NH Hotel Group, S.A.

Financial Statements for
the year ended 31 December 2016 and
Directors' Report, together with
Independent Auditor's Report

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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholder of
NH Hotel Group, S.A.,

Report on the Financial Statements

We have audited the accompanying financial statements of NH Hotel Gorup, S.A., which comprise the balance sheet as at 31 December 2016, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

Directors' Responsibility for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the equity, financial position and results of NH Hotel Group, S.A. in accordance with the regulatory financial reporting framework applicable to the Company in Spain, identified in Note 2-a to the accompanying financial statements for the year ended 31 December 2016, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of NH Hotel Group, S.A. as at 31 December 2016, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

Report on Other Legal and Regulatory Requirements

The accompanying directors' report for the year ended 31 December 2016 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for the year ended 31 December 2016. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

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

Pilar Cerezo Sobrino
28 February 2017

AUDITORES

DELOITTE, S.L.

Año 2017 Nº 01/17/00530
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Translation of 2016 Financial Statements and Management Report originally issued in Spanish and prepared in accordance with Spanish GAAP. In the event of a discrepancy, the Spanish-language version prevails (see Note 23).

NH HOTEL GROUP, S.A.

2016 Annual Accounts

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NH HOTEL GROUP. S.A.

2016 Annual Accounts

BALANCE SHEET

NH Hotel Group, S.A.
BALANCE AT 31 DECEMBER 2016
(Thousands of Euros)

ASSETS	Note	31/12/2016	31/12/2015	LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31/12/2016	31/12/2015
NON-CURRENT ASSETS		**2,186,439**	**2,151,141**	**EQUITY**	**Note 11**	**1,645,906**	**1,517,437**
Intangible assets	**Note 5**	**47,373**	**45,985**	***SHAREHOLDERS' EQUITY***			
Tangible fixed assets	**Note 6**	**122,090**	**127,381**	**Share capital**		**700,544**	**700,544**
Land and buildings		81,628	83,516	**Share premium**		**706,601**	**706,601**
Plant and other items of property, plant and equipment		37,763	38,963	**Reserves**		**477,432**	**475,506**
Other fixed assets		2,699	4,902	Legal and statutory reserves		43,122	43,122
Non-current investments in Group companies and associates		**1,890,377**	**1,783,266**	Other reserves		434,310	432,384
Equity instruments	**Note 8.2**	1,834,465	1,727,354	**Prior years' losses**		**(354,882)**	**(265,810)**
Loans to companies	**Note 17**	55,912	55,912	**Treasury shares and shareholdings**		**(39,983)**	**(37,562)**
Non-current financial assets	**Note 8.1**	**17,638**	**75,870**	**Other Equity Instruments**	**Note 13.1**	**27,230**	**27,230**
Deferred tax assets	**Note 14**	**108,961**	**118,639**	**Profit (Loss) for the year**		**128,964**	**(89,072)**
				NON-CURRENT LIABILITIES		**871,926**	**767,827**
				Long-term provisions	**Note 12**	**12,588**	**52,218**
				Other provisions		12,588	52,218
				Non-current payables		**805,012**	**664,240**
				Obligations and other negotiable securities	**Note 13.1**	763,637	471,871
				Debts with credit institutions	**Note 13.1**	37,566	133,468
				Other financial liabilities	**Note 13.3**	3,809	58,901
				Long-term debts with group and associate companies	**Note 17.1**	**48,079**	**44,950**
				Deferred tax liabilities	**Note 14**	**6,247**	**6,419**
CURRENT ASSETS		**644,943**	**475,578**				
Non-current assets classified as held for sale	**Note 9**	**51,465**	**48,184**				
Inventories		**104**	**105**	**CURRENT LIABILITIES**		**313,550**	**341,455**
Trade and other receivables		**12,151**	**10,738**	**Short-term provisions**	**Note 12**	**6,611**	**62**
Trade accounts receivable for sales and services		2,389	4,500	**Current payables**		**15,128**	**29,231**
Sundry debtors		5,026	1,323	Obligations and other negotiable securities	**Note 13.1**	2,233	3,613
Personnel		82	-	Debts with credit institutions	**Note 13.1**	12,895	25,588
Current tax assets	**Note 14**	896	768	**Short-term debts with group and associate companies**	**Note 17**	**241,455**	**263,054**
Other tax receivables	**Note 14**	3,758	4,147	**Trade creditors and other accounts payable**		**50,356**	**49,108**
Current investments in Group companies and associates	**Note 17**	**514,828**	**382,277**	Suppliers		40,785	31,158
Short-term financial investments	**Note 13.2**	**1,944**	**2,216**	Other creditors		4,496	13,748
Short-term accruals		**1,899**	**1,794**	Personnel		3,976	3,173
Cash and cash equivalents	**Note 10**	**62,552**	**30,264**	Other taxes payable	**Note 14**	1,099	1,029
TOTAL ASSETS		**2,831,382**	**2,626,719**	**TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES**		**2,831,382**	**2,626,719**

The accompanying Notes 1 to 23 are an integral part of the balance sheet at 31 December 2016.
The balance sheet at 31 December 2015 is presented for comparison purposes only.

NH Hotel Group, S.A.

INCOME STATEMENT FOR THE YEAR 2016

(Thousands of Euros)

	Note	31/12/2016	31/12/2015
Revenues	**Note 18**	**28,159**	**24,361**
Sales		26,730	22,459
Other income	**Note 17.2**	1,429	1,902
Procurements		**1,839**	**2,371**
Work carried out by the company for its assets		**5,403**	**7,593**
Other operating income	**Note 17.2**	**76,895**	**38,287**
Non-core and other current operating income		76,895	38,287
Staff costs	**Note 18.b**	**(41,949)**	**(38,253)**
Wages, salaries and similar		(36,744)	(33,212)
Social security contributions		(5,205)	(5,041)
Other operating expenses		**(57,554)**	**(63,049)**
External services	**Note 18.c**	(26,038)	(25,693)
Taxes		(1,761)	(1,471)
Losses on, impairment of and changes in allowances for trade receivables		(103)	(105)
Other current operating expenses		(29,652)	(35,780)
Depreciation and amortisation charge	**Notes 5 & 6**	**(20,262)**	**(15,031)**
Impairment and gains or losses on disposals of non-current assets		**47,415**	**(336)**
Impairments and other losses	**Notes 5 & 6**	(120)	16
Income from disposals and other	**Note 18.e**	47,535	(352)
PROFIT/LOSS FROM OPERATIONS		**39,946**	**(44,057)**
Financial income		**327**	**1,082**
From investments in equity instruments			
- Third parties		27	-
From securities held for trading and other financial instruments			
- Third parties		300	1,082
Financial expenses		**(50,638)**	**(43,882)**
On debts to Group companies and associates	**Note 17.2**	(2,485)	(3,604)
On debts to third parties		(48,153)	(40,278)
Changes in fair value of financial instruments		**435**	**(60)**
Exchange rate differences		**302**	**(344)**
Impairment and gains or losses on disposals of financial instruments	**Notes 8.2 & 12**	**145,194**	**(11,333)**
FINANCIAL PROFIT/LOSS		**95,620**	**(54,537)**
PROFIT/LOSS BEFORE TAX		**135,566**	**(98,594)**
Income tax	**Note 14**	(6,602)	9,522
PROFIT/LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**128,964**	**(89,072)**

The accompanying Notes 1 to 23 are an integral part of the income statement for 2016.
The income statement for 2015 is presented for comparison purposes only.

NH Hotel Group, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2016

A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE

	Thousands of euros	
	2016	2015
PROFIT/LOSS AS PER INCOME STATEMENT (I)	**128,964**	**(89,072)**
Income and expenses recognised directly in net equity		
1. From revaluation of financial instruments:	-	-
2. Due to cash flow hedges	-	-
3. Grants, donations and legacies received	-	-
4. Due to actuarial gains and losses and others adjustments	-	-
5. Rest of income and expenses directly attributed to shareholders' equity	-	-
6. Tax burden	-	-
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)	**-**	**-**
Transfers to profit or loss		
1. From revaluation of financial instruments:	-	-
2. Due to cash flow hedges	-	-
3. Grants, donations and legacies received	-	-
4. Rest of income and expenses directly attributed to shareholders' equity	-	-
5. Tax burden	-	-
TOTAL TRANSFERS TO PROFIT OR LOSS (III)	**-**	**-**
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)	**128,964**	**(89,072)**

The accompanying Notes 1 to 23 are an integral part of the statement of recognised income and expense for 2016.
The statement of recognised income and expense for the year ended 31 December 2015 is presented for comparison purposes only.

NH HOTEL GROUP, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR 2016
B) STATEMENTS OF CHANGES IN TOTAL EQUITY
(Thousands of Euros)

	Equity							
	Share capital	Share premium	Reserves	Treasury shares and shareholdings	Prior years' profits (losses)	Profit (Loss) for the Year	Valuation adjustments	Total Shareholders' Equity
Balances at 31 December 2014	**700,544**	**706,601**	**473,274**	**(38,806)**	**(138,766)**	**(127,044)**	**27,230**	**1,603,033**
I. Total recognised income / (expense)	**-**	**-**	**-**	**-**	**-**	**(89,072)**	**-**	**(89,072)**
II. Transactions with shareholders or owners	**-**	**-**	**365**	**1,245**	-	-	-	**1,610**
1. Capital increase	-	-	-	-	-	-	-	-
2. Transactions with treasury shares or shareholdings (net)	-	-	365	1,245	-	-	-	1,610
III. Other changes in equity	**-**	**-**	**1,866**	**-**	**(127,044)**	**127,044**	**-**	**1,866**
1. Transfers between equity items	-	-	-	-	(127,044)	127,044	-	-
2. Remuneration scheme in shares	-	-	1,866	-	-	-	-	1,866
Balances at 31 December 2015	**700,544**	**706,601**	**475,505**	**(37,561)**	**(265,810)**	**(89,072)**	**27,230**	**1,517,437**
I. Total recognised income / (expense)	-	-	-	-	-	128,964	-	**128,964**
II. Transactions with shareholders or owners	**-**	**-**	**-**	**(2,422)**	-	-	-	**(2,422)**
1. Transactions with treasury shares or shareholdings (net)	-	-	-	(2,422)	-	-	-	(2,422)
III. Other changes in equity	-	-	**1,927**	-	**(89,072)**	**89,072**	**-**	**1,927**
1. Transfers between equity items	-	-	-	-	(89,072)	89,072	-	-
2. Remuneration scheme in shares	-	-	1,927	-	-	-	-	1,927
Balances at 31 December 2016	**700,544**	**706,601**	**477,432**	**(39,983)**	**(354,882)**	**128,964**	**27,230**	**1,645,906**

The accompanying Notes 1 to 23 are an integral part of the statement of changes in total equity for the year 2016.
The statement of changes in equity for the year 2015 is presented for comparison only.

NH Hotel Group, S.A.

CASH FLOW STATEMENT FOR 2016

(Thousands of Euros)

	Notes to the report	2016	2015
A) CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit (loss) before tax		**135,566**	**(98,594)**
2. Adjustments for:		**(112,950)**	**68,968**
a) Depreciation and amortisation charge (+)	**Notes 5 & 6**	20,262	15,031
b) Impairment losses (+/-)	**Note 6**	120	(16)
c) Changes in provisions (+/-)		9,792	1,280
d) Gains/Losses on derecognition and disposal of non-current assets (+/-)		(47,535)	352
e) Gains/Losses on derecognition and disposal of financial instruments (+/-)	**Notes 8.2 & 11**	(145,194)	11,332
f) Finance income (-)	**Note 18.a**	(1,756)	(2,984)
g) Finance costs (+)		50,638	43,882
h) Exchange rate differences (+/-)		(302)	344
i) Changes in the fair value of financial instruments (+/-)		(435)	60
j) Other income and expenses (-/+)		1,460	(313)
3. Changes in working capital		**1,448**	**7,359**
a) Inventories (+/-)		2	(27)
b) Trade and other receivables(+/-)		1,495	3,928
c) Other current assets (+/-)		(105)	(985)
d) Trade and other payables (+/-)		959	4,403
e) Other current liabilities (+/-)		(4)	40
f) Other non-current assets and liabilities (+/-)		(899)	-
4. Other cash flows from operating activities:		**(31,770)**	**(26,240)**
a) Interest paid (-)		(32,097)	(27,322)
b) Interest received (+)		1,756	2,984
5. Cash flows from investment activities (+/-1+/- 2+/-3+/-4)		**(7,706)**	**(48,507)**
B) CASH FLOWS FROM INVESTMENT ACTIVITIES			
6. Payments due to investment		**(159,071)**	**(175,048)**
a) Group companies and associates		(131,164)	(129,216)
b) Tangible and intangible fixed assets	**Notes 5 and 6**	(27,907)	(45,832)
7. Proceeds from disposal (+):		**51,668**	**6,368**
a) Property, plant and equipment		50,961	3,955
b) Other financial assets		707	2,413
8. Cash flows from investment activities (7-6)		**(107,403)**	**(168,680)**
C) CASH FLOWS FROM FINANCING ACTIVITIES			
9. Equity instruments receivables and (payables):		**(2,422)**	**1,610**
a) Purchase of treasury shares (-)	**Note 11**	(2,422)	1,610
10. Proceeds and payments relating to financial liability instruments:		**149,517**	**121,856**
a) Issue of			
1. Obligations and other negotiable securities		285,000	-
2. Bank borrowings (+)		1,200	99,777
3. Borrowings from Group companies and associates		(16,410)	33,079
b) Redemption of			
1. Bank borrowings (-)		(120,273)	(11,000)
12. Cash flows from financing activities (+/-9+/-10+/-11)		**147,095**	**123,466**
D) EFFECT OF EXCHANGE RATE VARIATIONS		**302**	**(344)**
E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)		**32,288**	**(94,065)**
Cash and cash equivalents at the start of the financial year		30,264	124,329
Cash and cash equivalents at end of year		62,552	30,264

The accompanying Notes 1 to 23 are an integral part of the cash flow statement for the year 2016.

The cash flow statement for 2015 is presented for comparison only.

CASH FLOW STATEMENT

REPORT ON THE ANNUAL ACCOUNTS OF NH HOTEL GROUP S.A. FOR THE YEAR ENDING 31 DECEMBER 2016

1.- COMPANY PURPOSE

NH HOTEL GROUP, S.A. (hereinafter the Company) was incorporated as a public limited company in Spain on 23 December 1981 under the trade name “Material para Ferrocarriles y Construcciones, S.A.”, which was subsequently changed to “Material y Construcciones, S.A.” (MACOSA) and later to “Corporación Arco, S.A.”

In 1992, Corporación Arco, S.A. took over Corporación Financiera Reunida, S.A. (COFIR), while at the same time adopting the trade name of the company taken over and amending its corporate purpose to the new activity of the Company, which focused on the management of its shareholding portfolio.

During the 1998 financial year, (COFIR) merged with Grupo Catalán, S.L. and its subsidiaries and Gestión NH, S.A. through the absorption of these companies by the former. Subsequently, Corporación Financiera Reunida, S.A. (COFIR) took over NH Hoteles, S.A., adopted its trade name and broadened its corporate purpose to allow for the direct performance of hotel activities, activities in which it had already been engaged indirectly through its subsidiaries.

Information on these mergers can be found in the financial statements of the years in which said transactions took place.

The General Shareholders' Meeting of 29 June 2014 agreed to change the company's name from “NH Hoteles, S.A.” to “NH Hotel Group, S.A.”

The Company entered into an agreement with Grupo Inversor Hesperia, S.A. (hereinafter “Hesperia”) in 2009 to merge their respective hotel management businesses, subsequently managing 49 hotels formerly owned or operated by Hesperia. The Company currently manages 31 hotels belonging to Grupo Inversor Hesperia. This agreement is under renegotiation (see Note 19.3).

The Company is the head of a group of subsidiaries engaging in the same activities and that constitute, together with NH Hotel Group, S.A., the NH Hotel Group.

At the end of 2016, the Group was operating hotels in 29 countries, with 379 hotels and 58,472 rooms, of which around 77% are located in Spain, Germany, Italy and the Benelux countries.

NH Hotel Group, S.A. has its registered address in Madrid.

The consolidated financial statements for 2015 were approved by the shareholders at the Annual General Meeting held on 21 June 2016 and filed in the Madrid Companies Registry.

The consolidated financial statements for 2016 were drawn up by the directors of NH Hotel Group, S.A. on 28 February 2017, in accordance with the regulatory reporting framework applicable to the Group. Said framework is set forth in the Code of Commerce and all other Spanish corporate law, and in the International Financial Reporting Standards ("IFRS") adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and in Law 62/2003, of 30 December, the Tax, Administrative, Labour and Social Security Measures Act, and as such give a true and fair presentation the Group’s equity and financial position at 31 December 2016 and of the results of its operations, changes in equity and consolidated cash flows for the year then ended.

Based on the contents of said consolidated financial statements, the total volume of equity, period profit, assets and consolidated sales amounted to EUR 1,156 million, EUR 31 million, EUR 2,627 million and EUR 1,448 million, respectively.

2.- BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

a) Regulatory financial reporting framework applicable to the Company

These financial statements were prepared by the directors in accordance with the regulatory financial reporting framework applicable to the Company, which consists of:

a) Spanish Commercial Code and all other Spanish corporate law.
b) Spanish Generally Accepted Accounting Principles approved by Royal Decree 1514/2007.
c) The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the Spanish Generally Accepted Accounting Principles and the relevant secondary legislation.
d) All other applicable Spanish accounting legislation.

In December 2016 Royal Decree 602/2016, of 2 December, was approved, amending among other measures the General Accounting Plan approved by Royal Decree 1514/2007 of 16 November. Royal Decree 602/2016 is applicable to fiscal years beginning on or after 1 January 2016.

The main changes introduced by Royal Decree 602/2016 which affect the Company refer to new ways to break down information in the annual report. Apart from those arising from the changes referred to in the following point, the most significant of these include: a) the amount paid of the Administrators' liability insurance premiums; b) employees with a disability of 33% or more; and c) the conclusion, amendment or early termination of any contract between the company and any of its shareholders or Administrators, or persons acting on their behalf, in the case of a transaction outside the ordinary trading activity of the company or which is not performed in normal conditions.

In relation to the new reporting requirements for information to be included in the annual report, and as permitted in the second Additional Provision of this Royal Decree, the Company, in accordance with the applicable law, has not included a breakdown of comparative information.

b) True and fair presentation

These consolidated financial statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable thereto and, in particular, with the accounting principles and rules contained therein and, accordingly, provide a true and fair presentation of the Company's equity, financial position, results of operations and cash flows for 2016.

c) Non-obligatory accounting principles

No non-obligatory accounting principles were applied. Furthermore, the Company's directors formally prepared these consolidated financial statements by taking into account all the obligatory accounting principles and standards with a significant effect hereon. All obligatory accounting principles were applied.

d) Key issues in relation to the measurement and estimation of uncertainty

In the preparation of these consolidated financial statements, estimates were made by the Company's directors in order to quantify certain assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment of possible impairment losses on certain assets.
- The assumptions used in the actuarial calculation of liabilities for pensions and other undertakings made to the personnel.
- The useful life of tangible and intangible assets
- The market value of certain assets.

- The calculation of provisions.
- Recoverability of tax assets.

Although these estimates were made on the basis of the best information available at year-end 2016, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively.

e) Comparative information

The information relating to 2015 contained in these notes to the consolidated financial statements is presented for the purposes of comparison with the information for 2016.

f) Grouping of items

Certain items in the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement are grouped together to make them easier to understand; however, whenever the amounts involved are material, the information is broken down in the related notes to the consolidated financial statements.

g) Changing in accounting policies

In 2016 there were no significant changes in accounting policies with respect to those applied in 2015.

h) Correction of errors

In preparing the accompanying consolidated financial statements for 2016, no material errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2015.

3. DISTRIBUTION OF PROFITS

The proposed distribution of the profit (loss) for the year prepared by the Company's Directors and that will be submitted for approval by the Shareholders at the General Shareholders' Meeting is as follows (in thousands of euros):

	Financial year 2016
To legal reserve	12,896
To dividends (máximum amount to be distributed 0.05 gross euros per share, by the total number of outstanding shares)	17,034
To offset of prior years' losses	99,034
Total	**128,964**

(*) The final amount to be distributed will be updated based on the number of outstanding and issued shares at the date of the General Meeting of Shareholders.

4.- ACCOUNTING POLICIES

The main accounting policies used by the Company in preparing the financial statements for 2016, in accordance with the Spanish Generally Accepted Accounting Principles, were as follows:

a) Intangible assets

Intangible assets are considered to be any specifically identifiable non-monetary assets which have been acquired from third parties or developed by the Company. Only those whose cost can be estimated in an objective way and from which future economic profits are expected are recognised.

Any assets deemed to contribute indefinitely to the generation of profits are considered to have an indefinite useful life. The remaining intangible assets are considered to have a "finite useful life". All the Company's intangible assets are considered to have a "finite useful life".

Intangible assets with a finite useful life are amortised according to the straight-line method, applying annual amortisation percentages calculated according to the estimated years of useful life of the asset in question.

As a general rule, intangible assets are recognised initially at acquisition or production cost.. They are subsequently measured at cost less the related accumulated amortisation and any impairment losses.

"Intangible Assets" in the accompanying consolidated balance sheet includes, essentially, the following:

i) Usufruct Rights: this item reflects the right to operate Hotel NH Plaza de Armas in Seville, acquired in 1994, whose amortisation is recognised in the income statement over the 30-year term of the agreement at a rate which increases by 4% each year.

ii) "Computer applications" include the costs incurred by the Company in the acquisition and development of various computer software programmes acquired by the different consolidated companies. Computer applications are amortised applying the straight-line method at 25% per year.

b) Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition cost and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in Note 4-c.

Property, plant and equipment upkeep and maintenance expenses are recognised on the income statement for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

For non-current assets that necessarily take a period of more than twelve months to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to loans or other funds borrowed specifically or generally directly attributable to the acquisition or production of the assets.

Goods and elements removed, whether due to modernisation or any other cause, are accounted for under the balances presented in the corresponding accounts of assets and accumulated depreciation.

The Company depreciates its property, plant and equipment using the straight-line method, distributing the cost of the assets over the following years of estimated useful life, as follows:

	Estimated years of useful life
Buildings	50
Plant and machinery	10 - 12
Other plant, fixtures and furniture	4 - 10
Other Fixed assets	4 - 5

These items are depreciated based on their estimated useful life or the remaining term of the lease, if this is less than the useful life.

The profit or loss resulting from the disposal or retirement of an asset is calculated as the difference between the profit on the sale and the book value of the asset, and is recognised in the income statement.

c) Impairment of intangible assets and property, plant and equipment

Each year the Company assesses the possible existence of losses in value requiring it to reduce the book value of its property, plant and equipment and intangible assets. Loss of value is deemed to exist when the recoverable value is below the asset book value.

The recoverable amount is determined as the value in use. Value in use is calculated based on estimated future cash flows, discounted at a discount rate after tax which reflects the current market value, in relation to the value of money and the specific risks associated with the asset over a five-year period, and a perpetual value, except in the case of leased hotels corresponding with the leasing period, for which a perpetual value is not considered.

As a general rule, the Company has defined each of the hotels it operates as cash-generating units, according to the real management of their operations.

The operating result for each CGU is obtained at the end of the year without taking non-recurring results (if any) or financial results into account.

Once the operating result is known for each CGU, an impairment test is run for those showing signs of impairment. The Company considers a CGU to show signs of impairment if it meets the following conditions, among others: it has negative operating results and its business is stable (i.e., this does not apply to recently opened hotels until, usually, 3 years after they open).

Additionally, all the CGUs that have shown an impairment in previous years will be analysed individually and subjected to an impairment test.

Future cash flows are estimated based on the result for the year approved by the Company's directors, and the records of at least five previous years. The first projected year corresponds to the budget approved by the Board of Directors for the year after the year subjected to the impairment test. The projections for the following years are consistent with macroeconomic information from external sources of information, and the business knowledge of the Company's Operations Management.

A series of factors are considered by the Company's directors when drafting their projections:

- The estimated growth of GDP (Gross Domestic Product) for the next five years, published by the International Monetary Fund (IMF) in its report every October.
- Local management's knowledge of the local business/assets/situation of each CGU.
- Records of the previous results obtained by the CGUs.
- Investments in repositioning the CGUs.

These factors are reflected in the cash flows through the following working hypotheses used to obtain the projections:

- Income from accommodation is projected as the product of the occupancy percentage, the average daily rate (ADR) per room, and the total available rooms per year.
- The other revenues are projected based on the average of the relationship between the revenue from accommodation and those revenues.
- Staff costs are calculated based on the average staff costs with a growth in the inflation index (CPI).
- Tax costs are calculated based on the applicable tax rates.
- Direct costs are directly linked to each income source and are projected with an average ratio, while non-distributed costs are projected with the average ratio between them and direct costs.

The discount rate after tax applied by the Company for this purpose is 7.14%. Like the cash flows resulting from the impairment tests, the average discount rate was also calculated after tax. On the other hand, the book value with which the value in use is compared does not include any deferred tax liability that could be associated with the assets.

The average discount rate before tax applied by the Company for this purpose is 9%.

For the calculation of the discount rate the Weighted Average Cost of Capital (CPPC) methodology has been applied: Weighted Average Cost of Capital (WACC), as follows:

$$WACC=Ke*E/(E+D) + Kd*(1-T)*D/(E+D)$$

Where:

Ke: Cost of Equity
Kd: Cost of Financial Debt
E: Equity
D: Financial Debt
T: Tax Rate

The cost of equity (ke) uses the Capital Asset Pricing Model, or CAPM.

The main variables used to calculate the discount rate are as follows:

- Risk-free rate: using the average long-term interest rates of a 10-year bond over the last 12 months for each country, in the local currency.
- Market risk premium: defined as 6%, based on market reports.
- Beta or systematic risk: Used as outside sources of information, this information is gathered from independent databases and concerns the ratio between the risk of companies and overall market risk. The re-levered beta coefficient was estimated according to the unlevered betas at 70%, the debt structure of comparable companies (Debt / (Debt + Equity) of 32%) and the corresponding tax rate in each country.
- The cost of debt, at the market rate, is 5%.
- Premium by size: based on recent expert reports.

Using a post-tax discount rate and post-tax cash flows is consistent with the standards, as the estimated future cash flows will reflect assumptions that are consistent with the manner of determining the discount rate. In addition, the result of the post-tax flows updated at a post-tax discount rate would obtain the same result with respect to the impairment test if a pre-tax rate were used and, therefore, the impairment and reversion accounting records would be the same.

If the recoverable value of an asset is estimated to be less than its book value, the asset's book value is reduced to its recoverable amount, and the related write-down is recognised in the income statement.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the limit of the original value at which such asset was recognised before the loss of value was recognised.

Information on impairment losses detected in the financial year appears in Notes 5 and 6 of this Annual Report.

d) Leases

Leases are classified as financial leases whenever the terms of the lease substantially transfer all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

The Company generally classifies all leases as operating leases. Whether a lease is financial or operating depends on the economic background and nature of the transaction, rather than the mere form of the lease agreement.

The arguments used to classify the leases as operative are as follows:

- The ownership of the asset is transferred to the lessor at the end of the lease;
- There is no option to acquire the asset at the end of the lease;

- The term of the lease does not exceed the economic life of the asset
- The present value of the minimum lease payments does not substantially cover the market value of the underlying asset;
- The duration of leases is always much shorter than the economic useful life of the underlying asset;
- In the event that it is decided to extend the duration of the lease, the terms of the new lease should be renegotiated;
- The group can unilaterally terminate the lease without a penalty being imposed as a consequence;
- The increases or decreases in the residual value of the underlying asset are not borne by the Group, but by the lessor.

1) Financial lease

In financial leases in which the Company acts as the lessee, the cost of the leased assets is presented in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, a liability is recognised for the same amount. This amount will be the lower of the fair value of the leased asset and the present value at the inception of the lease, of the agreed minimum lease payments, including the price of the purchase option when it is reasonably certain that this will be exercised. The minimum lease payments do not include contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor. The total finance charges arising under the lease are allocated to the consolidated income statement for the year in which they are incurred using the effective interest method. Contingent rent is recognised as an expense for the year in which it is incurred. Leased assets are depreciated, based on their nature, using similar criteria to those applied to the items of property, plant and equipment taken as a whole.

At 31 December 2016 and 2015 the Company held no finance lease contracts

2) Operating leases

Expenses resulting from operating leases are charged to income in the year in which they are incurred.

When the Company acts as the lessor, it recognises the income from operating leases using the straight-line method according to the terms of the agreements signed. These assets are recorded at the purchase price of the leased assets in the section “Tangible Fixed Assets” and amortised in line with the policies adopted for similar tangible assets for own use. When the Company is the lessee, the cost of leasing is charged to the income statement on a straight-line basis , with the resulting asset or liability recorded in the corresponding sections of the balance sheet.

e) Financial instruments

1) Financial assets

The financial assets held by the Company are classified into the following categories:

- Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Company’s business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in a two-way market.

- Investments in the equity of the Company’s group companies, associates and jointly controlled entities: group companies are deemed to be those related to the Company as a result of a relationship of control and associates are companies over which the Company exercises significant influence. Jointly controlled entities include companies over which, by virtue of an agreement, the Company exercises joint control with one or more other partners.

- Financial assets held for sale These include debt securities and equity instruments of other companies that are not classified in any of the previous categories.

- Financial assets held for trading: those acquired with a view to disposing of them in the short term or those that are part of a portfolio where evidence exists of recent actions with this goal. This category also includes financial derivatives that are not finance guarantees (e.g. sureties) or those designated as hedging instruments.

Initial measurement –

Financial assets are initially recognised at the fair value of the consideration given, plus any directly eligible transaction costs.

Subsequent measurement –

Loans and receivables are measured at amortised cost.

Investments in the Company's group companies, associates and interests in jointly controlled entities are measured at cost, net of any accumulated impairment losses, where appropriate. These losses are calculated as the difference between the carrying value of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement (including any goodwill).

Financial assets held for sale are measured at fair value and the gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or it is determined that it has become permanently impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the net profit or loss for the year.

Lastly, financial assets held for trading are valued at their fair value, registering the result of changes in fair value in the income statement.

At least at each reporting date, the Company tests financial assets not measured at fair value through profit or loss for impairment. Objective evidence of impairment is deemed to exist when the recoverable amount of the financial asset is lower than its carrying value. When this occurs, the impairment loss is recognised on the income statement.

In particular, in relation to valuation adjustments relating to trade and other receivables, the Company calculates the corresponding impairment losses, if any, by analysing these on a case-by-case basis and provisioning balances past due by more than 180 days.

The Company deregisters financial assets when they mature, or when the rights to the financial asset's cash flows have been transferred, along with the inherent risks and benefits of ownership.

Conversely, the Company does not derecognise financial assets and recognises a financial liability for an amount equal to the consideration received in the transfers of financial assets in which the risks and rewards inherent in its ownership are substantially all retained.

2) Equity instruments

An equity instrument represents a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments issued by the Company are recognised in equity as the proceeds received, net of issue costs.

Treasury shares acquired by the Company during the year are recognised at the value of the consideration paid and are deducted directly from equity. Gains and losses on the acquisition, sale, issue or retirement of treasury shares are recognised directly in equity and in no case are they recognised in profit or loss.

3) Financial liabilities

Financial liabilities include accounts payable by the Company that have arisen from the purchase of goods or services in the normal course of the Company's business and those which, not having commercial substance, cannot be classed as derivative financial instruments.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

Debt issues are initially recognised at the fair value of the consideration received, less the costs directly attributable to the transaction. They are subsequently valued at their amortised cost using the effective interest rate method. Bonds with a maturity date greater than twelve months are classified under non-current liabilities, while those with a maturity date of less than twelve months are included in current liabilities.

Convertible bond issues are recognised at the time of their issue, distributing the fair value of the consideration received between their equity and liability components, assigning the residual value obtained after deducting the amount established separately for the liability component, from the fair value of these instruments as a whole, to the equity instrument. The value of any derivative embedded in the compound financial instrument other than the equity component will be included in the liability component.

Loans received from banking institutions are recognised at the amount received, net of costs incurred in the transaction. They are subsequently valued at amortised cost. These transaction costs and financial expenses are recognised on an accrual basis in the income statement using the effective interest rate method, and their amount is added to liabilities to the extent to which they are not settled in the period they were produced.

4) Derivatives and hedge accounting

Derivatives used to hedge the risks to which the Company's operations are exposed, mainly exchange and interest rate risks, are valued at market value on the date they are contracted. Any subsequent changes in their market value are recognised as follows:

- In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in the income statement.

