

## APPENDIX I

**Model and statistics of the Annual Directors' Remuneration Report,  
according to Circular 4/2013 issued by the Spanish Securities and Exchange  
Commission (CNMV)**

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| <b>STANDARD FORM ANNEX I OF THE ANNUAL REPORT ON<br/>REMUNERATION OF DIRECTORS OF LISTED COMPANIES</b> |
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| <b>IDENTIFICATION DETAILS OF THE ISSUER</b> |
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END DATE OF THE REFERENCE FINANCIAL YEAR  
31/12/2018

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| Company name: |
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NH HOTEL GROUP, S.A

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| Registered office: |
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Calle Santa Engracia 120  
28003, Madrid

## ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED COMPANIES

### A REMUNERATION POLICY OF THE COMPANY FOR THE CURRENT FINANCIAL YEAR

A.1 Explain the current directors' remuneration policy applicable to the year in progress. To the extent that it is relevant, certain information may be included related to the remuneration policy approved by the General Shareholders' Meeting, providing that these references are clear, specific and concrete.

The specific determinations for the year in progress should be described, both the directors' remuneration in their position as such and as a result of their executive duties carried out for the Board pursuant to the provisions in the contracts signed with the executive directors and the remuneration policy approved by the General Shareholders' Meeting

In any case, the following aspects should at least be reported:

- A description of the procedures and company bodies involved in determining and approving the remuneration policy and its terms and conditions.
- An indication and, where applicable, an explanation about whether comparable companies have been taken into account in order to determine the company's remuneration policy.
- Information on whether any external advisors took part in this process and, if so, their identity details.

#### A.1.1 Remuneration Policy applicable in 2019

The Directors' Remuneration Policy for NH Hotel Group S.A. (hereinafter referred to as "NH", the "Company" or the "Enterprise") in force in 2019 was approved by the General Shareholders' Meeting held on 21 June 2018 for the period 2018-2020, as a separate item on the agenda, according to the procedure stipulated in the Spanish Capital Companies Act.

The aim of this Remuneration Policy is to reward the commitment, responsibility and talent of NH's directors, always taking into consideration the economic situation, the company's earnings, the Group's strategy and the best market practices.

According to the foregoing, the principles governing the Remuneration Policy are as follows:

- Alignment with the investors: The design of the Remuneration Policy will be regularly reviewed to ensure its alignment between achieving profits and creating value for the shareholders.
- Proportionality: The remuneration is in a suitable proportion to the company's features and business model.
- Balance: The directors' remuneration must not be excessive nor be insufficient in order to discourage inappropriate risk-taking.
- Suitability: The Remuneration Policy is adapted to the composition of the Board and the amounts are sufficient to remunerate the directors' qualifications, their time spent and their responsibility, guaranteeing their required loyalty and allegiance to the company, but without compromising the members' independence.
- Non-discrimination: NH's Remuneration Policy will be extremely respectful of non-discrimination due to gender, age, culture, religion or race.
- Alignment with the strategy: The Chief Executive Officer's remuneration is aligned with the Group's strategic targets through two variable remuneration components, one short-term and the other long-term.

- Transparency: The information published about the remuneration is in line with the best corporate governance practices.

Regarding the remuneration items contained in the Remuneration Policy, pursuant to the provisions in Article 42 of NH's Articles of Association and Article 36 of the Board of Directors' Regulations, NH differentiates between the remuneration policy applicable to the Non-Executive Directors, in which their joint supervisory and decision-making duties are remunerated and the policy for the Chief Executive Officer, which rewards the senior management duties he performs, as shown below:

- Remuneration items for the Non-Executive Directors:
  - A fixed annual amount that depends on the post or posts they hold on the Board or on its committees.
  - Expenses for attending the meetings of the committees of the Board of Directors. The total annual amount for this item depends on the number of meetings held by each committee and the director attending them.
- Remuneration items for the Chief Executive Officer:
  - Fixed remuneration, sufficient for his services and duties.
  - Short- and long-term variable remuneration linked to the company's profits.
  - Remuneration in kind.

#### **A.1.2 The procedures and bodies involved in determining and approving the Remuneration Policy**

The company's main bodies involved in determining and approving the Remuneration Policy are as follows:

- The General Shareholders' Meeting:

According to the Spanish Capital Companies Act, the General Shareholders' Meeting is competent for approving the following matters related to the directors' remuneration:

- The Remuneration Policy at least every three years.
- Possible amendments to the Remuneration Policy in force from time to time.
- The maximum amount of the annual remuneration payable to all the directors in their positions as such.
- The remuneration system including the award of shares or stock options or share-linked remuneration.
- The Annual Remuneration Report (advisory ballot).

- The Board of Directors:

This is the competent body for proposing the Remuneration Policy to the General Shareholders' Meeting. The Board is also responsible for adopting decisions related to the directors' remuneration within the scope of the Articles of Association and the Remuneration Policy.

Moreover, the Board of Directors determines the basic terms and conditions for the contracts, including the remuneration, for the executives that directly report to the Board or any of its members.

The Board of Directors is informed of all the actions performed by the Appointment, Remuneration and Corporate Governance Committee, as explained below, providing it with the relevant documentation in order to be informed of such actions to perform its duties.

As a precautionary measure to avoid conflict of interests, at the Board's meetings that deal with proposals related to the specific remuneration of the Chief Executive Officer, the latter may not be present nor take part in the deliberations or decision-making process.

- Appointment, Remuneration and Corporate Governance Committee (hereinafter referred to by its initials



in Spanish “CNRGC”):

This is the main body for determining and applying the Remuneration Policy. In this respect, the CNRGC is competent to propose the Remuneration Policy for Directors and those who perform senior management duties directly reporting to the Board, Executive Committees or Chief Executive Officers, and the individual remuneration and other contractual terms and conditions of the executive directors, ensuring such conditions are observed.

Specifically, the CNRGC performs the following duties:

- Determining the Policy:
  - It proposes to the Board of Directors the allotment among the different items of the maximum remuneration amount approved by the General Shareholders’ Meeting for the directors in their positions as such.
  - It proposes to the Board of Directors the amount and, if need be, the adjustment of the Chief Executive Officer’s fixed salary.
- Application of the Policy
  - Every year it proposes to the Board of Directors the targets of the Annual Variable Remuneration and the relevant cycle for the multi-annual variable remuneration applicable to the Chief Executive Officer.
  - It assesses achievement of the targets after the end of the measurement period for the variable remuneration and proposes to the Board of Directors the amount or number of shares to be received by the Chief Executive Officer.
- Review of the Policy
  - It reviews the amount of the various remuneration items for the directors in their positions as such; bearing in mind market practices, and submits its conclusions to the Board of Directors.
  - It reviews the structure and level of the Chief Executive Officer’s remuneration to ensure it is competitive.
- Transparency of the Policy
  - The CNRGC decides on the contents of the Annual Directors’ Remuneration Report and proposes it to the Board of Directors for the final approval thereof.

For the current financial year (2019), it is estimated that the Committee will hold 5 meetings; however as many meetings as deemed necessary may be summoned apart from those initially planned. Up to the time this report was approved, the CNRGC has discussed the following matters, among others:

- Approval of the settlement of the third cycle of the long-term variable remuneration plan for the period payable from 1 January 2016 and that ended on 31 December 2018.
- Evaluation and approval of the annual variable remuneration for the Chief Executive Officer based on the realized profits in 2018.
- Proposal and approval of the salary adjustment for the Chief Executive Officer in 2019.
- Approval of the targets linked to the annual variable remuneration for the Chief Executive Officer in 2019.
- Proposal and approval of the launch of a new long-term variable remuneration cycle that will begin in 2019.
- Proposal and approval of an extraordinary bonus for the members of the Board as compensation for the great deal of time spent by its members and the responsibility thereof at the end of the financial year.



- Proposal and approval of this Report.

### **A.1.3 External advisors and comparable companies taken into account**

The CNRGC regularly receives advice from Willis Towers Watson related to the following matters:

- Drawing up the Remuneration Policy.
- Drawing up the current Annual Directors' Remuneration Report.
- Analysis of the external competitiveness of the whole remuneration (remunerative benchmarking) for the Chief Executive Officer in order to propose suitable levels of remuneration for the financial year 2019.

A comparison group of European companies was selected for the aforementioned analysis according to criteria related to the business sector, size and geographic scope, in line with the analysis conducted in previous years. The companies included in this group are as follows: Almirall, Amadeus, AccorHotels, Bonfiglioli, Burberry, Bureau Veritas, Cellnex, Enagas, Experian, Grupo Barceló, GVC Holdings, Halfords, Indra, Intercontinental Hotels Group, Legrand, Melia Hotels, Prosegur Compañía de Seguridad, Rezidor Hotel Group, Sage, Scandic Hotels, Swinkels Family Brewers (Bavaria), WABCO, Whitbread, Zambon.

