

## **NH Hotel Group, S.A.**

Financial Statements for the year  
ended 31 December 2017 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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## **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**

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

### **Report on the Financial Statements**

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#### **Opinion**

We have audited the financial statements of NH Hotel Group, S.A. (the Company), which comprise the balance sheet as at 31 December 2017, and the income statement, statement of changes in equity, cash flows statement and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2017, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2-a to the financial statements) and, in particular, with the accounting principles and rules contained therein.

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#### **Basis for Opinion**

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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



## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Recoverability of deferred tax assets

#### Description

The balance sheet as at 31 December 2017 includes deferred tax assets amounting to EUR 100 million, of which EUR 91 million relate to tax assets (mainly tax loss and tax credit carryforwards) of the Company.

At the end of the year the Company prepares financial models to assess the recoverability of the tax losses recognised, taking into consideration new legislative developments and the most recently approved business plans.

We identified this matter as key in our audit, since the preparation of these models requires a significant level of judgement, largely in connection with the projections of business performance, which affect the estimate of the recoverability of the tax assets.

#### Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls, as well as tests to verify that those controls operate effectively, the review of the aforementioned financial models, including the analysis of the consistency of the actual results obtained by the Company with the results projected in the previous year's models, the obtainment of evidence of the approval of the budgeted results included in the current year's models and the tax legislation applicable where the deferred tax assets are recognised, as well as the reasonableness of the projections for future years and the consistency of these projections with those used in other areas of estimation, such as those used in the assessment of impairment on financial investments relating to Group companies and associates or in the impairment test on hotel assets. We also involved our internal experts from the tax area in the analysis of the reasonableness of the tax assumptions considered on the basis of the applicable legislation.

Lastly, we assessed whether Note 14 to the accompanying financial statements contains the disclosures required in this connection by the regulatory financial reporting framework applicable to the Company.



## Measurement of ownership interests in Group companies and associates

### Description

The Company has ownership interests in the share capital of Group companies and associates that are not listed on regulated markets, as detailed in Note 8.2.

The measurement of these ownership interests requires the use of significant judgements and estimates by management, both in determining future cash flow discounting as the valuation method and in considering the key assumptions established.

As a result of the foregoing, as well as the significance of the investments held, which amounted to EUR 1,887 million at year-end and for which a net impairment loss of EUR 51 million was reversed in the statement of profit or loss for 2017, this situation was determined to be a key matter in our audit.

### Procedures applied in the audit

Our audit procedures included, among others, obtaining and analysing the valuation studies conducted by Company management on the aforementioned ownership interests, and verifying the clerical accuracy thereof and the adequacy of the valuation method used in relation to the investment held. For this purpose, we analysed whether the future cash flow estimates considered in the analysis carried out were consistent with the budgets approved by the Board of Directors, and with external data and historical information on the investees.

In this context, we analysed the reasonableness of the main assumptions used (basically those relating to the estimated future cash flows, the terminal value and the discount rates) and whether they were consistent with the actual data relating to the performance of the ownership interests held, as well as other key assumptions considered (such as the revenue growth, the assumptions on gross margins, cost inflation and perpetuity growth rates) and with public data on the sectors in which the investees operate. We also considered the ability to distribute dividends based on historical information and existing agreements that do not preclude their distribution in the future, and performed a sensitivity analysis of the key assumptions identified.

We involved our internal valuation experts in order to evaluate, mainly, the discount rates considered and the terminal value, expressed in perpetuity growth terms, of the projected future cash flows. Lastly, we evaluated whether the disclosures included in Note 8.2 to the accompanying financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.



## Impairment test on assets associated with the hotel activity

### Description

As indicated in Note 18-a) to the financial statements, at 31 December 2017 the Company was carrying on its activity through hotel establishments that it operates and owns, or was receiving income from leasing hotel assets owned by it. The carrying amount of all the assets associated with the hotel activity -property, plant and equipment and intangible assets- amounted to EUR 163 million at 31 December 2017.

At the end of each reporting period, management performs an impairment test in order to determine the recoverable amount of the aforementioned assets. In order to calculate the recoverable amount of each cash-generating unit ("CGU"), Company management generally considers the calculation of the value in use of each of these units based on the estimate of future cash flows and applying specific growth rates and a specific discount rate

The valuation of the hotel assets is a key audit matter, since it requires the use of estimates with a significant degree of uncertainty. Specifically, the valuation method generally applied to hotel assets is the discounted cash flow method, which requires estimates to be made, inter alia, of:

- The future room rental revenue of each CGU (projected as the occupancy rate multiplied by the average price per room and by the total number of rooms available per year).
- The rest of the revenue projected as the average ratio of the room rental revenue to that revenue.
- Staff costs and other direct expenses associated with each CGU.
- The internal rate of return or opportunity cost used when discounting.

The residual value of the assets at the end of the projection period.

### Procedures applied in the audit

We obtained the impairment test performed by management and, with the involvement of our internal experts, our audit procedures included, among others:

- The review of the design and implementation of the relevant controls that mitigate the risks associated with the process to assess the potential impairment of the assets associated with the hotel activity, as well as tests to verify that the aforementioned controls operate effectively;
- The comparison of the consistency of the methodology used in 2017 with that of the previous year;
- The clerical review of the calculations;
- Based on a sample of assets, taken on a selective basis, the assessment of the reasonableness of the main assumptions applied in relation to room rental revenue, as well as the future investments and the comparison with objective publically available data;
- The analysis of the reasonableness of the discount rate used and review of the sensitivity analyses;
- A retrospective review, based on a sample of predictions with the objective of identifying bias in management's assumptions and the assessment of the historical achievement of the Company's budgets.

We also assessed whether the disclosures made by the Company in relation to these matters, which are included in Notes 4-c, 5 and 6 to the accompanying financial statements for 2017, contain the information required by the applicable accounting legislation.



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## **Other Information: Directors' Report**

The other information comprises only the directors' report for 2017, the preparation of which is the responsibility of the Company's directors and which does not form part of the financial statements.

Our audit opinion on the financial statements does not cover the directors' report. Our responsibility relating to the directors' report is defined in the audit regulations in force, which establish two distinct levels of review:

a) A specific level that applies to the non-financial information statement, as well as to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the directors' report and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the financial statements, based on the knowledge of the entity obtained in the audit of those financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of the directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have checked that the specific information described in section a) above has been provided in the corporate responsibility report for 2017 to which a reference is included in the directors' report, and that the other information in the directors' report is consistent with that contained in the financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

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## **Responsibilities of the Directors and of the Audit Committee for the Financial Statements**

The directors are responsible for preparing the accompanying financial statements so that they present fairly the Company's equity, financial position and results in accordance with the regulatory financial reporting framework applicable to the Company in Spain, 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.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the process involved in the preparation and presentation of the financial statements.

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## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.



Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in Appendix I to this auditor's report. This description, which comes later in this report, forms part of our auditor's report.

## **Report on Other Legal and Regulatory Requirements**

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### **Additional Report to the Audit Committee**

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated 27 February 2018.

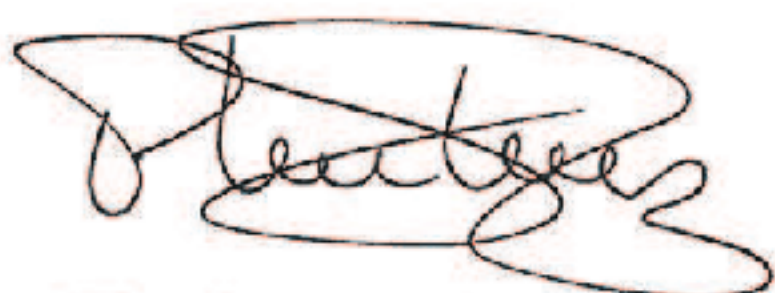
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### **Engagement Period**

The Annual General Meeting held on 29 June 2017 appointed us as auditors for a period of one year from the year ended 31 December 2016.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of one year and have been auditing the financial statements uninterrupted since the year ended 31 December 1993.

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



Pilar Cerezo Sobrino  
Registered in ROAC under no. 16502

28 February 2018



## **Appendix I to our auditor's report**

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the financial statements.

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### **Auditor's Responsibilities for the Audit of the Financial Statements**

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use by the directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the entity's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the entity's audit committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the entity's audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.



Translation of 2017 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.**

### **2017 Annual Accounts**



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# **NH HOTEL GROUP. S.A.**

## **2017 Annual Accounts**



**NH Hotel Group, S.A.**  
**BALANCE AT 31 DECEMBER 2017 AND 2016**  
(Thousands of euros)

ASSETS	Note	31/12/2017	31/12/2016	LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31/12/2017	31/12/2016
<b>NON-CURRENT ASSETS:</b>				<b>EQUITY</b>			
Intangible assets	Note 5	2,223,024	2,186,439	<b>SHAREHOLDERS' EQUITY</b>	Note 11	1,659,263	1,645,906
Tangible fixed assets	Note 6	45,208	47,373	Share capital		700,544	700,544
Non-current investments in Group companies and associates		117,710	122,090	Share premium		706,601	706,601
Equity instruments	Note 8.2	1,942,429	1,890,377	Reserves		491,835	477,432
Loans to companies	Note 17.1	1,886,517	1,834,465	Legal and statutory reserves		56,017	43,122
Non-current financial assets	Note 8.1	55,912	55,912	Other reserves		435,818	434,310
Deferred tax assets	Note 14	17,711	17,638	Prior years' losses		(255,869)	(354,882)
		99,966	108,961	Treasury shares and shareholdings		(39,250)	(39,983)
				Other equity instruments		27,230	27,230
				Profit (Loss) for the year	Note 13.1	28,172	128,964
				<b>NON-CURRENT LIABILITIES</b>			
				Long-term provisions	Note 12	725,917	871,926
				Other provisions		11,343	12,588
				Non-current payables		11,343	12,588
				Debt instruments and other marketable securities	Note 13.1	428,526	805,012
				Debits with credit institutions	Note 13.1	387,715	763,637
				Other financial liabilities	Note 13.3	37,437	37,566
				Long-term debts with group and associate companies	Note 17.1	3,374	3,809
				Deferred tax liabilities	Note 14	279,972	48,079
						6,076	6,247
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Non-current assets classified as held for sale	Note 9	753,512	644,943	Short-term provisions	Note 12	591,356	313,550
Inventories		51,465	51,465	Current payables	Note 13.1	5,800	6,611
Trade and other receivables		109	104	Debt instruments and other marketable securities	Note 13.1	247,544	15,128
Trade accounts receivable for sales and services		12,203	12,151	Debits with credit institutions	Note 13.1	246,195	2,233
Sundry debtors		7,466	2,389	Short-term debts with group and associate companies	Note 17.1	1,349	12,895
Personnel		192	5,026	Trade creditors and other accounts payable		289,496	241,455
Current tax assets	Note 14	1,518	896	Suppliers		48,516	50,356
Other tax receivables	Note 14	3,027	3,758	Other creditors		32,366	40,785
Current investments in Group companies and associates	Note 17.1	688,186	514,828	Personnel		9,720	4,496
Short-term financial investments	Note 13.2	26	1,944	Other taxes payable		5,424	3,976
Short-term accruals		1,030	1,899	<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	Note 14	1,006	1,099
Cash and cash equivalents	Note 10	493	62,552			2,976,536	2,831,382
<b>TOTAL ASSETS</b>		<b>2,976,536</b>	<b>2,831,382</b>				

The accompanying Notes 1 to 23 are an integral part of the balance sheet at 31 December 2017.  
The balance sheet at 31 December 2016 is presented for comparison purposes only.



# NH Hotel Group, S.A.

## INCOME STATEMENT FOR 2017

(Thousands of euros)

	Note	31/12/2017	31/12/2016
<b>Revenues</b>	<b>Note 18</b>	<b>31,326</b>	<b>28,159</b>
Sales		29,738	26,730
Other income	<b>Note 17.2</b>	1,588	1,429
<b>Procurements</b>		<b>1,230</b>	<b>1,839</b>
Work carried out by the company for its assets		2,854	5,403
<b>Other operating income</b>	<b>Note 17.2</b>	<b>87,853</b>	<b>76,895</b>
Non-core and other current operating income		87,853	76,895
<b>Staff costs</b>	<b>Note 18.b</b>	<b>(38,186)</b>	<b>(41,949)</b>
Wages, salaries and similar		(32,538)	(36,744)
Social security contributions		(5,648)	(5,205)
<b>Other operating expenses</b>		<b>(50,742)</b>	<b>(57,554)</b>
External services	<b>Note 18.c</b>	(23,192)	(26,038)
Taxes		(1,987)	(1,761)
Losses on, impairment of and changes in allowances for trade receivables		68	(103)
Other current operating expenses		(25,631)	(29,652)
<b>Depreciation and amortisation charge</b>	<b>Notes 5 &amp; 6</b>	<b>(19,464)</b>	<b>(20,262)</b>
<b>Impairment and gains or losses on disposals of non-current assets</b>		<b>22,982</b>	<b>47,415</b>
Impairments and other losses	<b>Notes 5 &amp; 6</b>	95	(120)
Income from disposals and other	<b>Note 6 and 18.c</b>	22,887	47,535
<b>PROFIT/LOSS FROM OPERATIONS</b>		<b>37,853</b>	<b>39,946</b>
<b>Financial income</b>		<b>894</b>	<b>327</b>
From investments in equity instruments			
- Third parties		-	27
From securities held for trading and other financial instruments			
- Third parties		894	300
<b>Financial expenses</b>		<b>(59,660)</b>	<b>(50,638)</b>
On debts to Group companies and associates	<b>Note 17.2</b>	(4,393)	(2,485)
On debts to third parties		(55,267)	(48,153)
<b>Changes in fair value of financial instruments</b>	<b>Note 4.e</b>	<b>(7)</b>	<b>435</b>
<b>Exchange rate differences</b>		<b>493</b>	<b>302</b>
<b>Impairment and gains or losses on disposals of financial instruments</b>	<b>Note 8.2</b>	<b>51,375</b>	<b>145,194</b>
<b>FINANCIAL PROFIT/LOSS</b>		<b>(6,905)</b>	<b>95,620</b>
<b>PROFIT/LOSS BEFORE TAX</b>		<b>30,948</b>	<b>135,566</b>
Income tax	<b>Note 14</b>	(2,776)	(6,602)
<b>PROFIT/LOSS FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<b>28,172</b>	<b>128,964</b>

The accompanying Notes 1 to 23 are an integral part of the income statement for 2017.

The income statement for 2016 is presented for comparison purposes only.



**NH Hotel Group, S.A.**  
**STATEMENT OF CHANGES IN EQUITY FOR 2017**  
**A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE**

	Thousands of euros	
	2017	2016
<b>PROFIT/LOSS AS PER INCOME STATEMENT (I)</b>		
	<b>28,172</b>	<b>128,964</b>
<b>TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)</b>	<b>-</b>	<b>-</b>
<b>TOTAL TRANSFERS TO PROFIT OR LOSS (III)</b>	<b>-</b>	<b>-</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)</b>	<b>28,172</b>	<b>128,964</b>

The accompanying Notes 1 to 23 are an integral part of the statement of recognised income and expense for 2017.  
The statement of recognised income and expense for the year ended 31 December 2016 is presented for comparison purposes only.



**NH HOTEL GROUP, S.A.**

**STATEMENTS OF CHANGES IN EQUITY FOR 2017**  
**B) STATEMENTS OF CHANGES IN TOTAL EQUITY**

(Thousands of euros)

	Equity						Profit (Loss) for the Year	Valuation adjustments	Total Shareholders' Equity
	Share capital	Share premium	Reserves	Treasury shares and shareholdings	Prior years' profits (losses)				
<b>Balances at 31 December 2015</b>	<b>700,544</b>	<b>706,601</b>	<b>475,505</b>	<b>(37,561)</b>	<b>(265,810)</b>		<b>(89,072)</b>	<b>27,230</b>	<b>1,517,437</b>
<b>I. Total recognised income</b>									
<b>II. Transactions with shareholders or owners</b>									
1. Transactions with treasury shares or shareholdings (net)									
<b>III. Other changes in equity</b>									
1. Transfers between equity items									
2. Remuneration scheme in shares									
<b>Balances at 31 December 2016</b>	<b>700,544</b>	<b>706,601</b>	<b>477,432</b>	<b>(39,983)</b>	<b>(354,882)</b>		<b>128,964</b>	<b>27,230</b>	<b>1,645,906</b>
<b>I. Total recognised income</b>									
<b>II. Transactions with shareholders or owners</b>									
1. Distribution of dividends (Note 11.a)									
<b>III. Other changes in equity</b>									
1. Transfers between equity items									
2. Remuneration scheme in shares									
<b>Balances at 31 December 2017</b>	<b>700,544</b>	<b>706,601</b>	<b>491,835</b>	<b>(39,250)</b>	<b>(255,869)</b>		<b>28,172</b>	<b>27,230</b>	<b>1,659,263</b>

The accompanying Notes 1 to 23 are an integral part of the statement of changes in total equity for the year 2017.

The statement of changes in equity for the year 2016 is presented for comparison only.



NH Hotel Group, S.A.

