of refinancing the Group's debt subsequent to year-end by adapting its repayment schedule to the generation of resources foreseen in its business plan.

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" item 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. Associate companies (See Annex II)

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.

2.5.3. Joint ventures (See Annex III)

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.

2.5.4. Foreign currency conversion

The following criteria have been different applied for converting into euros the different items 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" item 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 consolidation boundary

The most significant changes in the scope of consolidation during 2011 and 2010 that affect the comparison between financial years were the following:

A.1. CHANGES IN THE SCOPE OF CONSOLIDATION IN 2011

a.1.1. Incorporations

On 30 April 2011, the General Shareholders' Meeting of Donnafugata Resort S.r.l. resolved to reduce capital by 6,784,000 euros and charge it to prior years' losses, and to subsequently increase capital by approximately 6,294,000 euros. Both transactions were recorded in public instruments on 3 May 2011. Given that the remaining members did not participate in this increase of capital, the Parent Company subscribed all of it, thereby increasing its percentage interest from 58.82% to 78.00%.

a.1.2. Exits

The company Jolly Hotels France, S.A., the owner of a hotel in Paris, was sold in 2011 for 89 million euros. The capital gain booked for this transaction amounted to 19.94 million euros.

The resulting effect of the exit of the above mentioned company on the consolidated balance sheet at 31 December 2011 was as follows:

	Thousands Euros
Tangible fixed assets	84,550
Tax	(4,725)
Other long term debts	(14,941)
Working capital	(1,103)
Net assets disposed of	**63,781**
Consideration	(89,687)
Profit before minority interests	**(25,906)**
Minority interests	5,966
Consolidated profit	**(19,940)**

a.1.3. Others corporate transactions

The Group performed several corporate restructuring operations in 2011, such as:

- The contributions of 64.21% of NH Las Palmas, S.A.; 98.74% of Gran Círculo de Madrid, S.A.; and 50% of NH Domo of NH Hoteles, S.A. to NH Hoteles España, S.L.
- The takeover of Explotaciones Hoteleras Condor, S.L. by NH Hoteles España, S.L.
- NH Rallye, S.A sold 17.33% of its interest in LGH to NH Hoteles, S.A.
- The sale of interests in NH Hoteles España, S.L. by NH Rallye, S.A. (1.82%) and NH Central Reservation Office, S.L. (1.76) to NH Hoteles, S.A; and
- The merger of Lenguados Vivos, S.A. and Fast Good Peninsula Ibérica, S.A.

A.2. CHANGES IN THE SCOPE OF CONSOLIDATION IN 2010

a.2.1. Incorporations

The companies which were incorporated into the scope of consolidation in 2010, along with method of consolidation employed were the following:

Company	Consolidation method	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 consolidation boundary in the second half of 2010.

The breakdown of its assets and liabilities was 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**

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.2.2. 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 booked for this transaction amounted to 3 million euros.

On 10 May 2010, the companies Jolly Hotels St. Ermin's B.V. and Jolly Hotels UK Ltd. in the United Kingdom, owners of a hotel in London, were sold for 75 million euros. The loss booked 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 was as follows:

	Thousand 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**

3. DISTRIBUTION OF EARNINGS

At the Ordinary General Shareholders' Meeting, the Parent Company's directors will propose that the individual losses of NH Hoteles, S.A. be applied to the "Prior year's losses" account to be offset in future financial years. In accordance with Article 273.4 of the Revised Text of the Capital Companies Act, the directors will propose to allocate 2,088,000 euros as an unavailable reserve, as provided by such article, at the Ordinary General Shareholders' Meeting and charge it to freely available reserves, because the Company has not generated any profits this year .

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, are the following ones:

→ 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 booked 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.

→ 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 booked when it has been acquired for valuable consideration.

Any goodwill generated through the acquisition of associated companies is booked 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 booked 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 booked 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 an after 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 8.2% and 12%, depending on the different risks associated with each specific asset.

4.4. Intangible assets

Intangible assets are considered to be any specifically identifiable non-monetary assets which 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 have 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 asset in question.

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 has been caused by 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 an after tax discount 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 8.2% and 12%, 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 booked 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 booked 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 booked 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.

As regards valuation corrections made to trade and other accounts receivable in particular, the criterion used by the Group to calculate the corresponding valuation corrections, if any, generally consists of provisioning for any balances expired at more than 180 days.

4.7.2. Cash and cash equivalents

This item 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 booked at the amount received, net of any costs incurred in the transaction. They are subsequently valued at depreciated cost. Financial expenses are booked 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 booked 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 booked 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 booked in the equity item "Equity valuation adjustments" and not recognised as results until the losses or gains of the hedged element are booked 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 booked 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 booked separately as derivatives only when their risks and characteristics are not closely related to those of the important agreement 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 fair value of options, 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 booked 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 element 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 29,000 euros in 2011 (21,000 euros in 2010).

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 booked 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 dates at more than 12 months totalling 7,468,000 euros, are classified as current liabilities (see Note 16).

4.11. Income and expenses

Income and expenses are booked 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 booking 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 booked are entered into the books under the "Other current assets" item of the assets side of the consolidated balance sheet, so that they may be attributed to expenses at the moment the sales are booked, 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 book official subsidies:

- Non-reimbursable capital subsidies (connected with assets) are valued at the amount granted, booked 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 booked 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 negative tax bases pending offsetting and any credits resulting from unapplied tax write-offs. Said amounts are booked 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 (negative tax bases 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 booked under the "Provisions for contingencies and expenses" item of the consolidated balance sheet attached (see Note 20).

In accordance with Real-Decree Law 16/2005, the Group has outsourced the above mentioned undertakings, financing all the services accrued in advance.

In accordance with prevailing Italian legislation, the employees of the subsidiary company Donnafugata Resort S.r.l. are entitled to compensation should they voluntarily leave the company or be dismissed. The "Non-current provisions" item of the consolidated balance sheet attached hereto includes the liabilities accrued for this item, which amounted to 200,000 euros at 31 December 2011 (100,000 euros in 2010).

→ 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 booking 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 value of money, as well as the specific risks associated with these agreements. More specifically, a rate between 8.2% and 12% 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 booked 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 booked in the "Share premium" item 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 18,263,000 euros for this item in 2011 (5,638,000 euros 2010).

The consolidated balance sheet at 31 December 2011 reflects a provision for this item for the amount of 1,090,000 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. PROFIT (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:

	Euros		Change
	2011	2010	
Profit (Loss) for the year (thousand euros)	6,231	(41,296)	115.09%
Weighted average number of shares issued (thousand shares)	246,617	246,617	0.00%
Weighted average number of shares in treasury shares (thousand shares)	1,595	142	1023.24%
Weighted average number of shares in circulation (thousand shares)	245,022	246,475	(0.59%)
Profit / (Loss) per share	**0.03**	**(0.17)**	**115.18%**

6. GOODWILL

The balance included under this item corresponds to the net goodwill arising from the acquisition of certain companies, and is broken down as follows (thousands of euros):

Companies	2011	2010
NH Hoteles Deustchland GmbH and NH Hoteles Austria, GmbH	108,068	108,068
Polis Corporation, S.A.	7,628	8,019
Others	4,272	4,321
Total	**119,968**	**120,408**

The movements in this heading of the consolidated balance sheet in 2011 and 2010 were as follows (thousands of euros):

Company	Goodwill at 31/12/09	Exit from consolidation boundary	(Write offs)	Currency translation difference	Goodwill at 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**

Company	Goodwill at 31/12/10	Currency translation difference	Goodwill at 31/12/11
NH Hoteles Deutschland GmbH and NH Hoteles Austria GmbH	108,068	-	108,068
Polis Corporation, S.A.	8,019	(391)	7,628
Others	4,321	(49)	4,272
Total	**120,408**	**(440)**	**119,968**

Recoverable goodwill values have been allocated to each cash generating unit, mainly rental agreements, by using five year projections on results, investments and working capital.

A breakdown of the cash generating units to which goodwill on consolidation have been allocated is shown below.

	Thousand euros
CGU 6	17,574
CGU 21	11,319
CGU 22	8,508
CGU 24	8,019
CGU 12	8,132
CGU 13	6,500
CGU 2	5,774
CGU 9	4,121
CGUs with individually allocated goodwill < €4 mill.	50,021
	119,968

The basic hypotheses used to estimate these generating unit's future cash flows are detailed below:

- After tax discount rate: 8.2%, as these are CGUs subject to the same risks (German market), apart from CGU 24, for which a discount rate of 12% has been used, due to the fact that it is located in another geographic market (South America).
- Terminal value growth rate: between 0% and 2%

A sensitivity analysis of the goodwill's loss of value with respect of changes in key financial hypotheses is shown below:

Terminal value growth rate	Thousand euros		
	Change in the discount rate		
	-100 bp	No change	+100 bp
0%	(200)	(726)	(1.833)
1%	-	(283)	(866)
2%	-	-	(437)

A sensitivity analysis on the goodwill's loss of value with respect of changes in the most significant operating hypotheses is shown below: average price (ADR) and percentage occupation:

Change in average price (ADR)	Thousand euros		
	Change in occupation levels		
	-1%	No change	+1%
-1%	(744)	(255)	-
No change	(398)	-	-
1%	(147)	-	-

7. INTANGIBLE ASSETS

The breakdown and movements under this heading during 2011 and 2010 were as follows (thousands of euros):

	Balance at 31.12.09	Change in consolidation boundary	Inclusions/ Allowances	Write-offs	Balance at 31.12.10	Change in consolidation boundary	Inclusions/ Allowances	Write-offs	Assignments	Balance at 31.12.11
COST										
Rights of use	30,200	-	-	-	30,200	-	-	-	-	30,200
Rental agreement premiums	71,362	-	-	(1,396)	69,966	-	61	(7)	-	70,020
Concessions, patents and trademarks	35,180	-	94	55	35,329	(117)	95	(208)	-	35,099
Software applications	41,361	(17)	5,825	(704)	46,465	(6)	3,990	(147)	-	50,302
	178,103	(17)	5,919	(2,045)	181,960	(123)	4,146	(362)	-	185,621
CUMULATIVE DEPRECIATION										
Rights of use	(12,382)	-	(3,858)	492	(15,748)	-	(320)	-	-	(16,068)
Rental agreement premiums	(4,364)	-	(3,129)	85	(7,408)	-	(2,432)	-	-	(9,840)
Concessions, patents and trademarks	(7,677)	-	(926)	263	(8,340)	117	(1,985)	53	-	(10,155)
Software applications	(29,737)	7	(3,914)	498	(33,146)	6	(8,955)	141	-	(41,954)
	(54,160)	7	(11,827)	1,338	(64,642)	123	(13,692)	194	-	(78,017)
Impairment	**(575)**	**-**	**(818)**	**-**	**(1,393)**	**-**	**-**	**1,364**	**-**	**(29)**
NET BOOK VALUE	123,368				115,925					107,575

→ 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 commencing 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 as the transaction's price in the "Rights of use" item. In order to correctly accrue this price, the result of spreading out the cost over the thirty year term of the agreement is assigned to the consolidated comprehensive profit and loss statement in accordance with an increasing instalment with a percentage annual growth of 4%. Additionally, the outstanding short and long term amounts, 1.49 million euros and 2.99 million euros respectively at 31 December 2011 (1.49 million euros and 4.49 million euros at 31 December 2010), are reflected in the "Other current liabilities" and "Other non-current liabilities" items of the consolidated balance sheet attached.

→ 7.2. Rental agreement premiums

There were no significant movements in 2011.

→ 7.3. Software applications

The most significant inclusions in 2011 came about in the corporate services located in Spain as a result of the investments made in the development of computer application.

8. TANGIBLE FIXED ASSETS

The breakdown and movements under this heading during 2011 and 2010 were as follows (thousands of euros):

	Balance at 31.12.09	Change in consolidation boundary	Currency translation differences	Inclusions	Write-offs	Assignments	Balance at 31.12.10	Change in consolidation boundary	Currency translation differences	Inclusions	Write-offs	Assignments	Balance at 31.12.11
COST													
Land and buildings	2,166,673	(177,203)	24,329	9,430	(54,233)	52,958	2,021,954	(116,404)	(5,939)	240,998	(184,303)	-	1,956,306
Plant and machinery	783,315	(7,224)	(12,181)	48,363	(20,490)	2,102	793,885	(7,805)	(1,741)	23,982	(18,592)	-	789,729
Other fixtures, tools and furniture	521,593	(13,569)	5,619	11,048	(20,007)	4,709	509,393	(3,557)	(1,746)	18,611	(11,443)	11,344	522,602
Other fixed assets	14,512	(60)	2,842	998	(3,320)	(615)	14,357	-	(20)	1,197	(1,500)	(11,344)	2,690
Fixed assets in progress	75,760	12,633	445	6,137	(4,880)	(59,154)	30,941	-	(562)	9,381	(6,907)	-	32,853
	3,561,853	(185,423)	21,054	75,976	(102,930)	-	3,370,530	(127,766)	(10,008)	294,169	(222,745)	-	3,304,180
CUMULATIVE DEPRECIATION													
Buildings	(305,167)	32,578	(16,776)	(32,620)	21,108	5,058	(295,819)	33,513	2,083	(31,617)	14,648	4,190	(273,002)
Plant and machinery	(403,146)	7,077	9,794	(43,357)	19,445	(4,495)	(414,682)	1,679	1,025	(39,771)	13,533	(28,334)	(466,550)
Other fixtures, tools and furniture	(389,036)	11,153	(907)	(33,586)	19,708	(568)	(393,236)	2,823	906	(33,508)	6,747	15,106	(401,162)
Other fixed assets	(11,341)	97	-	(2,003)	1,482	5	(11,760)	-	207	(914)	273	9,038	(3,156)
	(1,108,690)	50,905	(7,889)	(111,566)	61,743	-	(1,115,497)	38,015	4,221	(105,810)	35,201	-	(1,143,870)
Impairment	**(67,070)**	**-**	**-**	**(10,394)**	**21,738**	**-**	**(55,726)**	**5,201**	**-**	**(15,626)**	**14,653**	**-**	**(51,498)**
NET BOOK VALUE	2,386,093						2,199,307						2,108,812

In 2011 and 2010, the "Change in consolidation boundary" column reflects the effect of the inclusions/write offs of tangible fixed asset elements belonging to certain companies that were included /excluded from the Group's consolidation during this year (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 the 2011 and 2010 were as follows:

i) The most significant additions to this heading during 2011 and 2010 broken down by business units were as follows:

	Thousand euros	
	2011	2010
Central Europe	243,756	11,528
Benelux	14,649	11,004
Spain	14,159	9,753
Italy	12,284	32,529
Latin America	7,942	9,850
Rest of Europe	1,379	1,312
	294,169	**75,976**

- The most significant addition in Germany corresponds to the acquisition of five hotels (98.6 million euros) through the Artos transaction, which can be summarised as follows:

  The Group completed a transaction which consisted of exercising a purchase option it held on ten hotels which were operated under a leasing scheme in Central Europe (eight located in Germany and two in Austria).

  At the same time, the Group sold five hotels to the INVESCO investment fund, with which it entered into a new operating lease agreement without a purchase option. According to this agreement, the rent became variable with a guaranteed minimum, the initial amount of which is similar to the amount the Group had been paying.

  The purchase price amounted to 230 million euros. This figure was reached by assuming all the liabilities of the hotels to be purchased for said amount, of which 50 million euros corresponded to the financing granted by NH Hoteles Group itself.

  The price obtained from the sale of the five hotels amounted to 168 million euros, which generated net capital gains of 32.29 million euros and also led to a temporary increase of 12 million euros in net borrowing.

- The most significant addition in the Benelux had to do with to the refurbishment and equipping of the NH Krasnapolsky Hotel (9.8 million euros) in Amsterdam.

- The most significant additions in Spain in 2011 corresponded to the refurbishment of the NH Eurobuilding (3.8 million euros) and the NH Arazazu (8 hundred euros) hotels, along with equipping and refurbishing the NH Ribera del Manzanares (0.6 million euros) and the NH Palacio de Tepa (0.5 million euros) hotels.

