2007
Consolidated Financial
Statements

NH Hoteles, a **Responsible Company** in the Tourism Industry

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in green

2007 Consolidated Financial Statements and Corporate Governance

índice

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 2 and 33). In the event of a discrepancy, the Spanish-language version prevails.

Consolidated Financial Statements

Contents

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

CONSOLIDATED DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

BUSINESS PERFORMANCE AND SITUATION OF THE GROUP

2007 was the year in which the three year 2007-2009 strategic plan was launched, with the aim of positioning the Group as a truly transnational hotel company focusing on growth in the European market and, more specifically, in the German and Italian markets, and consolidating an operating model that had already been tested in the most adverse of circumstances. The NH Hoteles brand is increasingly recognised outside the Spanish market and benefits from economies of scale at all levels, especially in the area of purchasing.

The Growth Plan envisages a further 18,000 signed rooms in the period 2007-2009, therefore targeting the addition of 6,000 rooms per year. In 2007, 6,065 new rooms were added and in February 2008 there were 8,551. Noteworthy is the high number of managed rooms (31%), which demonstrates the market's increasing level of confidence in the reputation of our brand. At December 2007, there were over 9,500 signed rooms to be opened over the coming years, 50% of these foreseeably in 2008.

To launch the strategic plan it was necessary to adopt an adequate financial structure in order to maintain a balanced gearing ratio and to extend the term of bank borrowings. Thus in March 2007, a capital increase of EUR 250 million was carried out with outstanding success through the issuance of 16,371,971 new shares which were oversubscribed various times. NH Hoteles also refinanced EUR 650 million of its non-current debt to adjust the debt term to its expansion plan, minimising the need to assign operating cash flow to debt repayment. The new syndicated loan contains terms and conditions that are better for the Group than those obtained previously and has a level of covenants that is more flexible to bring it into line with the NH Hoteles growth process.

In 2007 the NH Group also managed 50,000 rooms in operation. This was achieved by the integration into the portfolio of rooms involved in all the transactions completed at 2006 year-end, especially in the Italian market. In 2007, 72 hotels with 10,925 rooms were included in the Group, basically due to the newly integrated Jolly and Framon groups which accounted for 8,686 rooms, the remaining 2,239 being the result of organic growth. By geographical area, most of the growth occurred in Italy, which accounted for 68% of the new rooms, followed by Spain and Benelux with 15% each.

At 2006 year-end, two agreements were signed which consolidated NH's presence in the Italian market and set the pace for the development of operations in 2007.

These transactions consisted of the agreement entered into with Tourist Ferry Boat, S.r.l. for the acquisition of the Framon chain and that entered into with Joker Partecipazione, S.r.l. and Intesa Sanpaolo, S.p.A. to acquire control of Jolly Hotels, S.p.A. The second of these, and the most important transaction performed by the Group in recent years, began with the approval thereof by the Italian antitrust authorities in January 2007 and ended in February 2008 with the conclusion of the delisting tender offer subsequent to which the company was de-listed from the Milan stock exchange.

These transactions will pave the way for a number of mergers in 2008 which will simplify the administrative structure in Italy. The front office system was also unified, opening all the hotels to NH's distribution channels so that the new sales structure has one and the same objective, the sale of a single NH hotel portfolio. At the date of this report, seven of the Jolly hotels were already NH-branded and 20 hotels will have to be renovated before they are re-branded, involving an investment of over EUR 100 million to modernise the Italian properties, especially in Rome, Milan and Florence.

The targets for 2008 are ambitious and focus on a plan to diversify sales and Group results. Historically, almost all its sales originated from the business unit in Spain. In the current scenario, the sales of this business unit represent only 30%, and one of the objectives of the plan is that they are kept to a maximum of 25% of the Group's total revenue. On completion of the plan, the Italian business unit should obtain the same level of sales as the Spanish unit. Benelux and Germany-Central Europe will account for 20% each and the remaining 10% will be obtained in Latin America.

Another of the objectives is to further diversify the sales channels, increasing the Group's presence in electronic channels. In 2007 the Group improved the relative weight of this type of channel to represent 23% of the total (2006: 18%), which will translate into improved efficiency in occupancy management, more stable tariffs and cost savings in the area of tariff distribution and administration.

In terms of supply, it should also be mentioned that the growth levels of hotel rooms in the main markets in which NH operates are below 5%, the lowest in the past ten years.

All this has placed us in a more favourable position to deal with the possibility of a decelerating economy, especially in Spain and the US.

NEW PRODUCTS

NH Hoteles Group has a specific research and development department that focuses its efforts on creating new high value-added services and products. The objective sought is to further raise the awareness of the expectations of the Group's customers in order to pre-empt them and offer more personalised services, in line with their demands, thereby improving quality and increasing satisfaction. As a result of this commitment to innovation, the following products and services, among others, were developed: Bonhocio, up selling, virtual points of sale, e-billing.

The new brand "Edenh" was born into the NH Group to identify a new vacation segment that is enticing and entertaining, and at the same time luxurious and comfortable. This brand includes the Group's resorts which aim to offer not merely accommodation but a whole new experience. Included in this class of hotel are: Gran Hotel Timeo - Taormina, Villa Sant Andrea - Taormina Mar, Gran Hotel Bristol - Rapallo, Almenara - Sotogrande, Schlosshotel Bühlerhöhe - Baden Baden and Edenh Real Arena.

Edenh Real Arena is the first of these resorts that the Group has opened in the Caribbean, specifically in the Dominican Republic, and is strategically located in Punta Cana in an area of luxuriant palm trees. This resort, with its 44 m^2 rooms and balconies facing the sea, brings to fruition the Group's commitment announced a year and half ago of entering the high-quality vacation segment (luxury five-star).

EARNINGS

The highlight of 2007 were the billings of over EUR 1,500 million and EBITDA of EUR 283 million.

This consolidation of revenue, representing a 38% increase, was due to three factors:

a) an 8% increase in sales in hotels existing in 2006 (comparable hotels).

b) a 29% increase attributable to the Group's expansion, of which 22% related to Jolly and 7% to organic growth.

c) a 1% increase in non-recurring income, due mainly to the corporate transactions involving the acquisition of Jolly.

Another positive detail is that the average revenue per available room (RevPAR) increased by an average of 5.5% and this increase occurred across the business units, the price increase being a determining factor, since occupancy fell slightly (0.9%). In the fourth quarter, the RevPAR grew rapidly (7%), improving in substantially all the business units.

In Germany the average RevPAR rose by 11.7% in the fourth quarter, which confirmed the positive underlying trend in this region and exceeded the previous year's already solid growth which had occurred due to the Football World Cup games held in 2006.

Another aspect that we did not neglect in 2007 was efficiency, since an 8% increase in revenue, excluding expansion and non-recurring income, pushed Ebitda up by 19%.

The Group's real estate business in 2007 contributed income of nearly EUR 78 million (2006: EUR 69 million), representing a 13.3% increase, taking Ebitda to EUR 24.29 million (2006: EUR 27 million). In this year there was no large-scale sale of any plots in Sotogrande. However, in the second half of the year, the sale of a plot in Puerto Morelos - Cancún - Mexico, acquired in mid-2005, brought a gain of over EUR 7 million. Additionally, sales commitments yet to be recognised at year-end amounted to EUR 77.1 million with an estimated margin of about EUR 27.8 million, these figures being similar to those of 2006. Most of these sales relate to berths on the marina and to the development of the Ribera del Marlín residential complex, and include the 35 commercial premises sold in 2007.

CONSOLIDATED COST ACCOUNTING STATEMENT *(in millions of euros)*

NH HOTELES,S.A. AND DEPENDENT COMPANIES P&L ACCOUNT AS AT DECEMBER, 31ST 2007

	2007		2006		2007/2006
	M Eur.	%	M. Eur	%	Var. %
Hotel revenue	1,395.8	93%	1,005.6	92%	38.8%
Real estate income	77.5	5%	69.4	6%	11.7%
Non-recurrent business	32.4	2%	16.0	1%	102.4%
TOTAL INCOME	**1,505.7**	**100%**	**1,090.9**	**100%**	**38.0%**
Cost of real estate sales	-41.6	-3%	-32.3	-3%	29.1%
Staff cost	-478.8	-32%	-344.1	-32%	39.2%
Direct operating cost	-456.0	-30%	-332.4	-30%	37.2%
Other non-recurrent expenses	-4.6	0%	-9.1	-1%	-49.6%
OPERATING INCOME	**524.7**	**35%**	**373.1**	**34%**	**40.6%**
Lease payments	-241.7	-16%	-184.2	-17%	31.2%
EBITDA	**283.0**	**19%**	**188.9**	**17%**	**49.8%**
Depreciation and amortization charge	-109.7	-7%	-75.0	-7%	46.3%
EBIT	**173.3**	**12%**	**113.9**	**10%**	**52.1%**
Finance Cost	-62.8	-4%	-29.8	-3%	110.8%
Profit (Loss) of companies accounted for using the equity method	-2.5	0%	1.3	0%	-
EBT	**108.0**	**7%**	**85.4**	**8%**	**26.5%**
Corporation tax	-8.5	-1%	-24.1	-2%	-64.7%
PROFIT before minority interest	**99.5**	**7%**	**61.3**	**6%**	**62.3%**
Minority interests	-22.1	-1%	1.2	0%	-
NET PROFIT	**77.4**	**5%**	**62.5**	**6%**	**24.0%**

Note: This consolidated cost accounting statement was prepared in accordance with hotel management grouping criteria which do not always coincide with the accounting policies applied in the consolidated financial statements of the NH Hoteles Group.

GENERAL DESCRIPTION OF THE RISK POLICY

NH's activities focus mainly on the hotel industry and especially on city hotels which are characterised by a relatively high operating leverage level that sometimes requires substantial investment in property, plant and equipment, and especially buildings. Buildings have a long economic cycle requiring high levels of investment, most of which must be financed through bank borrowings. The Group has always opted to use orthodox financial methods to ensure high solvency ratios at all times.

Management of the risks to which NH Hoteles is exposed in the course of its business activities is one of the basic elements underpinning its performance, which is aimed at preserving the value of its assets and, consequently, the shareholders' investment. Group management targets, inter alia, the minimisation of risk and optimisation of risk management by analysing the corresponding risk maps, in close cooperation with the Audit and Control Committee, whose overriding function is, in addition to the foregoing, to assist the Board of Directors in its oversight and control functions, the most important of which are ensuring that generally accepted accounting principles are applied correctly and verifying the suitability and completeness of the control systems.