**CASH FLOW STATEMENT FOR 2017**

(Thousands of Euros)

	Notes to the report	2017	2016
<b>A) CASH FLOW FROM OPERATING ACTIVITIES</b>			
1. Profit (loss) before tax		30,948	135,566
2. Adjustments for:		3,664	(112,950)
a) Depreciation and amortisation charge (-)	Notes 5 & 6	19,464	20,262
b) Impairment losses (+/-)	Notes 5 & 6	(95)	120
c) Changes in provisions (+/-)		(225)	9,792
d) Gains/Losses on derecognition and disposal of non-current assets (+/-)	Note 18.a	(22,887)	(47,535)
e) Gains/Losses on derecognition and disposal of financial instruments (+/-)	Notes 18.2	(51,375)	(145,194)
f) Finance income (-)	Note 18.a	(2,482)	(1,756)
g) Finance costs (+)		59,660	50,638
h) Exchange rate differences (+/-)		(493)	(302)
i) Changes in the fair value of financial instruments (+/-)		7	(435)
j) Other income and expenses (-/+)		2,090	1,460
3. Changes in working capital		(5,536)	1,448
a) Inventories (+/-)		(5)	2
b) Trade and other receivables(+/-)		(3,515)	1,495
c) Other current assets (+/-)		2,780	(105)
d) Trade and other payables (+/-)		(3,578)	959
e) Other current liabilities (+/-)		(18)	(4)
f) Other non-current assets and liabilities (+/-)		(1,200)	(899)
4. Other cash flows from operating activities:		(48,230)	(31,770)
a) Interest paid (-)		(48,309)	(32,097)
b) Interest received (+)		79	1,756
5. Cash flows from investment activities (+/-1+/- 2+/-3+/-4)		(19,155)	(7,706)
<b>B) CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
6. Payments due to investment		(175,050)	(159,071)
a) Group companies and associates		(160,930)	(131,164)
b) Tangible and intangible fixed assets		(14,120)	(27,907)
7. Proceeds from disposal (+):		24,044	51,668
a) Property, plant and equipment		24,044	50,961
b) Other financial assets		-	707
8. Cash flows from investment activities (7-6)		(151,006)	(107,403)
<b>C) CASH FLOWS FROM FINANCING ACTIVITIES</b>			
9. Equity instruments receivables and (payables):		-	(2,422)
a) Purchase of treasury shares (-)		-	(2,422)
10. Proceeds and payments relating to financial liability instruments:		125,224	149,517
a) Issue of			
1. Obligations and other negotiable securities		-	285,000
2. Bank borrowings (+)		-	1,200
3. Borrowings from Group companies and associates		271,975	(16,410)
b) Redemption of			
1. Bank borrowings (-)	Note 13.1	(135,000)	(120,273)
2. Debts with credit institutions (-)	Note 13.1	(11,751)	-
11. Dividends paid out and other equity instruments retributions		(17,056)	-
a) Dividends (-)	Note 11	(17,056)	-
12. Cash flows from financing activities (+/-9+/-10+/-11)		108,168	147,095
<b>D) EFFECT OF EXCHANGE RATE VARIATIONS</b>			
		(66)	302
<b>E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)</b>			
		(62,059)	32,288
Cash and cash equivalents at the start of the financial year		62,552	30,264
Cash and cash equivalents at end of year		493	62,552

The accompanying Notes 1 to 23 are an integral part of the cash flow statement for the year 2017.

The cash flow statement for 2016 is presented for comparison only.



## **REPORT ON THE ANNUAL ACCOUNTS OF NH HOTEL GROUP S.A. FOR THE YEAR ENDING 31 DECEMBER 2017**

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### **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 Group entered into an agreement with Grupo Inversor Hesperia, S.A. (hereinafter "Hesperia") in 2009 to merge their respective hotel management businesses. As a result, the Group now manages certain hotels owned or operated by Hesperia. On 7 March 2017 a new agreement to manage 28 hotels was signed between NH Hotel Group, S.A. and Grupo Inversor Hesperia, S.A. ("GIHSA") for a 9-year period. This contract replaces and extends the previous one, signed in 2009 (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 2017, the Group was operating hotels in 31 countries, with 380 hotels and 58,926 rooms, of which around 74% 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 2017 were drawn up by the directors of NH Hotel Group, S.A. at the Board meeting held on 28 February 2018, in accordance with the regulatory reporting framework applicable to the Group, as established 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 2017 and of the results of its operations, changes in equity and consolidated cash flows for the year then ended.

The consolidated financial statements for 2016 were approved by the shareholders at the Annual General Meeting held on 29 June 2017 and filed with the Companies Registry of Madrid.



The consolidated financial statements for 2017 of the Group and the entities that it comprises have not yet been approved by the shareholders at the respective Annual General Meetings or by the respective shareholders or sole shareholders. Nonetheless, the directors of the Parent Company believe that said financial statements will be approved without any significant changes.

Based on the contents of said consolidated financial statements, the total volume of equity, period profit, assets and consolidated sales amounted to EUR 1,152 million, EUR 35 million, EUR 2,472 million and EUR 1,546 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) The General Accounting Plan approved by Royal Decree 1514/2007, which was amended by Royal Decree 602/2016, and its sector adaptations.
- c) The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the General Accounting Plan and the relevant secondary legislation.
- d) The standards and circulars of the National Securities Commission.
- e) All other applicable Spanish accounting legislation.

### **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 2017.

### **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 the tangible and intangible assets.
- The market value of specific 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 2017, 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 2016 contained in these notes to the consolidated financial statements is presented for the purposes of comparison with the information for 2017.

**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 2017 there were no significant changes in accounting policies with respect to those applied in 2016.

**h) Correction of errors**

In preparing the accompanying consolidated financial statements for 2017, no material errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2016.

### **3.- PROPOSED DISTRIBUTION OF PROFITS**

The proposed distribution of profits 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):

	2017
To legal reserve	2,817
To distribution of dividends	25,355
<b>Total</b>	<b>28,172</b>

Additionally, the distribution of dividends in the amount of 8,731 thousand euros with a charge to voluntary reserves is proposed, increasing the estimated total dividend to approximately 34,086 thousand euros. Both amounts are derived from a maximum amount to be distributed: gross 0.10 euros per share for all outstanding shares). The final amount in euros to be distributed will be updated according to the number of outstanding shares at the date of the dividend's approval by the General Shareholders' Meeting.

### **4.- ACCOUNTING POLICIES**

The main accounting policies used by the Company in preparing the financial statements for 2017, 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 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 obtained for each CGU, the impairment test is performed for those in which there are indications 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.

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

$$WACC = K_e * E / (E + D) + K_d * (1 - T) * D / (E + D)$$

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 6.7% (6% in 2016), 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-leveraged beta coefficient has been estimated on the basis of 64% de-leveraged betas (70% in 2016), the debt structure of comparable companies (Debt / (Debt + Equity) of 31% (32% in 2016) and the corresponding tax rate in each country.
- Market value of debt, amounting to 8% (5% in 2016).
- Premium by size: based on recent expert reports.

The discount rate after tax applied by the Company for this purpose is 7.05%. Like the cash flows resulting from the impairment tests, the average discount rate was also calculated after tax. Meanwhile, the book value to which the value-in-use is compared does not include any deferred tax liabilities which could be associated with the assets.

The average discount rate before tax applied by the Company for this purpose is 8.77% (9% in 2016).

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.

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.

#### Valuation techniques and assumptions applying to the measurement of fair value

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

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

The change in fair value as of 31 December 2017 of these hedges has had a positive effect concerning the 2017 income statement of 7 thousand euros (435 thousand euros in 2016). At 31 December 2017, the Company had not contracted any exchange rate insurance.

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 2017 the Company recognised 4,055 thousand euros for this item (7,137 thousand euros for 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 allocation of the aforementioned valuation to profit or loss is carried out under personnel expenses on a straight line basis over the period of time the employee is employed as a requirement for its exercise, and a balancing entry on the Balance Sheet under Reserves.

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.

**n) 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 2017 and 2016 are as follows (in thousands of euros):

	Balance at 31/12/2016	Additions	Retirements	Assignments (Note 6)	Balance at 31/12/2017
<b>COST</b>					
Rights of use	32,176	100	-	(1)	32,275
Concessions, patents and trademarks	359	315	(71)	255	858
Software applications	116,374	9,648	(63,655)	1,581	63,948
	<b>148,909</b>	<b>10,063</b>	<b>(63,726)</b>	<b>1,835</b>	<b>97,081</b>
<b>ACCUMULATED AMORTISATION</b>					
Rights of use	(20,799)	(1,363)	2	9	(22,151)
Concessions, patents and trademarks	(102)	(98)	71	(13)	(142)
Software applications	(80,635)	(12,163)	63,216	2	(29,580)
	<b>(101,536)</b>	<b>(13,624)</b>	<b>63,289</b>	<b>(2)</b>	<b>(51,873)</b>
<b>Impairment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET BOOK VALUE</b>	<b>47,373</b>				<b>45,208</b>



	Balance at 31/12/2015	Additions	Retirements	Assignments (Note 6)	Balance at 31/12/2016
<b>COST</b>					
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
	<b>137,084</b>	<b>14,616</b>	<b>(2,856)</b>	<b>65</b>	<b>148,909</b>
<b>ACCUMUATED AMORTISATION</b>					
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)
	<b>(91,099)</b>	<b>(12,159)</b>	<b>1,722</b>	<b>-</b>	<b>(101,536)</b>
Impairment	-	-	-	-	-
<b>NET BOOK VALUE</b>	<b>45,985</b>				<b>47,373</b>

The most significant additions in 2017 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.

The derecognitions are mainly represented by withdrawals of software applications which were fully amortised at year-end and which will be replaced by new investments. At the end of 2017 and 2016, the Company had fully amortised intangible assets still in use, itemised as follows (in thousands of euros):

	Thousands of euros	
	2017	2016
Usage rights, concessions, patents and brands	1,615	1,686
Software applications	10,200	59,485
<b>Total</b>	<b>11,815</b>	<b>61,171</b>



## 6.- PROPERTY, PLANT & EQUIPMENT

The detail of the different items of "Intangible Assets" and of the changes therein in 2017 and 2016 are as follows (in thousands of euros):

	Balance at 31/12/2016	Additions	Retirements	Assignments (Note 5)	Balance at 31/12/2017
<b>COST</b>					
Land and buildings	92,022	477	(327)	21	92,193
Plant and machinery	63,822	829	(2,278)	83	62,456
Other plant, fixtures and furniture	9,361	254	(3,978)	4,123	9,760
Other fixed assets and assets under construction	6,187	2,321	(80)	(6,066)	2,362
	<b>171,392</b>	<b>3,881</b>	<b>(6,663)</b>	<b>(1,839)</b>	<b>166,771</b>
<b>ACCUMULATED AMORTISATION</b>					
Buildings	(10,394)	(1,803)	82	(1)	(12,116)
Plant and machinery	(29,764)	(3,218)	2,006	-	(30,976)
Other fixtures, tools, furniture and other fixed assets	(8,774)	(819)	3,716	7	(5,870)
	<b>(48,932)</b>	<b>(5,840)</b>	<b>5,804</b>	<b>6</b>	<b>(48,962)</b>
<b>Impairment</b>	<b>(370)</b>	<b>-</b>	<b>271</b>	<b>-</b>	<b>(99)</b>
<b>NET BOOK VALUE</b>	<b>122,090</b>				<b>117,710</b>



	Balance at 31/12/2015	Additions	Retirements	Transfers	Balance at 31/12/2016
<b>COST</b>					
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
	<b>171,738</b>	<b>8,335</b>	<b>(8,616)</b>	<b>(65)</b>	<b>171,392</b>
<b>ACCUMULATED AMORTISATION</b>					
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)
	<b>(44,107)</b>	<b>(8,103)</b>	<b>3,278</b>	<b>-</b>	<b>(48,932)</b>
Impairment	<b>(250)</b>	<b>(176)</b>	<b>56</b>	<b>-</b>	<b>(370)</b>
<b>NET BOOK VALUE</b>	<b>127,381</b>				<b>122,090</b>

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

Additionally, disposals of tangible and intangible assets have been made during the year, recording a net capital gain of 22,887 thousand euros.

At the end of 2017 and 2016, the Company had fully depreciated items of property, plant and equipment still in use, itemised as follows:

	Thousands of euros	
	2017	2016
Plant and machinery	14,514	13,828
Other fixtures, tools, furniture and others	3,499	6,737
<b>Total</b>	<b>18,013</b>	<b>20,565</b>

The heading related to Land and Buildings includes Land corresponding to 52,457 thousand euros (52,647 thousand euros in 2016). 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 2017, there is 104 thousand euros in commitments for the purchase of fixed assets.

## 7. LEASES

At 31 December 2017 and 2016, 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	
	2017	2016
Less than one year	6,791	6,011
Between two and five years	21,783	19,114
More than five years	9,898	12,039
<b>Total</b>	<b>38,472</b>	<b>37,164</b>

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 2017 and 2016 came to 4,591 thousand euros and 4,521 thousand euros 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 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Other collection rights	16,395	16,395
Guarantees	1,310	1,237
Others	6	6
<b>Total</b>	<b>17,711</b>	<b>17,638</b>

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 2017 and 2016 is as follows:

Company/ Registered address /Activity	Direct shareholding	2017 - Thousands of euros					
		Share capital	Profit (Loss)	Other equity items	Total Shareholders' Equity	Cost	Provision
NH Italia, S.p.A./Valdugno/Hoteleria (**)	5%	233,847	18,596	166,479	418,922	300,209	-
NH Europa, S.A./Madrid/Holding (*)	100%	100,743	(5,104)	751,378	847,018	973,359	-
Latinamericana De Gestion Hoteleria, S.A./Madrid/Holding (*)	100%	104,036	3,567	10,982	118,585	179,217	(8,664)
NH Hoteles España, S.A./Madrid/Hoteleria(**)	100%	177,059	24,885	(42,947)	158,997	351,086	-
NH Central Reservation Office, S.L./Madrid/Call Center(**)	100%	7,700	(1,134)	1,804	8,370	31,675	(26,249)
NH Finance, S.A./Luxemburg/Financing(**)	99%	12,032	5,846	74,049	91,927	80,508	-
Beijing NH Grand China Hotel Management Co, Ltd (*)	50%	8,950	(1,533)	(3,057)	4,360	4,421	-
Others						955	-
<b>Total</b>						1,921,430	(34,913)

(\*) Unaudited companies

(\*\*) Unaudited data



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./Valdagna/Hoteleria (**)	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/Hoteleria(**)	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



The changes in "Investments in Group Companies" in 2017 are as follows (in thousands of euros):

Company/ Registered address /Activity	Cost			Provision			Net
	Balance at 31/12/2016	Additions	Retirements	Balance at 31/12/2017	Additions	Reversals	Balance at 31/12/2017
NH Italia, S.p.A./Valdarno/Hoteleria	300,133	76	-	300,209	-	-	300,209
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 Hoteleria, S.A./Madrid/Holding	179,217	-	-	179,217	-	52,510	170,553
NH Hoteles España, S.L./Barcelona/Hospitality	350,857	229	-	351,086	-	-	351,086
NH Central Reservation Office, S.L./Madrid/Call Center	31,652	23	-	31,675	(1,134)	(26,249)	5,426
Beijing NH Grand China Hotel Management Co, Ltd/China/Hoteleria	4,421	-	-	4,421	-	-	4,421
Others	607	395	(47)	955	-	-	955
<b>Total</b>	<b>1,920,754</b>	<b>723</b>	<b>(47)</b>	<b>1,921,430</b>	<b>(1,134)</b>	<b>52,510</b>	<b>1,886,517</b>

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

Company/ Registered address /Activity	Cost			Provision			Net
	Balance at 31/12/2015	Additions	Retirements	Balance at 31/12/2016	Additions	Reversals	Balance at 31/12/2016
NH Italia, S.p.A./Valdarno/Hoteleria	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 Hoteleria, S.A./Madrid/Holding	179,217	-	-	179,217	-	59,389	118,043
NH Hoteles España, S.L./Barcelona/Hospitality	350,743	114	-	350,857	-	43,748	350,857
NH Central Reservation Office, S.L./Madrid/Call Center	31,645	7	-	31,652	(489)	-	6,537
Past Good Peninsula Ibérica, S.L./Madrid/Dormant	803	-	(803)	-	-	803	-
Inversiones y Gestores Asociados, S.A./Madrid/Holding	3,094	-	(3,094)	-	-	2,994	-
Grupo Financiero de Intermediación/Madrid/Holding	361	-	(361)	-	-	361	-
Beijing NH Grand China Hotel Management Co, Ltd/China/Hoteleria	273	4,148	-	4,421	-	-	4,421
Others	403	267	(63)	607	-	11	607
<b>Total</b>	<b>1,920,460</b>	<b>4,615</b>	<b>(4,321)</b>	<b>1,920,754</b>	<b>(489)</b>	<b>107,306</b>	<b>1,834,465</b>



## 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.

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

During 2017, there were no significant movements.

The significant data in relation to these assets at 31 December 2017 is as follows:

Company	Direct shareholding	Thousands of euros				
		Share capital	Profit (Loss)	Other equity items	Total Shareholders' Equity	Cost
Sotocaribe, S.L.	35,5%	61,082	872	100,421	162,375	42,399
Capredo Investments GmbH	100%	40	320	16,777	17,137	9,066
<b>Total</b>						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 2017 and 2016 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

NH Hotel Group, S.A. share capital at the end of 2017 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 shareholders with shareholdings above 3% at 31 December 2017 and 2016 were as follows:

	2017	2016
HNA Group Co Limited	29.35%*	29.50%
Oceanwood Capital Management LLP	12.06%	11.97%
Hesperia Group	9.27%**	9.27%

Although in the CNMV Records it is recorded that the shareholding of Grupo HNA in NH is 29.50% at 31 December 2017, Grupo HNA reported a decrease to 29.35% in its shareholding in NH to the CNMV on 27 February 2017. In addition, on 3 November 2017, Grupo HNA notified the CNMV of the signing of a sales contract and repurchase agreement through which it would transfer NH shares representing approximately 1.14% of the share capital. Depending on whether the sale has been formalised and the terms and conditions of it, Grupo HNA's shareholding in NH could reach 28.20% of the share capital. Finally, on 19 January 2018, it notified the CNMV of the engagement to review its shareholding in NH, including identify potential buyers of its shareholding.

\*\* The shareholding of Grupo Hesperia consists of the direct shareholding held by Grupo Inversor Hesperia, S.A. (9.10%) and Eurofondo (0.17%).

At year-end 2017 and 2016, the members of the Board of Directors were the holders or proxies of shareholdings representing approximately 21.38% and 21.28% of the share capital, respectively.

On 29 June 2017, the General Shareholders' Meeting approved the distribution of a dividend at 5 cents per outstanding share, charged to 2016 profits. The total amount of dividends paid in 2017 amounted to 17 million euros.

#### **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.

At 31 December 2017 and 2016, the company's legal reserve was not fully constituted.

#### **d) Restricted reserve**

Reserves totalling 39,250 thousand euros at 31 December 2017 (39,983 thousand euros at 31 December 2016) could not be distributed, as this figure corresponds to own shares.

#### **e) Treasury shares and shareholdings**

At the end of the year, NH Hotel Group, S.A. had 9,416,368 treasury shares on its balance sheet, whose main composition and movements are broken down as follows:

- Securities loan linked to the convertible bond issue dated 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 euros. 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 2017, the financial entities have returned 7,615,527 of those 9,000,000 shares, which are thus now held by NH Hotel Group, S.A. 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 2016, the Company purchased 600,000 treasury shares.
- In the first half of 2017, the first cycle of the long-term incentive plan was settled corresponding to the year ended 31 December 2016. This plan was settled in March, April and July with the delivery of 183,632 shares valued at 733 thousand euros on the settlement date.