- In Italy, the most significant additions in 2011 were connected with the refurbishment of the NH President Hotel (4 million euros) in Milan, the NH Firenze Hotel (2 million euros) in Florence, the NH Leonardo Da Vinci Hotel (0.7 million euros) in Rome and the NH Milanofiori Hotel (0.7 million euros) in Milan.

ii) Apart from the sale of the five hotels mentioned in the preceding section, the most significant write offs in 2011 came about in the Netherlands and Italy:

- The most significant write offs in the Netherlands were the sale of the NH Krasnapolsky Hotel with a net book value of 10.55 million euros, which generated a net profit of 0.12 million euros, and the sale of the NH Genk Hotel with a net book value of 3.1 million euros, which generated a net profit of 0.9 million euros.

- The most significant write-off in Italy came about with the sale of the NH Ligure Hotel in Turin with a net book value of 21.7 million euros, which generated a net profit before minority interests of 0.55 million euros. The net book value of this hotel included an impairment provision of 0.64 million euros.

- In Spain, most of the assets linked to Fast Good were written off at a net book value of 0.06, which included an impairment provision of 6.4 million.

The Group has made an asset impairment provision allowance for hotel assets, located mainly in Sotogrande, for 15,626,000 euros this year. Furthermore, a provision allowance of 14,653,000 euros for hotel assets located in Italy made in prior years was reversed. At 31 December 2011, the Group had tangible fixed asset elements with a net book value of 586.8 million euros (782.02 million euros in 2010) to guarantee several mortgage loans (see Note 16).

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 purchase undertakings amounted to 17.02 million euros at 31 December 2011. These investments will be made between 2012 and 2013.

9. REAL ESTATE INVESTMENTS

The movements under this heading of the consolidated balance sheet in 2011 and 2010 were as follows:

	Thousand Euros					
	Balance at 31/12/09	Allowances	Assignments (Note 12)	Balance at 31/12/10	Inclusions	Balance at 31/12/11
COST						
Buildings	7,002	-	4,887	11,889	16	11,905
Advances and tangible fixed assets in process	792	-	(792)	-	-	-
	7,794	**-**	**4,095**	**11,889**	**16**	**11,905**
CUMULATIVE DEPRECIATION						
Buildings	(2,123)	(290)	-	(2,413)	(385)	(2,798)
	(2,123)	**(290)**	**-**	**(2,413)**	**(385)**	**(2,798)**
Impairment	**-**	**(1,612)**	**-**	**(1,612)**	**(720)**	**(2,332)**
NET BOOK	5,671			7,864		6,775

The most significant investments included in this item 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 is broken down as follows:

	Square metres	
	2011	2010
Offices	219	219
Sports centre	11,215	11,215
Terrazas R. Marlin	2,778	2,778
Public car park	11,272	11,272
Educational centre	5,445	5,445
	30,929	**30,929**

The fair value of the Group's real estate investments at 31 December 2011, calculated on the basis of appraisals made by independent third parties, amounted to approximately 12.9 million euros (12.5 million euros in 2010).

Rental income from the Group's real estate investments amounted to 379,000 euros in 2011 (370,000 euros in 2010). Likewise, operating expenses directly connected with real estate investments amounted to 34,000 euros (19,000 euros in 2010).

At year-end 2011, there was no 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 movements under this heading of the consolidated balance sheet during 2011 and 2010 were as follows:

Company	Net Balance at 31/12/09	Inclusions	Write-offs	Assignments	Profit (Loss) 2010	Currency translation difference	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
Losan Investment Ltd.	-	-	-	-	-	-	-
Harrington Hall Hotel Ltd.	-	-	-	-	-	-	-
Total	**70,753**	**7**	**(7,428)**	**-**	**(1,450)**	**8,110**	**69,992**

Company	Net Balance at 31/12/09	Inclusions	Write-offs	Assignments	Profit (Loss) 2011	Currency translation difference	Net Balance at 31/12/11
Sotocaribe, S.L.	46,117	-	-	-	(1,171)	(1,433)	43,513
Capredo Investments GmbH	18,361	-	-	-	(66)	(1,264)	17,031
Varallo Comercial, S.A.	-	5,964	-	7,956	(3,013)	(2,808)	8,099
Inmobiliaria 3 Puente, S.A. de C.V.	1,968	-	-	-	177	(266)	1,879
Palacio de la Merced, S.A.	1,267	-	-	-	55	-	1,322
Mil Novecientos Doce, S.A. de C.V.	1,836	68	-	-	41	(237)	1,708
Consorcio Grupo Hotelero T2, S.A. de C.V.	423	-	(242)	-	(8)	(18)	155
Fonfir1, S.L.	20	-	-	-	-	-	20
Losan Investment Ltd.	-	-	-	-	-	-	-
Harrington Hall Hotel Ltd.	-	-	-	-	-	-	-
Total	**69,992**	**6,032**	**(242)**	**7,956**	**(3,985)**	**(6,026)**	**73,727**

After initiating its activity, NH Group consolidated Varallo Comercial, S.A. by reclassifying its balance from the "Other non-current financial investments" item as from 1 January 2011 (Note 11.2).

Despite the fact that NH Group holds a 14.30% shareholding in this company, it exercises significant influence over the company through the appointment of a director, as well as through its participation in determining how the profits obtained by this company are to be distributed.

NH Group likewise exercises significant influence over Consorcio Grupo Hotelero T2, S.A. de C.V., as it actively participates in determining how the profits obtained by this company are to be distributed.

NH Hoteles Group's policy on interests in associate companies consists of the Group ceasing to recognise losses in these companies if the associate's consolidated losses attributable to the Group are equivalent to or exceed the cost of its interest in them, provided there are no additional contingencies or guarantees connected with already incurred losses. The interests in the companies Harrington Hall Hotel Ltd. and Losan Investment Ltd. are in this situation.

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 item at 31 December 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
Subordinated loans to companies owning hotels operated by the Group through leases (*)	40,472	86,633
Other collection rights	10,433	-
Credits to staff (Note 27)	6,123	14,458
Loans to joint ventures (Note 27)	-	16,037
Lease advance payments	7,173	7,291
Accounts receivable from joint ventures (Note 27)	4,469	4,469
Loans to associated companies (Note 27) (*)	2,250	2,250
Long-term deposits and surety	11,492	9,997
Others	13,772	14,472
Total	**96,184**	**155,607**

(*) These loans' will mature in 2016 and subsequent years, and will accrue an average interest rate of between 1.3% and 4.89%.

The "Subordinated loans to companies owning hotels operated by the Group through leases" item includes a series of loans granted by NH Hoteles Group 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 (1.89 million euros in 2011 and 2.48 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.

Certain purchase options on ten hotels were exercised in 2011, thereby reducing the outstanding balance of these loans.

The "Other collection rights" item reflects the claim filed against the insurance company of the ten year building works insurance. The amount claimed corresponds to the repair works performed and yet to be carried out on a housing unit development belonging the subsidiary Sotogrande S.A.

The "Lease advance payments" item 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 item of the consolidated balance sheet comprised the following interests valued at cost at 31 December 2011 and 2010:

Company	Thousand euros	
	2011	2010
Varallo Comercial, S.A. (Note 10)	-	7,956
Hotelera del Mar, S.A.	4,645	4,947
NH Panama	3,539	3,269
Others investments	5,104	6,054
Other provisions	(782)	(782)
Total	**12,506**	**21,444**

These companies were not consolidated at 31 December 2011 as they were inactive on such date.

12. INVENTORIES

The composition and movements for this item of the consolidated balance sheet at 31 December 2011 and 2010 was as follows in both years:

	Balance at 31/12/09	Assignments (Note 9)	Net Changes in Inventories	Balance at 31/12/10	Write-offs	Net Changes in Inventories	Balance at 31/12/11
Developed land	46,542	-	16	46,558	-	-	46,558
Undeveloped land	12,126	-	135	12,261	-	(670)	11,591
Finished works	57,184	(4,095)	(2,768)	50,321	369	(973)	49,717
Ancillary materials and others	10,185	-	(352)	9,833	-	(1,471)	8,362
Total	**126,037**	**(4,095)**	**(2,969)**	**118,973**	**369**	**(3,114)**	**116,228**

	2011			2010		
	Net Changes in Inventories	Purchases	Total Procurements	Net Changes in Inventories	Purchases	Total Procurements
Developed land	-	-	-	(16)	16	-
Undeveloped land	670	-	670	(135)	135	-
Finished works	973	-	973	2,768	541	3,309
Trade inventories	1,471	74,964	76,435	352	79,898	80,250
Total	**3,114**	**74,964**	**78,078**	**2,969**	**80,590**	**83,559**

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 2011.

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 30 June 2011, the market value of the Company's real estate inventories was as follows:

	Thousand euros	
	2011	2010
Developed land	51,219	7,956
Undeveloped land	200,713	4,947
Finished works	54,088	(782)
Total	**306,020**	**21,444**

At 31 December 2011, the value of inventories used as security for mortgage loans amounted to 28,319,000 euros (29,401,000 euros in 2010) (see Note 16).

13. TRADE RECEIVABLES

This item reflects different accounts receivable from the Group's operations. The breakdown at 31 December 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
Trade receivables for services provided	131,320	138,454
Trade receivables for real estate product sales	8,194	6,939
Provision for bad debts	(18,323)	(17,999)
Total	**121,191**	**127,394**

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 2011 and 2010 are as follows:

	Miles de Euros	
	2011	2010
Balance at 1 January	17,999	12,051
Currency translation differences	11	22
Allowances	1,869	7,898
Applications	(1,556)	(1,972)
Balance at 31 December	**18,323**	**17,999**

The analysis of the aging of financial assets in arrears but not considered as impaired at 31 December 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
Less than 30 days	27,862	28,370
From 31 to 60 days	18,240	18,779
More than 60 days	11,107	17,794
Total	**57,209**	**64,943**

14. CASH AND CASH EQUIVALENTS

This item 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 2011 and 2010 was a variable Euribor-indexed rate. These assets are booked at their fair value.

There are no restrictions on how cash may be used.

15. EQUITY

→ 15.1. Subscribed share capital

Share capital at 31 December 2011 was represented by 246,617,430 bearer shares at a par value of 2 euros each.

All these shares are entitled to identical voting and economic rights and are traded on the Continuous Market of the Madrid, Barcelona, Bilbao and Valencia 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:

	2011	2010
Grupo Inversor Hesperia, S.A.	25.09%	25.09%
Banco Financiero y de Ahorros, S.A. (formerly Caja de Ahorros y Monte de Piedad de Madrid)	15.75%	10.04%
Caja de Ahorros de Valencia, Castellón y Alicante	-	5.66%
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	5.04%	5.04%
Hoteles Participados, S.L.	5.43%	5.43%
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián	6.25%	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	0.88%	1.27%
Shares owned by NH employees	0.63%	1.30%

At year-end 2011 and 2010, the various members of the Board of Directors were the holders or stable proxies of shareholdings respectively representing approximately 68.35% and 68.83% of share capital, respectively.

The main aims for NH Hoteles Group 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 NH Hoteles Group 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 NH Hoteles Group has not changed, and the Company has kept a financial leverage ratio of 0.75 x, below the ratio of 1x it has always set as a goal for the Group. The leverage ratios at 31 December 2011 and 2010 were the following:

	Thousand euros	
	2011	2010
Debts with credit institutions (*) (Note 16)	1,057,527	1,173,579
Derivative liability instruments (Note 18)	45,173	46,546
Gross debt	**1,102,700**	**1,219,617**
Marketable financial assets	-	94
Cash and cash equivalents (Note 14)	91,143	173,117
Liquid assets	**91,143**	**173,211**
Total Net Debt	**1,011,557**	**1,046,406**
Total Shareholders' Equity	1,343,797	1,368,817
Financial leverage	**0.75**	**0.76**

(*) Short and long-term bank borrowing, excluding costs of arranging loans and accrued interest pending maturity.

15.2. Parent Company Reserves

i) Legal reserve

In accordance with the Revised 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 Revised 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) booked in the individual financial statements of the companies included within the scope of consolidation of NH Hoteles Group has been fully written off, unless the amounts of available reserves are at least equal to the unamortised balances.

Reserves totalling 11,914,000 euros at 31 December of 2011 (370,000 euros at 31 December 2010) could not be distributed, as this figure corresponds to the treasury share reserve.

15.3. Subsidiaries' reserves

The breakdown by entity of the balances in this item 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:

	Thousand euros			
	2011		2010	
	Reserves	Exchange rate differences	Reserves	Exchange rate differences
Full and proportional consolidation				
NH Participaties N.V. and subsidiaries	254,077	(413)	265,445	(41)
Sotogrande, S.A. and subsidiaries	50,903	(2,324)	71,512	373
Latinoamericana de Gestión Hotelera, S.A. and subsidiaries	53,146	(61,482)	53,139	(51,074)
NH Italia S.r.l. and subsidiaries	3,726	28	124	(211)
NH Private Equity B.V. and subsidiaries	73	-	73	-
NH Central Europe GmbH & Co. KG and subsidiaries	(62,196)	55	(65,905)	(3)
Caribe Puerto Morelos, S.A. de C.V.	2,948	(916)	3,347	(498)
Other foreign hotel companies	(2,591)	(17,891)	(10,260)	(7,600)
Other Spanish hotel companies	(130,868)	-	(38,525)	-
Subtotal	**169,218**	**(82,943)**	**278,950**	**(59,054)**
Consolidation using the equity method				
Palacio de la Merced, S.A.	(267)	-	(421)	-
Fonfir, S.L.	(4)	-	(4)	-
Harrington Hall Hotel Ltd.	(1,630)	370	(1,630)	370
Losan Investment Ltd.	(2,392)	(856)	(2,392)	(856)
Capredo Investment GmbH	(3,619)	-	(4,208)	-
Inmobiliaria 3 Puente, S.A. de C.V.	(47)	-	(202)	-
Mil Novecientos Doce, S.A. de C.V.	(82)	-	(67)	-
Consorcio Grupo Hotelero T2, S.A. de C.V.	(108)	-	(1)	-
Sotocaribe, S.L.	(3,475)	-	(1,249)	-
Subtotal	**(11,624)**	**(486)**	**(10,174)**	**(486)**
TOTAL	**157,594**	**(83,429)**	**268,776**	**(59,540)**

15.4. Equity valuation adjustments

CASH FLOW HEDGES

This consolidated balance sheet item 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 item during 2011 and 2010 are shown below:

	Thousand euros	
	2011	2010
Opening balance	(6,577)	(9,931)
Write-offs	6,201	3,354
Ending balance	**(376)**	**(6,577)**

A positive reserve was recognised in 2011 for equity adjustments connected with the cash flow hedging relationships of interest rate swaps (IRS) and collars amounting to 6,201,000 euros.

The negative reserve for equity adjustments due to the valuation of interest rate derivative financial instruments in force at 31 December 2011 amounting to 376,000 euros will take place in 2012 as the loan agreements subject to hedging mature (see Note 18).

15.5. Treasury shares

At year-end, the Group held 2,056,429 shares in NH Hoteles, S.A. (109,000 shares at year-end 2010), which represented 0.83% of its share capital at a cost of 11,914,000 euros (370,000 euros at year-end 2010).

15.6. Minority interests

The breakdown by companies of the balance of the "Minority interests" item in the consolidated balance sheet at 31 December 2011 and 2010, along with the profit or loss corresponding to minority interests in 2011 and 2010 are shown below:

Entity	Thousand euros			
	2011		2010	
	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	165,910	1,666	164,243	(5,147)
Latinoamericana de Gestión Hotelera, S.A. and subsidiaries	14,898	101	16,300	1,076
Sotogrande, S.A. and subsidiaries	6,535	(1,041)	7,511	(1,259)
NH Participaties N.V. and subsidiaries	3,803	267	3,536	160
Other Spanish hotel companies	13,504	1,894	12,565	1,560
	204,650	2,887	204,155	(3,610)

The movements in this item in 2011 and 2010 are summarised below:

	Thousand euros	
	2011	2010
Opening balance	**204,155**	**209,254**
Increases of capital	1,295	255
Comprehensive profit (loss) attributed to minority interests	2,887	(3,610)
Changes in percentage stakes	(124)	(1,207)
Dividends paid to minority interests	(2,982)	(336)
Other movements	(581)	(201)
Ending balance	**204,650**	**204,155**

The "Increases of capital" item in 2011 reflects the amounts paid out by minority interests in the increase of capital of Grupo Hotelero Querétaro, S.A. de C.V. totalling 112,000 euros and Hotel Ciutat de Mataró, S.A. for 600,000 euros.