Financial risk management is centralised in the Corporate Financial Department, which has the necessary systems, based on financial variables, to control the exposure to interest rate and exchange rate fluctuations, and credit and liquidity risks.

In the coming year, NH Hoteles will continue to look for avenues of expansion, endeavouring at all times to minimise the risks inherent to the industry in which the Group operates, and in which the activity is sensitive to the business cycle and, consequently, exposed to the risk of price fluctuations which the Group has always handled by offsetting them against occupancy and obtaining positive RevPAR growth.

The Group's credit risk is mainly attributable to its trade payables. The amounts are presented net of the allowance for bad debts and the risk is very small, since the customer base is fragmented among a large number of agencies and companies.

In relation to the interest rate risk, the information relating to the derivative financial instruments held by the Company at 31 December 2007, and the policies applied by it, are described in the accompanying notes to the consolidated financial statements.

The Group has subsidiaries in various countries with operating currencies other than the euro. The operating results and the financial position of these subsidiaries (Argentina, Mexico, Chile, Uruguay, Brazil, Hungary, Romania, the UK and the USA) are expressed in their respective currencies and are subsequently translated at the applicable exchange rate for their inclusion in the Group's financial statements. The euro has recently appreciated considerably against the world's major currencies, including the US dollar, which exposes NH Hoteles to fluctuations in these currencies. The income generated in geographical areas with currencies other than the euro was below 10% of total income and NH Hoteles endeavours to offset this exposure by taking on debt in these currencies in similar percentages.

At 2007 year-end, consolidated net financial debt amounted to EUR 1,090.24 million (December 2006: EUR 632.8 million), with a gearing ratio (net financial debt/equity) of 0.81x, which is far below the 1x ratio which has at all times been proposed as the Group's objective. The two major reasons for this increase were the debt generated by the acquisition of Jolly and the debt brought into the Group by the company itself. Another important ratio is that of net financial debt to Ebitda, which at 3.7x was much lower than the 4x maximum targeted in the strategic plan.

Maintenance of the cash flow sources depends on the performance of the hotel business and on the Group's land sales and real estate developments. These variables depend in turn on the general economic cycle and on the prevailing situation of market supply and demand.

SHARES AND SHAREHOLDERS

At 2007 year-end, the share capital of NH Hoteles, S.A. was represented by 147,970,458 fully subscribed and paid bearer shares of EUR 2 par value each. All the shares carry the same voting and dividend rights and are admitted for listing on the Madrid Stock Market Interconnection System.

This figure was obtained on conclusion of the capital increase of EUR 250 million carried out at the beginning of 2007, through the issuance of 16,371,971 shares of EUR 2 par value each and a share premium of EUR 13.27 per share.

Per the latest notifications received by the Company and the communications sent to the Spanish National Securities Market Commission prior to each year-end, the details of the main ownership interests at 31 December were as follows:

	2007	2006
Grupo Inversor Hesperia, S.A.	25.09%	22.19%
Caja de Ahorros y Monte de Piedad de Madrid	10.04%	10.04%
Morgan Stanley Real Estate Special Situations Fund III GP LLP	5.96%	-
Caja de Ahorros de Valencia, Castellón y Alicante	5.66%	5.56%
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián	5.09%	5.09%
Pontegadea Inversiones, S.L.	5.07%	9.33%
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	5.04%	4.54%
Hoteles Participados, S.L.	5.05%	5.04%
Intesa Sanpaolo SpA	4.53%	-
Shares assigned to remuneration plans plus ownership interests of the Management Team	4.62%	3.32%

The average share price of NH Hoteles, S.A. was EUR 15.82 (2006: EUR 14.49), with a minimum price recorded in December of EUR 11.40 per share (2006: EUR 12.25) and a maximum change in April of EUR 18.35 per share (2006: EUR 18.19).

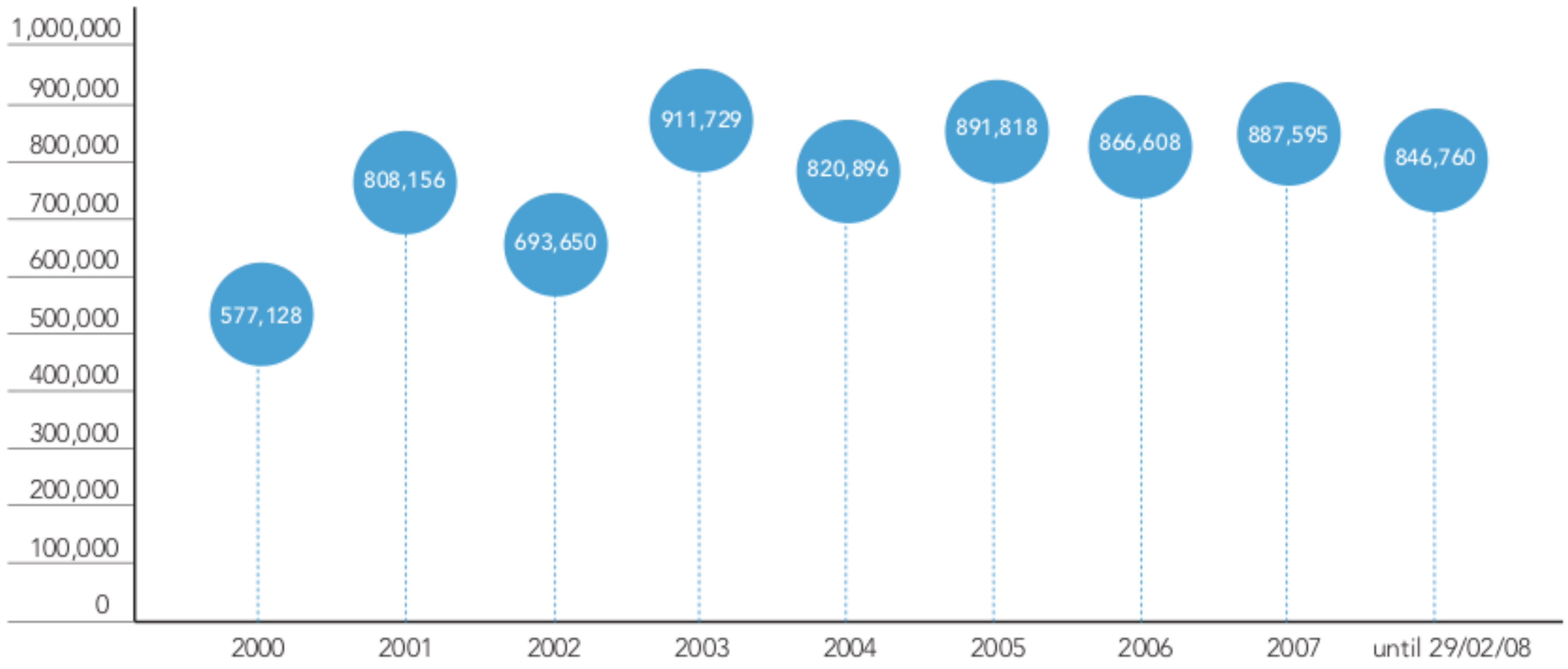
In 2007 NH Hoteles carried out various treasury share purchase (5,352,864 certificates) and sale (4,120,543 certificates) transactions, which were within the legally established limits and duly reported to the Spanish National Securities Market Commission.

The sale of 4.1 million shares included 3.79 million sold to a bank for the sole purpose of covering the financial obligations under the Share Option Plan approved by the shareholders at the Annual General Meeting held on 29 May 2007. Under the new accounting standards, the loss on treasury share transactions, which amounted to EUR 9,238 thousand, was included in the consolidated statement of changes in equity. This amount is the difference between the price of acquisition, on an arm's length basis, of the shares earmarked to cover the share-based payment plan and the price of transferring them to the bank. The aforementioned difference will be refunded to the Company when the share options covered are exercised, as the case may be.

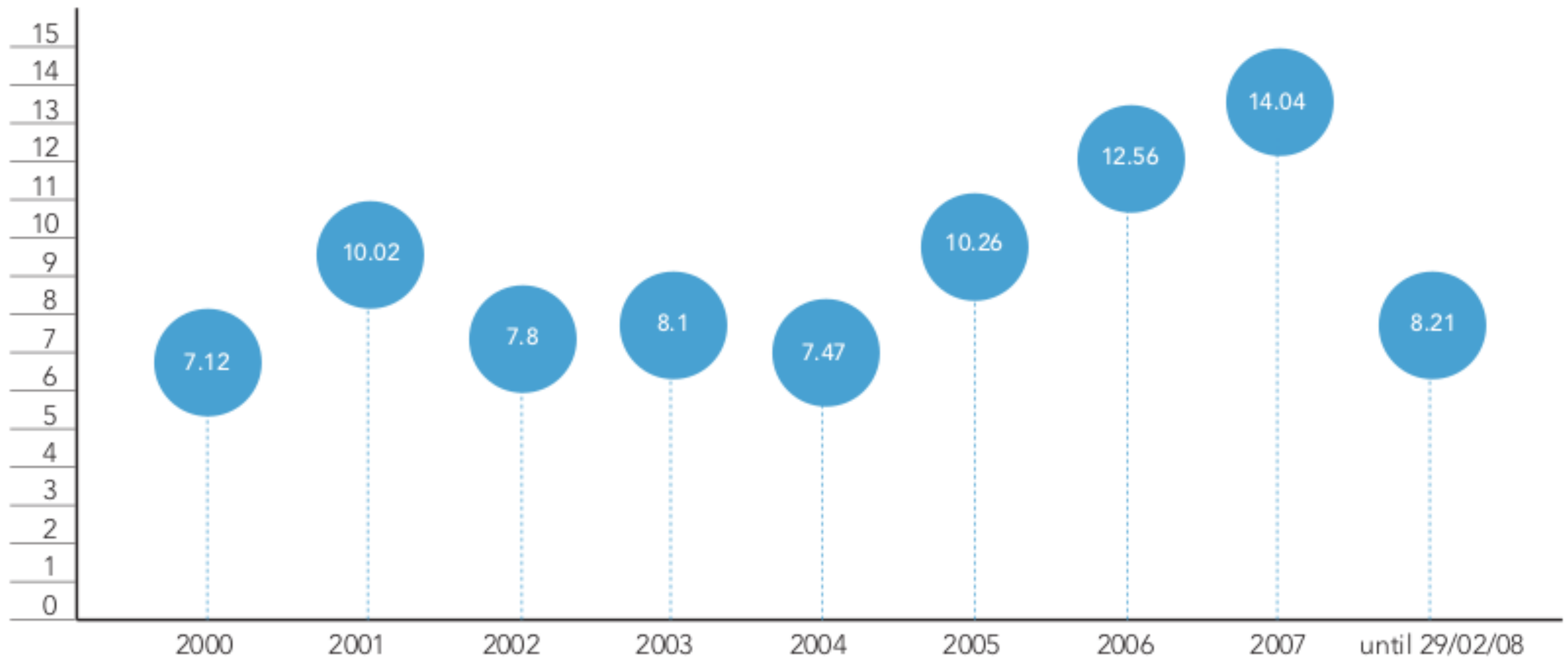
At year-end NH Hoteles owned 1,462,864 treasury shares representing 0.99% of its share capital with a total cost of EUR 22.81 million.

