

ANNUAL REPORT OF THE AUDIT AND CONTROL COMMITTEE OF NH HOTEL GROUP, S.A., FOR THE YEAR 2018

1. Introduction

The Audit and Control Committee of NH Hotel Group, S.A. (“**NH**”) issues this report on the operation and of the Committee and compliance with its tasks during the year 2018 (hereinafter the “**Report**”).

The object of the Report is to give an account of the activity carried out by this Commission to the Board of Directors in accordance with the provisions of Recommendation 6 of the Code of Good Governance for Listed Companies, approved by a Resolution of the Board of the CNMV dated 18 February 2015.

The composition, competences and operation of the Audit and Control Committee are regulated in article 48 of the Articles of Association and article 25 of the Board Regulations.

2. Composition of the Audit and Control Committee

At 31 December 2018 the Audit and Control Committee was made up of 3 members, together with the Secretary who is not a member.

The composition of the Audit and Control Committee at 31 December 2018 is as follows:

Chairman: - Mr Fernando Lacadena Azpeitia (Independent)

Members: - Ms María Grecna (Independent)
- Mr José María Sagardoy Llonis (Independent)

Secretary: - Mr Carlos Ulecia Palacios

The composition of the Committee has not undergone any changes in 2018.

The provisions of the applicable regulations are met, in that the Audit and Control Committee will be made up of a minimum of three and a maximum of six Directors appointed by the Board of Directors and that all the members of this Committee should be External Directors, at least a majority of whom must be Independent Directors, and one of them will be appointed taking into account his/her knowledge and experience in the field of accounting, auditing or both.

The Chairman of the Audit and Control shall be appointed out of the Independent Directors who form part of the Committee and must be replaced every four years, and may be re-elected once after one year has elapsed since being replaced.

Notwithstanding the composition of the Committee as per 31 December 2018, on the 7th February 2019 the Board of Directors has approved the appointment of Mr. Stephen Chojnacki as new member of the Audit and Control Committee, following the resignation of Mr. José Maria Sagardoy Llonis.

3. Competences

The principal function of the Audit and Control Committee is to provide support to the Board of Directors in its supervision and control functions, the most important manifestation of which is the duty to assure the effectiveness of the Company's internal control and supervise the process of drawing up and presenting regulatory financial information.

The Audit and Control Committee is assigned at least the following competences:

1. Report to the General Meeting on matters raised within its sphere of competence.
2. Supervise the efficiency of the Company's internal control, internal audit, as the case may be, and the risk management systems, including tax risks, and discuss with the accounts auditors or audit firms any significant weaknesses in the internal control system that may have been detected in the course of the audit.
3. Supervise the process of drawing up and presenting regulatory financial information.
4. Make proposals to the Board of Directors for the selection, appointment, re-election and replacement of the external auditor, as well as the contracting conditions, and obtain information regularly from the external auditor concerning the audit plan and its execution, as well as preserving its independence in exercising its functions.
5. Establish the pertinent relations with the accounts auditors or audit firms in order to receive information on any matters that may put their independence at risk, so that they can be examined by the Committee, and any other matters related to the audit process, and other communications established in auditing legislation and auditing standards. In any case, it must receive written confirmation each year from the accounts auditors or audit firms of their independence of the Company or companies related to it directly or indirectly, and information on the additional services of any kind provided to and the corresponding fees received from such companies by the aforesaid auditors or companies, or by persons or entities related to them in accordance with the provisions of legislation on auditing.
6. Issue each year, prior to the issue of the report of the auditors, a report in which an opinion will be expressed on the independence of the accounts auditors or audit firms. This report must, in any case, contain a valuation of the provision of additional services as referred to in the preceding section, individually considered and regarded as a whole, other than statutory audit and in relation to the regime of independence or to auditing legislation.
7. Report, in advance, to the Board of Directors on all matters established by law, the Articles of Association and the Board regulations, and in particular, on:

- a. the financial information the company is required to publish periodically,
 - b. the creation or acquisition of shareholdings in entities with a special purpose or domiciled in countries or territories classified as tax havens and
 - c. related-party operations.
8. Ensure the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and removal of the person responsible for the internal audit service; propose the budget for this service, receive regular information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
 9. Establish and supervise a mechanism to allow employees to report confidentially and anonymously any breaches of the Code of Conduct.
 10. Supervise compliance with internal codes of conduct and rules of corporate governance.

