

# **ANNUAL REPORT OF THE AUDIT AND CONTROL COMMITTEE OF NH HOTEL GROUP, S.A., FOR THE YEAR 2017**

## **1. Introduction**

The Audit and Control Committee of NH Hotel Group, S.A. ("NH") issues this report on the operation and performance of its tasks during the year 2017 (hereinafter, the "**Report**").

The purpose of the Report is to report on the activity performed by this Committee to the Board of Directors in accordance with Recommendation 6 of the code of good governance of listed companies, approved by Agreement of the CNMV (National Stock Market Commission) Board of 18 February 2015.

The composition, powers and operation of the Appointments, Remuneration and Corporate Governance Committee are regulated in articles 48 of the Articles of Association and 25 of the Board Regulations.

## **2. Composition of the Audit and Control Committee**

On 31 December 2017 the Audit and Control Committee was made up of 3 members, as well as by its non-member Secretary.

The composition of the Audit and Control Committee as at 31 December 2017 is the following:

Chairperson: - Mr Fernando Lacadena Azpeitia (Independent)

Members: - Ms Maria Grecna (Independent)

- Mr José María Sagardoy Llonis (Independent)

Secretary: - Mr Carlos Ulecia Palacios

During the year 2017 there have been changes in the composition of this Committee, caused by the cessations: (i) of the Chairperson Ms. Koro Usarraga Unsain on 25 July 2017 as Chairperson and Member of this Committee; (ii) of Mr Francisco Javier Illa Ruiz on 7 February 2017 as a result of his death; (iii) of Mr Carlos González Fernández as a member of this Committee on 26 of June 2017; and (iv) of Mr Francisco Román Reichmann as a member of this Committee on 29 June 2017.

The provisions are fulfilled in the regulations as regards the Audit and Control Committee being made up of a minimum of three and a maximum of six Directors appointed by the Board of Directors and that all of the members of the Committee must be External Directors, the majority of whom, at least, are Independent Directors, having to appoint,

at least one of them, taking into account their knowledge and experience in accounting, auditing or in both.

The Chairperson of the Audit and Control Committee will be appointed from among the independent Directors that are part of it and must be replaced every four years, and can be re-elected once after a period of one year from their cessation.

### **3. Competences**

The primary role of the Audit and Control Committee is to support the Board of Directors in its monitoring and control functions, constituting their most important manifestation, that of ensuring the effectiveness of the internal control of the Company and overseeing the process for the preparation and presentation of the financial information.

The Audit and Control Committee has, at least, the following powers:

1. Reporting to the General Meeting on the issues raised within the framework of its competence.
2. Overseeing the effectiveness of the internal control of the Company, the internal audit, if applicable, and the systems for the management of risks, including the tax risks, as well as discussing with the accounts auditors or audit firms the significant weaknesses of the internal control system in the performance of the audit.
3. Oversee the process for the preparation and presentation of the financial information.
4. Bring to the Board of Directors proposals for the selection, appointment, reappointment and replacement of the external auditor, as well as the conditions of their contract and regularly gather from them information on the audit plan and its implementation, as well as to preserve their independence in the exercise of their functions.
5. Establish the appropriate relations with account auditors or audit firms to receive information on those issues that may jeopardize their independence, for consideration by the Audit and Control Committee, and any others related to the process performed for the audit of accounts, as well as those other communications provided for in the accounts audit legislation and in the audit rules. In any case, they must receive annually from the accounts auditors or audit firms written confirmation of their independence from the entity or entities related to it directly or indirectly, as well as the information about the additional services of any kind provided and the corresponding fees received from these entities by those auditors or companies, or by persons or entities related to them in accordance with the provisions in the accounts audit legislation.
6. Annually issue, before issuing the accounts audit report, a report expressing an opinion on the independence of the account auditors or audit firms. This report must

in any event contain the assessment of the provision of the additional services referred to the previous letter, considered individually and as a whole, other than statutory audit and in relation to the independence or with the regulatory audit standards.