In 2007, 224,561,594 shares of NH Hoteles, S.A. were traded on the Stock Market Interconnection System (2006: 220,118,673 shares), representing 1.52 times (2006: 1.78 times) the total number of shares into which the share capital is divided, with an average of 887,595 shares traded daily on the Stock Market Interconnection System.

AVERAGE DAILY TRADING OF SHARES *2000-2008*

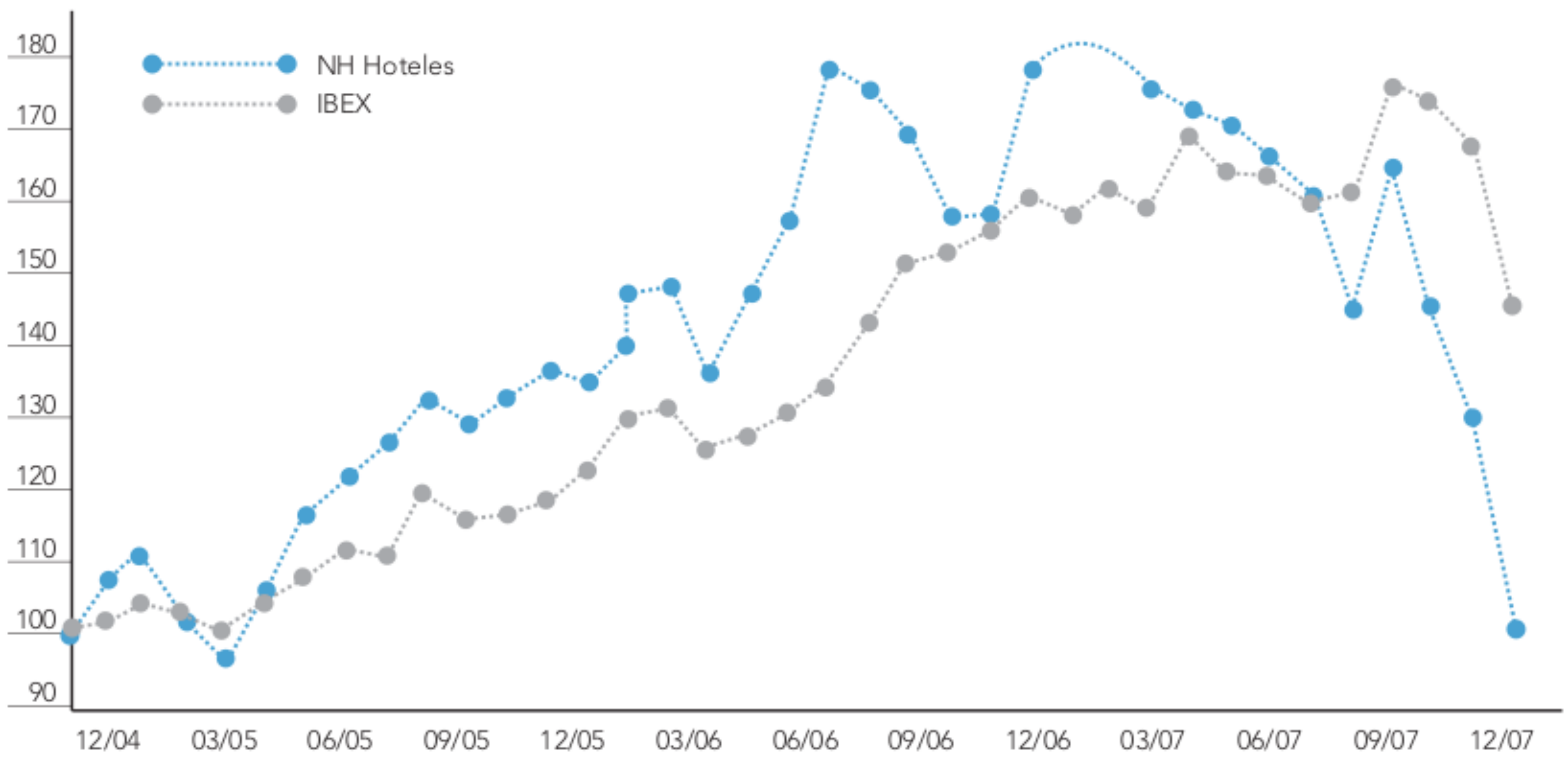


AVERAGE DAILY TRADING IN MILLIONS OF EUROS *2000-2008*

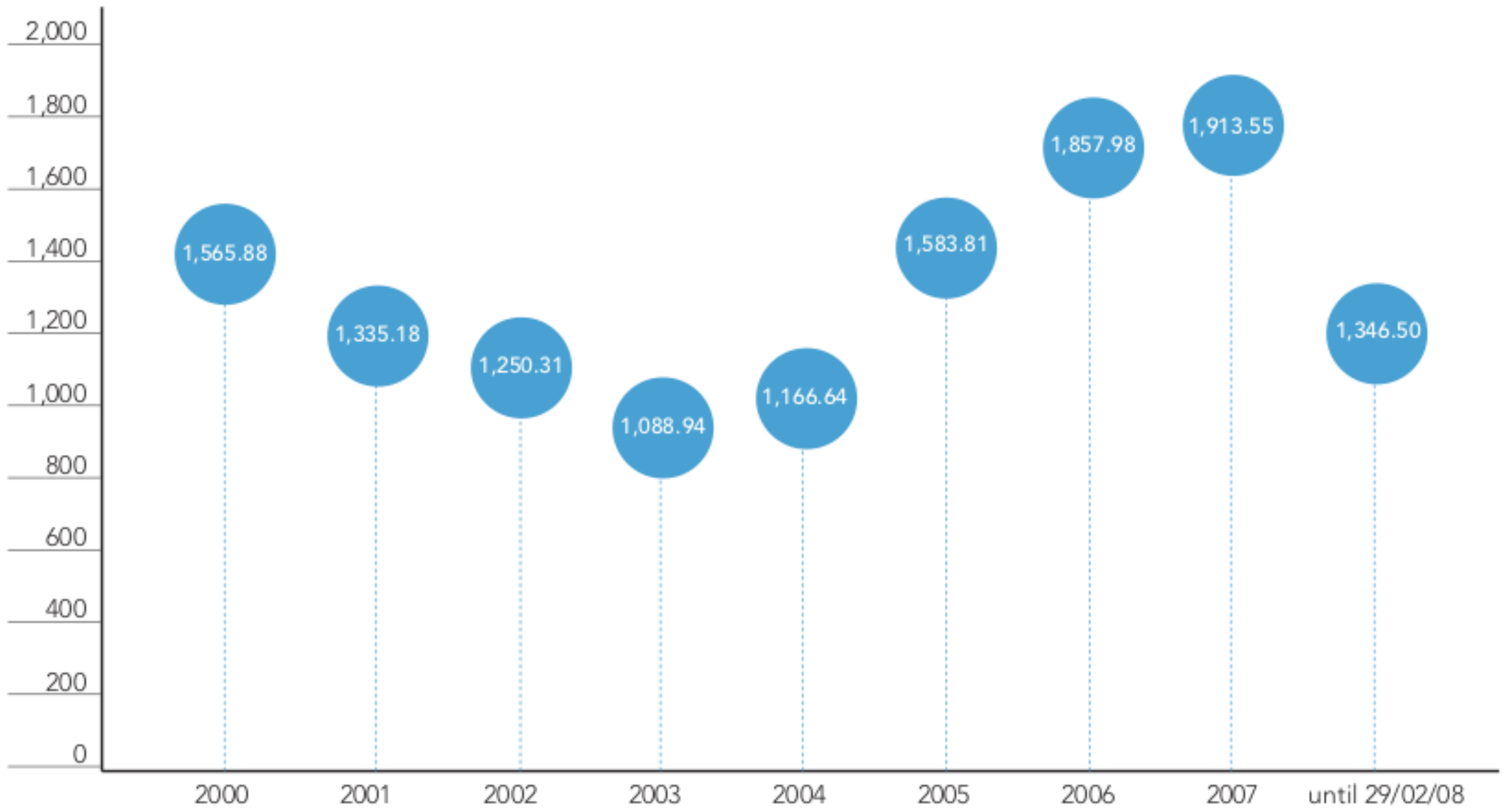


The following graph shows the changes in the price and market capitalisation over the past two years.

NH HOTELES - IBEX PERFORMANCE *december 2004 - february 2008*



CAPITALISATION 2000-2008 *(in millions of euros)*



ADDITIONAL DISCLOSURES FOR THE PURPOSES OF ARTICLE 116 BIS OF THE SPANISH SECURITIES MARKET LAW

a. **Structure of the share capital, including any securities that are not traded in a regulated EU market, indicating, where appropriate, the various classes of shares and, for each class of shares, the rights and obligations conferred and the percentage of share capital represented**

The share capital of NH HOTELES, S.A. amounts to EUR 295,940,916, and is represented by 147,970,458 fully subscribed and paid shares, traded by the book-entry system, of EUR 2 par value each, of a single series and numbered sequentially from 1 to 147,970,458.

