

**ANNUAL REPORT ON THE REMUNERATION
OF DIRECTORS OF LISTED COMPANIES**

ISSUER IDENTIFICATION PARTICULARS

YEAR-END DATE

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Company Name:

NH HOTEL GROUP, S.A.

Registered Office:

CALLE SANTA ENGRACIA, 120 – 7ª PLANTA MADRID

ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS OF LISTED COMPANIES

A REMUNERATION POLICY OF THE COMPANY FOR THE CURRENT YEAR

A.1 Explain the company's remuneration policy. This section will include information on:

- General principles and foundations of the remuneration policy.
- Most significant changes made to the remuneration policy from the policy applied during the prior financial year, as well as changes made during the financial year to the terms for exercising options already granted.
- Criteria used to establish the company's remuneration policy.
- Relative significance of the variable items of remuneration compared to fixed items and the criteria used to determine the different components of the director remuneration package (*remunerative mix*).

Explain the remuneration policy

General principles and foundations:

The objective of the remuneration policy of NH Hotel Group, S.A. (hereinafter, "NH" or the "Company") is to reward the commitment, responsibility and talent of our employees, doing so while always taking into consideration the economic climate, the Company's results, the group's strategy and best practice in the market. The NH remuneration policy was approved by the Board of Directors within a general framework based on governing principles which apply to all NH employees, and a general regime contained in the Articles of Association and the Board of Directors Regulations of NH. These governing principles are:

- Principle of legality: no employee of NH will be outside ruling local legislation.
- Principle of competitiveness: NH will ensure that the salary structure of all its employees is competitive according to most recognized salary studies in the different markets where it does business.
- Principle of performance: the remuneration policy of NH will be related to the employee's individual performance and the collective performance of the organization.
- Principle of equity: NH will promote internal equity between similar levels of responsibility and performance.
- Principle of non-discrimination: the remuneration policy of NH will have the utmost respect for non-discrimination on account of sex, age, culture, religion or race.

The remuneration policy for the Board seeks continuous transparency, reporting the overall amount of the Board's remuneration in both the Notes to the Annual Accounts in the Annual Corporate Governance Report.

In accordance with the provisions of article 42 of the Articles of Association of NH and article 36 of the Board of Directors Regulations, the NH remuneration policy distinguishes between:

- (i) The remuneration policy applicable to non-executive directors

The remuneration system for non-executive directors for their supervision and collegiate

decision-making duties – all the specific duties reflected in the Board of Directors Regulations – is made up of the following remunerative elements:

- A fixed annual allowance for their post as directors.
- Fees for attending meetings of the delegated commission and consultative committees of the Board of Directors, the total annual amount of such expenses depending on the number of meetings held by each committee and directors' attendance thereat.

(ii) The remuneration policy applicable to executive directors.

- A fixed part, in line with the services and responsibilities undertaken.
- A variable part, annual and long-term, based on the company's results.
- A benefits part, which will include the pertinent insurance.
- Compensation in the event of early termination in exercising executive duties that is not due to a breach of the obligations and duties as a director.

Most significant changes in the remuneration policy

At the date of publishing this report, the elements and characteristics of the remuneration policy for 2017 are similar to those applied in 2016.

Criteria for establishing the remuneration policy:

To establish the remuneration policy, the Board of Directors, at the proposal of the Appointments, Remuneration and Corporate Governance Committee (hereinafter "ARCGC"), considers the provisions of NH's Articles of Association and Board of Directors Regulations, applicable legislation, best market practice, the current economic climate and the guidelines and recommendations of proxy advisors and institutional investors.

Remunerative mix:

While non-executive directors do not receive any variable remuneration, following best practice in corporate governance, in the total remuneration of the Executive Directors there is an adequate and balanced ratio between fixed and variable remuneration, with the fixed component constituting a sufficient part of his remuneration to provide for an adequate balance in the variable remuneration. Under ordinary circumstances, the fixed portion should not represent more than 50% of the theoretical maximum annual remuneration to be received by the Executive Director.

The remuneration mix of the current Executive Director, for 100% compliance with objectives, is as follows: 46% fixed remuneration and 54% variable remuneration, with balanced weighting of the annual and multi-year component (50%/50%);

For the purposes of a better understanding of the term "Executive Director" in this report, it is hereby stated that this position has been held since February 2017 by Mr Ramón Aragonés, who was appointed CEO by the Board and will be proposed at the next General Shareholders' Meeting for ratification. Consequently, references to the "Executive Director" in the rest of this report are to be understood with this qualification.

A.2 Information regarding preparatory work and the decision-making process followed to determine the remuneration policy and any role played by the remuneration committee and other control bodies in the configuration of the remuneration policy. This information will include any mandate given to the remuneration

committee, the composition thereof and the identity of external advisors whose services have been used to determine the remuneration policy. There will also be statement of the nature of any directors who have participated in the definition of the remuneration policy.