7. Report in advance to the Board of Directors on all the matters provided for in the Act, the Articles of Association and in the Board Regulations and in particular, on:
  - a. the financial information that the company must periodically publish,
  - b. the creation or acquisition of shares in special purpose entities or domiciled in countries or territories that are considered tax havens and
  - c. the operations with related parties.
8. Ensure the independence and effectiveness of the internal audit function; propose the selection, appointment, reappointment and cessation of the head of the internal audit service; propose the budget of that service; receive regular information on its activities; and check that the senior management takes into account the conclusions and recommendations of its reports.
9. Establish and monitor a mechanism that allows the employees to report, confidentially and anonymously, the breaches of the Code of Conduct
10. Oversee the compliance and the internal codes of conduct, as well as the rules of corporate governance.

#### **4. Operation**

The Audit and Control Committee shall meet at least once a quarter and whenever deemed appropriate, following call by its Chair, on its own decision or on request from two of its members or from the Board of Directors.

The Audit and Control Committee may require the attendance at its sessions of any employee or manager of the company, as well as the Company's Accounts Auditor.

Through its Chair, the Audit and Control Committee will report to the Board on its activity and the work done at the corresponding meetings, or at the next one when the Chair of the Audit and Control Committee deems it necessary. The Minutes of their meetings will be available to any member of the Board on request.

The Audit and Control Committee has held 10 meetings during the year 2017. In addition, the members of the Audit and Control Committee have held meetings during the year 2017 without the attendance of any NH executive.

In addition, the meetings of the Audit and Control Committee may occasionally be attended by Directors who are not members of the Committee or NH managers, upon invitation from its Chair.

## 5. Relations with the External Auditors

The parent Company of the NH Group has been audited since the year 1986 by companies of recognized prestige. The period 1986-1992 was covered by Peat Marwick, 1993-2001 Arthur Andersen. Since the year 2002, the audit has been made by Deloitte.

Deloitte is the main auditor and, as such, issues the audit opinion on the Consolidated Annual Accounts.

This audit firm has checked the accounts of the companies integrated in the geographical areas of Spain (except Burgos and Tenerife), Benelux, Italy, France, Luxembourg, Germany, Austria, Switzerland, Mexico and MERCOSUR (except Brazil), representing 99.88% of the consolidated assets and 99% of the net turnover.

During the years 2017 and 2016, the fees related to the accounts audit services and other services provided by the auditor of the consolidated annual accounts of the Group, Deloitte, S.L., as well as the fees for services invoiced by the entities related to it by control, common ownership or management were the following:

	Thousands of euros	
	2017	2016
For audit services	481	478
Other verification services	258	426
Total audit and related services	739	904
Tax advice services	195	598
Other services	471	202
Total other services	666	800
<b>Total professional services</b>	<b>1,405</b>	<b>1,704</b>

In addition, entities linked to the international network of Deloitte have invoiced the Group for the following services:

	Thousands of euros	
	2017	2016
For audit services	1,147	1,149
Other verification services	19	24
Total audit and related services	1,166	1,173
Tax advice services	56	115
Other services	-	6
Total other services	56	121
<b>Total</b>	<b>1,222</b>	<b>1,294</b>

During the year 2017, other audit firms apart from Deloitte, S.L. or entities related to this company for control, common ownership or management, have provided accounts audit services to the companies that make up the Group whose fees have amounted to 83 thousand euros (130 thousand euros in 2016). Furthermore, the fees incurred in the year 2017 for these firms relating to tax advice services were 125 thousand euros (221 thousand euros in 2016) and other services of 443 thousand euros (372 thousand euros in 2016).