The shares are listed on the Madrid, Barcelona and Bilbao Stock Market Interconnection Systems.

b. **Any restriction on the transferability of securities**
There are no legal or bylaw-stipulated restrictions on the transferability of the shares representing the share capital.

c. **Significant direct or indirect ownership interests in the share capital**
The significant ownership interests in the share capital of NH HOTELES, S.A. at 31 December 2007 were as follows:

1. Direct and indirect owners of significant ownership interests, excluding the directors.

Name or Company Name of the Shareholder	Number of Direct Voting Rights	Number of Indirect Voting Rights (*)	% of Total Voting Rights
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	0	14,851,795	10.037%
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	8,132,456	0	5.496%
CORPORACIÓN FINANCIERA CAJA DE MADRID	6,719,339	0	4.541%
BANCAJA INVERSIONES, S.A.	8,373,405	0	5.659%
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGON Y RIOJA (IBERCAJA)	7,459,190	0	5.041%
JOSE ANTONIO CASTRO SOUSA	0	37,122,828	25.088%
GRUPO INVERSOR HESPERIA, S.A.	37,122,828	0	25.088%
INTESA SANPAOLO, SPA	3,450,671	3,262,749	4.53%
MORGAN STANLEY & CO. INTERNATIONAL LTD.	7,454,751	0	5.038%
MORGAN STANLEY REAL ESTATE SPECIAL SITUATIONS FUND III GP	0	8,817,560	5.959%
PONTEGADEA INVERSIONES, S.L.	7,503,582	0	5.071%
AMANCIO ORTEGA GAONA	0	7,503,582	5.071%

(*) Through:

Name or Company Name of Direct Holder of the Ownership Interest	Number of Direct Voting Rights	% of Total Voting Rights
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	8,132,456	5.496%
CORPORACIÓN FINANCIERA CAJA DE MADRID	6,719,339	4.541%
GRUPO INVERSOR HESPERIA, S.A.	37,122,828	25.088%
MORGAN STANLEY & CO. INTERNATIONAL LTD.	7,454,751	5.038%
VARIOUS SHAREHOLDERS OF INTESA SANPAOLO, SPA	3,262,749	2.21%

2. Members of the Board of Directors of the Parent, who own voting rights associated with shares of the Parent:

Name or Company Name of Direct Holder of the Ownership Interest	Number of Direct Voting Rights	Number of Indirect Voting Rights (*)	% of Total Voting Rights
JOSE RAMON BLANCO BALIN	26,775	15,076	0.028%
GABRIELE BURGIO	1,482,490	0	1.003%
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE, BANCAJA	0	8,373,405	5.659%
CAJA DE AHORROS Y MONTE DE PIEDAD DE GUIPUZKOA Y SAN SEBASTIAN	7,537,000	0	5.09%
JOSE DE NADAL CAPARÁ	11,262	0	0.008%
GSS HURRICANE BV	0	8,817,560	5.959%
HERRANDO PRAT Y DE LA RIBA	4,627	0	0.004%
HOTELES PARTICIPADOS, S.L.	7,469,093	0	5.048%
MIGUEL RODRIGUEZ DOMINGUEZ	3,000	0	0.002%
JULIO DIAZ FREIJO CERECEDO (THROUGH PONTEGADEA, S.L.)	7,503,582	0	5.071%
MATIAS AMAT ROCA (THROUGH CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID)	0	14,851,795	10.037%

(*) Through:

Name or Company Name of Direct Holder of the Ownership Interest	Number of Direct Voting Rights	% of Total Voting Rights
RELATIVES OF DIRECTOR JOSE RAMON BLANCO BALIN	15,076	0.010%
BANCAJA INVERSIONES, S.A.	8,373,405	5.659%
MORGAN STANLEY & CO. INTERNATIONAL LTD.	7,454,751	5.038%
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	8,132,456	5.496%
CORPORACIÓN FINANCIERA CAJA DE MADRID	6,719,339	4.541%
Total % of voting rights held by the Board of Directors		**37.909%**

d. **Any restriction on voting rights**

Pursuant to Article 15 of the Parent's bylaws, no shareholder, regardless of the number of shares he owns, may cast more votes than those relating to 10% of the shares issued with voting rights. This limitation will not apply at Annual General Meetings when the list of those attending includes a shareholder who is present or represented at the Meeting and owns more than 75% of the shares issued with voting rights.

e. **Side agreements**

The Parent has no record of the existence of any side agreements.

f. **Rules governing the appointment and replacement of members of the Board of Directors and the amendment of the Parent's bylaws**

1. Appointment and replacement of members of the Board of Directors

The rules governing the appointment, replacement and removal of directors are included in the Parent's bylaws and Board of Directors Regulations.

In this respect, according to Article 20 of the bylaws, the administration and representation of the Company correspond to the Board of Directors, which will consist of a minimum of five and a maximum of 20 directors, and appointments to the Board and the size of the Board will be determined by the shareholders at the Annual General Meeting.

The same article of the bylaws stipulates that the directors will discharge their functions for a term of three years, that they may revoke or give up the office of director at any time, and may be re-elected indefinitely for terms of the same length.

- *Appointment of directors:*

Nominations for the post of director submitted to the Board of Directors for deliberation at the General Meeting and the appointment decisions taken by this body by virtue of the co-optation powers legally attributed to it, must be preceded by the related proposal from the Appointments and Remuneration Committee, in the case of independent directors, and by a report of this Committee in the case of the remaining directors.

Nominations for nominee directors may be proposed by the respective owners of significant, stable shareholdings, and the other directors must vote in favour of these appointments or nominations being approved by the Board of Directors.

External directors, according to Article 11 of the Board of Directors Regulations, will be appointed by the Board of Directors and the Appointments and Remuneration Committee, which will select candidates of renowned solvency, competence and experience who are prepared to dedicate a sufficient portion of their time to the Company, subjecting candidates for the post of independent directors to even closer scrutiny.

In relation to independent directors, it is expressly stated that the Board of Directors will propose or designate to fill in these posts persons who meet the requirements set out in Article 9.4 of the Regulations, which echo the recommendations included in the Unified Good Governance Code.

For all intents and purposes, both the bylaws and the Board Regulations point out that any person who is incapacitated, disqualified, barred or incompatible within the meaning of the terms expressed in current legislation, may under no circumstances be nominated for the post of director.

To this end, Article 11.3 of the Board Regulations expressly states that "any person who directly or indirectly owns interests of any kind in, or has an employment, professional or business relationship or ties of any other nature with a competitor of the company, will be deemed to be incompatible for the purposes of discharging the duties of a director, unless he obtained dispensation from the Board of Directors on the basis of an affirmative vote of at least 70% of its members".

- *Replacement of directors:*

The Board itself may provisionally fill in the vacancies due to resignation, incapacity, death, etc. of directors, regardless of their number, by submitting nominations for the shareholders' approval at the first Annual General Meeting held; those so appointed must be shareholders and will eventually be removed from office to make way for the persons for whom they were filling in.

- *Removal of directors:*

The removal of directors is expressly addressed in Article 14 of the Board Regulations, which indicates that directors will be removed from office at the end of tenure or when so decided by the shareholders at the Annual General Meeting by virtue of the powers legally conferred thereon.

It also states that the directors must place their office at the disposal of the Board of Directors and tender their resignation if involved in the following situations:

a) When they reach 70 years of age. Directors who hold executive offices will cease to discharge such functions once they reach 65 years of age although they may continue as directors, if so resolved by the Board itself. In such cases, the removal will take place at the first Board meeting following the Annual General Meeting which approves the accounts for the year in which the director has reached the age limit.

b) When the people occupying the executive positions associated with their appointment as directors are removed or when the reasons for which they were appointed cease to exist, a situation which could arise in the case of a nominee director, when the entity or corporate Group represented by him ceases to hold a significant ownership interest in the Company or, in the case of an independent director, when he becomes an executive of the Company or of any of its subsidiaries.

c) When they are incapacitated, disqualified, barred or incompatible within the meaning of the terms expressed in the aforementioned Article 11.3 of the Board Regulations.

d) When they have been seriously reprimanded by the Appointments and Remuneration committee for having breached any of their obligations as directors.

e) When their continuity on the Board affects the Company's prestige or reputation in the market or jeopardises its interests in any other way.

2. Amendment of bylaws

The procedure for the amendment of the bylaws is regulated in Article 144 et seq. of the Spanish Companies Law, which requires the approval by the shareholders at the Annual General Meeting, with the majorities stipulated in Article 103 of the aforementioned Law.

g. **Powers of the members of the Board of Directors and, in particular, those relating to the possibility of issuing or repurchasing shares**

- Powers of the Executive Chairman/Managing Director:

The Executive Chairman, who also holds the office of Managing Director, is the Company's Chief Executive and, consequently, his appointment or reappointment is accompanied by the delegation of all the powers and competences of the Board that can legally be delegated. He is responsible for effective management of the Company's businesses which must comply at all times with the decisions and procedures established by the shareholders at the Annual General Meeting and the Board of Directors.

Pursuant to Article 17 of the Regulations, the Chairman/Managing Director is authorised to execute the resolutions of the Board itself and, where applicable, of the Delegated Committee - bodies which he represents permanently with the widest powers - and, in cases of emergency, to take the measures considered to be in the Company's best interest.

- Powers of the Board of Directors:

The Board of Directors assumes and holds responsibility for, and exercises, legally and extrajudicially, full management, administration and representation of the Company, in all the actions included in its company object and that involve its net worth, without prejudice to the powers corresponding to the shareholders at the Annual General Meeting.

Specifically, according to Article 22 of the bylaws of NH HOTELES, S.A., the Board has the following responsibilities:

1° To manage, organise and supervise the Company's life and functions as regards its employees, assets and the progress of its company businesses.

2° To call the Annual General Meetings and execute the resolutions thereof.

3° To recognise and pay company debts and claim and collect all the amounts owed to or receivable by the Company, irrespective of the identity of the individuals or entities obliged to make the payment, including central, regional, provincial, municipal government or official bodies in general, or the cause or circumstances that give rise to the Company's right.

4° To execute all manner of contracts relating to the company object: to appoint and dismiss employees, to contract works, services and supplies; to arrange insurance, guarantees and deposits; to arrange leases and evict tenants, tenants at sufferance and occupants; to carry out transactions and commitments; to participate in tenders and auctions; to attend meetings as full members with the right to vote; to apply for and waive concessions and authorisations; to incorporate, modify and dissolve companies and joint ownership associations; to lend money; to give and accept guarantees, including mortgages, and to cancel them; and, in general, to execute, amend, renew and terminate all manner of contracts.