Explain the process for determining the remuneration policy
<p>Preparatory work and decision-making process</p> <p>The amount of the different remunerative elements is reviewed each year by the ARCGC, which passes its conclusions onto the Board of Directors and to the Ordinary General Shareholders' Meeting for approval. In any case, the determination of the amount of the above-mentioned remuneration items will be in line with market conditions and will take into consideration the responsibility and degree of commitment involved by the different types of directors.</p> <p>When it comes to determining the remuneration policy for directors, the ARCGC exercises at least the following competences established in article 26 of the Board of Directors Regulations, notwithstanding any other task it may be assigned by the Board of Directors:</p> <ul style="list-style-type: none"> - Evaluate the necessary competence, knowledge and experience on the Board of Directors. For these purposes, it will define the functions and aptitudes necessary in the candidates who are to cover each vacancy and will evaluate the time and dedication required to carry out their undertaking efficiently. - Submit proposals to the Board of Directors for the appointment of Independent Directors to be appointed by co-optation or to be submitted to the decision of the General Shareholders' Meeting, together with proposals for the re-election or removal of such Directors by the General Shareholders' Meeting. - Report on the proposals for the appointment and removal of senior executives and the basic conditions of their contracts. - Propose to the Board of Directors the remuneration policy for Directors and general managers or whoever carries out their senior management functions directly depending on the Board, Executive Committees, or Executive Directors, as well as the individual remuneration and other contractual conditions of Executive Directors, ensuring that the policy is followed. <p>As part of the fulfilment of its duties, in 2016 the ARCGC requested remunerative benchmarking for the position of CEO, as well as an analysis of the design of the annual and multi-year variable remuneration policy, in line with best market practice and regulatory requirements, from institutional investors and proxy advisors.</p> <p>The ARCGC may meet as many times as (i) the Chairman considers necessary, (ii) the Board of Directors requires or (iii) two or more of its members with voting rights request, for the proper fulfilment of its duties.</p> <p>The Board of Directors will be informed of all the actions carried out by the ARCGC, and the corresponding documentation will be made available to it, so that it is aware of such actions to carry out its tasks.</p> <p>Work carried out by the ARCGC</p> <p>For the purpose of determining the remuneration policy for the directors of NH in 2016, the ARCGC met 9 times during the last year. For the current year (2017), it is estimated that the Committee will meet at least 6 times, notwithstanding that as many</p>

unscheduled meetings as necessary may be convened. At these meetings, up to the approval of its report in 2017, the ARCGC has debated, among others, on the following matters:

- Review and approval of the remuneration of the Board and Senior Management.
- Approval of the objectives linked to the annual and multi-year variable remuneration of the Executive Director for 2016.
- Proposal and approval of the launch of a new long-term variable remuneration plan (Performance Shares Plan) which will start in 2017 (described in more detail in point A4.ii), subject to the approval of the Ordinary General Shareholders' Meeting.
- Evaluation and approval of the annual variable remuneration for the Executive Director in respect of the results obtained in 2015.
- Evaluation and approval of the annual variable remuneration for Senior Management in respect of the results obtained in 2015 and 2016.
- Proposal and approval of an extraordinary bonus to the three Executive Managing Directors as compensation for their additional reporting duties to the Board and high level of dedication.
- Proposal for a new remunerative framework for the Board and Senior Management to be applied.
- Assessment of the Board of Directors.
- Proposal and approval of the Annual Report on Remuneration for the years 2015 and 2016.

Composition of the ARCGC

In accordance with article 47 of the Articles of Association, the Committee will be made up of a minimum of three and a maximum of six Directors, consisting exclusively of non-executive Directors appointed by the Board of Directors, at least two of whom must be Independent Directors.

At 28th February 2017, the Committee is made up of four members, all of them non-executive Directors and two of them Independent Directors:

Mr José María Cantero de Montes-Jovellar. Committee member and Other External Director since 21st June 2016.

Mr José María López-Elola González. Committee member and Independent Director since 25th April 2012.

Mr Alfredo Fernández Agras. Committee member and Representative Director since 19th June 2015.

Ms Koro Usarraga Unsain. Committee member and Independent Directors since 19th June 2015.

The ARCGC will appoint one of its members as its Chair in the forthcoming meetings.

The meetings of the Appointments, Remuneration and Corporate Governance Committee may occasionally be attended by Directors who are not members of the Committee, on the prior invitation of the Committee Chairman.

External advisors

In 2016 Willis Towers Watson, an independent advisor specializing in director and senior management remuneration, has advised the ARCGC in carrying out a remunerative benchmarking on the CEO's remuneration, in drawing up a market study on long-term incentives and in evaluating the design of the annual and multi-year

variable remuneration of NH compared to best market practice and regulatory requirements and proxy advisors.

In 2017 Willis Towers Watson has advised the ARCGC on drawing up this annual report on remuneration.

In addition, NH has received advising on different matters from the following:

- Seeliger y Conde y Spencer Stuart, in the search for Directors in the market.
- The consultancy firm KPMG in the Board of Directors Self-Evaluation.

A.3 State the amount and nature of the fixed components, with a breakdown, if applicable, of remuneration for the performance by the executive directors of the duties of senior management, of additional remuneration as chair or member of a committee of the Board, of attendance fees for participation on the board and the committees thereof, or other fixed remuneration as director, and an estimate of the annual fixed remuneration to which they give rise. Identify other benefits that are not paid in cash and the basic parameters upon which such benefits are provided.

Explain the fixed components of remuneration
<p>Remuneration of directors for performing their supervision and collegiate decision-making duties</p> <p>The framework established by law and the Articles of Association regulates the remuneration of the Company's directors pursuant to the remuneration criteria indicated below, in accordance with the provisions of article 42 of the Articles of Association.</p> <p>In accordance with article 529 <i>septdecies</i> of the Companies Act, the remuneration policy for directors must necessarily include the maximum amount of the annual remuneration to be paid to all the directors as a whole in their capacity as such, with the Board of Directors responsible for distributing that amount among the different items and among the different Directors, in the manner, at the time and in the proportion it freely considers.</p> <p>The General Shareholders' Meeting held on 21st June 2016 resolved to maintain a gross annual remuneration of € 1,100,000 for all the members who form part of the Board of Directors. This amount refers to the total annual fixed portion and fees for attending meetings of the Board of Directors and its delegated and consultative Committees.</p> <p>The remuneration system for non-executive directors for their supervision and collegiate decision-making tasks, as indicated in section A.1, comprises the following remunerative elements:</p> <ul style="list-style-type: none"> • A fixed annual allowance for their post as directors. • Fees for attending meetings of the delegated commission and consultative committees of the Board of Directors. <p>The forecast remuneration for 2017 is made up of the following elements:</p> <ul style="list-style-type: none"> • Fixed allowance for belonging to the Board of Directors: 37,800 euros. <p>The above allowance will be increased to 75,000 euros for the Chairs of the</p>

Audit Committee and the ARCGC, who will not receive attendance fees for attending meetings of the committees they chair.