## 12.- PROVISION FOR CONTINGENCIES AND CHARGES

The detail of "Provisions for Contingencies and Charges" as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
<b>Provisions for contingencies and extraordinary costs:</b>		
Provision for pensions and similar obligations	306	352
Provision for liabilities	11,037	12,227
Provision for onerous contracts	-	9
	<b>11,343</b>	<b>12,588</b>
<b>Provisions for contingencies and current expenses:</b>		
Provision for onerous contracts	-	11
Provision for restructuring	5,800	6,600
	<b>5,800</b>	<b>6,611</b>

### Provision for liabilities

In 2017, the long-term "Provision for liabilities" account includes provisions for litigation and risks which the Company considers probable. No decision on these claims is expected in the short term.

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.

## 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 2017 and 2016 were as follows:



	Thousands of euros			
	2017		2016	
	Long-term	Short-term	Long-term	Short-term
Convertible bonds	-	244,606	238,724	=
Guaranteed senior bonds maturing in 2019	-	-	250,000	=
Guaranteed senior bonds maturing in 2023	400,000	-	285,000	=
Borrowing costs	-	5,125	-	6,248
Arrangement expenses	(12,285)	(3,536)	(10,087)	(4,015)
<b>Debt instruments and other marketable securities</b>	<b>387,715</b>	<b>246,195</b>	<b>763,637</b>	<b>2,233</b>
Unsecured loans	-	-	-	6,200
Subordinated loan	40,000	-	40,000	-
Credit lines	-	2,008	-	7,559
Arrangement expenses	(2,563)	(799)	(2,434)	(1,015)
Borrowing costs	-	140	-	151
<b>Debts with credit institutions</b>	<b>37,437</b>	<b>1,349</b>	<b>37,566</b>	<b>12,895</b>
<b>Total</b>	<b>425,152</b>	<b>247,544</b>	<b>801,203</b>	<b>15,128</b>

The current fair value of the convertible bonds, bearing in mind the implicit cost until maturity of bonds issued during 2017, would mean such bonds amounting to 242 million euros (224 million euros in 2016). 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 250,000 thousand euros, 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 euros
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 27,230 thousand euros.

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 1,384,473 shares at 31 December 2017 (see Note 11).

As the maturity of the convertible bonds will occur on 31 October 2018, the Group has reclassified all debt associated with the "Bonds and other convertible securities" item of current liabilities at 31 December 2017.

In this regard, the directors of the Company consider there being no doubt as to the Company being able to meet the payment of the debt at maturity both due to the expectation of generating positive cash flows



during the year and the fact that, as indicated in the section "guaranteed syndicated credit line" of this Note, the Company has a credit line of 250 million euros and a final maturity on 29 September 2021 which, at 31 December 2017, is available in full.

#### **Secured senior bonds maturing in 2019**

On 30 October 2013, the Company placed guaranteed convertible senior bonds for a nominal value of 250,000 thousand euros, maturing in 2019. The nominal yearly interest rate for said issuance of notes is 6.875%. At 31 December 2017, these bonds are fully cancelled through early amortisation or refinancing (see section "Refinancing 2017").

#### **Secured senior bonds maturing in 2023**

On 23 September 2016, the Company placed guaranteed convertible senior bonds for a nominal value of 285,000 thousand euros, maturing in 2023. The nominal yearly interest rate for said issuance of notes is 3.75%. On 4 April 2017, the Company issued an extension of guaranteed senior bonds maturing in 2023 for a nominal amount of 115,000 thousand euros with an implicit cost until maturity of 3.17%. The outstanding nominal amount at 31 December 2017 is 400,000 thousand euros (see section "Refinancing 2017").

#### **Refinancing 2017**

As indicated in the section "Guaranteed senior notes maturing in 2019", at the beginning of the year the Group owed 250,000 thousand of bonds to their holders which have been fully refinanced or amortised in full throughout 2017

In this regard, in April 2017, the Company issued an extension of guaranteed senior notes maturing in 2023 for a nominal amount of 115,000 thousand euros with an implicit cost until maturity of 3.17%. This extension led to the conversion of 121,505 thousand euros in guaranteed senior notes maturing in 2019 with an annual nominal interest of 6.875%, after having the aforementioned 121,505 thousand euros acquired by the Deutsche Bank branch in London on this date, the Company reached the following milestones corresponding to the accrued and unpaid coupon and premium for the repurchase offer:

- Conversion of the nominal amount of 121,505 thousand euros of guaranteed senior note maturing in 2019 into a new one of 115,000 thousand euros with the same conditions as the guaranteed senior notes maturing in 2023.
- Payment of unpaid accrued interest and other interest: 3,225 thousand euros
- Payment of the amount of the repurchase premium: 9,599 thousand euros

In relation to the conversion of the notes, the Directors of the Company consider that all the qualitative and quantitative criteria have been met (mainly, that the current value of the cash flows discounted under the new terms, including any commission paid net of any commission received, and discounting using the original effective interest rate, differs by less than 10% from the discounted present value of the cash flows which still remained of the syndicated notes maturing in 2019), for their accounting recognition, in accordance to their interpretation of the standard, that the new notes maturing in 2023 and amount of 115 million euros, do not differ significantly from those cancelled for the amount of 121,505 thousand euros maturing in 2019. Therefore, the new notes maturing in 2023 are reduced by the arrangement expenses pending of the redeemed obligations maturing in 2023, as well as the new arrangement expenses incurred which could be registered as such.

In May 2017, the Company voluntarily amortised, by paying the applicable premium, 28,495 thousand euros of the guaranteed senior notes maturing in 2019 with an annual nominal interest rate of 6.875%. The payments made for the repurchase were broken down as follows:

- Nominal paid in advance: 28,495 thousand euros
- Unpaid accrued interest and other interest: 920 thousand euros
- Amount of the repurchase premium: 2,068 thousand euros



Finally, in November 2017, the Company voluntarily amortised, by paying the applicable premium to the remaining 100,000 thousand euros of the guaranteed senior notes maturing in 2019 with an annual nominal interest rate of 6.875%. The payments made for the repurchase are broken down as follows:

- Nominal paid in advance: 100,000 thousand euros
- Unpaid accrued interest and other interest: 286 thousand euros
- Amount of the repurchase premium: 3,438 thousand euros

As a result of the aforementioned three amortisations, the guaranteed senior notes maturing in 2019 have been fully refinanced or cancelled early in full.

#### **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 euros ("syndicated credit line") with a maturity of three years, extendable to five years at the time of the refinancing of the guaranteed "senior" notes maturing in 2019. As a consequence of the refinancing and early payments of the guaranteed senior notes maturing in 2019 which took place in 2017, the maturity date of said financing has been extended to 29 September 2021. At 31 December 2017, this financing was not available in full.

#### **Obligations required in the guaranteed senior note indentures maturing in 2023 and in the syndicated credit line**

The senior notes maturing in 2023 and the syndicated credit line require the fulfilment of a series of obligations and limitations of essentially homogeneous content as regards the assumption of additional borrowing or provision of guarantees in favour of third parties, the granting of real guarantees on assets, the sale of assets, investments that are permitted, restricted payments (including the distribution of dividends to shareholders), transactions between related parties, corporate transactions and disclosure obligations. These obligations are detailed in the issue prospectus for the aforementioned notes, as well as in the credit agreement of the syndicated credit line. In addition, the syndicated credit line requires compliance with financial ratios; in particular (i) an interest coverage ratio of  $\geq 2.00x$ , (ii) a debt coverage ratio of  $\leq 5.50x$  and (iii) a Loan to Value ("LTV") ratio of  $\leq 55\%$  up to the maturity or refinancing date of the guaranteed senior notes maturing in 2019, a fact which occurred during 2017. On the date of expiry or refinancing of these debentures, the loan-to-value ratio must be  $\leq 70\%$ , and after that date, the applicable loan-to-value ratio will depend on the indebtedness of NH at the time, as indicated below:

- Debt-to-income ratio  $> 4.00x$ : LTV ratio = 70%
- Debt-to-income ratio  $\leq 4.00x$ : LTV ratio = 85%
- Debt-to-income ratio  $\leq 3.50x$ : LTV ratio = 100%

As a result of the early voluntary amortisation of all guaranteed senior notes maturing in 2019, the LTV at 31 December 2017 is generally  $\leq 70\%$ . Subsequently, it will be reviewed according to the ratio of net indebtedness.

At 31 December 2017 these ratios were completely adhered to.

#### **Package of guaranteed senior notes maturing in 2023 and syndicated credit line**

The guaranteed senior notes maturing in 2023 and syndicated credit line (undrawn at 31 December 2017) 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 Congress 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 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.

#### **Limitation on the distribution of Dividends**

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

In the case of the senior notes maturing in 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 (including dividends and repayment of subordinated debt) made since 8 November 2013 is less than the sum of, amongst other items, (i) 50% of NH's consolidated net income (even though in the calculation of net income, 100% of consolidated net losses must be deducted) from 1 July 2013 to the date of the last quarterly accounts available (this is what is known as the CNI Builder) and, (ii) 100% of the net contributions to NH's capital from 8 November 2013.

Additionally, as an alternative and without having to be in compliance with the previous condition:

(i) 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 alternatively and without having to be concurrent with the previous ones, the notes maturing in 2023 establish a franchise to be able to make restricted payments (including dividends) without needing to comply with any specific requirement, for a total aggregate amount of 25,000,000 euros as of 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 Financial Debt (through 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 Debt Ratio, Net Financial (through the payment of the Dividend) / EBITDA according to the following breakdown:

- Net Financial Debt / EBITDA  $\leq 4.0x$ : Percentage of consolidated net profit: 75%
- Net Financial Debt / EBITDA  $\leq 3.5x$ : Percentage of consolidated net profit: 100%
- Net Financial Debt / EBITDA  $\leq 3.0x$ : Percentage of consolidated net profit: unlimited

#### **Credit lines**

The available balance on credit lines at 31 December 2017 was 2,008 thousand euros with an available limit of 48,345 thousand euros.

#### **Subordinated loan**

A loan amounting to 40,000 thousand euros fully drawn at 31 December 2017 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):



Instrument	Limit	Available	Disposed	Maturity						
				2017	2018	2019	2020	2021	2022	Remainder
<b>Subordinated loans</b>	<b>40,000</b>	-	<b>40,000</b>	-	-	-	-	-	-	<b>40,000</b>
Variable interest	40,000	-	40,000	-	-	-	-	-	-	40,000
<b>Convertible bonds</b>	<b>250,000</b>	-	<b>250,000</b>	-	<b>250,000</b>	-	-	-	-	-
Fixed rate	250,000	-	250,000	-	250,000	-	-	-	-	-
<b>Guaranteed senior notes mat. in 2023</b>	<b>400,000</b>	-	<b>400,000</b>	-	-	-	-	-	-	<b>400,000</b>
Fixed rate	400,000	-	400,000	-	-	-	-	-	-	400,000
<b>Secured credit line</b>	<b>250,000</b>	<b>250,000</b>	-	-	-	-	-	-	-	-
Variable interest	250,000	250,000	-	-	-	-	-	-	-	-
<b>Credit lines</b>	<b>50,353</b>	<b>48,345</b>	<b>2,008</b>	-	<b>2,008</b>	-	-	-	-	-
Variable interest	50,353	48,345	2,008	-	2,008	-	-	-	-	-
<b>SUBTOTAL</b>	<b>990,353</b>	<b>298,345</b>	<b>692,009</b>	-	<b>252,008</b>	-	-	-	-	<b>440,000</b>
<b>Arrangement expenses</b>	<b>(19,183)</b>	-	<b>(19,183)</b>	-	<b>(4,336)</b>	<b>(3,091)</b>	<b>(3,233)</b>	<b>(3,187)</b>	<b>(2,755)</b>	<b>(2,582)</b>
<b>Implicit derivative convertible bonds</b>	<b>(5,394)</b>	-	<b>(5,394)</b>	-	<b>(5,394)</b>	-	-	-	-	-
<b>Borrowing costs</b>	<b>5,265</b>	-	<b>5,265</b>	-	<b>5,265</b>	-	-	-	-	-
<b>Borrowing at 31/12/2017</b>	<b>971,041</b>	<b>298,345</b>	<b>672,696</b>	-	<b>247,544</b>	<b>(3,091)</b>	<b>(3,233)</b>	<b>(3,187)</b>	<b>(2,755)</b>	<b>437,418</b>
<b>Borrowing at 31/12/2016</b>	<b>1,109,453</b>	<b>281,976</b>	<b>816,331</b>	<b>15,128</b>	<b>233,638</b>	<b>246,487</b>	<b>(884)</b>	<b>(926)</b>	<b>(463)</b>	<b>323,351</b>

### 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 2017 and 2016 are as follows:

Item	Thousands of euros	
	2017	2016
Exchange rate derivatives	-	1,918
<b>Total</b>	<b>-</b>	<b>1,918</b>

During 2017, the exchange rate insurance was liquidated.

### 13.3 Other non-current financial liabilities

The balance of "Other Non-Current Financial Liabilities" at the end of 2017 and 2016 is as follows (in thousands of euros):

	2017	2016
Acquisition of Capredo Investment GmbH (Note 9)	3,150	3,150
Others	224	659
<b>Total</b>	<b>3,374</b>	<b>3,809</b>



### **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 2017, 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 2017 is based on the following points:

- The Company had cash and cash equivalents amounting to 493 thousand euros at 31 December 2017 (see Note 10).
- Available undrawn credit facilities amounting to 48,345 thousand euros at 31 December 2017. Plus the secured long-term syndicated credit line for 250,000 thousand euros which was undrawn at 31 December 2017 (see Note 13.1).
- The company's capacity to increase its financial borrowing; given that it has non-collateralised assets in the companies it 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 2017 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 2017:

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.

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	
	2017	2016
<b>Non-current receivables</b>		
Deferred tax assets	99,966	108,961
<b>Total</b>	<b>99,966</b>	<b>108,961</b>
<b>Current receivables</b>		
VAT refundable	1,169	1,719
Corporate income tax refundable	1,518	896
Others	1,858	2,039
<b>Total</b>	<b>4,545</b>	<b>4,654</b>

### *Tax payables*

	Thousands of euros	
	2017	2016
<b>Non-current payables</b>		
Deferred tax liabilities	6,076	6,247
<b>Total</b>	<b>6,076</b>	<b>6,247</b>
<b>Current payables</b>		
Tax withholdings payable	513	695
Social Security payable	432	404
Others	61	-
<b>Total</b>	<b>1,006</b>	<b>1,099</b>

## 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 2017 and 2016 is as follows (in thousands of euros):



	Thousands of euros	
	2017	2016
Accounting profit before tax	30,948	135,566
<u>Adjustments to accounting profit (loss):</u>		
Due to permanent differences	(21,052)	(111,385)
Due to temporary differences	587	1,157
<b>Individual taxable base</b>	<b>10,483</b>	<b>25,338</b>
Bases provided by the consolidated companies	58,732	(6,474)
<b>Previous taxable base</b>	<b>69,215</b>	<b>18,864</b>
Carryforwards for negative tax bases before consolidation	(2,875)	(2,424)
Carryforwards for consolidated negative tax bases	(14,429)	(2,292)
<b>Tax base of the tax group</b>	<b>51,911</b>	<b>14,148</b>
Tax liability	(12,978)	(3,537)
Deductions for consolidated double taxation	6,489	1,768
Non-activated deductions used in the consolidate year	1,622	442
Withholdings and payment by instalments	6,281	2,124
<b>Current taxes to be refunded</b>	<b>1,414</b>	<b>797</b>
Previous years' taxes to be refunded	-	99
<b>Total taxes to be refunded</b>	<b>1,414</b>	<b>896</b>

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 euros into the tax assessments of Spanish companies affected in 2017. 3.6 million euros of this amount corresponds to the Company. It also includes other permanent differences related to non tax-deductible financial expenses.

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 Corporation Tax expense

The reconciliation of accounting profit and Corporation Tax expense is as follows:

	2017	2016
Accounting profit before tax	30,948	135,566
Permanent differences	(21,052)	(111,385)
<b>Adjusted tax base</b>	<b>9,896</b>	<b>24,181</b>
Rate at 25%	(2,474)	(6,044)
Non-activated deductions applied in the year	186	442
Cancellation of negative tax bases by asset disposals	-	(8,701)
Capitalisation of negative tax bases	-	7,377
Activation of deductions	-	864
Others	(488)	(540)
<b>Total tax expense recognised in the income statement</b>	<b>(2,776)</b>	<b>(6,602)</b>

The break down of Corporation Tax expense for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Current tax	(2,621)	(6,334)
Non-activated deductions applied in the year	186	442
Deferred tax	147	(170)
Others	(488)	(540)
<b>Total Corporation Tax expense</b>	<b>(2,776)</b>	<b>(6,602)</b>

#### Deferred tax assets

The negative tax bases and the deductions which reduce deferred tax assets correspond to those offset by the Company, with the remainder within the reconciliation of the accounting profit and taxable tax base corresponding to other companies of the tax Group.

The changes in Deferred tax assets in 2017 and 2016 are as follows:

	Thousands of euros	
	2017	2016
<b>Deferred tax assets</b>		
<b>Balance at beginning of year</b>	<b>108,961</b>	<b>118,639</b>
Asset disposals due to changes in scope	-	(8,701)
Tax credit offsets	(3,206)	(6,695)
Capitalisation of tax losses	-	7,377
Application of capitalised deductions	(5,529)	(2,346)
Activation of deductions	-	864
Temporary differences	(152)	118
Other movements	(108)	(295)
<b>Balance at end of year:</b>	<b>99,966</b>	<b>108,961</b>

	Thousands of euros	
	2017	2016
<b>Detail of the balance on deferred tax assets</b>		
Negative tax bases	86,673	89,879
Deductions	4,257	9,786
Others	9,036	9,296
<b>Balance at end of year:</b>	<b>99,966</b>	<b>108,961</b>

The cancellation of assets amounting to 3,206 thousand euros is due to the cancellation of tax losses to offset the positive tax bases generated by the Company in 2017. Additionally, the cancellation of deductions has been made for 5,529 thousand euros as a result of their use by the Company to offset the positive rate in 2017.