5° To purchase, sell, exchange, mortgage and, by whatsoever other means, to acquire, dispose of or encumber all manner of movable or immovable property, or indivisible or specific shares therein, and in rem rights; to draw up certificates of completion of building work, demarcations, divisions into plots, material divisions, segregations, groupings, constitutions of units of ownership in blocks and any other modifications of property or mortgage entities; and, in general, to carry out all manner of actions involving the use and strict control of company assets without exception.

6° To enter into transactions with banks - including the Bank of Spain -, savings banks and other credit institutions, within the limits permitted by law banking practices; to open, draw from and cancel all manner of current accounts, savings accounts and deposits of all types; to formalise all manner of documents and bank contracts, such as: loan or credit facilities, commercial guarantees and note discounting lines; to draw from credit accounts and cancel them; to issue, endorse, negotiate, accept, provide surety for and challenge bills of exchange, promissory notes, cheques and commercial paper in general; to guarantee jointly or severally, all manner of obligations arising from transactions with banks on behalf of third parties; to constitute, modify, accept and cancel movable and immovable property mortgages, pledges or security interests and any other type of secured guarantee.

7° To represent the Company before all kinds of authorities, civil servants and agencies of the central, regional, provincial or municipal government, and before all kinds of tribunals and courts, in any matters, proceedings or lawsuits involving the Company, with extensive powers to exercise all manner of rights and powers, actions, and exceptions, claims and challenges; to present documents and ratify their contents, to challenge, eliminate, propose and admit tests, to file appeals, including those of cassation and review, to consent or agree to the decisions of arbitration in law and in equity, to admit liability, renounce, withdraw and, in general, carry out all that may be deemed appropriate for the best stewardship and defence of the Company's interests; and to grant authority to lawyers and procuradores (court procedural representatives) with the powers it may freely determine, even if they exceed those listed above.

8° To resolve to distribute interim dividends to the shareholders, before the end of the respective business year or before approval of the financial statements, all of this in conformity with current legislation.

9° To grant all kinds of powers, including the power to replace or delegate powers and revoke them.

10° And for all the foregoing, which is provided by way of an example but is not limited thereto, and must therefore be interpreted in the widest sense, to execute public and private documents without exception.

- Power of delegation to issue shares:

At the Annual General Meeting held on 5 May 2006, the shareholders agreed to authorise the Board of Directors, as established in Article 153.1.b) of the Spanish Companies Law, to, within five years from the date of this meeting, increase capital once or several times, when so deemed necessary or advisable by the Board of Directors, by the maximum amount equivalent to one-half of the Company's share capital, by the issuance and placement to this effect of new ordinary, redeemable shares or shares of any other type permitted by law, including a fixed or variable premium, with or without pre-emption subscription rights (observing in the latter case the requirements, conditions and procedures established in Article 159 and related articles of the Spanish Companies Law or any other that might be required by law for the purpose). The capital increase or increases agreed upon by virtue of this authorisation were to be disbursed in any case by means of monetary contributions and the possibility of incomplete subscription of the issued shares was expressly addressed pursuant to Article 161.1 of this Law. The Board of Directors was also authorised to freely offer the shares that were not subscribed by the deadline set for the exercise of the pre-emption subscription right, in which case this right would not be excluded.

The Board of Directors is also authorised, to the extent permitted by Law, to establish the characteristics and conditions of each capital increase it decides to carry out by virtue of this authorisation, including, by way of an example, and inter alia, the powers to establish (in the event convertible debentures were issued with a fixed conversion ratio and in the event their holders were affected by the disapplication of the pre-emption rights), a formula to adjust this ratio in order to compensate for the eventual dilution of the amount of the convertible right; to request that any new shares issued due to the capital increase or increases be admitted to listing at the official market price in the stock markets in which the company's shares are listed (being able to execute all the documents and perform all the actions that might be necessary or advisable to this effect), and to re-word the articles of the bylaws relating to share capital, once each capital increase is agreed upon and executed. These powers may in turn be delegated by the Board of Directors to its Delegated Committee, the Chairman of the Board of Directors, and/or any of the directors to whom are delegated, fully or partially, the powers of the Board of Directors.

- Power of delegation for repurchase of shares:
At the Annual General Meeting of 29 May 2007, the shareholders authorised the Board of Directors, for a term of 18 months, to take as a pledge and/or acquire, directly or indirectly, treasury shares, by purchasing them in an official secondary market for a price that is neither below their face value nor above their market price at the date of the acquisition, provided that the face value of the acquired shares, together with that of those taken as a pledge, does not exceed 5 per cent of the total share capital at any time.

The Board of Directors is expressly empowered to freely use the shares purchased by virtue of the aforementioned authorisation, for the purpose, as and when applicable, of complying with the commitments acquired under "remuneration systems with the delivery of share options" or "referenced to the share's listed value", the implementation of which at the Company has undergone the mandatory approvals.

h. **Significant agreements entered into by the Company and which will come into force, be modified or terminate in the event of a change in control of the Company resulting from a takeover bid, and their effects, except when dissemination thereof may be seriously detrimental to the Company. This exception shall not apply when the Company is required by law to publish this information**

The NH Hoteles, S.A. Group has entered into agreements with the shareholders of Residencial Marlín SL and of Los Alcornoques de Sotogrande, S.L. which establish that the personal characteristics of the shareholders are essential for the execution of projects, stipulating that any change in effective control, among the shareholders and among their respective Parent companies, would trigger a procedure whereby the other shareholder may leave the Company and be entitled to the refund of his assets plus damages caused.

The syndicated loan of EUR 650 million entered into on 2 August 2007 between a Group company, NH Finance, S.A., as the borrower, and a bank syndicate, includes a clause requiring early repayment in the event of any circumstances that might lead to a change of control at NH Hoteles, S.A.

Also, the NH Group has been granted loans and credit facilities with an overall limit of EUR 35 million for which there is a clause providing for early repayment in the event of a change of control over NH Hoteles, S.A.

i. **Agreements between the Company and its directors, management personnel or employees which provide for termination benefits when the latter resign or are dismissed without justification or if the employment relationship ends as a result of a takeover bid**

Except in the case of the Managing Director and six Senior Executives, the Company has no agreements other than those established in the Workers' Statute or in the Senior Management Decree 1382/1985, which set out the termination benefits in the event of the resignation or improper dismissal of these persons or the termination of the employment relationship due to a takeover bid.

In the case of the Chairman/Managing Director and the aforementioned Senior Executives, to obtain their loyalty and retain their services at the Company, the termination benefits recognised are higher than those that would result from the application of the aforementioned regulations in the event of improper dismissal and change of control.

OUTLOOK

The hospitality industry is an industry which is sensitive to the evolution of the major macroeconomic variables. However, the Group's exposure to the economic cycles is limited, due to the international diversification of its revenue sources and the frontline position of the NH Hoteles brand in the urban hospitality segment.

Consequently, for 2008 NH Hoteles expects to improve its revenue from the sale of rooms in all the business units, by increasing and binding the loyalty of its customers and, at the same time, continuing to implement the dynamic price management strategy which bore such good results in 2007 and in prior years.

NH HOTELES, S.A. AND SUBSIDIARIES

Consolidated financial statements for 2007 prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 2 and 33). In the event of a discrepancy, the Spanish-language version prevails.

CONSOLIDATED BALANCE SHEETS

AT 31DECEMBER 2007 AND 2006 *(thousands of euros)*

ASSETS	Note	31.12.2007	31.12.2006
NON-CURRENT ASSETS:			
Property, plant and equipment	8	2,403,130	1,433,644
Goodwill	6	118,748	114,402
Intangible assets	7	116,308	59,258
Investments accounted for using the equity method	9	76,812	91,433
Non-current financial assets-		140,811	443,316
Loans and receivables not available for trading	10.1	132,525	397,451
Other non-current financial assets	10.2	8,286	45,865
Deferred tax assets	22	44,646	34,639
Other non-current assets		1,239	1,324
Total non-current assets		2,901,694	2,178,016
CURRENT ASSETS:			
Inventories	11	118,313	109,673
Trade receivables	12	164,972	126,888
Non-trade receivables		48,503	38,592
Tax receivables	22	26,323	16,194
Other non-trade receivables		22,180	22,398
Current financial assets-		16,391	207,969
Held-to-maturity investments	13.1	16,054	207,586
Held-for-trading financial assets	13.2	337	383
Cash and cash equivalents	14	61,699	42,369
Other current assets		14,016	12,985
Total current assets		423,894	538,476
TOTAL ASSETS		3,325,588	2,716,492

PASIVO Y PATRIMONIO NETO	Nota	31.12.2007	31.12.2006
EQUITY:			
Share capital	15.1	295,941	263,197
Reserves of the Parent	15.2	496,946	293,102
Reserves of fully consolidated companies	15.3	306,567	235,130
Reserves of proportionately consolidated companies	15.3	446	412
Reserves of companies accounted for using the equity method	15.3	(322)	7,624
Valuation adjustments	15.4	420	2,100
Translation differences		(29,556)	(5,899)
Treasury shares	15.3	(22,809)	(3,504)
Consolidated profit for the year		77,443	62,448
Equity attributable to shareholders of the Parent		**1,125,076**	**854,610**
Minority interests	15.6	214,734	176,678
Total equity		**1,339,810**	**1,031,288**
NON-CURRENT LIABILITIES:			
Debt instruments and other held-for-trading liabilities		30	57
Bank borrowings	16	910,306	529,577
Obligations under finance leases	17	46	122
Other non-current liabilities	18	149,819	346,156
Provisions for contingencies and charges	21	60,530	50,280
Deferred tax liabilities	22	276,379	99,125
Total non-current liabilities		**1,397,110**	**1,025,317**
CURRENT LIABILITIES:			
Debt instruments and other held-for-trading liabilities		39	38
Bank borrowings	16	245,453	349,756
Obligations under finance leases	17	82	251
Trade and other payables	23	235,552	218,943
Other current financial liabilities		1,338	1,319
Tax payables	22	32,719	26,549
Provisions for contingencies and charges	21	8,519	5,652
Other current liabilities	24	64,966	57,379
Total current liabilities		**588,668**	**659,887**
TOTAL EQUITY AND LIABILITIES		**3,325,588**	**2,716,492**

The accompanying Notes 1 to 33 and Appendixes I to III are an integral part of the consolidated balance sheet at 31 December 2007.
The consolidated balance sheet at 31 December 2006 is presented for comparison purposes only.