- Relative importance of the variable remuneration items vis-à-vis the fixed remuneration (remuneration mix) and the criteria and targets taken into consideration to determine them and to guarantee a suitable balance between the fixed and variable components of the remuneration. In particular, state the actions carried out by the company in relation to the remuneration system to reduce exposure to excessive risks and to adapt it to the company's long-term goals, values and interests, which must include, if any, the measures that have been adopted to guarantee that the company's long-term results are taken into account in the remuneration policy, the measures adopted in relation to the job categories of staff whose professional activities have a material impact on the company's risk profile and the measures that have been adopted to avoid conflicts of interest, if need be.

Furthermore, state whether the company has determined any period for the accrual or vesting of certain variable remuneration items, in cash, shares or other financial instruments, any deferral period in the payment of amounts or the award of accrued and vested financial instruments, or if there is any clause that reduces the deferred remuneration or that obliges the director to reimburse the remuneration received, when such remuneration has been agreed based on certain figures that have clearly been shown to be inaccurate.

### **A.1.4 The remuneration mix:**

According to the best corporate governance practices, the remuneration of the Non-Executive Directors is only composed of a fixed amount and attendance expenses, with no amount being payable whatsoever for variable remuneration.

However, the total remuneration of the Chief Executive Officer is mainly composed of (i) fixed remuneration, (ii) annual variable remuneration and (iii) multi-annual variable remuneration.

In this respect, the percentage that the variable remuneration (annual and multi-annual) represents of the total remuneration in 2019, in a situation in which 100% of the targets are achieved, is approximately 57%.

In a situation in which there is maximum achievement of the targets, the remuneration percentage at risk regarding the total remuneration would amount to 66% for the Chief Executive Officer.

### **A.1.5 Measures adopted to adapt the Remuneration Policy to the company's long-term goals, values and interests. Reference to the measures adopted to guarantee that the long-term results of the company are taken into account in the Remuneration Policy**

The measures adopted by the company related to the remuneration system to reduce exposure to excessive

risks and to adapt it to the company's long-term targets, values and interests are as follows:

a) Balance in the total remuneration:

The remuneration package of the Chief Executive Officer includes a short- and long-term variable part, both parts being balanced. In this respect, the relative weight of the long-term variable remuneration, in annual terms, is very similar to that of the short-term variable remuneration.

b) Formulation of the variable remuneration targets:

The variable remuneration takes into account the financial and strategic quantitative targets included in the long-term plan hence contributing to creating a business model that promotes balanced and sustainable development.

On an annual basis, the CNRGC analyses the components of the short-term variable remuneration that it submits for the final approval of the Board of Directors. The variable components of the remuneration are designed with sufficient flexibility so that the amount payable is null and void if the minimum targets are not achieved

In addition, there is a correction factor for the annual variable remuneration that defines the maximum amount payable based on the company's earnings ("EBITDA of the Group"). The correction factor limits the final percentage obtained for achievement of the targets depending on the level at which the EBITDA of the Group is achieved, which may be 0 if the EBITDA obtained is lower than 90%.

Regarding the multi-annual variable remuneration (Performance Shares Plan), it is ensured that the evaluation process is based on the company's long-term sustainable results and it may be adjusted depending on the company's economic cycle.

**A.1.6 Actions carried out by the company to reduce exposure to excessive risks and avoid conflicts of interest and claw-back clauses that reduce the deferred remuneration or oblige the director to reimburse the remuneration received.**

a) Claw-back formulae:

There are claw-back formulae in the "Performance Shares Plan 2017-2022" that are in line with market standards and the recommendations of Proxy Advisors and Institutional Investors. The CNRGC is authorised to decide on proposing the cancellation or reimbursement of the payment of the multi-annual variable remuneration if any of the following situations arise: a) breach by the beneficiary of the internal code of conduct; b) material reformulation of the company's financial statements, when this is stipulated by an external auditor and it affects the level of achievement of the targets in the multi-annual variable remuneration plan, except when this is due to an amendment made to the accounting regulations; c) the variable remuneration is payable or has been paid by applying inaccurate or erroneous information or data.

In addition, the CNRGC may propose adjustments to the Board of Directors of the elements, criteria, thresholds and limits of the annual or multi-annual variable remuneration, under exceptional circumstances caused by extraordinary internal or external factors or events. The details and justification for such adjustments are included in the relevant Annual Directors' Remuneration Report.

b) Minimum period for holding the shares:

The "Performance Shares Plan 2017-2022" determines a minimum period for holding the shares delivered as at least one year for the Chief Executive Officer.

c) Additional requirements for holding shares:

The Chief Executive Officer must hold at least the equivalent of one year of his fixed remuneration in shares, the price being determined, when this obligation is fulfilled, as the share price on the date the shares were delivered.

d) Measures to avoid conflicts of interest:

At the Board's meetings that deal with proposals related to the specific remuneration of the Chief Executive Officer, the latter may not be present nor take part in the deliberations or decision-making process.

In relation to measures to avoid conflicts of interest by the directors, in line with the Spanish Capital Companies Act, Articles 29-33 of the Board of Directors' Regulations states the obligations of the directors regarding the duties of diligence, faithfulness, secrecy, loyalty and prohibition of competition.

- Amount and nature of the fixed components that are due to be payable in the year to the directors in their positions as such.

The maximum amount of the remuneration that could be paid every year by the company to all its directors, in their positions as such is €1,400,000, which was approved by the Ordinary General Shareholders' Meeting held on 21 June 2018. This limit will continue being applicable while the Policy is in force unless the General Shareholders' Meeting decides to change it in the future.

The remuneration system for the Non-Executive Directors for their supervisory and joint decision-making duties, as specified above in this report, consists of an annual fixed amount and expenses for attending the meetings of the Board of Directors and its committees.

In this respect, the planned amounts for the aforementioned elements in 2019 are as follows:

- Annual fixed amount:
  - Chairperson of the Board of Directors: €200,000. No amount will be paid for expenses to attend the meetings of the Board or the committees.
  - Chairpersons of the Auditing Committee or the CNRGC: €90,000. No amount will be paid for expenses to attend the committee meetings that they chair.
  - The other members of the Board of Directors: €50,000 for each director.
- Attendance expenses:
  - Expenses for attending the Auditing and Control Committee Meetings: €1,000.
  - Expenses for attending the CNRGC Meetings: €1,000.

Nevertheless, the proprietary directors representing the shareholder, Minor International PLC, have waived payment of the aforementioned remuneration.

The amounts payable to the Non-Executive Directors may vary from year to year within the maximum amounts approved by the General Shareholders' Meeting with the prior approval of the Board of Directors.

Moreover, the Chief Executive Officer will not be entitled to receive the aforementioned remuneration.

- Amount and nature of the fixed components that are payable in the financial year to the executive directors for performing senior management duties.

According to the Articles of Association, the executive directors are entitled to be paid remuneration for the executive duties they perform, apart from their duties as directors within the scope of their labour or commercial relationship with the company. Such remuneration includes both their executive duties and their duties as director.

The amount of the aforementioned fixed remuneration planned for the Chief Executive Officer in 2019 is €600,000. This amount represents a 20% increase in the amounts for 2018. This increase is supported by the data provided in the remuneration analysis explained in section A.1.3 of this report.



- Amount and nature of any component of remuneration in kind that will be payable in the financial year, including, but not limited thereto, insurance premiums paid in favour of the director.

The directors do not receive any remuneration in kind due to being members of the Board of Directors.

Apart from the shares he could receive based on the “Performance Shares” plans, the Chief Executive Officer is the beneficiary of a medical insurance policy for him and his first-degree relatives, a life and accident insurance policy and a company car. It is estimated that the cost for this remuneration in 2019 will amount to €32,633. However, the final amount could vary depending on the changes taking place in the prices or premiums for the aforementioned remuneration.

- The amount and nature of the variable components, differentiating between those determined in the short- and long-term. Financial and non-financial parameters, including among the latter, social, environmental and climate change parameters selected to determine the variable remuneration in the current financial year, explaining the extent to which these parameters are related to the performance, both of the director and the company, their risk profile and the methodology, the term required and techniques established to determine the level of compliance with the parameters used in the design of the variable remuneration at the end of the year.

State the range, in monetary terms, of the different variable components according to the achievement level of the targets and parameters determined and whether there are any maximum monetary amounts in absolute terms.

