

ANNUAL REPORT OF THE AUDIT AND CONTROL COMMITTEE OF NH HOTEL GROUP, S.A., FOR THE YEAR 2019

1. Introduction

The Audit and Control Committee of NH Hotel Group, S.A. (“**NH**”) issues this report on the operation of the Committee and compliance with its goals during the year 2019 (hereinafter the “**Report**”).

The object of the Report is to give an account of the activity carried out by this Committee 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 February 18th, 2015.

The composition, competences and operation of the Audit and Control Committee are regulated in article 48 of the Company’s Bylaws and article 25 of the Board Regulations.

2. Composition of the Audit and Control Committee

As of December 31st, 2019, 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 as of December 31st, 2019 is as follows:

- Chairman: - Mr. Fernando Lacadena Azpeitia (Independent)
- Members: - Mr. José Maria Cantero de Montes-Jovellar (Independent)
- Mr. Stephen Andrew Chojnacki (Proprietary)
- Secretary: - Mr. Carlos Ulecia Palacios

The provisions of the applicable regulations are met, which require that the Audit and Control Committee 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 Committee is to be appointed out of the Independent Directors who form part of the Committee and should be replaced every four years, and may be re-elected after one year has elapsed since being replaced.

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 efficacy 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 contract 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 in relation to the Company or companies related to it directly or indirectly, as well as information on any 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 auditors or audit firms. This report must, in any case, contain a valuation of the additional services provided, other than statutory audit, as referred to in the preceding section, individually considered and regarded as a whole, 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 Company's Bylaws 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 met 8 times in 2019.

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

5. Relations with External Auditors

NH Hotel Group, S.A. has been audited since fiscal year 1986 by prestigious audit companies. During the period 1986-1992 the company was audited by Peat Marwick and between 1993-2001 by Arthur Andersen. Since 2002 and until fiscal year 2018 the Audit has been realized by Deloitte. The General Shareholders meeting held on 13th May 2019 approved, among others, the appointment of PricewaterhouseCoopers Auditores, S.L. as new auditor of the Company and its group companies for fiscal year 2019. The appointment has been done in compliance with Regulation (UE) No 537/2014 European Parliament of 16th April 2014 regarding requirements for legal audits of companies. The Audit and Control Audit has submitted submission to the Board following article 16.5 of the referred Regulation.

During fiscal years 2019 and 2018, the remunerations regarding audit services and other services rendered to NH Hotel Group, as well as related companies are the following:

	Thousand Euros	
	2019	2018
Audit services	545	944
Other verification services	138	223
Total Audit and related servicios	683	1.167
Tax advice services	-	260
Other services	23	29
Total other servicios	23	286
Total servicios	706	1.456

Additionally related entities linked to the international service of the consolidated annual accounts have charged the Group the following services:

	Thousand Euros	
	2019	2018
Audit services	1031	1525
Other verification services	152	28
Total Audit and related services	1183	1553
Tax advice services	274	81
Other services	1	-
Total other services	275	81
Total	1458	1634

6. Content and results of the work of the Audit Committee in 2019

The Audit Committee held 8 meetings in 2019 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 2018, checking that their audit opinion has 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 periodic financial information for 2018 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 2019 Audit.
- e) Supervision of the Internal Audit strategic plan.
- f) Monitoring of the Internal Audit Plan for 2019, examining its conclusions and implementing any necessary corrective measures.
- g) Monitoring of the most significant projects carried out by the Internal Audit team.

- h) Supervision of the Update of the Group's Risk Map and monitoring.
- i) Supervision of risks relating to the System of Internal Controls over Financial Reporting (ICFR).
- j) Examination of the Annual Corporate Governance Report, prior to sending it to the Board of Directors for 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 transactions, etc.).
- k) Analysis of (i) the Company's tax organization, (ii) how the tax policy is determined and (iii) certain corporate restructuring operations.