## **6. Content and results of the work of the Audit Committee for the year 2017**

The Audit Committee has held 10 meetings during the year 2017 in which it dealt with the following matters:

- a) Analysis and evaluation, along with the external auditors, of the Financial Statements and the Report for the year 2017 checking that its audit opinion has been issued in conditions of absolute independence.
- b) Review of the information on those issues that may jeopardize the independence of the accounts auditors. Issuance of the Report on the independence of the accounts auditors.
- c) Revision of the periodic public financial information from 2017 after its analysis and approval by the Board of Directors so that it is reliable, transparent and prepared through the application of standard accounting principles and criteria.
- d) Approval of the fees of the External Auditor for the 2017 Audit
- e) Oversight of the Internal Audit strategic plan.
- f) Monitoring the Internal Audit Plan for the year 2017 with consideration of its conclusions and implementation, if applicable, of the necessary corrective measures.
- g) Supervision of the work carried out by the Compliance Committee.
- h) Follow-up of the more significant projects carried out by the Internal Audit team.
- i) Oversight of the Group's Updated Risks Map and its monitoring.
- j) Monitoring of the risks relating to the Internal Control System of the Financial Information (SCIIF).
- k) Review of the Annual Corporate Governance Report, prior to its referral to the Board of Directors for its study and approval, with special emphasis on the analysis of the register of directors and managers (belonging to other bodies of Administration, procedural vicissitudes, related operations, etc.).
- l) Analysis of (i) the tax organization of the Company, (ii) determination of the tax policy, and (iii) of certain corporate restructuring operations.



- m) Review and Approval of the updating of the Internal Audit Statutes document.
- n) Review and validation for the approval by the Board of the new Anti-Corruption Policy of NH Hotel Group, S.A. and its companies.

## **7. Analysis of the transactions with related parties**

During the year 2017, the Audit and Control Committee has analysed the following operations with related parties:

- Agreement between NH and Grupo Inversor Hesperia, S.A. on the new framework contract for the management by NH of 28 hotels in the hotels portfolio of Grupo Inversor Hesperia, S.A. The Committee considers that, with the technical support that it has had, the operation as a whole protects the corporate interest, and its terms and conditions have been agreed following the principle of equal treatment, and with market references between independent parties. The analysis and its decision were done in strict compliance with the rules that the Company has established, both in the Articles of Association and the Board Regulations, as well as the Procedure on Operations with Related Parties and Conflict of Interest.
- The terms and conditions of the Agreement have been unanimously approved by the Board of Directors of NH, following favourable report from its Audit and Control Committee.

## **8. Priorities for the year 2018**

Regardless of the customary tasks required by the general regulations and the NH regulations in relation to the financial information to transfer to the market and the supervision of the independence of the external auditors, the Audit and Control Committee has reviewed and approved a work plan for the Internal Audit Department for the year 2018 which envisages the following priorities:

1. Operational and financial audits of the key processes set out within the framework of the Conversion Plan, both at the Central Services level and Operative Centres from all Business Units. Oversight of the adequate implementation and monitoring of controls in areas included in the Strategic Plan.
2. Follow-up to the issues identified in the audits performed in previous years and the implementation of the action plans prepared by the various Departments and Business Units.
3. In the exercise of the Risks management function, (i) update of the Risks Map in the new SAP GRC tool, (ii) monitoring of the Key Risk Indicators (KRIs) and action plans, (iii) approval of the concept of Risk Appetite by the Board of Directors as well as (iv) preparation and division of the Risk Management function as second line of defence in December 2018.
4. Support for Corporate technological component projects (PCI-DSS; PDS).

5. In the exercise of the Compliance/ Fraud role, (i) management of the ethical line of NH, (ii) investigation of fraud, (iii) preparation of a Fraud Plan (prevention, detection, investigation) and (iv) preparation of the audit of the crime prevention model in Spain.

In conclusion from this report, it should be stressed that for the performance of all the work that has been mentioned, this Committee has had access, whenever considered useful, to all those external professionals (auditors, consultants or experts) or members of the Economic-Finance, Legal and Internal Audit departments as deemed necessary.

In Madrid, 27 February 2018