The Chief Executive Officer is the only member of the Board of Directors that is entitled to be paid variable remuneration. The Chief Executive Officer’s variable remuneration is structured as additional and supplementary to his fixed remuneration and consists of a short-term annual variable and a triennial long-term variable. This remuneration is contingent and cannot be vested.

The main features of the variable remuneration components for the Chief Executive Officer are described below:

#### **ANNUAL VARIABLE REMUNERATION**

The short-term variable remuneration is linked to achieving the corporate targets determined by the CNRGC and approved by the Board of Directors at the beginning of each financial year.

The functioning of the annual variable remuneration for NH’s Chief Executive Officer is the same as for the company’s employees. It is determined based on the Management by Objectives Programme (MBO) with the following aim:

- To compensate performance, bearing in mind the achievement of the company’s quantitative targets.
- To link the achievement of the annual targets set by the company to its medium- and long-term strategy.
- To align the individual targets with those of the company.

Regarding the annual variable remuneration for the financial year 2019, the CNRGC approved the following objectives, with their relevant weightings, for the Chief Executive Officer:

- A) 40% of the Group’s EBITDA (20%) and Recurring Net Profit (20%)
- B) 10% performance evaluation.
- C) 50% of indicators associated with the post that, in this case, are the following:
  - i. Minor-NH Integration
  - ii. Tivoli’s Integration
  - iii. Strategic Objectives



iv. Revenue

v. Sustainability

Each of the aforementioned targets are described below along with the specified scales of achievement:

a. The Group's EBITDA and Recurring Net Profit: The initial target set for the Group's EBITDA and Recurring Net Profit is compared with the Group's actual EBITDA and actual Recurring Net Profit, determining the following payment levels depending on the scale of achievement:

- Achievement below 80% of the Group's target EBITDA/Recurring Net Profit means a payment level of 0%.
- If 80% to 120% of the Group's EBITDA/Recurring Net Profit target is achieved, the following linear formula will be applicable:
  - Achievement below 100%: Each percentage point below the estimate implies a decrease of 5% in the payment level determined for 100% achievement (target level).
  - Achievement above 100%: Each percentage point above the estimate implies an increase of 2.5% in the target payment level. A maximum limit is determined of 150% of the target payment level, in the case of the maximum achievement of the targets (120%).

b. Performance evaluation: The performance evaluation system for the Chief Executive Officer has the same structure as for NH's other employees.

In order to promote the company's sustainability, by evaluating the system and procedures apart from the profits obtained, eight generic skills are evaluated and each of them is measured based on a definition and key words. The skills on which the Chief Executive Officer will be evaluated in 2019 are as follows:

1. Technical skills
2. Customer focus
3. Profit orientation
4. Collaboration and influence
5. Business sense
6. Leadership
7. Strategic thinking
8. Change management

These skills will be evaluated according to the following scale, consisting of five levels: Low Performance, Needs Improvement, Good Performance, Very Good and Excellent.

An overall evaluation will be conducted based on the assessment of the eight skills, which will be equivalent to the percentage that the target is achieved, according to the following scheme:

- Low Performance. Equivalent to 0% achievement.
- Needs Improvement. Equivalent to 50% achievement.
- Good Performance. Equivalent to 100% achievement.
- Very Good. Equivalent to 125% achievement.
- Excellent. Equivalent to 200% achievement.

c. Individual Targets: for the rest of the individual targets, a minimum achievement will be set of 80% and a maximum achievement level that could imply up to 120% of the payment level for this target.

The CNRGC determines the specific amount payable depending on the achievement level of the targets.

In addition, in order to guarantee that the annual variable remuneration is aligned with the company's results, a correction factor is applied based on the Group's EBITDA. In this respect, the variable remuneration finally payable will be the lowest amount between (i) the amount calculated according to the pre-determined metrics and weightings and (ii) the amount resulting from applying the corrective factor of the Group's EBITDA to the target annual variable remuneration.

The corrective factor functions as follows:

- If the level of achievement of the Group's target EBITDA is lower than 90%, no amount whatsoever is paid as annual variable remuneration
- If the level of achievement of the Group's target EBITDA is 90%, a maximum of half the target annual variable remuneration is paid.
- If the level of achievement of the Group's target EBITDA is 100%, a maximum of the whole of the target annual variable remuneration is paid.
- If the level of achievement of the Group's target EBITDA is 110% or greater, a maximum of 120% of the target annual variable remuneration is paid.

When the achievement level of the target is between the specified values, the corrective factor is calculated by linear interpolation.

The maximum amount set for the corrective factor, which the Chief Executive Officer can choose in 2019, is 120% of his target annual variable remuneration, in other words €468,000.

The corrective factor will have no value for employees that obtain the maximum score in the performance evaluation ("Excellent") and that also obtain an average result in their individual targets equivalent to or higher than 100% achievement.

The target annual variable remuneration of NH's Chief Executive Officer is set at 65% of his fixed remuneration (€390,000), if 100% of the targets set by the Board of Directors are achieved.

If the aforementioned minimum targets are not achieved, the Chief Executive Officer will not be paid any amount whatsoever as variable remuneration.

The maximum amount the Chief Executive Officer can choose, if the maximum score is obtained in the performance evaluation and an extraordinary percentage is obtained in his individual targets and hence, without applying the corrective factor, is 142.50% achievement, equivalent to €555,750.

### **MULTI-ANNUAL VARIABLE REMUNERATION**

The General Shareholders' Meeting held on 29 June 2017 approved the launch of the long-term bonus plan or "Performance Shares Plan 2017-2022". The plan lasts a total of five years, divided into the following three overlapping cycles, each one lasting three years:

- The first cycle 2017-2019, delivering the shares in 2020.
- The second cycle 2018-2020, delivering the shares in 2021.
- The third cycle 2019-2021, delivering the shares in 2022.

Before the start of each of the cycles, the Board of Directors is authorised to decide on its effective implementation depending on the Group's economic situation at the time. On the date this report is published all the cycles have been approved by the Board of Directors.

The main features of the plan applicable to the Chief Executive Officer are described below:

#### **1) Targets:**

The number of shares to be delivered depends on the achievement level of the following four targets:

- a) Relative TSR (“Total Shareholder Return”) of NH’s shares compared with the evolution of the STOXX® Europe 600 Travel & Leisure stock exchange index (weighting: 25%).
- b) Revaluation of the share price (weighting: 25%).
- c) Net Recurrent Profit (weighting: 25%).
- d) Recurrent Group EBITDA (weighting: 25%).

Each target will have the scale of achievement explained below:

a) Relative TSR:

- A position below the average of the comparison group implies a payment level of 0%.
- A position in line with the average implies a payment level of 40% of the target bonus.
- The top position implies a payment level of 150% of the target bonus level.
- For a position between the average and top position of the group, the following linear formula will be applied:
  - A position in the 75<sup>th</sup> percentile implies a payment level of 100% of the target bonus.
  - If NH’s position is below the 75<sup>th</sup> percentile, each percentile below 75 implies a decrease of 2.4% in the target bonus.
  - If NH’s position is above the 75<sup>th</sup> percentile, each percentile higher than 75 implies an increase of 2.4% in the target bonus.

b) Revaluation of the Share Price:

- In order to reach the minimum achievement percentage for this target (100%), the average closing price per share in the 30 stock exchange business days immediately prior to 31 December in the last year of the cycle (inclusive) (adjusted by dividends or other similar items paid to the shareholders during the whole period the plan is in force until the end of the measurement period of each cycle), must be the same as a pre-determined price. In this case, the payment coefficient will be 100% of the target bonus.
- For achievement below the minimum achievement percentage, the payment coefficient for this target will be 0%:
- Once this condition has been met, a linear scale will be applicable until a maximum average closing price is reached, which implies this target is achieved with a payment coefficient of 120%.

c) Net Recurrent Profit:

- Minimum threshold: Achievement of 80% of the target implies payment of 50% of the bonus. A level of achievement lower than 80% implies a payment level of 0%.
- Target: Achievement of 100% of the target implies payment of 100% of the target bonus.
- Maximum: Achievement of 120% or higher of the target implies payment of 150% of the target bonus.

When the level of achievement is between the minimum threshold and the target and between the target and the maximum, the payment level will be calculated by linear interpolation.

d) Recurrent EBITDA:

- Minimum threshold: achievement of 90% of the target implies payment of 50% of the bonus. A level of achievement lower than 90% implies a payment level of 0%.



- Target: achievement of 100% of the target implies payment of 100% of the target bonus.
- Maximum: achievement of 110% or higher of the target implies payment of 150% of the target bonus.

When the level of achievement is between the minimum threshold and the target and between the target and the maximum, the payment level will be calculated by linear interpolation.