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

At 31 December 2017, the Group had assets resulting from tax losses and deductions amounting to 90,930 thousand euros (99,665 thousand euros in 2016). Additionally, NH Las Palmas, S.A., a company within the Tax group, has a tax loss asset of 354 thousand euros. At 31 December 2017, the tax credit recovery plan that supports the recognition of these tax credits had been updated. 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 2017, the Consolidated Tax Group had the following negative tax bases pending offsetting:

Financial year	Amount
2008	7,836
2009	60,384
2010	17,256
2011	24,577
2012	130,017
2013	11,592
2014	80,125
2015	14,905
<b>Total</b>	<b>346,692</b>

At 31 December 2017 the Tax Group, whose parent company is NH Hotel Group, S.A., had tax credits of 119,136 thousand euros which had not been recorded 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	
	2017	2016
<b>Finance costs and negative tax bases</b>		
Non-deductible finance costs by the Tax Group	260,852	223,095
Negative tax bases generated by the Spanish entities before inclusion in the Tax Group	103,572	106,447
<b>Total base</b>	<b>364,424</b>	<b>329,542</b>
<b>Total rate</b>	<b>91,106</b>	<b>82,386</b>
Deductions	28,030	29,637
<b>Total non-activated tax credits</b>	<b>119,136</b>	<b>111,992</b>

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 35,726 thousand euros in 2017 (37,200 thousand euros in 2016). There is no deadline for offsetting non-deductible finance costs.

#### Deferred tax liabilities

The movements in deferred tax liabilities during 2017 are as follows:

	Thousands of euros	
	2017	2016
<b>Deferred tax liabilities</b>		
<b>Balance at beginning of year:</b>	<b>6,247</b>	<b>6,419</b>
Deferral on reinvestment	(171)	(172)
<b>Balance at end of year:</b>	<b>6,076</b>	<b>6,247</b>

### Years open for review and tax audits

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

<b>Tax</b>	<b>Tax loss carryforwards</b>
Corporation	2014 - 2016
VAT	2015 to 2017
IRPF (personal income tax)	2015 to 2017
Non-resident Income Tax	2015 to 2017

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 2017, the Tax Group held the following tax credits carryforward (in thousands of euros):

<b>Year of origin</b>	<b>Deduction pending application</b>	<b>Amount</b>
2004 to 2011	Deduction to encourage certain activities (not activated)	28,030
2009 to 2015	Deduction to avoid double taxation (activated)	3,528
2013 to 2014	Others (activated)	729
		<b>32,287</b>

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):

<b>Amount offset</b>					
<b>Year of origin</b>	<b>Revenue subject to deferral</b>	<b>Prior years</b>	<b>2016</b>	<b>Amount pending</b>	<b>Last year of deferral</b>
1999	75,145	52,802	682	21,661	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.

	2017	2016
	Days	Days
Average period for payment to suppliers	53	77
Ratio of paid transactions	58	81
Ratio of transactions pending payment	9	33
	Thousands of euros	Thousands of euros
Total payments made	96,498	99,847
Total payments pending	9,250	9,781

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 of 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 2017.

The average period for payment to suppliers has been calculated, as stated in the Resolution of 29 January 2017, 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 2017 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 2017, the Company had a total of 8,662 thousand euros in economic or financial bank guarantees issued by various banks to guarantee leasing contract obligations and others related to the usual operations of NH in various countries. Therefore, their execution would be linked to a failure by NH to comply with those contractual obligations.

At 31 December 2017, 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 2017 had an outstanding principal of 18,915 thousand euros (equivalent to 22,685 thousand dollars at 31 December 2017) and final maturity on 31 December 2020.
- Under the agreements reached between Grupo NH 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, often issue promissory notes in payment of said obligations and agrees penalty clauses in case of breach of contract.
- 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).
- Within the framework of the sale of a hotel, NH as a seller agreed to undertake the extension of the aforementioned hotel, and agreed with the buyer 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 progress

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 as well as in other proceedings both nationally and internationally, and provisions the credit balances in the consolidation annual accounts for the amounts considered unrecoverable.
- The owner of a property 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.
- 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., Grupo NH agreed to subrogate to the position of Sotogrande, S.A. for certain claims 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.
  - The Company may be subject to a claim for amounts derived from an eventual administrative claim.
- It 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's interests. To the contrary, it filed for annulment of the award, which has been dismissed. Currently, the debtor company has entered bankruptcy having requested the right to separate the premises of the business premises from the whole from the company which is currently in process.
- A Company shareholder has requested that certain resolutions adopted at the General Shareholders' Meeting be annulled; this has been dismissed in the first instance and is being appealed.
- 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 2017 and 2016 is as follows (in thousands of euros):

#### 2017

	Other Group companies	Other related parties
<b>Long-term investments:</b>	<b>55,912</b>	
Loans to companies	55,912	
<b>Short-term investments:</b>	<b>680,804</b>	<b>7,382</b>
Loans to companies	680,804	7,382
<b>Non-current payables</b>	<b>(279,972)</b>	
<b>Current payables</b>	<b>(289,496)</b>	

#### 2016

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

#### Long-term investments

"Loans to Companies" includes the following loans granted to the following Group companies:

	Thousands of euros	
	2017	2016
<b>Participating loans</b>		
NH Hoteles España, S.A.	52,969	52,969
NH Central Reservation Office, S.L.	2,943	2,943
<b>Total</b>	<b>55,912</b>	<b>55,912</b>

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	
	2017	2016
NH Europa, S.L.	99,924	99,922
Latinoamericana de Gestión Hotelera, S.L.	105,493	67,058
Current payables to Group companies	475,387	341,893
<b>Total</b>	<b>680,804</b>	<b>508,873</b>

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	
	2017	2016
Current account with NH Hoteles España, S.A.	136,572	136,521
Current payables to Group companies	152,924	104,934
<b>Total</b>	<b>289,496</b>	<b>241,455</b>



## 17.2.- Transactions with related parties

The transactions performed with related parties in 2016 and 2017 are as follows:

### Income

	Thousands of euros	
	2017	2016
<b>Dividends</b>	32	-
Group holding activity (Note 18.a)	32	-
<b>Lease income</b>	8,231	7,333
Group (Note 18.a)	8,231	7,333
<b>Interests</b>	1,936	1,614
Group holding activity (Note 18.a)	1,556	1,429
Associates	380	185
<b>Fees (Accessory Income)</b>	87,853	76,895
Group	87,853	76,895

### Expenses

	Thousands of euros	
	2017	2016
<b>Interests</b>	4,393	2,485
Group	4,393	2,485

## 18.- INCOME AND EXPENSES

### a) Revenues

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

	Thousands of euros	
	2017	2016
<b>Hotel activity:</b>		
Accommodation in rooms	15,777	13,984
Leasing (Note 17.2)	8,231	7,333
Catering	4,224	3,798
Rooms	854	712
Others	652	903
	<b>29,738</b>	<b>26,730</b>
<b>Holding activity:</b>		
Income from dividends (Note 17.2)	32	-
Income from lending activity (Note 17.2)	1,556	1,429
	<b>1,588</b>	<b>1,429</b>
<b>Revenues</b>	<b>31,326</b>	<b>28,159</b>

Similarly, revenue corresponding to 2017 and 2016 was distributed by geographic market as follows (in thousands of euros):

	2017	2016
<b>National market</b>	31,326	28,159
	<b>31,326</b>	<b>28,159</b>

**b) Staff costs**

The breakdown of "Transactions With Related Parties" on the balance sheet for 2017 and 2016 is as follows (in thousands of euros):

	2017	2016
Wages, salaries and similar	28,483	29,427
Social security contributions	5,648	5,205
Termination benefits (Note 4.k)	4,055	7,317
	<b>38,186</b>	<b>41,949</b>

The average number of employees at the Company in 2017 and 2016, by professional category, was as follows:

	2017	2016
Group's general management	8	7
Managers and heads of department	84	90
Technical staff	124	117
Sales representatives	24	34
Administrative staff	33	28
Rest of workforce	194	208
<b>Average number of employees</b>	<b>467</b>	<b>484</b>

The workforce at 31 December 2017 and 2016, by professional category and gender, was as follows:

	31/12/2017		31/12/2016	
	Males	Females	Males	Females
Group's general management	6	2	6	1
Managers and heads of department	45	38	47	42
Technical staff	59	64	57	62
Sales representatives	2	22	5	29
Administrative staff	11	20	14	17
Rest of workforce	106	91	108	98
<b>Average number of employees</b>	<b>229</b>	<b>237</b>	<b>237</b>	<b>249</b>

The average number of employees at the Company with a disability equal to or greater than 33% in 2017 and 2016, by professional category, was as follows:

	2017	2016
Managers and heads of department	1	1
Sales representatives	1	-
Administrative staff	-	1
Rest of workforce	-	3
<b>Average number of employees</b>	<b>2</b>	<b>5</b>

The average age of the Company's workforce was approximately 40.5 years and average length of service in the Group came to 7 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 has a total duration of five years, divided into three three-year cycles:

- The first cycle began on 01/01/2014 with delivery of shares in 2017 (settled)
- The second cycle began on 01/01/2015 with delivery of shares in 2018 (in force)
- The third cycle began on 01/01/2016 with delivery of shares in 2019 (in force)

The first cycle of the Plan (01/01/2014 - 31/12/2016), was settled during the first quarter of 2017 with an achievement of 47.71%. Said compliance was approved by the Board of Directors, and the number of shares to be delivered to each beneficiary resulted from multiplying the number of shares promised by the degree of compliance with the objectives (47.71%). The maximum amount approved by the General Shareholders' Meeting for the two current cycles of this plan amounts to 10,720 thousand euros.

The 2017 General Shareholders' Meeting approved the launch of a new Long-Term Incentive Plan. The new plan has a duration of five years, divided into three three-year cycles:

- The first cycle began on 01/01/2017 with delivery of shares in 2020 (in force)
- The second cycle began on 01/01/2018 with delivery of shares in 2021 (awaiting approval)
- The third cycle will begin on 01/01/2019 with delivery of shares in 2022 (awaiting approval)

This second plan will have a very similar structure to the first; delivery of ordinary shares of NH Hotel Group, S.A. to the beneficiaries calculated as a percentage of fixed salary, according to their level of responsibility.

The number of shares to be delivered shall be subject to the degree of fulfilment of the following four objectives:

- TSR (total shareholder return) at the end of each of the plan cycles, comparing the performance of NH Hotel Group, S.A. shares with the STOXX® Europe 600 Travel & Leisure share index
- Revaluation of the Share
- Recurring Net Profit

○ Recurring EBITDA

The beneficiaries must remain in the Group on each of the plan settlement dates, notwithstanding the exceptions deemed appropriate, as well as achieving the minimum thresholds for each of the objectives.

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 2017, all the cycles had been approved by the Board of Directors.

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 maximum amount approved by the General Shareholders' Meeting for the three cycles of the second Plan is 16,200,000 euros.

The effect of this item on the statement of changes in equity for 2017 was 1,508 thousand euros (1,927 thousand euros in 2016).

**c) External services**

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

	Thousands of euros	
	2017	2016
Leasing (Note 8)	4,591	4,521
Outsourcing of services	842	1,820
Supplies	581	556
Maintenance and cleaning	1,023	1,021
Laundry and related costs	493	470
Costs associated with information technologies	14,856	16,908
Marketing and merchandising	217	246
Other external services	589	496
	<b>23,192</b>	<b>26,038</b>

**d) Other operating expenses**

"Other Operating Expenses" include the fees relating to statutory audit services and other services provided to the Company, which in 2017 and 2016 totalled:

	Thousands of euros	
	2017	2016
Audit	284	262
Other verification services	245	397
Tax	185	471
Others	471	202
	<b>1,185</b>	<b>1,332</b>

**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

The Management Bodies of the Company have the following composition at 31 December 2017:

- Board of Directors: 10 members in 2017 (11 in 2016),
- Executive Committee: 5 members in 2017 (4 in 2016),
- Audit and Control Committee: 3 members in 2017 (5 in 2016), and
- Appointments and Remuneration Committee: 4 members in 2017 (6 in 2016).

The amount accrued during 2016 and 2017 by the members of the Parent Company's Board of Directors in relation to the remuneration of the CEO, bylaw stipulated directors' fees and attendance fees and other items, is as follows:

### 19.1 Remuneration of the Board of Directors

Remuneration item	Thousands of euros	
	2017	2016
Fixed remuneration	490	451
Variable remuneration	344	-
Parent Company: allowances	178	274
Parent Company: attendance allowances	1,017	509
Options on shares and other financial instruments	191	-
Indemnifications/other	86	10
Life insurance premiums	26	4
<b>Total</b>	<b>2,332</b>	<b>1,248</b>

The Board of Directors had 10 members at 31 December 2017, of which one is a woman and nine are men (in 2016, there were 11 members: two women and nine men).

In relation to the chapter "Share transactions and/or other financial instruments", the objective longterm remuneration earned has been taken into account. The remuneration in kind (leasings and medical insurance) and the shares delivered in 2017 due to the settlement of the incentive long-term plan as indicated in the section "Others" are included.

### 19.2 Remuneration of senior management

The remuneration of members of the Management Committee at 31 December 2017 and 2016, 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	
	2017	2016
Pecuniary remuneration	2,678	2,617
Remuneration in kind	556	161
Others	642	890
<b>Total</b>	<b>3,876</b>	<b>3,668</b>

There were seven members of Senior Management at 31 December 2017 (six members at 31 December 2016) excluding the CEO.

The fix remuneration and the variable remuneration accrued in 2017 and paid in 2018 are included within the remuneration of Senior Management.

Included in remuneration in kind is the vehicle, insurance and settlement of the long-term incentive charged in shares in 2017 that was accrued at December 2016.

Section “Others” takes into consideration the long-term objective retribution accrued in 2017

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 Managing Director.

### **19.3 Information on conflicts of interest on the part of Directors**

At year-end 2017, the members of the Board of Directors of NH Hotel Group, S.A. have indicated that they are not in any situation of conflict, direct or indirect, that they or persons related to them, as defined in the Act, may have with the interests of the Company, except the directors related to GIHSA, who have reported:

On 19 April 2017, with prior information and deliberation in previous sessions of the Audit and Control Committee of 27 February 2017, and of the Board of Directors on 28 February 2017, NH Hotel Group, S.A. and Grupo Inversor Hesperia, S.A., signed a Framework Agreement for the management by NH of 28 hotels in the hotels portfolio owned by Grupo Inversor Hesperia, S.A. The terms and conditions of the Agreement have been approved unanimously by NH's Board of Directors following a favourable report from its Audit and Control Committee.

During the aforementioned meetings, the Directors related to GIHSA were absent and abstained from taking decisions.

## **20.- INFORMATION ON THE ENVIRONMENT**

For the Company, sustainability drives innovation, seeking to surprise our guests as well as achieving water and energy efficiency. In our responsible commitment to the Planet, we work to minimise our impact on Climate Change, increase the efficiency of resources and develop more sustainable products. All this minimises our environmental footprint with responsible consumption of natural resources.

In 2017, 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 28%, water consumption by 29% and our carbon footprint by 74%. The Company is committed to renewable energy, which reduces its carbon footprint. Certified green energy consumption is available in 78% of hotels in Spain, Italy, Germany, Holland, Belgium and Luxembourg.

The Company 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, related to environmental management. A total of 132 hotels have achieved their own external certification for their sustainable management.

The Company has reported its climate change commitment and strategy to the Carbon Disclosure Project (CDP) since 2010. In 2017, the Company obtained a B Management rating, which places the Company among the leading companies adopting measures to efficiently reduce emissions, which is indicative of advanced environmental management.

Equally, 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 2017, valued at the year-end exchange rate, is broken down as follows

	Currency	Thousands of euros
Current investments in Group companies and associates	ARS	3,752
Current investments in Group companies and associates	BRL	93
Current investments in Group companies and associates	CLP	412
Current investments in Group companies and associates	COP	2,037
Current investments in Group companies and associates	CHF	205
Current investments in Group companies and associates	DOP	(29)
Current investments in Group companies and associates	GBP	325
Current investments in Group companies and associates	HUF	9
Current investments in Group companies and associates	MXN	3,125
Current investments in Group companies and associates	USD	1,624
Current investments in Group companies and associates	UYU	361
Current investments in Group companies and associates	ZAR	33
Short- term debts with group and associate companies	DOP	(629)

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

Foreign currency transactions in 2017 and 2016 are not significant.

## 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 2017 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 2017

### 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 31 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 headquarters and regional offices offer hotels a wide range of functions such as sales, reservations, marketing and systems.

In 2017, world economic activity grew at a pace of +3.5% (Data and estimates provided by the E.C. "European Economic Forecast Autumn 2017" November 2017), greater than the previous year (+3.0%). More specifically in the Eurozone, the provisional growth rate for 2017 was 2.2% (+1.7% in 2016). Global growth has led to a positive cycle of trade and investment. Likewise, European economies continue to grow, although the recovery has not ended, which suggests there is room for further growth. 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 Holland (+3.2% in 2017 vs. +1.7% 2016), Germany (+2.2% in 2017 vs. +1.9% in 2016), and Italy (+1.5% in 2017 vs. +0.7% in 2016) growth increased compared with the previous year, while in Spain (+3.1% in 2017 vs. +3.2% in 2016) growth was similar to the previous year.

According to the World Tourism Organization ("UNWTO") in 2017, international tourist arrivals globally reached 1,322 million, representing an increase of + 7.0% over the previous year, a rate much higher than the sustained and constant trend of 4% or more which had been recorded since 2010 and represents the best result in seven years. More specifically, the arrival of international tourists to Europe reached 671 million in 2017, recording remarkable growth of 8% after a comparatively weaker 2016 which was headed by destinations in the Mediterranean. The growth was driven by the extraordinary results of Southern and Mediterranean Europe (+13%). Western Europe (+7%), Northern Europe and Central and Eastern Europe (both +5%) also posted solid growth. In this European context, Spain has established itself as the second tourist power in the world only behind France but ahead of the United States, and managed to break its record with 82 million foreign tourists due to an increase of 9% in the number of international arrivals

In this context, in 2017, as a result of the favourable trend in the hotel business throughout the year and the effect of its initiatives, particularly the repositioning of its brands and hotels, the Company recorded a significant increase in room prices or ADR (average daily rate).

During 2017, the value of the price strategy continues to be enhanced, greater Group growth being obtained in the top cities compared to direct competitors, where there are market measures in place. The evolution of RevPar in our top destinations was superior to that of our competitors.

As part of its asset repositioning plan, NH Hotel Group invested almost 200 million euros from 2014 to 2017 to fully renovate or remodel its mid-range hotels with the greatest potential for improvement. With the aim of continuing to improve the quality and strengthen the NH Collection brand, the repositioning investment phase in Germany which began in the previous year was completed during 2017, after the investment made in Benelux in 2016 and in Spain and Italy in 2015.