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006 *(thousands of euros)*

	Note	2007	2006
Revenue	26.1	1,463,626	1,094,521
Other operating income	26.1	46,702	14,381
Net gain on disposal of non-current assets	26.1	5,730	10,491
Procurements		(132,425)	(131,947)
Staff costs	26.3	(465,375)	(339,775)
Depreciation and amortisation charge		(109,453)	(71,549)
Net impairment losses		(277)	(3,190)
Other operating expenses	26.4	(627,062)	(458,682)
PROFIT FROM OPERATIONS		**181,466**	**114,250**
Result of companies accounted for using the equity method	9	(2,479)	1,270
Finance income	26.2	9,769	6,978
Finance costs	26.6	(81,847)	(40,157)
Net exchange differences (Income / (Expense))		1,093	4,604
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**108,002**	**86,945**
Income tax	22	(8,495)	(25,395)
PROFIT FOR THE YEAR		**99,507**	**61,550**
Attributable to: Shareholders of the Parent		77,443	62,448
Minority interests	15.6	22,064	(898)
Earnings per share in euros (basic and diluted)	**5**	**0.55**	**0.51**

The accompanying Notes 1 to 33 and Appendixes I to III are an integral part of the consolidated income statements for 2007.
The consolidated income statement for 2006 is presented for comparison purposes only.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR 2007 AND 2006 *(thousands of euros)*

			Reserves of the Parent		Reserves of									
	Share Capital	Share Premium	Legal Reserve	Voluntary Reserves	Fully Consolidated Companies	Proportionately Consolidated Companies	Companies Accounted for Using the Equity Method	Translation Differences	Valuation Adjustments	Treasury Shares	Profit Attributable to the Parent	Total	Minority Interests	Total Equity
Balances at 31 December 2005	**239,066**	**131,622**	**28,877**	**127,050**	**150,317**	**468**	**8,651**	**17,821**	**4,772**	**(301)**	**62,243**	**770,586**	**119,682**	**890,268**
Net profit for 2006	-	-	-	-	-	-	-	-	-	-	62,448	62,448	(898)	61,550
Translation differences	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(23,720)**	**-**	**-**	**-**	**(23,720)**	**(255)**	**(23,975)**
Cash flow hedges	-	-	-	-	-	-	-	-	(2,672)	-	-	(2,672)	-	(2,672)
Income and expenses recognised in the period	-	-	-	-	-	-	-	(23,720)	(2,672)	-	62,448	36,056	(1,153)	34,903
Capital increase	24,131	134,847	-	-	-	-	-	-	-	-	-	158,978	-	158,978
Distribution of 2005 profit - To reserves	-	-	-	(21,487)	84,813	(56)	(1,027)	-	-	-	(62,243)	-	-	-
Distribution of reserves	-	-	-	(31,079)	-	-	-	-	-	-	-	(31,079)	(2,042)	(33,121)
Change in treasury shares	-	103	-	-	-	-	-	-	-	(3,203)	-	(3,100)	-	(3,100)
Changes in the scope of consolidation	-	-	-	-	-	-	-	-	-	-	-	-	142,516	142,516
Acquisition of minority interests	-	(76,830)	-	-	-	-	-	-	-	-	-	(76,830)	(82,325)	(159,155)
Balances at 31 December 2006	**263,197**	**189,742**	**28,877**	**74,483**	**235,130**	**412**	**7,624**	**(5,899)**	**2,100**	**(3,504)**	**62,448**	**854,610**	**176,678**	**1,031,288**
Net profit for 2007	-	-	-	-	-	-	-	-	-	-	77,443	77,443	22,064	99,507
Translation differences	-	-	-	-	-	-	-	(23,656)	-	-	-	(23,656)	(1,715)	(25,371)
Cash flow hedges	-	-	-	-	-	-	-	-	(1,680)	-	-	(1,680)	-	(1,680)
Income and expenses recognised in the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(23,656)**	**(1,680)**	**-**	**77,443**	**52,107**	**20,349**	**72,456**
Capital increase	32,744	215,372	-	-	-	-	-	-	-	-	-	248,116	-	248,116
Distribution of 2006 profit - To reserves	-	-	-	(2,290)	64,187	34	517	-	-	-	(62,448)	-	-	-
Distribution to reserves	-	-	-	-	-	-	-	-	-	-	-	-	(992)	(992)
Change in treasury shares	-	(9,238)	-	-	139	-	-	-	-	(19,305)	-	(28,404)	-	(28,404)
Changes in the scope of consolidation	-	-	-	-	8,463	-	(8,463)	-	-	-	-	-	121,662	121,662
Acquisition of minority interests	-	-	-	-	(1,352)	-	-	-	-	-	-	(1,352)	(102,963)	(104,315)
Balances at 31 December 2007	**295,941**	**395,876**	**28,877**	**72,193**	**306,567**	**446**	**(322)**	**(29,556)**	**420**	**(22,809)**	**77,443**	**1,125,077**	**214,734**	**1,339,810**

The accompanying Notes 1 to 33 and Appendixes I to III are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2007.

The consolidated statement of changes in equity for the year ended 31 December 2006 is presented for comparison purposes only.

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS

ENDED 31 DECEMBER 2007 AND 2006 *(thousands of euros)*

	Note	2007	2006
1. OPERATING ACTIVITIES			
Profit before tax		108,002	86,945
Adjustments to profit:			
Depreciation and amortisation charge (+)		109,453	71,549
Net impairment losses (+/-)		277	3,190
Period provisions (net) (+/-)	26.4	10,055	3,244
Gains/Losses on disposal of property, plant and equipment and intangible assets (+/-)		(5,730)	(10,491)
Gains/Losses on investments accounted for using the equity method (+/-)	9	2,479	(1,270)
Finance income (-)	26.2	(9,769)	(6,978)
Finance costs (+)	26.6	81,847	40,157
Other non-monetary items (+/-)			
Adjusted profit		**296,614**	**186,346**
Net change in assets / liabilities:			
(Increase)/Decrease in inventories	11	(8,640)	(12,771)
(Increase)/Decrease in trade and other receivables		(47,995)	(7,230)
(Increase)/Decrease in other current assets		(1,031)	(2,038)
(Increase)/Decrease in trade payables	23	16,609	49,549
(Increase)/Decrease in other current liabilities		27,178	(23,131)
(Increase)/Decrease in provisions for contingencies and charges		3,062	(4,180)
Income tax paid		(28,067)	(12,720)
Total net cash flows from operating activities (I)		**257,730**	**173,825**
2. INVESTING ACTIVITIES			
Finance income	26.2	9,769	6,978
Investments (-):			
Group companies, joint ventures and associates		(1,062,328)	(62,973)
Property, plant and equipment, intangible assets and investments property		(178,204)	(83,368)
Non-current financial assets		(18,719)	(48,687)
Financial investments and other current financial assets	13.1	(8,468)	(200,000)
Other assets		(10,007)	-
		(1,277,726)	**(395,028)**
Disposals (+):			
Group companies, joint ventures and associates		352,141	17,753
Property, plant and equipment, intangible assets and investment property		43,056	40,898
Non-current financial assets	10.1 y 10.2	42,139	2,998
Financial investments and other current financial assets	13.1 y 13.2	200,046	19,875
Other assets		85	3,903
		637,467	**85,427**
Total net cash flows from investing activities (II)		**(630,490)**	**(302,623)**
3. FINANCING ACTIVITIES			
Dividends paid (-)		-	(31,080)
Interest paid on borrowings (-)		(84,295)	(37,539)
Changes in (+/-):			
Equity instruments			
- Share capital		32,744	24,131
- Reserves		161,959	31,197
- Minority interests		15,992	57,894
Liability instruments (+/-):			
- Bank borrowings		278,874	147,015
- Finance leases	17	(245)	(342)
- Debt instruments and other held-for-trading liabilities		(26)	(13)
- Other non-current liabilities		(12,913)	(38,135)
Total net cash flows from financing activities (III)		**392,090**	**153,128**
4. GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)		**19,330**	**24,330**
5. Effect of foreign exchange rate changes on cash and cash equivalents (IV)		**(1,124)**	**(612)**
6. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III-IV)		**20,454**	**24,942**
7. Cash and cash equivalents at beginning of the year		**42,369**	**18,039**
8. Cash and cash equivalents at end of the year (7+5)		**61,699**	**42,369**

The accompanying Notes 1 to 33 and Appendixes I to III are an integral part of the consolidated cash flow statement for 2007.
The consolidated cash flow statement for 2006 is presented for comparison purposes only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR 2007

1. DESCRIPTION OF THE PARENT

NH HOTELES, S.A. ("the Parent") was incorporated in Spain on 23 December 1881 under the name "Material para Ferrocarriles y Construcciones, S.A.", which was subsequently changed to "Material y Construcciones, S.A." (MACOSA) and, subsequently, to "Corporación Arco, S.A."

In 1992 Corporación Arco, S.A. absorbed Corporación Financiera Reunida, S.A. (COFIR), adopting the name of the absorbed company and adapting its company object to the new business activity of the Parent, focused on managing its investment portfolio.

In 1998 Corporación Financiera Reunida, S.A. (COFIR) merged with Grupo Catalán, S.L. and Subsidiaries and Gestión NH, S.A. through the absorption of these companies by the former. Subsequently, Corporación Financiera Reunida, S.A. (COFIR) absorbed NH Hoteles, S.A., adopting and extending the object of the absorbed company to allow it to carry on directly hotel business activities, which it had previously been carrying on indirectly through its subsidiaries.

The disclosures on the aforementioned mergers are contained in the financial statements for the years in which the related transactions were performed.

In October 1999 a takeover bid was launched for all the shares of Sotogrande, S.A., in which the Group has had a controlling interest of over 75% at all times.

In 2000 implementation of the expansion strategy was initiated, focused mainly on Europe, with a view to creating a strong global brand in the urban hotel segment, which began with the integration of the Netherlands hotel company Krasnapolsky Hotels and Restaurants, N.V. and continued with the acquisition of the Mexican company Nacional Hispana de Hoteles, S.R.L de C.V. in June 2001 and the German hotel company Astron Hotels in 2002.