## **2) The amount of the bonus for each of the cycles of the Plan:**

If the aforementioned minimum threshold is not achieved, the beneficiaries of the plan will not be entitled to receive any shares within the scope thereof.

If the overall achievement level of the targets is 100%, the Chief Executive Officer will be entitled to receive the target bonus consisting of a certain number of shares (78,893 shares for the first cycle, 50,336 shares for the second cycle and 98,485 shares for the third cycle), the reference value of which on the date granted will be equivalent to 60% of the fixed remuneration of the Chief Executive Officer for the first two cycles and 65% for the last cycle.

If the achievement level of the targets is the maximum, the Chief Executive Officer will be entitled to receive 118,340 shares for the first cycle, 75,503 for the second cycle and 147,727 for the third cycle, the reference value of which on the date granted will be equivalent to 97% of the fixed remuneration of the Chief Executive Officer on such date.

In this respect, the reference value is calculated as the average closing price of NH's shares in the last 10 stock exchange sessions before 31 December in the year before each cycle is launched.

Under no circumstances may the value of the shares that could be received by the Chief Executive Officer exceed €1,400,000 for all three cycles of the Plan.

## **3) Payment:**

The Chief Executive Officer must remain in the Group on each of the settlement dates of the Plan .

The resulting number of shares, depending on the achievement level of the targets, will be delivered in the first quarter of the financial year immediately after the financial year when the measurement period ends.

Once the three years of each cycle have ended, the reference value for settlement of the shares will be the closing price of NH's shares in the stock exchange session on the date the settlement is approved of the targets for the long-term bonus and the delivery of the shares by the Board of Directors.

## **4) Claw-back:**

This plan includes a claw-back clause, the basic conditions of which have been explained above.

## **5) Shareholding commitment:**

The Chief Executive Officer will continue being the holder of the number of company shares resulting from having invested an amount equivalent to once his gross fixed remuneration in the purchase thereof. For such purpose, in the case of shares obtained from this long-term bonus plan, these will have the value of the shares according to the price paid at the time of the delivery or, in the case of shares previously acquired, according to the average weighted market price of the shares on the date this agreement is approved.

The aforementioned investment level must be reached by the end of a five-year term counted from the date this agreement is approved.

Once the required investment level has been reached, a period for holding the shares shall remain in force for one year after the settlement of each of the long-term bonus plan's cycles.

- The main features of long-term savings schemes. Among other information, state the contingencies covered by the scheme, whether through defined contributions or benefits, the annual contribution that needs to be made to the defined contribution scheme, the benefits that the beneficiaries are entitled to in the event of defined benefit schemes, the conditions under which economic rights are vested for directors and their compatibility with any other type of payment or severance pay as a result of the early termination or dismissal of the director, or related to the termination of the contractual relationship, according to the terms stipulated, between the company and the director.

State if the accrual or vesting of any of the long-term savings plans are linked to achieving certain targets or parameters related to the director's short- or long-term performance.

The company does not plan to undertake any obligation or commitment whatsoever with the directors in 2019 related to pensions, retirement or similar items.

- Any type of payment or severance pay for early termination or dismissal of the director, or related to the termination of the contractual relationship, according to the terms stipulated, between the company and the director, whether voluntary resignation by the director or dismissal of the director by the company, as well as any type of agreement reached, such as exclusivity, post-contractual non-competition, minimum contractual term or loyalty, which entitle the director to any type of remuneration.

The directors of the company, in their positions as such, are not entitled to any severance pay or compensation in the event of dismissal or resignation.

Under no circumstances is the Chief Executive Officer entitled to any severance pay due to stepping down from office or termination of his commercial relationship. However, the conditions regulating his suspended labour relationship stipulate that the period of time in which the Chief Executive Officer holds his commercial relationship will be acknowledged as seniority for the purpose of possible severance pay due to termination of such labour relationship.

In this respect, once the commercial relationship has been terminated, the labour relationship that was in force between the company and the Chief Executive Officer will become valid again until he takes up his new post, unless serious and wilful breach of contract is ruled by the courts. If, at the time of termination of the commercial relationship and, apart from the aforementioned exception, the company refuses to reinstate the Chief Executive Officer in his previous labour relationship, this fact will be considered unfair dismissal. In such case, the Chief Executive Officer will be entitled to the relevant severance pay according to applicable labour regulations. In order to calculate the severance pay, the compensation basis will be determined according to the full salary paid and received thereby over the twelve months prior to the termination including, if any, those paid and received in his position as Chief Executive Officer.

If the termination of the labour relationship is due to serious and wilful breach of the Chief Executive Officer's essential obligations and this is ruled by the competent court, all rights to receive any kind of severance pay will be deemed null and void.

- State the conditions that contracts must observe for those exercising senior management duties as executive directors. Among others, information should be provided on the term, limits in the amounts of severance pay, minimum contractual term clauses, notice periods and payment in lieu of these notice periods, and any other clauses relating to hiring bonuses, compensation and golden parachute clauses due to early termination of the contractual relationship between the company and the executive director. Include, among others, the clauses or agreements on non-competition, exclusivity, minimum contractual term and loyalty and post-contractual non-competition, unless these have been explained in the previous section.

The contract of NH's Chief Executive Officer is of a commercial nature and includes the duties and

obligations held thereby within the scope of his post and his remuneration. The most significant clauses in such contract are described below:

- Permanent term, with no golden parachute clause due to the termination thereof.
- Full-time and non-competition: For the period he renders his services within the scope of his valid contract, he may not perform the following without the company's prior consent:
  - Render services, enter into a service relationship of any kind, act as an executive, provide consulting services and/or hold a post as a director in any other company.
  - Hold an indirect or direct stake of any kind in companies that perform activities that are in competition with or are similar or related to the company's activities or that are suppliers and/or customers of NH. This condition will remain in force until twelve months have elapsed after the termination of the commercial or labour contract with NH, whatever the reason for such termination may be. The gross annual fixed remuneration of the Chief Executive Officer already includes compensation for the non-competition clause.
- The Chief Executive Officer must provide at least two months' prior notice of his decision to terminate his commercial relationship with NH and may choose to renew his ordinary labour relationship.
- Severance pay: see previous section.
- Confidential information: during the valid term of the commercial contract and after the termination thereof for any reason, the Chief Executive Officer must not indirectly or directly disclose or disseminate to third parties not associated with NH any commercial or industrial secrets, processes, methods, information or data related to the activities, business or finances of NH or any company in its Group.

The contract with all its clauses was approved by the Board of Directors on 25 January 2017 and fully accepted and signed by the Chief Executive Officer on 30 January 2017.

- The nature and estimated amount of any other supplementary remuneration payable to the directors in the current financial year in consideration for their services rendered other than those inherent to their post.

The directors have not received nor is it planned they will receive any other supplementary remuneration for services other than those inherent to their posts and that have not already been described in this report.

- Other remunerative items such as those derived, if any, from the company granting the director advance payments, loans, guarantees or any other remuneration. The nature and estimated amount of any other planned supplementary remuneration payable to the directors in the current financial year that is not included in the previous sections, whether the amount is paid by the company or another company in its group.

The directors have not received, nor is it planned they will receive, any other supplementary remuneration for services other than those inherent to their posts and that have not already been described in this report.

A.2 Explain any significant change in the remuneration policy applicable in the current financial year resulting from:

- A new policy or modification of the policy already approved by the General Shareholders' Meeting.



- Significant changes in the specific determinations established by the Board for the current financial year regarding the remuneration policy in force compared with those applied in the previous financial year.
- Proposals that the Board of Directors has agreed to submit to the General Shareholders' Meeting to which this annual report will be submitted and which are proposed to be applicable in the current financial year.

No significant changes have been made to the Remuneration Policy that could seriously affect the Remuneration Policy for this year. In this respect, in 2019 there will be no specific remuneration due to belonging to and attending the Executive Committee Meetings since such committee no longer exists.

On the date this report is published, no proposals have been made by the Board of Directors to be submitted to the General Shareholders' Meeting to which this report is subject. However, the long-term bonus plan 2017-2021 has launched its last cycle in 2019 and it can be expected that the Board will propose the launch of a new long-term bonus plan that will begin in 2020.

A.3 Provide the direct link to the document where the current company remuneration policy is posted, which must be available on the company's website.

[https://www.nh-hoteles.es/corporate/sites/default/files/files-accionistas/10.-nh\\_politica\\_remuneraciones\\_consejeros\\_esp\\_09-05-18.pdf](https://www.nh-hoteles.es/corporate/sites/default/files/files-accionistas/10.-nh_politica_remuneraciones_consejeros_esp_09-05-18.pdf)

A.4 Explain, taking into account the data provided in Section B.4, the outcome of the advisory ballot of the shareholders at the General Shareholders' Meeting on the annual remuneration report for the previous financial year.