- For cash flow hedges, valuation differences in the effective part of the hedge elements are temporarily recognised in the equity item "Equity valuation adjustments" and not recognised as results until the losses or gains of the hedged element are recognised in profit or loss or until the hedged element matures. The ineffective part of the hedge is directly entered into the income statement.

Hedge accounting is interrupted when the hedging instrument expires or is sold or finalised or exercised, or when it no longer meets the hedge accounting criteria. At that time, any cumulative gain or loss corresponding to the hedging instrument that has been recognised in equity is kept there until the expected transaction is undertaken.

When the transaction covered by the hedge is not expected to take place, the net cumulative gains or losses recognised in equity are transferred to the profit or loss for the period. Any changes in the fair value of derivatives which fail to meet hedge accounting criteria are recognised in the income statement as they arise.

The derivatives involved in other financial instruments or in other important agreements are booked separately as derivatives only when their risks and characteristics are not closely related to those of the important agreement and as long as such important agreements are not valued at fair value through the recognition of any changes to fair value in the income statement.

<u>Valuation techniques and assumptions applying to the measurement of fair value</u>

The fair values of financial assets and liabilities are determined as follows:

- The fair value of financial assets and liabilities under standard terms and conditions which are traded in active liquid markets are based on market prices.

- The fair value of other financial assets and liabilities (excluding derivatives) is determined in accordance with generally accepted valuation models on the basis of cash flow discounting using the price of observable market transactions and contributor listings of similar instruments.

- In order to determine the fair value of interest rate derivatives, cash flow discounting is used based on the implicit flow determined by the interest rate curve according to market conditions. In order to determine the fair value of options, the Company uses the Black-Scholes valuation model and its variants, using for this purpose market volatilities for the strike and maturity prices of said options.

Any financial instruments valued after their initial recognition at fair value are classified as level 1 to 3 based on the extent to which fair value can be observed:

- Level 1: includes any instruments indexed to listed prices (without adjustment) of identical assets or liabilities in active markets.

- Level 2: includes any instruments indexed to other observable inputs (which are not the listed prices included under Level 1) for assets or liabilities, be it directly (i.e., prices) or indirectly (i.e., derived from prices).

- Level 3: includes any instruments indexed to valuation techniques, which include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

In 2015, the Company took out several exchange rate insurance contracts of which one remained in place at the end of 2015, for an amount of USD 16 million. In January 2016, a part of the nominal established was purchased for an amount of USD 5 million at a fixed rate of 1.27964. The remaining nominal of USD 11 million expired in December 2016, having been renegotiated until 1 March 2017 at a rate of 1.2938.

The change in fair value as of 31 December 2016 of these hedges has had a positive effect on the 2016 income statement of €435 thousand (a negative impact of €60 thousand in 2015).

These derivative instruments have not been treated as hedging instruments.

f) Inventories

Restaurant inventories are measured at the lower of acquisition cost or realisable value

g) Foreign currency transactions

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognised by applying the exchange rates prevailing on the date of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates then prevailing. Any resulting gains or losses are recognised directly in the income statement in the year in which they arise.

h) Income tax

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

The current income tax expense is the amount payable by the Company as a result of income tax settlements for a given year. Tax credits and other tax benefits, excluding tax withholdings and interim payments, and tax loss carryforwards from prior years effectively offset in the current year reduce the current income tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences measured as the amount expected to be payable or recoverable on differences between the carrying values of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. Said amounts are recognised by applying to the relevant temporary difference or credit the tax rate at which they are expected to be recovered or settled.

Deferred tax liabilities are recognised for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination and affects neither accounting profit (loss) nor taxable profit (tax loss).

Deferred tax assets are recognised to the extent that it is considered likely that the Group will have taxable profits in the future against which the deferred tax assets can be utilised.

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised in equity.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made, according to the extent of doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become likely that they will be recovered through future taxable profits.

i) Income and expenses

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discounts and taxes.

Revenue from sales and services rendered is also recognised by reference to the stage of completion of the transaction at the reporting date, provided the outcome of the transaction can be reliably estimated.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder’s right to receive payment has been established. In any case, interest from financial assets accrued after the date of acquisition is recognised as income in the consolidated income statement.

j) Provisions and contingencies

The consolidated financial statements include all the provisions with respect to which it is considered likely that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognised as interest cost on an accrual basis.

The compensation to be received from a third party on settlement of the obligation is recognised as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised as a result of which the Company is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognised.

k) Termination benefits

Under current legislation and certain employment contracts, the Company is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken.

At 31 December 2016 the Company recognised €7,317 thousand for this item (€621 thousand the previous year) (see Note 18-b).

l) Environmental assets and liabilities

Environmental assets are deemed to be assets used on a lasting basis in the Company's operations whose main purpose is to minimise environmental impact and protect and improve the environment, including the reduction or elimination of future pollution.

Because of their nature, the Company's business activities do not have a significant environmental impact.

m) Obligations to employees

The Company has not established any supplementary pension plan to the social security system

Collective agreements in the hotel industry, applicable to the Company in Spain, require a specific number of monthly salary payments to those employees who leave the company due to retirement, permanent disability or upon reaching a certain age and having a certain number of years of service and fulfilling certain pre-established requirements.

In this regard and in compliance with Royal Decree-Law 16/2005, the Company has outsourced its obligations concerning its employees' pension plans.

n) Share-based remuneration schemes

These schemes, which may be paid in shares, are valued at the time of granting, using a financial method based on a binomial model which takes into consideration the strike price, volatility, the exercise period, the expected dividends, the risk-free interest rate and the assumptions made concerning the financial year.

The aforementioned valuation is recognised in profit or loss under personnel expenses during the period established as a requirement for the employee to remain in the company before exercising the option. Said value is recognised on a straight-line basis in the income statement from the date the option is granted until the date on which it is exercised.

The expense for the year is recognised directly in equity. On each subsequent closing date, the Company reviews the estimates regarding the number of options expected to be exercisable, adjusting the equity figure if necessary.

ñ) Transactions with related parties

The Company performs all its transactions with related parties on an arm's length basis. Also, the transfer prices are adequately supported and, therefore, the Company's directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future.

o) Current/Non-current classification

Current assets are assets associated with the normal operating cycle, which in general is considered to be one year; other assets which are expected to mature, be disposed of or be realised within twelve months from the end of the reporting period; financial assets held for trading, except for financial derivatives that will be settled in a period exceeding one year; and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current assets.

Similarly, current liabilities are liabilities associated with the normal operating cycle, financial liabilities held for trading, except for financial derivatives that will be settled in a period exceeding one year; and, in general, all obligations that will mature or be extinguished in the short term. All other liabilities are classified as non-current liabilities.

p) Onerous contracts

The Company considers onerous contracts to be those in which the inevitable costs of fulfilling the obligations they entail exceed the economic benefits expected from them.

The Company follows the principle of recording a provision at the present value of the aforementioned difference between the costs and benefits of the contract, or the compensation foreseen for abandonment of the contract, if such is decided.

The methodology, assumptions and discount rates used to calculate any necessary provisions are applied in accordance with the criteria described in Note 4.c.

q) Non-current assets classified as held for sale

Under the heading "Non-current assets classified as held for sale" the Company includes those assets whose book value is to be recovered through their sale and not through their continued use. This condition is considered to be met only when the sale is highly probable and the asset is available for immediate sale in its current state, and that the sale will be within one year from the date of classification.

Non-current assets classified as held for sale are valued at their historical cost, which in all cases is less than their fair value less selling expenses. For the measurement of fair value, the investment book value plus the amount of the existing unrealised gains of the assets owned by these companies, supported by valuations carried out by independent experts, have been taken into account.

r) Cash flow statements

The following terms with their corresponding explanation are used in the cash flow statements prepared using the indirect method:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

- Operating activities: the principal revenue-producing activities of the Company, and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

5.- INTANGIBLE ASSETS

The detail of the different items included in "Intangible Assets" and of the changes therein in 2016 and 2015 are as follows (in thousands of euros):

	Balance at 31/12/2014	Additions	Balance at 31/12/2015
COST			
Rights of use	31,979	99	32,078
Concessions, patents and trademarks	104	42	146
Software applications	86,725	18,135	104,860
	118,807	**18,276**	**137,084**
CUMULATIVE DEPRECIATION			
Rights of use	(18,191)	(1,239)	(19,430)
Concessions, patents and trademarks	(57)	(17)	(74)
Software applications	(62,516)	(9,079)	(71,595)
	(80,764)	**(10,335)**	**(91,099)**
Impairment	**-**	**-**	**-**
NET BOOK VALUE	**38,043**		**45,985**

	Balance at 31/12/2015	Additions	Retirements	Assignments (Note 6)	Balance at 31/12/2016
COST					
Rights of use	32,078	98	-	-	32,176
Concessions, patents and trademarks	146	213	-	-	359
Software applications	104,860	14,305	(2,856)	65	116,374
	137,084	**14,616**	**(2,856)**	**65**	**148,909**
CUMULATIVE DEPRECIATION					
Rights of use	(19,430)	(1,369)	-	-	(20,799)
Concessions, patents and trademarks	(74)	(28)	-	-	(102)
Software applications	(71,595)	(10,762)	1,722	-	(80,635)
	(91,099)	**(12,159)**	**1,722**	**-**	**(101,536)**
Impairment	**-**	**-**	**-**	**-**	**-**
NET BOOK VALUE	**45,985**				**47,373**

The most significant additions in 2016 were those arising from investments made to develop the Company's computer applications.

The section "Usufruct Rights" recognises the total amount agreed by way of payment for the usufruct rights over the Hotel NH Plaza de Armas.

At the end of 2016 and 2015, the Company had fully amortised intangible assets still in use, itemised as follows (in thousands of euros):

	Thousands of euros	
	2016	2015
Usage rights, concessions, patents and brands	1,686	55
Software applications	59,485	57,174
Total	**61,171**	**57,229**

6.- PROPERTY, PLANT & EQUIPMENT

The detail of the different items of "Intangible Assets" and of the changes therein in 2016 and 2015 are as follows (in thousands of euros):

	Balance at 31/12/2014	Additions	Retirements	**Balance at 31/12/201**
COST				
Land and buildings	**86,811**	7,729	(640)	**93,900**
Plant and machinery	**62,311**	6,944	(8,400)	**60,855**
Other plant, fixtures and furniture	**9,140**	964	(1,537)	**8,567**
Other fixed assets	**4,148**	4,430	(162)	**8,416**
	162,410	20,067	(10,739)	**171,738**
CUMULATIVE DEPRECIATION				
Buildings	**(9,057)**	(1,477)	150	**(10,384)**
Plant and machinery	**(27,735)**	(2,543)	4,716	**(25,562)**
Other plant, fixtures and furniture	**(5,577)**	(605)	1,442	**(4,740)**
Other fixed assets	**(3,473)**	(72)	124	**(3,421)**
	(45,842)	(4,697)	6,432	**(44,107)**
Impairment	**(266)**	-	16	**(250)**
NET BOOK VALUE	**116,302**			**127,381**

	Balance at 31/12/2015	Additions	Retirements	Assignments	**Balance at 31/12/2016**
COST					
Land and buildings	**93,900**	1,064	(5,448)	2,506	**92,022**
Plant and machinery	**60,855**	3,958	(3,038)	2,047	**63,822**
Other plant, fixtures and furniture	**8,567**	783	(126)	137	**9,361**
Other fixed assets and assets under construction	**8,416**	2,530	(4)	(4,755)	**6,187**
	171,738	8,335	(8,616)	(65)	**171,392**
CUMULATIVE DEPRECIATION					
Buildings	**(10,384)**	(1,740)	1,730	-	**(10,394)**
Plant and machinery	**(25,562)**	(5,621)	1,419	-	**(29,764)**
Other plant, fixtures and furniture	**(4,740)**	(671)	125	-	**(5,286)**
Other fixed assets and assets under construction	**(3,421)**	(71)	4	-	**(3,488)**
	(44,107)	(8,103)	3,278	-	**(48,932)**
Impairment	**(250)**	(176)	56	-	**(370)**
NET BOOK VALUE	**127,381**				**122,090**

The year's most significant additions relate to the renovation of certain hotels, notably the NH Barcelona Calderón and the NH Madrid Nacional.

Additionally, some assets were retired due to building work in hotels being repositioned, for a net book value of €1,502,000 which has been registered under the heading "Net result on disposal of assets" of the 2016 income statement.

At the end of 2016 and 2015, the Company had fully depreciated items of property, plant and equipment still in use, itemised as follows:

	Thousands of euros	
	2016	2015
Plant and machinery	13,828	12,149
Other fixtures, tools, furniture and others	6,737	5,435
Total	**20,565**	**17,584**

The heading related to Land and Buildings is broken down into Land at €52,647 and Buildings at €39.375. The reduction in the amount of Plant and machinery is due to their repositioning.

The Company has taken out insurance policies to cover the possible risks to which the different elements of its property, plant and equipment are subject and the claims that may be filed against it for conducting its business activities. It is understood that such policies sufficiently cover the risks to which the Company is exposed.

At 31 December 2016, there are no commitments for the purchase of fixed assets.

7. INVENTORY

At 31 December 2016 and 2015, the Company had contracted with lessors for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment reviews:

Thousands of euros	Actual value	
	2016	**2015**
Less than one year	6,011	6,388
Between two and five years	19,114	21,900
More than five years	12,039	15,869
Total	**37,164**	**44,157**

The current value of the rental payments has been calculated by applying a discount rate in keeping with the Company's weighted average cost of capital and includes the commitments which the Company estimates will have to be met in the future to guarantee a minimum return from hotels operated under a management agreement.

The operating lease payments recognised as an expense in the years ended 2016 and 2015 came to €4,521 thousand and €4,067 thousand respectively, almost entirely consisting of the hotel lease payments (see Note 18-c).

The term of the operating leases arranged by the Company ranges from 5 to 15 years. Also, the rental income from said leases consists of a fixed amount tied to the CPI index which is reviewed annually.

8.- FINANCIAL INVESTMENTS

8.1- Non-current financial assets

The breakdown of this item at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	**2015**
Accounts receivable in respect of put option for Sotocaribe	-	58,250
Other collection rights	16,395	16,395
Guarantees	1,237	1,219
Others	6	6
Total	**17,638**	**75,870**

In 2014 an agreement was reached for the complete transfer of the real estate business segment located in Cádiz (Spain) of Sotogrande, S.A.. The transaction excluded ownership of shares in Sotocaribe, S.L. (a company 35.5% owned by the Company) and other international assets.

The formalisation of the sale of Sotogrande, S.A. involved the transfer of ownership of the Sotocaribe, S.L. shares, despite not being included in the scope of consolidation subject to the transaction. The price agreed for the transfer of the Sotocaribe shares amounted to €58 million, to be paid within a maximum period of 5 years. As a consequence, the financial statements for the year 2015 reflected a long-term loan for this amount. In addition, in the same act, a "put and call option agreement" was entered into by and between Sotogrande, S.A. and NH Hotel Group, S.A., under which, within a maximum period of 5 years from the signing of this agreement, NH Hotel Group, S.A. had the option to purchase the Sotocaribe, S.L. shares for €58 million and Sotogrande, S.A. is under the obligation to sell these shares. After 5 years, if the call option has not been executed by NH Hotel Group, S.A., Sotogrande, S.A. has the option to sell to NH Hotel Group, S.A. the Sotocaribe, S.L. shares, and NH Hotel Group, S.A. is under the obligation to buy for a period of 30 days. Given the certainty that once 5 years have elapsed at the most and by virtue of the cross-purchase options, NH Hotel Group, S.A. will acquire title to the Sotocaribe, S.L. shares, and will assume the risks and rewards during the 5 years, the Company's directors opted to maintain the holding in Sotocaribe, S.L. at its pre-transaction book value and classification (see Note 9) and recognise the non-current financial liability at the option exercise price, i.e. €58 million (see Note 13.3).

However, according to the Company's prospective interpretation of the accounting standards applicable to the agreement, in which a financial asset and a financial liability may be offset, meaning that their net amount is recognised in the balance sheet, when the entity currently has the legally enforceable right to offset the amounts recognised and intends to settle at the net amount, the account receivable and the liability related to the call option described in Note 13.3 have been offset because it is considered that the requirements for offset have been met. Likewise, based on the analysis of the applicable accounting standard, it was not considered necessary to record any derivative instruments linked to call and put options.

The "Other collection rights" heading reflects the claim filed against the insurance company that underwrote the ten year construction insurance. The amount claimed corresponds to the repairs made and pending in a housing development. This claim was left out of the 2014 sale agreement for Sotogrande, S.A., the company which first presented the claim. Likewise, the accounts receivable reflect the deferred payment for the sale of 15 business units of another real-estate development which was also excluded from the Sotogrande, S.A. sale agreement.

8.2- Group companies, jointly-controlled entities and associates

The most significant information in relation to Group companies, jointly controlled entities and associates at year-end 2016 and 2015 is as follows:

Company/ Registered address /Activity	Direct shareholding	2016 - Thousands of euros					
		Share capital	Profit (Loss)	Other equity items	Total Shareholders' Equity	Cost	Provision
NH Italia, S.p.A./Valdagno/Hotelera (**)	5%	233,847	16,772	148,761	399,380	300,133	-
NH Europa, S.A./Madrid/Holding (**)	100%	100,743	(7,966)	759,345	852,122	973,359	-
Latinoamericana De Gestion Hotelera, S.A./Madrid/Holding (*)	100%	104,036	14,157	(3,175)	115,018	179,217	(61,174)
NH Hoteles España, S.A./Madrid/Hotelera(**)	100%	177,059	12,304	(54,506)	134,857	350,857	-
NH Central Reservation Office, S.L/Madrid/Call Center(**)	100%	7,700	(491)	2,271	9,480	31,652	(25,115)
NH Finance, S.A./Luxemburg/Financing(**)	99%	12,032	2,611	71,438	86,081	80,508	-
Beijing NH Grand China Hotel Management Co, Ltd (*)	50%	8,950	(1,371)	(1,333)	6,246	4,421	-
Others						607	-
Total						1,920,754	(86,289)

(*) Unaudited companies
(**) Unaudited data

Company/ Registered address /Activity	Direct shareholding	2015 - Thousands of euros					
		Share capital	Profit (Loss)	Other equity items	Total Shareholders' Equity	Cost	Provision
NH Italia, S.p.A./Valdagno/Hotelera (**)	5%	233,847	21,903	117,768	373,518	300,054	-
NH Europa, S.A./Madrid/Holding (**)	100%	100,743	29,260	732,469	862,472	973,359	-
Latinoamericana De Gestion Hotelera, S.A./Madrid/Holding (*)	100%	104,036	6,942	(6,967)	104,011	179,217	(120,563)
NH Hoteles España, S.A./Madrid/Hotelera (**)	100%	177,059	(1,888)	(12,753)	162,418	350,743	(43,748)
NH Central Reservation Office, S.L/Madrid/Call Center (**)	100%	7,700	(299)	2,561	9,962	31,645	(24,626)
Inversiones y Gestores Asociados, S.A./Madrid/Holding (*)	100%	60	(5)	46	101	3,094	(2,994)
NH Finance, S.A./Luxemburg/Financing(**)	99%	12,032	1,707	69,731	83,470	80,508	-
Fast Good Península Ibérica, S.L./Madrid/Dormant (*)	100%	17,003	11	(40,254)	(23,240)	803	(803)
Grupo Financiero de Intermediación/Madrid/Holding (*)	100%	301	(40)	(19,191)	(18,930)	361	(361)
Beijing NH Grand China Hotel Management Co, Ltd (*)	50%	552	(1,405)	11	(842)	273	-
Others						403	(11)
Total						1,920,460	(193,106)

(*) Unaudited companies
(**) Unaudited data

The changes in "Investments in Group Companies" in 2016 are as follows (in thousands of euros):

	Cost				Provision				Net
Company/ Registered address /Activity	Balance at 31/12/2015	Additions	Retirements	Balance at 31/12/2016	Balance at 31/12/2015	Additions	Reversals	Balance at 31/12/2016	Balance at 31/12/2016
NH Italia, S.p.A./Valdagno/Hotelera	300,054	79	-	300,133	-	-	-	-	300,133
NH Finance, S.A./Luxemburg/Financing	80,508	-	-	80,508	-	-	-	-	80,508
NH Europa, S.L./Barcelona/Holding	973,359	-	-	973,359	-	-	-	-	973,359
Latinoamericana De Gestion Hotelera, S.A./Madrid/Holding	179,217	-	-	179,217	(120,563)	-	59,389	(61,174)	118,043
NH Hoteles España, S.L./Barcelona/Hospitality	350,743	114	-	350,857	(43,748)	-	43,748	-	350,857
NH Central Reservation Office, S.L/Madrid/Call Center	31,645	7	-	31,652	(24,626)	(489)	-	(25,115)	6,537
Fast Good Península Ibérica, S.L./Madrid/Dormant	803	-	(803)	-	(803)	-	803	-	-
Inversiones y Gestores Asociados, S.A./Madrid/Holding	3,094	-	(3,094)	-	(2,994)	-	2,994	-	-
Grupo Financiero de Intermediación/Madrid/Holding	361	-	(361)	-	(361)	-	361	-	-
Beijing NH Grand China Hotel Management Co, Ltd/China/Hotelera	273	4,148	-	4,421	-	-	-	-	4,421
Others	403	267	(63)	607	(11)	-	11	-	607
Total	**1,920,460**	**4,615**	**(4,321)**	**1,920,754**	**(193,106)**	**(489)**	**107,306**	**(86,289)**	**1,834,465**

Also, in 2016 the Company continued its corporate structuring plan:

- On 11 November 2016 the Company sold its participation in several affiliates of its own affiliate NH Hoteles España S.A., which would then be merged through absorption with NH Hoteles España S.A., in order to rationalise and simplify the organisation chart of the Group. As a result of these transactions, the Company has recognised a positive net result of €42,545 thousand, mainly due to the reversal of the portfolio associated with those participations, and the reversal of provisions the Company was maintaining to cover possible capital increases in any affiliates with a negative net worth at the close of the previous year (see Note 12), and retirements.

- On 9 September 2015, the Joint Venture with the shareholding group HNA Hospitality Group Co, Ltd. was formalised, creating Beijing NH Grand China Hotel Management Co, Ltd in which the Group is a 49% shareholder. The company's capital increased to USD 20,000 and each part will make an initial payment corresponding to 50% of its shares, with the remaining amount to be paid over the following two years. At the end of December, the Company had contributed €4,421 thousand.

9.- NON-CURRENT ASSETS HELD FOR SALE, LIABILITIES LINKED TO NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In accordance with the 9th Regulation on Registration and Valuation of the General Accounting Plan on "Non-current assets held for sale" (see Note 4.q), non-strategic assets which, pursuant to the Strategic Plan, are undergoing divestment with committed sales plans, were registered.

In 2015, the Company had classified the companies Sotocaribe, S.L. and Capredo Investments, GmbH as discontinued operations for the sum of €48,184 thousand.

On 28 December 2016, the Company acquired 50% of the inactive company Capredo Investments Gmbh for €3,190 thousand, of which €3,150 thousand is still outstanding (see Note 13.3).

The significant data in relation to these assets is as follows:

		Thousands of euros				
Company	Direct shareholding	Share capital	Profit (Loss)	Other equity items	Total Shareholders' Equity	Cost
Sotocaribe, S.L.	35.5%	61,082	(5,664)	106,085	161,503	42,399
Capredo Investments GmbH	100%	40	(91)	16,818	16,767	9,066
Total						51,465

10.- CASH AND CASH EQUIVALENTS

"Cash and Cash Equivalents" largely includes the Company's cash position, loans granted and bank deposits maturing in three months or less. The average interest rate obtained by the Company for its cash and cash equivalents balances in 2016 and 2015 was a Euribor-tied variable rate. These assets are recognised at their fair value.

There are no restrictions on how cash may be used.

As a result of the enactment of Royal Decree 1558/2012 of 15 November, of Article 42 bis of Royal Decree 1065/2007 of 27 July, approving the General Regulations on tax management, inspection and procedures, and implementing the common rules of the procedures for applying taxes, which establishes certain reporting obligations with regard to overseas assets and rights, among others, it is disclosed that some members of the NH Hotel Group S.A. Board of Directors have the right, as representatives or authorised officials, to dispose of bank accounts located abroad, which are in the name of Group companies. The reason certain Board members have the right to dispose of overseas bank accounts is that they are directors or board members of said subsidiaries.

NH Hotel Group S.A. holds other accounting documents, namely the consolidated annual accounts, from which sufficient data can be extracted in relation to the aforementioned accounts.

11.- EQUITY

a) Registered share capital

At 31 December 2016, the Company's share capital was represented by 350,271,788 fully subscribed and paid up bearer shares with a par value of €2 each.

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

According to the latest notifications received by the Company and the notices given to the National Securities Market Commission before the end of every financial year, the most significant shareholdings at 31 December 2016 and 2015 were as follows:

	2016	2015
HNA Group Co Limited	29.50%*	29.50%
Oceanwood Capital Management LLP	11.97%	7.58%
Hesperia Group	9.27%**	9.23%
Henderson Global Investors LTD	4.19%***	4.19%

* Although at 31/12/2016 the shareholding of HNA Group Co Limited amounted to 29.50%, on 27/02/2017 this company reported that its shareholding fell to 29.34%.
** The shareholding of Hesperia Group consists of the direct shareholding held by Grupo Inversor Hesperia, S.A. (9.10%) and Eurofondo (0.17%).
*** Although at 31/12/2016 the shareholding of Henderson Global Investors Ltd amounted to 4.19%, on 31/01/2017 this company reported that its shareholding had fallen to 2.98%.

At year-end 2016 and 2015, members of the Board of Directors were the holders or stable proxies of shareholdings representing approximately 21.24% and 46.34% of the share capital, respectively.

b) Share premium

The balance of the "Share Premium" account arose as a result of the capital increases carried out by the Company.

The Consolidated Spanish Public Limited Liability Companies Act expressly permits the use of the share premium account balance to increase capital in the entities for which it is recognised and does not establish any specific restrictions as to its use.

c) Legal reserve

Under the Consolidated Spanish Limited Liability Companies Act, the Company must transfer 10% of net profit for each year to the legal reserve until the balance of this reserve reaches at least 20% of its share capital. The legal reserve may be used to increase capital provided the remaining balance does not fall below 10% of the increased capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

d) Restricted reserve

Reserves totalling €39,983 thousand at 31 December 2016 (€37,562 thousand at 31 December 2015) could not be distributed, as this figure corresponds to own shares.

e) Treasury shares

At the end of the year, NH Hotel Group, S.A. had 9,600,000 treasury shares in its balance sheet, broken down as follows:

- Securities lending linked to the issue of convertible debentures on 8 November 2013: On 4 November 2013, the Spanish National Securities Market Commission (CNMV) was notified of the loan of 9,000,000 of own shares to the three financial institutions involved in the placement of the convertible debentures or debentures exchangeable for shares of NH Hotel Group S.A. amounting to €250 million. The purpose of this loan was to allow said financial entities to offer the shares to subscribers to the convertible debentures requesting them (see Note 13).

  At 31 December 2016, the financial entities have returned 6,930,886 of those 9,000,000 shares, which are thus now held by NH Hotel Group SA., but which according to the terms of securities lending, continue to be available to the financial entities, who can borrow them at any time, until the convertible debentures are cancelled or amortised.

- In August, the Company purchased 600,000 treasury shares.

12.- PROVISION FOR CONTINGENCIES AND CHARGES

The detail of "Provisions for Contingencies and Charges" as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Provisions for contingencies and extraordinary costs:		
Provision for pensions and similar obligations	352	146
Provision for liabilities	12,227	51,904
Provision for onerous contracts	9	168
	12,588	**52,218**
Provisions for contingencies and current expenses:		
Provision for onerous contracts	11	62
Provision for liabilities	6,600	-
	6,611	**62**

Provision for liabilities

In 2015 the account "Provision for liabilities" over the long term mainly recognised the provisions needed to cover the commitments, at 31 December 2015, of certain investee companies for the sum of approximately €42.7 million. This amount was reversed in 2016 due to the reorganisation of the company (see Note 8.2).

The amount recognised in this account at the close of 2016 corresponds to provisions for litigation and risks that the Company considers likely to occur. Among the most significant are the provisions created on the basis of the action brought in the proceedings claiming breach of contract in a property development, as well as other claims received in relation to the termination of certain leases where certain amounts are claimed. No decision on these claims is expected in the short term (see Note 16).

The amount recognised over the short term corresponds to restructuring and possible termination benefits for the dissolution of a service contract which is under discussion.

Onerous contracts

The Company considers onerous agreements to be those in which the inevitable costs of fulfilling the obligations that such agreements entail exceed the economic benefits expected from them.

The Company records as a provision for onerous contracts the present value of the net losses derived from the contract or the compensation foreseen for abandonment of the contract, if such were decided. These provisions are reversed at the time that either of the above two events is fulfilled.

The methodology, assumptions and discount rates used to make such estimates follow the same criteria as described in Note 4-c.

13. CURRENT AND NON-CURRENT PAYABLES

13.1 Debt instruments and Debts with credit institutions

The balances of the "Bonds and other negotiable securities" and "Debts with credit institutions" items at 31 December 2016 and 2015 were as follows:

	Thousands of euros			
	2016		2015	
	Long-term	Short-term	Long-term	Short-term
Convertible bonds	238,724	-	233,251	-
Secured senior debentures maturing in 2019	250,000	-	250,000	-
Secured senior debentures maturing in 2023	285,000	-	-	-
Borrowing costs	-	6,248	-	3,613
Arrangement expenses	(10,087)	(4,015)	(11,380)	-
Obligations and other negotiable securities	**763,637**	**2,233**	**471,871**	**3,613**
Syndicated loans	-	-	54,000	11,000
Unsecured loans	-	6,200	8,529	1,176
Subordinated loans	40,000	-	75,000	-
Credit lines	-	7,559	-	14,069
Arrangement expenses	(2,434)	(1,015)	(4,061)	(1,139)
Borrowing costs	-	151	-	482
Debts with credit institutions	**37,566**	**12,895**	**133,468**	**25,588**
Total	**801,203**	**15,128**	**605,339**	**29,201**

The current fair value of the guaranteed senior notes maturing in 2019 and the convertible bonds, bearing in mind that the reference interest rate would be the one applied to the bonds issued during 2016, would mean such bonds amounting to €224 million and €232 million, respectively. With regard to financial liabilities tied to a variable interest rate, because of their variable configuration, their fair value does not differ from their book value.

Convertible bonds

On 31 October 2013, the Company placed convertible bonds among institutional investors amounting to €250 million, with the following features:

Amount of the issue	€250,000,000
Nominal value of the bond	€100,000
Maturity	5
Rank of debt	Unguaranteed senior
Issue price	100%
Coupon	4%
Exchange price	€4,919
Conversion premium	30%
Redemption price	100%
Maximum number of shares to issue	50,823,338

Under certain circumstances, at the request of the bondholder or Company, this instrument may be redeemed or converted early.

This transaction is considered an instrument comprising liabilities and equity, with the equity at the time of issuance worth €27.23 million.

As is commonplace for this type of issue, and in order to enhance the liquidity of the instrument on the secondary market, NH Hotel Group, S.A. signed a security loan agreement with the placing entities for up to 9,000,000 treasury shares. This loan bears interest at 0.5% and was drawn to the extent of 2,069,114 shares at 31 December 2016 (see Note 11.e).

Guaranteed senior notes maturing in 2019

On 30 October 2013, the Company placed guaranteed convertible senior bonds for a nominal value of €250 million, maturing in 2019. The nominal yearly interest rate for said issuance of notes is 6.875%.

Guaranteed senior notes maturing in 2023

On 23 September 2016, the Company placed guaranteed convertible senior bonds for a nominal value of €285 million, maturing in 2023. The nominal yearly interest rate for said issuance of notes is 3.75%.

The Company used the proceeds from this issuance to repay the following loans in advance and to pay the issuance expenses:

- Syndicated loan with final maturity in November 2017 arranged between the Company and a group of financial institutions on 13 February 2015 to refinance mortgage debt in Italy for €40,000 thousand. The outstanding balance settled was €32,000 thousand.

- Syndicated loan with final maturity in October 2018 arranged between the Company and a group of financial institutions on 26 June 2015 to refinance mortgage debt in Germany for €36,000 thousand million. The outstanding balance settled was €33,000 thousand.

- Subordinated loan arranged on 26 September 2007 between the Company and a credit institution. The outstanding balance settled was €35,000 thousand.

- Bilateral credits arranged between the Company, NH Italia S.p.a. and various financial institutions. The drawn down balance cancelled was €23,667 thousand.