4. Operation

The Audit and Control Committee will meet at least once a quarter, and as often as is appropriate, on being convened by its Chairman, on his/her own decision or in response to the request of two of its members or of the Board of Directors.

The Audit and Control Committee may require the attendance at its meetings of any employee or executive of the company, as well as the Company's Auditor.

Through its Chairman, the Audit and Control Committee will report to the Board on its activity and the work carried out, at the meetings established for this purpose or at the immediately following meeting when the Chairman of the Audit and Control Committee considers it necessary. The minutes of its meetings will be available to any member of the Board who requests them.

The Audit and Control Committee held 9 meetings in 2018.

Furthermore, Board members who are not members of the Committee or executives of NH may attend the meetings of the Audit and Control Committee, at the Chairman's invitation.

5. Relations with External Auditors

The parent company of the NH Group has been audited since 1986 by audit firms of renowned prestige. From 1986-1992 it was audited by Peat Marwick, from 1993-2001 by Arthur Andersen. Since 2002 the audit has been performed by Deloitte.

Deloitte is the main auditor and, as such, issues the audit opinion on the Consolidated Annual Accounts.

During 2018 and 2017, the fees for account auditing and other services provided by the auditor of the Group's consolidated annual accounts, Deloitte, S.L., and the fees for services

invoiced by the entities related to it by control, shared ownership or management, were as follows:

	Thousands of euros	
	2018	2017
Auditing services	944	481
Other verification services	223	258
Total auditing and related services	1,167	739
Tax consulting services	260	195
Other services	29	471
Total other services	289	666
Total professional services	1,456	1,405

Additionally, entities associated with the Deloitte international network have invoiced the Group for the following services:

	Thousands of euros	
	2018	2017
Auditing services	1,525	1,147
Other verification services	28	19
Total auditing and related services	1,553	1,166
Tax consulting services	81	56
Other services	-	-
Total other services	81	56
Total	1,634	1,222

During 2018, other auditing firms apart from Deloitte, S.L. or entities associated with this company by control, shared ownership or management, have provided account auditing services to the companies making up the Group, for fees totalling 66 thousand euros (83 thousand euros in 2017). The fees accrued in 2018 by these firms for tax advice services were 209 thousand euros (125 thousand euros in 2017) and for other services, 396 thousand euros (443 thousand euros in 2017).

6. Content and results of the work of the Audit Committee during 2018

The Audit Committee held 9 meetings in 2018 at which it dealt with the following matters:

- a) Analysis and evaluation, in conjunction with the external auditors, of the Financial Statements and Annual Report for the year 2017, checking that their audit opinion had been issued under conditions of absolute independence.
- b) Review of information on matters that could jeopardize the auditors' independence. Issue of the Report on the auditors' independence.
- c) Review of period public financial information for 2017 prior to its analysis and approval by the Board of Directors to ensure that it is reliable, transparent and has been prepared by applying uniform accounting principles and policies.

- d) Approval of the External Auditor's fees for the 2018 audit.
- e) Supervision of the Internal Audit strategic plan.
- f) Monitoring of the Internal Audit Plan for 2018, examining its conclusions and implementing any necessary corrective measures.
- g) Supervision of the tasks carried out by the Compliance Committee.
- h) Monitoring of the most significant projects carried out by the Internal Audit team.
- i) Supervision of the Update of the Group's Risk Map and monitoring of it.
- j) Supervision of risks relating to the Financial Reporting Internal Control System.
- k) Examination of the Annual Corporate Governance Report, prior to sending it to the Board of Directors for its study and approval, with special emphasis on the analysis of the register of situations of directors and executives (membership of other Management bodies, involvement in legal proceedings, related-party operations, etc.).
- l) Analysis of (i) the Company's tax organization, (ii) how the tax policy is determined and (iii) certain corporate restructuring operations.
- m) Review and Approval of the updating version of the Internal Audit Regulations.
- n) Review and validation of the new Anti-Corruption Policy of NH Hotel Group, S.A. and its subsidiaries, to be submitted to the Board for approval.