The last General Shareholders' Meeting held on 21 June 2018 approved the Annual Directors' Remuneration Report by 96.31% of the votes, mainly supporting the remuneration policy for the company's directors described above that will continue being applicable in 2019.

## **B OVERALL SUMMARY OF HOW THE REMUNERATION POLICY HAS BEEN APPLIED DURING THE PREVIOUS YEAR 2018**

B.1 Explain the process followed to apply the remuneration policy and determine the individual remuneration contained in Section C of this report. This information will include the role played by the remuneration committee, the decisions adopted by the Board of Directors and, as the case may be, the identity and the role of the external advisors whose services have been used in the process of applying the remuneration policy in the previous year 2018.

### **B.1.1 Process used to apply the Remuneration Policy**

As explained in the previous section A.1.2, the main bodies that are involved in determining the Remuneration Policy are the General Shareholders' Meeting, the Board of Directors and the CNRGC.

In this respect, the amounts shown in section C below are the result of applying the Remuneration Policy approved by the General Shareholders' Meeting held on 21 June 2018, submitted by the Board of Directors, according to a proposal made by the CNRGC.

### **B.1.2 The role played by the CNRGC**

The CNRGC is the body competent for proposing the Remuneration Policy of the directors and those who perform senior management duties, directly reporting to the Board, Executive Committees or Chief Executive Officers, and the individual remuneration and other contractual terms and conditions for the

executive directors, ensuring such conditions are observed.

The CNRGC may hold meetings as often as (i) considered necessary by the Chairperson, (ii) required by the Board of Directors or (iii) requested by two or more of its members with voting rights, to correctly fulfil its duties. In 2018, the CNRGC held 6 meetings that all its members attended. In addition, in order to fulfil their obligations with the utmost excellence as directors, they take part in informative meetings and training development courses that the company organises from time to time related to certain fields in their interest and related to their actions.

The matters related to remuneration that have been discussed by the CNRGC in 2018 are explained below:

- Evaluation and approval of the annual variable remuneration for the Chief Executive Officer based on the profits obtained in 2017.
- Approval of the settlement of the second long-term variable remuneration plan for the period payable from 1 January 2015 and that ended on 31 December 2017.
- Proposal of an extraordinary bonus for the members of the Board as compensation for the great deal of time spent by its members and their responsibility during the previous financial year.
- Proposal and approval of the Annual Directors' Remuneration Report for the financial year 2017.
- Proposal of a new Remuneration Policy for the period 2018-2020 submitted to the Board of Directors.
- Approval of the targets linked to the annual variable remuneration (in) 2018.
- Proposal and approval of the launch of a new long-term bonus plan 2017-2022, the first cycle of which will begin to be payable on 1 January 2018.
- Proposal of a maximum amount of €1,400,000 for the annual remuneration payable to all the Non-Executive Directors.

### **B.1.3 Composition of the CNRGC**

According to Article 47 of the Articles of Association, the Committee is comprised of a minimum of three and a maximum of six directors and solely consists of Non-Executive Directors appointed by the Board of Directors, at least two of which must be independent directors.

On the date this report is published, the Committee is composed of three non-executive members, two of them being independent directors:

- Mr. José María Sagardoy Llonis; Chairman and Independent Director since 22/03/2017.
- Mr. José María Cantero de Montes-Jovellar; Member and Independent Director since 21/06/2016.
- Mr. Stephen Andrew Chojnacki; Member and Proprietary Director since 21/06/2018.

**B.2** Explain the different actions carried out by the company related to the remuneration system and how they have contributed to reducing exposure to excessive risks and adapting them to the company's long-term targets, values and interests, including a reference to the measures that have been adopted to guarantee the long-term results of the company have been taken into consideration in the remuneration payable and that a suitable balance has been achieved between the fixed and variable components of the remuneration, the measures that



have been adopted related to the job categories of staff whose professional activities have a material impact on the company's risk profile and the measures that have been adopted to avoid conflicts of interest, if need be.

The actions carried out by the company related to the remuneration system to reduce exposure to excessive risks and adapt it to the company's long-term targets, values and interests have been explained in sections A.1.5 and A.1.6 of this Report. It is explained below how these actions were carried out in 2018:

a) Balance of the total remuneration:

The remuneration package of the Chief Executive Officer includes a short- and long-term variable part, both parts being balanced. In this respect, the relative weight, in annual terms, of the long-term variable remuneration payable in 2018 was 27% and the short-term variable remuneration was 27%.

b) Determining the variable remuneration targets:

The targets set for the annual variable remuneration in 2018, as described in section B.7, determined by the Board of Directors according to a proposal made by the CNRGC, were in line with the company's strategic priorities. In addition, by evaluating performance, the company's sustainability was promoted by assessing the manner and procedures apart from the earnings obtained.

In addition, in 2018 the corrective factor continued being applicable to the annual variable remuneration that defined the maximum amount payable based on the Group's EBITDA.

Regarding the multi-annual variable remuneration, the second cycle of the Performance Shares Plan 2017-2022, which began in 2018, used the same targets as the previous cycle, aligned with the economic and financial targets and targets related to value creation for the shareholders determined for the long-term by the company.

c) Claw-back formulae:

The claw back clauses referred to in the previous section A.1.6. are applicable to the "Performance Shares Plan 2017-2022".

d) Minimum period for holding the shares:

The "Performance Shares Plan 2017-2022" determines a minimum period for holding the shares delivered as at least one year for the Chief Executive Officer.

e) Additional requirements for holding shares:

The Chief Executive Officer must hold at least the equivalent of one year of his fixed remuneration in shares, the price being determined, when this obligation has been fulfilled, as the share price on the date the shares were delivered.

**B.3 Explain how the remuneration payable during the year fulfils the provisions contained in the current remuneration policy.**

Furthermore, report on the relationship between the remuneration obtained by the directors and the results or other performance measures of the company in the short- and long-term, explaining, if need be, how the variations in the performance of the company have influenced changes in the directors' remuneration, including those payable when the amount thereof has been deferred, and how the latter contribute to the company's short- and long-term results.

The remuneration payable to NH's directors in the financial year 2018 fulfilled the provisions in the Remuneration Policy approved by the General Shareholders' Meeting held on 21 January 2018, the valid period of which began retroactively from 1 January 2018.

The items included in the directors' remuneration package in the financial year 2018 are summarised below. The details of these items can be found in the following paragraphs of this section B:



**Remuneration of the Non-Executive Directors:**

In 2018, the Non-Executive Directors' remuneration consisted of the fixed amounts and expenses for attending the meetings as described in section B.5.

In addition, at the first meeting of the CNRGC held in 2019, it was proposed to the Board to increase the fixed amount in an extraordinary manner from 2018 for certain members of the Board of Directors due to their additional time spent throughout 2018 on the corporate transaction the company was involved in.

This decision is in accordance with section 4 of the Remuneration Policy that determines that the amounts specified in such Policy will remain the same unless the Board of Directors adopts a resolution to change them, which will be notified in the Annual Remuneration Report. In any case, the maximum gross annual amount payable to the directors in their positions as members of the Board of Directors must observe the limit stipulated by the General Shareholders' Meeting held on 21 June 2018 (€1,400,000).

**The Chief Executive Officer:**

The remuneration items payable to the Chief Executive Officer in 2018, which are in accordance with those specified in the Remuneration Policy, were as follows:

- Fixed Remuneration: €500,000.
- Short-term variable remuneration payable in 2018: €335,181, bearing in mind an overall achievement level of the targets of 111.7%. The settlement of the variable remuneration payable in 2018 will be approved and paid in the first quarter of 2019.
- Multi-annual variable remuneration (third and final cycle of the first Performance Shares Plan 2014-2019 that started on 1 January 2016 and ended on 31 December 2018): 26,622 gross shares bearing in mind the overall achievement level of the targets of 95%.
- Other remuneration (company car, medical insurance and life and accident insurance policy): €32,633.

The details of the target achievement level for the annual variable remuneration and the third cycle of the first Performance Shares Plan are provided in section B.7.

As explained in the previous sections, the Chief Executive Officer is not paid any additional remuneration in his position as a member of the Board of Directors.

54% of the Chief Executive Officer's total salary is linked, as previously specified, to both short- and long-term variable remuneration. The aim of this remuneration mix is to compensate the director's performance bearing in mind the achievement of the company's quantitative targets, linking the achievement of the annual and multi-annual targets set by the company to its medium- and long-term strategy and aligning the individual targets with those of the company, creating value for the shareholders.

