

JUSTIFYING REPORT OF THE BOARD OF DIRECTORS OF NH HOTEL GROUP, S.A. WITH REGARD TO THE AMENDMENT OF THE BOARD OF DIRECTORS'S REGULATION

I. Introduction

This report is drawn up by the Board of Directors of NH Hotel Group, S.A. (hereinafter “NH” or the “**Company**”), previous favourable report from the Designation, Remuneration and Corporate Governance Commission, and in accordance with article 3.1 and 3.2 of the Board of Directors' Regulation, in order to justify the proposed amendments to the Regulations of the Board of Directors. Said modification proposals are intended to incorporate into the Regulations the necessary adaptations in order to adapt its content, to Law 5/2021, of April 12, which modifies the revised text of Companies Act, approved by Royal Legislative Decree 1/2010, of July 2 (hereinafter, “LSC”), and other financial regulations, regarding the promotion of long-term involvement of shareholders in listed companies (hereinafter, “Law 5/2021”) and for the purpose of adapting its content to the best corporate governance practices. The proposed amendments to the text of the Board Regulations are consistent with the amendments to the Bylaws and Regulations of the Meeting approved by the General Shareholders' Meeting on June 30, 2021.

By virtue of the foregoing, it is proposed to modify articles 5, 10, 22, 29, 32 and 36 of the Board Regulations, motivated by the provisions below

II. Detailed justification of the proposal

- **Proposed modification of article 5 of the Board of Director's Regulations regarding the functions of the Board of Directors**

It is proposed to modify article 5 of the Regulations in order to include (i) the reference to the approval of “non-financial” information, as one of the non-delegable decisions that corresponds to the Board of Directors, (ii) include a clarification regarding the abstention of proprietary directors from the deliberation and approval of decisions related to related-party transactions, in order to collect the provisions of the new article 529 duovicies, second section of the 2 LSC, after its modification by Law 5/2021 and (iii) the new treatment made by article 529 vicies of the LSC, after the modification introduced by Law 5/21, to the approval of related-party transactions.

Consequently, the proposed amendment to article 5, third and fifth paragraphs of the Board Regulations is as follows:

**“Article 5. General functions of the Board of Directors
[...]**

3. The faculties reserved by law or the Articles of Association exclusively to the Board, and any others necessary for responsible exercising of its basic function of supervision and control may not be delegated.

Specifically, the following faculties may not be delegated under any circumstances:

a) The approval of the strategic or business plan, the management objectives and annual budgets, the investment and financing policy, the corporate social responsibility policy and the dividends policy.

b) The determination of the control and risk management policy, including tax risks, and the supervision of internal reporting and control systems.

c) The determination of the corporate governance policy of the Company and of the group of which it is the controlling company; its organization and functioning and, in particular, the approval and modification of its regulations.

d) The approval of the financial information the Company must publish periodically.

e) The definition of the structure of the group of companies of which the Company is the controlling company.

f) The approval of all kind of investments or operations which, due to the high amount or special characteristics thereof, are of a strategic nature or involve a special tax risk, unless approval of such operations corresponds to the General Meeting.

g) The approval of the creation or acquisition of shares in entities with a special purpose or domiciled in countries or territories that are considered to be tax havens, and any other transactions or operations of a similar nature that, due to their complexity, may be detrimental to the transparency of the company and its group.

h) The approval, following a report by the audit committee, on the operations that the company or companies in its group carry out with Board members, in the terms of articles 229 and 230 of the Companies Act, or with shareholders who individually or in conjunction with other shareholders hold a significant shareholding, including shareholders represented on the Board of Directors of the company or of other companies that form part of the same group of with persons related to them. The Board members who are affected or who represent or are related to the affected shareholders must refrain from participating in the deliberation and voting on the

resolution in question. **Proprietary Directors who represent or are linked to the parent company, with the particularities provided for in the Law, must not abstain.**