Additionally, new repositioning opportunities have been selectively identified for 2018 and 2019, where the Group will additionally have contributions from the owners of hotels through the rental regime.

Among the main milestones reached over the last years of transformation, the appearance of a new NH Hotel Group value proposition stands out based on the improvement of the quality, experience and the new brand architecture with the NH Collection, NH Hotel, nhow and Hesperia brands. In this vein, the Group 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 of the customers.



The trend in quality indicators confirms the improvement in user ratings for the Group's hotels throughout 2017. At a Group level, 35% of the portfolio is positioned in the top 10 of the city's TripAdvisor (45% for NH Collection hotels) (34% and 45% respectively in 2016) and 55% of the hotels are in the top 30 (63% for NH Collection hotels) (52% and 62% respectively in 2016), which demonstrates the highest levels of quality perceived by customers.

Also, the NH Rewards loyalty programme now has over 8.4 million members (6.8 million members in 2016), 18% of whom joined in 2017, and 23% of the total are active.

Meanwhile, in 2017, the Group began operating another 6 hotels in Marseilles, Eindhoven, Curitiba, Puebla, San Luis de Potosi and Shijiazhuang with a total of 799 rooms, giving 380 hotels operating with 58,926 rooms at 31 December 2017.

In addition, the Group signed-up 7 hotels with 1,762 bedrooms in 2017. All the signings were rental and management contracts, many of them in the top brand segment and in primary cities (Frankfurt, Valencia, Lima, Brussels).

Taking all the above into account, the Company's revenue in 2017 was 123.3 million euros, showing growth of +9.8% (+11.0 million euros). The Profit for the year attributable to the Company was 29.6 million euros compared to 129.0 million euros in 2016.

In this year, gross indebtedness for the whole Group decreased from 816.3 million euros in December 2016 to 672.7 million euros in December 2017. At 31 December 2017, cash and cash equivalents amounted to 0.5 million euros (62.6 million euros at 31 December 2016). Additionally, this liquidity was complemented by credit lines at the end of the year amounting to 298.3 million euros, of which 250 million euros corresponded to a long-term syndicated credit line, compared to 281.9 million euros at 31 December 2016.

As stated in Note 13 of the report, the Company has refinanced or paid in advance the debt corresponding to guaranteed senior notes due in 2019.

Likewise, as a result of these operations, the syndicated credit line signed in 2016 for a limit of 250 million euros will continue to be available in full, and its maturity will automatically extend to 2021.

This value optimisation of the Group has recently been reflected in the improvement of the corporate credit outlooks assigned by the main rating agencies. Fitch improved the corporate rating outlook from "B with a stable outlook" to "B with a positive outlook" based on greater liquidity and operational improvement. In turn, Moody's improved the corporate rating outlook from "B2 with a stable outlook" to "B2 with a positive outlook", due to the operational improvement, the hotel repositioning plan which has allowed NH to increase its revenues and profitability, its cost saving plan and the significant improvement of its liquidity position. Additionally, Standard & Poors improved its opinion on the Group's business profile, mainly due to its successful repositioning plan which has resulted in improved sales and profitability.

On 28 September 2017, the Group presented its strategic plan for 2018-2019 to the investment community. After a phase marked by start of a strong investment in repositioning and improvement of the experience, NH Hotel Group is in a favourable position to face future growth in the coming years. The Group defined its priorities until 2019, focused on revenue management through a dynamic pricing strategy, a continued focus on efficiency and debt reduction, whilst, at the same time, taking advantage of its current strengths for new repositioning opportunities and organic expansion as a means of additional growth.

The results of the plan will be reflected in the significant improvement in the Group's cash generation and in the reduction of its financial indebtedness.

At the General Shareholders' Meeting in June 2017, shareholders approved the payment of an interim dividend from 2016 results amounting to 17 million euros, representing five cents per outstanding share (gross). Additionally, the Group has established a shareholder remuneration policy in line with its debt reduction plans, defining a medium-term shareholder remuneration close to 50% of the recurring net profit. In the short term, it foresees a dividend proposal of ten cents per share in 2018 and fifteen cents in 2019.

Finally, the Group has a diverse workforce of 22,789 employees made up with 134 different nationalities, of which 11.4% work in countries other than their home country. The percentage of employees between 25



and 40 years old reached 49.6%, while that of those under 25 stood at 14.8% and those over 40 at 35.7%. Greater detail on this issue can be found in the Corporate Social Responsibility report on the Grupo NH corporate website (<https://www.nh-hotels.es/corporate/es>) inside the section “annual reports” of the financial information section within “shareholders and investors section”.

## **THE ENVIRONMENT**

For the NH Hotel Group, sustainability drives innovation, seeking to surprise our guests as well as achieving efficiencies in the use of water and energy. In our responsible commitment to the Planet, we work to minimise our impact on Climate Change, increase the efficiency of resources and develop more sustainable products. All this minimises our environmental footprint with responsible consumption of natural resources.

In 2017, 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 28%, water consumption by 29% and our carbon footprint by 74%. NH Hotel Group is committed to renewable energy, which reduces its carbon footprint. Certified green energy consumption is available in 78% of hotels in Spain, Italy, Germany, Holland, Belgium and Luxembourg.

The 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, related to environmental management. A total of 132 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. In 2017, the Group obtained a B Management rating, which places NH Hotel Group among the leading companies adopting measures to efficiently reduce emissions, which is indicative of advanced environmental management.

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

Greater detail on this issue can be found in the Corporate Social Responsibility report on the Grupo NH corporate website (<https://www.nh-hotels.es/corporate/es>) inside the section “annual reports” of the financial information section within “shareholders and investors section”.

## **RISK MANAGEMENT MODEL**

Since November 2015, the NH Hotel Group has had a risk policy approved by the Board of Directors. The aim of this corporate policy is to define the basic principles and the general framework of action to identify and control risks of any nature which may affect NH. This policy applies to all companies over which the NH Hotel Group has effective control.

NH Hotel Group's risk management system aims to identify events that may negatively affect achievement of the objectives of the Group'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 the NH Hotel Group 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

The Group's Risk Map is updated annually and, after validation by the Audit and Control Committee, approved by the Board of Directors. The 2017 Risk Map was approved by the Board at its meeting on 25 October 2017.

In general, the risks to which the Group is exposed can be classified into the following categories.

- 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 Group'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 encompasses difficulty in adapting to changes in customer demand, including those caused by External Risks, arising from 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.

Finally, in May 2017, the creation of an Executive Committee on Risks was approved to support the periodic monitoring of risks (monitoring of action plans and key indicators), support initiatives and activities related to the implementation of action plans, as well as creating a culture of risks in the Group. This Committee met twice during the year.

Greater detail on this issue can be found in the Corporate Social Responsibility report on the Grupo NH corporate website (<https://www.nh-hotels.es/corporate/es>) inside the section "annual reports" of the financial information section within "shareholders and investors section".

## SHARES AND SHAREHOLDERS

NH Hotel Group, S.A. share capital at the end of 2017 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 2017 and 2016 were as follows:

	2017	2016
HNA CO LTD	29.34%*	29.50%
Oceanwood Capital Management LLP	12.06%	11.97%
Hesperia Group	9.27%**	9.27%**

Notwithstanding this list of shareholders, the following changes communicated to the CNMV by said shareholders are reported:

\* Although in the CNMV Records it is recorded that the shareholding of Grupo HNA in NH is 29.50% at 31 December 2017, Grupo HNA reported a decrease to 29.34% in its shareholding in NH to the CNMV on 27 February 2017. In addition, on 3 November 2017, Grupo HNA notified the CNMV of the signing of a sales contract and repurchase agreement through which it would transfer NH shares representing approximately 1.14% of the capital. Depending on whether the sale has been formalised and the terms and conditions of it, Grupo HNA's shareholding in NH could reach 28.20% of the share capital. Finally, on 19 January 2018, it notified the CNMV of the engagement to review its shareholding in the Group, including identify potential buyers of its shareholding.

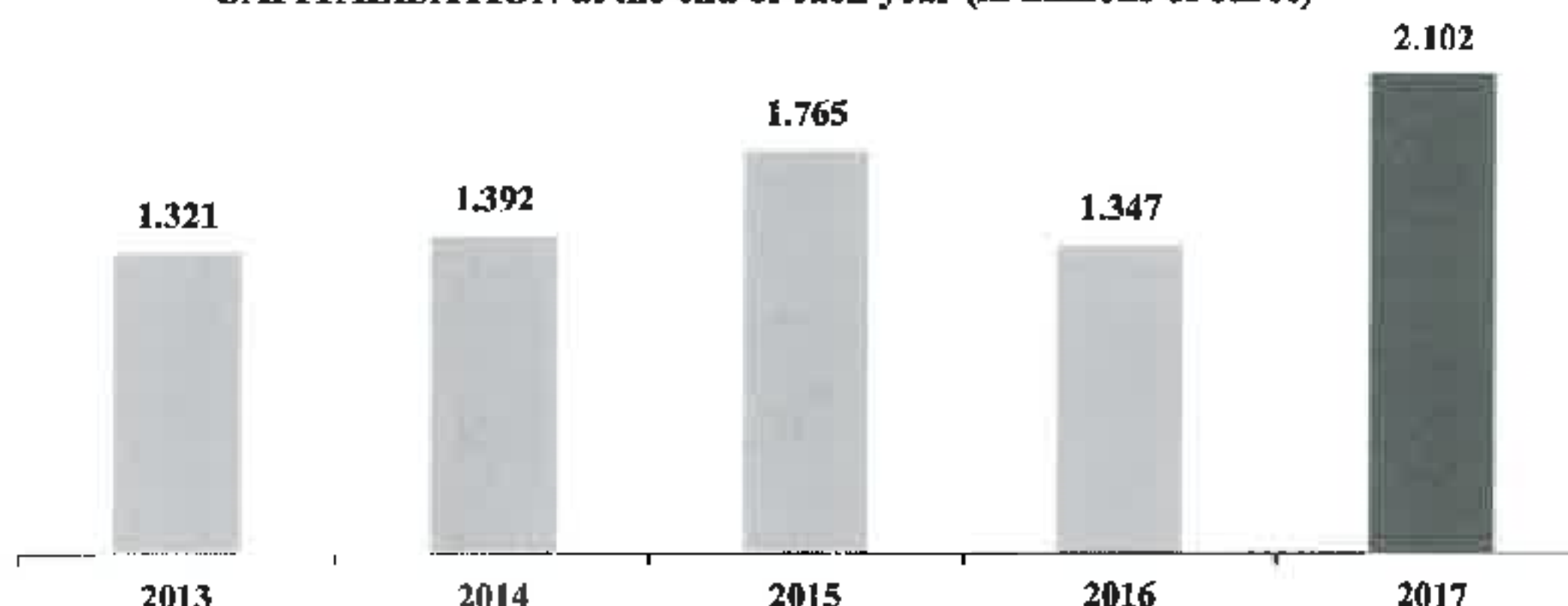


**\*\* The shareholding of Hesperia Group consists of the direct shareholding held by Grupo Inversor Hesperia, S.A. (9.10%) and Eurofondo (0.17%).**

The average share price of NH Hotel Group, S.A. in 2017 was 5.05 euros per share (4.04 euros in 2016). The lowest share price of 3.84 euros per share was recorded in January (3.17 euros in February 2016) and the highest share price of 6.26 euros per share in December (4.95 euros in January 2016). The market capitalisation of the Group at the close of 2017 stood at 2.10163 billion euros (1.34680 billion euros at the close of 2016).

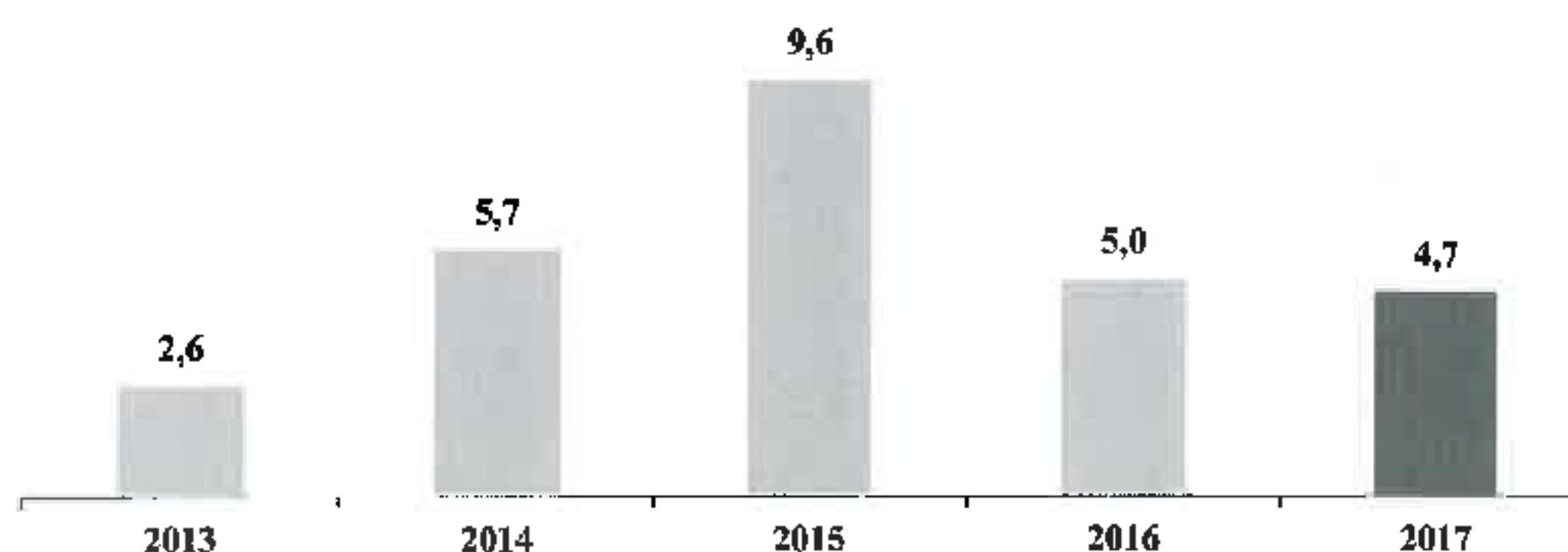
At 31 December 2017, the Group had 9,416,368 own shares of which 9,000,000 correspond to the loan of shares for the issue of the convertible bond in November 2013. Of these 9 million shares, at 31 December 2017, 7,615,527 have been returned, and are now controlled by NH, although they remain available to the financial entities. Additionally, in August 2016, the Company purchased 600,000 own shares and in 2017, delivered 183,632 shares to employees under the Incentive Plan.

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

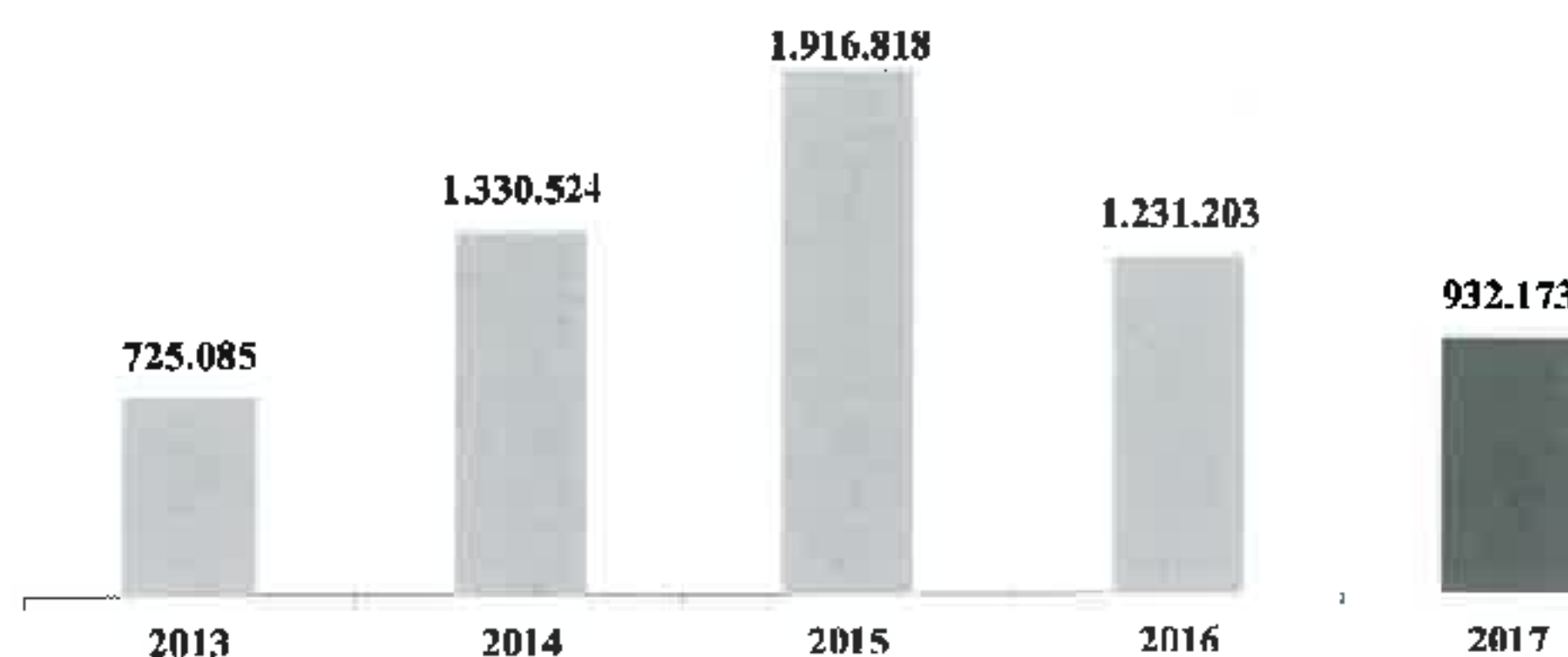


A total of 237,704,360 shares in NH Hotel Group, S.A. were traded on the Continuous Market over the course of 2017 (316,419,296 shares in 2016), which accounted for 0.68 times (0.90 times in 2016) the total number of shares into which the Company's share capital is divided. Average daily share trading on the Continuous Market amounted to 932,173 securities (1,231,203 in 2016).