B.4 Report on the result of the advisory ballot at the General Shareholders' Meeting on the annual remuneration report for the previous financial year, indicating the number of votes that may have been cast against the proposal:

|            | Number      | % of total |
|------------|-------------|------------|
| Votes cast | 279,271,958 | 71.21%     |

  

|  | Number | % cast |
|--|--------|--------|
|  |        |        |

|                        |             |        |
|------------------------|-------------|--------|
| <b>Votes against</b>   | 1,530,600   | 0.55%  |
| <b>Votes in favour</b> | 268,967,242 | 96.31% |
| <b>Abstentions</b>     | 8,774,116   | 3.14%  |

|                |
|----------------|
| <b>Remarks</b> |
|                |

B.5 Explain how the fixed components payable during the financial year to the directors in their positions as such have been determined and how they have changed compared with the previous year.

The directors, in their positions as such, to whom fixed remuneration was payable in 2018 were Non-Executive Directors that do not represent the shareholder Minor International PLC. The latter have waived all remuneration due to being members of the Board of Directors

The fixed components payable in 2018 are shown below:

- Annual fixed amount:
  - Chairperson of the Board of Directors: €200,000.
  - Chairperson of the Executive Committee and Co-President of the company: €110,856.
  - Chairpersons of the Auditing Committee or the CNRGC: €90,000. These amounts were payable on a pro rata basis when a director stepped down from office as member of the Committee in the financial year.
  - The other members of the Board of Directors: €50,000 for each director. These amounts were payable on a pro rata basis when a director stepped down from office as member of the Board of Directors in the financial year.
- Attendance expenses of the members:
  - Expenses for attending the Executive Committee Meetings: €2,000.
  - Expenses for attending the Auditing and Control Committee Meetings: €1,000.
  - Expenses for attending the CNRGC: €1,000.

The Chairpersons of the aforementioned committees were not paid any amount whatsoever as expenses for attending the committee meetings.

The amounts previously specified are identical to those determined for the financial year 2017.

In addition, charged to 2018, the fixed amount payable in an extraordinary manner to certain members of the Board of Directors was increased due to the additional time they spent throughout 2018 for the corporate transaction that the company was involved in. The additional amount was as follows:

- Additional annual fixed amount for the Chairperson of the Board of Directors: €75,000.
- Additional annual fixed amount for the independent members of the Board of Directors: €6,000.

This extraordinary amount was also paid in 2017, with a bonus at such time of €50,000 for the chairperson and co-president and €3,928.28 for the other directors.

B.6 Explain how the salaries were determined that were payable to each of the executive directors during the last financial year for performing management duties and how they have changed compared with the previous year.

The fixed remuneration paid to the Chief Executive Officer due to performing his senior management duties amounted to €500,000 in 2018, with no variation whatsoever compared with the fixed remuneration payable in 2017.

As mentioned above, the Chief Executive Officer is not paid any remuneration whatsoever for his position as director.

B.7 Explain the nature and main features of the variable components of the remuneration systems payable in the previous year.

In particular:

- Identify each of the remuneration plans that have determined the different types of variable remuneration payable to each of the directors in the previous year, including information on their scope, the date of approval, date of implementation, the periods payable and validity, the criteria used to evaluate performance and how this has affected the determination of the variable amount payable, as well as the measurement criteria used and the term necessary to be in a position to suitably measure all the stipulated conditions and criteria.

In the case of share options and other financial instruments, the general features of each plan must include information on both the conditions to acquire unconditional ownership (vesting) and to exercise these options or financial instruments, including the price and term for exercising them.

- Each of the directors, along with their category (executive directors, proprietary external directors, independent external directors and other external directors), who are beneficiaries of remunerations systems or plans that include variable remuneration.
- If need be, information must be provided on the periods payable or deferment of payment applied and/or the periods for holding/unavailability of shares or other financial instruments, if any.

**Explain the short-term variable components of the remuneration systems**

As reported above, the only director entitled to payment of variable remuneration is the Chief Executive Officer.

After assessing the achievement level of the targets, the Board of Directors, according to a proposal made by the CNRGC, agreed on 22 February 2019 on an overall achievement level of 111.7%, equivalent to an amount of €335,181 for the annual variable remuneration corresponding to the financial year 2018. The details of the process for determining the aforementioned amount is specified below.

**1. Target achievement level**

The level that the targets were achieved was as follows:

- EBITDA (weighting 50%): The level of achievement is between the target level and the maximum level.
- Evaluation of performance (weighting 10%): Excellent level
- Individual targets (weighting 40%): The level of achievement is between the target level and the maximum level

**2. Application of the corrective factor**

Bearing in mind that (i) the result of the performance evaluation was “excellent” and that (ii) the achievement level of the individual targets was 100%, the corrective factor of the EBITDA was not applicable.

**3. Determining the annual variable remuneration**

Bearing in mind that the target amount of variable remuneration was 60% of the fixed remuneration for the Chief Executive Officer (€300,000), and the overall achievement level of the targets was 111.7%, the annual



variable remuneration in the financial year 2018 amounted to €335,181.

**Explain the long-term variable components of the remuneration systems**

On 25 June 2013, the company's General Shareholders' Meeting approved a long-term share bonus plan (hereinafter referred to as the "plan") for the executives and staff of the NH Hotel Group, S.A. The plan consists of awarding ordinary shares of NH Hotel Group, S.A. to the beneficiaries calculated as a percentage of their fixed remuneration depending on their level of responsibility.

The plan lasts a total of five years, divided into three overlapping cycles, each one lasting three years. The first two cycles have been previously settled and the third cycle, the measurement period of which for the targets encompassed the period 2016-2018, will be settled in March 2019.

The main features of the third cycle of the plan applicable to the Chief Executive Officer are described below:

**1) Targets, weightings and achievement level:**

- Relative TSR ("Total Shareholder Return") comparing the evolution of NH's TSR in the period 01/01/2016 – 31/12/2018 with the indices of IBEX Medium Cap (weighting: 25%) and Dow Jones Euro Stoxx Travel & Leisure (weighting: 25%).

Notwithstanding the foregoing, bearing in mind the corporate transaction carried out within NH in 2018, and the impact of such transaction on the share value, the Board of Directors adopted a resolution, for the purpose of the Plan, to set the final price per NH share at €6.22, which is the price offered by Minor International PLC in the Public Take-Over Bid.

The bonus payment levels depending on the achievement scale are as follows:

- A position below the average of the comparison group implies a payment level of 0%.
- A position in line with the average implies a payment level of 40%.
- The top position implies a payment level of 150% of the target payment level.
- For a position between the average and the top position of the group, the following linear formula is applicable:
  - A position in the 75<sup>th</sup> percentile implies a payment level of 100% of the target bonus.
  - If the position of NH is below the 75<sup>th</sup> percentile, each percentile below 75 implies a decrease of 2.4% in the target bonus.
  - If the position of NH is above the 75<sup>th</sup> percentile, each percentile higher than 75 implies an increase of 2.4% in the target bonus.

Finally, the achievement level for the TSR target was as follows:

- Relative TSR - IBEX Medium Cap (weighting 25%): between the median and the 75<sup>th</sup> percentile.
- Relative TSR– Dow Jones Euro Stoxx Travel & Leisure (weighting 25%): the 75<sup>th</sup> percentile.
- Gross operating profit (GOP), deducting the amount of rentals compared on an annual basis with the forecasts in the company's strategic plan (weighting: 50%).

The bonus payment levels depending on the achievement scale are as follows:

- Minimum threshold: achievement of 80% of the target implies payment of 50% of the bonus. A level of achievement lower than 80% implies a payment level of 0%.
- Target: achievement of 100% of the target implies payment of 100% of the bonus.
- Maximum: achievement of 120% or more of the target implies payment of 150% of the bonus.

When the level of achievement is between the minimum threshold and the target and between the target

and the maximum, the level of payment is calculated by linear interpolation.

Finally, the achievement level for the GOP target in each of the measurement years was as follows:

- 2016: between the minimum level and the target level.
- 2017: between the target level and the maximum level.
- 2018: between the target level and the maximum level.

## **2) Amount of the bonus:**

If the minimum achievement level set for the aforementioned targets is not reached, the Chief Executive Officer is not entitled to receive the shares within the scope thereof.

If the achievement level of the targets were 100%, the Chief Executive Officer would be entitled to receive the target number of shares (28,022 shares); the reference value of which on the date granted would be equivalent to 40% of the Chief Executive Officer's fixed remuneration on such date. In this respect, the reference value was calculated as the average closing price of NH's shares in the last 10 stock exchange sessions before 1 January 2016.