Secured credit line

On 22 September 2016, the Company and NH Finance, S.A. entered into a revolving business credit with credit institutions amounting to €250,000 thousand ("syndicated credit line") with a maturity of three years, extendable to five years at the time of the refinancing of the guaranteed senior bonds maturing in 2019. As at 31 December 2016, this financing had not been drawn down.

Obligations required in the guaranteed senior bond indentures maturing in 2019 and 2023 and in the syndicated credit line

The senior bond indentures maturing in 2019, senior bond indentures maturing in 2023, and syndicated credit line require compliance with a series of obligations and restrictions, which are essentially standard in terms of assuming additional debt or providing guarantees for third parties, granting real guarantees on assets, sales of assets, permitted investments, restricted payments (including dividend distribution to shareholders), related party transactions, company operations and reporting requirements. These obligations are listed in the debenture issue prospectuses and in the loan contract of the syndicated credit line. The syndicated credit line also requires compliance with financial ratios at the consolidated level; in particular, (i) an interest coverage ratio of ≥ 2.00x, (ii) a debt coverage ratio of ≤ 5.50x, and (iii) a loan-to-value ratio of ≤ 55% until the date of expiry or refinancing of the debentures maturing in 2019. On the date of expiry or refinancing of these debentures, the loan-to-value ratio must be ≤ 70%, and after that date, the applicable loan-to-value ratio will depend on the indebtedness of NH at the time, as indicated below:

- Debt ratio > 4.00x: LTV ratio = 70%
- Debt ratios ≤ 4.00x: LTV ratio = 85%
- Debt ratios ≤ 3.50x: LTV ratio = 100%

At 31 December 2016 aforementioned ratios are fully met.

Package of guaranteed senior bonds maturing in 2019 and 2023 and syndicated credit line

Package of guaranteed senior bonds maturing in 2019 and 2023 and syndicated credit line

The guaranteed senior bonds maturing in 2019 and 2023 and syndicated credit line (undrawn at 31 December 2016) share the following guarantees: (i) pledge of shares: 100% of the share capital of (A) Diegem, (B) Immo Hotel BCC NV, (C) Immo Hotel Belfort NV, (D) Immo Hotel Brugge NV, (E) Immo Hotel Diegem NV, (F) Immo Hotel Gent NV, (G) Immo Hotel GP NV, (H) Immo Hotel Mechelen NV, (I) Immo Hotel Stephanie NV, (J) Onroerend Goed Beheer Maatschappij Van Alphenstraat Zandvoort, B.V. and (K) NH Italia, S.p.A. (ii) first-tier mortgage guarantee on the following hotels located in the Netherlands: NH Conference Centre Koningshof, owned by Koningshof, B.V.; NH Conference Centre Leeuwenhorst, owned by Leeuwenhorst Congres Center, B.V.; NH Schiphol Airport, owned by Onroerend Goed Beheer Maatschappij Kruisweg Hoofddorp, B.V.; NH Zoetermeer, owned by Onroerend Goed Beheer Maatschappij Danny Kayelaan Zoetermeer, B.V.; NH Conference Centre Sparrenhorst, owned by Sparrenhorst, B.V.; NH Barbizon Palace, owned by Onroerend Goed Beheer Maatschappij Prins Hendrikkade Amsterdam, B.V.; NH Best, owned by Onroerend Goed Beheer Maatschappij Maas Best, B.V.; NH Capelle, owned by Onroerend Goed Beheer Maatschappij Capelle aan den IJssel, B.V.; NH Geldrop, owned by Onroerend Goed Beheer Maatschappij Bogardeind Geldrop, B.V.; NH Marquette, owned by Onroerend Goed Beheer Maatschappij Marquette Heemskerk, B.V.; and NH Naarden, owned by Onroerend Goed Beheer Maatschappij IJsselmeerweg Naarden, B.V. and the joint guarantee on first demand of the main operating companies in the group wholly owned by the Parent Company.

Restriction on dividend distribution

The guaranteed senior bonds maturing in 2019 and 2023 and the syndicated credit line described above contain clauses limiting the distribution of dividends.

In the case of the senior bonds maturing in 2019 and 2023, the distribution of dividends is generally permitted provided that (a) the interest coverage ratio is > 2.0x and (b) the sum of restricted payments from 8 November 2013 is less than the sum of, essentially, 50% of NH's consolidated net income (but 100% of consolidated losses) from 1 July 2013 to the date of the last quarterly accounts available (this is what is known as the CNI Builder) and 100% of the net contributions to NH’s capital from 8 November 2013.

Additionally, being alternative and without a requirement to be concurrent with the previous provision:

(i) in the case of bonds maturing in 2019: NH may distribute dividends for an annual amount equivalent to 5% of NH's market capitalisation, provided that (a) NH's free float percentage exceeds 20% and (b) the leverage ratio (debt/EBITDA) is not greater than 4.5x; and

(ii) in the case of bonds maturing in 2023, NH may distribute dividends provided that the leverage ratio (gross debt/EBITDA) does not exceed 4.5x.

Finally, and also as an additional alternative and without a requirement of concurrency with the previous provisions, the guaranteed senior bonds maturing in 2019 and 2023 include a basket of 25.000.000 Eur for restricted payments (including dividends) starting from November 2013.

In the case of the syndicated credit line, the distribution of a percentage of the NH Group's consolidated net profit from the previous year is allowed, provided that there has been no breach of the financing agreement and the Net Debt (adjusted proforma by the amount of the dividend payment)/ EBITDA Ratio is less than 4.0x. The maximum percentage of the consolidated net profit to be distributed will depend on the Net Debt (adjusted proforma by the amount of the dividend payment)/ / EBITDA Ratio, according to the following breakdown:

- Net Debt / EBITDA ≤ 4.0x: Percentage of consolidated net profit: 75%
- Net Debt / EBITDA ≤ 3.5x: Percentage of consolidated net profit: 100%
- Net Debt / EBITDA ≤ 3.0x: Percentage of consolidated net profit: without limitation

Syndicated loans

All the syndicated loans were settled with funds from the issuance of guaranteed senior bonds amounting to €285,000 thousand maturing in 2023.

Unsecured loans and lines of credit

The outstanding balance on unsecured loans at 31 December 2016 amounted to €6,200 thousand. The available balance on credit lines at 31 December 2016 was €7,559 thousand with an available limit of €31,970 thousand.

Subordinated loan

A loan amounting to €40 million fully drawn at 31 December 2016 and with a single maturity and repayment in 2037, are included in this item. The interest rate of these loans is the 3-month Euribor plus a differential.

Detail of current and non-current payables

The detail, by maturity, of the items included under "Non-Current and Current Payables" is as follows (in thousands of euros):

				Maturity						
Instrument	Limit	Available	Disposed	2016	2017	2018	2019	2020	2021	Remainder
Subordinated loans	**40,000**	-	**40,000**	-	-	-	-	-	-	**40,000**
Variable interest	40,000	-	40,000	-	-	-	-	-	-	40,000
Convertible bonds	**238,724**	-	**238,724**	-	-	**238,724**	-	-	-	-
Fixed rate	238,724	-	238,724	-	-	238,724	-	-	-	-
Guaranteed senior notes mat. in 2019	**250,000**	-	**250,000**	-	-	-	**250,000**	-	-	-
Fixed rate	250,000	-	250,000	-	-	-	250,000	-	-	-
Guaranteed senior notes mat. in 2023	**285,000**	-	**285,000**	-	-	-	-	-	-	**285,000**
Fixed rate	285,000	-	285,000	-	-	-	-	-	-	285,000
Unsecured loans	**6,200**	-	**6,200**	-	**6,200**	-	-	-	-	-
Variable interest	5,000	-	5,000	-	5,000	-	-	-	-	-
Fixed rate	1,200	-	1,200	-	1,200	-	-	-	-	-
SUBTOTAL	**819,924**	-	**819,924**	-	**6,200**	**238,724**	**250,000**	-	-	**325,000**
Secured long-term syndicated loan	**250,000**	**250,000**	-	-	-	-	-	-	-	-
Variable interest	250,000	250,000	-	-	-	-	-	-	-	-
Credit lines	**39,529**	**31,970**	**7,559**	-	**7,559**	-	-	-	-	-
Variable interest	39,529	31,970	7,559	-	7,559	-	-	-	-	-
Arrangement expenses	-	-	(17,552)	-	(5,034)	(5,086)	(3,513)	(884)	(926)	(2,109)
Borrowing costs	-	-	6,399	-	6,399	-	-	-	-	-
Borrowing at 31/12/2016	**1,109,453**	**281,970**	**816,331**	-	**15,125**	**233,638**	**246,487**	**(884)**	**(926)**	**322,891**
Borrowing at 31/12/2015	**662,956**	**15,931**	**634,540**	**29,201**	**32,197**	**255,102**	**245,254**	-	-	**72,785**

13.2 Derivative financial instruments

The Company's financial risk management is centralised in the Corporate Finance Division, which has assigned said management to one of the company's subsidiaries, NH Finance S.A.

The details of the derivative financial instruments included on the balance sheet under “Short-term financial investments” at 31 December 2016 and 2015 are as follows:

	Thousands of euros	
	31/12/2016	31/12/2015
Item	Financial assets	Financial assets
Exchange rate derivatives	1,918	2,190
Total	**1,918**	**2,190**

13.3 Other non-current financial liabilities

The balance of "Other Non-Current Financial Liabilities" at the end of 2016 and 2015 is as follows (in thousands of euros):

	2016	**2015**
Purchase option on Sotocaribe, S.L. (Note 8.1)	-	58,250
Acquisition of Capredo Investment GmbH (Note 9)	3,150	-
Others	659	651
Total	**3,809**	**58,901**

13.4. Information on the nature of financial instruments and their level of risk

The Group financial risk management is centralised at the Corporate Finance Division. This Division has put the necessary measures in place to control exposure to changes in interest and exchange rates on the basis of the Group's structure and financial position, as well as credit and liquidity risks. If necessary, hedges are made on a case-by-case basis. The main financial risks faced by the Group's policies are described below:

Credit risk

The Company's main financial assets include cash and cash equivalents (Note 10) and trade and other receivables. In general, the Company holds its cash and cash equivalents in institutions with a high level of creditworthiness and part of its trade and other receivables are endorsed by guarantees, guarantors and advance payments by tour operators.

The Company does not have a significant concentration of credit risk exposure to third parties, both due to the diversification of its financial investments and to the distribution of trade risks with short collection periods among a large number of customers.

Interest rate risk

The Company's financial assets and liabilities are exposed to fluctuations in interest rates, and this may have an adverse effect on its results and cash flow. In order to mitigate this risk, the Company has established policies and has refinanced its debt at fixed interest rates through the issuance of convertible bonds and guaranteed convertible senior bonds. At 31 December 2016, approximately 94% of the gross borrowings was tied to fixed interest rates.

Aside from the impact any changes in interest rates could have on financial assets and liabilities which comprise the net cash position, changes could arise in the valuation of the financial instruments arranged by the Company. The effects of changes in the interest rates on efficient derivatives are booked against equity, while the effects on inefficient derivatives are booked in the income statement. The Company has chosen to exclude the temporary value of designating hedges in order to improve their efficiency.

Liquidity risk

Exposure to adverse situations in debt or capital markets could hinder or prevent the Group from meeting the financial needs required for its operations and for implementing its Strategic Plan.

Management of this risk is focused on thoroughly monitoring the maturity schedule of the Group's financial debt, as well as on proactive management and maintaining credit lines that allow forecast cash needs to be met.

The Company's liquidity position in 2016 is based on the following points:

- The Company had cash and cash equivalents amounting to €62.552 million at 31 December 2016.

- Available undrawn credit facilities amounting to €31,970 thousand at 31 December 2016. Plus the secured long-tern syndicated credit line for €250,000 thousand which was undrawn at 31 December 2016.

- The company's capacity to increase its financial borrowing; given that it has non-collateralised assets in the companies is majority owns and meets the financial ratios required by the financing agreements.

Lastly, the Company makes cash position forecasts on a systematic basis for each business unit and geographical area in order to assess their needs. This liquidity policy followed by the Company ensures that payment undertakings are fulfilled without having to request funds under onerous conditions and allows its liquidity position to be monitored on a continuous basis.

Exchange rate risk

The Company is exposed to exchange rate fluctuations that may affect its sales, results, equity and cash flows, arising largely from:

- Investments in foreign countries (essentially Mexico, Argentina, Colombia, Chile, Ecuador, the Dominican Republic, Panama and the United States).
- Transactions made by Group companies operating in countries whose currency is other than the euro (essentially Mexico, Argentina, Colombia, Chile, Ecuador, the Dominican Republic, Venezuela and the United States).

The NH Group endeavours to align its borrowings with the cash flows in the different currencies.

14.- PUBLIC AUTHORITIES AND TAX MATTERS

NH Hotel Group, S.A. and the companies with tax domicile in Spain in which it held a direct or indirect stake of at least 75% during the 2016 tax period pay Corporate Income Tax subject to the tax consolidation scheme governed by Title VII, Chapter VI of Law 27/2014 of 27 November on Corporate Income Tax.

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

The NH Hotel Group, S.A. tax group comprised the following companies in 2016:

NH Hotel Group, S.A.	NH Europa, S.L.
Latinoamericana de Gestión Hotelera, S.L.	Atardecer Caribeño, S.L.
NH Central Reservation Office, S.L.	Hoteles Hesperia, S.A.
NH Hoteles España, S.A.	Nuevos Espacios Hoteleros, S.A.
NH Hotel Ciutat De Reus, S.A.	Coperama Holding, S.L.
Gran Círculo de Madrid, S.A.	Coperama Spain, S.L.
NH Logroño S.A.	NH Las Palmas, S.A.
Iberinterbrokers, S.L.	NH Lagasca, S.A.

During 2016, NH Hoteles España S.A., absorbed the companies Fast Good Península Ibérica, S.L., Resorts Europa, S.L., Cofir, S.L., Inversores y Gestores Asociados, S.A., Grupo Financiero de Intermediación y Estudios, S.A., and Fashion Tapas, S.L. Because of these mergers, during 2016 these companies ceased to exist and no longer form part of the Consolidated Tax Group. For the purposes of the Corporate Tax Law, we note that the operation was not included in the special tax regime for mergers, spin-offs, asset contributions, security exchanges and changes of registered office of a European Company or a European Co-operative Society from one EU member state to another provided for in Chapter VII of title VII of Law 27/2014, of 27 November, on Corporate Income Tax.

Additionally, NH Las Palmas, S.A., a company forming part of the tax group, absorbed its affiliate Hanuman Investment.S.L. (a company which was not in the tax group, as NH Las Palmas S.A. owned only 50% of the equity until it acquired the remaining 50% in February 2016). The operation was included in the special scheme for mergers provided in the Corporate Tax Law. The legally established items are included in the annual report of NH Las Palmas, S.A.

In previous years the Group carried out restructuring operations in which it opted for the special scheme for business reorganisation provided in the Corporate Tax Law. The legally established items are included in the annual report of the corresponding year.

Balances with Public Authorities

The detail of "Balances with Public Authorities" is as follows:

Tax receivables

	Thousands of euros	
	2016	2015
Non-current receivables		
Deferred tax assets	108,961	118,639
Total	**108,961**	**118,639**
Current receivables		
VAT refundable	1,719	2,198
Corporate income tax refundable	896	768
Others	2,039	1,949
Total	**4,654**	**4,915**

Tax payables

	Thousands of euros	
	2016	2015
Non-current payables		
Deferred tax liabilities	6,247	6,419
Total	**6,247**	**6,419**
Current payables		
Tax withholdings payable	695	630
Social Security payable	404	399
Total	**1,099**	**1,029**

Reconciliation of the accounting profit to the taxable income

Corporate Income tax is calculated on the basis of accounting profit or loss determined by application of the generally accepted accounting principles, and applying the relevant adjustments in accordance with the rules set out in Law 27/2014 on Corporate Income Tax. Therefore, the accounting profit may not necessarily coincide with the taxable income for Corporation Tax purposes.

The reconciliation of the accounting profit to the Corporate Income Tax to pay or refund for the years 2016 and 2015 is as follows (in thousands of euros):

	Thousands of euros	
	2016	**2015**
Accounting profit before tax	135,566	(98,594)
Adjustments to accounting profit (loss):		
Due to permanent differences	(111,385)	60,172
Due to temporary differences	1,157	817
Individual taxable base	**25,338**	**(37,605)**
Bases provided by the consolidated companies	(6,474)	(1,872)
Previous taxable base	**18,864**	**(39,478)**
Set-off for negative tax bases before consolidation	(2,424)	-
Set-off for negative tax bases	(2,292)	-
Tax base of the tax group	**14,148**	**(39,478)**
Tax liability	(3,537)	-
Double taxation relief	1,768	-
Other deductions	442	-
Withholdings and payment by installments	2,124	768
Current taxes to be refunded	**797**	**768**
Previous years' taxes to be refunded	99	-
Total taxes to be refunded	**896**	**768**

The permanent differences relate mainly to the removal of provisions in the accounting portfolio and the adjustment for non-deductible financial loss calculated in accordance with article 16 of Law 27/2014 of 27 November on Corporate Income Tax, and to the reversal of impairments of shares which were tax-deductible in tax periods before 2013 and which as from 1 January 2016 are no longer tax deductible, and therefore must be included in corporate income tax for a minimum annual amount in a linear manner for five years. Accordingly, the Tax Group has incorporated approximately €31 million into the tax assessments of Spanish companies affected in 2016, €3.6 million of this amount correspond to the Company.

The temporary differences relate mainly to provisions for accounting purposes not considered a tax expense and with the recovery of 30% of the amortisation that was not deductible in 2013 and 2014 calculated in accordance with Article 7 of Law 16/2014, introducing various tax and administrative measures aimed at consolidating public finances and driving economic activity.

Reconciliation of accounting profit and Corporate Income Tax (expense)/income

The reconciliation of accounting profit and Corporate Income Tax (expense)/income is as follows:

	2016	2015
Accounting profit before tax	135,566	(98,594)
Permanent differences	(111,385)	60,172
Adjusted tax base	**24,181**	**(38,422)**
Quota at 25% (28% in 2015)	(6,044)	9,606
Not capitalized deductions offset at year end	442	-
Cancellation of negative tax bases by asset disposals	(8,701)	-
Capitalisation of negative tax bases	7,377	-
Capitalisation of deductions	864	-
Others	(540)	(84)
Total tax (expense)/income recognised in the income statement	**(6,602)**	**9,522**

The breakdown of Corporate Income Tax expense for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	**2015**
Current tax	(6,334)	9,833
Not capitalized deductions offset at year end	442	-
Deferred tax	(170)	204
Others	(540)	(515)
Total Corporation Tax income / (expense)	**(6,602)**	**9,522**

Royal Decree-Law 3/2016, of 2 December, has introduced a series of amendments with effect from 1 January 2016. The main changes affecting the Tax Group are the following:

- Limitation of the offset of negative tax bases for companies with a net turnover of more than €60 million to 25%. This fact has been taken into account in the tax credit recovery plan related to the aforementioned negative tax bases.

- Limitation on the application of deductions to avoid double taxation to 50% of the quota.

- The reversal of impairments of shares mentioned above which were tax-deductible in tax periods before 2013 and which as from 1 January are no longer tax deductible.

Deferred tax assets

The changes in "Total Current Tax Expense (Tax Income)" in 2016 are as follows:

	Thousands of euros	
Deferred tax assets	2016	2015
Balance at beginning of year	**118,639**	**108,986**
Asset disposals due to changes in scope	(8,701)	**-**
Tax credit offsets	(6,695)	(11,370)
Capitalisation of tax losses	7,377	9,833
Application of capitalised deductions	(2,346)	-
Capitalisation of deductions	864	11,267
Temporary differences	118	-
Other movements	(295)	(77)
Balance at end of year:	**108,961**	**118,639**

	Thousands of euros	
Detail of the balance on deferred tax assets	2016	2015
Negative tax bases	89,879	97,899
Deductions	9,786	11,267
Others	9,296	9,473
Balance at end of year:	**108,961**	**118,639**

The cancellation of assets is mainly due to the cancellation of €8,701 thousand in tax losses in Spain, caused by the reorganisation operation carried out in Spain in 2016, and a further €6,122 thousand corresponding to the cancellation of tax losses due to the adjustment of the Tax for 2015 after the final settlement was presented in 2016.

The capitalisation of tax losses worth €7,377 thousand is a consequence of the favourable ruling by the Government on the deductibility of an additional tax loss on the 2014 sale of Sotogrande.

The balance of deferred tax assets relates mainly to tax credit carryforwards on losses in previous years, deductions to avoid double taxation, temporary differences generated by the amortisation deductible limit and various provisions.

At 31 December 2016, the Group had assets resulting from tax losses and deductions amounting to €99,665 thousand (€109,166 thousand in 2015). At 31 December 2016, the tax credit recovery plan that supports the recognition of these tax credits had been updated based on the Group's business plan. Given that the results of the tax credit recovery plan are satisfactory, the Company's Directors have decided to maintain the tax credits recognised in the balance sheet.

At 31 December 2016, the Consolidated Tax Group had the following negative tax bases pending offsetting:

Financial year	Amount
2007	5,615
2008	15,193
2009	60,384
2010	17,256
2011	24,577
2012	130,017
2013	11,592
2014	80,125
2015	14,905
Total	**359,665**

At 31 December 2016 the Tax Group, whose parent company is NH Hotel Group, had tax credits worth €111,992 thousand (€102,372 thousand at 31 December 2015) that had not been entered in the accompanying balance sheet because the Directors considered they did not meet accounting standard requirements. These assets are grouped as follows:

	Thousands of euros	
	2016	2015
Finance costs and negative tax bases		
Non-deductible finance costs by the Tax Group	223,095	180,467
Negative tax bases generated by the Spanish entities before inclusion in the Tax Group	106,325	108,750
Total base	**329,420**	**289,217**
Total quota	**82,355**	**72,304**
Deductions	29,637	30,068
Total tax credits not capitalized	**111,992**	**102,372**

The Company did not capitalise the non-deductible finance costs for Spanish corporation tax purposes because they exceed 30% of the profit from the tax group's operations calculated in accordance with Article 16 of Law 27/2014 of 27 November on Corporate Income Tax, due to not having the required degree of certainty that sufficient profit will be generated from operations over the next ten years to offset said result pursuant to the aforementioned article. The amount positively adjusted in the Company's individual tax base of the excess financial burden, as it is considered non-deductible, is €37.200 million in 2016 (€40.889 million in 2015). There is no deadline for offsetting non-deductible finance costs.

Deferred tax liabilities

The movements in deferred tax liabilities during 2016 are as follows:

Deferred tax liabilities	Thousands of euros 2016	2015
Balance at beginning of year:	**6,419**	**6,590**
Deferral on reinvestment	(172)	(171)
Balance at end of year:	**6,247**	**6,419**

Years open for review and tax audits

The years open for review for the Consolidation Tax Group are as follows:

Tax	**Pending Periods**
Corporation	2014 and 2015
VAT	2014 - 2016
IRPF (personal income tax)	2014 - 2016
Non-resident Income Tax	2014 - 2016

In relation to the years open to audit by the Tax Agency, contingent liabilities not susceptible to objective quantification may exist but, in the opinion of the Directors, they are not material.

Deductions applied by the consolidated tax group of the Parent Company

At 31 December 2016, the Tax Group held the following tax credit carry-forward (Thousands of euros):

Year of origin	**Deduction pending application**	**Amount**
2002 to 2010	Investment in export activity	28,605
2008 to 2015	Tax deduction to avoid double taxation	8,921
2002 to 2015	Other	1,897
		39,423

Similarly, the consolidated tax group availed itself in prior years of the "Deferral for reinvestment of extraordinary profit." The essential characteristics of this reinvestment are as follows (in thousands of euros):

Year of origin	**Revenue subject to deferral**	**Amount offset** Prior years	2016	**Amount pending**	**Last year of deferral**
1999	75,145	52,121	682	22,343	2049

This income was reinvested in the acquisition of buildings.

15.- INFORMATION ON AVERAGE PERIOD FOR PAYMENT TO SUPPLIERS

Below is the information required by Additional Provision Three of Law 15/2010 of 5 July (modified through Provision two of Law 31/2014 of 3 December) according to the ICAC Resolution of 29 January 2016 on the information to be incorporated in the record of annual financial statements relating to the average period for payment to suppliers in commercial transactions.

	2016	2015
	Days	Days
Average period for payment to suppliers	77	67
Ratio of paid transactions	81	63
Ratio of transactions pending payment	33	92
	Thousands of euros	Thousands of euros
Total payments made	99,847	70,761
Total payments pending	9,781	10,807

In accordance with the ICAC Resolution, for the calculation of the average period for payment to suppliers, the commercial transactions corresponding to the delivery of goods or provision or services rendered from the date of the entry into force of Law 31/2014, of 3 December have been taken into account,

Suppliers, for the exclusive purpose of giving the information prior to this Resolution, are considered as trade creditors for debts with suppliers of goods or services, included in the items “Suppliers” and “Sundry Creditors” in current liabilities on the attached financial balance sheet at 31 December 2016.

The average period for payment to suppliers has been calculated, as stated in the Resolution of 29 January 2016, of the Institute of Accounting and Auditing, using the weighted average of the two ratios explained below:

- Ratio of paid transactions: average payment period of transactions paid in 2016 weighted by the amount of each transaction.

- Ratio of transactions pending payment: average period between the invoice date and the end of the year weighted by the amount of each transaction.

16.- THIRD-PARTY GUARANTEES AND CLAIMS IN PROCESS

At 31 December 2016, the Company had a total of €5,144 thousand in economic or financial bank guarantees issued by various banks to guarantee leasing contract obligations in various countries. Therefore, their execution would be linked to a failure by NH to comply with those contractual obligations.

At 31 December 2016, the Company had taken out insurance policies to cover risks arising from damage to material goods, loss of profits and third-party liability. The capital insured sufficiently covers the assets and risks mentioned above.

Commitments to third parties

- The Company currently acts as co-guarantor for a syndicated loan granted by two banks to the associate Sotocaribe, S.L. which at 31 December 2016 had an outstanding principal of €22.469 million (equivalent to USD 23.685 million at 31 December 2015) and final maturity on 05 April 2017.

- Under the agreements reached between the NH Group and HNA Group regarding the joint venture, a right of "Tag-along" is recognised, in the sense that if one of the partners receives a takeover bid by a third party for 100% of the shares in the company, the other partner has the option to exercise their right of first refusal or may communicate its irrevocable offer to sell the shares it holds the aforementioned joint venture, and under the conditions of sale supplied by the third party; if the third party does not accept the offer of the other partner to sell the rest of the shares in the company, the other partner is not allowed to sell its shares to the third party.

- Within the framework of new development projects in the normal course of business, in which the Company's subsidiaries act as lessees or operators, the Company gives personal guarantees in favour of third parties to secure its contractual obligations.

- Within the framework of the Group's financing, personal and real guarantees have been granted to fulfil the obligations guaranteed under the financing agreements (see Note 13).

- NH as a seller agrees to undertake the extension of a hotel, and has agreed with the buyer on a put option in favour of the buyer, NH being obliged to accept the exercise of that option provided that certain conditions are met and for a price agreed between both parties.

Claims in process

The Company's main contingent assets and liabilities at the date of drafting these consolidated financial statements were as follows:

- The Company has appeared in the insolvency proceedings of Viajes Marsans, S.A. and Tiempo Libre, S.A., from the unsettled estate of Gonzalo Pascual Arias and Gerardo Díaz Ferrán, and in the voluntary insolvency proceedings against María Angeles de la Riva Zorrilla, in order to claim outstanding amounts. The Group also appears in the voluntary bankruptcy proceedings of Transhotel and Orizonia. Said balances were provisioned in consolidated financial statements in the amounts deemed not recoverable.

- The owner of a hotel has filed a suit demanding compliance with certain contractual obligations. Following notification of the dismissal of the appeal, an appeal for review due to breach of procedure and an appeal in cassation were lodged, which have still not been resolved.

- The Company filed an arbitration claim requesting the validity of the declaration of resolution to sell practised at fifteen premises in San Roque, the decision on which was in favour of the Company. However, an application for annulment of the award has been filed and the proceedings are still pending a decision.

- The Company has filed a request for arbitration to rule on the validity of the resolution of the sublease agreement of a Hotel by the Group in 2015, with a claim for damages. The award, among other pronouncements, states the contractual and legal obligations of the sublessor to have been partially breached and states that the termination of the sublease agreement is unlawful and that it therefore remains in force.

- On the occasion of the agreements reached in 2014 for the sale of the shares held by NH Hotel Group, S.A in the company Sotogrande, S.A., NH Group agreed to subrogate to the position of Sotogrande, S.A. for certain disputes assuming all rights and obligations relating thereto, and are summarised as follows:

    - Plaintiff in the proceedings against construction agents for construction defects in twenty-five homes and contractual liability, as well as a claim against the insurer.

    - Defendant in the claim process for contractual breaches by a property developer.

- A shareholder of the Company has requested that certain of the resolutions adopted at the General Shareholders' Meeting be annulled.

- The Company could be subject to claims for amounts assumed under a share purchase agreement.

- There are amounts related to possible compensation for the termination of a certain service contract, which are under discussion and whose maximum amounts have been fully provisioned.

The Company's directors consider that the hypothetical loss incurred as a result of such actions would not have a material effect on equity.

17.- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

17.1.- Balances with related parties

The detail of "Balances With Related Parties" in 2016 and 2016 is as follows (in thousands of euros):

<u>**2016**</u>

	Other Group companies	Other related parties
Long-term investments:	**55,912**	**-**
Loans to companies	55,912	-
Short-term investments:	**508,873**	**5,955**
Loans to companies	508,873	5,955
Non-current payables	**(48,079)**	**-**
Current payables	**(241,455)**	**-**

<u>**2015**</u>

	Other Group companies	Other related parties
Long-term investments:	**55,912**	**-**
Loans to companies	55,912	-
Short-term investments:	**377,457**	**4,820**
Loans to companies	377,457	4,820
Non-current payables	**(44,950)**	**-**
Current payables	**(263,054)**	**-**

Long-term investments

“Loans to Companies” includes the following loans granted to the following Group companies:

	Thousands of euros	
	2016	2015
Participating loans		
NH Hoteles España, S.A.	52,969	-
NH Central Reservation Office, S.L.	2,943	2,943
Fast Good Península Ibérica, S.L. (*)	-	33,277
Grupo Financiero de Intermediación y Estudios, S.A. (*)	-	19,129
Others	-	563
Total	**55,912**	**55,912**

(*) Companies acquired by and subsequently merged with NH Hoteles España, S.A.

The most relevant characteristics of the participating loans are as follows:

- NH Hotel Group, S.A. will receive floating-rate interest calculated in accordance with business performance (net profit) of the borrowing company.

- The aforementioned loans may not be redeemed early unless the origin of the funds for the aforementioned transaction is an increase in shareholders' equity and provided that it does not come from the recognition of assets.

- They are considered loans subordinated to the other general creditors.

- They shall be considered net equity for the purposes of capital reduction and liquidation of companies envisaged in current Spanish corporate legislation.

The Company's directors intend to extend the aforementioned loans on maturity.

Short-term investments:

"Loans to Companies" includes the following balances with Group companies:

	Thousands of euros	
	2016	2015
NH Europa, S.L.	99,922	90,189
Latinoamericana de Gestión Hotelera, S.L.	67,058	78,727
Current payables to Group companies	341,893	208,541
Total	**508,873**	**377,457**

The financing of NH Europa, S.L. and Latinoamericana de Gestión Hotelera, S.L. consists of a current account on which a variable interest rate linked to the quarterly Euribor plus a spread is paid.

The balances that comprise the current accounts payable to Group companies are made up mainly of the balances relating to the financing structure of the consolidated NH Hotel Group of which the Company is the Parent. The accounts receivable or accounts payable accrue interest at a floating rate pegged to the 3-month Euribor plus a spread. In this way, NH Hotel Group, S.A. centralises the Group's cash through a bank and in a single account.

Non-current payables

The "Long-term Debts" heading mainly consists of the loan with the Group company NH Finance, S.A. with maturity in 2019.