#### **AVERAGE DAILY TRADING (millions of euros) 2013-2017**



#### **AVERAGE DAILY TRADING (in shares) 2013-2017**



**EVOLUTION NH HOTEL GROUP vs. IBEX 35**  
**1 JANUARY 2013-31 DECEMBER 2017**



## **FUTURE OUTLOOK**

Forecasts indicate that this strong momentum will continue in 2018, although at a more sustainable pace after eight years of constant expansion after the economic and financial crisis of 2009. Based on current trends, economic outlooks and the forecast of the UNWTO Panel of Experts, the Organisation expects global international tourist arrivals to grow at a rate of between 4% and 5% in 2018. By region, growth in the arrival of tourists to Europe and the Americas is expected to be between 3.5% and 4.5%.

On the other hand, GDP growth in Europe is expected to be +2.1% in 2018 (Data and estimates provided by the E.C. "European Economic Forecast – Autumn 2017" November 2017).

In this economic environment, the Group expects to benefit from the increase in sales associated with GDP growth expectations in 2018, together with the positive impact of the repositioning investments made in the last two years and supported by the implementation of price management tools which will allow us to continue to optimise this strategy.



## EVENTS AFTER THE REPORTING PERIOD

In relation to the unsolicited sign of interest received from Grupo Barceló in November 2017, the Company's Board of Directors unanimously rejected the operation proposed on 10 January 2018.

The Board noted that its decision was made to defend both the social interest of the Company and the interests of all shareholders. It insisted that the unanimous rejection of this offer does not condition nor impede the analysis of other future strategic opportunities which will be assessed based on the real value they are able to generate to NH Hotel Group's shareholders as a whole, within the framework of the consolidation trends prevailing in the sector.

In taking its decision, the Board assessed the fact that the contemplated structure (merger) would not allow shareholder value to be created above that of that project independently by NH. In its analysis, the Board did not consider the intrinsic value assigned to NH by Grupo Barceló's offer appropriate, nor its scope, nor the exchange ratio offered by it.

Based on this analysis, the Board unanimously considered that the terms of the offer were inadequate and did not reflect the real value of NH in any way, but especially for the following reasons:

- The exchange ratio did not reflect the relative valuation of both companies (even less with a consolidation adjusted to the relevant hotel business of Grupo Barceló). It also did not offer a real control premium on the market valuation of NH, nor did it consider the potential for revaluation of NH independently (greater in any case to the relative value of 7.08 euros per share suggested in said offer).
- Grupo Barceló's offer did not reflect the potential for growth in NH's results, nor the value of its urban assets owned in Europe (as shown by the recent sale of the Barbizon hotel in Amsterdam), nor the opportunity to generate profits with its balanced mix of contracts in management and rental, nor the optimisation of its operational and financial structure.
- The Board assessed very negatively that Grupo Barceló's offer lacked liquidity for NH shareholders.

Likewise, and regardless of its decision in this matter, the Board also ratified the full confidence in the current NH Strategic Plan with solid growth in revenues and significant operational improvement, together with the value of its hotel assets and the potential to benefit from the reduction of its indebtedness, which will allow for expansion opportunities and, in the future, participate in the consolidation trend of the hotel sector.

## ANNEX I

### ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

#### IDENTIFICATION DETAILS OF THE ISSUER

**END DATE OF 12-MONTH PERIOD OF  
REFERENCE**

31/12/2017

**TAX ID CODE (CIF)**

A28027944

**COMPANY NAME**

NH HOTELES, S.A.

**REGISTERED OFFICE**

SANTA ENGRACIA, 120 - 7ª PLANTA, MADRID



# ANNUAL CORPORATE GOVERNANCE REPORT

## FOR LISTED PUBLIC LIMITED COMPANIES

### A OWNERSHIP STRUCTURE

A.1 Fill 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 shares classes with different associated rights:

Yes ☐

No ☒

A.2 List 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	102,787,996	29.35%
OCEANWOOD CAPITAL MANAGEMENT LLP	0	42,235,143	12.06%
GRUPO INVERSOR HESPERIA, S.A	31,870,384	0	9.10%

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.	102,787,996
OCEANWOOD CAPITAL MANAGEMENT LLP	OCEANWOOD OPPORTUNITIES MASTER FUND	32,195,671
OCEANWOOD CAPITAL MANAGEMENT LLP	OCEANWOOD EUROPEAN FINANCIAL SELECT OPPORTUNITIES MASTER FUND	5,629,251
OCEANWOOD CAPITAL MANAGEMENT LLP	OCEANWOOD INVESTMENTS II DESIGNATED ACTIVITY COMPANY	2,283,927
OCEANWOOD CAPITAL MANAGEMENT LLP	CROWN/OCEANWOOD SEGREGATED PORTFOLIO	2,126,294

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

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

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR JOSE ANTONIO CASTRO SOUSA	1,000	32,475,188	9.27%
MR ALFREDO FERNÁNDEZ AGRAS	150,000	0	0.04%
MR RAMÓN ARAGONÉS MARÍN	17,709	0	0.01%
MS MARIA GRECNA	12,000	0	0.00%
MR PAUL JOHNSON	9,116	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

% of total voting rights held by the Board of Directors	9.32%
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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:

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights	Number of equivalent shares	% of total voting rights
MR RAMÓN ARAGONÉS MARÍN	140,649	0	140,649	0.04%

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
8,031,895	0	2.29%

(\*) Through:

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

Explain the significant changes
---------------------------------

**A.9 Describe 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 29 June 2017 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 in Law, 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	49.33

**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 1784/1998, 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 s	
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%
21/08/2016	0.09%	82.10%	0.00%	3.60%	85.79%
29/06/2017	39.02%	42.57%	0.00%	0.00%	81.59%

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](http://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 FERNÁNDEZ 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 RAMÓN ARAGONÉS MARÍN		Executive	Chief Executive Officer	29/06/2017	29/06/2017	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR		Independent	DIRECTOR	21/06/2016	25/07/2017	CO-OPTED
MS MARIA GRECNA		Independent	DIRECTOR	21/06/2016	25/07/2017	CO-OPTED
GRUPO INVERSOR HESPERIA, S.A	MR JORDI FERRER GRAUPERA	Proprietary	DIRECTOR	28/02/2017	29/06/2017	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR PAUL JOHNSON		Independent	DIRECTOR	21/06/2016	25/07/2017	CO-OPTED
MR FERNANDO LACADENA AZPEITIA		Independent	DIRECTOR	21/06/2016	25/07/2017	CO-OPTED
MR JOSE MARIA LÓPEZ-ELOLA GONZÁLEZ		Independent	DIRECTOR	24/04/2012	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSÉ MARÍA SAGARDOY LLONIS		Independent	DIRECTOR	22/03/2017	29/06/2017	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
Total number of directors					10	

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 JUAN JOSÉ ANDRÉS ALVEZ	Independent	27/01/2017

Name or company name of Director	Director category at time of departure	Date of leaving
MR FRANCISCO JAVIER ILLA RUIZ	Proprietary	07/02/2017
MR CARLOS GONZÁLEZ FERNÁNDEZ	Independent	26/06/2017
MR FRANCISCO ROMAN RIECHMANN	Independent	29/06/2017
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	Other External	25/07/2017
MS MARIA GRECNA	Other External	25/07/2017
MR PAUL JOHNSON	Other External	25/07/2017
MR FERNANDO LACADENA AZPEITIA	Other External	25/07/2017
MS KORO USARRAGA UNSAIN	Independent	20/10/2017

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

### **EXECUTIVE DIRECTORS**

Name or company name of Director	Position in the company's organisational chart
MR RAMÓN ARAGONÉS MARÍN	Chief Executive Officer

Total number of executive directors	1
% of the Board as a whole	10.00%

### **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 FERNÁNDEZ AGRAS	OCEANWOOD CAPITAL MANAGEMENT LLP
MR JOSE ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A
GRUPO INVERSOR HESPERIA, S.A	GRUPO INVERSOR HESPERIA, S.A

Total number of proprietary directors	3
% of the Board as a whole	30.00%

### **INDEPENDENT EXTERNAL DIRECTORS**

**Name or company name of Director:**

MR JOSE MARÍA LÓPEZ-ELOLA GONZÁLEZ

**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., Celso, S.A. and Cementos Occidentales, S.A.

**Name or company name of Director:**

MS MARIA GRECNA

**Profile:**



Economics degree from the Economics School of the University of Prague (Czech Republic) and a Masters in Finance from the London Business School. She has run Earlwood Rental Properties, which she co-founded, since 2013. Earlwood is a company focused on the acquisition, renovation and management of homes with a portfolio of over 100 homes in the centre of Madrid and Barcelona and for properties in construction and holiday homes in the Balearic Islands. Between 2005 and 2013 she worked for Vårde Partners (a global alternative investment advisor), first as CEO of Vårde Partners Europe (London) between 2005 and 2011 and later as CEO of Vårde Partners Iberia (Madrid) between 2011 and 2013. She previously held positions in Société Générale (Prague) from 2002 to 2003, Crédit Suisse First Boston (London and Prague), from 2000 to 2002, and Citigroup (Prague), from 1995 to 2000.

**Name or company name of Director:**

MR JOSÉ MARÍA SAGARDOY LLONIS

**Profile:**

Degree in Economics and Business Administration from ICADE (E-2) and IESE Business School, University of Navarra. BBVA programme for executives He began his professional career in Arthur Anderson A.L.T., in the financial sector and has since held senior positions in various banking entities such as Deutsche Bank, BBVA (Director of Global Syndicated Loans) and Banco Popular (Wholesale Banking Director and Risk Director).

He is currently the Head of Origination and CFO of Copernicus Servicing, S.L. He has been a Board Member of companies such as Fomento de Construcciones y Contratas (2008-2009), Société Foncière Lyonnaise, representing Colonial (2008-2011), Globalia Corporación Empresarial (2007-2012), Inmobiliaria Colonial (2008 – 2013) and in Targobank, S.A., representing Banco Popular Español, S.A. (2013-2016).

**Name or company name of Director:**

MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR

**Profile:**

He holds a degree in Law and Economics and Business Administration and Management from the Universidad Pontificia Comillas (ICADE E-3) and a diploma from the Business Management Programme (PADE) of IESE Business School. He was a founding partner of Results Mazimizer (consultancy for the execution and implementation of marketing, sales and communications projects) and Enubes (digital marketing company) and has been the Managing Partner since September 2015. Between July 2008 and August 2015 he held various senior positions in Mutua Madrileña, first as Sales and Marketing Director until May 2011 and subsequently as Deputy General Manager, whilst also being a Director at SegurCaixa Adeslas (from July 2011) and a Director at Mutuactivos Inversiones (from July 2013). Between August 2003 and June 2008 Mr José María Cantero de Montes-Jovellar was Marketing and Customers Director (sales and value enhancement management of the Residential Business Unit) of Amena/Orange in Spain. Previously, between July 1994 and July 2003 he worked for Procter & Gamble España in various positions within the marketing department: Assistant Brand Manager, Brand Manager, and his final position as Business Team Leader Textiles Care division for Spain and Portugal.

**Name or company name of Director:**

MR PAUL JOHNSON

**Profile:**

Founding director and Chief Executive Officer of the hotel chain Kew Green Hotels Ltd under whose leadership went from start-up to having 50 hotels. The group was acquired by the Chinese-owned HK CTS, a hotel chain, in August 2015. After ensuring a successful integration with HK CTS, Paul left the company in May 2016 to develop other interests.

Paul is highly experienced in the leisure industry having held senior positions in sales and marketing for the Welcome Break Group, Budget Rent a Car, Radisson Edwardian Hotels and Hilton International. Paul was shortlisted for Ernst and Young Entrepreneur of the year in 2007 and 2009 and, in 2006, was a member of the Sunday Times Fasttrack Awards Management Team of the Year.

Paul is currently Head of Roupell Advisory Ltd., a global hotel consultancy.

#### **Name or company name of Director:**

MR FERNANDO LACADENA AZPEITIA

#### **Profile:**

Degree in Economics and Business Administration and a Law Degree from ICADE (Specialty E-3) in Madrid. Executive with more than 35 years' experience in financing and very oriented towards management. Lately, specialised in the financial area in large listed multinational corporations, with significant experience in the negotiation and structuring of financing operations, relationships with capital markets and investment operations (M&A).

Since December 2014, he has been the CEO of Testa Inmuebles en Renta SOCIMI, S.A., a leading property leasing management company in the third sector, having directed the operation to float the company with Merlin Properties taking a stake in its share capital; an operation valued at approximately €2 billion.

He is the chairman of ASPRIMA, the association of companies with leased assets in Spain.

Prior to that, for seven years he was the CFO at Grupo Sacyr Vallehermoso, managing financing with banks and the relationship with analysts and investors and participating directly in the investment processes and the partnership strategy to develop new businesses in both local markets and internationally.

Previously he worked for 13 years in similar positions in Grupo ACS – Dragados, after having started in Arthur Andersen where he spent the first 10 years of his professional career.

Total number of Independent directors	6
% of total Board	60.00%

Indicate if any Director classified as independent receives any payments or benefits from the company or its group other than remuneration for the post of Director, or maintains, or has maintained, a business relationship with the company or any company in the group in the last year, whether in his own name or as a major 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:

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

Name or company name of Director	Date of change	Previous category	Current category
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	25/07/2017	Other External	Independent
MS MARIA GRECNA	25/07/2017	Other External	Independent
MR PAUL JOHNSON	25/07/2017	Other External	Independent
MR FERNANDO LACADENA AZPEITIA	25/07/2017	Other External	Independent

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			
	2017	2016	2015	2014	2017	2016	2015	2014
<b>Female Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	1	0.00%	0.00%	0.00%	10.00%
<b>Independent</b>	1	1	1	0	16.67%	25.00%	25.00%	0.00%
<b>Other External Female Executives</b>	0	1	0	0	0.00%	25.00%	0.00%	0.00%
<b>Total:</b>	1	2	1	1	10.00%	18.18%	8.33%	7.14%

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
<p>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.</p> <p>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.</p> <p>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.</p>

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
<p>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.</p>

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 section.

- C.16 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
<p>In 2017, 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.</p> <p>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.</p> <p>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. Consequently, 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. This company's goal is to cover any Board vacancy with a new female director, therefore enabling us to increase the female presence on the Board.</p> <p>In 2017, the Company has continued to work with expert consulting firms that have intensified the recruitment of female directors.</p>

- C.17 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:

- He/she was appointed by virtue of the right to representation.
- He/she is a director, senior manager, employee or regular service provider of this shareholder, or of companies belonging to its group.
- The company documentation states that the shareholder accepts that the director has been appointed by it or represents it.
- 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.18 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 JUAN JOSÉ ANDRÉS ALVEZ

**Reason for departure:**

Mr Juan José Andrés Alvez tendered his resignation as Board Member on 27 January 2017 due to unforeseen personal reasons.

**Name of the director:**

MR FRANCISCO JAVIER ILLA RUIZ

**Reason for departure:**

Mr Francisco Javier Illa Ruiz's position as Director was terminated on 7 February 2017 due to his death.

**Name of the director:**

MR CARLOS GONZÁLEZ FERNÁNDEZ

**Reason for departure:**

At the end of his term as Board Member on 26 June 2017, the Board of Directors did not seek the reappointment of Carlos González Fernández at the General Shareholders' Meeting held on 29 June 2017.

**Name of the director:**

MR FRANCISCO ROMAN RIECHMANN

**Reason for departure:**

Mr Francisco Román Riechmann tendered his resignation as Board Member on 29 June 2017 due to personal reasons.

**Name of the director:**

MS MARIA GRECNA

**Reason for departure:**

Ms María Grecna tendered her resignation as Board Member on 25 July 2017. On this date she was appointed as a new co-opted director by the Board of Directors as an independent director at the behest of the Appointments and Remuneration and Corporate Governance Committee

**Name of the director:**

MR PAUL JOHNSON

**Reason for departure:**

Mr Paul Johnson tendered his resignation as Board Member on 25 July 2017. On this date he was appointed as a new co-opted director by the Board of Directors as an independent director at the behest of the Appointments and Remuneration and Corporate Governance Committee

**Name of the director:**

MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR

**Reason for departure:**

Mr José María Cantero Montes-Jovellar tendered his resignation as Board Member on 25 July 2017. On this date he was appointed as a new co-opted director by the Board of Directors as an independent director at the behest of the Appointments and Remuneration and Corporate Governance Committee

**Name of the director:**

MR FERNANDO LACADENA AZPEITIA

**Reason for departure:**

Mr Fernando Lacadena Azpeitia tendered his resignation as Board Member on 25 July 2017. On this date he was appointed as a new co-opted director by the Board of Directors as an independent director at the behest of the Appointments and Remuneration and Corporate Governance Committee

**Name of the director:**

MS KORO USARRAGA UNSAIN

**Reason for departure:**

Ms Koro Usarraga Unsain resigned from her position of Director on 20 October 2017 for professional reasons.

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



**Name or company name of Director:**

MR RAMÓN ARAGONÉS MARÍN

**Brief description:**

All the powers that correspond to the board of directors, except those that cannot be delegated by law or the company's articles of association.