If the achievement level of the targets were the maximum, the Chief Executive Officer would be entitled to receive 42,034 shares, the reference value of which on the date granted would be equivalent to 60% of the Chief Executive Officer's fixed remuneration on such date.

Bearing in mind the overall achievement level of 95%, the payment levels described and the number of performance shares awarded, the Chief Executive Officer will receive 26,622 shares. This number of shares is shown in table C.1.b) ii).

The reference value for tax purposes for the settlement of the shares will be the closing price of NH's shares in the stock exchange session on the date the settlement is approved of the targets for the long-term bonus and the delivery of the shares by the Board of Directors

B.8 Specify whether certain variable components have been reduced or clawed back when, in the case of the former, payment has been vested and deferred or, in the case of the latter, vested and paid, on the basis of data that have subsequently proved to be inaccurate. Describe the amounts reduced or clawed back through the application of the reduction or claw-back clauses, why they were implemented and the years to which they refer.

No clause of this kind was applied in 2018.

B.9 Explain the main features of the long-term savings schemes where the amount or equivalent annual cost appears in the tables in section C, including retirement and any other survivor benefits that are partially or fully financed by the company, whether through internal or external contributions, indicating the type of plan, whether it is a defined contribution or benefits, the contingencies covered, the conditions for vesting economic rights for the directors and their compatibility with any type of severance pay for early termination or termination of the contractual relationship between the company and the director.

The company did not undertake any obligation or commitment whatsoever with the directors in 2018 related to pensions, retirement or similar items.

B.10 Explain, when appropriate, the severance pay or any other type of payment related to early dismissal or early resignation, or the termination of the contract according to the terms provided therein, accrued and/or received by directors during the previous year.

The company did not pay any severance pay to its directors in 2018 or any other kind of payment related

to early resignation or termination of their contracts.

B.11 Specify whether there have been any significant changes in the contracts of persons performing senior management duties, such as executive directors, and, if any, explain such changes. In addition, explain the main terms and conditions for the new contracts signed with executive directors during the year, unless these have already been explained in section A.1.

There were no changes made to the Chief Executive Officer's contract in 2018, the same terms and conditions described above in section A.1. being applicable.

B.12 Explain any supplementary remuneration payable to the directors as consideration for services rendered that are unrelated to their posts.

The Remuneration Policy does not include any supplementary remuneration other than that previously specified.

On the date this Report is issued, there was no supplementary remuneration payable to the directors as consideration for services rendered other than those related to their posts.

B.13 Explain any remuneration related to advance payments, loans or guarantees granted, specifying the interest rate, their key features and the amounts possibly reimbursed, as well as the obligations undertaken as a guarantee.

The Remuneration Policy does not include any possibility to grant advance payments, loans or guarantees to the directors.

On the date this Report is issued, no advance payments, loans or guarantees have been granted to any of the directors.

B.14 Itemise the remuneration in kind received by the directors during the year, briefly explaining the nature of the different salary components.

The directors, in their positions as such, do not receive remuneration in kind.

Apart from the shares they receive related to the Performance Shares Plan, the Chief Executive Officer received the following remuneration in kind for his executive duties:

- A medical insurance policy for him and his first-degree relatives.
- A life insurance policy with insured capital of €1,500,000.
- An accident insurance policy with insured capital of €1,500,000.
- A company car.

The amount for such remuneration was €32,633

B.15 Explain the remuneration payable to the directors by virtue of amounts paid by the listed company to a third company to which the director renders services when these payments are aimed at remunerating the director's services to the company.

On the date this report is approved, no amounts have been paid to third enterprises due to possible services being rendered by the directors.

B.16 Explain any other items of remuneration other than those mentioned in the previous sections, whatever their nature or the group company that settles the payment may be, particularly when this is a related transaction or its settlement distorts the true image of the total remuneration payable to the director.



On the date this report is approved, there are no other items of remuneration apart from those explained in the previous sections.

## C ITEMISED INDIVIDUAL REMUNERATION PAYABLE TO EACH DIRECTOR

| Name                                   | Type                                | Period of accrual in the financial year t |
|----------------------------------------|-------------------------------------|-------------------------------------------|
| Don ALFREDO FERNÁNDEZ AGRAS            | Other external Director (President) | 01/01/2018 to 31/12/2018                  |
| Don EMMANUEL JUDE DILLIPRAJ            | Proprietary Director                | 12/06/2018 to 31/12/2018                  |
| Don STEPHEN ANDREW CHOJNACKI           | Proprietary Director                | 21/06/2018 to 31/12/2018                  |
| Don WILLIAM ELLWOOD HEINECKE           | Proprietary Director                | 21/06/2018 to 31/12/2018                  |
| Don RAMÓN ARAGONÉS MARÍN               | Executive Director                  | 01/01/2018 to 31/12/2018                  |
| Don JOSÉ MARÍA CANTERO MONTES-JOVELLAR | Independent Director                | 01/01/2018 to 31/12/2018                  |
| Don JOSÉ MARÍA SAGARDOY LLONIS         | Independent Director                | 01/01/2018 to 31/12/2018                  |
| Don FERNANDO LACADENA                  | Independent Director                | 01/01/2018 to 31/12/2018                  |
| Doña MARIA GRECNA                      | Independent Director                | 01/01/2018 to 31/12/2018                  |
| Don PAUL DANIEL JOHNSON                | Independent Director                | 01/01/2018 to 31/12/2018                  |
| Don JOSÉ ANTONIO CASTRO SOUSA          | Proprietary Director                | 01/01/2018 to 12/11/2018                  |
| Don JOSÉ MARÍA LÓPEZ-ELOLA GONZÁLEZ    | Independent Director                | 01/01/2018 to 21/06/2018                  |
| GRUPO INVERSOR HESPERIA                | Proprietary Director                | 01/01/2018 to 12/11/2018                  |

C.1 Complete the following tables regarding the individual remuneration of each director (including the remuneration paid for performing their executive duties) payable during the financial year.

a) Remuneration paid by the reporting company:

i) Remuneration in cash (in thousands of euros)

| Name                                  | Salary | Fixed Remuneration | Attendance expenses | Short Tem Variable Remuneration | Long Tem Variable Remuneration | Remuneration for membership of Board's Directors | Severance pay | Other grounds | Total FY2018 | Total FY2017 |
|---------------------------------------|--------|--------------------|---------------------|---------------------------------|--------------------------------|--------------------------------------------------|---------------|---------------|--------------|--------------|
| RAMÓN ARAGONÉS                        | 500    | -                  | -                   | 335                             | -                              | -                                                | -             | 13            | 849          | 855          |
| JOSÉ MARÍA SAGARDOY LLONIS            | -      | 96                 | 7                   | -                               | -                              | -                                                | -             | -             | 103          | 79           |
| ALFREDO FERNÁNDEZ AGRAS               | -      | 275                | -                   | -                               | -                              | -                                                | -             | -             | 275          | 250          |
| MARÍA GRECNA                          | -      | 56                 | 8                   | -                               | -                              | -                                                | -             | -             | 64           | 57           |
| FERNANDO LACADENA AZPEITIA            | -      | 96                 | -                   | -                               | -                              | -                                                | -             | -             | 96           | 83           |
| JOSÉ MARÍA CANTERO DE MONTES-JOVELLAR | -      | 56                 | 5                   | -                               | -                              | 5                                                | -             | -             | 61           | 68           |
| PAUL JOHNSON                          | -      | 56                 | 18                  | -                               | -                              | 18                                               | -             | -             | 74           | 96           |
| JOSÉ ANTONIO CASTRO SOUSA             | -      | 111                | -                   | -                               | -                              | -                                                | -             | -             | 111          | 250          |
| JOSÉ MARÍA LÓPEZ-ELOLA GONZÁLEZ       | -      | 24                 | 4                   | -                               | -                              | -                                                | -             | -             | 28           | 66           |
| GRUPO INVERSOR HESPERIAS.A            | -      | 43                 | 23                  | -                               | -                              | 23                                               | -             | -             | 66           | 98           |