The "Dividends paid to minority interests" item basically reflects the dividends paid out in 2011 to the following companies: NH Las Palmas, S.A. amounting to 264,000 euros; City Hotel, S.A. amounting to 1,180,000 euros; Hotelera Lancaster, S.A. amounting to 435,000 euros; NH Marín, S.A., 880,000 euros; and Coperama Servicios a la Hostelería, S.L., 223,000 euros.

16. BANK BORROWINGS

The breakdown of bank borrowings at 31 December 2011 and 2010 was as follows (thousand euros):

	Limit	Available	Drawn Down	2011	2012	2013	2014	Remainder
Mortgage guarantee loans	**180,818**	**893**	**179,925**		**37,942**	**21,792**	**21,318**	**98,873**
Fixed rate	47,810	-	47,810	-	2,773	2,853	2,935	39,249
Variable Rate	133,008	893	132,115	-	35,169	18,939	18,383	59,624
Asset guarantee loans	**70,152**	**-**	**70,152**	**-**	**58,073**	**6,755**	**4,695**	**629**
Fixed rate	5,855	-	5,855	-	3,556	975	695	629
Variable Rate	64,297	-	64,297	-	54,517	5,780	40,000	-
Loans against pledged shares	**60,000**	**-**	**60,000**	**-**	**60,000**	**-**	**-**	**-**
Variable Rate	60,000	-	60,000	-	60,000	-	-	-
Subordinated loans	**75,000**	**-**	**75,000**	**-**	**-**	**-**	**-**	**75,000**
Variable Rate	75,000	-	75,000	-	-	-	-	75,000
Syndicated loans	**455,000**	**-**	**455,000**	**-**	**455,000**	**-**	**-**	**-**
Variable Rate	455,000	-	455,000	-	455,000	-	-	-
Credit lines	**238,600**	**21,150**	**217,450**	**-**	**217,450**	**-**	**-**	**-**
Variable Rate	238,600	21,150	217,450	-	217,450	-	-	-
Arrangement expenses	**-**	**-**	**(4,812)**	**-**	**(1,673)**	**(1,046)**	**(1,046)**	**(1,047)**
Debt due to interest	**-**	**-**	**4,330**	**-**	**4,330**	**-**	**-**	**-**
Borrowing at 31.12.2011	1,079,570	22,043	1,057,045		831,122	27,501	24,967	173,455
Borrowing at 31.12.2010	1,197,397	23,818	1,171,759	507,966	514,432	22,642	18,704	108,015

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 the mortgaged asset
Spain	NH Calderón	-	6,010	6,010	60,867
	NH Lagasca	-	10,120	10,120	18,869
	NH Ppe. de la Paz	-	4,884	4,884	8,918
	NH Alanda	-	3,880	3,880	19,779
	Promocion R. Marlin-50%, Las Cimas	-	9,297	9,297	34,717
	NH Sotogrande	**-**	**5,908**	**5,908**	**5,586**
Total Spain		-	40,099	40,099	148,736
Mexico	Grupo Htelero Quetaro	-	3,229	3,229	6,647
	Santa Fe Project	-	4,787	4,787	10,048
Total Mexico		-	8,016	8,016	16,695
Netherlands	NH Groningen	-	3,168	3,168	7,323
Total Netherlands		-	3,168	3,168	7,323
Germany	Bingen	3,019	-	3,019	3,601
	Leipzig	8,584	-	8,584	31,234
	MannVierheim	3,627	-	3,627	12,128
	Raunheim	17,517	-	17,517	36,945
	Wiesbaden	10,246	-	10,246	9,392
Total Germany		42,993	-	42,993	93,300
Italy	Donnafugata	-	34,485	34,485	39,831
	Villa San Mauro	-	3,684	3,684	6,423
	Roma Vittorio Veneto	132	5,556	5,688	90,303
	La Spezia	-	1,111	1,111	18,746
	Firenze	-	2,000	2,000	37,412
	Catania	-	4,167	4,167	12,065
	Triestre	-	3,333	3,333	22,105
	Torino Ambasciatori	-	4,375	4,375	16,236
	Milanofiori y centro conv.	-	13,500	13,500	49,089
	Genova	-	5,496	5,496	27,795
	Carlton (Amsterdam)	**-**	**3,125**	**3,125**	**76,985**
Total Italy		132	80,832	80,964	396,990
Switzerland	NH Fribourg	4,685	-	4,685	11,532
Total Switzerland		4,685	-	4,685	11,532
Total		47,810	132,115	179,925	674,576

The following loans are included in the "Syndicated loans" item:

- 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 1.70% depending on the "Net financial debt/EBITDA" ratio. The above mentioned loan will be repaid in half yearly instalments, the first of which took place in August 2010, 32.5 million euros, the second in February 2011, 65 million euros, and the last on 2 August, 97.5 million euros.

  On 2 February 2012, all the lending institutions granted the Group a waiver or extension to 31 March 2012 for the fourth repayment amounting to 195 million euros in order complete the refinancing and documentation of the new 758 million euro syndicated agreement (including 455 million euros of current syndicated loan). It was agreed to maintain the margin and apply a 0.2% fee on the 195 million euros thus extended from that date until maturity. The loan's margin currently remains at 1.70%.

The following loans are included in the "Loans with pledged share collateral" item:

- A loan taken out with Banca IMI (Banca Intesa Group) and granted to NH ITALY S.R.L. for the amount of 60 million euros, which is aimed at financing the acquisition of minority interests, as well as the refurbishment of Italian hotels. The loan was granted in January 2011. It is pegged to the Euribor rate plus a margin of 3.75%. Its renewal in 2012 includes the possibility of increasing the limit thus granted as well as extending financing term up to seven years.

Likewise, the following loans are included in the "Asset guarantee loans" item:

- A loan taken out with Bank Bilbao Vizcaya Argentaria and granted to NH Hoteles, S.A. for 28.0 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.

- Two ICO (Official Credit Institution) loans granted by Bankia to NH HOTELES, S.A. on 30 June 2011 for a joint amount of 15 million euros pegged to the ICO rate and maturing in June 2012.

- An ICO loan granted by Bankia to NH HOTELES ESPAÑA, S.L. on 30 June 2011 to finance the investment of the management company HESPERIA, S.A. The loan amounts to 7.0 million euros, it is pegged to the ICO rate and matures in July 2014.

- A loan of 5.0 million euros granted to Jolly Hotels S.p.A. (today Grande Jolly S.p.A.) by Banca Populare de Vicenza, which accrues interest pegged 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 2011, are included in the "Subordinated loans" item. 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 rend-of-term repayment in 2036 and 2037.

The average interest rates of the Group's financing 2011 and 2010 were as follows:

	2011	2010
Mortgage guarantee loans		
Fixed interest rate	4.74%	3.34%
Variable interest rate	Euribor +2.85%	Euribor +1.03%
Asset guarantee loans		
Fixed interest rate	3.57%	3.69%
Variable interest rate	Euribor +3.88%	Euribor +1.55%
Loans with pledged share collateral	Euribor + 3.75%	
Subordinated loan	Euribor +1.70%	Euribor +1.70%
Syndicated loans	Euribor +1.70%	Euribor +1.70%
Credit lines	Euribor +2.55%	Euribor +2.02%

17. OTHER NON-CURRENT LIABILITIES

The breakdown of the "Other non-current liabilities" item of the attached consolidated balance sheets at 31 December 2011 and 2010 is as follows:

	Miles de Euros	
	2011	2010
At fair value		
Remuneration Scheme 2007-2013 linked to the listed value of shares (Notes 18 and 19)	43,389	35,359
Interest rate derivative financial instruments (Notes 18 and 24)	185	11,187
Sale option on Donnafugata Resort	5,899	5,668
At amortised cost		
Capital subsidies	21,020	10,583
Indemnity for termination of the Hotel NH Buhlerhöhe lease	9,275	11,238
Right of use Hotel Plaza de Armas (Note 7.1)	2,990	4,485
Loans with members	900	1,293
Residencial Marlin, S.L. (Note 11.1)	-	14,960
Los Alcornoques de Sotogrande, S.L (Note 11.1)	-	1,078
Other liabilities	1,390	1,493
	85,048	**97,344**

The debt resulting from the interest rate hedging derivatives of NH Finance's syndicated loan have been classified under current liabilities due to the fact they were settled in February 2012 (see Note 24).

The financial liabilities arising from booking the sale option granted by the Parent Company to minority interests in Donnafugata Resort S.r.l. (see Note 25) have been classified as level 3 in accordance with the calculation hierarchy established by IFRS 7, while the remuneration scheme and the other derivative financial instruments have been classified as level 2.

The change of this option's fair value has been booked in the "Change in fair value of financial instruments" item of the attached consolidated comprehensive profit and loss statement for 2011.

The details of the sensitivity analysis on this liability's fair value at the year-end 2011 are shown below:

Sensitivity	Thousand euros
	Financial Liabilities
+100 p.p. (increase in discount rate)	(1,180)
-100 p.p (fall in discount rate)	76

Subsidies received to build hotels and golf courses are basically included in the "Capital subsidies" item at 31 December 2011, as follows:

	Thousand euros	
	2011	2010
Donnafugata	16,936	6,200
Sotogrande	2,136	2,368
Parco Degli Aragonesi	1,777	1,994
NH Barbizon Palace	155	-
Other subsidies	16	21
	21,020	**10,583**

At 31 December 2011, 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 liability corresponding to the part of the compensation to be paid to the hotel's owner for termination of the long term maturity lease agreement has been booked in the "Compensation for termination of the Buhlerhöhe Hotel lease agreement" item. The Group paid 3 million euros in 2011.

The participative loans granted to the companies "Residencial Marlin, S.L." and "Los Alcornoques de Sotogrande, S.L." by the minority shareholder of Sotogrande, S.A. (50% in these companies) have been capitalised as the greater interest of said shareholder in the above mentioned companies.

18. DERIVATIVE FINANCIAL INSTRUMENTS

The breakdown of the derivative financial instruments in the consolidated balance sheets for 2011 and 2010 is as follows:

Item	Thousand euros	
	2011	2010
	Liability financial	Liability financial
Interest rate derivatives (Notes 17 and 24)	1,784	11,187
Share-based remuneration scheme 2007-2013 (Notes 17 and 19)	43,389	35,359
Total	**45,173**	**46,546**

18.1. Interest rate derivatives

The following is a breakdown of derivative financial instruments and their corresponding fair values at 31 December 2011 and 2010, 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 31.12.2011	Fair value 31.12.2010	Outstanding notional amount			
		Liability	Liability	31.12.2011	31.12.2012	31.12.2013	31.12.2014
Efficient hedges							
NH Finance	Collar	(375)	(6,577)	252,000	-	-	-
Total efficient hedges		**(375)**	**(6,577)**	**252,000**	-	-	-
Inefficient hedges							
NH Finance	Options	(1,224)	(4,398)	252,000	-	-	-
Donnafugata Resort	Cap	(185)	(212)	13,287	12,259	11,187	10,634
Total inefficient hedges		**(1,409)**	**(4,610)**	**265,287**	**12,259**	**11,187**	**10,634**
Total hedges		**(1,784)**	**(11,187)**	**517,287**	**12,259**	**11,187**	**10,634**

In order to determine the fair value of interest rate derivatives (IRS, collars and others), the Group uses discounted cash flow on the basis of the implicit 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 net assets as the effective part of the cash flow hedging relationships of the IRS and collars, net of any taxes, totalled plus 6,201,000 euros at 31 December 2011 (plus 3,354,000 euros at 31 December of 2010). The Group had designated the relevant hedging relationships at 31 December 2011 and 2010 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. Booking the temporary value in the consolidated balance sheets has resulted in a positive effect of 2,000 euros.

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 2,644,000 euros in 2011 (3,756,000 euros in 2010) attributed to the consolidated comprehensive profit and loss statement.

18.2. 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 1,784,000 euros at 31 December 2011 (11,187,000 euros at 31 December of 2010).

The details of the sensitivity analysis on the fair values of the derivatives contracted by the Group at the 2011 and 2010 year-ends in both net assets ("efficient hedges") as well as in Profit (Loss) ("inefficient hedges") are shown below:

Sensitivity	Thousand euros			
	Shareholders' Equity		Profit (Loss)	
	2011	2010	2011	2010
+0.5% (rise in the rate curve)	-	1,406	10	55
-0.5% (fall in the rate curve)	-	(1,416)	(5)	(35)

The details of the sensitivity analysis on the fair values of the derivatives contracted by the Group at the year-end 2011 do not include the effect of the financial instrument contracted by NH Finance, S.A., as it was not significant due to the fact that said derivative matured on 2 February 2012.

19. SHARE-BASED REMUNERATION SCHEMES

A remuneration scheme linked to the listed value of shares approved in May 2007 was in force in the Group at 31 December 2011. The changes in the number of rights granted within the framework of this Remuneration Scheme in 2011 and 2010 were as follows:

	Plan 2007
In force at 31 December 2009	**3,407,507**
Cancelled options	(283,990)
In force at 31 December 2010	**3,123,517**
Cancelled options	(941,913)
In force at 31 December 2011	**2,181,604**

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 ten Group employees were beneficiaries at 31 December 2011. These employees have been awarded a total of 2,181,604 options.

- Number maximum of assignable options: 3,790,000 options.

- Strike price: 17.66 euros for the first group comprising 22 executives and 15.27 euros for the second group made up of 88 executives.

As required by the Plan Regulations, said exercise price 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 2011 led to a reduction in personnel expenses amounting to 136,000 euros (a reduction of 131,000 euros in 2010). The main hypotheses used in this plan's valuation, which was granted in 2007, are as follows:

- Period of employment before being able to exercise the option: Up to five years, the plan's maximum term ("equity swap"). The Plan may be exercised in thirds on an annual basis.

- Risk-free rate: 1.59%

- Return per dividend: 0.16%

The Group entered into an equity swap arrangement in November 2007 to hedge against any possible financial liabilities arising from the exercise of this Incentive Plan linked to the listed value of shares. 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 43.39 million euros under liabilities in the consolidated balance sheet at 31 December 2011 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 (see Note 17). The change in fair value of this financial instrument had a negative effect of 9.2 million euros on the consolidated comprehensive profit and loss statement in 2011 (a negative effect of 3.6 million euros in 2010).

The details of the provision's calculation at 31 December 2011 are as follows:

	Thousand euros		
	Old shares	New shares	Total
Amount of shares hedged by the plan	3.79	2.53	6.32
Transfer price	13.35	2.25	8.91
Required provision	50.60	5.68	56.28
Listing December 2011	-	-	2.18
Share price at end of December 2011	-	-	13.77
Provision to allocate	-	-	42.51
Updated financial flows	-	-	0.88
Total provision	**-**	**-**	**43.39**

→ **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 43,389,000 euros at 31 December 2011 (minus 35,359,000 euros at 31 December 2010).

A breakdown of the sensitivity analysis on the fair values of the derivatives contracted by the Group is shown below:

Sensitivity on Results	Thousand euros	
	2011	2010
+10% (rise in the share price)	1,377	2,145
-10% (fall in the share price)	(1,377)	(2,145)

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.