- Attendance fees for the Delegated Commission: 3,000 euros.
- Attendance fees for the Audit and Control Committee: 1,850 euros.
- Attendance fees for the 1 ARCGC: 1,850 euros.

These amounts are in line with those approved for 2016, except in the case of the NRCGA and Audit and Control Committee attendance fees, which have been reduced by 3% compared to 2016.

Fixed remuneration of Executive Directors for carrying out their duties

As indicated in section A.1 above, the Executive Director appointed in 2017 has a fixed remuneration for performing executive functions. The amount of this remuneration forecast for 2017, according to his contract approved by the Board, at the proposal of the ARCGC, totals 500,000 euros.

A.4 Explain the amount, nature and main features of the variable components of the remuneration systems.

In particular:

- Identify each of the remuneration plans of which the directors are beneficiaries, the scope, date of approval, date of implementation, date of effects and the main features of such plans. In the case of option plans involving shares and other financial instruments, the general features of the plan will include information on the conditions for the exercise of such options or financial instruments for each plan.
- State any remuneration received under profit-sharing or bonus schemes, and the reason why they were granted;
- Explain the fundamental parameters and rationale for any annual bonus plan.
- The classes of directors (executive directors, representative external directors, independent external directors or other external directors) that are beneficiaries of remuneration systems or plans that include variable remuneration.
- The rationale for such variable remuneration systems or plans, the chosen criteria for evaluating performance, and the components and methods of evaluation to determine whether or not such criteria have been met, and an estimate of the absolute amount of variable remuneration to which the current remuneration plan would give rise, based on the level of compliance with the assumptions or objectives used as the benchmark.

- If applicable, information will be provided regarding any payment deferral periods that have been established and/or any periods for retaining shares or other financial instruments.

Explain the variable components of the remuneration systems

In accordance with the NH remuneration policy described in section A.1 of this report, the Executive Director is the only member of the Board of Directors entitled to receive variable remuneration. The Executive Director's variable remuneration is established as additional and complementary to the fixed remuneration and is made up of a short-term, annual variable, and by a multi-year, three-year variable. These are contingent, non-vesting, forms of remuneration which are described below:

❖ Annual variable remuneration

The short-term variable remuneration is linked to attainment of the corporate objectives established by the Board of Directors before the start of each year.

The annual variable remuneration for the Executive Director of NH works in the same way as for the Company's employees. It is established based on the Management by Objectives Programme (MBO), the aim of which is to:

- Reward performance with regard to attaining the Company's quantitative objectives.
- Link the attainment of annual objectives set by the Company to its medium and long-term strategy.
- Align individual objectives with those of the Company.

For the new Executive Director of NH, a target incentive has been established for 2017 set at 60% of the fixed remuneration if 100% of the objectives established by the Board of Directors are met.

The objectives set for the Executive Director's annual variable remuneration for 2017, and their weightings, are as follows: 50% EBITDA, 10% performance evaluation and 40% post-specific KPIs.

The ARCGC determines the specific amount to be paid according to the level of attainment of quantitative objectives linked to Group objectives.

The ARCGC has decided to establish the following scales of compliance:

- For EBITDA, net financial debt and net profit:
 - Attainment below 80% will mean a payment level of 0%. From 80% to 120%, a linear formula will be applied:
 - Below 100%: Each percentage point below budget will entail a 5% decrease in the payment level set for 100% compliance (target level).
 - Above 100%: Each percentage point about budget will entail a 2.5% increase in the target payment level.
 - A maximum limit of 150% of the target payment level is established, in the case of maximum attainment of objectives.
- For the rest of objectives the following compliance scale will be

established:

- Not met = 0% of the target payment level
- Partially met = Max 50% of the target payment level
- Met = 100% of the target payment level
- Exceeds expectations > up to 150% of the target payment level

In addition, a corrective factor is included, established in 2017 as the Group EBITDA, which modifies the result obtained over the above objectives.

❖ Multi-year variable remuneration

Performance Share Plan 2014-2019

The General Shareholders' Meeting held on 25th June 2013 approved the implementation of a Long-Term Incentive in shares aimed at certain directors and key personnel of the Company, in which the Executive Director participates.

The Plan has a total duration of five years and is divided into three cycles of three years each (i.e. with the shares corresponding to each cycle being handed over three years after the start) which are independent of each other. The first cycle started on 1st January 2014 (with the corresponding shares handed over as of 1st January 2017) and the third on 1st January 2016 (with the corresponding shares handed over as of 1st January 2019). At the date of publishing this report, the second and third cycle of the Plan are in force.

This plan is created with the following objectives:

- ❖ To align the interests of directors and shareholders, by linking part of directors' remuneration to the creation of long-term value by reducing Agency costs.
- ❖ To motivate, promote fidelity and involve the management team and personnel with high potential in achieving the Company's new Strategic Plan 2013-2017.
- ❖ To comply with the recommendations of the Proxy Advisors and the Unified Good Governance Code.
- ❖ To align the directors' remuneration with comparable companies. According to market studies, medium/long-term incentives constitute an element that continues to be of growing importance. Evidence of this is the fact that the vast majority of companies included in the IBEX-35 and of NH's main competitors have implemented a long-term incentive.

This Plan is based on awarding a number of Performance Shares to beneficiaries, calculated as a percentage of the fixed salary for their level of responsibility, which will serve as the basis for calculating the NH shares that will be handed over, as the case may be, at the end of each of the cycles that make up the Plan.

The specific number of NH shares to be handed over to each beneficiary of the Plan at the end of it, if the established conditions are met, will be subject to and determined by the degree of compliance with the following objectives:

- ❖ TSR (Total Shareholder Return) at the end of each of the cycles of the Plan, compared with the following indices:
 - IBEX Medium cap.
 - Dow Jones EUROPE STOXX Travel & Leisure.