**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 RAMÓN ARAGONÉS MARÍN	NH Lagasca, S.A.	Director	NO
MR RAMÓN ARAGONÉS MARÍN	JV BEIJING GRAND CHINA HOTEL MANAGEMENT (CHINA)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	NH HOTELES DEUTSCHLAND GMBH	Joint and Several Director	YES
MR RAMÓN ARAGONÉS MARÍN	NH HOTELBETRIEBS – UND ENTWICKLUNGS GMBH	Joint and Several Director	YES
MR RAMÓN ARAGONÉS MARÍN	NH HOTELBETRIEBS – UND DIENSTLEISTUNGS GMBH	Joint and Several Director	YES
MR RAMÓN ARAGONÉS MARÍN	NH CENTRAL EUROPE MGMT GMBH	Joint and Several Director	YES
MR RAMÓN ARAGONÉS MARÍN	JOLLY HOTEL DEUTSCHLAND GMBH	Joint and Several Director	YES
MR RAMÓN ARAGONÉS MARÍN	HOTELES ROYAL, S.A. (COLOMBIA)	Deputy Director	NO
MR RAMÓN ARAGONÉS MARÍN	NACIONAL HISPANA HOTELES, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	OPERADORA NACIONAL HISPANA, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	FRANQUICIAS LODGE, S.A. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CORPORATIVOS HOTELEROS (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	HOTELERA DE LA PARRA (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CORPORATIVOS KRYSTAL ROSA (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	CHARTWELL INMOBILIARIA DE COATZACOALCOS, S.A. DE C.V (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CORPORATIVOS CHARTWELL MONTERREY, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	CHARTWELL DE MÉXICO, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	CHARTWELL DE NUEVO LAREDO, S.A. DE C.V (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	GRUPO HOTELERO MONTERREY, S.A. DE C.V (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CHARTWELL NUEVO LAREDO, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	DESARROLLO INMOBILIARIO SANTA FE MEXICO, S.A. DE C.V. (MEXICO)	Director	NO

Name or company name of Director	Company name of group company	Position	Do they have executive duties?
MR RAMÓN ARAGONÉS MARÍN	GRUPO HOTELERO QUERETARO, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	HISPANA SANTA FE, S.A. DE C.V. (MEXICO)	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 FERNÁNDEZ AGRAS	MERLIN PROPERTIES SOCIMI, S.A.	DIRECTOR
MR JOSE MARÍA LÓPEZ-ELOLA GONZÁLEZ	CADOGAN 37 SICAV, 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 ☒

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)	2,332
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 FERNANDO CÓRDOVA MORENO	GENERAL MANAGER, PEOPLE
MS LAIA LAHOZ MALPARTIDA	GENERAL MANAGER, ASSETS AND REVENUE
MR ISIDORO MARTINEZ DE LA ESCALERA	GENERAL MANAGER, MARKETING
MR RUFINO PÉREZ FERNANDEZ	GENERAL MANAGER, OPERATIONS
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)	3,876
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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
GRUPO INVERSOR HESPERIA, S.A	GRUPO INVERSOR HESPERIA, S.A	JOINT AND SEVERAL DIRECTOR

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 ☒

No ☐

Description of changes
At its meeting of 29 June 2017 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 Board of Directors approved the amendment of Articles 36.1 and 36.4 of the Rules, so that the executive directors who receive remuneration for the functions they perform under their working or business contract with the Company do not receive any additional remuneration as a Director.

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
<p>The self-assessment carried out annually by the Board of Directors through completion of the corresponding questionnaire has enabled the thoughts of board members to be carried through to a series of action plans.</p> <p>Below are the specific action plans for each opportunity for improvement which the Board of Directors intends to implement in 2018.</p> <ol style="list-style-type: none"> <li>1. Strengthen the presence of the board in long-term issues and strategy.</li> <li>2. Enhance reporting to the board on the perception of significant third parties and, in particular, customers and investors.</li> <li>3. Revise the period of time between information supplied to the directors and the meetings.</li> <li>4. Assess the competencies and capabilities of the Board of Directors and analysis possible areas to strengthen.</li> <li>5. Agree and revise the training plan for the Board of Directors and, in particular, for new directors.</li> <li>6. Extend the duration of the Audit Committee meetings.</li> </ol>

**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.**

Not significant, very specific and concrete business relationships.

**C.121 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.122 Paragraph repealed.**

**C.123 Are reinforced majorities other than those applicable by law required for any type of decision?:**

Yes ☒

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.124 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.125 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.126** Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

Yes ☐

No ☒

- C.127** 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.128** 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 40 of the Articles of Association sets the rules around delegating votes, stating that "Directors shall personally attend Board meetings and, when they are unable to do so in exceptional circumstances, shall ensure that the proxy granted to another member of the Board shall include the relevant instructions insofar as possible."

Similarly, Article 22 of the Board Regulations in implementing said article adds that "Non-executive directors can only delegate their vote to another non-executive director."

The Board of Directors has not governed the maximum number of times a Director may delegate their vote.

- C.129** 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.

<b>Number of Board meetings</b>	11
<b>Number of Board meetings not attended by the Chairman</b>	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.

<b>Number of meetings</b>	0
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State the number of meetings held by the different Board Committees over the year:

<b>Committee</b>	<b>No. of Meetings</b>
EXECUTIVE COMMITTEE	18
AUDIT AND CONTROL COMMITTEE	10
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	9



- 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	8
Attendances as a percentage of total votes during the year	97.29%

- 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. By way of an example, the Audit and Control Committee holds regular meetings with the external auditor without the executive team being present. 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.136** 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.137** 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	Total
Amount for work other than auditing (€ thousands)	901	98	999
Amount for work other than audit work / Total amount invoiced by the audit firm (%)	78.03%	6,8%	38,03%

- C.138** 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.139** 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	25	25
Number of years audited by the current audit firm / Number of years that the company has been audited (%)	80,65%	80,65%

- C.140** Indicate and, if applicable, provide details of whether there is a procedure whereby directors can receive external advice:

Yes ☒

No ☐

Details of the procedure
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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.141 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 ☒

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.142 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 ☒

No ☐

**Explain the rules**

The Regulations of the Board includes a mechanism to oblige the Directors to provide immediate notification of all legal proceedings in which they may be adversely affected.

In this way, article 14.2.d) of the Regulations of the Board of Directors of NH Hotel Group, S.A., 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.143 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 ☒

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:**

On 22 February 2018 the A.P. of Barcelona has issued a judgement of total acquittal.

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 ☒

No ☐

**Decision made/action taken:**

The Board analysed the case at its meeting on 11 November 2015 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.144** 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 giving rise to a change in control of NH Hotel Group, S.A. In addition, NH Hotel Group, S.A. issued convertible bonds on 8 November 2013, as well as guaranteed senior bonds dated 23 September 2018 and 4 April 2017, which include certain consequences in the event of a change in control of the Issuer, such as the possibility of NH Hotel Group, S.A. being required to repurchase the senior bonds or adjust the conversion price for convertible bonds.

In addition, there are hotel management contracts signed by Group subsidiaries in which Grupo Inversor Hesperia, S.A. (Gihsa) can exercise, in accordance with the terms of a Framework Agreement signed by the Company, the power to resolve all such contracts in the event of a change of control of NH Hotel Group, S.A. If such power is exercised, Gihsa must pay the Company, as a precondition for the resolution by change of control to take effect, amounts as specified in the Agreement Framework in compensation for the effects derived from the resolution of hotel management contracts.

Finally, the change of control following a public takeover bid could have different effects on other leasing and hotel management agreements signed by the Company.



- C.145 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: 1**

**Type of beneficiary:**

A member of Senior Management.

**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. This amount will be equal to one times the fixed annual salary and the last bonus received, except in the case of disciplinary dismissal.

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 FERNÁNDEZ AGRAS	DEPUTY CHAIRMAN	Proprietary
GRUPO INVERSOR HESPERIA, S.A	MEMBER	Proprietary
MR RAMÓN ARAGONÉS MARÍN	MEMBER	Executive
MR PAUL JOHNSON	MEMBER	Independent

% of Executive Directors	20.00%
% of Proprietary Directors	60.00%
% of Independent Directors	20.00%
% of other external directors	0.00%

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; and
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 Directors 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 composed of one Executive Director, three Proprietary Directors and one Independent Director. 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
MR FERNANDO LACADENA AZPEITIA	CHAIRMAN	Independent
MS MARIA GREGNA	MEMBER	Independent
MR JOSÉ MARÍA SAGARDOY LLONIS	MEMBER	Independent

% of Proprietary Directors	0.00%
% of Independent Directors	100.00%



% of other external directors	0.00%
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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 breached 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. Oversees 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:
  - a. The financial information which the company must periodically publish;
  - b. The creation or acquisition of any equity investments in special purpose vehicles and companies registered in tax havens; and
  - c. 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.

<b>Name of the experienced director</b>	MR FERNANDO LACADENA AZPEITIA
<b>No of years chairman in post</b>	0

## **APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Category</b>
MR JOSÉ MARÍA SAGARDOY LLONIS	CHAIRMAN	Independent
MR JOSÉ MARÍA CANTERO MONTES-LOVELLAR	MEMBER	Independent
GRUPO INVERSOR HESPERIA, S.A	MEMBER	Proprietary
MR JOSE MARÍA LÓPEZ-ELOLA GONZÁLEZ	MEMBER	Independent

<b>% of Proprietary Directors</b>	25.00%
<b>% of Independent Directors</b>	75.00%
<b>% of other external directors</b>	0.00%

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 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 that are directly dependent upon the Board, the Executive Committees or Chief Executives, as well as individual remuneration and other contractual conditions for executive directors, ensuring their compliance.
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							
	2017		2016		2015		2014	
	Number	%	Number	%	Number	%	Number	%
EXECUTIVE COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
AUDIT AND CONTROL COMMITTEE	1	33.00%	1	20.00%	1	20.00%	0	0.00%
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	0	0.00%	1	16.70%	1	20.00%	0	0.00%

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](http://www.nh-hotels.es)), in the section "Information for Shareholders" - "Corporate Governance". Said website also includes all information regarding the composition 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; and
3. Operations with a quantity that does not exceed 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 Related Parties 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.A.	Contractual	Management contracts	2,191
HNA GROUP CO LIMITED	HOTEL EXPLOITATIEMAATSCHAPPIJ DIEGEM N.V	Contractual	Operating lease contracts	684

**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):** 7,382

**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 a), 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
--

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
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## **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 Grupo NH) 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.

#### **Executive Committee on Risks**

In May 2017, the creation of an Executive Committee on Risks was approved to support the periodic monitoring of risks (monitoring of action plans and KRIs – Key Risk Indicators), support initiatives and activities related to the implementation of action plans, as well as creating a culture of risks in the company. This Committee met twice in 2017.

#### **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.

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, monitoring the KRI results monthly as well as the implementation status of the action plans agreed with each risk manager and their association with strategic objectives.

The risk map was updated during 2017 and approved by the Board of Directors at their meeting on 25 October 2017. In addition, action plans were defined to mitigate the main risks, as well as KRIs to carry out periodic monitoring on them, setting suitable tolerance levels for this.

### E.3 State 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.

Grupo NH has defined 69 KRIs for its 15 main risks which have been measured periodically since June 2017. Tolerance levels have been defined for each of the main KRIs. When the KRI indicates a specific level of tolerance, the Risk Owner is asked to define mitigation measures to bring the level of risk back to the desired tolerance level.

For tax matters, the Group acts in line with its Corporate Tax Strategy and the Tax Risk Management and Control Procedure. On 11 November 2015, the Group approved its adherence to the Good Tax Practices Code which was approved on 20 July 2010 in the plenary session of the Large Companies Forum.

### E.5 State which risks, including tax risks, have had an impact over the year.

In relation to risks which have materialised and had a negative effect on the company in 2017, the fact that a significant exposure to geopolitical risks exists must be noted. In this, the unstable situation in Catalonia had a negative impact on the company. Additionally, albeit to a lesser extent, the terrorist attack in Barcelona and the strong earthquake in Mexico also affect company operations.

Additionally, the Company's group has subsidiaries in several countries with operating currencies other than the euro, the group's reference currency. Fluctuations in the exchange rate of some of these subsidiaries (mainly Mexico, Colombia, Chile and Argentina) negatively affected investments and/or operations carried out by group companies in these subsidiaries.

With the exception of those previously mentioned, no other risk materialised which had a negative impact. In any event, the Company's risk management system has managed to identify, analyse and adequately deal with those risks which threaten compliance of the Organisation's objectives.

## **E.6 Explain 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.

In each of the Risk Committee's meetings since its creation in May 2017, it has monitored the evolution of the KRIs as well and the degree of implementation of the risk map's action plans. The Risks Map is updated annually.

Finally, since November 2017, the company has had a tool to automate the identification and assessment of risks. This tool will contribute to significantly reducing the time involved in the planning and assessment of risks and controls and will be the only point of information at a global level for risk management.

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.**

Amongst others, the Board of Directors has the powers to determine the risk management and control policy as well as the internal information and control systems as stated in section 3 of article 5 of its governing rules. Likewise, the Board of Directors is responsible for an suitable and effective Internal Control System regarding the Group's Financial Information which aims to provide the Group with a reasonable assurance as to the reliability of the financial information produced and published on the financial markets.

The Group's Finance Management is responsible for the design, implementation and proper working of the SCIIF. During 2017, the transition of the SCIIF definition and custody functions from Internal Audit to the Internal Control Department, within Finance Management, were finalised to comply with the three lines of defence of the COSO framework.



The Audit and Control Committee is responsible for monitoring the effectiveness of internal control in accordance with section b) of article 25 of the Board of Directors' governing rules. This responsibility is in turn delegated to the Internal Audit Department.

#### 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 both the Group's Intranet and its website.

Both the hierarchical and functional lines of responsibility are duly communicated to all Group employees. The internal communication channels are used for this, amongst which we highlight the intranet, executive meetings and information boards 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.

Within Finance Management, the Internal Control 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, whose last review was approved in June 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, NH 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 2017.

At the end of 2017 a process to rationalise the Criminal Risk Prevention Matrix in Spain began which aims to provide the company with a more efficient model whilst during the year the Compliance Office has been working on implementing the Criminal Risk Prevention Model in the seven most important countries where Grupo NH operates. This will be completed throughout 2018 with the launch of specific training for each country.

Likewise, Grupo NH has begun the roll-out of an IT tool (SAP GRC) which will help audit and manage the Criminal Risk Prevention Model and allow management of the SCIIF, the risks map and the tax information report.

The Code of Conduct is available for employees on the company intranet, in the app for employees 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 Grupo NH's employees.

At 31 December 2017, use of the Code of Conduct through the online course is at 75.63%. This percentage excludes Hoteles Royal which was carried out in 2016 through the physical signing of the document and reached 98.71% adherence.

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 complaints received 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.

Regarding the evolution of the SCIIF, through Internal Control the Finance Department has given the following training sessions in 2017.

Internal training of five employees of the Finance Department with an introductory framework on Internal Control and the SCIIF with the aim of their acquiring the fundamental knowledge to carry out the review of the financial information controls self-assessment made by first line of defence users and reported to Internal Control.

Internal training of six employees of the Finance Department's second line of defence for the management and control of risks through the SAP GRC internal control reporting tool.

Training sessions aimed at first line of defence employees- 14 from the retained function of the European business units and nine from Corporate- with the aim of training in reporting the assessment of the design and self-assessment of SCIIF controls to Internal Control through the SAP GRC internal control reporting tool.

Additionally, the Finance Department 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 highlight attendance at training sessions during 2017 on IFRS 16, leases; IFRS 9, financial instruments; and IFRS 15, revenue from contracts with customers; Royal Decree-law 18/2017 of 24 November on non-financial information to be disclosed in the consolidated annual accounts and management report; and on the new audit report.

In turn, and to guarantee an adequate reporting of risks identified in the Group, throughout 2017 the Corporate Internal Audit Department has given training sessions to train 26 users involved in risk management in an appropriate management of the Risk Management module of the SAP GRC internal control tool.

## 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, which assumes the risk function, annually leads the updating of the Corporate Risk Map approved by the Board of Directors.
- The Chief Officers or eding 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 identified in the Internal Control System on Financial Information 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 the risks related to the incorrect accounting record of the transactions and breach of the applicable accounting principles (the International Financial Reporting Standards in the case NH Hotel Group's consolidated accounts) whereby the consolidated financial statements do not express, in all significant aspects, the true image of the consolidated equity, financial situation, profit and loss and cash flows, with them being able to change or influence the reasonable judgement of a person.

In order to provide reasonable assurance regarding the reliability of the financial information disseminated to the market, the Internal Control area of NH Hotel Group's Finance Department follows a permanent review and risks identification process which it documents in two interrelated matrices; the risk and control of the financial information matrix and the scope of the SCIIF matrix.

The risk and control of the financial information matrix contains the risks and sub-risks categories in each process and sub-process having a potential impact on the financial information as well as the associated SCIIF controls to mitigate the impact of these risks.

The scope of the SCIIF matrix identifies those headings of the consolidated balance sheet and income statement with a significant associated risk and a potential material impact on the published financial information. Materiality is established according to quantitative criteria, based on the latest consolidated annual accounts, and on qualitative criteria such as the volume and unit amount of transactions, the automation of processes and the integration of systems, the accounting complexity, the degree of estimation and application of judgements and assessments, and the level of criticality based on experience.

#### 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:

- Budget Control
- Credit Management
- Receivables Management
- Payables Management
- Personnel Management
- Fraud

#### Data processing risks

These risks include problems in data processing in information systems, mainly in the following areas:

- Human Error



- Completeness of Invoicing
- Completeness of Master Files
- 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:

- Timeliness of the information
- 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:

- Failure to comply with commitments undertaken.
- Tax 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:

- Service Level Agreements.
- Availability
- Personnel Management
- Knowledge Management
- Legal

The risk identification and assessment process is carried out by the Internal Audit 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: registered transactions which have not 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.
- Understandability: lack of quality of financial information which makes it difficult to understand for a person with reasonable economics and business knowledge.

With the transition of the SCIIF definition and custody functions to the Internal Control area of the Finance Department, during 2017 a review of the associated risks and controls was carried out, considering the fulfilment of the aforementioned financial information objectives for this.

- 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 involves the reporting of the sub-consolidated income statement and balance sheet reported by each Business Unit, in accordance with their consolidation perimeter, to the Corporate Finance Department.

Each year, the Corporate Consolidation Department confirms the consolidation perimeters with the finance directors of the business units.

Additionally, throughout the year, the business units report on variations which arise in their consolidation perimeter to the Finance Department which, in turn, coordinate the modification of these in all the Group's financial reporting and consolidation systems.

On the other hand, the tax department of the Corporate Finance Department is responsible for maintaining the Group's organisational chart and periodically reporting the updated version to a distribution list of people within the Finance Department to control changes in 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.

A risk matrix has been established 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 SCIF, 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.

There is a financial information review and authorisation procedure in the NH Hotel Group which is set out below:

- Internal reporting of financial information:

Each month, the Group's Finance Management send the Group's most significant information management to the Executive Committee and Board of Directors for their review which contains the income statement and the main economic indicators. Prior to reporting to these governing bodies, the information undergoes a review process by the finance directors at a business unit level and by Finance Management at a corporate level.

- Reporting of information to stock markets:



The consolidated accounts and the half-yearly consolidated financial reports are prepared based on the information reports of the business units and, once reviewed by their respective directors, the consolidation process is undertaken by Corporate Consolidation and the information required to prepare the consolidated accounts is provided both by the Finance Department and other Corporate departments always with the review of the corresponding people responsible for it. Once the consolidated financial statements have been received, they are reviewed by the Group's Finance Management and by the Audit and Control Committee before being prepared and approved by the Board of Directors (section b) of article 33 of the Parent's Articles of Association and sections 3. d) and 5. b) of Article 5 of the Board of Directors' Governing rules). Once prepared, they are published through the National Securities Market Commission.