Current payables

"Current Payables" includes the following loans from Group companies:

	Thousands of euros	
	2016	**2015**
Current account with NH Hoteles España, S.A.	136,521	134,639
Current payables to Group companies	104,934	128,415
Total	**241,455**	**263,054**

17.2.- Transactions with related parties

The transactions performed with related parties in 2015 and 2016 are as follows:

Income

	Thousands of euros	
	2016	**2015**
Lease income	**7,333**	**6,055**
Group (Note 18)	7,333	6,055
Non-controlling	**1,614**	**2,328**
Group holding activity (Note 18)	1,429	1,902
Associates	185	426
Gains or losses on disposals of non-current assets	**-**	**273**
Directors	-	273
Fees	**76,895**	**38,287**
Group	76,895	38,287

Expenses

	Thousands of euros	
	2016	**2015**
Non-controlling	**2,485**	**3,604**
Group	2,485	3,604

18.- INCOME AND EXPENSES

a) Revenues

The revenue itemised by activity is as follows (in thousands of euros):

	Thousands of euros	
	2016	**2015**
Hotel activity:		
Accommodation in rooms	13,984	11,909
Leasing (Note 17.2)	7,333	6,055
Catering	3,798	2,946
Rooms	712	491
Others	903	1,058
	26,730	**22,459**
Holding activity:		
Income from lending activity (Note 17.2)	1,429	1,902
	1,429	**1,902**
Revenues	**28,159**	**24,361**

Similarly, revenue corresponding to 2016 and 2015 was distributed by geographic market as follows (in thousands of euros):

	2016	2015
National market	28,159	24,361
	28,159	**24,361**

b) Staff costs

The breakdown of "Transactions With Related Parties" on the balance sheet for 2016 and 2015 is as follows (in thousands of euros):

	2016	2015
Wages, salaries and similar	29,427	32,591
Social security contributions	5,205	5,041
Termination benefits (Note 4.k)	7,317	621
	41,949	**38,253**

The average number of employees at the Company in 2016 and 2015, by professional category, was as follows:

	2016	2015
Group's general management	7	7
Managers and heads of department	90	73
Technical staff	117	115
Sales representatives	34	25
Administrative staff	28	16
Rest of workforce	208	188
Average number of employees	**484**	**424**

The workforce at 31 December 2016 and 2015, by professional category and gender, was as follows:

	31/12/2016		31/12/2015	
	Males	Females	Males	Females
Group's general management	6	1	6	1
Managers and heads of department	47	42	40	33
Technical staff	57	62	52	63
Sales representatives	5	29	4	21
Administrative staff	14	17	8	8
Rest of workforce	108	98	94	94
Average number of employees	**237**	**249**	**204**	**220**

The average number of employees at the Company with a disability equal to or greater than 33% in 2016 and 2015, by professional category, was as follows:

	2016	2015
Managers and heads of department	1	1
Technical staff	-	1
Administrative staff	1	-
Rest of workforce	3	-
Average number of employees	**5**	**2**

The average age of the Company's workforce was approximately 39.2 years and average length of service in the Group came to 9 years.

Long-term Share-based Incentive Plan

On 25 June 2013, the Company's General Shareholders Meeting approved a long-term share-based incentive plan ("the plan") for the NH Hotel Group SA's executives and employees, as follows:

The plan will consist of the grant of ordinary shares of NH Hotel Group, S.A. to the beneficiaries calculated as a percentage of the fixed salary, according to their level of responsibility. The number of shares to be granted shall be subject to the degree of fulfilment of the following objectives:

- TSR (total shareholder return) at the end of each of the plan cycles, comparing the performance of NH Hotel Group, SA shares with the following indices:
  - IBEX Medium Cap
  - Dow Jones Euro STOXX Travel & Leisure

- EBITDA, discounting the amount corresponding to rentals compared annually with the forecasts of the Company's strategic plan.

If the minimum degree of fulfilment established in the aforementioned objectives is not achieved, the plan beneficiaries shall not be entitled to shares under said plan.

The plan is aimed at a maximum of 100 beneficiaries. The Board of Directors, at the proposal of the CEO, may include new members in the plan.

The plan will have a total duration of five years, divided into three three-year cycles:

- The first cycle commences on 01/01/2014 with delivery of shares in 2017.
- The second cycle commences on 01/01/2015 with delivery of shares in 2018.
- The third cycle commences on 01/01/2016 with delivery of shares in 2019.

The first stage of the Plan (1/1/2014 – 31/12/2016) is now in the settlement period. The number of shares to deliver to each beneficiary will be the result of multiplying the number of shares pledged by the level of compliance with targets (internal and external metrics), after such compliance is approved by the Board of Directors. Once approved, the shares will be delivered to the beneficiaries in the first week of March.

The Board of Directors will be authorised to decide, before the start of each of the cycles, the effective implementation thereof in accordance with the Group's financial position at the time. At 31 December 2016, the first and second cycles had been approved.

The number of shares to be delivered to each beneficiary shall be that resulting from dividing the maximum amount destined to each beneficiary in each cycle by NH's share price in the ten days prior to the grant date of each cycle ("reference value").

The total maximum amount destined to the plan in each of the cycles is as follows:

- First cycle: €6,170,000

- Second cycle: €5,830,000

- Third cycle: €4,440,000

- Total: €16,440,000

The beneficiaries must remain in the Group on each of the plan settlement dates, notwithstanding the exceptions deemed appropriate. Also, the aforementioned minimum TSR and EBITDA thresholds must be reached.

The effect of this item on the income statement for 2016 was €1,460 thousand (€1,102 thousand in 2015).

c) External services

Shown below is a breakdown of the items included in "External services":

	Thousands of euros	
	2016	2015
Lease rentals	4,521	4,067
Outsourcing of services	1,820	1,741
Supplies	556	579
Maintenance and cleaning	1,021	983
Laundry and related costs	470	419
Costs associated with information technologies	16,908	16,761
Marketing and merchandising	246	220
Other external services	496	922
	26,038	**25,692**

d) Other operating expenses

“Other Operating Expenses" include the fees relating to statutory audit services and other services provided to the Company, which in 2016 and 2015 totalled:

	Thousands of euros	
	2016	2015
Audit	262	285
Other verification services	397	240
Tax	471	446
Others	202	398
	1,332	**1,369**

e) Gains or losses on disposals of fixed assets

This section shows the results obtained from the disposal of hotels or their retirement for repositioning work.

19. REMUNERATION AND OTHER EMOLUMENTS OF THE BOARD OF DIRECTORS

In June 2016, the shareholder HNA and the CEO ceased to be members of the Board of Directors. Taking into account this fact, the composition of the main bodies at 31 December 2016 was as follows:

- Board of Directors: 11 members in 2016 (13 in 2015),
- Executive Committee: 4 members in 2016 (6 in 2015),
- Audit and Control Committee: 5 members in 2016 (6 in 2015), and
- Appointments and Remuneration Committee: 6 members in 2016 (7 in 2015).

The amount accrued during 2016 and 2015 by the members of the Company's Board of Directors, taking into account the aforementioned fact affecting the 2016 fiscal year, in relation to the remuneration of the CEO, bylaw stipulated directors' fees and attendance fees, is as shown in the following notes.

Premiums of €103 thousand were paid in 2016 on the liability insurance of Administrators and Directors.

19.1 Remuneration of the Board of Directors

Remuneration item	Thousands of euros	
	2016	2015
Fixed remuneration	451	1,100
Variable remuneration	-	466
Company per diem allowances	274	139
Company attendance allowances	509	493
Options on shares and other financial instruments	-	1,452
Indemnifications/other	10	5
Life insurance premiums	4	76
Total	**1,248**	**3,731**

Of the 11 members of the Board of Directors, at 31 December 2016, 2 were women and 9 were men (12 people in 2015: one woman and eleven men).

In relation to the chapter "Share transactions and/or other financial instruments", both in the case of the CEO and of the members of Senior Management, the objective remuneration earned has been taken into account.

19.2 Remuneration of senior management

The remuneration of members of the Management Committee at 31 December 2016 and 2015, excluding those who simultaneously held office as members of the Board of Directors (whose remuneration has been set out above), is detailed below:

	Thousands of euros	
	2016	2015
Pecuniary remuneration	2,617	2,830
Remuneration in kind	161	65
Others	890	620
Total	**3,668**	**3,515**

There were seven members of Senior Management at 31 December 2016.

The accrued part of the variable remuneration is included within the remuneration of Senior Management, excluding the CEO.

The two conditions that must be met simultaneously to be considered Senior Management are, on the one hand, forming part of the Management Committee and, on the other, reporting directly to the Delegate Committee or an Executive Managing Director.

19.3 Information on conflicts of interest on the part of Directors

At year-end 2016, the members of the Board of Directors of NH Hotel Group, S.A. have indicated that they or persons related to them, as defined in the Act, are not in any situation of conflict, direct or indirect, with the interests of the Company, except Mr. Castro and Mr. Illa, who have reported:

- NH Hotel Group, S.A and Grupo Inversor Hesperia, S.A. have entered into an agreement on the billing of sales generated for the GIHSA hotels through the “Web Media Expenses” website. The agreement was signed, following information and deliberation by the Audit Committee and the Board of Directors, on 24 and 25 February 2016.

- On 5 December 2016, following information and deliberation in previous meetings by the Audit Committee and the Board of Directors, NH Hotel Group, S.A. and Grupo Inversor Hesperia, S.A. entered into a non-binding agreement of intent with the objective of establishing a new framework for management by NH of 28 hotels in the portfolio of hotels owned by the GIHSA group. The terms and conditions of the Agreement were unanimously approved by NH’s Board of Directors, following a favourable report from its Audit and Control Committee.

During the aforementioned Board meetings, both were absent and abstained from taking decisions.

20.- INFORMATION ON THE ENVIRONMENT

The Company had not allocated any provisions for environmental contingencies and claims at year-end 2016.

The Company has no activities which require specific information to be shown in the environmental policy.

The Company is certified by leading international standards such as ISO 50001, which certifies the efficiency of the hotel network's energy management on an international scale, and ISO 14001, which certifies environmental management.

The Company reports its climate change commitment and strategy to the Carbon Disclosure Project (CDP). The valuation of CDP places NH Hotels Group among the companies in the hotel sector that are taking new measures to effectively reduce emissions, which indicates more advanced environmental management.

The Company forms part of FTSE4 Good, an index of the London Stock Exchange which recognises the socially responsible behaviour of companies worldwide.

21.- FOREIGN CURRENCY

The most significant balances in foreign currency in 2016, valued at the year-end exchange rate, is broken down as follows

	Currency	Thousands of euros
Current investments in Group companies and associates	ARS	3,269
Current investments in Group companies and associates	BRL	91
Current investments in Group companies and associates	CLP	262
Current investments in Group companies and associates	COP	3,917
Current investments in Group companies and associates	CHF	211
Current investments in Group companies and associates	GBP	204
Current investments in Group companies and associates	HUF	114
Current investments in Group companies and associates	MXN	4,653
Current investments in Group companies and associates	RON	225
Current investments in Group companies and associates	USD	(56)
Current investments in Group companies and associates	UYU	207
Current investments in Group companies and associates	VEF	20
Current investments in Group companies and associates	ZAR	24
Current investments in Group companies and associates	CNY	9
Short-term debts with group and associate companies	ARS	(10)
Short-term debts with group and associate companies	GBP	32
Short-term debts with group and associate companies	USD	(733)
Short-term debts with group and associate companies	VEF	130
Short-term debts with group and associate companies	ZAR	1
Cash and cash equivalents	USD	6,407

The most significant balances in foreign currency in 2015, valued at the year-end exchange rate, is broken down as follows

	Currency	Thousands of euros
Current investments in Group companies and associates	ARS	1,169
Current investments in Group companies and associates	BRL	79
Current investments in Group companies and associates	CLP	48
Current investments in Group companies and associates	COP	1,337
Current investments in Group companies and associates	CHF	916
Current investments in Group companies and associates	DOP	8
Current investments in Group companies and associates	GBP	52
Current investments in Group companies and associates	HUF	71
Current investments in Group companies and associates	MXN	872
Current investments in Group companies and associates	PLN	7
Current investments in Group companies and associates	RON	206
Current investments in Group companies and associates	USD	387
Current investments in Group companies and associates	UYU	27
Current investments in Group companies and associates	VEF	18
Current investments in Group companies and associates	ZAR	13
Current investments in Group companies and associates	CNY	173
Short-term debts with group and associate companies	ARS	(308)
Short-term debts with group and associate companies	GBP	(534)
Short-term debts with group and associate companies	USD	(571)
Short-term debts with group and associate companies	VEF	130
Cash and cash equivalents	USD	45

22.- EVENTS AFTER THE REPORTING PERIOD

Subsequent to the close of the year, there have been no events which would have a significant impact on the Company's financial-equity situation.

23.- TRANSLATION

Translation of 2016 Financial Statements and Management Report originally issued in Spanish and prepared in accordance with Spanish GAAP. In the event of a discrepancy, the Spanish-language version prevails.

MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

EVOLUTION OF THE BUSINESSES AND THE COMPANY'S SITUATION

The Company "NH Hotel Group, S.A." is part of the NH Group, an international hotel operator and one of the leading urban hotel companies worldwide in terms of number of rooms. The Group operates nearly 380 hotels and 60,000 rooms in 30 countries, and has a significant presence in Europe.

The centralised business model allows it to offer a consistent level of service to its customers in different hotels in different regions. The corporate and regional headquarters offer hotels a wide range of functions such as sales, reservations, marketing and systems.

In 2016, world economic activity grew at a pace of +3.0% (Data and estimates provided by the E.C. "European Economic Forecast – Autumn 2016" November 2016), very similar to the previous year (+3.1%). More specifically in the Eurozone, the provisional growth rate for 2016 was 1.7% (+2.0% in 2015). Estimates differ significantly by country and region. In advanced economies, the fact that their outlook is already moderate and they are shrouded in considerable uncertainty may lead to a rise in political unrest. In line with the above data, when comparing the growth rates of the four countries that bring together the largest proportion of sales and results of the Group, it is observed that in Germany (+1.9% in 2016 vs. +1.7% in 2015) growth increased compared with the previous year, Spain (+3.2% in 2016 vs. +3.2% in 2015), and Italy (+0.7% in 2016 vs. +0.7% in 2015) maintain similar growth rates to the previous year, and the Netherlands (+1.7% in 2016 vs. +2.0% in 2015) slightly reduced its growth.

According to UNWTO, there were 1.235 billion international tourist arrivals in 2016, a +3.9% increase from the year before. This is the seventh consecutive year with growth since the 2009 economic crisis. The results in Europe were quite uneven, given that a number of destinations were affected by security concerns. In 2016, international arrivals stood at 620 million, that is, 12 million more (+2%) than in 2015. Northern Europe (+6%) and Central Europe (+4%) recorded solid results, whereas in Southern and Mediterranean Europe the arrivals only increased by +1% and in Western Europe the figure remained stable

In this context, in 2016, as a result of the favourable trend in the hotel business throughout the year, the effect of its initiatives and, particularly, the repositioning of its brands and hotels, the Company recorded a significant increase in prices.

During 2016, the value of the price strategy was enhanced, greater Group growth being obtained in the top cities compared to direct competitors, where there are market measures in place*.

Furthermore, in order to improve the quality and strengthen the NH Collection brand, the repositioning investment phase was completed in Benelux and Germany in 2016, following the investment made mainly in Spain and Italy in 2015.

Taking all the above into account, the Company's revenue (including leaseholds, interest and fees) in 2016 was €112.3 million, showing growth of +54.7% (+€39.7 million). The Profit for the year attributable to the Company was €129.0 million compared to -€89.1 million in 2015.

One of the most notable milestones of these three years of transformation is the effective materialisation of a new value proposition by the NH Hotel Group, focused on a new brand architecture, the flagship brands NH Collection, NH Hotel, nhow and Hesperia, and a different new look and feel for each brand.

Meanwhile, the Company improved the customer experience thanks to implementing a solid operational vision, including the new elements making up the hotels' basic product range, known as Brilliant Basics, which are already in place in all of the establishments and which are contributing to a better experience and higher average score from the customers.

The trend in quality indicators confirms the improvement in user ratings for the Group's hotels throughout 2016. At Group level, 34% of the portfolio is positioned in the top 10 of the city's Trip Advisor (45% for NH Collection hotels) and 52% of the hotels are in the top 30 (62% for NH Collection hotels), which demonstrates the highest levels of quality perceived by customers.

Also, thanks to its relaunch, the NH Rewards loyalty programme now has over 6.8 million members, 26% of whom joined in 2016, and 25% of the total are active.

As part of its asset repositioning plan, NH Hotel Group invested almost €200 million from 2014 to 2016 to renovate or remodel its mid-range hotels with the greatest potential for improvement.

Furthermore, another 6 hotels began operating in Madrid, Rome, Guadalajara, Leon, Punta Cana and Bariloche in 2016, with 379 hotels operating with 58,472 rooms as of 31 December 2016.

In addition, in 2016 NH Hotel Group signed 16 hotels with 2,114 bedrooms. All the signings were rental and management contracts, many of them in the top brand segment and in primary cities (Milan, Mexico City, Toulouse, Marseilles and Antwerp).

In this year the Company's gross borrowing increased from €634.5 million in December 2015 to €816.3 million in December 2016. At 31 December 2016, cash and cash equivalents amounted to €62.6 million (€30.3 million at 31 December 2015). Additionally, this liquidity was complemented by credit lines at the end of the year amounting to €281.9 million, of which €250 million corresponded to a long-term syndicated credit line, compared to €15.9 million at 31 December 2015.

In September 2016, the Company formalised a guaranteed senior bond issue amounting to €285 million maturing in 2023, simplifying the capital structure and allocating the use of the proceeds obtained from this issue to repayment of bank debt with maturity mainly in the period 2016-2018. In addition, financial flexibility was increased by increasing liquidity through the subscription of a €250 million syndicated credit line, with a duration of 3 years and an additional 2 years, the latter 2 years subject to the refinancing of the bond issued by the Company in 2013 with maturity in 2019.

This transformation of the Company has recently been reflected in the improvement of the corporate credit ratings assigned by the main rating agencies. In both cases, Standard & Poor's and Fitch upgraded the rating to "B" with a stable outlook, considering that the Group will continue its operations with its positive evolution while continuing to improve its liquidity. In turn, Moody's assigned a B2 corporate rating, thanks to the Group's favourable performance, improved liquidity and its focus on less capital intensive formulas.

Finally, the average number of people employed by the group has increased from 13,859 in 2015 to 13,986 in 2016. At 31 December 2016, the breakdown of the personnel, by gender and professional category, was 51% women and 49% men: The average age of the Group's workforce was approximately 38.9 and average seniority in the Group was 9.0 years.

THE ENVIRONMENT

For the Company, sustainability drives innovation, seeking to surprise our guests as well as achieving water and energy efficiency.

In 2016, the implementation of the sustainability initiative continued. This initiative gives continuity to the environmental achievements of recent years. Thus, compared to 2008, per Average Daily Room energy consumption has been reduced by 30%, water consumption by 29% and our carbon footprint by 72%. 79% of the hotels consume green energy.

NH Hotel Group is certified by internationally recognised standards such as ISO 50001, which certifies the efficiency of the hotel network's energy management on an international scale, and ISO 14001, which certifies environmental management. A total of 129 hotels have achieved their own external certification for their sustainable management.

NH Hotel Group has reported its climate change commitment and strategy to the Carbon Disclosure Project (CDP) since 2010. The valuation of CDP in 2016 places NH Hotels Group among the companies in the hotel sector that are taking new measures to effectively reduce emissions, which indicates advanced environmental management.

NH Hotel Group forms part of FTSE4 Good, an index on the London Stock Exchange which recognises the socially responsible behaviour of companies worldwide.

OVERVIEW OF NH RISK POLICY

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

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

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

The size of NH Hotel Group and its excellent penetration and brand recognition in its main markets provide the Company with access to many expansion opportunities, although these are selected more on the basis of rate of return and less on the need for investment, always attempting to minimise the risk inherent in the industry in which the Company operates. The industry is characterised by economic cycles.

The Company's credit risk can mainly be attributed to commercial debts. The amounts are shown net of any provisions for insolvencies and the risk is low since the customer portfolio is spread among a large number of agencies and companies.

Concerning interest rate risks, the Company is exposed to fluctuations in the interest rates of its financial assets and liabilities, which may have an adverse effect on its results and cash flows. In order to mitigate this risk, the Company has established policies and has refinanced its debt at fixed interest rates through the issuance of convertible bonds and guaranteed convertible senior bonds.

The Group has subsidiaries in several countries with operating currencies other than the euro, the Company's currency of reference. The operating results and financial position of these subsidiaries (mainly located in Mexico, Colombia, Chile and Argentina) are recognised in their corresponding currencies and converted later at the applicable exchange rate for their inclusion in the financial statements of NH Hotel Group. With the aim of mitigating these risks as far as possible, the Group tries in some cases to incur debt in the same currency as the investment was made in.

With respect to regulatory risk, the Company is exposed to compliance risks, arising from possible regulatory changes, interpretation of legislation, regulations and contracts, and non-compliance with internal and external regulations. Tax and environmental risks are included under this heading. It also includes Reputational Risks, arising from the company's behaviour which negatively affect fulfilment of the expectations of one or more of its stakeholders (shareholders, customers, suppliers, employees, the environment and society in general).

As regards liquidity risk, during 2016 the Company obtained a long-term syndicated credit line for €250 million to improve liquidity, and has an adequate debt maturity schedule, which is detailed in Note 13 of the annual report for 2016. The Company is constantly evaluating the possibility of refinancing part or all of the existing financial debt.

Maintaining the operational sources of cash flow generation depends on adapting the Company's business model to the evolution of the hotel business, and also on the sale of non-strategic assets. These variables depend on the overall economic cycle and on the markets' short-term supply and demand situation. Likewise, the Company regularly makes cash and bank forecasts, which allow it to assess its liquidity needs and fulfil the payment obligations it has undertaken without the need to obtain funds under onerous terms and conditions.

SHARES AND SHAREHOLDERS

NH Hotel Group, S.A. share capital at the end of 2016 comprised 350,271,788 fully subscribed and paid up bearer shares with a par value of € 2 each. All these shares carry identical voting and economic rights and are traded on the Continuous Market of the Spanish Stock Exchanges.

According to the latest notifications received by the Company and the notices given to the National Securities Market Commission before the end of every financial year, the most significant shareholdings at 31 December 2016 and 2015 were as follows:

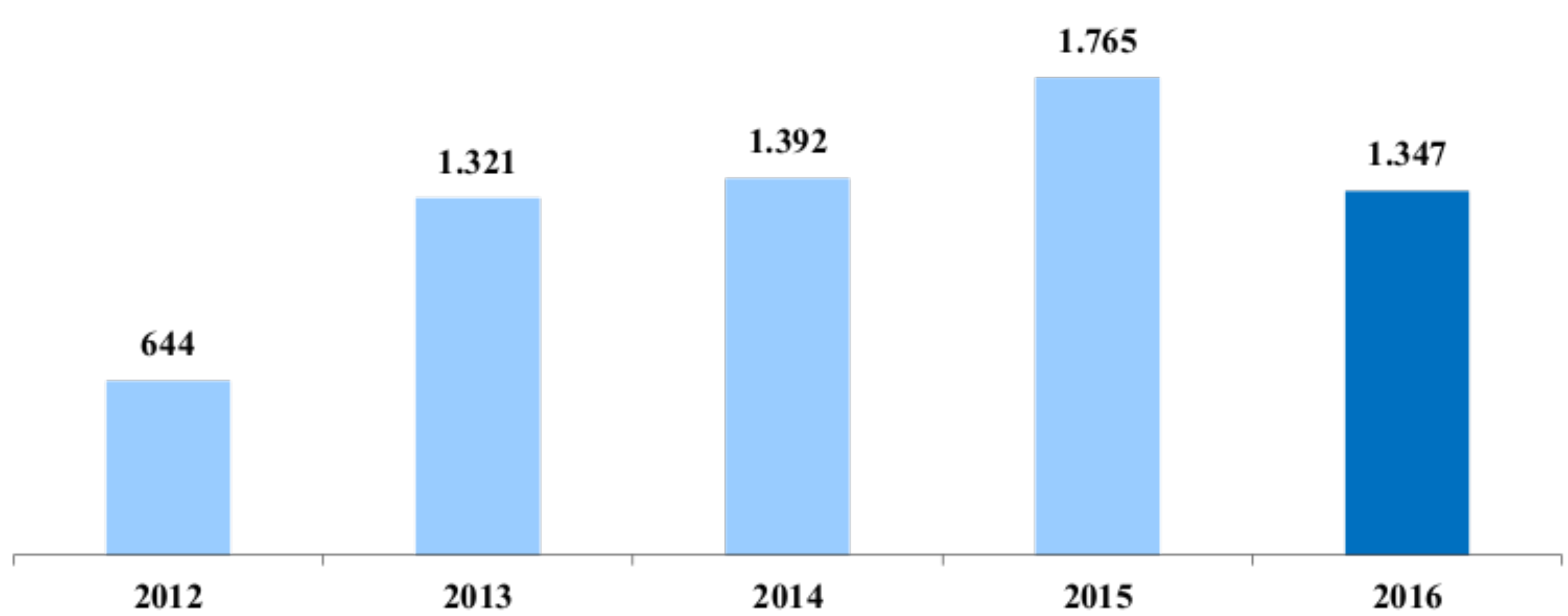
	2016	**2015**
HNA CO LTD	29.50%*	29.50%
Oceanwood Capital Management LLP	11.97%	7.58%
Hesperia Group	9.27%**	9.23%
Henderson Global Investors LTD	4.19%***	4.19%

* Although at 31/12/2016 the shareholding of HNA CO LTD amounted to 29.50%, on 27/02/2017 this company reported that its shareholding fell to 29.34%.
** The shareholding of Hesperia Group consists of the direct shareholding held by Grupo Inversor Hesperia, S.A. (9.10%) and Eurofondo (0.17%).
*** Although at 31/12/2016 the shareholding of Henderson Global Investors Ltd amounted to 4.19%, on 31/01/2017 this company reported that its shareholding had fallen to 2.98%.

The average share price of NH Hotel Group, S.A. in 2016 was 4.04 euros per share (5.00 euros in 2015). The lowest share price of 3.17 euros per share (3.73 euros in January 2015) was recorded in February and the highest share price of 4.95 euros per share in January (5.97 euros in March 2015). The market capitalisation of the Group at the close of 2016 stood at €1.3468 billion (€1.76537 billion at the close of 2015).

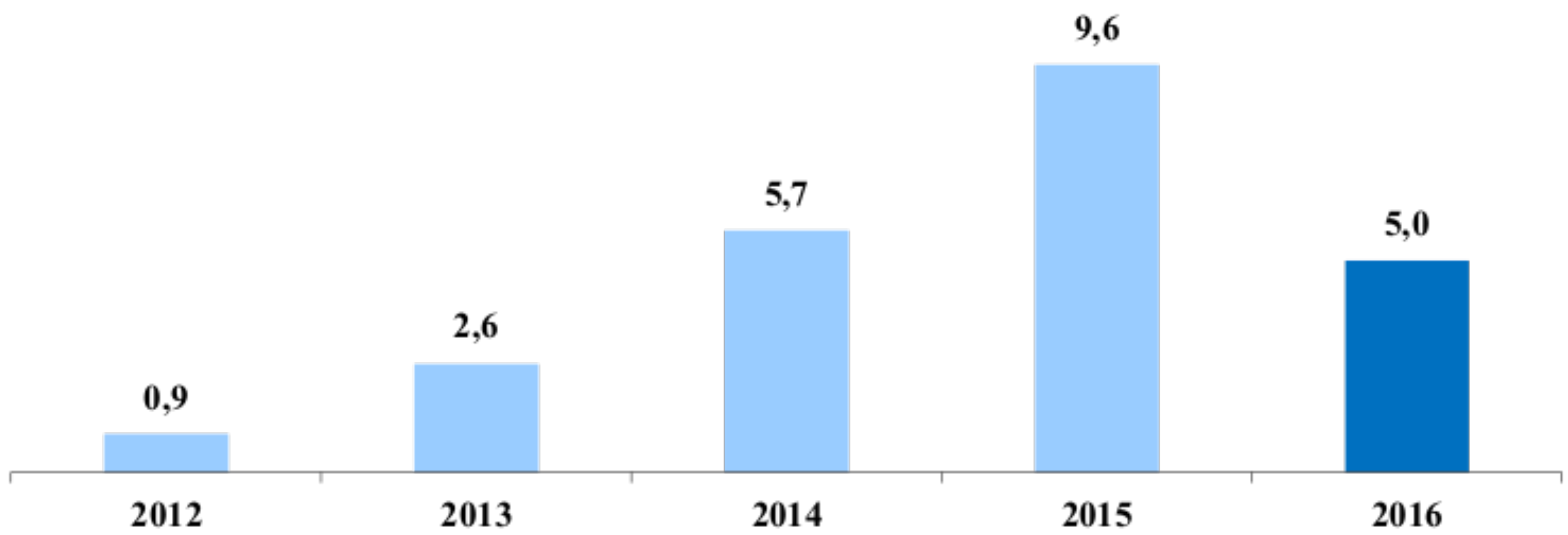
At 31 December 2016 NH Hotel Group, S.A. held 9,600,000 own shares. In August, the Parent Company purchased 600,000 treasury shares. On 4 November 2013, the Spanish Securities Market Commission was informed of the loan of 9,000,000 shares from the total number of treasury shares to three financial entities that were involved in the placement of bonds convertible or exchangeable into the shares of NH Hotel Group, S.A. to the sum of EUR 250 million; the purpose of this loan was to allow those financial entities to offer the shares to subscribers of the bonds requesting them. As at 31 December 2016, of these 9,000,000 shares, 6,930,886 shares have been returned. However, they remain available to the financial institutions should they be requested.

CAPITALISATION at the end of each year (in millions of euros)

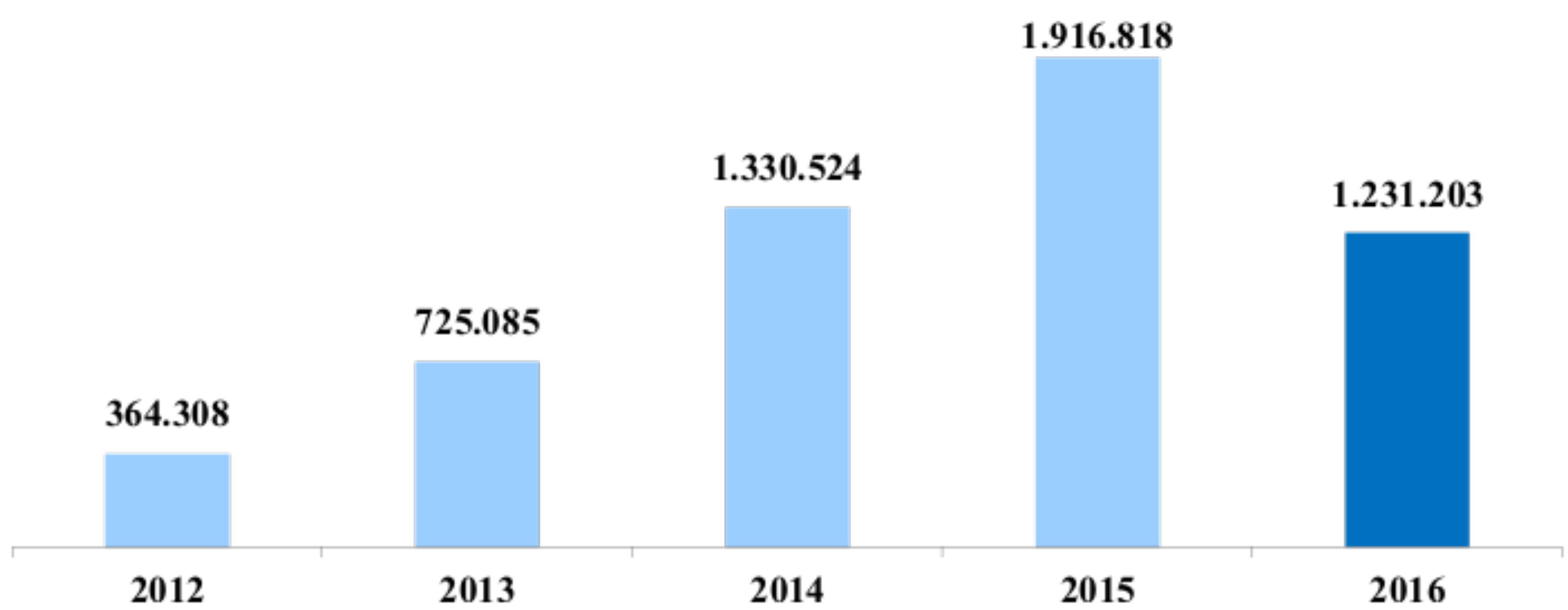


A total of 316,419,296 shares in NH Hotel Group, S.A. were traded on the Continuous Market over the course of 2016 (490,705,420 shares in 2015), which accounted for 0.90 times (1.40 times in 2015) the total number of shares into which the Company's share capital is divided. Average daily share trading on the Continuous Market amounted to 1,231,203 securities (1,916,818 in 2015).