20. PROVISIONS FOR LIABILITIES AND CHARGES

The breakdown of the "Provisions for liabilities and charges" item at 31 December 2011 and 2010, together with the main movements recorded in those years were as follows:

	Thousand euros				
	Balance at 31/12/09	Allowances	Applications/ Reductions	Assignments	Balance at 31/12/10
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**

	Thousand euros					
	Balance at 31/12/10	Allowances	Applications/ Reductions	Assignments	Changes in consolidation boundary (Note 2.5.5)	Balance at 31/12/11
Provisions for contingencies and extraordinary costs:						
Onerous agreements	5,313	354	(3,392)	(1,241)	-	1,034
Provisions for pensions and similar obligations	20,224	995	(3,431)	-	-	17,788
Provision for Remuneration Scheme linked to the listed value of shares (Note 19)	136	-	(136)	-	-	-
Other claims	14,433	4,142	(2,027)	-	(4,524)	12,024
	40,106	**5,491**	**(8,986)**	**(1,241)**	**(4,524)**	**30,846**
Provisions for contingencies and current expenses:						
Onerous agreements	5,129	-	(5,129)	1,241	-	1,241
	5,129	**-**	**(5,129)**	**1,241**	**-**	**1,241**
Total	**45,235**	**5,491**	**(14,115)**	**-**	**(4,524)**	**32,087**

Onerous agreements

The NH Hoteles Group has classified as onerous a series of hotel rental agreements set to terminate between 2012 and 2029. 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" item mainly includes the provision allocated by the Group to cover the pension plans agreed with its workforce amounting to 15,470,000 euros (17,591,000 euros at 31 December 2010). This item includes the T.F.R. (Trattamento di fine rapporto), or amount paid to all workers in Italy at the moment they leave the company for any reason whatsoever. 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:

	2011	2010
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%

No plan reductions or settlements came about in 2011. No actuarial gains and losses have been significant in any case.

21. TAX NOTE

Balances with Public Administrations

The balance of tax receivables at 31 December 2011 and 2010 were as follows:

	Thousand euros	
	2011	2010
Deferred tax assets		
Tax credits	83,124	71,882
Tax assets due to asset impairment	28,407	29,674
Tax withholdings of workforce	1,220	920
Derivative financial instruments	11,845	9,436
Other prepaid taxes	10,340	7,662
	134,936	**119,574**

	Thousand euros	
	2011	2010
Short term taxes receivable		
Company Tax	4,355	3,640
Value Added Tax	31,117	36,346
Tax on Estimated Capital Gain	416	390
Other Tax receivables	8,075	7,032
Total	**43,963**	**47,408**

The balances of the "Deferred tax assets" item mainly correspond to the tax withholdings that arose as a consequence of the depreciation of certain assets, and from the activation of negative tax bases.

The movements of the "Deferred tax assets" item in 2011 and 2010 are as follows:

	Thousand euros	
	2011	2010
Opening balance	**119,574**	**105,290**
Asset impairment	(1,267)	823
Additions due to derivative instruments	2,409	3,929
Tax credits	11,242	25,763
Others	2,978	(16,231)
Total	**134,936**	**119,574**

Additions due to tax credits are mainly due to the negative tax bases generated by the Group's companies, all of which were contributed by the Spanish business unit. The Company's directors have decided to book the deferred tax assets indicated above, as it has been deemed that their recovery is probable, taking into account the forecasts on the Company's future results and certain tax planning actions.

In accordance with Article 12.5 of the Revised Text of the Company 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 amortisation for tax purposes in this financial year totalled 1.8 million euros (8.9 million euros in 2010). The change in the amount amortised for tax purposes with respect to 2010 is due to a change in tax legislation. The percentage by which goodwill can be amortised for tax purposes has fallen from 5% to 1%.

Since the above mentioned goodwill was subject to partial impairment in prior years and the corresponding prepaid tax had not been booked, the foregoing amortisation for tax purposes has not led to any movements in temporary differences.

The fiscal cost of Astron Group's goodwill at 31 December 2011 exceeded the accounting cost by 3.24 million euros. Therefore no deferred tax liability whatsoever has been booked this year.

The composition of the credit balances with Public Administrations at 31 December 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
Deferred tax liabilities		
Reversal of asset revaluations	246,204	257,155
Total	**246,204**	**257,155**

	Thousand euros	
	2011	2010
Short term taxes payable		
Company Tax	9,376	4,232
Value Added Tax	5,364	4,241
Personal Income Tax	6,727	5,321
Capital Gains Tax	675	243
Social Security	7,888	9,037
Others	5,642	7,559
Total	**35,672**	**30,633**

The deferred tax balance mainly corresponds to revaluations made to several assets belonging to the Group.

The movements in deferred tax liabilities during 2011 were as follows:

	Thousand euros	
	2011	2010
Opening balance	**257,155**	**255,511**
Change due to exits from the consolidation boundary (See Note 2.5.4)	(4,725)	-
Others	(6,226)	1,644
Ending balance	**246,204**	**257,155**

→ Company tax expenses

NH Hoteles Group operates in many countries and is therefore subject to different tax jurisdictions regarding taxation and corporation tax matters.

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 2011 tax period is subject to the tax consolidation scheme governed by Chapter VII, Title VII of the Revised Text of the Company Tax Act approved by Royal Legislative Decree 4/2004 of 5 March.

The companies belonging to the tax group have signed an agreement to share out the tax burden. Hence, the parent company settles any credits and debts which arise with subsidiary companies due to the negative and positive tax bases these contribute to the tax group.

The companies Coperama, S.L.; NH Las Palmas, S.A.; NH Lagasca, S.A.; Explotaciones Hoteleras Cóndor, S.L.; and Fashion Tapas, S.L. joined the Tax Consolidation Group in 2011.

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 2011, NH Hoteles, S.A. contributed the shares it held in the companies set out below to NH Hoteles España, S.L.:

- NH Las Palmas, S.A. (the shares contributed account for 64.21% of this company's capital: prior to the contribution, NH Hoteles España, S.L. already held 10.80% of the company's capital).

- Gran Círculo de Madrid, S.A. (the shares contributed accounted for 98,74% of this company's capital).

- NH Domo Diseño y Decoración, S.L. (the shares contributed accounted for 50% of this company's capital).

The securities received by NH Hoteles España, S.L from NH Hoteles, S.A in connection with the shareholding contribution transactions were as follows (data in thousand euros):

Shares transferred	Securities delivered	Securities received
NH Las Palmas, S.A. (representing 64.21% of share capital)	8,828	12,137
Gran Circulo de Madrid, S.A. (representing 98.74% of share capital)	36,789	37,474
NH Domo Diseño y Decoración, S.L. (representing 50% of share capital)	-	-

Additionally, NH Hoteles España, S.L. took over Explotaciones Hoteleras Cóndor, S.L. and NH Domo Diseño y Decoración, S.L. For its part, Fast Good Península Ibérica S.L. took over its parent company, Lenguados Vivos S.L., in 2011 through a reverse takeover. For this reason, Lenguados Vivos, S.L. ceased forming part of the Tax Consolidation Group in 2011 when it was wound up as a result of its takeover by Fast Good Península Ibérica, S.L.

For the purposes set forth in the Revised Text of the Corporation Tax Act, it is hereby stated that the securities received by Fast Good Península Ibérica, S.L. from Lenguados Vivos, S.L. and the securities received by NH Hoteles España, S.L. from NH Domo Diseño y Decoración, S.L. and from Explotaciones Hoteleras Cóndor, S.L. have been booked at the same book value as the securities thus delivered.

For the purposes set forth in Article 93 of the Revised Text of the Corporation Tax Act, the following is also hereby stated:

- Depreciable elements have been transferred (for an immaterial amount) only in the case of the merger of Explotaciones Hoteleras Cóndor, S.L.

- The balance sheet of this entity closed at 31 December 2010 was as follows:

Thousand euros			
ASSETS	2010	NET ASSETS AND LIABILITIES	2010
NON-CURRENT ASSETS	**203**	**EQUITY**	**(676)**
Intangible fixed assets	**1**	**EQUITY**	
Software applications	1	**Share**	**6**
Tangible fixed assets	**198**	Authorised capital	6
Plant and other tangible fixed assets	198	**Reserves**	**914**
Long term financial investments	**4**	Legal and statutory reserves	1
Other financial assets	4	Other reserves	913
		Prior years' profits (loss)	**(949)**
		Prior years' losses	(949)
CURRENT ASSETS	**137**	**Profit (Loss) for the year**	**(647)**
Inventories	**3**		
Sales representatives	1		
Raw materials and other procurements	2		
Trade creditors and other accounts receivable	**130**		
Trade accounts receivable for sales and services	76		
Sundry debtors	-		
Personnel	(1)	**CURRENT LIABILITIES**	**1,016**
Current tax assets	-	**Short term debts with group and associate companies**	**747**
Others tax receivables	55	**Trade creditors and other accounts payable**	**269**
Short term financial investments	**-**	Suppliers	156
Short term accruals	**-**	Other creditors	-
Cash and cash equivalents	**4**	Personnel	23
Cash	4	Other taxes payable	54
Other equivalent assets	-	Advance payments from customers	36
TOTAL ASSETS	340	TOTAL NET ASSETS AND LIABILITIES	340

- No assets have been acquired at an amount other than the transferring company's book value.

- None of the acquiring companies have acquired tax benefits from the transferring companies for which they are obligated to assume the fulfilment of requirements.

The above mentioned contributions and mergers were subject 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 Revised Text of the Corporation Tax Act.

Company 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 Spanish Companies pay taxes at the general tax rate of 30% irrespective of whether they apply the consolidated or separate taxation schemes. The remaining companies are subject to the prevailing tax rate in the countries where they are domiciled. In addition, taxes are booked in some countries at the estimated minimum profit on a complementary basis to Corporation Tax.

The prevailing tax rates in the different jurisdictions where the Group performs relevant activities are as follows:

Country	Nominal Rate	Country	Nominal Rate
Argentina (1)	35%	Romania	16%
Colombia (1)	33%	Poland	19%
Chile	20%	Switzerland	15%
Panama (1)	25%	Czech Rep.	19%
Brazil	34%	Luxembourg	27,75%
Mexico (1)	30%	Italy	31,40%
Uruguay	25%	The Netherlands	25%
Dominican Republic	25%	France	33%
Germany	30%	Portugal	25%

(1) Jurisdictions where a minimum tax on profit exists.

The reconciliation between the accounting profit or loss, the corporation tax base, current and deferred tax for the year, is as follows (in thousand euros):

	2011											2010	
	Spain	Germany (2)	Romania	Poland	Switzerland	Luxembourg	Latin America (3)	Italy	Netherlands (4)	Portugal	TOTAL	Spanish Companies	Other Companies
Consolidated profit (loss) before tax	**(59,766)**	**25,889**	**349**	**58**	**(708)**	**2,943**	**14,135**	**2,147**	**19,155**	**100**	**4,301**	**(32,142)**	**(20,413)**
Adjustments to accounting profit (loss):													
Accounting consolidation adjustments (1)	-	(32,407)	-	-	-	-	-	-	25,000	-	(7,407)	-	43,500
Due to permanent differences	24,661	11,700	157	(4)	1,080	(2,684)	(16,212)	(10,003)	(8,266)	(32)	397	(25,573)	(29,412)
Due to temporary differences	2,998	(4,995)	-	-	-	(46)	10,156	38,249	6,089	-	52,451	31,536	(35,120)
Tax base (Taxable profit or loss)	**(32,107)**	**187**	**506**	**54**	**372**	**213**	**8,079**	**30,393**	**41,978**	**68**	**49,742**	**(26,178)**	**(128,445)**
Current taxes to be refunded / (pay)	509	1,885	-	(1)	-	6	(3,576)	(529)	(3,316)	-	(5,021)	-	-
Total current tax income / (expense)	10,530	(1,727)	(81)	(10)	(55)	(71)	578	2,466	(8,972)	(16)	2,642	10,136	(17,667)
Total deferred tax income	417	-	-	-	-	-	2,799	496	1,522	-	5,234	9,461	3,179
Total deferred tax expense	-	(1,664)	-	-	-	(12)	-	-	-	-	(1,676)	-	-
Total Corporation Tax income / (expense)	**10,947**	**(3,391)**	**(81)**	**(10)**	**(55)**	**(83)**	**3,377**	**2,962**	**(7,450)**	**(16)**	**6,200**	**19,597**	**(14,488)**

(1) Accounting adjustments for the asset repurchase and sale transaction in Germany and incorporation of the dividends received in Holland, which is eliminated in tax consolidation.
(2) The Germany business area consolidates the profits and losses of France and the Czech Republic.
(3) The Latin America business area includes the profits and losses obtained by the Group in Argentina, Mexico, Uruguay, the Dominican Republic, Colombia, Chile, Panama and Brazil.
(4) The Netherlands business area includes Belgium and South Africa.

→ Financial years subject to tax inspection

The last four financial years of the Tax Consolidation Group are open to inspection in accordance with Spanish 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 export activity investments, double taxation and donations.

No write offs for investments in environmental impact reduction measures were applied or credited to calculate Corporation Tax.

At 31 December 2011, the Tax Group held the following tax incentive carry forwards (in thousand euros):

Year of Origin	Write-off pending	Amount
2002 to 2010	Investment in export activity	29,047
2006 to 2011	Tax write off to avoid double taxation	14,493
2002 to 2010	Others	4,104
		47,644

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):

		Amount offset			
Year of origin	Revenue subject to deferral	Prior years	2011	Outstanding Amount	Last year of deferral
1999	75,145	48,711	682	25,752	2049
2001	4,335	3,715	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 Revised Text of the Company 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		
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 obtained in 2008 were 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. There is an obligation to maintain the investment during a three year period.

→ Negative tax bases

At 31 December 2011, the consolidated tax group of which NH Hoteles, S.A. is the parent company had the following tax loss carry-forwards:

Financial year	Thousand euros	Maturity
2007	8,992	2025
2008	20,424	2026
2009	96,752	2027
2010	74,173	2028
2011	47,415	2029
Total	**247,756**	

At the year-end, the Italian Business Unit had negative tax bases available to carry forward for the amount of 7,475,000 euros, which do not have an expiry date due to a recent amendment to Italian legislation.

NH Central Reservation Office, S.L. (formerly called Retail Invest, S.A.); Latinoamericana de Gestión Hotelera, S.A.; Hoteles Hesperia, S.A.; Nuevos Espacios Hoteleros, S.A; and Explotaciones Hoteleras Cóndor, S.L. obtained negative tax bases before their incorporation into the Group of which NH Hoteles, S.A. is the parent company.

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	Offsetting Deadline
1997	11,107	2015
1998	4,119	2016
1999	-	2017
2000	-	2018
2001	17,713	2019
2002	19,037	2020
2003	25,900	2021
2004	8,438	2022
2005	1,595	2023
2006	15,240	2024
2007	2,332	2025
2008	2,621	2026
2009	850	2027
2010	330	2028
	109,283	

22. TRADE CREDITORS

The breakdown of this item in the consolidated balance sheet at 31 December 2011 and 2010 is as follows (thousands of euros):

	Thousand euros	
	2011	2010
Trade creditors	214,826	207,307
Advance payments from customers	20,852	19,573
	235,678	**226,880**

The "Trade creditors" item reflects the accounts payable arising from the Group's regular trading activities.

The "Advance payments from customers" item mainly includes customer deposits arising from the Group's hotel and real estate businesses. Sotogrande, S.A. included advance payments from customers for the amount of 1.74 million euros in 2011 (2.66 million euros at 31 December 2010).

23. INFORMATION ON DEFERRED PAYMENTS TO SUPPLIERS. THIRD ADDITIONAL PROVISION, "DUTY TO REPORT" OF ACT 15/2010 OF 5 JULY

A breakdown of the information required by the Third Additional Provision of Act 15/2010 of 5 July on agreements executed under Spanish legislation appears below:

	2011		2010	
	Thousand euros	%	Thousand euros	%
Payments made within the maximum legal term	189,900	80%	171,669	83%
Remainder	46,053	20%	35,194	17%
Total payments in the financial year	**235,953**	**100%**	**206,863**	**100%**
Weighted average days past due	16		13	
Deferrals which exceeded the maximum legal deadline at year end	2,326		1,808	

The data set out in the table above on payments to suppliers makes reference to any which by their nature are trade creditors due to debts with suppliers of goods and services. The data therefore includes the "Trade creditors" item in current liabilities of the attached consolidated balance sheet at 31 December 2011.