- ❖ GOP (Gross Operating Profit) discounting the amount of rent, compared annually with the provisions of the Company's Strategic Plan.

If minimum compliance with the above-mentioned objectives is not achieved, the beneficiaries of the Plan will not be entitled to receive shares under the Plan.

According to the level of compliance with the requisites and conditions established in the Plan, the Executive Director would be entitled to receive at the end of the second cycle:

- If the Plan requisites and conditions are met one hundred per cent: the number of shares resulting from dividing the sum of 132,000 euros by the Benchmark Value corresponding to each cycle (which represents the possible target of shares to be received in the event of 100% compliance with the TSR and GOP minus rent objectives).
- If the requisites and conditions established in the Plan are met to the maximum degree: the number of shares resulting from dividing the sum of 198,000 euros by the Benchmark Value corresponding to each cycle (which represents the maximum possible number of shares to be received in the event of maximum compliance with the TSR and GOP minus rent objectives).

For the third cycle, the following would apply:

- If the Plan requisites and conditions are met one hundred per cent: the number of shares resulting from dividing the sum of 140,000 euros by the Benchmark Value corresponding to each cycle (which represents the possible target of shares to be received in the event of 100% compliance with the TSR and GOP minus rent objectives).
- If the requisites and conditions established in the Plan are met to the maximum degree: the number of shares resulting from dividing the sum of 210,000 euros by the Benchmark Value corresponding to each cycle (which represents the maximum possible number of shares to be received in the event of maximum compliance with the TSR and GOP minus rent objectives).

In order for the beneficiaries to be entitled to receive any shares corresponding to them, they must remain in the Company on each of the Plan settlement dates, notwithstanding any exceptions considered appropriate, and reach the minimum thresholds of attainment of shareholder return and GOP minus rent objectives.

Performance Share Plan 2017-2022

At the proposal of ARCGC, the Board of Directors has approved the implementation of a new multi-year variable remuneration plan at its meeting of 19th December 2016, subject to the approval of the General Shareholders' Meeting, which will take place in 2017, addressed to certain directors and key

personnel of the Company, in which the Executive Director participates with 60% of his annual fixed remuneration.

The Plan has a total duration of five years and is divided into three cycles of three years each (i.e. with the shares corresponding to each cycle being handed over three years after the start) which are independent of each other. The first cycle started on 1st January 2017 (with the corresponding shares handed over as of 1st January 2020) and the third on 1st January 2019 (with the corresponding shares handed over as of 1st January 2022). In spite of this, the Board of Directors has the faculty to decide, before the start of each of the cycles, whether to actually implement it according to the Company's economic situation at that time.

This plan is created with the following objectives:

- To align the interests of directors and shareholders, by linking part of directors' remuneration to the creation of long-term value by reducing Agency costs.
- To motivate, promote fidelity and involve the management team and personnel with high potential in achieving the Company's Strategic Plan.
- To comply with the recommendations of the Proxy Advisors and the Unified Good Governance Code.
- To align the directors' remuneration with comparable companies.

This Plan is based on is awarding a number of Performance Shares to beneficiaries, calculated as a percentage of the fixed salary for their level of responsibility, which will serve as the basis for calculating the NH shares that will be handed over, as the case may be, at the end of each of the cycles that make up the Plan.

The specific number of NH shares to be handed over to each beneficiary of the Plan at the end of it, if the established conditions are met, will be subject to and determined by the degree of compliance with the following objectives, at the end of each of the Plan cycles:

- 25% Recurring EBITDA
- 25% Recurring Net Profit
- 25% Net Financial Debt
- 25% TSR (Total Shareholder Return), measured relative to the Dow Jones EUROPE STOXX Travel & Leisure index.

At the end of the measurement period, the ARCGC calculates the attainment of objectives and determines the specific number of shares to be handed over, considering the following attainment scales:

- Scale for internal metrics:
 - Recurring Net Profit and Net Financial Debt:
 - Attainment below 80% will mean a level of payment of 0%

for this objective.

- Attainment of 80% (minimum threshold) will mean a level of payment of 50% for this objective.
 - 100% (target) attainment will mean a level of payment of 100% for this objective.
 - A maximum limit of 150% of the payment level for this objective is established, in the event of attainment of 120% or higher.
 - The payment level for attainment of objectives between minimum attainment and the target and between the target and the maximum will be calculated by linear interpolation.
- Recurring EBITDA:
- Attainment below 90% will mean a level of payment of 0% for this objective.
 - Attainment of 90% (minimum threshold) will mean a payment level of 50% for this objective.
 - 100% (target) attainment will mean a payment level of 100% for this objective.
 - A maximum limit of 150% of the payment level for this objective is established, in the event of attainment of 110% or higher.
 - The payment level for attainment of objectives between minimum attainment and the target and between the target and the maximum will be calculated by linear interpolation.
- The scale for the external metric of relative TSR, considering NH's position in the ranking:
- A position below the average for the comparison group will mean a payment level of 0%.
 - A position in line with the average will mean a payment level of 40%
 - For a position between the average and first place in the group, a linear formula will be applied:
 - A position in the 75th percentile will mean a payment level of 100% of the target level
 - Below the 75th percentile: each percentile below the 75th will entail a 2.4% reduction in the target payment level.
 - Above the 75th percentile: each percentile above the 75th will represent an increase of 2% of the target payment level.
 - First place will mean a payment level of 150% of the target payment level.

If the minimum attainment of the above-mentioned objectives is not reached, the Plan beneficiaries will not be entitled to receive shares under the Plan.

This Plan provides for a clawback clause. For further information on this point, see section A.13.

- A.5 Explain the main features of the long-term saving systems, including retirement and any other survival benefit, either wholly or partially financed by the company, and whether funded internally or externally, with an estimate of the equivalent annual amount or cost thereof, indicating the type of plan, whether it is a defined contribution or a defined benefit plan, the conditions for the vesting of economic rights in favour of the directors, and their compatibility with any kind of compensation for early termination or severance of the contractual relationship between the company and the director.