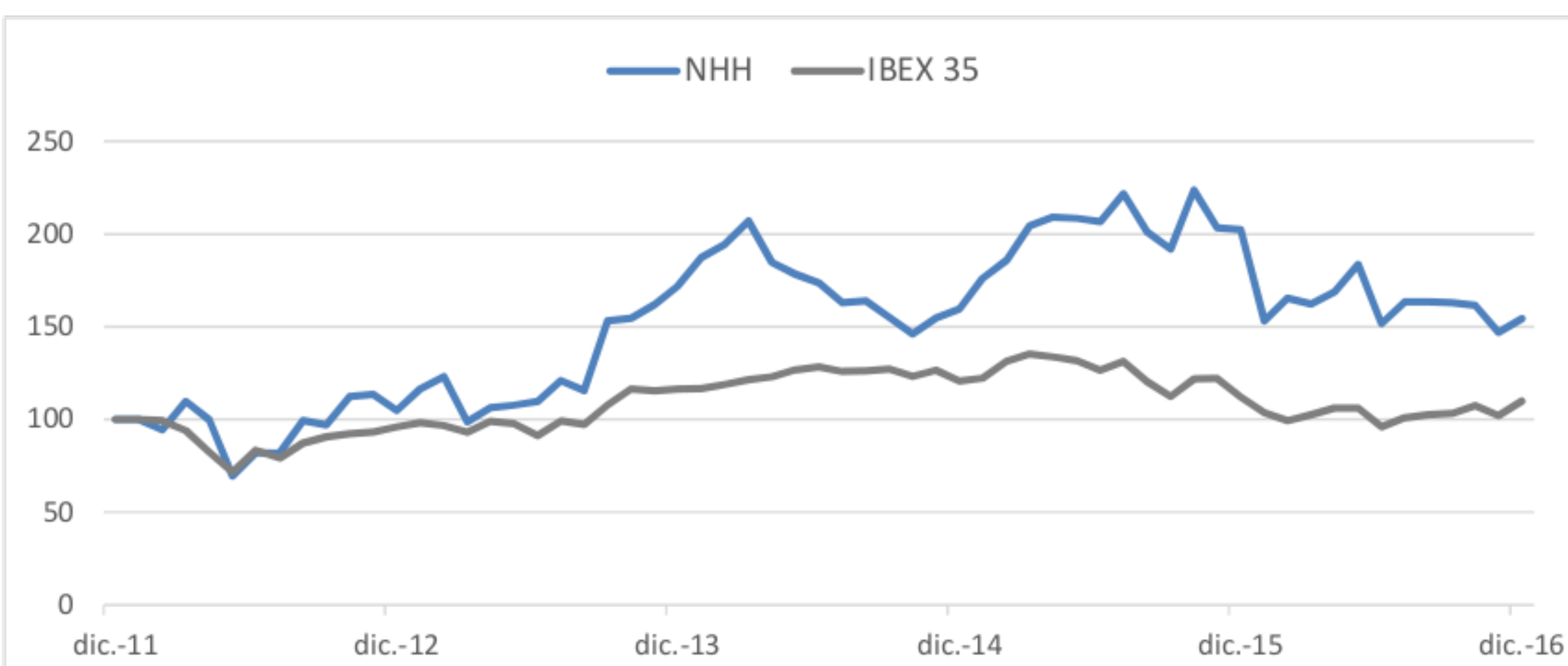
AVERAGE DAILY TRADING (€ millions)
2012-2016



AVERAGE DAILY TRADING (in shares)
2012-2016



EVOLUTION NH HOTEL GROUP vs. IBEX 35
1 JANUARY 2012-31 DECEMBER 2016



FUTURE OUTLOOK

The results of the UNWTO Confidence Index show strong confidence in 2017, with expectations almost equal to those obtained in 2016. Therefore, growth is expected to remain at a similar pace. Based on current trends and with this general outlook, UNWTO forecasts between 3% and 4% growth in international tourist arrivals worldwide in 2017. By region, tourism in Europe is expected to grow by between +2.0% and +3.0% and in the Americas by between +4.0% and +5.0%.

On the other hand, GDP growth in Europe is expected to be +2.0% (Data and estimates provided by the E.C. "European Economic Forecast – Autumn 2016" November 2016).

In this economic environment, the Group expects to benefit from the increase in sales associated with GDP growth expectations in 2017, together with the positive impact of the repositioning investments made in 2016 and supported by the implementation of price management tools which will allow us to continue to optimise this strategy.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the close of the year, there have been no events which would have a significant impact on the Company's financial-equity situation.

ANNEX I

ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED PUBLIC LIMITED COMPANIES

IDENTIFICATION DETAILS OF THE ISSUER

END DATE OF 12-MONTH PERIOD OF REFERENCE	31/12/2016
TAX ID CODE (CIF)	A28027944

COMPANY NAME
NH HOTEL GROUP, S.A.

REGISTERED OFFICE
SANTA ENGRACIA, 120 - 7ª PLANTA, MADRID

ANNUAL CORPORATE GOVERNANCE REPORT

FOR LISTED PUBLIC LIMITED COMPANIES

A OWNERSHIP STRUCTURE

A.1Fill in the following table regarding the share capital of the Company:

Date of last modification	Share capital (€)	Number of Shares	Number of voting rights
26/06/2014	700,543,576.00	350,271,788	350,271,788

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

Yes ☐ No ☒

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

Name or business name of the shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
HNA GROUP CO LIMITED	0	103,329,925	29.50%
OCEANWOOD CAPITAL MANAGEMENT LLP	0	41,922,801	11.97%
GRUPO INVERSOR HESPERIA, S.A	31,870,384	0	9.10%
HENDERSON GLOBAL INVESTORS LIMITED	0	14,686,895	4.19%

Name or trade name of the indirect shareholder	Via: Name or company name of the direct holder of the shareholding	Number of voting rights
HNA GROUP CO LIMITED	TANGLA SPAIN, S.L.	103,329,925
OCEANWOOD CAPITAL MANAGEMENT LLP	OCEANWOOD OPPORTUNITIES MASTER FUND	32,260,283
OCEANWOOD CAPITAL MANAGEMENT LLP	OCEANWOOD INVESTMENTS LTD	9,662,518
HENDERSON GLOBAL INVESTORS LIMITED	HENDERSON GLOBAL INVESTORS LIMITED	686,532
HENDERSON GLOBAL INVESTORS LIMITED	HENDERSON EUROPEAN FOCUS FUND	14,000,363

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

Name or business name of the shareholder	Date of transactio	Description of transaction
OCEANWOOD CAPITAL MANAGEMENT LLP	24/05/2016	Exceeded 10% of share capital

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

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR ALFREDO FERNANDEZ AGRAS	100,000	0	0.03%
MR JOSE ANTONIO CASTRO SOUSA	1,000	32,475,188	9.27%
MR CARLOS GONZALEZ FERNANDEZ	25,050	11,400	0.01%
MS MARIA GRECNA	4,000	0	0.00%

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR FRANCISCO JAVIER ILLA RUIZ	1	0	0.00%
MS KORO USARRAGA UNSAIN	2,900	0	0.00%

Name or trade name of the indirect shareholder	Via: Name or company name of the direct holder of the shareholding	Number of voting rights
MR JOSE ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A	31,870,384
MR JOSE ANTONIO CASTRO SOUSA	EUROFONDO, S.A.	604,804
MR CARLOS GONZALEZ FERNANDEZ	NOBELIUM PONTI, S.L.	11,400

% of total voting rights held by the Board of Directors	9.25%

Fill in the following tables with information on the members of the Company's Board of Directors who hold rights over shares in the Company:

A.4 Indicate, where applicable, the family, commercial, contractual or corporate relationships existing between major shareholders, insofar as they are known by the Company, unless they have little relevance or arise from normal trading activities:

A.5 Indicate, where applicable, the commercial, contractual or corporate relationships existing between major shareholders, and the company and/or its group, unless they have little relevance or arise from normal trading activities:

A.6 Indicate whether the company has been informed of shareholders' agreements which affect it, as established in Articles 530 and 531 of the Capital Companies Act. If applicable, describe them briefly and list the shareholders bound by the agreement:

Yes ☐ No ☒

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

Yes ☐ No ☒

In the event of any modification or termination of these pacts, agreements or agreed actions during the year, please specify it:

The company is not aware of the existence of concerted actions among its shareholders.

A.7 Indicate whether any individual person or legal entity exercises, or could exercise, control over the Company in accordance with Article 4 of the Stock Market Act. If so, give details here:

Yes ☐ No ☒

Remarks

A.8 Fill in the following tables regarding the Company's treasury stock:

At year end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
7,530,886	0	2.15%

(*) Through:

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

Explain the significant changes

A.9Describe the conditions and the term of the current mandate of the Board of Directors to issue, repurchase or transmit treasury stock, as conferred by the General Shareholders' Meeting.

The General Shareholders' Meeting held on 25 June 2013 authorised the Board of Directors of the Company to repurchase treasury stock under the terms indicated below:

a) The acquisition can be made by any title accepted as a right, once or more times, provided that the acquired shares, added to those the Company already owns, do not exceed 10% of the Company's share capital, together with those owned by other companies in the group, if applicable.

b) The acquisition, including the shares which the Company, or a person acting in their own name but on behalf of the Company, may have acquired beforehand and have in its portfolio, can be made as long as this does not lead to net equity being below the amount of share capital plus the reserves made unavailable by law or the Company's articles of association. For these purposes, net assets shall be considered to be the amount identified as such in accordance with the criteria for preparing annual accounts, less the profits directly attributable to it, and plus the uncalled share capital, as well as the amount of the principal and the share premium that are registered in the accounts as liabilities.

c) The shares must be fully paid up.

d) The authorisation will be valid for 5 years from the day this agreement comes into force.

e) The minimum purchase price will be 95% and the maximum price will be 105% of the listed market value at the close of Spain's continuous market the day before the transaction, and the purchase transactions will adhere to security market regulations and customs.

The shares acquired due to the authorisation can be disposed of or amortised, or used in the payment systems set out in Article 146.a) 3 of the Capital Companies Act, and in particular may be wholly or partly allocated to the beneficiaries of the Payment Plan or Plans for Company executives and employees.

A.9.bis Estimated floating capital:

	%
Estimated floating capital	44.18

A.10 Indicate whether there is any restriction on the transferability of securities and/or any restriction on voting rights. In particular, report the existence of any type of restriction which could hinder control of the company being taken through acquiring its shares on the market.

Yes ☐ No ☒

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

Yes ☐ No ☒

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

A.12 State whether the company has issued securities which are not traded on a regulated EU market.

Yes ☐ No ☒

If applicable, indicate the different types of shares, and the rights and obligations each type of share confers.

B GENERAL SHAREHOLDERS' MEETING

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

Yes ☐ No ☒

B.2 Indicate, and if applicable, specify any differences from the system established in the Capital Companies Act (LSC) for adopting company agreements:

Yes ☐ No ☒

Describe how it differs from the LSC.

B.3 Indicate the regulations applicable to modification of the company articles of association. In particular, note the majorities required for changes to the articles of association and, if any, the regulations governing the protection of shareholders' rights when making changes to the articles of association.

Title VIII, covering Articles 285 - 345, of Royal Decree-Law 1/2010 of 2 July, approving the Revised Text of the Capital Companies Act (hereunder, LSC), and Articles 158 - 164 of Royal Decree 1784/1996, of 19 July, approving the Regulation of the Companies Register (hereunder, RRM), establish the legal system applicable to the modification of articles of association. The text of the articles of association of NH Hotel Group faithfully reflects these legal regulations, with no higher quorum or majority required than is set out therein.

B.4 Indicate details of attendance at the general shareholders' meetings held during the year to which this report refers, and for the previous year:

	Attendance detail				
Date of general meeting	% present in person	% by proxy	% remote voting		Total
			Electronic vote	Other	
26/06/2014	20.38%	53.33%	0.22%	0.00%	73.93%
29/06/2015	0.20%	70.18%	0.00%	2.09%	72.47%
11/12/2015	9.25%	64.29%	0.00%	0.63%	74.17%
21/06/2016	0,09%	82.10%	0.00%	3,60%	85.79%

B.5 State whether there are any statutory restrictions that establish the minimum number of shares required to attend the General Shareholder's Meeting:

Yes ☐ No ☒

B.6 Paragraph repealed.

B.7 Indicate the address and access on the Company website to information on corporate governance and other information on general shareholders' meetings which must be available to shareholders on the Company website.

All information of relevance to shareholders, including information on corporate governance and other information on general shareholders' meetings is available at all times on the NH Hotel Group website, www.nh-hotels.es, in the section ´Information for shareholders´.

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors established in the company's articles of association:

Maximum number of Directors	20
Minimum number of Directors	5

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

Name or company name of Director	Representative	Director category	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
MR ALFREDO FERNANDEZ AGRAS		Proprietary	CHAIRMAN	19/06/2015	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSE ANTONIO CASTRO SOUSA		Proprietary	DEPUTY CHAIRMAN	24/05/2012	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR		Other External	DIRECTOR	21/06/2016	21/06/2016	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR CARLOS GONZALEZ FERNANDEZ		Independent	DIRECTOR	29/06/2011	26/06/2014	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MS MARIA GRECNA		Other External	DIRECTOR	21/06/2016	21/06/2016	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR FRANCISCO JAVIER ILLA RUIZ		Proprietary	DIRECTOR	27/10/2009	21/06/2016	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR PAUL JOHNSON		Other External	DIRECTOR	21/06/2016	21/06/2016	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR FERNANDO LACADENA AZPEITIA		Other External	DIRECTOR	21/06/2016	21/06/2016	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSE MARÍA LÓPEZ ELOLA		Independent	DIRECTOR	25/04/2012	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR FRANCISCO ROMAN RIECHMANN		Independent	DIRECTOR	04/07/2014	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MS KORO USARRAGA UNSAIN		Independent	DIRECTOR	19/06/2015	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING

otal number of directors	11

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

Name or company name of Director	Director category at time of departure	Date of leaving
MR HAIBO BAI	Proprietary	21/06/2016
MR CHARLES MOBUS	Proprietary	21/06/2016
MR XIANYI MU	Proprietary	21/06/2016
MR LING ZHANG	Proprietary	21/06/2016
MR FEDERICO GONZÁLEZ TEJERA	Executive	21/06/2016

C.1.3 Fill in the following tables about the Board members and their corresponding categories:

EXECUTIVE DIRECTORS

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of Director	Name or company name of the major shareholder represented or who proposed the appointment
MR ALFREDO FERNANDEZ AGRAS	OCEANWOOD CAPITAL MANAGEMENT LLP
MR JOSE ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A
MR FRANCISCO JAVIER ILLA RUIZ	GRUPO INVERSOR HESPERIA, S.A

otal number of proprietary directors	3
% of the Board as a whole	27.27%

INDEPENDENT EXTERNAL DIRECTORS

Name or company name of Director:

MR CARLOS GONZALEZ FERNANDEZ

Profile:

Graduate in economics from the University of Bilbao and chartered accountant. For 35 years he worked for Arthur Andersen, which in 2003 merged with Deloitte, being appointed chairman, first of Arthur Andersen in 2000 and subsequently of the firm that resulted from the merger - Deloitte - from 2003 to 2009. Currently, he serves as a Director and Chair of the Audit and Control Committee, both at Corporación Financiera Alba, S.A., and Sotogrande, S.A. He is also an adviser to the Board of Directors at Cosentino, S.A.

Name or company name of Director:

MR JOSE MARÍA LÓPEZ ELOLA

Profile:

Graduate in economics from the Complutense University of Madrid. For the last 35 years, he has been the General Manager of various credit and banking institutions, such as Banco Zaragozano, S.A. and Barclays, S.A. He is currently a member of the Board of Directors of companies including Festina Lotus, S.A., Celo, S.A. and Cementos Occidentales, S.A.

Name or company name of Director:

MR FRANCISCO ROMAN RIECHMANN

Profile:

Graduate in Telecommunications Engineering. He began his career at Sainco, and in 1983 joined a subsidiary of the computer multinational Hewlett Packard, where he was appointed Sales Director. In 1992 he became the Director in Spain of Pacific Telesis, later known as AirTouch Internacional, one of the founding companies of Airtel Móvil S.A. Managing Director of Microsoft Ibérica from 1998, in July 2002 he joined Vodafone as General Operations Manager, where he was appointed Managing Director in February 2003 and Chairman-CEO in January 2008.

Name or company name of Director:

MS KORO USARRAGA UNSAIN

Profile:

With a bachelor's degree and MBA from ESADE Barcelona, she joined the former Arthur Andersen (now Deloitte) in its Auditing division in 1981, where she spent 20 years of her professional career. In 1993 she became a partner at Arthur Andersen.
In 2001 she assumed responsibility for the General Corporate Division of Occidental Hotels and in 2003 she decided to accept a position as the General Manager of a real estate group based in Barcelona, Renta Corporación. From 2005 to the present she has been a shareholder and Director of 2005 KP Inversiones, S.L., a company dedicated to direct investment in businesses and a management consultant

otal number of independent directors	4
% of total Board	36.36%

Indicate whether any director classified as independent receives any money or benefit from the company or its group as a payment other than for his or her role as director, or maintains or has maintained, in the past year, a business relationship with the company
or with any company in the group, whether in his own name or as a significant shareholder, director or senior manager of an entity maintaining or which has maintained such a relationship.

NO

If so, include a reasoned statement by the Board as to the reasons why it considers that this director can perform his duties as an independent director.

OTHER EXTERNAL DIRECTORS

Identify the other external directors and state the reasons why they cannot be considered proprietary or independent directors, and their relationship with the company, its directors or shareholders:

Name or company name of Director:

MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR

Company, director or shareholder with whom they are associated

OCEANWOOD OPPORTUNITIES MASTER FUND

Reasons:

Oceanwood Opportunities Master Fund requested a supplement to the call of the Ordinary General Shareholders' Meeting scheduled for 21 June 2016, by including, amongst others, the appointment of Mr. José María Cantero Montes-Jovellar as a Director under the category "Other External", as approved at said Meeting with a sufficient majority. Therefore, the appointment of Mr. Cantero was not proposed by the Appointments, Remuneration and Corporate Governance Committee.

Name or company name of Director:

MS MARIA GRECNA

Company, director or shareholder with whom they are associated

OCEANWOOD OPPORTUNITIES MASTER FUND

Reasons:

Oceanwood Opportunities Master Fund requested a supplement to the call of the Ordinary General Shareholders' Meeting scheduled for 21 June 2016, by including, amongst others, the appointment of Ms. Maria Grecna as a Director under the category "Other External", as approved at said Meeting with a sufficient majority. Therefore, the appointment of Ms. Grecna was not proposed by the Appointments, Remuneration and Corporate Governance Committee.

Name or company name of Director:

MR PAUL JOHNSON

Company, director or shareholder with whom they are associated

OCEANWOOD OPPORTUNITIES MASTER FUND

Reasons:

Oceanwood Opportunities Master Fund requested a supplement to the call of the Ordinary General Shareholders' Meeting scheduled for 21 June 2016, by including, amongst others, the appointment of Mr. Paul Johnson as a Director under the category "Other External", as approved at said Meeting with a sufficient majority. Therefore, the appointment of Mr. Johnson was not proposed by the Appointments, Remuneration and Corporate Governance Committee.

Name or company name of Director:

MR FERNANDO LACADENA AZPEITIA

Company, director or shareholder with whom they are associated

OCEANWOOD OPPORTUNITIES MASTER FUND

Reasons:

Oceanwood Opportunities Master Fund requested a supplement to the call of the Ordinary General Shareholders' Meeting scheduled for 21 June 2016, by including, amongst others, the appointment of Mr. Fernando Lacadena Azpeitia as a Director under the category "Other External", as approved at said Meeting with a sufficient majority. Therefore, the appointment of Mr. Lacadena was not proposed by the Appointments, Remuneration and Corporate Governance Committee.

otal number of other external directors	4
% of total Board	36.36%

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

C.1.4 Fill in the table below with the information relating to the number of female directors in the last 4 financial years, and their type:

	Number of female directors				% of total directors of each type			
	2016	2015	2014	2013	2016	2015	2014	2013
Female	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	1	1	0.00%	0.00%	10.00%	11.00%
Independent	1	1	0	1	25.00%	25.00%	0.00%	33.00%
Other External	1	0	0	0	25.00%	0.00%	0.00%	0.00%
otal:	2	1	1	2	18.18%	8.33%	7.14%	13.00%

C.1.5 Explain the methods adopted, if any, to seek to include a number of women in the Board of Directors which would permit a balanced presence of women and men.

Explanation of the measures
The Board of Directors' rules define the establishment of a target concerning the less represented gender on the Board of Directors and the guidelines on how to fulfil said target as one of the objectives of the Appointments, Remuneration and Corporate Governance Committee. This target was legally established as 30% women members of the Board of Directors by 2020. In order to fulfil the aforementioned goal, the Appointments, Remuneration and Corporate Governance Committee shall ensure that the selection procedure does not suffer from any implicit bias that may hamper the selection of female directors and that women that fulfil the professional profile sought are included among the potential candidates. The policy for selecting directors seeks to prevent discrimination, with meritocracy as the criterion guiding the selection process to identify the best candidates for the Company. However, and notwithstanding the foregoing, each time that there is a vacancy on the Board of Directors, and the corresponding selection process begins, at least one woman must be considered as a candidate until the 30% target is met. Last year, Ms. María Grecna was appointed as Other External Director during the Shareholders' Meeting held on 21 June 2016.

C.1.6 Explain the measures agreed, if any, by the Appointments Committee to ensure that the selection process is not implicitly biased against selecting female Directors, and so that the company deliberately seeks to include women who meet the desired professional profile among potential candidates:

Explanation of the measures
During the process of selecting Directors, in compliance with the principles set forth in the Board Regulations, the Appointments, Remuneration and Corporate Governance Committee has ensured women are included who meet the required professional profile in the list of candidates, and has endeavoured to ensure there are no biases inherent in the selection procedure that hinder the selection of female directors. As mentioned previously, the policy for selecting directors expressly provides for the prevention of discrimination in the candidate selection process and, guided by company interest, meritocracy shall serve as the main selection criterion, with the process seeking to identify the most qualified candidates. However, each time that there is a vacancy on the Board of Directors, and the corresponding selection process begins, at least one woman must be considered as a candidate, notwithstanding the principles of merit and capacity, until the aforementioned 30% target for 2020 is met.

If, despite the measures adopted, if any, there are few or no female Directors, explain the reasons:

Explanation of the reasons
See above.

C.1.6 bis Explain the conclusions of the appointments committee regarding the verification of compliance with the policy on director selection. In particular, explain how this policy promotes the objective that by 2020 the number of female directors is at least 30% of the total number of members of the board of directors.

Explanation of the conclusions
Last year, the Appointments, Remuneration and Corporate Governance Committee considered the regulatory fitness and the Recommendations in the Good Governance Code in terms of the policy for selecting directors. NH Hotel Group firmly believes that diversity in all its facets and at all levels of its professional team is an essential factor for ensuring the Company's competitiveness and a key element in its corporate governance strategy, promoting the participation and development of women in the organisation, especially in positions of leadership, and, in particular, on the Board of Directors. To this end, last year the Board of Directors appointed a new Female Director in the category of "Other External Director", thus increasing the percentage of female directors on the Board of Directors from 8% in 2015 to 18% in 2016. In 2016, the Company has continued to work with expert consulting firms that have intensified the recruitment of female directors.

C.1.7 Explain how major shareholders are represented on the Board.

As set out in Article 9 of the Board Regulations, the Board will ensure that the majority group of external Directors includes, on one hand, those proposed by the holders of significant stable holdings in the company capital (proprietary Directors) and, on the other, professionals of recognised prestige who are not associated with the executive team nor with major shareholders (independent Directors).

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

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

a) He/she was appointed by virtue of the right to representation.
b) He/she is a director, senior manager, employee or regular service provider of this shareholder, or of companies belonging to its group.
c) The company documentation states that the shareholder accepts that the director has been appointed by it or represents it.
d) He/she is the spouse, or connected by a similar relationship, or related up to the second degree of kinship to a major shareholder.

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed at the request of shareholders whose holdings are below 3% of share capital:

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

Yes ☐ No ☒

C.1.9 Indicate whether any director has left their position prior to the completion of their mandate; whether the director has explained their reasons to the Board, and by what means; and, in the event that the written communication was sent to the whole of the Board, explain the reasons given:

Name of the director:

MR FEDERICO GONZÁLEZ TEJERA

Reason for departure:

Although the General Shareholders' Meeting of 21 June 2016 renewed the position of Mr. Federico González Tejera as Executive Director, at the following Board of Directors meeting, the two-third majority required under Article 249.2 of the Capital Companies Act was not met, thus he ceased to hold his executive position. Pursuant to Article 37.2 of the company's articles of association, which stipulates that "Directors must relinquish their office to the Board of Directors and present a formal resignation when they cease to hold the executive positions that were the motive for their appointment as Director", in compliance with said precept, Mr. González Tejera was required to submit and present a formal resignation, as it was then done.

Name of the director:

MR CHARLES MOBUS

Reason for departure:

Mr. Charles Mobus departed upon the agreement of the General Shareholders' Meeting of 21 June 2016 by a sufficient majority.

Name of the director:

MR HAIBO BAI

Reason for departure:

Mr. Haibo Bai departed upon the agreement of the General Shareholders' Meeting of 21 June 2016 by a sufficient majority.

Name of the director:

MR XIANYI MU

Reason for departure:

Mr. Xianyi Mu departed upon the agreement of the General Shareholders' Meeting of 21 June 2016 by a sufficient majority.

Name of the director:

MR LING ZHANG

Reason for departure:

Mr. Ling Zhang departed upon the agreement of the General Shareholders' Meeting of 21 June 2016 by a sufficient majority.

C.1.10 Indicate, if applicable, the powers delegated to the Executive Director(s):

C.1.11 Identify, if applicable, the members of the Board that hold administrative or management positions in other companies that form part of the group of the listed company:

Name or company name of Director	Company name of group company	Position	Do they have executive duties?
MR FRANCISCO JAVIER ILLA RUIZ	COPERAMA HOLDING, S.L.	CHAIRMAN AND DIRECTOR	NO
MR FRANCISCO JAVIER ILLA RUIZ	COPERAMA SPAIN, S.L.	CHAIRMAN AND DIRECTOR	NO

C.1.12 State, if applicable, the directors of your company that are members of the Board of Directors of other entities listed on official stock exchanges, other than companies in your group, which the company has been notified of:

Name or company name of Director	Company name of group company	Position
MR ALFREDO FERNANDEZ AGRAS	MERLIN PROPERTIES SOCIMI, S.A.	DIRECTOR
MR CARLOS GONZALEZ FERNANDEZ	SOTOGRANDE, S.A.	DIRECTOR
MR CARLOS GONZALEZ FERNANDEZ	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR
MR JOSE MARÍA LÓPEZ ELOLA	CADOGAN 37 SICAV, S.A.	DIRECTOR
MRS. KORO USANDIZAGA UNSAIN	CAIXABANK, S.A.	DIRECTOR

C.1.13 State, and if applicable explain, if the company has rules on the number of boards that its directors may belong to:

Yes [X] No [ ]

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

C.1.14 Paragraph repealed.

C.1.15 State the overall remuneration of the Board of Directors:

Remuneration of the Board of Directors (€ thousands)	1,248
Amount of pension rights accumulated by the current Directors (€ thousands)	0
Amount of pension rights accumulated by the ex-Directors (€ thousands)	0

C.1.16 Identify members of senior management who are not also Executive Directors, and indicate their total remuneration for the year:

Name or company name	Position
MR RAMÓN ARAGONÉS MARÍN	GENERAL MANAGER, OPERATIONS
MR JESUS IGNACIO ARANGUREN GONZALEZ-TARRÍO	GENERAL MANAGER, ASSETS AND REVENUE
MR ISIDORO MARTINEZ DE LA ESCALERA	GENERAL MANAGER, MARKETING
MR RUFINO PÉREZ FERNANDEZ	GENERAL MANAGER, RESOURCES
MS BEATRIZ PUENTE FERRERAS	CHIEF FINANCIAL OFFICER
MR CARLOS ULECIA PALACIOS	GENERAL SECRETARY
MR FERNANDO VIVES SOLER	GENERAL MANAGER, SALES

Total remuneration of senior management (€ thousands)	3,668

C.1.17 State, if applicable, the identity of Board members who are also members of the Board of Directors of companies of significant shareholders and/or entities in their group:

Name or company name of Director	Company name of major shareholder	Position

Provide details, if applicable, of the relevant relationships other than those included in the previous heading, of the members of the Board of Directors with major shareholders and/or in entities of their Group:

Name or business name of the associated Director:

MR JOSE ANTONIO CASTRO SOUSA

Name or business name of the related major shareholder:

GRUPO INVERSOR HESPERIA, S.A

Description of relationship:

NATURAL PERSON REPRESENTING THE JOINT AND SEVERAL ADMINISTRATOR EUROFONDO, S.A.

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

Yes [X] No [ ]

Description of changes
At its meeting of 21 June 2016 and at the proposal of the Chairman of the Board of Directors and the Chairman of the Appointments, Remuneration and Corporate Governance Committee, pursuant to the provision of Article 3 of the Board of Directors' rules, the BoD approved the amendment of Articles 24, 25 and 26 of the Rules, with a view to adapting its content to best corporate governance practices. In this regard, the authority to attend and participate in the meetings of the Executive Committee and the Appointments, Remuneration and Corporate Governance Committee, with the right to speak but not vote, was removed from those Directors who, having voiced an interest in doing so, were authorised by the Board of Directors to do so, including, where applicable, the option of the non-member Directors attending meetings on a one-off basis at the invitation of the Chairman of each Committee.

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

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

Proposals for appointments or the re-election of members of the Board of Directors is the responsibility of the Appointments, Remuneration and Corporate Governance Committee in the case of independent directors and is the responsibility of the Board itself for all other cases. Proposals should always be accompanied by a report from the Board assessing the proposed candidate's competence, experience and merits, which will be attached to the minutes of the General Shareholders' Meeting or that of the Board.

Proposals for appointing or re-electing any non-independent Director must also be preceded by a report from the Appointments, Remuneration and Corporate Governance Committee.

The Board of Directors must ensure that the selection process for its members favours diversity in terms of gender, experience and knowledge and does not suffer from implicit biases that may lead to any type of discrimination and, particularly, that it facilitates the selection of female directors.

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

The Board of Directors will propose or designate people who meet the requirements set out in article 9.3.2 of the Regulation of the Board of Directors to cover the position of independent directors.

In any event, those subject to any incapacity, disqualification, prohibition or conflict of interests set forth in current legislation may not be proposed for appointment as Board members.

All those directly or indirectly holding interests of any type or that have an employment, professional or mercantile relationship, or relations of any other type with competitor companies, shall be considered as incompatible for the position of director, except when the Board of Directors, with a favourable vote of at least 70% of its members, agrees to set aside this condition. The above is without prejudice to any other waiver that, in compliance with current legislation, the General Shareholders' Meeting had to provide.

C.1.20 Explain how far the annual assessment of the board has led to important changes in its internal organisation, and on the procedures applicable to its activities:

Description of changes
The self-assessment undertaken each year by the Board of Directors has served to identify opportunities for improvement in 2017. The resulting areas of improvement are fundamentally linked to the planning of Committees and the improvement of specific operational aspects of the Executive Committee. Below are the specific action plans for each opportunity for improvement. The plans will be implemented in 2017. 1. Seek methods that allow the Board of Directors to discuss and reflect on issues concerning strategy and the long term. 2. Systematically introduce information on the perception of investors in the agenda. 3. Reinforce the contribution of the Board of Directors in the guidance and supervision of risks. 4. Reflect on the composition of the Executive Committee. 5. Develop guidance and training actions for the Board of Directors and, specifically, for new directors. 6. Review the content of the reports produced by the Board of Director's committees and, in particular, the Executive Committee. 7. Reinforce the annual planning of meetings and their agenda. 8. Expand the duration of the Appointments, Remuneration and Corporate Governance Committee's meetings.

C.1.20.bis Describe the assessment process and the areas that have been assessed by the board of directors aided, as appropriate, by an external consultant, with respect to the diversity of its composition and duties, the functioning and composition of its committees, performance of the Chairman of the Board of Directors and the Chief Executive of the company and the performance and contribution of each director.

The Board of Directors at NH Hotel Group has collaborated with KPMG, an independent, specialist firm, to respond to Recommendation 36 of the Code of Good Governance of Listed Companies of the Spanish National Securities Market Commission.