During the period 2003-2005, through organic growth, the Group penetrated various European markets, such as Italy and Romania, and gained a presence in new cities such as London. Also, in 2005 a period of growth commenced in the quality tourism industry with a major real estate component with projects in Cap Cana (Dominican Republic) and Riviera Maya (Mexico).

Having consolidated the acquisitions of prior periods, in 2006 and 2007 the Group continued with its international expansion strategy through the acquisition of the Italian Framon and Jolly Hoteles chains. Also, the Group continued to grow organically and added 2,239 new rooms (13 hotels) in 2007.

Towards the end of 2007 NH Hoteles was present with hotels in operation in 22 countries, with 342 hotels and 50,444 rooms, of which 79% are located in Spain, Germany, Italy and Benelux.

NH Hoteles S.A.'s registered office is in Madrid.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND BASIS OF CONSOLIDATION

2.1 Basis of presentation of the consolidated financial statements

The consolidated financial statements for 2007 were formally prepared by the directors of NH Hoteles, S.A. at the Board of Directors Meeting held on 27 March 2008 from the accounting records and financial statements of the Parent and of its subsidiaries.

The consolidated financial statements for 2006 were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and with Law 62/2003, of 30 December, on Tax, Administrative, Labour and Social Security Measures, so that they present fairly the Group's consolidated equity and financial position at 31 December 2007 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended, pursuant to current accounting legislation.

The 2007 consolidated financial statements of the Group and the 2007 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, the Parent's directors consider that the aforementioned financial statements will be approved without any material changes.

2.1.1 Standards and interpretations in force in the current period

In 2007 the Group adopted IFRS 7 "Financial Instruments: Disclosures", which came into force for the years beginning on or after 1 January 2007, and the amendments to IAS 1 "Presentation of Financial Statements" in relation to capital disclosures.

As a result of the adoption of IFRS 7 and the amendments to IAS 1, the qualitative and quantitative disclosures of consolidated financial statements relating to financial instruments and the management of capital, detailed in notes 12, 15, 19, 20 and 32 to the financial statements, were extended.

Also, four IFRIC interpretations came into force for the first time in 2007: IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies", IFRIC 8 "Scope of IFRS 2", IFRIC 9 "Reassessment of Embedded Derivatives" and IFRIC 10 "Interim Financial Reporting and Impairment". The adoption of these interpretations did not have a material impact on the Group's consolidated financial statements.

2.1.2. Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the following standards and interpretations had been published by IASB but had not yet come into force either because they became effective subsequent to the date of these consolidated financial statements or because they had not been endorsed by the EU:

Standards and Amendments and Revisions		Mandatory Application in Years Beginning on or after:
IFRS 8	Operating segments	1 January 2009 (1)
Revision of IAS 23 (*)	Borrowing costs	1 January 2009 (1)
Revision of IAS 1 (*)	Presentation of financial statements	1 January 2009 (3)
Revision of IFRS 3 (*)	Business combinations	1 July 2009 (1)
Amendment of IAS 27 (*)	Consolidated and separate financial statements	1 July 2009 (1)
Amendment of IFRS 2 (*)	Share-based payment Interpretations	1 January 2009 (2)
IFRIC 11	IFRS 2 - Group and treasury share transactions	1 March 2007 (2)
IFRIC 12 (*)	Service concession arrangements	1 January 2008 (2)
IFRIC 13 (*)	Customer loyalty programmes	1 July 2008 (1)
IFRIC 14 (*)	IAS 19- The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008 (2)

(*) Standards and interpretations not endorsed by the EU at the date of preparation of these consolidated financial statements.

(1) The directors have not yet assessed the impact that the application of this standard will have on the accompanying consolidated financial statements.

(2) The directors consider that the entry into force of the aforementioned amendment will not materially affect the consolidated financial statements.

(3) Since the Group had already been presenting a statement of recognised income and expense, in general, no significant changes are expected as a result of the introduction of this new standard.

2.2 Information on 2006

As required by IAS 1, the information relating to 2006 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with the information for 2007 and, accordingly, it does not constitute the Group's statutory consolidated financial statements for 2006.

2.3 Presentation currency

These financial statements are presented in euros. Foreign currency transactions are translated in accordance with the policies described in Note 4.8.

2.4 Responsibility for the information, use of estimates and sources of uncertainty

The information in these consolidated financial statements is the responsibility of the Parent's directors.

In the Group's consolidated financial statements estimates were made by the executives of the Group and of the consolidated companies, later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets
- The assumptions used in the actuarial calculation of the pension liabilities and other obligations to employees
- The useful life of the property, plant and equipment and intangible assets
- The measurement of goodwill arising on consolidation
- The fair value of certain assets
- Estimates of onerous contracts

These estimates were made on the basis of the best information available on the events analysed (see Note 4). However, events that take place in the future might make it necessary to change these estimates. Changes in accounting estimates would be applied in accordance with the requirements of IAS 8.

At the date of authorisation for issue of these consolidated financial statements there were no circumstances that might have constituted a significant source of uncertainty as regards the accounting effect that such circumstances could have in future years.

2.5 Basis of consolidation

2.5.1 Subsidiaries

All the companies included in the scope of consolidation are considered to be subsidiaries because the Parent, directly or indirectly, manages them by virtue of ownership of a majority of the voting rights in their representation and decision-making bodies and has the capacity to exercise control, which is the Parent's power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

The financial statements of the subsidiaries are fully consolidated with those of the Parent. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation.

The share of minority interests of the equity and the profit of the Group is presented under "Minority Interests" in the consolidated balance sheet and in the consolidated income statement, respectively. The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

2.5.2 Joint ventures

"Joint ventures" are deemed to be ventures that are managed jointly by the Parent and third parties unrelated to the Group, where neither party can exercise a degree of control greater than the other. The financial statements of joint ventures are proportionately consolidated and, therefore, the aggregation of balances and subsequent eliminations are made in proportion to the Group's ownership interest in the capital of these entities.

Where necessary, adjustments are made to the financial statements of these companies to adapt the accounting policies used to those applied by the Group.

2.5.3 Associates

Associates are companies over which the Parent is in a position to exercise significant influence, but not control or joint control. In general, significant influence is presumed to exist when the Group's percentage of (direct or indirect) ownership exceeds 20% of the voting rights, provided that it does not exceed 50%.

In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations.

2.5.4 Measurement of consolidated companies on acquisition

Until 1 January 2004, the date of transition to IFRSs by the NH Hoteles Group, differences between the acquisition cost of the investment in a consolidated company and the related underlying carrying amount at the date of acquisition that were not allocable to assets, increasing or reducing the value of the assets to their fair value, were included, if positive, under "Goodwill" in the consolidated balance sheet.

In acquisitions of subsidiaries and joint ventures from the date on which IFRSs came into force onwards, the assets and liabilities of the companies acquired are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised under "Goodwill" in the consolidated balance sheet.

Conversely, if the cost of acquisition of the identifiable net assets were lower than their market value, this lower value "negative difference on consolidation" will be recognised in the consolidated income statement for the year.

In acquisitions of associates, the goodwill arising is recognised as an addition to the carrying amount of the investment.

2.5.5. Translation of foreign currency

The balances in the balance sheets and income statements of the foreign companies included in consolidation were translated to Euros as follows:

- Assets and liabilities were translated using the official exchange rates prevailing at year-end.
- Equity was translated by applying the historical exchange rates which, for companies included in the scope of consolidation prior to the date of transition, were deemed to be the exchange rates prevailing at 31 December 2003.
- The income statement items were translated using the average exchange rates for the year.

The exchange differences arising from the use of these criteria were included in equity under "Translation Differences".

The adjustments arising from the application of IFRSs at the time of acquisition of a foreign company, relating to fair value and goodwill, are considered to be assets and liabilities of that company and, therefore, they are translated at the exchange rates prevailing at year-end.

2.5.6 Changes in the scope of consolidation

The most significant changes in the scope of consolidation in 2007 and 2006 that affect comparison between years were as follows:

a. Changes in the scope of consolidation in 2007

a.1. Jolly Hotels, S.p.A.

On 11 November 2006 a "Framework Agreement" was entered into by NH Italia, S.r.l., Joker Participazioni, S.r.l. and Intesa Sanpaolo, S.p.A, which held 20%, 50.05% and 4.42% of the share capital of Jolly Hotels, S.p.A., respectively, with the object of controlling no less than 74.47% of the share capital of Jolly Hotels, S.p.A., through a newly created vehicle (Grande Jolly, S.p.A.) and the launch by the latter of a takeover bid for the remaining share capital.

The effectiveness of this agreement was subject, as a condition precedent to, inter alia, the approval by the Italian Antitrust Authorities, which was granted on 25 January 2007 and of which the Company was notified on 31 January 2007. At 31 December 2006, the Group did not hold the majority in the representation and decision-making bodies of Jolly Hotels, S.p.A., and it did not have the capacity to control or govern the financial and operating policies of the aforementioned company. Accordingly, at 31 December 2006, the Parent accounted for the 20% ownership interest that it held in Jolly Hotels, S.p.A. using the equity method (see Note 9).

On 1 February 2007, Jolly Hotels, S.p.A. was included in the Group's scope of consolidation since effective control had been acquired. At that date, NH Hoteles controlled, through NH Italia, S.r.l., 74.47% of Jolly Hotels, S.p.A., 20% directly and 54.47%

through a call option for NH Italia, S.r.l. and a put option for Joker Participazioni, S.r.l. and Intesa Sanpaolo, S.p.a. for the transfer of their respective ownership interests in Jolly.

In this regard, on 20 June 2007, 23 July 2007 and 15 November 2007, the put options representing 25.7%, 24.35% and 4.42% of Jolly Hotels, S.p.A. were exercised by the holders thereof (the first two by Joker Participazioni, S.r.l. and the third by Intesa Sanpaolo, S.p.A.) and, therefore, the NH Group now holds directly an additional 54.47% of Jolly Hotels, S.p.A. through the subsidiary Grande Jolly, S.p.A.