Weighted average days past due has been calculated as the coefficient comprised of the sum of the product of each of the supplier payments made in the year with a delay exceeding the legal payment deadline and the number of days by which the relevant deadline has been exceeded in the numerator, and the total amount of the payments made in the year with a delay exceeding the legal payment deadline in the denominator.

The maximum legal deadline for payment that applies in 2011 to the Group's 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 CURRENT LIABILITIES

The composition of this item at 31 December 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
Outstanding payment for the Jolly Hotels transaction	-	87,393
Outstanding remuneration	27,417	31,841
Provision for Los Cortijos refurbishment expenses	4,687	-
Rent reviews	1,172	1,065
Outstanding lease payments	765	710
Derivative financial instruments based on interest rate (Notes 17 and 19)	1,599	-
Other creditors	2,618	1,247
	38,258	**122,256**

The liability corresponding to a put option in favour of Joker Partecipazioni S.r.l., which was exercised in prior years and made effective in January 2011, was reflected in the "Outstanding payment for the Jolly Hotels transaction" in 2010.

25. THIRD-PARTY GUARANTEES AND CONTINGENT ASSETS AND LIABILITIES

Financial institutions had granted surety to the Group for an amount totalling 28.47 million euros (32.37 million euros at 31 December 2010) 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 2011, 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

- The shareholders' agreements on Harrington Hall Hotel Ltd. (the company which owns the Harrington Hall Hotel) and Losan Investments Ltd. (the company which owns the Kensington Hotel) were respectively signed on 29 March 2005 and 10 March 2006 by NH Hotel Rallye, S.A. and Losan Hoteles, S.L. (currently Carey Property, S.L.). By means of these agreements, should the latter company receive a purchase offer for 100% of the shares in either of the companies at a price deemed to be the market price, Losan Hoteles, S.L. (currently Carey Property, S.L.) may require NH Hotel Rallye, S.A., which shall be obliged to accept, to transfer its shares to the third party making the offer. However, NH Hotel Rallye, S.A. shall have a preferential acquisition right on Losan Hoteles, S.L.'s (currently Carey Property, S.L.) shares in Harrington Hall 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 shall be settled in NH Hoteles, S.A. shares. The investment made by Intesa Sanpaolo in NH Italia S.r.l., which amounted to 166 million euros, is recognised in the "Minority interests" item of the consolidated balance sheets attached (see Note 15.6).

- Article 9 of the Articles of Association of Coperama Servicios a la Hostelería, S.L. sets forth that members 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 which 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 the control has come about must report such circumstance and offer 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 Immobiliare 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. An independent expert was commissioned to appraise the company as a consequence of this notice. Sotogrande, S.A. considers that the appraisal given to the company by the above mentioned expert is excessive and far from its real valuation. Consequently, arbitration proceedings have been initiated to challenge the independent expert's report.

- Of all the Sotogrande, S.A. shares held by NH Hoteles, S.A. (43,574,586 shares at 31 December 2011), 40,106,805 shares representing 89.30% of the total have been pledged as collateral for a syndicated loan granted by several credit institutions to a company belonging to NH Hoteles Group. This loan had an outstanding principal of 455 million euros at 31 December 2010 and its last maturity date is in 2012.

- 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 NH Hoteles Group 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 company of the NH Group in Italy has filed a counterclaim affirming that the termination was due to breach of contract and for this reason compensation of approximately 33 million euros is being claimed from the construction company for damages. The court appointed a technical expert, who has quantified damages in favour of the construction company amounting to approximately 1.4 million euros and damages in favour of a company of the NH Group of at least 6.4 million euros. The parties are currently waiting for the hearing to be held.

- 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. The NH Group company has filed a counterclaim for errors in the maps attached to the lease agreement, which gave rise to errors in the sizes of the plots, among other pleas. The arbitration proceedings are currently in the conclusions stage.

- A company of the NH Group has served notice of termination of a lease agreement on a retail outlet. The retail outlet's owners have filed a claim for an oral trial, claiming the rent due since the agreement's termination as well as any future rent which may become due.

- NH Group has entered an appearance in the mandatory insolvency proceedings of Viajes Marsans, S.A. and Tiempo Libre, S.A., belonging to Mr Gonzalo Pascual Arias and Mr Gerardo Díaz Ferrán, and in the voluntary insolvency proceedings being conducted against Ms Maria Angeles de la Riva Zorrilla in order to claim outstanding amounts. A provision for said bad debt has been made in these consolidated financial statements.

- A company of the NH Group in Spain has served notice of termination of a lease agreement due to a breach of obligations attributable to the property owners. The property owners are claiming for the fulfilment of contractual obligations, which consist of the payment of unpaid rent since the notice of termination of the lease agreement was served, which to date amount to 517 million euros. Nonetheless, the amount at issue has been set by the claimant at approximately 8 million euros for the mere purpose of determining the kind of trial to be held.

- The Group has brought legal action in France aimed at obtaining compensation for the damages, including loss of earnings, which arose as a consequence of the refurbishment and enlargement works executed on the Hotel Lotti located in Paris. These works were executed at the beginning of the preceding decade by the managers of the former Jolly Hotel chain before it was taken over by NH Group. Said actions have been brought against the architect, the engineers and other parties that took part in the construction process (and against their respective insurance companies) of the aforementioned works, which forced the NH Group to correct technical and administrative irregularities after it took over control, along with other construction defects detected in the building works' execution. The claim filed by NH Group amounts to approximately 18 million euros.

- The management agreements entered into by Hoteles Hesperia, S.A. and the respective owners/lessors of Hesperia hotels establish that the owners may opt to terminate the management agreement in the event NH Hoteles, S.A. is taken over. The owners are obliged to pay Hoteles Hesperia, S.A. an amount equivalent to the Average Annual Remuneration, as set forth in said agreements.

- 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 members of Corporación Hotelera Dominicana, 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 compensation for damages being granted to the local shareholders.

- Furthermore, the subsidiary Sotogrande, S.A. brought a claim against the constructions agents for construction faults and defects in one of its developments before the courts of Malaga in 2010, along with a claim against the insurance company underwriting the building works' ten year insurance policy, claiming the amount of the repair works performed and to be performed on the development. The amount of the expenses arising from the repairs done to the housing units which form part of this development amount to 16,847,000 euros (2,457,000 euros in 2010). These expenses are booked in the "Other operating expenses" item of the attached consolidated comprehensive profit and loss statement for 2011. The "Current provisions" item under current liabilities of the consolidated balance sheet at 31 December 2011 attached hereto reflects the estimate of the expenses which are expected to be incurred for this item, which amount to 4,144,000 euros. Based on the opinion of the Group's solicitors, a collection right against the insurance company for the amount of 10,461,000 euros has likewise been booked in the "Loans and accounts receivable not available for trading" under non-current assets.

- 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 the company NH Hoteles, S.A.

- NH Hoteles Group has been granted loans and credits with a joint limit of €35 million containing a clause establishing their early maturity in the event of circumstances that give rise to a change in control of the company NH Hoteles, S.A.

At 31 December 2011 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 item in the consolidated comprehensive profit and loss statements for 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
Hotel occupancy	870,216	820,570
Catering	337,327	337,010
Meeting rooms and others	78,012	84,611
Real Estate	13,927	14,507
Golf and Sports Clubs	3,553	3,074
Rents and other services	27,951	22,168
Net turnover	**1,330,986**	**1,281,940**
Operating subsidies	126	144
Other operating income	38,743	16,570
Other operating income	**38,869**	**16,714**
Net gain (loss) on disposal of assets	**33,905**	**2,142**

The "Other operating income" item reflects income from the fees invoiced to hotels operated under a management arrangement and services provided by NH Hoteles Group to third parties. In addition, the compensation received by HNA Group amounting to 11,217,000 euros for the failure by a Chinese industrial group to meet the deadlines to initiate the execution process of the investment agreement entered into with NH Group in May 2011 is included in 2011. Income amounting to 9,280,000 euros for the collection right against the insurance company of the building works of one of the Group's developments (see Note 25) has also been booked in this item.

The breakdown of net turnover by geographic markets in 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
Spain - Hotels	341,075	332,961
Spain - Real Estate	24,091	15,062
Benelux	302,750	291,557
Italy	274,877	281,921
Germany	253,844	232,168
Latin America	66,278	62,227
Rest of Europe	68,071	66,044
	1,330,986	**1,281,940**

The "Net gain (loss) on disposal of assets" item reflects in 2011 the sale of five hotels to the INVESCO investment fund through the Artos transaction; the sale of the NH Molenvijer Genk Hotel in Genk, Belgium; the sale of the NH Ligure Hotel in Turin, Italy; and the sale of shops in the NH Krasnapolsky Hotel in Amsterdam, the Netherlands (see Note 8).

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 item.

→ 26.2. Financial income and changes in the fair value of financial instruments

The breakdown of this item's balance in the consolidated profit and loss statement is as follows:

	Thousand euros	
	2011	2010
Income from marketable securities	818	988
Interest income	4,464	3,859
Other financial income	438	264
	5,720	**5,111**
Income from derivative instruments	**-**	**649**

26.3. Personnel expenses

The composition of this item in the consolidated comprehensive profit and loss statement is broken down as follows:

	Thousand euros	
	2011	2010
Wages, salaries and similar	300,926	296,739
Social security contributions	72,572	71,167
Indemnities	18,263	5,638
Contributions to pension plans and similar	7,486	8,487
Other social expenses	42,205	43,726
	441,452	**425,757**

The average number of people employed by the Parent Company and the companies consolidated through full consolidation in 2011 and 2010 broken down by professional categories was as follows:

	2011	2010
Group's general management	9	6
Department Managers and Heads	1,426	1,428
Technical staff	990	977
Sales representatives	559	553
Administrative staff	575	598
Rest of workforce	11,130	11,093
Average number of employees	**14,689**	**14,655**

The breakdown by sex and professional categories of the workforce at 31 December 2011 and 2010 was as follows:

	31-12-2011		31-12-2010	
	Males	Females	Males	Females
Group's general management	9	-	6	-
Department Managers and Heads	750	630	786	642
Technical staff	763	194	766	211
Sales representatives	129	414	133	420
Administrative staff	229	335	257	341
Rest of workforce	5,814	4,317	6,405	4,688
Average number of employees	**7,694**	**5,890**	**8,353**	**6,302**

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 2011 and broken down by professional categories was as follows:

	2011
Group's general management	1
Department Managers and Heads	2
Technical staff	3
Rest of workforce	32
Average number of employees	**38**

No people suffering from a disability equivalent to or greater than 33% were employed in 2011 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 7.4 years.

26.4. Other operating expenses

The composition of this item of the consolidated comprehensive profit and loss statement for 2010 and 2011 is as follows:

	Thousand euros	
	2011	2010
Leases	291,410	269,740
External charges for services	401,961	365,928
Allowances for contingency and expense provisions	5,491	20,734
	698,862	**656,402**

In 2011 and 2010, the fees for auditing of accounts and other services provided by the Group's auditors, 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 booked in this item, were as follows:

2011

Services billed	Thousand euros		
	Principal Auditor	Others	Total
Auditing services	1,461	43	1,504
Other verification services	66	-	66
Total auditing and related services	**1,527**	**43**	**1,570**
Tax consulting services	143	-	143
Other services	620	-	620
Total services billed	**2,290**	**43**	**2,333**

2010

Services billed	Thousand euros		
	Principal Auditor	Others	Total
Auditing services	1,040	496	1,536
Other verification services	111	-	111
Total auditing and related services	**1,151**	**496**	**1,647**
Tax consulting services	356	61	417
Other services	484	52	536
Total services billed	**1,991**	**609**	**2,600**

26.5. Operating leases

At 31 December 2011 and 2010, 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.

	Thousand euros	
	2011	2010
Less than one year	275,012	274,023
Between two and five years	1,067,708	1,018,604
More than five years	892,727	725,182
Total	**2,235,447**	**2,017,809**

The life of the operating lease agreements signed by the NH Hoteles Group ranges from five to thirty years. The agreements likewise include several methods to determine the rent to be paid. Essentially, the methods used to determine the rent can be reduced to fixed rents linked to the consumer price index; fixed rents complemented by a variable part, which is linked to the property's operation; or completely variable rents which are determined by business performance during the year. In some cases, variable rents are set with a minimum profitability threshold for the owners of the property under operation.

The breakdown by business unit of the current value of the rental instalments at 31 December 2011 is as follows:

	Less than one year	Between two and five years	More than five years	Total
Spain	90,683	360,421	281,199	732,303
Germany and Central Europe	101,734	380,741	328,623	811,098
Italy	44,713	182,760	123,211	350,684
Benelux	34,530	135,164	159,548	329,242
Latin America	3,352	8,621	147	12,120
Total	**275,012**	**1,067,707**	**892,728**	**2,235,447**

The breakdown by business unit of the current value of the rental instalments at 31 December 2010 is as follows:

	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**	**725,182**	**2,017,809**

26.6. Financial expenses and changes in fair value of financial instruments

The breakdown of this item of the consolidated profit and loss account for 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
Expenses for interest	57,954	50,882
Financial expenses for means of payment	10,409	11,020
Other financial expenses	283	-
Total financial expenses	**68,646**	**61,902**

	Thousand euros	
	2011	2010
Sale option on Donnafugata Resort (Note 17)	231	492
Derivative financial instruments based on interest rate	(2,644)	(4,746)
Remuneration Scheme 2007-2013 linked to listed value of shares	9,238	3,605
Total change in fair value of financial instruments	**6,825**	**(649)**

27. RELATED-PARTY TRANSACTIONS

The main balances and transactions the Group performed in 2011 and 2010 with different related parties are as follows:

LOANS AND ACCOUNTS RECEIVABLE NOT AVAILABLE FOR TRADING

The composition of this item at 31 December 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
Loans to staff (Note 11.1)	6,123	14,458
Loans to joint ventures (Note 11.1):		
Residencial Marlin, S.L.	-	14,960
Los Alcornoques de Sotogrande, S.L.	-	1,077
Accounts receivable from joint ventures (Note 11.1):		
Los Alcornoques de Sotogrande, S.L.	4,469	4,469
Other accounts receivable from joint ventures	1,740	1,036
Current accounts with joint ventures:		
Residencial Marlin, S.L.	-	698
Resco Sotogrande, S.L.	369	169
Loans to associated companies		
Harrington Hall Hotel, Ltd.	2,250	2,250
Corporación Hotelera Dominicana, S.A.	582	504
Sotocaribe, S.L.	1,520	685
Current accounts and interest with associated companies	2,144	6,211
Total	**19,197**	**46,517**

The "Credits to staff" item includes the financing amounting to 14.46 million euros granted to the Group's directors in 1998 to purchase shares in the Parent Company. Part of said loan was redeemed in March 2011 through payment in lieu of the shares pledged in guarantee, as provided for contractually, thereby reducing the loan amount to 6.12 million euros. Said financing was converted into a loan in 2001 and sufficiently guaranteed at 31 December 2011. It grants the borrowers the entitlement to extend the term of the loans up to 30 April 2013 (see Note 11.1). These loans have accrued interest amounting to 70,000 euros this financial year.

The "Loans to joint ventures" item reflects the proportional part (50%) of the participative subordinated loans granted by Sotogrande, S.A. to the companies Residencial Marlin, S.L. and Los Alcornoques de Sotogrande, S.L. for the acquisition of plots. On 6 May 2011 and 28 December 2011, the General Shareholders' Meeting of Residencial Marlin, S.A. approved two increases of share capital which were partially subscribed by Sotogrande, S.A. by offsetting the participative loan it had granted to this company in accordance with an agreement signed by both parties on 14 July 2004. On 28 December 2011, the General Shareholders' Meeting of Los Alcornoques de Sotogrande, S.A. also approved an increase of share capital which was partially subscribed by Sotogrande, S.A. by offsetting the participative loan it had granted to this company in accordance with an agreement signed by both parties on 26 December 2006.