Additionally, each quarter, the Group publishes financial information to the stock markets. Finance Management is responsible for the process of issuing such information while the Board of Directors, in accordance with section 3 of article 40 of its Governing rules, is responsible for ensuring the preparation is carried out in line with the principles, criteria and professional practices with which the Annual Accounts are produced and enjoy the same reliability. To this end, said information is reviewed by the Audit and Control Committee which, when it deems it appropriate, requires the presence of both external and internal auditors.

Likewise, the Board of Directors may request analysis of specific issues, as well as the details of particular financial transactions which, because of their importance, require greater analysis.

The Corporate Organisation Department is responsible for documenting and updating the year-end process which is published on the corporate Intranet. This process includes the SCIIF controls implemented to mitigate those risks identified at year-end among which are those risks related to the different review levels of the financial information generated.

On the other hand, NH has an internal financial reporting control system (SCIIF) based on the COSO model (Committee of Sponsoring Organisations of the Treadway Commission) to achieve the following objectives:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding assets

NH Hotel Group's SCIIF model is documented in a matrix of financial risks and controls which includes the following business cycles, which are relevant to the preparation of the financial information prepared and published by the Group:

- Accounting close, consolidation and financial reporting process
- Purchasing and suppliers
- Sales and customers
- Cash
- Financing
- Fixed assets
- Inter-company
- Tax
- Human resources
- Provisions and contingencies
- Loyalty programme
- Shared services centre
- Business support technological processes

The structure of the financial risk and controls matrix includes the following information:

- Organisational unit: the organisational level to which the controls are implemented and determines the scope of the assessed entities.
- Process and sub-process: set of activities related to a specific function within the operation of an organisational unit. They include those with a potential significant impact on the financial information prepared by the Group.
- Risk: 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: definition of 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.
- Classification of the controls: key or not, preventive or detective, and manual or automatic; this last one depending on whether they can be monitored using data from automated tools.
- Ownership of the controls: they belong to the first line of defence in accordance with the COSO model. They are those who execute the controls and those responsible for their self-assessment and the assessment of their design.
- Those responsible for the controls: within the first line of defence they are the supervisors of the correct execution and reporting of the controls for each activity before their reporting to Internal Control, the model's second line of defence.

- Frequency: how often the controls are executed.

Within the risks identified in the business cycles defined in the SCIF matrix are the risks of fraud and the controls associated with its mitigation.

Likewise, the matrix includes controls specific to the review of relevant judgements, estimates, valuations and projections whose execution mitigates the risk of reporting unreliable financial information.

Additionally, the Group has a documented procedure which collates the policies to follow in the valuation of those assets of the consolidated balance sheet which involve the making of judgements, estimates, valuations and/or projections with a material impact on the consolidated financial statements.

Internal Control, within the Corporate Finance Department and the second line of defence in compliance with the COSO model, is charged with managing and updating the risks and SCIF controls matrix as well as the periodic review of the self-assessment of the controls made by the owners of those controls, within the first line of defence, to ensure their effectiveness and to mitigate associated risks.

The Corporate Internal Audit Department, as the third line of defence, annually audits the Group's internal control model to afford the Audit Committee and Board of Directors reasonable security as to its effectiveness and, as a result, the reliability of the financial information generated and published on the stock market.

Additionally, section F of the Annual Corporate Governance Report published by the NH Hotel Group is subject to an external audit by a recognised firm to guarantee the truthfulness of its content.

The Group is currently in the final phase of implementing the SAP GRC tool Process Control module to manage the SCIF which will end at the beginning of 2018. From the end of January 2018, the tool will enter use and allow integrations of the SCIF reporting into a single repository and improve efficiency in monitoring changes to the risks and controls matrix and communication between users involved in SCIF reporting, as well as the monitoring of action plans to correct weaknesses found in the model. Likewise, its implementation will suppose a greater degree of involvement in SCIF reporting of all users of the first line of the model and of the Group as a whole, including an internal certification model twice per year.

### 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 130 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.

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 2017, 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.**

The function has been outsourced to a third party in the companies included in the scope of the SCIIF.

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 18 control activities, including controls relating to the handover period of transferring the administrative function to the SSC, the settling-in period, the provision of the service, 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 Grupo NH 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.**

Through Corporate Consolidation, NH Hotel Group's Finance Management is responsible for defining, updating and correctly applying the accounting policies as well as responding to questions and queries which arise in their interpretation.

In this same sense, it is charged with communicating any change which occurs in accounting matters to the heads of the business and corporate units and which affects them in the reporting of financial information.

The Group has an accounting policies manual and a consolidation manual -both published on the Intranet- in accordance with the International Financial Reporting Standards (IFRS), which are those which govern the NH Hotel Group. Likewise, the Group shares a single accounting plan applicable in all the business units in which it operates.

The Organisation Department is responsible for unifying, analysing and publishing the rules and procedures applicable in the Group, among which are the operational, administrative (including accounting), quality and regulatory procedures.

The Internal Audit Department is responsible for periodic review of the processes, policies and procedures defined in the Group.

#### **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.**

As discussed in section F.4.1, the consolidated financial information which NH Hotel Group publishes on the stock market is in accordance with IFRS. In this sense, the information reported from the Group's business units follows International regulations.

Likewise, there is a single accounts plan applied by all the companies which are included in the consolidated group. Grupo NH has a common consolidation tool for all companies. This tool centralises all the information corresponding to the accounting of the companies which make up the financial consolidation of the NH Hotel Group into a single system. The input of financial information from the ERP to the consolidation system is automatic for those companies already migrated to the common ERP implemented in most Group companies, or manually for those companies with a different ERP. In this sense, preventive controls have been defined in the consolidation tool itself which ensure data is input correctly. From January 2018, the input of financial information from the ERP to the consolidation system will be automatic for all Group companies as the companies recently incorporated into the NH Hotel Group consolidation perimeter will be included.

Finance directors of the business units report the financial information to the corporate office monthly using two unique standard reporting packets designed by the Corporate Finance Department for reporting of the financial management information and the consolidated balance sheet.

The dumping of information from the accounts and the accounting headings to the reporting is the same for both models, having previously been approved by the Corporate Finance Department. Any change in criteria for the dumping and presentation of information to be reported is communicated from the corporate office to the finance directors of the business units.

In turn, the Corporate Finance Department uses the same reporting models to prepare the management reports and annual accounts published on the stock market.

All this ensures that the information reported between business units is comparable and homogeneous to be included in the Group's consolidated financial reporting.

At an Internal control level, the Group has designed a single reporting model for the monthly sending of SCIIF controls self-assessment to its owners. Likewise, the Internal Control area pursues the homogenisation of the processes in all the Group's business units so that the risk and control matrix is the same for all the organisational units. In turn, whenever Internal Control modifies the design of the controls, it is communicated to the owners of the processes and controls so they are informed and report according to the latest version of the SCIIF risks and controls matrix.

## 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.

During 2017, the Internal Control Function, reporting to the Financial Department assumed full responsibility for the SCIIF, in addition to its maintenance and extension to the different companies which form part of Grupo NH.

Currently, Grupo NH has a computer tool implemented which helps automate the SCIIF assessment and certification process, which will begin to be used during 2018 for the assessment and monthly monitoring of the SCIIF.

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 Manager annually.



The Internal Audit plan for assessing the SCIIF is submitted to the Audit and Control Committee for approval before being put into practice, in order to include all the considerations of the Committee.

The level of implementation of the relevant 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 Audit and Control Committee and administratively to the General Secretariat. 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 consisting of 9 auditors 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 auditing statutes which were updated in 2017 and 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 and three years for non-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 2017

The Group's SCIIF model covers the business units in Northern Europe (Benelux and Central Europe), Southern Europe (Spain, France, Portugal and Italy) and Latin America (Mexico and Argentina, partially implemented), which consist of 280 hotels and 13 business cycles of major importance in the presentation of financial reports.

A total of 455 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.

Grupo NH has defined a monthly calendar 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.

During 2017, the Internal Control Department supervised the self-assessment process and evidence deposited in a file shared by the Shared Services Centre, Administration and the Internal Control Department.

The assessment process in 2017 analysed a total of 345 controls for the geographic area of Spain, the Netherlands, Belgium, Germany, Austria, Italy, Mexico, Argentina and controls at Corporate level, which involved reaching 76% 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. Jointly with the Internal Control Department, 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 Management Committee.

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 2017, 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's 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 ☒

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 ☒

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 ☐ Explain ☐

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 ☒ 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 ☒ Partially complies ☐ Explain ☐

6. That listed companies drawing up the reports listed below, whether on a compulsory or voluntary basis, publish them 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 ☒ Partially complies ☐ Explain ☐

7. That the company transmits general shareholders' meetings live on its web site.

Complies ☒ 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 ☒

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 ☒

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 ☐

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 ☒

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 ☒

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 ☒

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 ☒

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 ☒

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 ☒

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 ☒

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) Date of their first appointment as a director in the company as well as the date of subsequent re-appointments.
- e) Shares and share options held by the director.

Complies ☒ 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 ☒

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 ☒ Not applicable ☐

The Company's General Shareholders' Meeting used its votes to set the representation of the proprietary shareholder on the Board of Directors. As a result, there is (i) a proprietary shareholder with a holding of around 29% (HNA Group) without representation on the Board, (ii) another proprietary shareholder with a holding of around 12% (Oceanwood) which, with one director would be under-represented on the Board, and (iii) a third proprietary shareholder with a holding of around 9% (Grupo Hesperia Inversor) which, with two directors would be over-represented. With regard to this last shareholder, in 2014 they reduced their shareholding in NH but retained two representatives on NH's Board of Directors as it was considered that the in-depth knowledge both representatives had of the hotel industry was an asset worth preserving for the benefit of all shareholders. And so it was approved by the General Shareholders' Meeting on 29 June 2017 and by the proxy advisors which covered said Meeting who recommended voting in favour of the appointment's approval.

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 ☒ 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 ☒

Partially complies ☐

Explain ☐

23. 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.

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 ☒

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 ☒

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 ☒

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 ☒

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 ☒ Explain ☐

Out of a total of 11 meetings of the Board of Directors, it was not possible to nominate a proxy with instructions in 3 for reasons of urgency. In any case, the percentage of attendance over total votes during the year was 97.29%.

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 ☒ 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 ☒ 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 ☒ 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 ☒ 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 ☒ 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 ☒ 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 ☒

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 ☒ 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.

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 ☐ Partially complies ☒ Explain ☐ Not applicable ☐

The Company's Executive Committee does not have a similar director category structure as the Board of Directors itself as, in the Executive Committee there is a greater weight of proprietary directors than on the Board of Directors. This is the result of an informed and free decision by the Board of Directors which, logically, has been approved by qualified majorities considering that the make up of its Executive Committee is adequate to carry out its duties.

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.

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.

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 ☒ 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 ☒ 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 ☒

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 ☒

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 ☒

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 ☒

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 ☒

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 ☐

Explain ☐

48. Companies with high capitalisation have separate appointments and remuneration committees.

Complies ☐

Explain ☐

Not applicable ☒

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 ☒

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 ☒

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 ☒

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 ☒

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 ☒ 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 ☒

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 ☒

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 ☒

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 ☒

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 ☐

Partially complies ☒

Explain ☐

Not applicable ☐

The Company's executive directors' short-term variable remuneration has ten per cent linked to the professional performance of the CEO, i.e. his performance assessment. The eight competences measured in this performance assessment are non-financial and are linked to predetermined and measurable performance criteria, as is recommended.



In relation to long-term variable remuneration, although it does not include non-financial criteria as a measure of achievement, it does include a "clawback" clause with an application period of two years from the end of each cycle and for which the payback of the award may be demanded in the following cases:

- i. Restatement of the Company's financial statements wherever not due to the modification of applicable accounting standards or interpretations.
- ii. The Executive Director being sanctioned for serious breach of the code of conduct and other internal regulations which may be applicable.
- iii. When the settlement and payment of the award was wholly or partially produced on the basis of information whose falsehood or serious inaccuracy is manifestly demonstrated a posteriori.

**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 ☐

There is no deferral scheme in the Company's current annual variable remuneration system for any of its participants. With long-term variable remuneration, its very nature allows the Company's performance to be seen in the medium and long term (3 years), in addition to ex post control instruments which would be activated when circumstances arise which make it evident that the payment was made on an erroneous premise.

**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 ☐

**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 ☐

**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 ☐

Both the 2014-2019 and 2017-2022 "Performance Shares" Plans establish the obligation to retain the shares delivered to the Executive Director for at least one year. In addition, the Executive Director will be obliged to hold an amount in shares equivalent to at least one year of fixed remuneration throughout their entire tenure. To determine compliance with this obligation, it considers the share price on the day they were delivered.

**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 ☐

**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 ☐

Regarding the outgoing Executive Body, the possible compensation which could correspond to it is pending judicial review, with the court having set 20 November 2018 for the pre-trial hearing. When any news arises, this information will be transferred quickly and included into the new annual reports which may be necessary. Notwithstanding the foregoing, and in accordance with criteria of accounting prudence, the Company's Annual Accounts have had the maximum amounts which, if applicable, could be derived from the eventual compensation to Mr Federico González Tejera fully provided for.

In no event will Ramón Aragonés Marín, the Executive Director appointed in 2017, be entitled to receive any compensation derived from the termination of his position and ending of such commercial relationship. However, the possible indemnities derived from an ending of the employment relationship will continue in effect during his term as Executive Director, recognising that period as time employed. Once ended, as appropriate, the business relationship will take over the labour relationship which was in effect between company and employee until the taking on of the new position in all its effects, except in serious and culpable breach and thus declared jurisdictionally.

## **[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.2.**

Although in the CNMV Records it is recorded that the shareholding of Grupo HNA in NH is 29.50% at 31 December 2017, Grupo HNA reported a decrease to 29.34% in its shareholding in NH to the CNMV on 27 February 2017. In addition, on 3 November 2017, Grupo HNA notified the CNMV of the signing of a sales contract and repurchase agreement through which it would transfer NH shares representing approximately 1.14% of the share capital. Depending on whether the sale has been formalised and the terms and conditions of it, Grupo HNA's shareholding in NH could reach 28.20% of the share capital. Finally, on 19 January 2018, it notified the CNMV of the engagement to review its shareholding in NH, including identify potential buyers of its shareholding.

Although the directors are expressly excluded in section A.2, to show the shareholding in NH Hotel Group, S.A. clearly, the shareholding of Grupo Inversor Hesperia, S.A. is included in that section as it is also a director of the Company. The shareholding of Grupo Hesperia consists of the direct shareholding held by Grupo Inversor Hesperia, S.A. (9.10%) and Eurofondo (0.17%).

### **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 2017, final ownership of NH Hotel Group, S.A. own shares came to 8,031,895 shares.



During 2017, the Company did not acquire 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 31 December 2017 came to 1,384,473 shares. By virtue of the foregoing, the final ownership of NH Hotel Group, S.A. own shares at 31 December 2017 came to 8,031,895 shares, which are attached to the same number of rights to vote.

#### SECTION C.1.12

Given that the IAGC workforce only allows inclusion of positions which the Directors had on the Board of Directors of other listed companies, it is hereby informed that Mr Fernando Lacadena Azpeitia is the Financial Director at Merln Properties Socimi, S.A.

#### SECTION C.1.17

Mr Jordi Ferrer Graupera, the individual representative of Grupo Inversor Hesperia, S.A., a significant shareholder in the Company, holds the position of joint and several director of Grupo Inversor Hesperia, S.A.

#### 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 Tangle, S.L., 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. The Instructing Judge of said criminal action dismissed and filed the proceedings on 21 September 2017. This order to dismiss and file has been appealed by HNA, and is pending resolution.

#### SECTION C.2.1.

Notwithstanding the detailed composition of the Board of Directors, the Company has a co-chairmanship system which specifies the appointment of a Chairman of the Board (Mr Alfredo Fernández Agras) and a Chairman of the Executive Committee (Mr José Antonio Castro Sousa).

In relation to the reference made to the Audit and Control Committee and the identification of the "member of the audit committee who has been appointed taking their knowledge and experience in accounting, auditing or both into account", the IAGC form only allows the appointment of one of the members (as required by article 529m of the LSC, which requires that "one of them be appointed taking their knowledge into account" in these matters), clarification is wanted that all members of the Audit and Control Committee have extensive experience and knowledge in accounting and auditing, which is why they have been appointed to be part of the Committee in question.

#### SECTION D.2.

On 19 April 2017, NH and the shareholder Grupo Inversor Hesperia, S.A. signed a framework contract for hotel management for a total net amount of 31,000 (thousand) euros, of which 11,000 (thousand) euros was paid in 2017 (published through Relevant Event with record number 250817 dated 19 April 2017). Said agreement has brought about a new strategic and transformational framework for the Company when signing new hotel management contracts for a term of 9 years.

It is hereby recorded that concerning the management agreement entered into between Hoteles Hesperia, S.A. and the major shareholder Grupo Inversor Hesperia, S.A., the total transaction volume in 2017 came to 8,969 (thousand) euros. The balance at 31 December 2017 resulting from said management agreement is contained in this report and comes to 2,191 (thousand) euros.

#### SECTION D.3.

See note D.2. where the shareholder Grupo Inversor Hesperia, S.A. which carries out significant operations with the Company is a Director of the Company at the same time.

#### SECTION G.3.

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.

This annual corporate governance report has been approved by the company's Board of Directors in its session on 28/02/2018.

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

Yes ☐

No ☒

*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 31<sup>th</sup>, 2017**

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 January 22<sup>th</sup>, 2018, 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 31<sup>th</sup>, 2017, 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 31<sup>th</sup>, 2017 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.



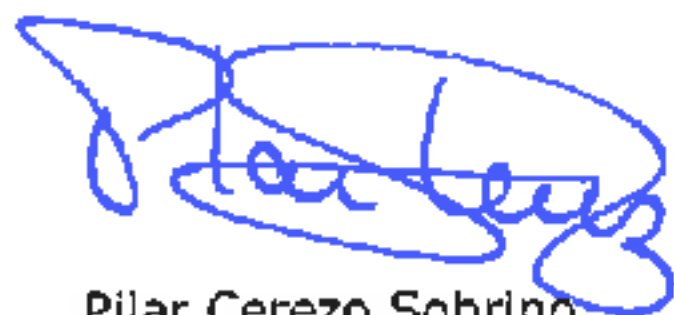
The procedures applied were as follows:

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 22<sup>nd</sup>, 2015, which amends CNMV Circular 5/2013 of June 12<sup>th</sup>, 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 22<sup>nd</sup>, 2015, which amends CNMV Circular 5/2013 of June 12<sup>th</sup>, 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 28<sup>th</sup>, 2018