Also indicate the contributions on the director's behalf to defined contribution pension plans; or the increase in the director's vested rights, in the case of contributions to defined benefit plans.

Explain the long-term savings systems
The Company has not undertaken and does not intend to undertake during 2017 any obligation or commitment whatsoever in respect of pensions, retirement or similar plans with any director.

- A.6 Indicate any compensation agreed or paid in the event of termination of the functions as director.

Explain the compensation
<p>On 21st June 2016, Mr Xianyi Mu, Mr Charles Bromwell Mobus, Mr Haibo Bai and Mr Ling Zhang left their posts as directors of NH, and none of them received any compensation whatsoever for the termination of their relations with the Company.</p> <p>In the case of the Executive Director, Mr Federico González Tejera, who ceased providing services in NH on the same date, certain aspects of this contract that affect a possible compensation are pending resolution.</p> <p>With regard to the Executive Director appointed in 2017, Mr Ramón Aragonés, he will not be entitled to receive any compensation whatsoever deriving from his removal from his post and the termination of that mercantile relationship. However, his length of service in the post will be recognized for all purposes (including for the purposes of any applicable compensation) in the event of termination of the prior employment relationship between the parties, which will resume after the above-mentioned termination of the mercantile relationship, unless the termination of the mercantile relationship between the parties is due to a serious and culpable breach of his essential obligations by the Executive Director</p>

and this is declared by a competent court.

- A.7 Indicate the conditions that must be included in the contracts of executive directors performing senior management duties. This will include, among others, information regarding the term, limits on severance compensation amounts, continuance in office clauses, prior notice periods, and payment in lieu of such prior notice, and any other clauses relating to hiring bonuses, as well as benefits or golden parachutes due to early termination or severance of the contractual relationship between the company and the executive director. Include, among other things, any clauses or agreements on non-competition, exclusivity, continuance in office or loyalty, and post-contractual non-competition.

Explain the conditions of Executive Directors' contracts
<p>The contract of the person who exercises senior management duties as Executive Director of NH, Mr Ramón Aragonés, must be a mercantile contract for provisions of services and must set out his duties and obligations in the sphere of his functions as well as his remuneration.</p> <p>The contract will have at least the following clauses:</p> <ul style="list-style-type: none">• Term: indefinite• Prior notice: three months for the Company, paying one month's notice in the event of failure to comply, and one month for the Executive Director, who in the event of non-compliance will have to pay the Company an amount equivalent to the salaries for the period of notice not fulfilled, notwithstanding other legal actions.• Severance compensation: see section A.6• Other clauses: Exclusivity, confidentiality and secrecy, fundamental ethical duties, patents, trademarks and other intellectual property rights. <p>The contract with all its clauses must be approved in advance by the Board of Directors and accepted in full by the Senior Executive.</p>

- A.8 Explain any supplemental remuneration accrued by the directors in consideration of services provided other than those inherent in their position.

Explain the supplemental remuneration
<p>The directors do not have any other supplemental remuneration for services other than the inherent services of their position that have not been described in this report.</p>

- A.9 State any remuneration in the form of advances, loans or guarantees provided, indicating the interest rate, essential features, and any amounts repaid, as well as the obligations assumed in relation thereto as security.

Explain the advances, loans and guarantees granted

At the date of approval of this report, the Company's balance sheet does not include any loans or advances granted or guarantees provided by the Company in favour of the members of the Board of Directors.
Furthermore, the directors have not received any other remunerative item in addition to those described in this report.

A.10 Explain the main features of remuneration in kind.

Explain the remuneration in kind
The Executive Director appointed in 2017 is the beneficiary of a medical insurance policy for him and his first-degree relatives, life and accident insurance and a Company car.

A.11 Indicate the remuneration accrued by the director by virtue of payments made by the listed company to a third party to which the director provides services, if such payments are intended to provide remuneration for the director's services in the company.

Explain the remuneration accrued by the director by virtue of payments made by the listed company to a third party to which the director provides services
At the date of approval of this report, no payments have been made to third parties by virtue of possible services of the directors.

A.12 Any item of remuneration other than those listed above, whatever its nature or the group company that pays it, especially when it is deemed to be a related-party operation or when paying the remuneration distorts a true and fair view of the total remuneration accrued by the director.

Explain the other items of remuneration
At the date of approval of this report, there are no further items of remuneration other than those described in the preceding sections.

A.13 Explain the actions taken by the company regarding the remuneration system in order to reduce exposure to excessive risk and align it with the long-term objectives, values, and interests of the company. This will include, as the case may be, reference to: measures in place to ensure that the remuneration policy takes into account the company's long-term results, measures that establish an adequate balance between the fixed and variable components of remuneration, measures adopted with respect to those categories of personnel whose professional activities have a significant impact on the entity's risk profile, recovery formulas or clauses to be able to demand the return of the variable components of remuneration based on results when such components have been paid based on figures that are later clearly shown to be inaccurate, and any measures in place to avoid conflicts of interest.

Explain the actions taken to reduce risks
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The measures to ensure that the remuneration policy of NH has regard to the company's long-term results are:

a) The Executive Director's remuneration package includes a variable part, which under ordinary circumstances should represent at least 50% of the overall maximum annual remuneration. This variable remuneration takes into account financial and strategic objectives reflected in the Long-Term Plan, thus contributing to develop a business model that promotes balanced and sustainable development.

Every year the ARCGC analyses the short-term variable remuneration and takes it to the Board of Directors for final approval. The variable components of remuneration are designed with sufficient flexibility so that the amount payable is zero if the minimum attainment of objectives is not reached.