The "Accounts receivable from joint ventures - Los Alcornoques de Sotogrande, S.L." item 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" item includes the current balance at 31 December 2011 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." item 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" item 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 the accounts receivable mentioned above have been as follows:

	Thousand euros	
	2011	2010
Credits to staff	143	138
Financing granted to joint ventures	223	189
Financing granted to associate companies	78	56
Total	**444**	**383**

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 5.7 million euros were due in 2011, of which 2.1 million euros remained outstanding at 31 December 2011 after adding VAT. The net balance booked with Grupo Inversor Hesperia, S.A. at 31 December 2011 was of €1.6 million.

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 2011 and 2010 is as follows:

	Thousand euros	
	2011	2010
Banco Financiero y de Ahorros, S.A.	131,114	139,688
Intesa Sanpaolo S.p.A. (IMI)	73,409	28,317
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián	10,500	14,252
NCG Banco, S.A.	29,503	18,074
Banco Mare Nostrum, S.A.	10,325	7,126
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	8,339	8,537
Total	**263,190**	**215,994**

Financial expenses accrued connected with the financing agreements with credit institutions which are shareholders of the Parent Company amounted to 10,663,000 euros in 2011 (6,493,000 euros in 2010).

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 at 31 December 2011 totalled 1,343,000 euros (1,161,000 euros at 31 of December of 2010).

OTHER RELATED-PARTY AGREEMENTS

The Group entered into several operating lease agreements with Pontegadea Inversiones, S.L. totalling 10,052,000 euros in 2011 (9,689,000 euros in 2010).

Pontegadea Inversiones, S.L. likewise granted the following loans to joint ventures:

	Thousand euros	
	2011	2010
Loans to joint ventures:		
Residencial Marlin	-	14,960
Los Alcornoques de Sotogrande	-	1,077
Total	**-**	**16,037**

The "Loans to joint ventures" item includes the proportional part of the participative subordinated loans granted by Pontegadea Inversiones, S.L. to the companies Residencial Marlin, S.L. and Los Alcornoques de Sotogrande, S.L. As has been explained above, said loans were contributed to share capital in 2011. Both loans were therefore capitalised at 31 December 2011.

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's existing at the end of 2011, taking into account both the nature of the products and services offered and the target customer segments.

In 2011, 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

	Thousand euros					
	Hotel Business		Real Estate		Total	
	2011	2010	2011	2010	2011	2010
INCOME						
Sales and other operating income	1,345,764	1,282,724	24,091	15,930	1,369,855	1,298,654
Net gain on disposal of noncurrent assets	33,905	2,142	-	-	33,905	2,142
Total income	**1,379,669**	**1,284,866**	**24,091**	**15,930**	**1,403,760**	**1,300,796**
PROFIT (LOSS)						
Share of profits in associated companies	(2,748)	187	(1,237)	(1,637)	(3,985)	(1,450)
Financial income	5,143	7,410	577	285	5,720	7,695
Net exchange rate differences	12	(21,497)	-	-	12	(21,497)
Change in fair value of financial instruments	(6,825)	649	-	-	(6,825)	649
Financial expenses	(66,609)	(63,604)	(2,037)	(1,326)	(68,646)	(64,930)
Loss due to impairment of financial investments	19,913	17,825	-	-	19,913	17,825
Profit (Loss) before tax	15,970	(45,166)	(11,669)	(7,387)	4,301	(52,553)
Tax	2,301	3,816	3,899	1,293	6,200	5,109
Profit (Loss) for the year	17,035	(41,350)	(6,534)	(6,094)	10,501	(47,444)
Minority interests	4,270	(6,148)	-	-	4,270	(6,148)
Profit (Loss) attributable to the Parent Company	12,765	(35,202)	(6,534)	(6,094)	6,231	(41,296)

	Thousand euros					
	Hotel Business		Real Estate		Total	
	2011	2010	2011	2010	2011	2010
OTHER INFORMATION						
Inclusions of fixed assets	298,217	84,503	114	3,342	298,331	87,845
Depreciation	(120,706)	(124,525)	819	842	(119,887)	(123,683)
Net losses from asset impairment	(7,369)	(2,240)	-	-	(7,369)	(2,240)
BALANCE SHEET						
ASSETS						
Assets by segments	2,835,770	3,078,713	165,273	172,192	3,001,043	3,250,905
Shareholdings in associated companies	13,183	5,514	60,544	64,478	73,727	69,992
Total consolidated assets	**2,848,953**	**3,084,227**	**225,817**	**236,670**	**3,074,770**	**3,320,897**
LIABILITIES						
Liabilities and equity by segments	2,848,953	3,084,227	225,817	236,670	3,074,770	3,320,897
Total Consolidated Liabilities and Shareholders' Equity	**2,848,953**	**3,084,227**	**225,817**	**236,670**	**3,074,770**	**3,320,897**

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:

	Miles de Euros					
	Net turnover		Total assets		Inclusions of tangible fixed assets and intangible assets	
	2011	2010	2011	2010	2011	2010
Spain	365,167	348,021	984,578	1,122,876	18,321	21,223
Benelux	302,750	291,558	678,229	686,857	14,649	11,024
Italy	274,877	281,921	836,368	929,352	12,284	32,819
Germany	253,842	232,168	331,969	296,674	243,756	11,535
Latin America	66,278	62,227	213,250	254,382	7,942	9,896
Rest of Europe	68,072	66,045	30,376	30,756	1,379	1,348
Total	**1,330,986**	**1,281,940**	**3,074,770**	**3,320,897**	**298,331**	**87,845**

29. REMUNERATION AND OTHER STATEMENTS MADE BY THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The amounts due in 2011 and 2010 to the members of the Parent Company's bodies of governance, Board of Directors (13 members, 15 in 2010), Audit and Control Committee (4 members) and Appointments and Remuneration Committee (3 members), for the remuneration of the Executive Director, attendance fees and allowances were as follows:

29.1. Remuneration of the Board of Directors

Remuneration item	Thousand euros	
	2011	2010
Fixed remuneration	900	775
Variable remuneration	417	250
Parent Company: allowances	113	104
Parent Company: attendance allowances	532	531
Compensation/other	6,340	103
Life insurance premiums	52	45
Consolidated companies: allowances	2	2
Consolidated Companies: attendance allowances	27	15
Total	**8,383**	**1,780**

The "Compensation" item includes both the compensation and remuneration for the post contractual no competition agreement received by Mr. Gabriele Burgio, who left the Group on 28 February 2011.

The Board of Directors had thirteen members at 31 December 2011, two of whom are women and eleven men.

29.2. Remuneration of Senior Management

The remuneration of members of the Management Committee at 31 December 2011 and 2010, excluding any who simultaneously held office as members of the Board of Directors (whose remuneration has been set out has above), is detailed below:

	Thousand euros	
	2011	2010
Remuneration in cash	3,079	3,124
Remuneration in kind	-	-
Total	**3,079**	**3,124**

Total remuneration for senior management in 2011 includes 457,000 euros in annual bonuses and 333,000 euros in tri annual bonuses. There are nine members of senior management (five members in 2010).

The amount of remuneration received by all members of senior management in 2010 includes, among other items, the amount due for annual variable remuneration (696,000 euros) and tri annual variable remuneration (661,000 euros).

The total figure of 2,086,000 euros was booked as due in the Financial Statements for 2010 drawn up on 28 February 2011. This figure does not include either annual or tri annual variable remuneration as they had not been approved by the competent decision making body on such date.

29.3. Information on conflicts of interest among the Directors

At year-end 2011, the members of the Board of Directors of NH Hoteles, S.A. and certain individuals associated with the Board, as defined in the Revised 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
Sociedad de Promoción y Participación Empresarial Caja Madrid	Inversora de Hoteles Vacacionales, S.A.	Construction and Tourist Promotions	25%
Francisco Javier Illa Ruiz	Hotel Comtact de Vic, S.A.	Hotel Business	23.50%
Francisco Javier Illa Ruiz	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.	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.	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
Francisco Javier Illa Ruiz	Desarrollo Turistico Isla Bonita, C.A.	Hotel Business	Member of the Management Team
	Grupo Inversor Hesperia, S.A.	Hotel Business	Joint Director
	Corporación Hotelera Hemtex, S.A.	Hotel Business	Member of the Management Team
	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

The process of refinancing the Group had come to an end by the date these consolidated annual accounts were drawn up, following closure of the corresponding negotiations with creditor financial institutions. The agreement was signed before a notary public with the 33 institutions which hold 100% of the total amount of debt to be refinanced.

The transaction includes refinancing 729.8 million euros with maturities of between three and five years. It includes the outstanding balance of the syndicated loan signed in August 2007 (455 million euros) and practically all of the Group's credit lines (275 million euros).

The new syndicated loan is split into three tranches: A1, 315.8 million euros, which is to be repaid in increasing amounts over five years with different annual percentages; A2, 150 million, which to be repaid at the end of the agreement's term; and B, amounting to 250 million euros, which is to be repaid in three years at most with the proceeds of asset sales. In addition, a loan of 14 million euros has been taken out with a single maturity date in 2015.

The collateral set out below has been agreed upon to ensure the aforementioned financing:

- Lien on 89.30% of Sotogrande, S.A.'s share capital;
- ien on 55.5% of NH Italia S.r.l.'s share capital;
- Mortgage on the "NH Eurobuilding" hotel;
- Mortgage on eight hotels in the Netherlands (including the "NH Krasnapolsky" and the "NH Barbizon Palace");
- Lien on 100% of HEM Diegem N.V.'s share capital, the Belgian company which owns all the hotels in Belgium.
- Joint and several first demand guarantees extended by 25 Group companies.

The applicable interest rate will be the three month EURIBOR rate plus a differential of 450 basis points, which may be adjusted either upward or downward on the basis of compliance with the Financial Debt/EBITDA ratio and the degree of fulfilment of the Tranche B repayment schedule. The structuring fee is 2% of the syndicated loan's amount.

Within 45 days of signing the syndicated loan, the Group must enter into a hedging agreement for no less than fifty per cent of the Tranche A1 amount drawn down and pending repayment at any time and for a term of no less than four years. The institutions which provide the hedge will have the same guarantees attached to the loan.

In addition, the Group has obtained a refinancing undertaking from IMI / Banca Intesa for 75 million euros. The term for this loan is for three years, with an optional additional two years at the discretion of NH Group's Italian subsidiary. The agreement will be signed in July once the corporate restructuring process in Italy has come to an end.

The arrangement of the syndicated loan, the 14 million euro loan and the agreement reached in Italy, the joint amount of which exceeds 805 million euros, culminated the process of refinancing the Group, allowing it to focus all its efforts on continuing to improve its efficiency and results.

The pro forma maturity schedule of the Group's financial debt at 31 December 2011 once the refinancing transaction described above with its respective repayment schemes had been taken into account (amounting to 805 million euros, representing 76% of the Group's total net financial debt), is shown in the following table:

				Maturities				
	Limit	Available	Drawn Down	2.011	2.012	2.013	2.014	Resto
Mortgage guarantee loans	**194,818**	**893**	**193,925**		**37,942**	**21,792**	**21,318**	**112,873**
Fixed rate	47,810	-	47,810	-	2,773	2,853	2,935	39,249
Variable Rate	147,008	893	146,115	-	35,169	18,939	18,383	73,624
Asset guarantee loans	**12,297**	**-**	**12,297**	**-**	**8,517**	**2,780**	**1,000**	**-**
Fixed rate	-	-	-	-	-	-	-	-
Variable Rate	12,297	-	12,297	-	8,517	2,780	1,000	-
Loans against pledged shares	**75,000**	**15,000**	**60,000**	**-**	**3,750**	**7,500**	**7,500**	**41,250**
Variable Rate	75,000	15,000	60,000	-	3,750	7,500	7,500	41,250
Subordinated loans	**75,000**	**-**	**75,000**	**-**	**-**	**-**	**-**	**75,000**
Variable Rate	75,000	-	75,000	-	-	-	-	75,000
Syndicated loans	**715,855**	**19,555**	**696,300**	**-**	**-**	**131,586**	**131,586**	**433,129**
Tranche A1 Variable Rate	315,855	-	315,855	-	-	31,586	31,586	252,684
Tranche A2 Variable Rate	150,000	19,555	130,445	-	-	-	-	130,445
Tranche B Variable Rate	250,000	-	250,000	-		100,000	100,000	50,000
Credit lines	**21,600**	**1,595**	**20,005**	**-**	**20,005**	**-**	**-**	**-**
Variable Rate	21,600	1,595	20,005	-	20,005	-	-	-
Arrangement expenses	**-**	**-**	**(4,812)**	**-**	**(1,673)**	**(1,046)**	**(1,046)**	**(1,047)**
Debt due to interest	**-**	**-**	**4,330**	**-**	**4,330**	**-**	**-**	**-**
Borrowing situation at 31/12/2011	**1,094,570**	**37,043**	**1,057,045**	**-**	**72,871**	**162,612**	**160,358**	**661,205**
Borrowing situation at 31/12/2010	**1,197,397**	**23,818**	**1,171,759**	**507,966**	**514,432**	**22,642**	**18,704**	**108,015**

(*) New arrangement expenses have not been taken into consideration until the analysis of this transaction has been conducted in accordance with IFRS 39, paragraphs 40-42 and GA 62.

Assuming that the terms and conditions agreed upon with the financial institutions had been conducted in force on 31 December 2011, the consolidated balance sheet on such date would have been as follows:

ASSETS	Without Refinancing 12/31/11	Refinanced 12/31/11	LIABILITIES AND SHAREHOLDERS' EQUITY	Without Refinancing 12/31/11	Refinanced 12/31/11
Fixed assets and real estate investments	2,343,131	2,343,131	**NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY**	1,139,147	1,139,147
Non-current financial investments	182,417	182,417	Minority Interests	204,650	204,650
Deferred tax assets and other noncurrent assets	136,264	136,264	**TOTAL NET ASSETS**	1,343,797	1,343,797
NONCURRENT ASSETS	**2,661,812**	**2,661,812**			
			Subsidies	21,195	21,195
			Provisions for contingencies and expenses	30,846	30,846
			Debts with credit institutions	225,923	984,174
			Deferred tax liabilities and other noncurrent liabilities	310,622	310,622
			NONCURRENT LIABILITIES	**588,586**	**1,346,837**
Inventories	116,228	116,228		76	
Trade creditors and other accounts receivable	194,223	194,223	Provisions for contingencies and expenses	1,241	1,241
Other current assets	11,364	11,364	Debts with credit institutions	831,122	72,871
Cash, bank and equivalents	91,143	91,143	Trade creditors and other accounts payable	310,024	310,024
CURRENT ASSETS	**412,958**	**412,958**	**CURRENT LIABILITIES**	**1,142,387**	**384,136**
TOTAL ASSETS	**3,074,770**	**3,074,770**	**TOTAL LIABILITIES AND EQUITY**	**3,074,770**	**3,074,770**

31. INFORMATION ON ENVIRONMENTAL POLICY

The management of the integrated water cycle within the Sotogrande development and its surroundings forms part of the operations performed by the Group through Sotogrande, S.A., which include waste water treatment and purification to minimise damage to the environment.

As part of its treatment and purification operations the Group owns two wastewater treatment plants capable of serving up to 20,000 inhabitants. These plants are interconnected, so that treated effluent is discharged into the sea through an underwater outfall. 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 m³ / 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 Company's actions.

The amount of the environmental assets described net of depreciation at 31 December 2011 amounted to 1,467,000 euros (1,523,000 euros in 2010).

The Group had not allocated any provisions for environmental contingencies and claims at year-end 2011.

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 14), 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 27% 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 said requirements. The Group is in the process of refinancing its debt through a syndicated loan amounting to 758 million euros, and part of its strategy resides in covering at least 25% of the refinanced debt through a hedging instrument yet to be designated (IRS or Collar).

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 booked against equity, while the effects on inefficient derivates are booked 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 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 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 Colombian peso). On the basis of this analysis, the Group considers that a 5% depreciation in the corresponding currencies would have the following impact on equity:

	Thousand euros	
	Shareholders' Equity	Profit (Loss)
US dollar	(637)	(22)
Argentine peso	(4,263)	(359)
Mexican peso	(3,981)	(136)
Colombian peso	(1,061)	82

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 (see Note 30).