- i) *The determination of the company's tax strategy.*
- j) *The supervision of the effective functioning of any committees that have been set up and of the performance of any delegated bodies and executive officers designated.*
- k) *The determination of the Company's general policies and strategies.*
- l) *The authorization or release from obligations deriving from the duty of loyalty in accordance with the provisions of article 230 of the Companies Act.*
- m) *Organization and functioning of the Board itself.*
- n) *The drawing up of the annual accounts and their submission to the General Meeting.*
- o) *The drawing up of any kind of report required of the governing body by law when the operation the report refers to cannot be delegated.*
- p) *The appointment and removal of Executive Officers of the Company, and the establishment of the conditions of their contract.*
- q) *The appointment and removal of executives who are directly dependent on the Board or any of its members, as well as the establishment of the basic conditions of their contracts, including their remuneration.*
- r) *Decisions relating to the remuneration of Board members, within the framework established by the Articles of Association and, as the case may be, the remuneration policy approved by the General Meeting.*
- s) *The convening of the General Shareholders' Meeting and the drawing up of the agenda and the proposed resolutions.*
- t) *The policy concerning own shares.*
- u) *Any faculties that the General Meeting has delegated to the Board of Directors, unless it has been expressly authorized by the Meeting to sub-delegate them.*

When there are duly attested circumstances of urgency, decisions corresponding to the matters referred to in sections a) to i) above may be

adopted by the delegated bodies or persons, and must be ratified at the first Board meeting held after the decision has been adopted.”

[...]

5. Specifically, the full Board reserves the competence to approve:

a) The general policies and strategies of the Company, and in particular:

- i. The strategic or business plan, and the management objectives and annual budgets;*
- ii. The investment and financing policy;*
- iii. The definition of the structure of the group of companies;*
- iv. The corporate governance policy;*
- v. The corporate social responsibility policy;*
- vi. The remuneration policy and assessment of senior executives' performance;*
- vii. The control and risk management policy, and the periodic monitoring of the internal reporting and control systems;*
- viii. The dividends policy, and the policy concerning own shares and, in particular, its limits.*

b) The following decisions:

- i. The remuneration of the Directors and, in the case of executives, the additional remuneration for their executive duties and any other conditions that their contracts must respect;*
- ii. The financial information **and non-financial** which, as a listed company, the company must publish on a regular basis;*
- iii. Investments or all kind of operations which, due to the high amount or special characteristics thereof, are of a strategic nature, unless approval of such operations corresponds to the General Meeting;*
- iv. The creation or acquisition of shareholdings in entities with a special purpose or domiciled in countries or territories that are considered to be tax havens, and any other transactions or operations of a similar nature that, due to their complexity, may be detrimental to the group's transparency.*

The operations that the Company or its subsidiaries carry out with Directors, with shareholders holding 10% or more of the voting rights or represented on the Board or with any other person who should be considered related party, in accordance with the applicable regulations (“Related-Party Operations”), except that such approval is reserved to the competence of the shareholder meeting or when approval of the

Board is not required because it has been established by applicable legislation or the internal regulations of the Company.

They will not be Related-Party Operations:

(i) those carried out between the company and its wholly-owned subsidiaries, directly or indirectly;
(ii) those carried out by the company with its subsidiaries or investees, provided that no other related party to the former has interests in such subsidiaries or investees;
(iii) contracts for executive directors and senior managers.”

- **Proposed modification of article 10 of the Board of Director’s Regulations regarding the appointment of Directors.**

It is proposed to modify article 22, first section, in order to adapt its content to the provisions of article 529 bis LSC, which eliminates the possibility that the Board of Directors of a listed company may be composed of legal entity directors.

Consequently, it is proposed to delete the third paragraph of article 10.2. section of the Board Regulations, being worded as follows:

“Article 10. Appointment of Directors

[...]