The multi-year remuneration scheme (Performance Share Plan) launched for the first time in 2014, ensures that the evaluation process is based on long-term sustainable results of the Company, allowing it to be modulated according to the Company's economic cycle, which is the goal pursued by the Plan.

b) At the date of publishing this Report, the ARCGC is made up of four members, one of whom is also a member of the Audit and Control Committee. The cross-presence on these two committees favours due consideration being given to the risks associated to the remuneration in the deliberations of these committees and in their proposals to the Board, both in determining and evaluating the annual and multi-year variable remuneration. In addition, the ARCGC respects the criteria of independence in its composition and deliberation in terms of governance of the remuneration.

c) In the Performance Share Plan 2017-2022, NH has implemented clawback formulas in line with market standards and the recommendations of Proxy Advisors and Institutional Investors. The ARCGC has the power to decide to propose the cancellation or return of payment of the multi-year variable remuneration in the event of the occurrence of any of the following circumstances: a) breach by the beneficiary of the internal code of conduct; b) material reformulation of the Company's financial statements, established by an external auditor, when this affects the degree of attainment of the objectives of the multi-year variable remuneration plan, except when it is required as a result of an amendment to accounting legislation; c) the variable remuneration has accrued or been paid on the basis of inaccurate or incorrect information or figures.

The Executive Director is the only director affected by the clawback formulas, as the only director who is a beneficiary of the Company's Performance Share Plan.

d) The Performance Shares Plan 2014-2019 establishes a minimum holding of the shares handed over for at least one year for the Executive Director.

In the launch of the new Performance Share Plan 2017-2022, this minimum holding obligation in respect of the shares will also be for one year.

Furthermore, the Executive Director will be required to keep at least the equivalent of one year's fixed remuneration in shares, and the price that determines when this obligation has been fulfilled will be the price of the shares on the date the shares are handed over.

C OVERALL SUMMARY OF HOW THE REMUNERATION POLICY HAS BEEN APPLIED DURING THE FINANCIAL YEAR JUST ENDED

- C.1 Summarize the main features of the structure and items of remuneration of the remuneration policy applied during the financial year just ended, which gives rise to the breakdown of the individual remuneration accrued by each of the directors as reflected in section D of this report, as well as a summary of the decisions made by the board for the application of such items.

Explain the structure and items of remuneration of the remuneration policy applied during the year
<p>The Board of Directors approved the remuneration policy for 2016, at the proposal of the ARCGC, within a general framework based on governing principles and a general regime contained in the Articles of Association (article 42) and the Board of Directors Regulations of NH (article 36).</p> <p>The remuneration policy for the year just ended was put to a vote, for consultative purposes, under item eight of the General Shareholders' Meeting held on 21st June 2016.</p> <p>A summary of the items that make up the directors' remuneration package in aggregate in 2016 is set out below:</p> <p>(i) Directors for their non-executive functions:</p> <ul style="list-style-type: none"> • Fixed annual allowance for belonging to the Board of Directors: 490,615.36 euros. • Fees for attending meetings of the committees of the Board of Directors: 262,036.69 euros. <p>(ii) Executive Director: in 2016 the CEO has received the proportional part of the amounts stated in the Annual Report on Remuneration for 2015 for the financial year 2016, from the start of the year until the date on which he ceased to provide services for NH, 21st June 2016. The amounts paid for his executive and non-executive functions are detailed below:</p> <ul style="list-style-type: none"> • Fixed annual allowance for belonging to the Board of Directors: 17,965 euros. • Fees for attending meetings of the Delegated Commission: 12,000 euros. • Fixed remuneration for his executive functions 451,250 euros. • Multi-year variable remuneration: at the date of publishing this report, the amount to be paid to Mr Federico González Tejera in relation to the first cycle of the Long-Term Incentive Plan falling due in December 2016 is pending resolution. • Compensation: at the date of publishing this report, the amount to be paid to Mr Federico González Tejera in respect of this item is pending resolution. • Other remuneration: 10,000 euros.

The remuneration structure has not been modified with respect to the previous year, and the variations in amounts are attributable in all cases to the Company's results, best market practice and the current economic climate.

D BREAKDOWN OF INDIVIDUAL REMUNERATION ACCRUED BY EACH OF THE DIRECTORS

NAME	Type	Accrual period 2016
Mr Alfredo Fernandez Agras	Representative	From 01/01/2016 to 31/12/2016
Mr José Antonio Castro Sousa	Representative	From 01/01/2016 to 31/12/2016
Mr Francisco Javier Illa	Representative	From 01/01/2016 to 31/12/2016
Mr José María López-Elola González	Independent	From 01/01/2016 to 31/12/2016
Mr Carlos González Fernandez	Independent	From 01/01/2016 to 31/12/2016
Mr Francisco Román Riechmann	Independent	From 01/01/2016 to 31/12/2016
Ms Koro Usarraga Unsain	Independent	From 01/01/2016 to 31/12/2016
Ms María Grecna	Other external director	From 21/06/2016 to 31/12/2016
Mr Paul Daniel Johnson	Other external director	From 21/06/2016 to 31/12/2016
Mr Fernando Lacadena Azpeitia	Other external director	From 21/06/2016 to 31/12/2016
Mr José María Cantero de Monter-Jovellar	Other external director	From 21/06/2016 to 31/12/2016
Mr Xianyi Mu	Representative	From 01/01/2016 to 21/06/2016
Mr Charles Bromwell Mobus	Representative	From 01/01/2016 to 21/06/2016
Mr Haibo Bai	Representative	From 01/01/2016 to 21/06/2016
Mr Ling Zhang	Representative	From 01/01/2016 to 21/06/2016
Mr Federico Gonzalez Tejera	Executive	From 01/01/2016 to 21/06/2016

D.1 Complete the following tables regarding the individualized remuneration of each of the directors (including the remuneration for carrying out executive duties) accrued during the year.