7. Analysis of related-party operations

In 2019 the Audit and Control Committee has analysed the following related-party operations:

- a) Framework Agreement signed on February 7th, 2019 between NH Hotel Group, S.A. ("NH") and Minor International Public Company Limited ("Minor"), establishing a transparent framework for relations between NH and Minor (and its group companies) in which, following best practice in corporate governance and in particular, the Second Recommendation of the Code of Good Governance for Listed Companies:
 - i) The scope of the activity of the respective hotel groups headed by NH and Minor, respectively, is limited by identifying preferential geographical zones;
 - ii) The necessary mechanisms are regulated to prevent and respond to possible conflicts of interest, and also to govern operations with related parties and the development of business opportunities; and
 - iii) Commitments are established concerning the exchange and provision of information by NH and the processing of such information.

The full text of the Agreement was published on the Company's corporate website (www.nh-hotels.com), after it had been reported to the Markets.

- b) In the context of the above, the parties signed a reciprocal trademark license agreement, whereby both parties have licensed the use of their respective trademarks in the geographical areas where the other party operates. This Agreement was also reported to the Markets through a Notice of Relevant Event dated February 7th, 2019.
- c) Hotel Service Agreement signed by NH Brasil and a subsidiary of Minor on February 7th, 2019 to advise on the management of its two hotels in Brazil .
- d) Agreement whereby Minor has sold to Invesco Real Estate ("Invesco") three hotels located in Lisbon which simultaneously became operated by NH by virtue of a sustainable long-term lease agreement with the new owners. At the same time, NH and Minor reached an agreement to operate, on a management basis, nine more hotels of

the latter in Portugal. The transactions was duly reported to the Markets through the corresponding Notices of Relevant Event dated July 1st and 30th, 2019.

- e) Data Transfer Agreement between NH and companies belonging to the Minor group for the purpose of regulating personal data interactions between the two parties.

The suscription of all Related Party Transactions haven been realized in strict compliance with the rules established by the Company both in its Bylaws and the Board Regulations, as well as in the Procedure for Related-Party Operations and Conflicts of Interest, approved by the Board of Directors on 26 March 2014. All transctions signed with Minor (and/or its group companies) have had the previous favorable report of the Audit and Control Committee, have been signed upon market condition and with the involvement of external advisors and in compliance with the Framework Agreement signed between the parties the 7th February 2019, that regulates, among others, the scope of action of the respective hotel groups of NH and Minor by identifying MINT's and NH's preferred business geographical areas are defined and the necessary mechanisms to prevent and solve possible conflicts of interest, as well as related party transactions and development of business opportunities are regulated. The aforementioned Framework Agreement has been duly informed to the Market and published in NH's website.

During all meetings of the Board and the Audit and Control Committee dealing with matters related to Minor, the proprietary Directors have been absent from the meetings during the time these matters haven been dealed, without having participated in the resolution of these matters.

8. Priorities for 2020

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 examined and approved the Internal Audit Department's work plan for 2020, which envisages the following priorities:

1. Operational and financial audits of the Company's key processes in hotels, Central Services of the Business Units and Corporate HQ.
2. Supervision of adequate implementation of processes and internal controls to guarantee attainment of the objectives included in the new Strategic Plan approved by the Board of Directors in January 2020.
3. Monitoring of incidents detected in the audits carried out in previous years and of the execution of the action plans drawn up by the different Departments and Business Units.
4. Audit of key management processes in recently opened hotels and support to Corporate projects with a technological component.

5. 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 actions plans deriving from the creation of the Company's first Assurance Map in December 2019 and (iv) collaboration with other Departments of the second line of defense so that the Company benefits from combined Assurance.
6. In exercising the fraud prevention/detection and investigation function: (i) management of the NH Hotel Group Whistleblowing Channel, (ii) identification of possible breaches of the principles set out in the Code of Conduct and (iii) investigation of possible fraudulent acts.

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, as well as contacts with the external Audit.

Madrid, February 21st, 2020