The Group's liquidity position in 2011 is based on the following points:

- The group had cash and cash equivalents amounting to 95,626,000 euros available at 31 December 2011.

- Undrawn credit lines amounting to 22,043,000 euros were available at 31 December 2011.

- 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 2011 amounted to 132,614,000 euros.

- The Group's capacity to increase its financial borrowing; given that the financial leverage ratio stood at 0.75 at 31 December 2011 (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 of shares in the subsidiary company Sotogrande, S.A. and advertising them in the market. 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 followed by the Group ensures payment undertakings are fulfilled without having to request funds at onerous conditions and allows its 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 is materialised in the remuneration schemes linked to the listed value of shares in the Parent Company. In order to mitigate this market risk arising from an increase in listed prices, the Group entered into the equity swap arrangement described in Note 20 of this consolidated 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.

At 31 December 2011, 32% of its financial debt was pegged to a fixed rate (including the syndicated loan) and it had accounts receivable guaranteed through credit insurance up to a limit of 50 million euros. In addition, the Company does not consider it necessary to implement an interest rate risk mitigation policy, as its exposure to such risks is low. Nonetheless, it maintains loan agreements in several currencies as a natural hedge (US Dollar and Swiss Franc).

ANNEX I: SUBSIDIARIES

The data on the Company's subsidiaries at 31 December 2011 are presented below:

Investee Company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee company	% of voting rights controlled by parent company	Net book value at parent company	Thousand euros			
						Assets	Liabilities	Equity	(Profit) Loss for the Year
Airport Hotel Frankfurt Raunheim, GmbH & Co. KG	Munich	Real Estate	94%	100%	7.801	24.721	(16.422)	(7.160)	(1.139)
Artos Beteiligungs, GmbH	Munich	Holding	94%	100%	47.862	103.753	(52.836)	(49.701)	(1.216)
Astron Immobilien, GmbH	Munich	Holding	100%	100%	25.598	39.955	(14.358)	(25.598)	-
Astron Kestrell, Ltd. (**)	Plettenberg Bay	Hotel Business	100%	100%	(1.234)	710	(1.943)	1.116	118
Atlantic Hotel Exploitatie, B.V.	The Hague	Hotel Business	100%	100%	117	-	117	-	(117)
Blacom, S.A.	Buenos Aires	Without Activity	100%	100%	1.498	1.500	(2)	(1.498)	-
Caribe Puerto Morelos, S.A. de C.V. (*)	Mexico DF	Hotel Business	100%	100%	4.561	4.563	(2)	(3.853)	(708)
Chartwell de México, S.A. de C.V. (*)	Mexico DF	Real Estate	100%	100%	4.802	5.003	(201)	(4.811)	9
Chartwell de Nuevo Laredo, S.A. de C.V. (*)	Nuevo Laredo, Mexico	Hotel Business	100%	100%	1.537	3.217	(1.680)	(347)	(1.190)
Chartwell Inmobiliaria de Coatzacoalcos, S.A. de C.V. (*)	Coatzacoalcos, Mexico	Hotel Business	100%	100%	2.844	3.228	(384)	(2.873)	29
City Hotel, S.A. (*)	Buenos Aires	Hotel Business	50%	50%	5.233	13.376	(2.910)	(9.175)	(1.291)
Club Deportivo Sotogrande, S.A.	San Roque	Tourist Services	93%	93%	3.718	4.092	(115)	(4.144)	167
Cofir, S.L.	Madrid	Holding	100%	100%	57	57	-	(59)	2
Columbia Palace Hotel, S.A. (*)	Montevideo	Hotel Business	100%	100%	6.360	10.966	(4.606)	(5.892)	(468)
Coperama, S.L.	Barcelona	Procurement network	75%	75%	10.238	14.907	(1.256)	(71)	(13.580)
De Nederlandse Club, Ltd.	Somerset West	Without Activity	100%	100%	-	-	-	-	-
De Sparrenhorst, B.V.	Nunspeet	Hotel Business	100%	100%	(92)	-	(92)	-	92
Desarrollo Inmobiliario Santa Fe, S.A. de C.V.	Mexico DF	Real Estate	50%	50%	3.111	12.642	(6.420)	(6.203)	(19)
Donnafugata Resort, S.r.l.	Italy	Tourist Services	95%	95%	3.792	65.409	(61.430)	(10.468)	6.490
Edificio Metro, S.A. (*)	Buenos Aires	Hotel Business	100%	100%	10.081	10.990	(910)	(9.689)	(392)
NH Establecimientos Complementarios Hoteleros, S.A.	Barcelona	Hotel Business	100%	100%	(2.489)	1.431	(3.920)	1.747	742
Expl. Mij. Grand Hotel Krasnapolsky, B.V.	Amsterdam	Hotel Business	100%	100%	12.131	17.165	(5.034)	(13.751)	1.620
Expl. Mij. Hotel Best, B.V.	Best	Hotel Business	100%	100%	312	619	(307)	(423)	112
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%	5.988	6.626	(638)	(5.096)	(892)
Expl. Mij. Hotel Naarden, B.V.	Naarden	Hotel Business	100%	100%	(54)	909	(963)	(251)	305
Expl. Mij. Hotel Schiller, B.V.	Amsterdam	Hotel Business	100%	100%	7.090	24.296	(17.206)	(6.313)	(778)
Exploitatie Mij. Tropenhotel, B.V.	Hilversum	Hotel Business	100%	100%	(4)	344	(349)	6	(2)
Fashion Tapas, S.L.	Madrid	Catering	100%	100%	53	656	(603)	-	(53)
Fast Good Islas Canarias, S.A.	Las Palmas	Catering	50%	50%	(762)	(1.516)	(8)	1.485	38
Fast Good Península Ibérica, S.L. (*)	Madrid	Catering	100%	100%	(19.125)	(2.649)	(16.476)	17.959	1.166
Franquicias Lodge, S.A. de C.V. (*)	Mexico DF	Real Estate	100%	100%	170	173	(2)	(166)	(5)
Gran Círculo de Madrid, S.A. (*)	Madrid	Hotel Business	99%	99%	37.604	41.770	(3.686)	(38.924)	840
Grande Jolly, S.r.l. (*)	Milan	Hotel Business	100%	100%	401.184	668.003	(266.818)	(379.254)	(21.930)
Grupo Financiero de Intermediación y Estudios, S.A.	Madrid	Holding	100%	100%	(18.851)	277	(19.129)	18.828	23
Grupo Hotelero Monterrey, S.A. de C.V.	Mexico DF	Hotel Business	100%	100%	1.041	2.459	(1.418)	(631)	(411)
Grupo Hotelero Querétaro, S.A. de C.V.	Mexico DF	Real Estate	66%	66%	2.627	7.717	(3.736)	(4.245)	264
Hanuman Investment, S.L.	Tenerife	Hotel Business	50%	50%	1.599	3.695	(498)	(3.422)	224
Heiner Gossen Hotelbetrieb, GmbH	Mannheim, Germany	Hotel Business	100%	100%	(765)	2	(767)	738	27
HEM Atlanta Rotterdam, B.V.	Hilversum	Hotel Business	100%	100%	5.494	6.536	(1.042)	(4.994)	(500)
HEM Epen Zuid Limburg, B.V.	Wittem	Hotel Business	100%	100%	(1.679)	2.554	(4.233)	1.647	32
HEM Forum Maastricht, B.V.	Maastricht	Hotel Business	100%	100%	1.717	2.788	(1.071)	(1.533)	(184)
HEM Jaarbeursplein Utrecht, B.V.	Utrecht	Hotel Business	100%	100%	7.094	9.436	(2.342)	(6.156)	(938)
HEM Janskerkhof Utrecht, B.V.	Hilversum	Hotel Business	100%	100%	920	1.396	(476)	(829)	(91)
HEM Marquette Heemskerk, B.V.	Hilversum	Hotel Business	100%	100%	(1.114)	485	(1.598)	973	140
HEM Onderlangs Arnhem, B.V.	Arnhem	Hotel Business	100%	100%	438	1.023	(585)	(380)	(58)
HEM Spuistraat Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%	14.217	16.704	(2.487)	(12.389)	(1.828)
HEM Stadhouderskade Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%	4.840	6.543	(1.703)	(4.967)	127
HEM Van Alphenstraat Zandvoort, B.V.	Hilversum	Hotel Business	100%	100%	2.631	3.815	(1.184)	(2.595)	(35)
HEMV Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%	63.133	83.861	(20.728)	(60.937)	(2.196)

Investee Company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee company	% of voting rights controlled by parent company	Net book value at parent company	Thousand euros			
						Assets	Liabilities	Equity	(Profit) Loss for the Year
HHM Jolly, B.V.	Amsterdam	Holding	100%	100%	709	712	(3)	(712)	3
Highmark Geldrop, B.V.	Geldrop	Hotel Business	100%	100%	(1.652)	1.055	(2.707)	1.441	211
Highmark Hoofddorp, B.V.	Hoofddorp	Hotel Business	100%	100%	(10.355)	2.786	(13.141)	9.884	471
Hispana Santa Fe, S.A. of C.V.	Mexico DF	Without activity	50%	50%	(2)	97	(100)	3	-
Hotel Aukamm Wiesbaden, GmbH & Co. KG	Munich	Real Estate	94%	100%	1.364	11.075	(9.624)	(798)	(653)
Hotel Bingen und Viernheim, GmbH & Co. KG	Munich	Real Estate	94%	100%	4.354	10.947	(6.315)	(4.194)	(438)
Hotel Ciutat de Mataró, S.A.	Barcelona	Hotel Business	50%	50%	265	839	(308)	(1.290)	760
Hotel de Ville, B.V.	Groningen	Hotel Business	100%	100%	(1.188)	449	(1.637)	1.097	91
Hotel Expl. Mij. Amsterdam Noord, B.V.	Amsterdam	Hotel Business	100%	100%	(3.444)	9.854	(13.298)	3.300	145
Hotel Expl. Mij. Leijenberghlaan Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%	5.189	6.371	(1.182)	(4.580)	(609)
Hotel Expl. Mij. Capelle a/d IJssel, B.V.	Capelle a/d Ijssel	Hotel Business	100%	100%	4.283	4.844	(561)	(4.088)	(195)
Hotel Expl. Mij. Danny Kayelaan Zoetermeer, B.V.	Hilversum	Hotel Business	100%	100%	(509)	1.070	(1.579)	499	10
Hotel Expl. Mij. Stationsstraat Amersfoort, B.V.	Amersfoort	Hotel Business	100%	100%	(212)	2.344	(2.555)	385	(174)
Hotel Expl. Mij. Diegem, N.V. (**)	Diegem	Hotel Business	100%	100%	82.186	97.334	(15.148)	(81.137)	(1.050)
Hotelbetriebe Bayreuther Strabe, GmbH	Germany	Without activity	100%	100%	-	-	-	-	-
Hoteleira Brasil, Ltda.	Brazil	Hotel Business	100%	100%	590	757	(167)	(590)	-
Hotelera de la Parra, S.A. de C.V. (*)	Mexico DF	Hotel Business	100%	100%	10.616	18.976	(8.359)	(11.514)	897
Hotelera del Mar, S.A.	C. Mar de Plata	Without activity	20%	20%	-	-	-	-	-
Hotelera Lancaster, S.A. (*)	Buenos Aires	Hotel Business	50%	50%	1.827	4.491	(836)	(3.031)	(623)
Hoteles Hesperia, S.A. (*)	Barcelona	Hotel Business	100%	100%	4.390	5.455	(1.065)	(1.280)	(3.110)
Immobiliare 4 Canti, S.r.l. (*)	Barcelona	Hotel Business	50%	50%	-	-	-	-	-
Inmobiliaria y Financiera Aconcagua, S.A. (*)	Buenos Aires	Hotel Business	50%	50%	1.081	2.974	(812)	(1.719)	(443)
Inversores y Gestores Asociados, S.A.	Madrid	Holding	100%	100%	58	806	(748)	(19)	(39)
Jan Tabak, N.V. (**)	Bussum	Without activity	80%	80%	(224)	-	(279)	279	-
JH Belgium, S.A. (*)	Brussels	Hotel Business	100%	100%	629	4.272	(3.643)	(756)	127
JH Deutschland, GmbH (*)	Cologne	Hotel Business	96%	96%	6.491	10.496	(3.765)	(4.825)	(1.906)
JH Holland, N.V. (*)	Amsterdam	Hotel Business	100%	100%	10.555	10.607	(52)	52.141	(62.696)
JH USA, Inc. (*)	Wilmington	Hotel Business	100%	100%	71.134	88.943	(17.809)	(71.143)	9
Koningshof, B.V.	Veldhoven	Hotel Business	100%	100%	29.618	43.623	(14.006)	(28.475)	(1.143)
Krasnapolsky Belgian Shares, B.V.	Hilversum	Holding	100%	100%	(8.522)	(8.522)	-	8.522	-
Krasnapolsky Events, B.V.	Amsterdam	Without Activity	100%	100%	69	69	-	(69)	-
Krasnapolsky H&R Onroerend Goed, B.V.	Amsterdam	Real Estate	100%	100%	108.274	172.049	(63.776)	(103.984)	(4.289)
Krasnapolsky Hotels & Restaurants, N.V.	Amsterdam	Holding	100%	100%	477.338	759.245	(281.906)	(445.710)	(31.628)
Krasnapolsky Hotels, Ltd. (**)	Somerset West	Hotel Business	100%	100%	(717)	1.544	(2.261)	390	327
Krasnapolsky ICT, B.V.	Hilversum	Without Activity	100%	100%	16	16	-	(16)	-
Krasnapolsky International Holding, B.V.	Amsterdam	Holding	100%	100%	6.466	65.861	(59.396)	(4.279)	(2.187)
Latina Chile, S.A. (*)	Santiago de Chile	Hotel Business	100%	100%	12.836	9.487	3.349	(11.441)	(1.395)
Latina de Gestión Hotelera, S.A. (*)	Buenos Aires	Hotel Business	100%	100%	89.563	98.276	(8.713)	(89.187)	(375)
Latinoamericana de Gestión Hotelera, S.L.	Madrid	Holding	100%	65%	120.827	157.977	(37.150)	(117.189)	(3.638)
Leeuwenhorst Congres Center, B.V.	Noordwijkerhout	Hotel Business	100%	100%	53.108	60.146	(7.038)	(50.162)	(2.947)
Liberation Exploitatie, B.V.	Sprang Capelle	Hotel Business	100%	100%	(4.957)	944	(5.901)	4.349	608
Marquette Beheer, B.V.	Hilversum	Real Estate	100%	100%	278.943	278.945	(2)	(265.586)	(13.357)
Museum Quarter, B.V.	Hilversum	Hotel Business	100%	100%	994	1.160	(166)	(1.730)	736
Nacional Hispana de Hoteles, S.A. (*)	Mexico DF	Hotel Business	100%	100%	72.528	72.798	(270)	(69.155)	(3.373)
NH Atardecer Caribeño, S.L.	Madrid	Real Estate	100%	100%	945	2.658	(1.713)	(1.936)	991
NH Belgium cvba	Diegem	Holding	100%	100%	70.670	66.561	4.109	(70.521)	(150)
NH Caribbean Management, B.V.	Hilversum	Management	100%	100%	(100)	(100)	-	100	-
NH Central Europe Management, GmbH	Berlin	Holding	100%	100%	48	51	(3)	(45)	(3)
NH Central Europe, GmbH & Co. KG (*)	Germany	Hotel Business	100%	100%	123.110	188.195	(65.085)	(122.777)	(334)
NH Central Reservation Office, S.L.	Madrid	Call Centre	100%	100%	5.773	10.225	(4.452)	(1.945)	(3.828)
NH Domo y Decoración, S.L.	Madrid	Without Activity	50%	50%	-	-	-	-	-
NH FINANCE, S.A. (**)	Luxembourg	Financial company	100%	100%	3.293	451.555	(448.262)	(2.893)	(400)
NH Hotel Ciutat de Reus, S.A.	Barcelona	Hotel Business	90%	90%	1.445	2.006	(402)	(1.434)	(170)
NH Hotel Rallye, S.A. (*)	Barcelona	Hotel Business	100%	100%	(46.658)	260.015	(306.673)	40.888	5.770
NH Hotelbetriebs.u. Dienstleistungs, GmbH	Berlin	Hotel Business	100%	100%	(15.255)	1.821	(17.076)	15.363	(108)
NH Hotelbetriebs.u. Entwicklungs, GmbH	Berlin	Hotel Business	100%	100%	(4.261)	1.569	(5.830)	4.116	145
NH Hoteles Austria, GmbH (*)	Vienna	Hotel Business	100%	100%	2.487	14.941	(12.454)	(4.221)	1.734