a) Accrued remuneration in the company covered by this report:

i) Cash remuneration

Nombre/ Tipología/ periodo de devengo ejercicio t	Sueldo	Remuneración fija	Dietas	Retribución variable a corto plazo	Retribución variable a largo plazo	Remuneración por pertenencia a comisiones del consejo	Indemnización	Otros conceptos	Total ejercicio t	Total ejercicio t-1
RODRIGO ECHENIQUE GORDILLO	-	-	-	-	-	-	-	-	-	150.060,85
FEDERICO GONZÁLEZ TEJERA	451.250,00	17.965,38	12.000,00	-	-	-	-	14.501,78	495.717,16	1.464.347,53
-	-	-	-	-	-	-	-	-	-	-
XIANYI MU (desde 17/04/13)	-	17.965,38	4.581,61	-	-	-	-	-	22.546,99	67.524,15
-	-	-	-	-	-	-	-	-	-	-
CHARLES MOBUS (DESDE 26/04/13)	-	17.965,38	15.163,22	-	-	-	-	-	33.128,60	45.544,83
HAIBO BAI (ENTRA 18/02/14 NIE Y3 230984G)	-	17.965,38	-	-	-	-	-	-	17.965,38	37.800,00
KORO USARRAGA UNSAIN (Entra el 19/06/2015)	-	75.000,00	14.798,52	-	-	-	-	-	89.798,52	37.739,85
ALFREDO FERNÁNDEZ AGRAS (Entra el 19/06/2015)	-	37.800,00	53.798,52	-	-	-	-	-	91.598,52	35.255,79
MARÍA GREGNA (ENTRA EL 21/06/2016)	-	19.938,46	-	-	-	-	-	-	19.938,46	-
FERNANDO LACADENA AZPEITIA (ENTRA EL 21/06/2016)	-	19.938,46	9.250,00	-	-	-	-	-	29.188,46	-
FCO. JAVIER ILLARUIZ	-	37.800,00	50.347,78	-	-	-	-	-	88.147,78	71.327,52
JOSÉ MARÍA CANTERO DE MONTES-JOVELLAR (ENTRA EL 21/06/2016)	-	19.938,46	7.400,00	-	-	-	-	-	27.338,46	-
PAUL JOHNSON (ENTRA EL 21/06/2016)	-	19.938,46	27.000,00	-	-	-	-	-	46.938,46	-
JOSÉ ANTONIO CASTRO SOUSA (entrada 24/05/12)	-	37.800,00	39.000,00	-	-	-	-	-	76.800,00	43.800,00
JOSÉ MARÍA LOPEZ-ELOLA GONZALEZ (entrada 25/04/12)	-	37.800,00	14.798,52	-	-	-	-	-	52.598,52	53.063,76
-	-	-	-	-	-	-	-	-	-	-
CARLOS GONZÁLEZ FERNÁNDEZ (Entrada 29/06/2011)	-	37.800,00	14.799,26	-	-	-	-	-	52.599,26	69.515,94
FRANCISCO ROMÁN RIECHMANN (ENTRADA 04/07/14)	-	75.000,00	11.099,26	-	-	-	-	-	86.099,26	86.447,82
Livio Torio 12.217 (entra el 26/06/14, Sale 27/01/15)	-	-	-	-	-	-	-	-	-	2.835,00
LING ZHANG (Y3879419T) (entra 18/12/14)	-	17.965,38	-	-	-	-	-	-	17.965,38	37.800,00

ii) Share-based remuneration systems

Nombre/ Tipología/ periodo de devengo ejercicio t	Denominación del Plan y fecha de implantación	Titularidad de opciones al principio del ejercicio t				Opciones asignadas durante el ejercicio t					Acciones entregadas durante el ejercicio t
		Nº opciones	Nº Acciones afectadas	Precio de ejercicio (€)	Plazo de ejercicio	Nº opciones	Nº Acciones afectadas	Precio de ejercicio (€)	Plazo de ejercicio	Condiciones para su ejercicio	Nº Precio importe
FEDERICO GONZALEZ TEJERA (Consejero Delegado)	Plan de Acciones Restringidas (2013)	896.070	-	-	5 años	-	-	-	-	-	-
	Performance Shares Plan (2014)	355.787	-	-	3 años	-	-	-	-	-	-
	Performance Shares Plan (2015)	383.338	-	-	3 años	-	-	-	-	-	-
	Performance Shares Plan (2016)	190.152	-	-	3 años	-	-	-	-	-	-

iii) Long-term savings plans

Nombre/ Tipología/ periodo de devengo total en ejercicio	Aportación del ejercicio por parte de la sociedad (miles €)		Importe de los fondos acumulados (miles €)	
	Ejercicio t	Ejercicio t-1	Ejercicio t	Ejercicio t-1
Consejero 1				

iv) Other benefits (in thousand €)

Nombre/ Tipología	Primas de seguros de vida		Garantías constituidas por la sociedad a favor de los consejeros	
	Ejercicio t	Ejercicio t-1	Ejercicio t	Ejercicio t-1
RODRIGO ECHENIQUE GORDILLO	-	53,35		
FEDERICO GONZALEZ TEJERA	4,19	22,22		

b) Remuneration accrued by directors of the company for belonging to boards of other companies in the group:

i) Cash remuneration (in thousand €)

Nombre / Tipología / periodo de devengo ejercicio t	Sueldo	Remuneración fija	Dietas	Retribución variable a corto plazo	Retribución variable a largo plazo	Remuneración por pertenencia a comisiones del consejo	Indemnización	Otros conceptos	Total ejercicio t	Total ejercicio t-1
FEDERICO GONZALEZ TEJERA	-	-	-	-	-	-	-	-	-	-
JOSE MARIA LOPEZ-ELOLA GONZALEZ (entrada 25/04/12)	-	-	-	-	-	-	-	-	-	-
CARLOS GONZALEZ FERNANDEZ (Entrada 29/06/2011)	-	-	-	-	-	-	-	-	-	-
MARIANO PEREZ CLAVER (Entrada 01/03/2011)	-	-	-	-	-	-	-	-	-	-
GRUPO INVERSOR HESPERIA, S.A. salida 24/05/12 (JOSE ANTONIO CASTRO SOUSA)	-	-	-	-	-	-	-	-	-	-

ii) Share-based remuneration systems

Nombre/ Tipología/ periodo de devengo ejercicio t	Titularidad de opciones al principio del ejercicio t				Opciones asignadas durante el ejercicio t					Acciones entregadas durante el ejercicio t
	Nº opciones	Nº Acciones afectadas	Precio de ejercicio (€)	Plazo de ejercicio	Nº opciones	Nº Acciones afectadas	Precio de ejercicio (€)	Plazo de ejercicio	Condiciones para su ejercicio	Nº Precio Importe