2. *The proposal for the appointment or re-election of members of the Board of Directors corresponds to the Nominations, Remuneration and Corporate Governance Committee, for Independent Directors, and to the Board itself in all other cases. The proposal must in any case be accompanied by a justificatory report issued by the Board evaluating the competence, experience and merits of the proposed candidate, which will be attached to the minutes of the General Shareholders’ Meeting or the Board meeting.*

The proposal for the appointment or re-election of any non-independent Director must be preceded, furthermore, by a report issued by the Nominations, Remuneration and Corporate Governance Committee.

The Board of Directors shall ensure that the procedures for the selection of its members favour diversity of gender, experience and knowledge, and do not suffer from any implicit bias that could involve any discrimination whatsoever and, in particular, which facilitate the selection of female Directors.

[...]”

- **Proposed modification of article 22, first paragraph, of the Board of Director’s Regulations regarding to the Development of the Sessions.**

It is proposed to modify article 22, section one, in order to highlight the commitment of the directors to attend the meetings of the board and its committees, in person, by telematic means or through the corresponding delegation of vote (with their corresponding voting instructions) .

Consequently, the proposed amendment to article 22, first paragraph of the Board Regulations is as follows:

“Article 22. Progress of Meetings

- 1. Meetings of the Board shall be quorate when half plus one of its members is present or represented at the meeting.*

Directors will use their best efforts to attend Board meetings and their commissions in person or by telematic means, and when, exceptionally, they are unable to do so, they shall strive to nominate another Board member to represent them, and, as far as possible, will include the pertinent voting instructions. For internal purposes, the Directors who have delegated their vote to another Director, with precise voting instructions, will be deemed to have attended the Board or the corresponding Committee. In this sense, the Directors undertake to attend 85% of meetings, understood in said calculation, both physical attendance, by videoconference, as well as those processed through delegations with voting instructions. Non-executive Directors may only delegate another non-executive to represent them.

Such delegations may be granted by letter or through any other means that ensures the certainty and validity of the representation in the Chairman’s opinion.

Furthermore, the Board of Directors may authorize the attendance of Directors by telephone or audiovisual media provided that such means allow real-time interactivity and intercommunication between those present at the meeting.

[...]”

- **Proposed modification of article 29, of the Board of Director’s Regulations regarding to the Duty of Diligence.**

It is proposed to modify article 29, in order to adapt its content to the provisions of article 225.1 LSC, to reinforce the duty of care of directors, in line with the requirements of good corporate governance.

Consequently, the proposed amendment to article 29 of the Board Regulations is as follows:

“Article 29. Duty of Diligence

*Directors shall carry out the post and comply with the duties imposed by law, the Articles of Association and these Board of Directors' Regulations with the diligence of an orderly entrepreneur, taking into account the nature of the post and the functions attributed to each of them, **and subordinate, in any case, their particular interest to the interest of the Company.** Consequently, they are bound, in discharging the post, to:*

- a) Obtain information and prepare adequately for the meetings of the Board and of any Committees they belong to;*
- b) Attend the meetings of the bodies of which they are members and participate actively in the deliberations, so that their opinion contributes effectively to decision making, and take responsibility for such decisions;*
- c) Fulfil any specific undertaking entrusted to them by the Board of Directors and reasonably included in their dedication commitment;*
- d) Promote the investigation of any irregularity in the Company's management that may have come to their attention and ensure that adequate control measures are taken on any situation of risk.*
- e) Request that a meeting of the Board of Directors be convened when they consider it appropriate, or that the matters they consider appropriate be included in the Agenda.*
- f) Object to resolutions that are contrary to law, the Articles of Association or the corporate interest, and request that their objection be noted in the Minutes.*

In discharging their duties, Directors have the duty to demand and the right to obtain from the Company adequate and necessary information to permit them to comply with their obligations.

In any case, Directors must dedicate to their duties the time and effort necessary to discharge them efficiently, and they must inform the Nominations, Remuneration and Corporate Governance Committee of any circumstances that could interfere with the required dedication.

In this regard, Directors may not belong to more than 10 Boards of Directors, excluding the Board of NH Hotel Group, S.A. and that of holding companies or family companies, except with the express authorization of the Nominations and Remuneration Committee, taking into account the circumstances of each case."

