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

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

## Report on the Financial Statements

### 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.

### 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.

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## 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** | **Procedures applied in the audit** |
| 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.<br><br>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.<br><br>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. | 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.<br><br>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.

## 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.

## 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.

## 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

### 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.

### 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 uninterruptedly 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.

## 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.