Investee Company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee company	% of voting rights controlled by parent company	Net book value at parent company	Thousand euros			
						Assets	Liabilities	Equity	(Profit) Loss for the Year
NH Hoteles Deutschland, GmbH (*)	Berlin	Hotel Business	100%	100%	4.766	96.236	(91.470)	(5.625)	859
NH Hoteles España, S.L. (*)	Barcelona	Hotel Business	100%	100%	182.114	181.144	970	(193.878)	11.763
NH Hoteles Participaties, N.V. (**)	Amsterdam	Holding	100%	100%	519.916	586.193	(66.277)	(487.025)	(32.891)
NH Hoteles Switzerland, GmbH	Fribourg	Hotel Business	100%	100%	8.490	16.336	(7.847)	(9.254)	764
NH Hotels Polska, Sp. Zo.o.	Poland	Hotel Business	100%	100%	82	86	(4)	(34)	(48)
NH Hotels Czequia, s.r.o.	Prague	Hotel Business	100%	100%	(32)	380	(412)	(1.269)	1.300
NH Hotels USA Inc.	Houston, USA	Real Estate	100%	100%	271	347	(76)	(248)	(23)
NH Hungary Hotel Management, Ltd. (*)	Budapest	Hotel Business	100%	100%	154	691	(538)	(636)	482
NH Italia, S.r.l. (*)	Milan	Hotel Business	56%	56%	198.047	526.098	(169.257)	(364.370)	7.529
NH Italy Management, S.r.l.	Milan	Hotel Business	100%	100%	18.532	92.623	(74.091)	(24.046)	5.514
NH Lagasca, S.A.	Barcelona	Hotel Business	100%	100%	5.890	16.524	(10.634)	(5.307)	(583)
NH Las Palmas, S.A. (*)	Gran Canaria	Hotel Business	75%	75%	9.996	14.949	(1.623)	(12.542)	(785)
NH Logroño, S.A.	Logroño	Hotel Business	76%	76%	1.190	2.260	(703)	(1.773)	217
NH Management Black Sea, S.R.L.	Bucharest	Hotel Business	100%	100%	1.777	1.881	(104)	(1.509)	(268)
NH Marin, S.A. (*)	Malaga	Hotel Business	50%	50%	596	3.414	(2.222)	(668)	(524)
NH Orio, S.r.l. (*)	Milan	Without Activity	100%	100%	-	-	-	-	-
NH Private Equity, B.V.	Amsterdam	Holding	100%	100%	(13.665)	6.677	(20.341)	10.707	2.958
NH Rallye Portugal, Lda.	Portugal	Hotel Business	100%	100%	2.156	8.313	(6.156)	(2.075)	(83)
NH The Netherlands, B.V. (vh GTI B.V.)	Hilversum	Holding	100%	100%	437.832	532.351	(94.519)	(429.327)	(8.505)
NH Tortona, S.r.l.	Milan	Hotel Business	70%	70%	1.313	5.372	(3.907)	(199)	(1.266)
Nuevos Espacios Hoteleros, S.A.	Madrid	Hotel Business	100%	100%	(468)	8.867	(9.335)	(30)	498
Objekt Leipzig Messe, GmbH & Co. KG	Munich	Real Estate	94%	100%	4.238	18.193	(13.684)	(3.906)	(602)
OGBM Atlanta Rotterdam, B.V.	Rotterdam	Real Estate	100%	100%	19.212	19.872	(661)	(18.225)	(987)
OGBM Bogardeind Geldrop, B.V.	Geldrop	Real Estate	100%	100%	9.239	9.558	(320)	(8.772)	(467)
OGBM Capelle a/d Ijssel, B.V.	Capelle a/d Ijssel	Real Estate	100%	100%	8.725	8.616	109	(8.328)	(397)
OGBM Danny Kayelaan Zoetermeer, B.V.	Zoetermeer	Real Estate	100%	100%	8.487	9.102	(614)	(8.090)	(398)
OGBM Ijsselmeerweg Naarden, B.V.	Naarden	Real Estate	100%	100%	14.418	14.612	(194)	(13.706)	(712)
OGBM Kruisweg Hoofddorp, B.V.	Hoofddorp	Real Estate	100%	100%	53.883	55.222	(1.339)	(51.344)	(2.538)
OGBM Maas Best, B.V.	Best	Real Estate	100%	100%	6.219	6.352	(133)	(5.899)	(320)
OGBM Marquette Heemskerk, B.V.	Heemskerk	Real Estate	100%	100%	5.808	5.783	25	(5.554)	(254)
OGBM Prins Hendrikkade Amsterdam, B.V.	Amsterdam	Real Estate	100%	100%	76.758	79.464	(2.706)	(73.052)	(3.706)
OGBM Stadhouderskade Amsterdam, B.V.	Amsterdam	Real Estate	100%	100%	61.448	64.283	(2.835)	(58.582)	(2.866)
OGBM Van Alphenstraat Zandvoort, B.V.	Zandvoort	Real Estate	100%	100%	13.236	12.511	725	(12.528)	(707)
Olofskapel Monumenten, B.V.	Amsterdam	Real Estate	100%	100%	917	1.002	(85)	(754)	(163)
Operadora Nacional Hispana, S.A. de C.V.	Mexico DF	Real Estate	100%	100%	5.365	11.130	(5.765)	(4.750)	(615)
Palatium Amstelodamum, N.V.	Amsterdam	Hotel Business	100%	100%	7.204	10.362	(3.158)	(7.069)	(135)
Polis Corporation, S.A.	Buenos Aires	Hotel Business	100%	100%	8.637	9.590	(952)	(7.851)	(786)
Resorts Europe, S.L.	Madrid	Hotel Business	100%	100%	125	1.051	(926)	-	(125)
Restaurant D'Vijff Vlieghen, B.V.	Amsterdam	Catering	100%	100%	2.045	2.570	(525)	(1.913)	(132)
Mola, S.L. (*)	Madrid	Hotel Business	100%	100%	5.773	10.224	(4.451)	(1.945)	(3.828)
Servicios Chartwell de Nuevo Laredo, S.A. de C.V. (*)	Nuevo Laredo, Mexico	Hotel Business	100%	100%	(18)	16	(34)	(12)	31
Servicios Corporativos Chartwell Coatzacoalcos, S.A. de C.V. (*)	Coatzacoalcos, Mexico	Without Activity	100%	100%	-	-	-	-	-
Servicios Corporativos Chartwell Monterrey, S.A. de C.V. (*)	Monterrey, Mexico	Real Estate	100%	100%	(57)	63	(120)	50	7
Servicios Corporativos de Tlalnepantla, S.A. de C.V.	Mexico DF	Hotel Business	100%	100%	(6)	2	(9)	6	1
Servicios Corporativos Hoteleros, S.A. de C.V. (*)	Mexico DF	Hotel Business	100%	100%	542	1.210	(668)	(656)	114
Servicios Corporativos Krystal Zona Rosa, S.A. de C.V. (*)	Mexico DF	Hotel Business	100%	100%	9	490	(481)	26	(34)
Servicios de Operación Turística, S.A. de C.V. (*)	Guadalajara, Mexico	Hotel Business	100%	100%	187	192	(5)	(183)	(4)
Servicios Hoteleros Tlalnepantla, S.A. de C.V. (*)	Mexico DF	Hotel Business	100%	100%	11	2	8	-	(11)
Sotogrande, S.A. (*)	Cadiz	Real Estate	98%	98%	214.112	298.402	(79.630)	(231.614)	12.843
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%	8.466	8.807	(341)	(8.085)	(381)
VSOP VIII, B.V. (**)	Groningen	Hotel Business	50%	50%	1.381	8.312	(5.551)	(2.391)	(371)

(*) Companies audited by Deloitte
(**) Companies audited by PriceWaterhouseCoopers

ANNEX II: ASSOCIATED COMPANIES

Company	Registered Address	Activity	% Shareholding	% voting right controlled by NH Hoteles	Thousand euros				
					Net book value	Investee Company Details			
						Assets	Liabilities	Equity	(Profit) Loss for the Year
Capredo Investments, GmbH (*)	Switzerland	Holding	50%	50%	16,621	48,046	(248)	(47,802)	4
Consorcio Grupo Hotelero T2, S.A. de C.V.	Mexico D.F.	Hotel Business	10%	10%	424	22,892	(18,650)	(4,161)	(81)
Fonfir1, S.L.	Madrid	Real Estate	50%	50%	100	203	(3)	(199)	-
Harrington Hall Hotel, Ltd. (*)	London	Hotel Business	25%	25%	1,670	44,115	(65,947)	24,095	(2,263)
Inmobiliaria 3 Poniente, S.A. de C.V.	Mexico	Hotel Business	27%	27%	1,670	6,988	(821)	(5,596)	(571)
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%	1,887	14,231	(6,683)	(7,385)	(163)
Palacio de la Merced, S.A.	Burgos	Hotel Business	25%	25%	1,525	16,119	(10,017)	(5,880)	(221)
Fomento Inmobiliario del Caribe, S.A. de C.V.	Mexico	Real Estate	50%	25%	32,884	66,065	(297)	(66,664)	896
Sotocaribe, S.L.	Madrid	Real Estate	36%	36%	65,483	261,976	(77,515)	(185,963)	1,503

(*) Companies audited by Deloitte

ANEX 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 2011, the Parent Company's percentage interest in investee companies and the percentage of voting rights controlled by the Parent Company amounted to 50%, as shown below:

Investee Company	Net book value at parent company	Thousand euros			
		Assets	Liabilities	Equity	(Profit) Loss for the Year
Los Alcornoques de Sotogrande, S.L.	934	13,573	(8,949)	(4,715)	91
Resco Sotogrande, S.L.	2.157	11,341	(8,975)	(2,611)	245
Residencial Marlin, S.L. (*)	26.843	71,474	(17,946)	(61,087)	7,559
Borokay Beach, S.L.	2.558	15,833	(10,718)	(5,743)	628

(*) 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.

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. One of the most significant changes has been caused by the entry into force of the following legislation: Law 12/2010 of 30 June, amending Law 19/1988 of 12 July, on the Auditing of Accounts, Law 24/1988 of 28 July on the Securities Market and the consolidated text of the Law on Limited Companies, approved by Royal Legislative Decree 1564/1989 of 22 December, for its adaptation to EU regulations, by virtue of which the Audit Committee has been given a specific legal framework regarding its functioning and powers, with the bylaw provisions and content of the Board Regulations on this matter having been appropriately modified for the purposes of adaptation to the aforementioned legal text.

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 members, and particularly its Chairman, shall be appointed on the basis of their knowledge and experience in accounting, auditing or risk management.

The Chairman of the Audit and Control Committee shall be an independent director and shall be appointed from among the directors who hold neither management or executive responsibilities in the organisation nor maintain a contractual relationship other than the office to which they have been appointed. The Chairman shall be appointed from among the Committee's members who are non-executive directors. The chairman shall be replaced every four years and may be re-elected one year after standing down 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) Supervising the effectiveness of the company's internal control, internal auditing, where applicable, and risk-management systems, as well as discussing any significant weaknesses in the internal control system, identified during audits, with auditors or audit companies.

3) 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.

4) 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.

5) Establishing suitable relationships with auditors or audit firms in order to receive information regarding any issues that may endanger their independence, so that these can be examined by the committee, as well as any other matters related with the process of conducting accounts auditing, as well as any other communications stipulated in the accounts auditing legislation and audit regulations. In any event, it shall receive written confirmation on an annual basis from the auditors of accounts or auditing firms of their independence from the Company or from any entities related to it either directly or indirectly, as well as information on any additional service of any kind whatsoever provided to such entities by the aforementioned auditors of accounts or by persons related to them in accordance with the provisions set forth in Act 19/1988 of 12 July on the Auditing of Accounts.

6) Issuing, once a year and prior to the release of the accounts auditing report, a report expressing an opinion regarding the independence of the auditors or audit firms. This report must, in all cases, make a statement regarding the provision of any services additional to those mentioned in the previous section.

7) 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.

8) 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.

9) To supervise compliance and internal codes of conduct, as well as the rules of corporate governance.

10) 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.

11) 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.

12) 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 2011 there was a change in the make-up of the Audit Committee, brought about by the resignation tendered by the independent director Mr Antonio Viana-Baptista, who was the Chair of the Audit and Control Committee, having designated Mr Carlos González Fernández as his replacement.

After this change, the composition of the Audit Committee was as follows:

Chairman: Mr Carlos Gonzalez Fernandez

Members: Mr Iñaki Arratíbel Olaziregi
Mr Ignacio Ezquiaga Domínguez (acting on behalf of Hoteles Participados, S.L.)
Mr Juan Llopart Pérez

Secretary: Mr Leopoldo González –Echenique Castellanos de Ubao

→ 3) Relationships with External Auditors

The parent company of NH Hoteles Group 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 2011 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, The Netherlands/Belgium, Austria, Switzerland,Mexico. MERCOSUR and Sotogrande Business Units, which account for 99,8% of consolidated assets and 99,5% 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 29 June 2011 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 2011. 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 2011 amounted to 1.,46 million euros (1.01 million euros in 2010).

PriceWaterhouseCoopers was appointed as auditor of the Dutch, Belgian and Swiss companies in 1998, of the Austrian companies in 2004 and of a Luxembourg company in 2009, having been replaced in this role by Deloitte in 2011.

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 2011 by all these auditing firms amounted to 0.04 million euros (0.50 million euros in 2010).

The Audit Committee has received information about such issues as may have endangered the independence of the auditors and, after carefully reviewing this information, has issued a report expressing its opinion regarding their independence and the provision of services in addition to those of auditing.

→ 4) Contents and Results of the Audit Committee's Work

The Audit Committee held twelve meetings in 2011, which covered the following matters:

a) Analysis and assessment, along with the external auditors, of the Financial Statements and the Annual Reports for 2010 and 2011, ensuring that the auditing opinion was issued under conditions of absolute independence.

b) Review of the information relating to any issues that may endanger the independence of the auditors. Issuance of the report on the independence of the auditors.

c) 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.

d) Monitoring of the Internal Audit Plan for 2011, including an examination of its conclusions and the implementation, as appropriate, of the necessary corrective measures.

e) Review and updating of the Group's Risk Map. Analysis and assessment of the specific risks related to the Financial information issuing.

f) 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.

g) Analysis of related-party transactions in order to verify that they had been performed under market conditions, as has been the case.

h) Monitoring the most significant projects carried out by the internal auditing team. Performance of audits in Italy and Resorts. Analysis of the risks and controls implemented.

→ 5) Priorities for 2012

This Committee's priorities for this year, apart from those related to drawing up and issuing public financial reporting, are focused on:

1. Continuation of the project to implement the System of Internal Control over Financial Reporting in the rest of the most significant Business Units. In 2011, the focus was on the Spain Business Unit and Corporate.

2. Development and Implementation of the Continuous Auditing Project:

   - Obtaining, preparing and analysing the operational databases.
   - Creation of remote audit work programmes.
   - Selection of indicators

3. Analysis and review of the operational and administrative risk map with regard to hotels:

   - Review and improvement of the controls implemented at present.
   - Design of new controls, implementation in IT tools.

4. Evaluation of the independence of the auditors. Issuance of the report on the independence of the auditors

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.

Madrid, 27th of March, 2012

397 HOTELS
IN 25 COUNTRIES

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Environmental website: http://medioambiente.nh-hoteles.es/en

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