The survey addressed the following topics:

A) Methodology of Board of Director and Committee meetings

- Board of Directors
- Executive Committee
- Audit Committee
- Appointments, Remuneration and Corporate Governance Committee

B) Corporate Governance

- Functioning
- Information
- Roles of the Board
- Information to Third Parties

C) Strategic Planning

D) Operational and Financial Supervision

- Time
- Procedures
- Audit Committee Information
- Risk Identification and Supervision

C.1.20 b Break down, as appropriate, the business relationship that the consultant or any company within its group maintains with the company or any company in its group.

Insignificant business relationships that consist of sporadic consulting on very specific issues, which arise occasionally from the matters dealt with by the Appointments, Remuneration and Corporate Governance Committee.

C.1.21 Indicate cases in which Directors are compelled to resign.

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

Article 14.2 of the Regulations of the Board of Directors also stipulates that Directors shall place their office at the disposal of the Board of Directors and tender their resignation in any of the following circumstances:

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

b) Where they are subject to any incapacity, disqualification, prohibition or conflict of interests established in current legal provisions.

c) Where they are seriously reprimanded by the Appointments, Remuneration and Corporate Governance Committee for failing to comply with any of their obligations as Directors.

d) When their continued presence on the Board may affect the good standing or reputation that the Company enjoys in the market, or put its interests at risk in any other way. In this case, the Director must immediately inform the Board of the facts or procedural difficulties that affect said reputation or risk.

C.1.22 Paragraph repealed.

C.1.23 Are reinforced majorities other than those applicable by law required for any type of decision?:

Yes [X] No [ ]

If so, describe the differences.

Description of the differences
For the appointment of Directors with direct or indirect interests of any type in, or an employment, professional, commercial or any other relationship with competitor companies, a vote in favour by 70% of the Board members is required (Article 11.3 of the Board regulations).

C.1.24 Explain if there are any specific requirements, other than those relating to Directors, to be appointed Chairman of the Board of Directors.

Yes ☐ No ☒

C.1.25 Indicate whether the Chairman has the casting vote:

Yes ☒ No ☐

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

C.1.26 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

Yes ☐ No ☒

C.1.27 State whether the articles of association or the Board Regulations establish a limited mandate for Independent Directors, other than as provided for in the legal regulations:

Yes ☐ No ☒

C.1.28 Indicate whether the Articles of Association or the Regulations of the Board of Directors establish specific rules for delegating votes to the Board of Directors, how this should be done, and in particular, the maximum number of delegations any Director may have, and whether there is any limit as to the director category to which votes may be delegated, other than the limitations imposed by law. If so, give a brief summary of these rules.

Article 13 of the Regulations of the Board establishes the rules for delegating votes, stipulating that "All shareholders entitled to attend may be represented at the Shareholders' Meeting by another party, even if that party is not a shareholder. The representation must be conferred under the terms and with the scope established by law, in writing and for each specific meeting... The documents in which such delegations or proxies for the General Meeting appear shall reflect voting instructions. If no such express voting instructions appear, it shall be construed that the proxy holder shall vote in favour of the proposals put forward by the Board of Directors for resolutions on the items included in the agenda. If no voting instructions have been given because the General Shareholders' Meeting will be voting on matters that, at the time the delegation was granted, were not included on the agenda and were therefore unknown, the representative may vote in the way they consider most benefits the interests of the Company. The same shall apply when the corresponding proposal or proposals put to the vote have not been drafted by the Board of Directors. Should the proxy or delegation document fail to indicate the specific person to whom the shareholder wishes to grant proxy, it shall be construed to have been granted to the Chairman of the Meeting or to the person they may designate... Representation will always be revocable. If the represented party attends the Meeting in person, the representation shall be deemed to be revoked."

As a result, any person (whether a shareholder or not) may be designated as a proxy, and if a specific person is not identified as a proxy, it shall be understood to have been granted to the Chairman of the meeting or to the person they may designate, without establishing a maximum number of delegations that any director may have.

C.1.29 Indicate the number of meetings that the Board of Directors has held over the year. Also indicate, as applicable, the number of times that the Board has met without its Chairman attending. The calculation of attendance includes representations made with specific instructions.

Number of Board meetings	19
Number of Board meetings not attended by the Chairman	0

If the Chairman is an executive director, indicate the number of meetings held with no attendance or representation of any executive director and under the chairmanship of the coordinating director.

Number of meetings	0

State the number of meetings held by the different Board Committees over the year:

Committe	No. of Meetings
EXECUTIVE COMMITTEE	13
AUDIT AND CONTROL COMMITTEE	8
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	0
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	10

C.1.30 State the number of meetings that the Board of Directors has held during the year with the attendance of all of its members. The calculation of non-attendance includes representations made with specific instructions:

Number of meetings attended by all the directors	18
Attendances as a percentage of total votes during the year	94.74%

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

Yes ☐ No ☒

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

C.1.32 Explain, if applicable, the mechanisms established by the Board of Directors to prevent the individual and consolidated annual accounts it draws up from being submitted to the General Meeting of Shareholders with qualifications in the auditors' report.

Article 41.2 of the Regulations of the Board establishes that the Board of Directors shall ensure the financial statements are drawn up definitively so that there is no need for auditor qualifications. Nevertheless, when the Board considers that its criteria should remain unchanged, it shall publicly explain the content and scope of the discrepancies.

C.1.33 Is the Secretary of the Board a Director?

Yes ☐ No ☒

If the secretary is not a director, complete the following table:

Name or company name of secretary	Representative
MR PEDRO FERRERAS DÍEZ	

C.1.34 Paragraph repealed.

C.1.35 State the mechanisms established by the Company, if any, to preserve the independence of external auditors, financial analysts, investment banks and rating agencies.

The Board of Directors has established a stable and professional relationship with the Company's external accounts auditor through the Audit and Control Committee, strictly respecting its independence. In this sense, article 25. b) of the Regulations of the Board of Directors expressly establishes that one of its responsibilities is to pass along to the Board of Directors proposals for selecting, appointing, re-electing and substituting external auditors, as well as conditions for their contracting and regularly collecting information from them on the audit plan and its execution, in addition to preserving its independence in exercising its functions. Furthermore, the Audit and Control Committee is responsible for establishing suitable relationships with auditors or audit firms in order to receive information regarding any issues that may jeopardise their independence, so that these can be examined by the committee, and any other matters related with the process of conducting financial audits, as well as any other communications stipulated in the financial auditing legislation and audit regulations. In any event, it must receive written confirmation on an annual basis from the auditors or auditing firms of their independence from the Company or entities related to it either directly or indirectly, as well as information on any additional service of any kind provided to such entities and the corresponding fees received by the aforementioned auditors or by persons related to them in accordance with the provisions set forth in legislation regarding auditing.

Likewise, every year, prior to issuing the audit report, the Audit and Control Committee must also issue a report in which it gives its opinion on the independence of the auditors or auditing firms. This report must always contain an assessment of the additional services referenced in the above paragraph, considered individually and together, that are separate from the legal audit and with regard to their independence and to audit regulations.

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

Yes ☐ No ☒

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

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

Yes ☒ No ☐

	Company	Group	otal
Amount for work other than auditing (€ thousands)	1.070	366	1.436
Amount for work other than audit work / otal amount invoiced by the audit firm (%)	80,33%	20,88%	46,55%

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

Yes ☐ No ☒

C.1.39 State the number of consecutive years in which the current audit firm has audited the annual accounts of the Company and/or its group. Also, indicate how many years the current audit firm has been auditing the accounts as a percentage of the total number of years over which the annual accounts have been audited.

	Company	Group
Number of consecutive years	15	15
Number of years audited by the current audit firm / Number of years that the company has been audited (%)	49,28%	49,28%

C.1.40 Indicate and, if applicable, provide details of whether there is a procedure whereby directors can receive external advice:

Yes [X] No [ ]

Details of the procedure
Article 28 of the Regulations of the Board of Directors expressly states that directors may request the use of legal, accounting or financial advisers, or other experts, paid for by the Company, to help them in the discharge of their duties. Such help must relate to specifically defined and complex problems that arise in the course of their work. The decision to employ such services must be communicated to the Chairman of the Company and implemented through the Secretary of the Board, unless the Board of Directors considers that such services are not necessary or appropriate.

C.1.41 Indicate and, if applicable, provide details of whether there is a procedure whereby Directors can have the information necessary to prepare for meetings of the management bodies with sufficient time:

Yes [X] No [ ]

Details of the procedure
According to article 21 of the Regulations of the Board, the announcement of the meeting, which will be published at least three days before the date of the meeting, will include a preview of the likely agenda for the meeting and will be accompanied by the necessary written information that is available. Furthermore, article 27 of the aforementioned Regulations indicates that Directors must diligently inform themselves of the Company's progress, and to that end, collect any necessary or pertinent information in order to correctly perform their duty. To this end, the Board has been assigned the broadest possible powers to gain information about any aspect of the Company; to examine its books, registers and documents and any other information concerning its operations. Said right to information is also extended to the various subsidiary companies that are included in the consolidated group, insofar as it is necessary for the Director to correctly perform their functions as referred to in article 6 of said Regulations. With the aim of not disturbing the Company's normal management, the exercise of the right to information will be channelled through the Chairman or Secretary of the Board of Directors, who will respond to requests from Directors by directly providing him/her the information or putting them in touch with the appropriate people in the suitable level of the organisation. With the aim of being assisted in the exercise of their functions, the Directors may obtain the necessary consulting from the Company to perform their functions. In special circumstances, they may even request that the Company hire legal, accounting or financial consultants or other experts. Such help must relate to specifically defined and complex problems that arise in the course of their work. The decision to employ such services must be communicated to the Chairman of the Company and implemented through the Secretary of the Board, unless the Board of Directors considers that such services are not necessary or appropriate.

C.1.42 State and, if applicable, provide details on whether the company has established rules that require directors to report and, as applicable, resign in those cases where the company's credibility and reputation may be harmed.

Yes [X] No [ ]

Explain the rules
One of the changes recently included in the Regulations of the Board has been the introduction of a mechanism that obliges the Directors to provide immediate notification of all legal proceedings in which they may be negatively affected. In this way, article 14.2.d) of the Regulations of the Board of Directors of NH Hotel Group, S.A., modified on 29 April 2015, expressly establishes that Directors shall place their office at the disposal of the Board of Directors and tender their resignation when their continued presence on the Board may affect the good standing or reputation that the Company enjoys in the market, or put its interests at risk in any other way. In this case, the Director must immediately inform the Board of the facts or procedural difficulties that affect said reputation or risk. It also establishes that in all events, those subject to any incapacity, disqualification, prohibition or conflict of interests set forth in current legislation may not be proposed for appointment as Board members.

C.1.43 State whether any member of the Board of Directors has notified the Company that they have been prosecuted or issued with a summons for oral proceedings in relation to the offences indicated in Article 213 of the Spanish Capital Companies Act:

Yes [X] No [ ]

Name of the director:

MR JOSE ANTONIO CASTRO SOUSA

Criminal Proceedings:

Order dated 15 January 2015 to proceed to trial in the Proceedings abbreviated 91/2013 heard by Examining Magistrates' Court no. 4 of L'Hospitalet de Llobregat for alleged crimes referred to in article 213 of the Corporate Enterprises Act.

Remarks:

Pending legal ruling.

Name of the director:

MR FRANCISCO JAVIER ILLA RUIZ

Criminal Proceedings:

Order dated 15 January 2015 to proceed to trial in the Proceedings abbreviated 91/2013 heard by Examining Magistrates' Court no. 4 of L'Hospitalet de Llobregat for alleged crimes referred to in article 213 of the Corporate Enterprises Act.

Remarks:

Pending legal ruling.

State whether the Board of Directors has studied the case. If so, give a reasoned explanation of the decision as to whether or not the Director should continue in his or her post, or if applicable, describe the actions taken by the Board of Directors up to the date of this report, or those it intends to take.

Yes [X] No [ ]

Decision made/action taken:

On 11 November 2015 the Board analysed the case, without adopting any decision in that regard, under the constitutional principle of presumption of innocence and considering that their continued presence on the Board does not affect the Company's standing or reputation, nor does it put its interests at risk in any way.

Reasoned explanation:

The Board, at its meeting on 11 November 2015 analysed the case and was informed of the legal framework to be considered (art. 24.2 of the Spanish Constitution, articles 213 and 223 of the Corporate Enterprises Act, articles 37.2 d) of the Articles of Association and 14.2.d) of the Regulations of the Board of Directors, as well as recommendation 22 of the Code of Good Governance of Listed Companies), and unanimously decided to acknowledge the information offered by the Directors, without adopting a decision in that regard, under the constitutional principle of presumption of innocence and considering that their continued presence on the Board does not affect the Company's standing or reputation, nor does it put its interests at risk in any way.

C.1.44 List the significant agreements signed by the company and that come into force, are modified or are terminated in the case of a change in control of the company resulting from a take-over bid, and their effects.

The NH Hotel Group has signed several financing contracts that contain a clause establishing their early maturity in the event of circumstances that give rise to a change in control of the company NH Hotel Group, S.A.

Additionally, NH Hotel Group, S.A. has issued guaranteed senior bonds, as well as convertible bonds on 08 November 2013, in addition to the guaranteed senior bond issue on 23 September 2016, which contain certain consequences in the case of a change of control in the Issuer, such as the possibility that NH Hotel Group, S.A. may be required to repurchase the senior bonds or adjust the conversion price for convertible bonds.

There are also hotel management contracts signed by Group subsidiaries in which the owner (or leasing company) of the hotels may exercise the power to dissolve said contracts in the case of a change of control of NH Hotel Group S.A. If they exercise this power, the hotel owner must pay the management company a sum that varies depending on when the compensation resulting from the dissolution of the contract is provided. Therefore, for example, it is established in management contracts between Hoteles Hesperia, S.A. (which is 99% owned by NH Hoteles España, S.L.) and the respective owners of the hotels in question that in the event of a change of control at NH Hotel Group, S.A., the owner may opt to terminate the management contract, but would have to pay Hoteles Hesperia, S.A., an amount related to the Average Annual Earnings, as defined in the contracts.

C.1.45 Identify, in aggregate form, and indicate in detail the agreements between the company and its directors, managers or employees providing compensation, guarantee or protection in the event of their resignation or wrongful dismissal, or upon conclusion of the contractual relationship due to a take-over bid or other transactions.

Number of beneficiaries: 3

Type of beneficiary:

Certain members of Senior Management and other employees.

Description of Agreement:

In order to encourage loyalty and permanence in the Company, compensation has been provided for which may be more than the amount resulting from applying legal regulations, in the event of unilateral termination by the Company. These amounts range from one year's fixed salary to two years' total salary, i.e., fixed plus variable pay received over the last two years.

Indicate whether these contracts must be communicated to, and/or approved by the governing bodies of the company or its group:

	Board of Directors	General Shareholders' Meeting
Body that authorises the clauses	Yes	No

	Yes	No
Is the General Shareholders' Meeting notified of the clauses?		X

C.2 Committees of the Board of Directors

C.2.1 List all the committees of the Board of Directors, their members and the proportion of Executive, Proprietary, Independent and other external Directors thereon:

EXECUTIVE COMMITTEE

Name	Position	Category
MR JOSE ANTONIO CASTRO SOUSA	CHAIRMAN	Proprietary
MR ALFREDO FERNANDEZ AGRAS	DEPUTY CHAIRMAN	Proprietary
MR CARLOS GONZALEZ FERNANDEZ	MEMBER	Independent
MR FRANCISCO JAVIER ILLA RUIZ	MEMBER	Proprietary
MR PAUL JOHNSON	MEMBER	Other External

% of Proprietary Directors	60.00%
% of Independent Directors	20.00%
% of other external directors	20.00%

Explain the functions of this committee, describe its organisational and working procedures and rules and summarise its most important activities during the financial year.

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

In terms of the qualitative composition of the Executive Committee, the Board shall ensure that the different types of director represented will be similar to that of the main Board and its secretary will be the secretary of the Board. The Chairman of the Executive Committee shall be chosen by the body itself from the Directors that comprise it. The Chairman of the Executive Committee may be a director other than the Chairman of the Board of Directors.

The Chairman of the Executive Committee shall alternate turns presiding the General Shareholders' Meeting with the Chairman of the Board of Directors.

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

Given its delegated powers, the Executive Committee will resolve all those issues not reserved for the exclusive competency of the plenary Board of Directors by law or the Articles of Association, reporting to the Board.

The Executive Committee will provide prior examination of those issues submitted to the plenary Board of Directors which have not been previously examined or proposed by the Appointments, Remuneration and Corporate Governance Committee or the Audit and Control Committee

The Executive Committee has the mission of providing perspective and a broad vision both to the Board of Directors and the executive team, providing their experience in the preparation of relevant materials, training and guidance on matters that are key to the Company's future, thereby facilitating the Board of Directors' decision-making process in the matters of their competence.

The Executive Committee may apply said function to matters such as:

1. Investments and financing
2. Strategy for acquisitions and identifying possible objectives
3. Business model
4. Cost structure
5. Long-term vision in asset management
6. Group structure

The Executive Committee will meet as many times as it is convened by its Chairman, and its Secretary and Deputy Secretary will be those who perform the identical positions on the Board of Directors. The Executive Committee shall be validly convened when half plus one of its members with a right to vote are present or represented at the meeting.

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

Furthermore, non-member Directors may attend Executive Committee meetings on a one-off basis, when invited by the Chairman of the Committee.

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

State whether the composition of the delegate or executive committee reflects the participation on the Board of different categories of directors:

Yes ☐ No ☒

If not, explain the composition of the Delegate or Executive Committee
The Executive Committee is made up of three Proprietary Directors, one Independent Director and one Director classed as "Other External". Although the Secretary and Deputy Secretary of the Executive Committee serve in the same positions on the Board of Directors, the composition of the Executive Committee is not the same as the Board in terms of the different categories of Directors.

AUDIT AND CONTROL COMMITTEE

Name	Position	Category
MS KORO USARRAGA UNSAIN	CHAIRMAN	Independent
MR CARLOS GONZALEZ FERNANDEZ	MEMBER	Independent
MR FRANCISCO JAVIER ILLA RUIZ	MEMBER	Proprietary
MR FERNANDO LACADENA AZPEITIA	MEMBER	Other External
MR FRANCISCO ROMAN RIECHMANN	MEMBER	Independent

% of Proprietary Directors	20.00%
% of Independent Directors	60.00%
% of other external directors	20.00%

Explain the functions of this committee, describe its organisational and working procedures and rules and summarise its most important activities during the financial year.

The Audit and Control Committee shall comprise a minimum of three and a maximum of six directors, appointed by the Board of Directors. All members sitting on said Committee shall be External Directors, the majority of whom, at least, must be independent directors, and one of whom must be designated by taking into consideration their knowledge and experience in accounting, auditing, or both.

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

The Audit Committee will have at least the following responsibilities:

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

2.Supervise the effectiveness of the company's internal control, internal auditing, where applicable, and risk-management (including tax risk) systems, as well as discussing with auditors or audit companies any significant weaknesses in the internal control system identified during audits.

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

4.Pass along to the Board of Directors proposals for selecting, appointing, re-electing and substituting external auditors, as well as conditions for their contracting and regularly collecting information from them on the audit plan and its execution, in addition to preserving its independence in exercising its functions.

5.Establish suitable relationships with auditors or audit firms in order to receive information regarding any issues that may jeopardise their independence, so that these can be examined by the committee, and any other matters related with the process of conducting financial audits, as well as any other communications stipulated in the financial auditing legislation and audit regulations. In any event, it must receive written confirmation on an annual basis from the auditors or auditing firms of their independence from the Company or entities related to it either directly or indirectly, as well as information on any additional service of any kind provided to such entities and the corresponding fees received by the aforementioned auditors or by persons related to them in accordance with the provisions set forth in legislation regarding auditing.

6.Issue, once a year and prior to the release of the auditor's report on the financial statements, a report expressing an opinion on the independence of the auditors or audit firms. This report must always contain an assessment of the additional services referenced in the above paragraph, considered individually and together, that are separate from the legal audit and with regard to their independence and to audit regulations.

7.Provide previous information for the Board of Directors on all matters established by law, the articles of association and in the Regulation of the Board, and, in particular on:

1. the financial reports that the company must periodically publish;
2. the creation or acquisition of any equity investments in special purpose vehicles and companies registered in tax havens; and
3. related party operations.

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

9.Set up and oversee a mechanism that allows employees confidentially and anonymously to report any breaches of the Code of Conduct

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

The Audit and Control Committee will meet at least once every quarter and as many times as may be necessary, after being called by the Chairperson on their own initiative or upon the request of two of the Committee or the Board of Directors.

The Audit and Control Committee may require any of the Company's employees or managers, including the Company's Accounts Auditor, to attend its meetings.

Through its Chairman, the Audit and Control Committee will give the board an account of its activities and work done, either at the meetings scheduled for the purpose or at the very next meeting when the Chairman of the Audit and Control Committee deems it necessary. The minutes of its meetings will be available to any member of the board that requests them.

Non-member Directors may attend Audit and Control Committee meetings on a one-off basis, when invited by the Chairman of the Committee.

Identify the director appointed as member of the audit committee taking into account their knowledge and experience of accountancy, auditing, or both, and report on how many years the chairman of this committee has held the post.

Name of the experienced director	MS KORO USARRAGA UNSAIN
No of years chairman in post	1

APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE

Name	Position	Category
MR FRANCISCO ROMAN RIECHMANN	CHAIRMAN	Independent
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	MEMBER	Other External
MR ALFREDO FERNANDEZ AGRAS	MEMBER	Proprietary
MR FRANCISCO JAVIER ILLA RUIZ	MEMBER	Proprietary
MR JOSE MARÍA LÓPEZ ELOLA	MEMBER	Independent
MS KORO USARRAGA UNSAIN	MEMBER	Independent

% of Proprietary Directors	33.33%
% of Independent Directors	50.00%
% of other external directors	16.67%

Explain the functions of this committee, describe its organisational and working procedures and rules and summarise its most important activities during the financial year.

The Appointments, Remuneration and Corporate Governance Committee shall comprise a minimum of three and maximum of six Directors and shall be exclusively non-executive directors appointed by the Board of Directors, two of whom, at least, must be Independent Directors. The Chairman of the Committee shall be chosen by the Independent Directors that comprise it.

The Appointments, Remuneration and Corporate Governance Committee will have at least the following responsibilities:

1. Evaluate the skills, knowledge and experience necessary on the Board of Directors. For these purposes, it shall define the abilities and functions required by candidates to cover each vacancy, and assess the time and dedication required to correctly carry out their functions.

2. Establish a representation goal for the less represented sex on the Board of Directors and create guidelines for how to achieve said goal.

3. Pass along to the Board of Directors proposals for appointments of Independent Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for the re-election or removal of said Directors by the General Shareholders' Meeting.

4. Inform the Board of proposals for appointments of remaining Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for their re-election or removal by the General Shareholders' Meeting.

5. Provide notification of proposals for appointing or removing senior management and the basic conditions of their contracts.

6. Examine or organise the Chairman of the Board's and the chief executive's succession and, if appropriate, bring proposals before the Board so that such successions are effected in an orderly fashion.

7. Propose to the Board of Directors the remuneration policy for the directors and general managers or for those who perform functions of upper management directly reporting to the Board, Executive Committee or Chief Executives, as well as the individual remuneration and other contractual conditions for the Chief Executives, ensuring compliance therewith.

8. Supervise and monitor compliance with corporate governance rules and with the corporate social responsibility policy and plan, proposing any necessary Reports to the Board.

9. Periodically evaluate the suitability of the corporate governance system, with the aim of ensuring that it fulfils its mission of promoting the company's interests.

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

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

Furthermore, non-member Directors may attend Appointments, Remuneration and Corporate Governance Committee meetings on a one-off basis, when invited by the Chairman of the Committee.

C.2.2 Fill in the table below with the information relating to the number of female directors on Board of Directors' committees in the last four financial years:

	Number of female directors							
	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
EXECUTIVE COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
AUDIT AND CONTROL COMMITTEE	1	20.00%	1	20.00%	0	0.00%	1	0.00%
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	1	16.70%	1	20.00%	0	0.00%	1	33.33%

C.2.3 Paragraph repealed

C.2.4 Paragraph repealed.

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

The Company Articles of Association (Articles 45 - 48), and the Regulations of the Board of Directors (Articles 23 - 26) comprehensively cover all regulations relating to the Board's Committees. The aforementioned internal regulations of the Company are available on the company website (www.nh-hotels.es), in the section "Information for Shareholders" - "Corporate Governance". Said website also includes all information regarding the composition of each Committee.

On 21 June 2016, at the proposal of the Chairman of the Board and the Chairman of the Appointments, Remuneration and Corporate Governance Committee, pursuant to the provision of Article 3 of the Board of Directors' rules, the Board of Directors approved the amendment of Articles 24 and 26 of the Rules, with a view to adapting its content to best corporate governance practices. In this regard, the authority to attend and participate at the meetings of the Executive Committee and the Appointments, Remuneration and Corporate Governance Committee, with the right to speak but not vote, was removed from those Directors who, having voiced an interest in doing so, were authorised by the Board of Directors to do so, including, where applicable, the option of the non-member Directors attending meetings on a one-off basis at the invitation of the Chairman of each Committee.

The Audit and Control Committee and the Appointments, Remuneration and Corporate Governance Committee annually issue a report on the activities they have carried out during the financial year.

C.2.6 Paragraph repealed.

D RELATED AND IN-GROUP TRANSACTIONS

D.1 Explain the procedure, if any, to approve transactions with related parties and parties within the group.

Procedure for reporting approval of related party transactions
Articles 33.1.c) of the Articles of Association and 5.5 c) of the Board Regulations assign the Board of Directors the duty of approving related party transactions, understood to be transactions between the Company and Directors, significant shareholders or bodies represented on the Board, or people associated with them, as defined in the LSC. This approval will follow a Report by the Audit and Control Committee (Article 48.4 of the articles of association and 25 b) of the Board Regulations).

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

1. That are carried out under agreements with standardised conditions and are applied in a general way to numerous clients;
2. That are carried out at generally established rates or prices, set by the supplier of the good or service;
3. For an amount not exceeding 1% of the company's annual revenues.

Additionally, on 26 March 2014 the Board of Directors approved a Procedure on Conflicts of Interest and Related Party Transactions, available on the Company's website, which includes the approval of such transactions in greater detail. In this way, the aforementioned Procedure implements the provisions of the Regulations of the Board of Directors and the Internal Code of Conduct on the Securities Market of the NH Hotel Group, S.A., and aims to detail the rules to be followed in those transactions the Group performs with Directors, with people subject to rules of conflict of interest, or with major shareholders. Said Procedure establishes in detail everything relative to i) the written communication that must be submitted by shareholders or Directors regarding transactions to be performed by them or their respective associates to the Secretary of the Board of Directors, who will send it to the Audit and Control Committee periodically for its review and, if necessary, to be passed along to the Board, provided that it does not fall within the pre-established criteria of cases that do not have to be submitted to the Board; and ii) the obligation of maintaining a registry of said transactions.

D.2 List transactions which are significant for their amount or relevant due to their subject, between the company or entities in its group, and significant shareholders of the company:

Name or business name of the major shareholder	Name or company name of the company or group company	Nature of the relationship	Type of transaction	Amount (thousand of euros)
GRUPO INVERSOR HESPERIA, S.A	HOTELES HESPERIA, S.L.	Contractual	Management contracts	815

D.3 List transactions which are significant for their amount or relevant due to their subject, between the company or entities in its group, and the managers or directors of the company:

D.4 Report on the significant transactions carried out by the company with other entities belonging to the same group, provided they are not eliminated in the process of drafting the consolidated financial statements and do not form part of the Company's normal business in relation to its purpose and conditions.

In all cases, any in-group transaction with entities established in countries or territories considered tax havens will be reported:

Business name of the entity in its group:

SOTOCARIBE, S.L.

Amount (€ thousands): 5,955

Brief description of the transaction:

LOAN

Business name of the entity in its group:

CONSORCIO GRUPO HOTELERO T2

Amount (€ thousands): 244

Brief description of the transaction:

LOAN

D.5 State the amount of the transactions carried out with other related parties.

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

Article 32 of the Regulations of the Board establishes the duty of loyalty and the duty to prevent situations of conflict of interest that the Directors must comply with. Thus, the aforementioned article states that Directors must perform their duties with the loyalty of a faithful representative, operating under good faith and in the Company's best interest. In particular, the duty of loyalty obliges Directors to:

a) Not exercise their powers for purposes other than those for which they have been conceded.

b) Keep the information, data, reports or background that they have had access to in the performance of their duty confidential, even when they have left the position, except for cases where allowed or required by the law.

c) Abstain from participating in the deliberation and voting for agreements and decisions in which they or an associate have a direct or indirect conflict of interests. Those agreements or decisions that affect their position as a Director shall be excluded from the above requirement to abstain, such as their selection or removal for positions in the administration body or others of similar significance.

d) Perform their duties under the principle of personal responsibility with freedom of criteria or judgement and independence with regard to instructions from and connections to third parties.

e) Adopt the necessary measures for avoiding situations in which his/her interests may enter into conflict with the company's interests and with his/her responsibilities to the company.

In particular, avoiding the situations of conflict of interest referred to in the above letter e), obliges the Director to abstain from:

i) Carrying out transactions with the Company, except where they were ordinary transactions carried out under standard conditions for clients and of little importance, with these being understood to be those whose information is not necessary to express the true image of the equity, financial situation and profit and loss of the company.

ii) Using the Company name or their position as director to unduly influence the completion of private transactions.

iii) Making use of company assets, including confidential Company information, for private purposes.

iv) Exploiting the Company's business opportunities.

v) Receiving benefits or remuneration from third parties other than the Company and its Group of associate companies while carrying out my duties, except where these were mere acts of courtesy.

vi) Carrying out activities on their own account, or for third parties, which would entail either actual or potential effective competition with the Company or which, in any other way, would place them in permanent conflict with the Company's interests.

The above provisions shall also be applicable in the case that the beneficiary of the prohibited acts or activities is an associate of the Director, in accordance with the definition provided in article 231 LSC.

The Company may waive the prohibitions set out in this article, as established in article 230 LSC.

In any event, directors must notify the Board of Directors of any direct or indirect situation of conflict of interest that they or their associates may have with the Company.

Situations of conflict of interest involving Directors will be subject to inclusion in the Annual Report.

For the purposes of the provisions of this Regulation, associates are defined as those persons referred to in Article 231 of the Revised Text of the LSC.

Additionally, on 26 March 2014 the Board of Directors approved a Procedure on Conflicts of Interest and Related Party Transactions, available on the Company's website, which includes the approval of such transactions in greater detail. In this way, the aforementioned Procedure implements the provisions of the Regulations of the Board of Directors and the Internal Code of Conduct on the Securities Market of the NH Hotel Group, S.A., and aims to detail the rules to be followed when the Company's interests or those of any of its Group's companies directly or indirectly clash with a Director's personal interests. Said Procedure establishes in detail everything relative to i) the obligation of communicating possible situations of conflict of interest to the Secretary of the Board, who will send them to the Audit and Control Committee periodically; ii) the obligation of the affected Director to abstain from attending and intervening in the phases of deliberation and voting regarding those matters in which they are involved in a conflict of interest, both in meetings of the Board of Directors as well as before any other company body, committee or board that participates in the corresponding transaction or decision, and iii) the obligation of keeping a registry of said transactions.

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

Yes ☐ No ☒

Identify the affiliate companies listed in Spain:

Listed Subsidiary Company

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

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

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

Mechanisms for resolving possible conflicts of interest

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the company´s Risk Management System, including tax risks.

The NH Hotel Group (hereinafter NH Group) risk management system is applicable to all the companies over which NH has effective control.

NH's risk management system aims to identify events that may negatively affect achievement of the objectives of the company's strategic plan, providing the maximum level of assurance to shareholders and stakeholders and protecting the group's revenue and reputation.
The model set up to manage risks is based on the ERM (Enterprise Risk Management) methodology and includes a set of methodologies, procedures and support tools which enable NH to:
1. Identify the most significant risks that could affect achievement of strategic objectives
2. Analyse, measure and assess such risks depending on their probability of occurrence along with their impact, which is assessed from a financial and reputational point of view
3. Prioritise such risks
4. Identify measures to mitigate such risks based on the group's risk appetite. This is firmed up by defining risk managers and setting up action plans agreed by the Management Committee.
5. Monitor mitigation measures set up for the main risks
6. Periodically update risks and their assessment

Such methodologies and procedures are also used in relation to tax risk management.
NH Group has a Corporate Tax Strategy that forms part of the Group's Corporate Governance System, the objective of which is to establish the values, principles and rules that must govern the Group's activities in terms of tax, with a Tax Risk Management and Control Procedure.