7. Analysis of related-party operations

During 2018, the Audit and Control Committee has analysed the following related-party operations:

- Extension to 18 October 2017 of the term in which to exercise the extraordinary faculty to terminate the management contract for Hesperia Madrid.
- Sale of stake in the Curitiba Minor project. The Committee valued positively the proposal for early termination of the rental contract (variable rent with guaranteed minimum) for the hotel in Brazil that had been signed in December 2012. The main reasons behind the proposal were: (i) change in NH's strategy in relation to the Brazilian market, (ii) legal/contractual risks and (iii) high structural costs of a hotel-country. On 26 July 2018 the Board of Directors postponed the operation temporarily.
- Termination of the management contract between NH and GIHSA, and formalization of a temporary contract for the provision of services to ensure an orderly transition of the business in the short term, following the termination of the management contract with GIHSA, all the foregoing as a result of the change in control that has occurred following the public takeover bid by MHG Continental Holding (Singapore) Pte. Ltd..

- Proposal to swap parking spaces in hotel NH Calderón, owned by NH, with Mr Castro.

Finally, it is stated that on 7 February 2019 NH Hotel Group, S.A. Minor IPC entered into i) a Framework Agreement that aims to establish a transparent framework of relations between the Company and Minor and its group companies, providing, among others, the allocation of costs among them, all in compliance with the provisions of the Second Recommendation of the Code of Good Corporate Governance of Listed Companies and ii) a reciprocal trademark licence agreement, whereby both parties licence the use of their respective trademarks in the geographical areas where the other party operates.

The analyses and decision in relation to these operations have been conducted in strict compliance with the rules established by the Company both in the Articles of Association and the Board Regulations, as well as in the Procedure for Related-Party Operations and Conflicts of Interest.

In compliance with the referred Procedure, the Board of Directors has carefully ensured, through its Audit and Control Committee, that the transactions of its Directors and significant shareholders or its related entities have been done under market conditions and in compliance with equal treatment among shareholders that are in the same conditions. In addition Directors that have been affected by the conflict of interest have i) refrained from intervening or influencing in the decision making process from all kind of organs or committees, as well as ii) refrain from acceding to the confidential information related to the conflict of interest.

8. Priorities for 2019

Independently of the customary tasks required by general regulations and by the regulations of NH in relation to financial information to be reported to the market and the supervision of the external auditors' independence, the Audit and Control Committee will submit to the Board of Directors in 2019 its recommendation on the proposed appointment of the audit, taking responsibility for the selection process, in accordance with the provisions of article 16, paragraphs 2, 3 and 5 of Regulation (EU) no. 537/2014, of 16 April.

The Audit and Control Committee also examined and approved the work plan for the Internal Audit Department which contemplates the following priorities for 2019:

1. Operational and financial audits of the Company's key processes in hotels, Central Services of the Business Units and Corporate HQ. Supervision of adequate implementation and monitoring of controls in areas included in the Strategic Plan.
2. Monitoring of incidents detected in the audits carried out in previous years and of the execution of the actions plans drawn up by the different Departments and Business Units.

In exercising the Risk Management function, (i) update of the Risk Map, (ii) monitoring of Key Risk Indicators (KRIs) and action plans, and (iii) implementation of the main improvements identified in the diagnostic carried out in December 2018.

3. Audit of processes in recently opened hotels and support to corporate projects with a technological component (PCI-DSS; PDS).
4. In exercising the fraud prevention function, (i) management of the NH Hotel Group Whistleblowing Channel, (ii) investigation of possible fraudulent acts and (iv) audit of the crime prevention model in Spain.

To conclude this Report, it should be noted that in carrying out all the tasks mentioned in it, the Committee has had access, whenever considered useful, to all the external professionals (auditors, experts or consultants) or members of Economic and Financial Management, Legal and Internal Audit Management it has considered necessary.

Madrid, 22th February 2019