**ii) Table of changes in share-based remuneration schemes and gross profit from vested shares or financial instruments**

| Name           | Name of the Plan               | Ownership of options at the beginning of FY2018 |                    |              |               | Options allocated during FY2018 |                    |              |               |            |
|----------------|--------------------------------|-------------------------------------------------|--------------------|--------------|---------------|---------------------------------|--------------------|--------------|---------------|------------|
|                |                                | Nº Shares                                       | Nº Affected shares | Strike Price | Strike Period | Nº Shares                       | Nº Affected shares | Strike Price | Strike Period | Conditions |
| RAMÓN ARAGONÉS | Performance Shares Plan (2016) | 28.022                                          | -                  | -            | 3 years       | -                               | -                  | -            | -             | -          |
|                | Performance Shares Plan (2017) | 78.893                                          | -                  | -            | 3 years       | -                               | -                  | -            | -             | -          |
|                | Performance Shares Plan (2018) | 50.336                                          | -                  | -            | 3 years       | -                               | -                  | -            | -             | -          |

| Name           | Name of the Plan               | Shares delivered during FY2018 |       |           | Options Exercised during FY2018 |                    |              |                 | Options due and not exercised | Options as at FY2018 end |              |               |                    |
|----------------|--------------------------------|--------------------------------|-------|-----------|---------------------------------|--------------------|--------------|-----------------|-------------------------------|--------------------------|--------------|---------------|--------------------|
|                |                                | Nº Shares                      | Price | Amount    | Nº Options                      | Nº Affected shares | Strike Price | Gross Profit(€) | Nº Options                    | Nº Options               | Strike Price | Strike Period | Other requirements |
| RAMÓN ARAGONÉS | Performance Shares Plan (2016) | 26.621                         | 4,55  | 121.125,6 | -                               | -                  | -            | -               | -                             | -                        | -            | -             | -                  |
|                | Performance Shares Plan (2017) | -                              | -     | -         | -                               | -                  | -            | -               | -                             | 78.893                   | -            | -             | -                  |
|                | Performance Shares Plan (2018) | -                              | -     | -         | -                               | -                  | -            | -               | -                             | 50.336                   | -            | -             | -                  |

**iii) Long-term saving schemes**

| Name | Contribution for the year by the Company (€ k) |        | Amount of accumulated funds (€k) |        |
|------|------------------------------------------------|--------|----------------------------------|--------|
|      | FY2018                                         | FY2017 | FY2018                           | FY2017 |
| N/A  | N/A                                            | N/A    | N/A                              | N/A    |

**iv) Details of other items**

| Name | Remuneration in the form of advanced payments, loans granted |                                     |                           |
|------|--------------------------------------------------------------|-------------------------------------|---------------------------|
|      | Interest rate on the transaction                             | Main description of the transaction | Amounts eventually repaid |
| N/A  | N/A                                                          | N/A                                 | N/A                       |

| Name           | Life Insurance Premiums |        | Severance of golden parachute clause agreed by the Company for Directors |        |
|----------------|-------------------------|--------|--------------------------------------------------------------------------|--------|
|                | FY2018                  | FY2017 | FY2018                                                                   | FY2017 |
| RAMÓN ARAGONÉS | 19                      | 26     |                                                                          |        |

**b) Remuneration paid to the company's directors for being members on the boards of other group companies:**

**i) Remuneration in cash (in thousands of euros)**

| Name | Salary | Fixed Remuneration | Attendance expenses | Short Tem Variable Remuneration | Long Tem Variable Remuneration | Remuneration for membership of Board's Directors | Indemnity | Other Concepts | Total FY2018 | Total FY2017 |
|------|--------|--------------------|---------------------|---------------------------------|--------------------------------|--------------------------------------------------|-----------|----------------|--------------|--------------|
| N/A  | -      | -                  | -                   | -                               | -                              | -                                                | -         | -              | -            | -            |

**ii) Table of changes in share-based remuneration schemes and gross profit from vested shares or financial instruments**

| Name | Name of the Plan | Ownership of options at the beginning of FY2018 |                    |              |               | Options allocated during FY2018 |                    |              |               |            |
|------|------------------|-------------------------------------------------|--------------------|--------------|---------------|---------------------------------|--------------------|--------------|---------------|------------|
|      |                  | Nº Shares                                       | Nº Affected shares | Strike Price | Strike Period | Nº Shares                       | Nº Affected shares | Strike Price | Strike Period | Conditions |

N/A

| Name | Name of the Plan | Shares delivered during FY2018 |       |        | Options Exercised during FY2018 |                    |              |                 | Op due and not exercised | Options as at FY2018 end |              |               |                    |
|------|------------------|--------------------------------|-------|--------|---------------------------------|--------------------|--------------|-----------------|--------------------------|--------------------------|--------------|---------------|--------------------|
|      |                  | Nº Shares                      | Price | Amount | Nº Options                      | Nº Affected shares | Strike Price | Gross Profit(€) | Nº Options               | Nº Options               | Strike Price | Strike Period | Other requirements |

N/A

### iii) Long-term saving schemes

| Name | Contribution for the year by the Company ( € k) |        | Amount of accumulated funds (€k) |        |
|------|-------------------------------------------------|--------|----------------------------------|--------|
|      | FY2018                                          | FY2017 | FY2018                           | FY2017 |

N/A

### iv) Details of other items

| Name | Remuneration in the form of advanced payments, loans granted |                                     |                           |
|------|--------------------------------------------------------------|-------------------------------------|---------------------------|
|      | Interest rate on the transaction                             | Main description of the transaction | Amounts eventually repaid |

N/A

| Name | Life Insurance Premiums |        | Severance of golden parachute clause agreed by the Company for Directors |        |
|------|-------------------------|--------|--------------------------------------------------------------------------|--------|
|      | FY2018                  | FY2017 | FY2018                                                                   | FY2017 |

N/A

### c) Summary of remuneration (in thousands of €):

The summary should include the amounts corresponding to all the remuneration items included in this report that are payable to each director (in thousands of €).

| Name                                  | Remuneration accrued in the Company |                          |                                   |                      | Remuneration accrued in Group companies |                          |                                   |                      | Totales      |              |                                                     |
|---------------------------------------|-------------------------------------|--------------------------|-----------------------------------|----------------------|-----------------------------------------|--------------------------|-----------------------------------|----------------------|--------------|--------------|-----------------------------------------------------|
|                                       | Total Cash Remuneration             | Amount of Shares granted | Gross Profit of Options exercised | Total FY2018 Company | Total cash remuneration                 | Amount of Shares granted | Gross Profit of Options exercised | Total FY2018 Company | Total FY2018 | Total FY2017 | Contribution to the savings systems during the year |
| RAMÓN ARAGONÉS                        | 849                                 | 121                      | -                                 | 970                  | -                                       | -                        | -                                 | -                    | 970          | 1.011        | -                                                   |
| JOSE MARIA SAGARDOY LLONIS            | 103                                 | -                        | -                                 | 103                  | -                                       | -                        | -                                 | -                    | 103          | 79           | -                                                   |
| ALFREDO FERNÁNDEZ AGRAS               | 275                                 | -                        | -                                 | 275                  | -                                       | -                        | -                                 | -                    | 275          | 250          | -                                                   |
| MARÍA GRCNA                           | 64                                  | -                        | -                                 | 64                   | -                                       | -                        | -                                 | -                    | 64           | 57           | -                                                   |
| FERNANDO LACADENA AZPEITIA            | 96                                  | -                        | -                                 | 96                   | -                                       | -                        | -                                 | -                    | 96           | 83           | -                                                   |
| JOSÉ MARÍA CANTERO DE MONTES-JOVELLAR | 61                                  | -                        | -                                 | 61                   | -                                       | -                        | -                                 | -                    | 61           | 68           | -                                                   |
| PAUL JOHNSON                          | 74                                  | -                        | -                                 | 74                   | -                                       | -                        | -                                 | -                    | 74           | 96           | -                                                   |
| JOSÉ ANTONIO CASTRO SOUSA             | 111                                 | -                        | -                                 | 111                  | -                                       | -                        | -                                 | -                    | 111          | 250          | -                                                   |
| JOSÉ MARÍA LOPEZ-ELOLA GONZALEZ       | 28                                  | -                        | -                                 | 28                   | -                                       | -                        | -                                 | -                    | 28           | 66           | -                                                   |
| GRUPO INVERSOR HESPERIA S.A           | 66                                  | -                        | -                                 | 66                   | -                                       | -                        | -                                 | -                    | 66           | 98           | -                                                   |

## D OTHER INFORMATION OF INTEREST

If there are any relevant issues related to the directors' remuneration that you have not been able to address in the previous sections of this report but that are necessary to provide more



comprehensive information with full grounds on the company's remuneration structure and practices regarding its directors, list them briefly.

NO

This annual remuneration report has been approved by the company's Board of Directors' Meeting held on 25/02/2018.

State whether any director has voted against or abstained from approving this report.

Yes ☐

No ☒

| Name or company name of the member of the Board of Directors that has not voted in favour of approving this report | Reasons (against, abstention, absence) | Explain the reasons |
|--------------------------------------------------------------------------------------------------------------------|----------------------------------------|---------------------|
| N/A                                                                                                                | N/A                                    | N/A                 |