E.2 Identify the company bodies responsible for creating and implementing the Risk Management System, including tax risks.

Board of Directors
The entity's Board of Directors is responsible for overseeing the risk management system, in line with the provisions of Article 5 of the Regulation of the Board of Directors, including tax risks.

Audit and Control Committee
As regulated by paragraph 3 of article 25 b) of the Regulation of the company's Board of Directors, the Audit and Control Committee supports the Board of Directors in supervising the effectiveness of the Company's internal control, internal audit, if appropriate, and the risk management systems, including tax risks, in addition to discussing significant weaknesses in the internal control system detected during audit with the auditors of accounts or audit firms.

Management Committee
The Management Committee meets weekly and is made up of the Chief Officers or heads of general management for each area. The Management Committee's duties include, amongst others, risk management and control based on the risk appetite. Tax risk control falls to the Finance department.

Since June 2016, the Management Committee has received the results of Key Risk Indicators (KRIs) for the main risks on a monthly basis, and then makes decisions on action plans to be implemented to mitigate risks.

Furthermore, NH has the following committees:

Revenue Committee: In charge of monitoring revenue and defining such action plans as needed to achieve objectives based on the forecast of future demand.
Assets Committee: Reviews the optimisation of hotel spaces, rent renegotiations and the exit plan from NH's portfolio.
Expansion Committee: In charge of scrutinising investment opportunities and managing risks associated with investment portfolio management.
Investment Committee: In charge of monitoring and controlling risks related to hotel refurbishment and re-branding projects.
Experience and Innovation Committee: In charge of monitoring the implementation of experience improvement initiatives, their results and proposing new projects.
Pricing Committee: In charge of monitoring the implementation of pricing and revenue management strategy, its results and proposing improvements.
Results Committee. Response for monitoring the income statement, detecting deviances and implementing measures to resolve them.
Operating Model Committee: In charge of monitoring the implementation of the new operating model, in addition to ensuring efficiency in terms of inherent costs.
Transformation Committee: In charge of monitoring the implementation of the Group's transformation plan, which encompasses organisational changes to processes and systems. In charge of new projects that require systems developments.
Joint Venture China Project Committee: In charge of monitoring the JV in China and the development of the actions required from NH Hotel Group to ensure it is successful.

Finance Department
The Finance Department is the department responsible for establishing the design, implementation and comprehensive monitoring of the Group's internal Financial Reporting control system. The Corporate Tax Department forms part of the Finance Department and is responsible for designing, implementing and monitoring the Group's Tax Risk Management.

Strategy Department
The Strategy Department is in charge of overseeing all strategic initiatives using Key Performance Indicators (KPIs).

Risk and Compliance Function
The Risk and Compliance function, which is part of the Internal Audit department, is in charge of drawing up the Corporate Risk Map, presenting the results of risk indicators on a monthly basis and overseeing the action plans agreed with each risk manager and their association with strategic objectives.
In 2016, the risk map and action plans to mitigate the main risks have been updated and the KRIs for main risks defined, setting tolerance levels for each risk. Said KRIs are measured on a monthly basis and reported to the Management Committee in order to assess action plans implemented and propose additional action plans, where necessary. Currently, work is ongoing to implement a tool that offers support and automates the risk identification and assessment process.

E.3State the main risks, including tax risks, which may affect business goal achievement.

a) Financial Risks, such as fluctuation of interest rates, exchange rates, inflation, liquidity, non-compliance with financing undertakings, restrictions on financing and credit management.
b) Compliance Risks, arising from possible regulatory changes, interpretation of legislation, regulations and contracts, and non-compliance with internal and external regulations. Tax and environmental risks are included under this heading. It also covers Reputational Risks, arising from the company's behaviour which negatively affects fulfilment of the expectations of one or more of its stakeholders (shareholders, customers, suppliers, employees, the environment and society in general).
c) Business Risks generated by inadequate management of procedures and resources, whether human, material or technological. This category includes the difficulty of adapting to changes in customer demands and requirements, including those resulting from External Risks caused by natural disasters, political instability or terrorist attacks.
d) Systems Risks, produced by attacks or faults in infrastructures, communications networks and applications that may affect security (physical and logical) and the integrity, availability or reliability of operational and financial information. This heading also includes business interruption risk.
e) Strategic Risks, produced by difficulty accessing markets and difficulties in asset disinvestment.

E.4 State whether the entity has a risk tolerance level, including for tax risk.

NH Group has defined 42 KRIs for its 5 main risks that have been measured on a monthly basis since June 2016. Tolerance levels have been defined for each of the KRIs. When the KRI indicates a specific level of tolerance, the Risk owner is asked to define a mitigation measure to bring the level of risk to the desired level of control.
For tax matters, the Group acts in line with its Corporate Tax Strategy and the Tax Risk Management and Control Procedure.

On 11th November 2015 the Group has approved its adherence to the Code of Good Tax Practices that has been approved on the 20th July 2010 by the large Business Forum ("Foro de Grandes Empresas").

E.5 State which risks, including tax risks, have had an impact over the year.

The materialisation of risks is inherent to the activity carried out by the group. NH Group provides detailed information about its risks in its annual accounts, specifically in its management report. The risks that materialised during the financial year have not had a significant impact on NH Hotel Group's Financial Statements.

E.6Explain the response and supervision plans for the entity's main risks, including tax risks.

The design of the response to Risk takes into account the cost/benefit analysis between the impact of Risk and the actions to be taken to manage it, the appetite and tolerance for Risk and the strategic goals of the NH Group.
The NH Group follows an extensive coverage policy by taking out insurance policies for the risks to which it is exposed. It also has a policy of continuously reviewing this coverage.
The Strategy Department oversees the achievement of strategic goals by continuously monitoring strategic initiatives and detection of new risks.
The Internal Audit Department, in the exercise of its Risk and Compliance function, supervises implementation of response plans to manage the main risks.
The Management Committee supervises KRIs on a monthly basis. A follow-up is performed on the risk map action plans twice a year. The Risks Map is updated each year.
The Audit and Control Committee regularly carries out the following supervisory and control functions, as specified in Article 25 b) of the Regulation of the Board of Directors:
The Tax Department oversees the Group's tax risk management. The Group has approved a Tax Risk Management and Control Procedure in order to identify and, as far as possible, mitigate any tax risk that may arise in Spain or in the countries in which the Group operates.

F INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS (SCIIF)

Describe the mechanisms making up the risk control and management systems in relation to the process of issuing financial reports (SCIIF) on your company.

F.1 The company's control environment

Report, indicating the main characteristics of at least:

F.1.1. What bodies and/or areas are responsible for: (i) the existence and maintenance of an appropriate and effective financial reporting system; (ii) its implementation; (iii) its supervision.

The Financial Department is responsible for the design, implementation and overall monitoring of the Group's Internal Financial Reporting Control System. This means maintaining the necessary control structure and ensuring it functions effectively and continuously over time. The purpose of the internal control system is to provide the company with reasonable guarantees that the financial reports generated are reliable.
Since January 2016, the Finance Department has had a new function: internal control, within the Consolidation Department. A process began at the end of 2016 to transfer the definition and ownership of this System from Internal Auditing to this function. This process will end in 2017.

The company's Board of Directors is a supervision and control body and this responsibility is included in Article 5 of the Board Regulations. In order to carry out the oversight function described above, the Board of Directors turns to the Audit and Control Committee, which is obliged, through its internal auditing function, to supervise the process of drawing up and submitting regulatory financial information, as described in Article 25 of the Regulations of the Board of Directors.

F.1.2. If the following elements exist, particularly in relation to the financial report generation process:

- Departments and/or mechanisms responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining areas of responsibility and authority, with a suitable distribution of tasks and functions; and (iii) the existence of sufficient procedures for these to be properly disseminated within the entity

Defining and reviewing the organisational structure of the Group is the responsibility of the Management Committee. Significant changes to the organisation chart, i.e., those affecting senior management, are approved by the Board of Directors, after being proposed by the Appointments and Remuneration Committee. The organisation chart is available to all employees on the Group's intranet.

The lines of both hierarchical and operational responsibility are duly communicated to all the Group's employees, using internal Group communication channels, particularly the intranet, management meetings and the notice boards in place in each hotel.

In order to fulfil the objectives and responsibilities relating to maintenance and supervision of the Financial Reporting Control process, specific functions have been defined which apply to those responsible for each process involved with Financial Reporting, in order to ensure compliance with the implemented controls, analyse how well they function, and report any changes or incidents that may occur.

On an ascending scale of responsibility, this structure includes the supervisors of each process in the area of control, the directors of each business unit and the directors of each corporate area directly concerned with the processes related to the internal Financial Reporting Control System.

The Finance Department is entrusted with receiving information from the different individuals responsible for the process and is also responsible for ensuring correct operation of the Internal Control System.

- Code of conduct, the approval body, the degree of dissemination and instruction, included principles and values (indicating if there are specific mentions of the transactions register and the generation of financial reports), the body in charge of analysing breaches and proposing corrective actions and penalties.

The NH Group has had a Code of Conduct since 2006, which was last revised in 2015. Responsibility for approving the Code of Conduct rests with the NH Group's Board of Directors. This document affects all NH Group employees, and applies not only to employees, managers and members of the Board of Directors, but also, in certain cases, to other stakeholders, such as customers, suppliers, competitors, shareholders and the communities in which NH runs its hotels. The Code of Conduct summarises the professional conduct expected of all employees at centres operating under NH Group's brands (hereinafter, NG Group employees), who are committed to acting with integrity, honesty, respect and professionalism in the performance of their work. The NH Group is committed to complying with the laws and regulations in the countries and jurisdictions in which it operates. These include laws and regulations on health and safety, discrimination, taxation, data privacy, competition, anti-corruption, prevention of money laundering and commitment to the environment. The key areas covered by the Code are:

- Commitment to people
- Commitment to customers
- Commitment from suppliers
- Commitment to competitors
- Commitment to shareholders
- Commitment to communities and society
- Commitment to the Group's assets, knowledge and resources
- Obligations regarding fraudulent or unethical practices
- Commitment to the stock market

Since 2014, NH Group has driven the creation of the Compliance function, the scope of which applies to the following key areas:

- Internal Code of Conduct: Sets out minimum standards to be respected in relation to the purchase and sale of securities and privileged and confidential information and its processing.

- Conflict of Interests Procedure: Establishes the rules to be followed in situations where there is a conflict of interests between the Company, or any of the companies making up the Group, and the direct or indirect personal interests of the directors or persons subject to the conflict of interests rules.

- Code of Conduct: Intends to establish the main values and rules which should govern the conduct and actions of each of the employees and executives of the Group, as well as the members of the governing bodies of the companies that form part of the Group.

- Criminal Risk Prevention Model: Describes the crime prevention and management principles in place at NH Group and defines the structure and operation of the control and monitoring bodies set up within the Company, systematising existing controls for the purpose of preventing and mitigating the risk of crimes being committed in the Company's various areas.

Compliance Committee

NH Hotel Group set up the Compliance Committee in 2014, comprising members of the Management Committee and Senior Management. It has the power to oversee compliance with the Group's Internal Code of Conduct, Conflict of Interests Procedure, Code of Conduct and Criminal Risk Prevention Model.

The Compliance Committee submits a detailed report to the Board's Audit and Control Committee regarding the activities carried out and has the power to impose disciplinary sanctions on employees in matters within its scope of responsibility.

Compliance Office

The Compliance Office is in charge of distributing and overseeing compliance with the Code of Conduct and drawing up the Criminal Risk Prevention Model. The Compliance Office reports directly to the Compliance Committee and is also responsible for managing the confidential Code Complaints Channel and Code of Conduct queries.
The Criminal Risk Prevention Model has been implemented in Spain (Business Unit and Corporate) and Italy, where training was imparted on this topic during 2016. The percentage of those undertaking training is 66.67% to 67% in Spain (Central Services employees, Hotel Directors and Heads of Department) and 99% in Italy.
In 2016, an external review of the Criminal Risk Prevention Manual and Matrix in Spain was carried out. In 2016, the Compliance Office started to implement the Criminal Risk Prevention Model in the countries in which NH Group operations are most significant. This process will be completed in the coming year.
Furthermore, NH Group has started to roll out an IT tool that will help to manage and audit the Criminal Risk Prevention Model.

The Code of Conduct is available for employees on the company intranet, and for third parties on the Group's website. Through the Human Resources departments of each business unit, the Group has put in place a procedure for requesting all employees to adhere to the code, with training on the Code of Conduct being imparted to NH Group's employees. Its implementation and distribution continued during 2016 with on-line training about the Code of Conduct, with the aim of raising awareness amongst all employees. Furthermore, in 2016, it was launched in the Business Unit in Germany, meaning that by year-end, it had been rolled out to the entire Group.
On 31/12/2016, total adhesion to the Code of Conduct updated on 29 June 2015 and offered in digital format came to 66.74%. This figure does not include adhesion in Germany, where the training course was launched in December.
The Code of Conduct contains the following points specifically relating to financial reports and the recording of transactions:

The Group has is committed to reporting transparency, construed as the undertaking to release reliable information to the financial markets, as well as to any other kind of markets. Hence, the company's internal and external financial and economic reporting shall faithfully reflect its economic, financial and equity position in accordance with generally accepted accounting standards.

The Manipulation of Information section stresses that "the individuals responsible must transmit truthful, complete and comprehensible financial reports. Under no circumstances may they knowingly provide incorrect, inexact or inaccurate information. Therefore, individuals responsible shall refrain from:

• Keeping a record of transactions in non-accounting media not recorded in official books;
• Keeping accounts which, referring to the same activity and financial year, hide or fake the company's true situation.
• Recording expenses, income, assets or liabilities which are non-existent or not in line with reality;
• Noting businesses, acts, transactions or, in general, financial transactions in the compulsory books, or making a note of them with figures other than the true ones;
• Making entries in accounting books, incorrectly indicating their purpose;
• Using false documents;
• Deliberately destroying documents before the end of the legally-required time limit for retaining them."

• Reporting channel for informing the Audit Committee of financial and accounting irregularities, as well as any breaches of the Code of Conduct and irregular activities in the organisation, noting if this is confidential.

A procedure has been established for lodging complaints about breaches of the principles enshrined in the Code of Conduct, and this enables employees to provide confidential information about any non-compliance with the principles set out in the Code of Conduct. This procedure ensures transparency, confidentiality and respect throughout all its stages. As mentioned previously, it is managed by the Compliance Office.

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

Complaints should preferably be lodged electronically using a channel expressly set up for the purpose and available to all stakeholders (codeofconduct@nh-hotels.com), through which they are forwarded to the Internal Audit Department. In addition, they may be sent by post for the attention of the Senior Vice President of NH Hotel Group, S.A. Internal Audit Department at Santa Engracia 120, 28003 Madrid, Spain.

The Senior Vice President of the Internal Audit Department is responsible for analysing the information presented and requesting the corresponding evidence and reports. All relevant complaints are submitted to the Compliance Committee and the Audit and Control Committee, upholding the principle of confidentiality guaranteed in the Code of Conduct.

• Regular training and refresher courses on, at least, accounting standards, audits, internal control and risk management for staff involved in preparing and reviewing financial reports and evaluating the reporting system.

Through the Internal Audit Department, the following training activities in relation to the Financial Reporting and Control system have been carried out:

Workshop for a total of 15 employees belonging to the retained function in the Netherlands on the controls implemented and the evidence required for their documentation. The objective is to provide training on the most relevant aspects of the financial information generation process, resolve queries about the current model and increase the quality of evidence provided in self-assessments undertaken.
Work sessions on the financial information report model and its integration in the RGC tool for the Internal Control, Internal Auditing and Tax departments.
Workshop at the Business Unit in Spain for 15 individuals and 5 SCIIF managers at the Shared Services Centre on possible improvements to the Internal Control System concerning financial information.
A total of 24 hours of internal training has been imparted.
Alongside this, the Financial Department occasionally attends training courses or conferences on updated accounting standards, consolidation standards and the specific financial reporting applicable to the sector, which are considered especially relevant to its work. We would like to highlight the organisation of training sessions in 2017 concerning the new IFRS 16 on leasing.

F.2 Financial reporting risk assessment Report at least:

F.2.1. Which are the main characteristics of the risk identification process, including error and fraud, regarding:

• Whether the process exists and is documented.

The goal of the process of assessing financial risks is to establish and maintain an effective process for identifying, analysing and managing the risks relevant to the preparation of Financial Statements.
At NH the risk management process consists of three levels of participation:

• The Board of Directors reviews the Audit and Control Committee's supervision of risk management policies, processes, personnel and control systems.
• The Internal Audit Department regularly reviews the corporate risk model.
• The Chief Officers or acting managers of each area, including the Executive Managing Directors and other professionals directly involved in the risk management process within their area of responsibility.

The types of risk are classified as follows:

Technological risks

Technological risks relate to the management of information systems to ensure the completeness, availability and reliability of financial information and avoid exposure of the company's significant assets to potential loss, damage or misuse.
These risks relate to the following areas:
• Access security
• Availability
• Completeness
• Supervision of

Accounting Risks

These are risks which affect the reliability of financial information in terms of accounting records and breaches of accounting principles, and refer to the following three categories of assertions:

o Types of transactions:
o Occurrence
o Completeness
o Accuracy
o Cut-off
o Classification

o Accounts' balances:
o o Existence
o Rights and obligations
o Completeness
o Valuation and allocation
o Presentation and breakdown:
o Occurrence and rights and obligations
o Completeness
o Classification and clarity
o Accuracy and valuation

Organisational and resource management risks

These risks include problems in the planning, management and monitoring of financial, material and human resources, and difficulties in interdepartmental communications and decision-making, including possible quality problems and other threats in the course of the Group's activities.
These risks relate to the following areas:

- o Budget Control
- o Credit Management
- o Receivables Management
- o Payables Management
- o Personnel Management
- o Fraud

Data processing risks
These risks include problems in data processing in information systems, mainly in the following areas:

- o Human Error
- o Completeness of Invoicing
- o Completeness of Master Files
- o Review

Presentation and process risks
These risks can lead to ineffectiveness and inefficiency within the Group structure when drawing up financial reports in terms of quality, time and costs, and include the following aspects:

- o Timeliness of the information
- o Compliance with internal standards and policies Business environment risks

Business environment risks arise due to external factors which can lead to significant changes in the basis underlying internal control of the objectives of financial reporting and the Group's strategies. Business environment risks are related to the following matters:

- o Failure to comply with commitments undertaken
- o Fiscal contingencies

Outsourcing risks
Outsourcing risks arise as a result of the process of transferring part of the administration service to a third party, and are categorised as follows:

- o Service Level Agreements.
- o Availability
- o Personnel Management
- o Knowledge Management
- o Legal

The risk identification and assessment process is carried out by the Internal Audit Department in collaboration with the Strategy Department and supervised by the Audit and Control Committee as part of its duties.

The risk identification process is documented in the Corporate Risk Manual.

- Whether the process covers all financial reporting assertions (existence and occurrence; completeness; evaluation; presentation, disclosure and comparability; and rights and obligations), whether it is updated and how often.

In order to ensure the reliability of Financial Reporting, when identifying risks and controls, the accounting errors that may arise from the following objectives for financial information are always considered:

- Completeness: balances or transactions that should be recorded but are not.
- Transaction cut-off: those booked in a period other than when they were accrued.
- Accuracy: transactions recorded with errors (amounts, conditions).
- Occurrence/Existence: transactions that have taken place within the period.

- Valuation/Allocation: record of transactions involving incorrect sums due to inadequate valuation calculations.
- Presentation/Classification: classification errors in the various entries of the financial statements.
- The risk identification process is undertaken once per year.

- The existence of a process for identifying the consolidation perimeter, taking aspects such as the possible existence of complex company structures, and instrumental entities or those with a specific purpose into account.

The Financial Department will consolidate the accounts every month.
This process starts with the consolidated accounts being received from the various Business Units each month. These are checked and approved to ensure they comply with the established principles of control and significant influence.
The last phase of this process involves verifying the standardisation adjustments affecting the income statement (monthly) and the balance sheet (quarterly)
Furthermore, in this respect, a distribution list has been set up for people in the Finance Department to whom any change on the Group's company map and the exits from and entries into new centres must be reported to in order to ensure control over changes to the consolidation perimeter.

• Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as these affect the financial accounts.

In designing the risk management process associated with generating Financial Reports, the following objectives have been focused on:

• Definition of the Financial Information Control System processes and sub-processes. Determination of the relevant risk categories and types for each of the different Internal Financial Information Control System processes defined in the point above.
Corresponding subcategories have been defined for each of these risk categories.
• Definition and analysis of controls for each specific risk and establishment of their degree of effectiveness. The corresponding risks and controls have been established in a consolidated risk matrix for each of the sub-processes detailed above, in which the most relevant risks for each process are defined, along with the operational controls and their effectiveness in mitigating the risks that affect them.

• Which governing body of the company supervises the process.

The company's Board of Directors is responsible for supervising the risk assessment process. In order to carry out the aforementioned supervision duties, the Board of Directors turns to the Audit and Control Committee, which performs this duty through the Internal Audit Department.

F.3 Control Activities

Report, indicating the main characteristics, on the availability of at least:

F.3.1. Procedures to review and authorise the financial report and description of the SCIIF, to be published on the securities market, indicating its responsible bodies, and documentation describing the workflows and controls (including those regarding fraud risk) of the different types of transactions which can have a tangible effect on the financial accounts, including the accounting close procedure and the specific review of the relevant judgements, estimations, evaluations and projections.

Every month, the Group's Finance Department submits the management report to the Board of Directors for their consideration. This report includes the most important financial and management information, the Profit and Loss account and the main financial indicators and ratios. The Board of Directors reviews the intermediate financial statements every six months. Furthermore, in 2016, the consolidated financial statements for the first half of the year were reviewed.

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

The Chairman of the Audit and Control Committee periodically reviews this financial reporting during its meetings, and when appropriate, requests the attendance of the external and/or internal auditors.

The Financial Statements are drawn up based on a reporting calendar in accordance with legal requirements and are shared among the areas involved in preparing them.

Internal control of financial information:
NH has an Internal Financial Reporting Control System (SCIIF) based on the COSO model (Committee of Sponsoring Organisations of the Treadway Commission). This model has the following objectives:

• Effectiveness and efficiency of operations
• Safeguarding assets
• Reliability of financial reporting
• Compliance with applicable laws and regulations

The SCIIF model includes reviewing the Company's Entity-Level Controls (ELC).
The SCIIF model used by NH Group contains a matrix of financial risks and controls which includes the following business cycles, which are relevant to the preparation of the Group's financial statements:

o Loyalty programme
o Purchasing and Suppliers
o Sales and Customers
o Cash

o Financing
o Fixed assets
o Inter-company
o Tax
o Human Resources
o Provisions and contingencies
o Accounting close, consolidation and financial reporting process
o Shared Services Centre
o Business support technological processes.

The total business cycles include 21 processes and 75 sub-processes. In order to achieve financial reporting reliability and completeness targets, a total of 439 controls have been defined to prevent, detect, mitigate, compensate for or correct their potential impact.
The structure of the financial risk matrix includes the following information:
• Process and Sub-process
• Risk, being the possible events or actions which could affect the capacity of the company to meet financial reporting objectives and/or implement strategies successfully.
• Description of the control, defining the control activities included in the policies, procedures and practices applied by the Group to ensure it meets its control objectives and the risk is mitigated.
• Evidence, the documentation maintained by those responsible for the control (company personnel), so that the entire model can be regularly supervised and audited.
• Type of Control: If the control is key, or not, preventive or detective, and manual or automatic, depending on whether they can be monitored using data from automated tools.
• Control managers: for each control activity.
• Frequency: depending on its execution.

The SCIIF model was substantially changed during the 2014 financial year due to the Administration function being outsourced from 1 January 2014, adapting the controls to the new defined processes and sub-processes. Therefore, controls were defined to be run by personnel from the Shared Services Centre, the administrative and corporate personnel function retained. Furthermore, during 2015 the model was extended to the Business Units in the Netherlands, Belgium and Germany and in 2016 to Italy, in addition to the processes in Latin America (Mexico and Argentina).

F.3.2. Internal control policies and procedures for the information systems (including secure access, change monitoring and management, operational continuity and separation of functions) which support the company's processes relating to the preparation and publication of financial reports.

Internal control of IT systems
There is an internal control model for the Group's information systems which covers the different IT processes and is based on their associated risks. This model (based on COSO and COBIT) includes a matrix of 107 general IT system controls (GITC) and policies and procedures relating to the security the IT systems need.
The internal control model covers the systems that contribute to the preparation of the Group's consolidated financial statements and thus assures the completeness, availability, validity and quality of the information provided to the markets.
The GITC matrix is aligned with the control models created by the NH Group for other business cycles, which are structured into the following processes:

Access to programmes and data.
There are policies and procedures that set up controls over:
• Restricted access to the systems, avoiding unauthorised access or changes to programmes that could affect the completeness, integrity and reliability of financial reports.
• Correct separation of functions, in order to guarantee secure access to the accounts information systems.
• Security in the facilities housing the systems, ensuring that only authorised personnel have access to them.

Operations.
There are policies and procedures that set up controls over:
• The availability of the information, ensuring that financial data are complete, valid and accurate.
• Good management of incidents, enabling quick resolutions and minimising their impact.
• That operations are monitored, ensuring that they are executed completely and on time. Any incidents are resolved, enabling jobs to be restarted and run correctly.

Since 2011, the Group has had an Information Security area, part of the IT Department, which monitors security in all IT processes, assuring the availability, reliability and completeness of information.

Security Policy
The security policy is the reference framework defining the directives to be followed by all employees, and makes it possible to ensure the security of the IT systems and, therefore, of all the business processes. This policy was revised during the 2015 financial year.

During 2016, various initiatives linked to the Information Security Master Plan continued to be implemented, including those relating to the organisation of security, change management and physical security.

F.3.3. Internal control policies and procedures to supervise the management of outsourced activities and those aspects of evaluation, calculation or appraisal entrusted to independent experts,

which may materially affect the financial accounts.

Since 1 January 2014, the Administration function has been outsourced to a third party in the companies included in the scope of the SCIIF. This outsourcing was defined as a process with a significant impact on the preparation of financial reports.

The NH Group has implemented an internal control model for the Shared Services Centre (SSC) aligned with the control models defined for the other business cycles.

Therefore, a matrix has been defined with 6 sub-processes and 28 control activities, including controls relating to the provision of the administrative function service to the SSC, compliance with regulations, the continuity of the service and the governance model in the outsourcing contract.

The service provider has also been asked to obtain an ISAE (International Standard on Assurance Engagements) 3402 report, allowing the NH Group to check whether the control objectives and activities of the service provider have been effective in the corresponding period.

F.4 Information and Communication

Report, indicating the main characteristics, on the availability of at least:

F.4.1. A specific area responsible for defining and updating accounting policies (accounting policies area or department) and resolving queries or conflicts arising from their interpretation, maintaining constant communication with those responsible for operations in the organisation, and an updated manual of accounting policies communicated to the units through which the company operates.

The Financial Department is responsible for issuing and updating accounting policies and the resolution of queries or conflicts arising from their interpretation.
The NH Group's Organisation and Human Resources Department is responsible for standardising, analysing and publishing all the regulations and procedures applicable within the department, particularly those dealing with operating, administrative (including accounting), quality and regulatory matters.

The Internal Audit Department is responsible for the aforementioned processes, policies and procedures on a periodic basis.

The Financial Department is responsible for defining and applying accounting criteria, checking that they are updated and approved.
To that end, NH Group currently has a common Accounting Plan, a Manual of Accounting Policies and a Consolidation Manual, applicable to all the countries in which the Group operates. This body of regulations reflects the International Financial Reporting Standards (IFRS), which are the accounting standards by which the Group is governed. The Group's Financial Department is responsible for interpreting and applying regulations relating to Financial Reporting.

F.4.2. Mechanisms to capture and prepare financial reports with standardised formats, applicable and for use in all units of the company or the Group, supported by the main financial statements and notes, and the information provided on the SCIIF.

NH Group has a common IT consolidation tool for all the companies. This tool centralises all information relating to the accounts of the companies making up the NH Group on a single system. Information is uploaded onto the consolidation system automatically, for the companies that have migrated to SAP, or manually from the accounts management system for the remaining companies. Furthermore, preventive controls have been defined on the tool itself which ensure data is uploaded correctly.

It is important to point out that the NH Group has a single Accounts Plan for the entire Group along with a common monthly reporting model for all the Business Units, which includes the instructions laid down by the Corporate Finance Department for information that must be reported in each one of the month ends, and which is subject to review. There is also a single reporting timetable which is common to all the Business Units.

F.5 Supervision of the system

Report, indicating the main characteristics of at least:

F.5.1. The supervision of the SCIIF by the Audit Committee and whether the company has an internal

auditing area whose competency includes supporting the committee in supervising the internal control system, including the SCIIF. It will also report the scope of the evaluation of the ICFR during the year and the procedure by which the body in charge of the evaluation will report its results, if the company has an action plan which details possible corrective measures, and if its impact on financial reporting has been considered.

Supervisory activities of the Audit Committee

The Audit and Control Committee is the advisory body to which the Board of Directors has delegated its powers to update and supervise the SCIIF. As part of this function and to fulfil the tasks delegated by the Board, the Committee receives and reviews the financial reports which the NH Group issues to the markets and regulatory bodies, particularly the consolidated annual financial statements accompanied by the Audit Report. The Committee supervises the preparation process and the completeness of the financial reports of the Company and its subsidiaries, and checks that the legal requirements applicable to the NH Group are complied with, the consolidation perimeter is appropriate and that generally accepted accounting standards are applied correctly.

The Audit and Control Committee receives an annual report from the Internal Audit SVP on its assessment of the effectiveness of the SCIIF model, the weaknesses detected during internal audits, and the plans or actions already in place to remedy any detected weaknesses.

Following a transition plan, the Internal Control Function, reporting to the Financial Department, shall assume full responsibility for the SCIIF, in addition to its maintenance and extension to the different companies that form part of NH Group.

Currently, NH Group is rolling out an IT tool that will help to automate the SCIIF assessment and certification process. The tool is expected to be fully rolled out by the end of 2017.

The Audit and Control Committee supports and supervises the work of the Internal Audit department in its assessment of the SCIIF. The Committee proposes the selection, appointment and replacement of the body or person responsible for Internal Audit services, validates and approves the strategy, the Internal Audit plan and objectives for the year, and is responsible for evaluating the performance of the Internal Audit Department.

The Internal Audit plan for assessing the SCIIF is presented to the Audit and Control Committee for final validation and approval before it is put into practice, in order to include all the considerations of the Committee.

The level of implementation of the recommendations arising from the SCIIF is reviewed by the Audit and Control Committee at least once a year.

The Audit and Control Committee procedures are documented in the presentations made by said Committee and subsequently included in the corresponding signed minutes.

Internal Audit Function

Internal audits are carried out by the Group's Internal Audit Department, which reports functionally to the General Secretary and directly to the Audit and Control Committee. This hierarchical structure is designed to enable the Internal Audit function to remain structurally independent and to encourage direct communication to and from the Audit and Control Committee.

The Internal Audit function, via a team located in both Corporate and the business units, ensures, within reason, the effectiveness of the internal control system, supervising and evaluating the design and effectiveness of the risk management system applied to the company, including specific IT audits.

This function has Internal Audit statutes that have been formally approved by the Audit and Control Committee, and an internal audit manual which sets out the Department's working methods.
In relation to monitoring the SCIIF, the Internal Audit Department is responsible for:
• Independently evaluating the internal control model for financial reporting.
• Testing the assertions of the Board.
• Testing the effectiveness of internal controls in the companies within the scope of application, in a maximum period of one year for key controls.
• Helping to identify weaknesses in controls and reviewing action plans to correct inadequate controls.
• Conducting follow-up checks to see if weaknesses in controls have been properly remedied.
• Coordinating between the Board and the external auditor when clarification is needed on scope and testing plans.

Scope of SCIIF 2016
The Group's SCIIF model covers the business units in Spain, Benelux (the Netherlands and Belgium), Central Europe (Germany and Austria) and Latin America (Mexico and Argentina, partially implemented), which consist of 333 hotels and 13 business cycles of major importance in the presentation of financial reports.

A total of 439 control activities have been defined, divided between financial reporting and IT systems, and classified as key and non-key controls. Those responsible for the controls have been defined at Corporate level, for Business Units and within the Shared Services Centre.