Consejero 1

iii) Long-term savings plans

Nombre/ Tipología/ periodo de devengo total en ejercicio	Aportación del ejercicio por parte de la sociedad (miles €)		Importe de los fondos acumulados (miles €)	
	Ejercicio t	Ejercicio t-1	Ejercicio t	Ejercicio t-1

Consejero 1

iv) Other benefits (in thousand €)

Nombre/Tipología	Primas de seguros de vida		Garantías constituidas por la sociedad a favor de los consejeros	
	Ejercicio t	Ejercicio t-1	Ejercicio t	Ejercicio t-1

Consejero 1

Consejero 2

c) Summary of remuneration:

The summary must include amounts for all items of remuneration included in this report that have been accrued by the director, in thousands of euros.

In the case of long-term savings plans, include contributions or funding for these types of systems:

Nombre/Tipología	Retribución devengada en la Sociedad				Retribución devengada en sociedades del grupo				Totales		
	Total Retribución metálico	Importe de las acciones otorgadas	Beneficio bruto de las opciones ejercitadas	Total ejercicio t sociedad	Total Retribución metálico	Importe de las acciones entregadas	Beneficio bruto de las opciones ejercitadas	Total ejercicio t grupo	Total ejercicio t	Total ejercicio t-1	Aportación al sistemas de ahorro
RODRIGO ECHENIQUE GORDILLO	-	-	-	-	-	-	-	-	-	150.061	-
FEDERICO GONZÁLEZ TEJERA	495.717	-	-	495.717	-	-	-	-	495.717	1.464.348	-
-	-	-	-	-	-	-	-	-	-	-	-
XIANYI MU (desde 17/04/13)	22.547	-	-	22.547	-	-	-	-	22.547	67.524	-
-	-	-	-	-	-	-	-	-	-	-	-
CHARLES MOBUS (DESDE 26/04/13)	33.129	-	-	33.129	-	-	-	-	33.129	45.545	-
HAIBO BAI (ENTRA 18/02/14 NIE Y3230984G)	17.965	-	-	17.965	-	-	-	-	17.965	37.800	-
KORO USARRAGA UNSAÍN (Entra el 19/06/2015)	89.799	-	-	89.799	-	-	-	-	89.799	37.740	-
ALFREDO FERNÁNDEZ AGRAS (Entra el 19/06/2015)	91.599	-	-	91.599	-	-	-	-	91.599	35.256	-
MARÍA GRECNA (ENTRA EL 21/06/2016)	19.938	-	-	19.938	-	-	-	-	19.938	-	-
FERNANDO LACADENA AZPEITIA (ENTRA EL 21/06/2016)	29.188	-	-	29.188	-	-	-	-	29.188	-	-
FCO. JAVIER ILLA RUIZ	88.148	-	-	88.148	-	-	-	-	88.148	71.328	-
JOSÉ MARÍA CANTERO DE MONTES-JOVELLAR (ENTRA EL 21/06/2016)	27.338	-	-	27.338	-	-	-	-	27.338	-	-
PAUL JOHNSON (ENTRA EL 21/06/2016)	46.938	-	-	46.938	-	-	-	-	46.938	-	-
JOSÉ ANTONIO CASTRO SOUSA (entrada 24/05/12)	76.800	-	-	76.800	-	-	-	-	76.800	43.800	-
JOSÉ MARÍA LOPEZ-ELOLA GONZALEZ (entrada 25/04/12)	52.599	-	-	52.599	-	-	-	-	52.599	53.064	-
-	-	-	-	-	-	-	-	-	-	-	-
CARLOS GONZÁLEZ FERNÁNDEZ (Entrada 29/06/2011)	52.599	-	-	52.599	-	-	-	-	52.599	69.516	-
FRANCISCO ROMÁN RIECHMANN (ENTRADA 04/07/14)	86.099	-	-	86.099	-	-	-	-	86.099	86.448	-
Livio Torio 12.217 (entra el 26/06/14, Sale 27/01/15)	-	-	-	-	-	-	-	-	-	2.835	-
LING ZHANG (Y3879419T) (entra 18/12/14)	17.965	-	-	17.965	-	-	-	-	17.965	37.800	-

- D.2 Report the relationship between remuneration obtained by the directors and the results or other measures of the entity's performance, explaining how any changes in the company's performance may have influenced changes in the directors' remuneration.

The annual and multi-year variable remuneration is only applicable to the former CEO of the Company in 2016, Mr Federico Gonzalez Tejera, and both types of remuneration are subject to business and market objectives, in the case of the Performance Share Plan as has been detailed in section A.4 of this report. Up to the date on which he ceased to provide his services, 21st June, the aforesaid remuneration is pending resolution.

- D.3 Report the results of the consultative vote of the General Shareholders' Meeting on the annual remuneration report for the preceding financial year, indicating the number of votes against, if any:

	Number	% of total
Votes cast		

	Number	% of votes cast
Votes against		
Votes in favour		
Abstentions		

E OTHER INFORMATION OF INTEREST

If there are any relevant aspects regarding directors remuneration that could not be included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the remuneration structure and practices of the company with respect to its directors, briefly describe them.

No additional element other than those mentioned above