- **Proposed modification of article 32, of the Board of Director's Regulations regarding the duty of loyalty and the duty of avoid situations of conflict of interest.**

The Board of Directors proposes to modify article 32.1 section d) in order to adapt its wording to the new article 529 duovicies, second section of the LSC, after its modification by Law 5/2021, which includes a clarification regarding abstention of the proprietary directors in the deliberation and approval of decisions regarding related-party transactions, expressly stating that proprietary directors who represent or are related to the parent company should not abstain.

By virtue of the foregoing, the wording of said Article 32 of the Board Regulations would be drawn up as follows:

“Article 32. Duty of Loyalty and Duty to Avoid Situations of Conflict of Interest

*1.- Directors shall carry out the post with the loyalty of a faithful representative, acting in good faith and in the best interest of the Company.
In particular, the duty of loyalty requires that Directors:*

- a) Do not exercise their faculties for purposes other than those for which they were granted.*
- b) Keep secret all information, data, reports or antecedents to which they have had access in the course of their duties, even after they have ceased to hold their post, except in the cases permitted or required by law.*
- c) Refrain from participating in the deliberation and voting on resolutions and decisions in which they or a related person have a direct or indirect conflict of interests. Resolutions or decisions that affect Directors in their capacity as Board members, such as their appointment or revocation for posts on the management bodies and other similar resolutions or decisions will be excluded from the above obligation.*

Proprietary Directors who represent or are linked to the parent company, with the particularities provided for in the Law, must not abstain.

- d) Carry out their duties under the principle of personal responsibility with freedom of criteria or judgement and independence with respect to instructions from and relations with third parties.*

- e) *Adopt the necessary measures to avoid incurring in situations in which their interests may come into conflict with the corporate interest and with their duties to the company.*

[....]”

- **Proposed modification of article 36, third section of the Board of Director’s Regulations regarding the remuneration of Directors.**

Article 36 of the Board Regulations regulates everything related to the remuneration of Directors, having to adjust the wording of the Third Section, relative to the Remuneration Policy, to the provisions of article 529 novodecies LSC, modified by Law 5/2021.

In this sense, the draft proposal for the aforementioned Third Section is as follows:

“Article 36. Directors’ Remuneration

[...]

Section Three: Remuneration Policy

*1.- In addition, the Board of Directors will propose a remuneration policy for Directors which will indicate the grounds and must be accompanied by a specific report of the Nominations and Remuneration Committee. **Both documents will be made available to shareholders on the Company’s website from the time the shareholders meeting is called. The Directors’ remuneration policy must contain the provisions provided by law, being approved by the General Shareholders’ Meeting at least every three years as a separate item on the agenda.***

2.- The Directors’ remuneration policy thus approved shall remain in effect for three years following the year in which it is approved by the General Meeting. However, proposals for new remuneration policies for directors must be submitted to the General Shareholders’ Meeting prior to the end of the last year of application of the previous one, and the general meeting may determine that the new policy is applicable from date of approval and during the following three years. Any modification or substitution of the same during said period will require the prior approval of the General Shareholders’ Meeting in accordance with the procedure established for its approval.

3.- If the proposal of a new remuneration policy is rejected by the general meeting of shareholders, the Company will continue to remunerate its directors in accordance with the remuneration policy in force on the date of the general meeting and must submit for approval of the next ordinary General Shareholders’ Meeting of shareholders a new remuneration policy proposal.

If the annual report on directors' remuneration is rejected in the consultative vote of the ordinary general meeting, the Company may only continue to apply the remuneration policy in force on the date the general meeting is held until the next ordinary General Shareholders' Meeting.

4.- Any remuneration that the Directors receive for the exercising or termination of their post and for carrying out executive duties will be in line with the Directors' remuneration policy in force from time to time, except for remuneration that has been expressly approved by the General Shareholders' Meeting."

In Madrid, the 28th July 2021