Since October 2014, a monthly calendar has been defined for internal control reporting where, at the end of each month, each responsible body performs a self-assessment of the controls for which it is responsible. This self-assessment leads to a certification process at Administration SVP level.

During 2016, the Internal Audit Department supervised the self-assessment process and evidence deposited in a file shared by the Shared Services Centre, Administration and the Audit Department.

The assessment process in 2016 analysed a total of 366 controls for the geographic area of Spain, the Netherlands, Belgium, Germany, Austria, Italy, Mexico, Argentina and controls at Corporate level, which involved reaching 83% of their total. These controls were evaluated according to the guidelines included in the "SCIIF Evaluation Procedure", summarised below:

• The controls evaluated each month (relating to Administration and the Shared Services Centre) were subjected to two types of review, one based on the supervision of the evaluation by the owners of the controls, and another where the objective was to repeat the tests and checks of the effectiveness of the control.
• For the other controls, evidence was obtained and the necessary tests were run to enable conclusions to be drawn on their effectiveness.
• User-defined files (UDA) have been identified which impact the preparation of financial reports, where the existence has been verified of controls of completeness, availability and security.

The review has detected weaknesses in internal controls and room for improvement in certain processes which do not have a significant impact on the quality of financial reporting, and action plans agreed with the bodies responsible for the controls have been proposed. The Internal Audit Department will check the implementation of these action plans during its regular tests of the SCIIF.

F.5.2. Whether there is a discussion procedure through which the accounts auditor (as established in the NTA), the internal auditing area and other experts can report to senior management and the Audit Committee or company administrators on the significant weaknesses in internal control detected during the process of reviewing the annual accounts, or others for which they are responsible. Likewise, whether there is an action plan to correct or mitigate the weaknesses found.

The Audit Committee meets periodically to review the regular financial reports. It also discusses matters relating to internal controls and/or other current initiatives.

The Financial Department, through the Chief Financial Officer, is responsible for notifying senior management of any important matter relating to the SCIIF and/or financial reporting through the meetings of the Board of Directors, which are attended occasionally by the Senior Vice President of the Internal Audit Department.

All the weaknesses detected by the Internal Audit Department during its work are subject to recommendations and action plans agreed with the audited department. The Internal Audit Department supervises the implementation of the agreed actions and reports their status to the NH Group's various governing bodies (mainly the Audit Committee).

The external auditor notifies the Audit and Control Committee of the conclusions of its audit procedures, and any other matters which may be considered important. The external auditor also has access to the Audit and Control Committee in order to share, comment on or report any aspects they consider necessary or pertinent. The external auditor, without breaching his/her independence, will participate in the dialogue with Management.

F.6 Other relevant information

None.

F.7 Report by the external auditor

Report on:

F.7.1. Whether the SCIIF reports sent to the markets have been reviewed by the external auditor, in which case the company must include the corresponding report as an appendix. If not, it must report its reasons.

The Group's Management has decided to submit the information relating to the SCIIF included in this section F of the Annual Corporate Governance Report for 2016, drawn up by the Company's Management, to the external auditor for review. This report is attached as an Annex.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the Company's degree of compliance with the recommendations of the Code of Good

Governance for listed companies.

If any recommendation is not followed or is only followed in part, a detailed explanation of the reasons must be included so that shareholders, investors and the market in general have enough information to assess the company' methods. Generalised explanations will not be acceptable.

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

Complies [X] Explain [ ]

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

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

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

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [X]

3. That during the ordinary general meeting, in addition to circulating the annual corporate governance report in writing, the chairman of the board of directors verbally informs the shareholders, in sufficient detail, of the most important aspects of the company´s corporate governance and, in particular:

   a) About changes that have occurred since the last ordinary general meeting.

   b) About specific reasons why the company does not follow any of the recommendations in the Corporate Governance Code and, if any, alternative rules applicable in this area.

Complies [ ] Partially complies [X] Explain [ ]

Although the General Shareholders' Meeting complied with the provisions of this Recommendation, it was the Chairman of the Appointments, Remuneration and Corporate Governance Committee (and not the Chairman of the Board) who provided this information.

4. That the company defines and promotes a policy of communication and contact with shareholders, institutional investors and voting advisers which fully respects regulations against market abuse and gives similar treatment to shareholders who are in the same position.

   And that the company publishes the policy on its web site, including information relating to the way in which it is put into practice and identifying the contact persons or those responsible for carrying it out.

Complies [X] Partially complies [ ] Explain [ ]

5. That the board of directors does not bring a proposal to the general meeting for delegation of powers to issue shares or convertible securities which exclude preferential subscription rights for more than 20% of the company's capital at the time of delegation.

   And that when the board of directors approves any issue of shares or convertible securities excluding preferential subscription rights, the company immediately publishes reports on its web site about this exclusion as referred to under company law.

Complies [X] Partially complies [ ] Explain [ ]

6. That listed companies drawing up the reports listed below, whether on a compulsory or voluntary basis,

publish then on their web site sufficiently in advance of the ordinary general meeting being held, even if their circulation is not mandatory:

a) Report on the independence of the auditor.

b) Reports on the work of the audit and appointments and remuneration committees.

c) Audit committee report on related-party transactions.

d) Report on the corporate social responsibility policy.

Complies [X] Partially complies [ ] Explain [ ]

7. That the company transmits general shareholders' meetings live on its web site.

Complies [X] Explain [ ]

8. That the audit committee ensures that the Board of Directors makes every effort to present financial statements to the General Shareholders' Meeting that are free from limitations or qualifications in the audit report and, in exceptional circumstances where they may exist, both the Chairman of the Audit Committee and the auditors shall provide the shareholders with a clear explanation of the content and scope of such limitations or qualifications.

Complies [X] Partially complies [ ] Explain [ ]

9. That the company permanently publishes the requirements and procedures that it will accept to prove ownership of shares, the right to attend the general shareholders' meeting and the exercise or delegation of the right to vote.

And that such requirements and procedures facilitate the shareholders' attendance and the exercise of their right to vote and that they are applied in a non-discriminatory manner.

Complies [X] Partially complies [ ] Explain [ ]

10. That where any legitimate shareholder has, prior to the general shareholders' meeting being held, exercised the right to supplement the agenda or submit new proposals for resolution, the company:

a) Immediately circulates such supplementary points and new proposals for resolution.

b) Publicises the attendance card form or vote delegation or remote voting form with the amendments needed so that the new points on the agenda and alternative proposals for resolution may be voted on under the same terms as those proposed by the board of directors.

c) Puts all such points or alternative proposals to the vote and applies the same voting rules as those for the points made by the board of directors including, in particular, the assumptions or deductions on the outcome of the vote.

d) Report, after the general shareholders' meeting, the breakdown of the vote on such supplementary points or alternative proposals.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

11. That, in the event that the company foresees payment of fees for attendance at the general shareholders' meeting, it sets up a general policy on such fees beforehand and that said policy is stable.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [X]

12. That the board of directors performs its duties with a unity of purpose and independence of judgement, gives the same treatment to all shareholders who are in the same position and is guided by company

interest, understood to be the achievement of a profitable business that is sustainable in the long term, that promotes its continuity and the maximisation of the company's financial value.

And that in pursuing company interests, apart from respecting the laws and regulations and behaviour based on good faith, ethics and respect for commonly accepted uses and good practice, it seeks to reconcile company interest with, as appropriate, the legitimate interests of its employees, suppliers, customers and other interest groups who may be affected, along with the impact of the company's activities on the community as a whole and the environment.

Complies [X] Partially complies [ ] Explain [ ]

13. That, in the interests of effectiveness and participation, the board of directors should comprise no fewer than five and no more than 15 members.

Complies [X] Explain [ ]

14. That the board of directors approves a policy for selecting directors that:

a) Is specific and verifiable.

b) Ensures that proposals for appointment or re-election are based on prior analysis of the board of directors' needs.

c) Encourages diversity of knowledge, experience and gender.

That the result of prior analysis of the board of directors' needs is included in an explanatory report from the appointments committee which is published when calling the general shareholders' meeting to which it is submitted for ratification, appointment or re-election of each director.

And that the policy for selecting directors promotes the objective that by 2020 the number of female directors is at least 30% of the total number of members of the board of directors.

The appointments committee will verify compliance with the policy for selecting directors annually and will report on it in the annual corporate governance report.

Complies [X] Partially complies [ ] Explain [ ]

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

Complies [X] Partially complies [ ] Explain [ ]

16. That the ratio of proprietary directors to the total number of non-executive directors should not be greater than the existing ratio between the capital of the company represented by such directors and the remaining capital.

This criteria may be flexible:

a) In companies with high capitalisation where shareholdings that are legally considered to be significant are scarce.

b) In companies in which there are numerous shareholders represented on the board of directors and these shareholders have no links between them.

Complies [X] Explain [ ]

17. That independent directors represent at least half of all the directors.

Nevertheless, where the company does not have high capitalisation or where, even if it does, it has one shareholder, or several acting jointly, who control more than 30% of the company capital, the number of independent directors represents, at least, one-third of all the directors.

Complies [X] Explain [ ]

18. That companies publish and update the following information about their directors on their web site:

a) Professional profile and biography.

b) Other boards of directors to which they belong, whether or not they are listed companies, along with information about their other remunerated activities, whatever they may be.

c) Indication of the director's category stating, in the case of proprietary directors, the shareholder that they represent or with whom they have ties.

d)

e) Date of their first appointment as a director in the company as well as the date of subsequent re-appointments.

f) Shares and share options held by the director.

Complies [X] Partially complies [ ] Explain [ ]

19. That the annual corporate governance report, after verification by the appointments committee, explains the reasons why proprietary directors have been appointed on behalf of shareholders with shareholdings of less than 3% in the company capital and the reasons for ignoring, if applicable, formal requests for presence on the Board from shareholders with shareholdings equal to or greater than others who have successfully proposed proprietary directors.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [X]

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

Complies [ ] Partially complies [ ] Explain [X] Not applicable [ ]

Certain shareholders have reduced their shareholding without the number of Proprietary Directors having been reduced accordingly.

21. The Board of Directors does not propose the removal of any independent director before the statutory period for which the director has been appointed concludes, unless the board of directors has just cause, based on a report by the Appointments Committee. In particular, it will be understood that just cause exists where the director takes up new posts or undertakes new obligations which prevent him/her from dedicating the time needed to perform the duties of the post of director, or failing to carry out the duties inherent to the post or he/she incurs in any of the circumstances which cause him/her to lose his/her independent status, in accordance with the provisions of applicable law.

The removal of independent directors may also be proposed as a result of mergers, take-overs or other similar corporate actions that change the structure of the company's capital when such changes in the structure of the board of directors obey the criteria of proportionality indicated in Recommendation 16.

Complies [X] Explain [ ]

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

any court action.

If a director is indicted or sent for trial for any of the offences provided for in company law, the board of directors shall examine the case as soon as possible and, based on the specific circumstances, decide whether the director should continue in their post. The board of directors reports and explains all such occurrences in the annual corporate governance report.

Complies [X] Partially complies [ ] Explain [ ]

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

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

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

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

24. When, due to resignation or for other reasons, a director vacates their post before the end of their term, they explain the reasons in a letter sent to every member of the board of directors. And, notwithstanding the fact that this departure is reported as a significant event, the reason for the departure is reported in the annual corporate governance report.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

25. That the appointments committee ensures that non-executive directors have sufficient time available to perform their duties properly.

    That the company rules set out the maximum number of company boards that its directors may belong to:

Complies [X] Partially complies [ ] Explain [ ]

26. The board of directors is to meet as frequently as required to efficiently perform its functions, at least eight times a year, following the schedule of dates and matters established at the start of the year, and each director, individually, may propose other items not initially included on the agenda.

Complies [X] Partially complies [ ] Explain [ ]

27. Directors may only be absent when it is essential and the number of absences should be included in the annual corporate governance report. When non-attendance is inevitable, the absent director may nominate a proxy and provide instructions.

Complies [ ] Partially complies [X] Explain [ ]

Certain non-executive directors delegate their representation with instructions, taking into account the geographical distance and other responsibilities that have been taken outside the company.

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

Complies X Partially complies ☐ Explain ☐ Not applicable ☐

29. The company sets up appropriate channels so that directors may obtain the advice needed to perform their duties, including, if the circumstances deem fit, external advice payable by the company.

Complies X Partially complies Explain

30. Independently of the knowledge demanded from the directors to carry out their duties, the companies also offer directors with the opportunity to participate in knowledge refresher programmes where the circumstances so require.

Complies X Explain Not applicable

31. The agenda at meetings clearly shows the points regarding which the board of directors must make a decision or adopt a resolution so that the directors can study them or gather the information needed for their adoption beforehand.

Where, exceptionally, on the grounds of urgency, the chairman wishes to submit decisions or resolutions for the board of directors' approval which do not appear on the agenda, prior, express consent will be required from the majority of directors present, and this will be duly recorded in the minutes.

Complies X Partially complies Explain

32. Directors are periodically informed about changes in shareholdings and the opinion that significant shareholders, investors and ratings agencies have about the company and its group.

Complies X Partially complies Explain

33. The chairman, being responsible for the effective functioning of the board of directors, in addition to carrying out the duties that are legally and statutorily attributed thereto, prepares and submits a programme of dates and matters to be addressed to the board of directors; organises and coordinates the periodic assessment of the board and, if necessary, the company's chief executive; ensures that sufficient time is given to the discussion of strategic matters, and agrees and reviews knowledge refresher programmes for each director where the circumstances so require.

Complies X Partially complies Explain

34. Where there is a coordinating director, the articles of association or board of directors' regulations offer him/her the following powers, in addition to the powers provided by the law: chair the board of directors in the absence of the chairman and vice-chairmen, if any; speak up for non-executive directors concerns; maintain contact with investors and shareholders to establish their points of view for the purposes of forming an opinion on their concerns, particularly in relation to the company's corporate governance; and coordinate the chairman's succession plan.

Complies Partially complies Explain Not applicable X

35. That the secretary of the board of directors takes particular care so that, in their actions and decisions, the board of directors are aware of the recommendations on good governance contained in this Code of Good Governance applicable to the company.

Complies X Explain

36. Once a year the board of directors, in plenary, assesses and adopts, as necessary, an action plan correcting shortcomings detected in relation to:

a) The quality and efficiency of the board of director's work.

b) The operation and composition of its committees.

c) The diversity of the composition and powers of the board of directors.

d) The performance of the chairman of the board of directors and the chief executive of the company.

e) The performance and contribution of each director, paying particular attention to those responsible for the various committees of the board.

Assessment of the various committees will be based on the report that they submit to the board of directors and, with respect to the board, the report submitted by the appointments committee.

Every three years, the board of directors will be aided in carrying out the assessment by an external consultant whose independence will be verified by the appointments committee.

The business relationship of the consultant, or any company in its group, with the company, or any company in its group, must be broken down in the annual corporate governance report.

The process and the areas assessed will be subject to description in the annual corporate governance report.

X Complies | Partially complies | Explain

37. When there is an executive committee, the participation structure of the different director categories is similar to that of the main Board and its secretary is the Secretary of the Board.

Complies | X Partially complies | Explain | Not applicable

The Executive Committee is currently made up of five Directors: three Proprietary Directors, one Independent Director and one Director classed as "Other External". Although the composition of the Executive Committee includes each of the Director categories that feature on the Board (Independent, Proprietary, "Other External"), it does not do so in the same proportion. The Secretary and Deputy Secretary of the Board serve in the same positions on the Executive Committee.

38. The board of directors is always aware of the issues discussed and the decisions adopted by the executive committee and each member of the board of directors receives a copy of the minutes of the executive committee's meetings.

X Complies | Partially complies | Explain | Not applicable

39. Members of the audit committee, particularly its chairman, are appointed on the basis of their knowledge and experience in accountancy, auditing or risk management and the majority of its members are independent directors.

X Complies | Partially complies | Explain

40. Under supervision of the audit committee, there is a unit that carries out the internal audit function, tasked with ensuring the proper functioning of the information and internal control systems and that functionally comes under the non-executive chairman of the board or of the audit committee.

Complies X | Partially complies | Explain

41. The manager of the unit responsible for internal audit submits his/her annual work plan to the audit committee, directly reports corresponding incidents and submits an activity report to the committee at the end of every year.

Complies X | Partially complies | Explain | Not applicable

42. In addition to those provided for by the law, the audit committee is responsible for the following functions:

1. In relation to internal control and information systems:

    a) Supervising the preparation and safeguarding the integrity of the financial reporting relating to the company and, if applicable, to the group, reviewing compliance with regulations, the adequate delimitation of the consolidated group and the proper application of accounting standards.

    b) Safeguarding the independence and effectiveness of the unit responsible for internal auditing; proposing the selection, appointment, re-election and removal of the manager of the internal audit service; proposing the budget for this service; approving its focus and work plans, ensuring that its activity is mainly focussed on relevant risks for the company; receiving periodic information about its activities; and verifying that senior management takes into account the conclusions and recommendations of its reports.

    c) Establishing and supervising a mechanism that allows employees to report confidentially and, if possible and considered appropriate, anonymously, any potentially significant irregularities, particularly financial and accounting, they discover within the Company.

2. In relation to the external auditor:

    a) In the case of the resignation of the external auditor, examining the circumstances that may have lead to this.

    b) Ensuring that the external auditor's remuneration for their work does not compromise their quality or independence.

    c) Monitoring that the company notifies the Spanish Stock Market Commission (CNMV) of the change of auditor as a significant event and accompanies it with a statement about the existence of disagreements with the outgoing auditor and the content of such disagreements, if they exist.

    d) Ensuring that the external auditor has an annual meeting with the board of directors in plenary to report on the work carried out and on the evolution of the accounting position and risks to the company.

    e) Ensuring that the company and the external auditor follow prevailing regulations on the provision of services other than audit services, the limits on the concentration of business with the auditor and, in general, any other regulations on the independence of the auditors;

Complies X | Partially complies | Explain

43. The Audit Committee may summon any employee or director of the company, and may require the appearance of the same without the presence of any other director.

Complies X | Partially complies | Explain

44. The audit committee is informed about structural and corporate amendment transactions that the company plans to carry out for analysis and prior reporting to the board of directors about their financial terms and their accounting impact and, in particular, as appropriate, on the proposed swap ratio.

Complies X Partially complies Explain Not applicable

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

a) The different types of risk, either financial or non-financial, (operational, technological, legal, social, environmental, reputational, amongst others) to which the company is exposed, including contingent liabilities and other off-balance sheet risks amongst financial and economic risks.

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

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

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

Complies X Partially complies Explain

46. Under the direct supervision of the audit committee or, as appropriate, a specialist committee of the board of directors, there is an internal risk control and management system run by an internal unit or department at the company which is expressly given the following functions:

a) Ensure the proper functioning of the risk control and management systems and, in particular, that all significant risks that may affect the company are adequately identified, managed and quantified.

b) Actively take part in drawing up risk strategy and in important decisions on its management.

c) Ensure that risk control and management systems suitably mitigate risks within the framework of the policy defined by the board of directors.

Complies X Partially complies Explain

47. The members of the appointments and remuneration committee (or the appointments committee and remuneration committee, if they are separate) are appointed endeavouring to ensure that they have suitable knowledge, skills and experience for the functions that they are called to perform and that the majority of such members are independent directors.

Complies Partially complies X Explain

Complies with all the provisions of this Recommendation, except the proposal that the majority of said members be independent directors. The Company's Appointments, Remunerations and Corporate Governance Committee currently comprises 6 members, of whom 2 are Proprietary Directors, 1 Director is classed as "Other External" and 3 are Independent. Therefore, we are in compliance with the provisions of article 529n LSC which establish that at least two of the members of the Appointments and Remuneration Committee must be independent directors.

48. Companies with high capitalisation have separate appointments and remuneration committees.

Complies Explain Not applicable X

49. The appointments committee consults the chairman of the board of directors and the chief executive of the company, particularly regarding issues concerning executive directors.

And that any director can request the appointments committee to take into consideration potential candidates to cover any director vacancies, if, in their opinion, they deem the candidate appropriate.

Complies X Partially complies Explain

50. The remuneration committee carries out its functions independently and, apart from the functions allotted to it by the law, also carries out the following:

a) Propose the basic conditions of contracts for senior management to the board of directors.

b) Monitor compliance with the remuneration policy established by the company.

c) Periodically review the remuneration policy applicable to directors and senior management, including systems of remuneration with shares and their application, in addition to ensuring that individual remuneration is proportionate to that paid to the company's other directors and senior management.

d) Ensure that possible conflicts of interest do not affect the independence of the external advice given to the committee.

e) Verify the information regarding directors' and senior management's remuneration contained in the various corporate documents, including the annual report on directors' remuneration.

Complies X Partially complies Explain

51. The Remuneration Committee consults the chairman and the Chief Executive Director of the company, particularly regarding issues concerning executive directors.

Complies X Partially complies Explain

52. The rules on the composition and functioning of the supervision and control committees are contained in the board of directors' rules and are consistent with those applicable to the committees that are legally mandatory in accordance with the above-mentioned recommendations, including:

a) That they are exclusively made up of non-executive directors, with a majority of independent directors.

b) The chairmen are independent directors.

c) The board of directors appoints the members of these committees taking into account the knowledge, skills and experience of the directors and the tasks of each committee; it discusses their proposals and reports, and during the first plenary session following their meetings, gives account of their activities which responds to the work carried out;

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

e) Minutes of their meetings are drawn up and made available to all the directors.

Complies Partially complies Explain Not applicable X

53. Supervision of compliance with the corporate governance rules, internal rules of conduct and corporate social responsibility policy is the responsibility of one or distributed amongst several committees of the board of directors which may include the audit, appointment or corporate social responsibility committee, if there is one, or a specialist committee that the board of directors, exercising its powers of self-organisation, decides to create for that purpose, to which the following functions are given, as a minimum:

a) Supervise compliance and internal codes of conduct, as well as the company's rules of corporate governance

b) Supervise the communications strategy and relationship with shareholders and investors, including small and medium shareholders.

c) Periodically assess the adequacy of the company's corporate governance system, for the purpose that it complies with its mission to promote company interests and takes into account, as appropriate, the legitimate interests of other stakeholders.

d) Review the company's corporate responsibility policy, ensuring that it is directed at creating value.

e) Monitor corporate social responsibility strategy and practices and assess the level of compliance therewith.

f) Supervise and assess relationship processes with the various stakeholders.

g) Assess all matters relating to the company's non-financial risks including operational, technological, legal, social, environmental, political and reputational.

h) Coordinate the process for non-financial and diversity information reporting in accordance with applicable regulations and international reference standards.

Complies X Partially complies Explain

54. The corporate social responsibility policy includes the principles or undertakings that the company assumes voluntarily in its relationships with the various stakeholders and identifies, as a minimum:

a) The aims of the corporate social responsibility policy and the development of support tools.

b) Corporate strategy in relation to sustainability, the environment and social matters.

c) Specific practices in matters related to: shareholders, employees, customers, suppliers, social matters, the environment, diversity, tax responsibility, respect for human rights and the prevention of illegal behaviour.

d) The methods or systems for monitoring the results of the application of specific practices listed under the previous letter, associated risks and their management.

e) Mechanisms for supervising non-financial risk, company ethics and behaviour.

f) Channels for communication, participation and dialogue with stakeholders.

g) Responsible communication practices that avoid the manipulation of information and protect integrity and honour.

Complies X Partially complies Explain

55. The company reports, in a separate document or in the management report, on matters related to corporate social responsibility, using one of the internationally accepted methodologies to do so.

Complies X Partially complies Explain

56. Directors' remuneration is sufficient to attract and retain directors with the desired profile and to remunerate the dedication, qualification and responsibility that the post demands, but not so high as to compromise the independent opinion of non-executive directors.

Complies X Explain

57. Variable remuneration linked to company and personal performance is limited to executive directors, in addition to remuneration with shares, options or rights over shares or instruments referenced to share value and long-term savings systems such as pension plans, retirement plans or other social benefits systems.

Giving shares by way of remuneration to non-executive directors may be contemplated when this is conditional on said shares being retained until they cease to be directors. The foregoing will not be applicable to shares that a director needs to dispose of, as appropriate, to pay for the costs related to their acquisition.

Complies X Partially complies Explain

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

In particular, the variable components of remuneration:

a) Are bound to performance criteria that are predefined and measurable and that such criteria consider the risk assumed to obtain a result.

b) Promote the company's sustainability and include non-financial criteria that are appropriate for the creation of long-term value, such as compliance with the company's internal rules and procedures and its policies for risk control and management.

c) Are set up on the basis of a balance between fulfilling objectives in the short-, medium- and long-term that make it possible to reward continuous performance during a period of time that is sufficient to appreciate the contribution to sustainable creation of value, in such a way that the elements for measuring this performance are not solely based around one-off, occasional or extraordinary events.

Complies X Partially complies Explain Not applicable

59. Payment of a significant part of variable components of remuneration is deferred for a sufficient minimum period of time to verify that the remuneration terms previously set up have been fulfilled.

Complies Partially complies Explain Not applicable X

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

Complies Partially complies Explain Not applicable X

61. A significant percentage of the executive directors' variable remuneration is linked to the handover of shares or financial instruments referenced to their value.

Complies Partially complies Explain Not applicable X

62. Once the shares or options or rights over shares relating to the remuneration system have been allotted, the directors may not transfer ownership of a number of shares equivalent to twice their annual fixed remuneration, nor may they exercise the options or rights until a period of, at least, three years has passed since their allotment.

The foregoing will not be applicable to shares that a director needs to dispose of, as appropriate, to pay for the costs related to their acquisition.

Complies Partially complies Explain Not applicable X

63. Contractual agreements include a clause that allows the company to claim repayment of the variable components of remuneration where the payment has not been adjusted to the terms for performance or where they were paid in the light of data which is later proven to be inaccurate.

Complies Partially complies Explain Not applicable X

64. Payments for termination of contract do not exceed an amount established as the equivalent of two years total annual remuneration and they are not paid until the company has been able to prove that the director fulfilled the performance criteria set up beforehand.

☐ Complies ☐ Partially complies ☐ Explain ☐ Not applicable X

H OTHER RELEVANT INFORMATION

1. If there are any aspects relating to the corporate governance of the Company or the Group's entities which have not been covered in the other sections of this report, but which are necessary to include in order to gather complete and detailed information on the structure and practices of the governance of the entity or the Group, please note them briefly.

2. You may include any other information, clarification or detail in this section, related to the previous sections of the report, which may be relevant but not repetitive.

   Specifically, please indicate whether the company is subject to legislation other than that of Spain in relation to corporate governance and, if applicable, include the information that must be provided and that is different to the information required by this report.

3. The company may also indicate whether it has voluntarily committed to other codes of ethics or best practices, whether international, in the sector or in another context. If so, identify the code in question and the date of adhesion.

SECTION A.3.

Although at 31 December 2016 the list of shareholders is the one included under paragraph, the Company wants to inform about the following changes duly communicated by the relevant shareholder to CNMV:

- The 31st January 2017 Henderson Global Investors Ltd communicated its decrease up to 2,98%.

- The 27 February 2017 HNA has communicated its decrease from 29.5% to 29.3%.

SECTION A.5.

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

SECTION A.8.

At 31 December 2016, final ownership of NH Hotel Group, S.A. own shares came to 7,530,886 own shares.

During 2016, the Company acquired 600,000 own shares. The other operations correspond to refunds of shares undertaken as part of the loan agreement for 9,000,000 shares in NH Hotel Group, S.A. entered into as part of the issue of the bonds convertible or exchangeable for shares of NH Hotel Group in November 2013 between the Company and the three financial institutions involved in the placement of the bonds. The outstanding balance of the share lending initiative at 2 December 2016 came to 2,069,114 shares. By virtue of the foregoing, the final ownership of NH Hotel Group, S.A. shares at 31 December 2016 came to 7,530,886 own shares, which are attached to the same number of rights to vote.

SECTION C.1.2.

Without prejudice to the composition of the Board of Directors, the Company has made the decision to implement a co-chairmanship, which will be carried out by the appointment of a Chairman of the Board and a Chairman of the Executive

Committee.

This section shows the composition of the Board on 31 December 2016. Without prejudice to the above, it is hereby recorded that as a result of Mr. Federico González Tejera's departure on 21 June 2016, the Board, at its meeting on 25 January 2017 decided to appoint Mr. Ramón Aragonés Marín as the company's Chief Executive, having previously served as General Operations Director. At said meeting, the Board agreed to propose the appointment of Mr. Aragonés as an Executive Company Director to the General Shareholders' Meeting, in addition to his formal appointment as Managing Director at the Board Meeting that will take place immediately after the aforementioned General Shareholders' Meeting.

Also, see Section C.1.9.

SECTIONS C.1.2, C.1.11, C.1.17 y C.2.1.

On 7th February 2017 Mr. Francisco Javier Illa has ceased in his functions due to decease.

SECTION C.1.12

The Corporate Governance Report formular only enables the inclusion of charges that the Directors may have as Board members in other listed Companies. Herweith we inform that Mr. Fernando Lacadena Azpeitia is Finance Director in Merlin Properties Socimi, S.A.

SECTION C.1.16.

Although this section shows the composition of Senior Management at 31/12/2016, it is hereby recorded that Mr. Ramón Aragonés Marín, General Operations Director, was appointed by the Board of Directors as the Company's Chief Executive on 25 January 2017.

The amount broken down corresponding to the total remuneration paid to members of senior management also includes the amounts paid to members who were considered to be senior management throughout 2016.

SECTION C.1.33.

The Board also has a Deputy Secretary, Mr Carlos Ulecia Palacios, who holds the post of General Secretary of the Company.

SECTION C.1.43.

HNA, via its company Tangla, S.L., has brought criminal proceedings against Mr. José Antonio Castro Sousa based on the agreements adopted at the General Shareholders' Meeting of 21 June 2016 at which Mr. Castro served as the Chairman of the Meeting. Said criminal proceedings are pending a court resolution.

SECTION C.2.1.

On 25 January 2016, Mr. Román Riechmann submitted his resignation as a member of the Appointments, Remunerations and Corporate Governance Committee.

SECTION D.2.

It is hereby recorded that concerning the management agreement entered into between Hoteles Hesperia, S.L. and Grupo Inversor Hesperia, S.A., the total transaction volume in 2016 came to €7454 (thousand). The balance at 31 December 2016 resulting from said management agreement is contained in this report and comes to €815 (thousand).

This annual corporate governance report has been approved by the company's Board of Directors in its session on 28/02/2017.

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

Yes ☐ No ☒

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Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON THE "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF NH HOTEL GROUP, S.A. FOR THE FISCAL YEAR ENDED ON DECEMBER 31th, 2016

To the Directors of
NH HOTEL GROUP, S.A.:

As requested by the Board of Directors of NH HOTEL GROUP, S.A. ("the Entity") and in accordance with our proposal-letter of November 22th, 2016, we have applied certain procedures to the accompanying "Information relating to the ICFR" of NH HOTEL GROUP, S.A. for the fiscal year ended on December 31th, 2016, which summarises the internal control procedures of the Entity in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the ICFR system included in section F) of the accompanying Annual Corporate Governance Report (ACGR).

It should be noted in this regard, irrespective of the quality of the design and operational effectiveness of the internal control system adopted by the Entity in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of the Entity was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Entity's financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Entity's annual financial reporting for the fiscal year ended on December 31th, 2016 described in the accompanying information on the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the consolidated Spanish audit law, we do not express an audit opinion in the terms provided for in that Law.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Entity in relation to the ICFR system - disclosure information included in the directors' report - and assessment of whether this information addresses all the information required considering the minimum content described in section F, relating to the description of the ICFR system, of the ACGR form, as established in CNMV Circular 7/2015 of December 22nd, 2015, which amends CNMV Circular 5/2013 of June 12th, 2013.

2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of achieving: (i) familiarisation with the preparation process; (ii) obtainment of the information required in order to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtainment of information on whether the aforementioned control procedures have been implemented and are in use at the Entity.

3. Review of the explanatory documents supporting the information detailed in point 1 above, including documents directly made available to those responsible for describing the ICFR systems. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.

4. Comparison of the information detailed in point 1 above with the knowledge on the Entity's ICFR obtained through the procedures applied during the financial statement audit work.

5. Reading of the minutes taken at meetings of the Board of Directors, Audit and Control Committee and other committees of the Entity to evaluate the consistency between the ICFR business transacted and the information detailed in point 1 above.

6. Obtainment of the representation letter in connection with the work performed, signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements of article 540 of Corporate Enterprises Act and by CNMV Circular 7/2015 of December 22nd, 2015, which amends CNMV Circular 5/2013 of June 12th, 2013, published by the Spanish National Securities Market Commission for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.

Pilar Cerezo Sobrino

February 28th, 2017