In a first phase, on 1 February 2007, the NH Hoteles Group determined the cost of the business combination of 74.47% of Jolly Hotels, S.p.A., the detail of which is as follows (thousands of euros):

	Carrying Amount	Adjustments	Fair Value
Property, plant and equipment	348,701	559,166	907,867
Intangible assets	1,779	15,872	17,651
Other non-current assets	17,366	-	17,366
Non-current bank loans	(184,597)	-	(184,597)
Deferred tax	(15,259)	(165,620)	(180,879)
Other non-current liabilities	(25,030)	(12,177)	(37,207)
Current assets	(80,724)	-	(80,724)
Net assets acquired	**62,234**	**397,241**	**459,475**
Minority interests			(134,490)
Market value of the ownership interest			**324,985**
Cost of the business combination			**320,233**
Excess of the business combination			**(4,752)**

The market value of the hotels owned by Jolly Hotels, S.p.a was obtained based on the appraisals performed by an independent expert, on the basis of the following assumptions:

- The valuation was obtained from the discounted cash flows (DCF) at ten years performed on a hotel-by-hotel basis.
- The DCFs were calculated on the basis of a projection at ten years of the current operating results of the hotels and by assuming a growth rate of between 5.5% and 8% (depending on the specific market in which the hotel is located) to determine the residual value.
- When calculating the DCFs the investment plan envisaged for the hotels of Jolly, S.p.A. was taken into consideration, which in the opinion of the independent expert stands at normal market levels.
- The discount rate used to determine the current market value of the hotels was adjusted in accordance with the specific risk rate of each market, standing in the region of between 9.5% and 10.5% depending on the case.

The adjustment for deferred taxes is equal to the effective rate that the NH Hoteles Group would expect to pay over the increase in the value of the hotels should they be disposed of. The average effective rate calculated on the basis of the transaction taken as a whole is approximately 28.45%.

The cost of the business combination includes the sum of the costs incurred by the NH Hoteles Group to acquire 74.47% of Jolly Hotels, S.p.A., together with the expenses directly allocable to these transactions. 1 February 2007 was taken, despite previously holding an ownership interest of 20%, to be the date of acquisition of all of the 74.47% of Jolly Hotels, S.p.A., since at that date, the NH Hoteles Group did not have the information required under International Financial Reporting Standards relating to the fair value of the assets and liabilities of Jolly Hotels, S.p.A. at the date of acquisition of the aforementioned initial 20% (June 1999).

The amount by which the ownership interest of the NH Hoteles Group in the fair value of the identifiable assets, liabilities and contingent liabilities of Jolly Hotels, S.p.A. exceeded the cost of the business combination, which amounted to EUR 4.8 million, was allocated to profit for 2007. This excess is recognised under "Other Operating Income" and "Minority Interests" in the consolidated income statement for 2007, for amounts of EUR 21.4 million (see Note 26.1) and EUR 16.6 million, respectively.

In a second phase, on 21 February 2007 the NH Hoteles Group presented to the Italian National Securities Market Commission (Consob), a takeover bid for 25.53% of the share capital of Jolly Hotels, S.p.A., at a price of EUR 25 per share. On 18 April 2007, as a result of the mandatory takeover bid, the NH Hoteles Group gained control of an additional 8.64% of Jolly Hotels, S.p.A. taking its percentage of control to 83.11%. Subsequently, in 2007 additional shares were bought in the market to achieve, on 31 December 2007, a direct ownership interest of 96.86% in Jolly Hotels, S.p.A.

In this regard, the difference between the carrying amount of the minority interests acquired subsequent to the achievement of control and the price paid for such acquisitions, amounting to EUR 4.3 million, was recognised in equity with a charge to "Reserves of Fully Consolidated Companies".

In September 2007 the shareholders at the Annual General Meetings of Jolly Hotels, S.p.A. and Grande Jolly, S.r.l. approved the plan to merge the two companies, giving rise at that time to the right of withdrawal of the minority shareholders who did not wish to join the aforementioned merger. This right was exercised by 0.84% of the minority shareholders. Subsequently, in December 2007, the NH Hoteles Group launched a further takeover bid for the remaining shares of Jolly Hotels S.p.A., which was completed on 8 February 2008 with holders of 2.2% of the share capital accepting. On 14 February 2008, the Consob approved the squeeze out of Jolly Hotels, S.p.A. which affected the remaining 0.1% of the shares. The settlement, both the right of withdrawal and the squeeze out, will be made on 1 April 2008, which is the date on which the NH Hoteles Group will own all of Jolly Hotels, S.p.A.

a.2. The Framon Group

On 2 August 2006, a memorandum of understanding was signed by NH Italia, S.r.l. ("NH Italia") and Tourist Ferry Boat, S.r.l. ("TFB"), with the object of incorporating a new joint company, NH-Framon Italy Hotel Management, S.r.l., owned 75% by NH Italia and 25% by TFB. Through this agreement, NH Italia contributed to the joint company all the assets that it possessed at that date in Italy and TFB contributed 15 hotels and 4 projects operated under the Framon brand through the sale of the two companies (Satme Invest, S.r.l. and Immobiliare Quattro Canti, S.r.l.), the sale of a hotel owned by it and the spin off of its other assets. The 25% ownership interest of Tourist Ferry Boat, S.r.l, is subject to a put option for TFB and a call option for NH Italia, S.r.l. which may be exercised from December 2011 onwards, the value of which will be determined on the basis of a pre-determined Ebitda multiple.

At 31 December 2006 only a portion of the transactions agreed upon had been performed and the completion of the process was then in progress. In 2006 NH Italia had acquired two hotels located in Italy and a project to be developed. Of the 15 hotels and 4 projects, only 3 had been acquired and the transfer of the other assets yet to be materialised had not yet been performed due to the non-fulfilment of certain legal and formal requirements the non-fulfilment of which could condition the definitive number of shares transferred of those envisaged in the memorandum of understanding.

At 31 December 2006, TFB (Satme Invest, S.r.l. and Immobiliare Quattro Canti, S.r.l.) and the company incorporated with the object of acquiring the remaining transaction assets (not acquired at the reporting date) NH-Framon Italy Hotel Management, S.r.l. were included in the scope of consolidation, although for the reasons expressed it was in 2007 when the business combination of the Framon Group was effected.

The business combination was effected in 2007 once the "Manleva" document had been negotiated and, therefore, having resolved the pending legal and formal matters, the former owner of the assets object of the transaction was released from any liability, thereby making the acquisition of control effective.

The detail of the value of the consideration committed corresponding to the entire transaction is as follows (thousands of euros):

	Carrying Amount	Adjustments	Fair Value
Property, plant and equipment (*)	21,874	1,528	23,402
Intangible assets	5,219	35,912	41,131
Other non-current assets	12,592	2,760	15,352
Non-current bank loans	(11,838)	-	(11,838)
Deferred taxes	(1,371)	(16,800)	(18,171)
Other non-current liabilities	(5,425)	-	(5,425)
Current assets	9,244	-	9,244
Net assets acquired	**30,295**	**23,400**	**53,695**
Cost of the business combination			**59,121**
Goodwill (Note 6)			**5,426**

(*) The assets owned by Framon (2 hotels) were acquired, together with the other project under development in 2006 and, therefore, they were included in the scope of consolidation at 31/12/06.

The fair value of the owned assets (two hotels) was obtained using the appraisals performed by an independent expert. The fair value of the other assets (13 hotels and 4 projects) was calculated on the basis of an analysis of discounted cash flows, effected on a hotel-by-hotel basis, the main assumptions of which are as follows:

- The valuation was obtained from the projection at ten years of the hotels' current operating results.
- The growth rate considered fluctuates between 2% and 4% for the stabilised hotels.
- The projects were measured on the basis of a conservative approach, assuming lengthy periods of construction of the hotels and practically flat growth rates during the launch periods.
- A maintenance plan for the hotels in operation and an investment plan for the projects under construction were foreseen in the measurement.
- The discount rate used to calculate the current market value of the hotels was 9%, which is the risk rate estimated by the Group for its investments in Europe.

The adjustment for deferred taxes is the result of applying the effective tax rate applicable in Italy (37.5%) to the corresponding increases and decreases in value of the business combination.

The value of the consideration committed includes the cost incurred by NH in acquiring 75% assets operated under the Framon brand together with the expenses directly allocable to the transaction and the estimated value of the call option for NH Italia and sale option for TFB for 25% of NH-Framon Hotel Italy Management, S.r.l. the balancing entry of which, amounting to EUR 22 million, is recognised under "Other Non-Current Liabilities" (see Note 18) in the accompanying consolidated balance sheet.

a.3. Other inclusions in the scope of consolidation in 2007

The other companies that the NH Hoteles Group included in the scope of consolidation in 2007, and the consolidation method used, are as follows:

On 27 December 2006, NH Finance, S.A. was acquired, which is a company whose main business activity is financing Group companies. This company was included in the scope of consolidation on 30 August 2007 due to the commencement of its main business activity.

On 19 April 2007, a 50% ownership interest was acquired in Hotelera Lancaster, S.A., the owner of a 115-room hotel in the city of Buenos Aires (Argentina) which came into operation in September 2007.

Company	Consolidation Method	Effective Date of Inclusion
Edificio Metro, S.A.	Full	02/03/07
NH Hoteles France, S.r.l.(a)	Full	19/04/07
Hotelera Lancaster, S.A.	Full	19/04/07
Hanuman Investment, S.L. (a)	Full	30/06/07
Inmobiliaria 3 Puente, S.A. de C.V.	Equity method	17/07/07
NH Finance, S.A.	Full	30/08/07
Desarrollos Isla Poniente, S.L.	Equity method	15/10/07
Desarrollos Isla Blanca, S.L. (see Note 10.2.1.)	Equity method	27/12/07

(a) Companies incorporated by the NH Hoteles Group

On 2 March 2007, Edificio Metro, S.A. was acquired, which is a company that owns the land in Buenos Aires (Argentina) upon which a 106-room hotel is being constructed that will foreseeably be opened in 2009.

On 28 July 2006, the Group acquired 50% of the share capital of Desarrollos Isla Blanca, S.L. This company holds a 50% stake in the Mexican company Fomento Inmobiliario del Caribe, S.A. de C.V., owner of 220 hectares in the municipal area of Isla Mujeres where a tourist property project will foreseeably be undertaken with a buildability of 18 rooms per hectare on the basis of the area's Urban Development Plan. In 2006 the Group did not consolidate this company since the aforementioned Development Plan was being processed and the company's business activity had not yet commenced. The approval of the Urban Development Plan was published in the Official Journal of the Quintana Roo State Government on 27 December 2007, the date on which the Group considers that the company was included in the scope of consolidation.

On 15 October 2007, the Group acquired through Latinoamericana de Gestión Hotelera, S.A. 50% of the share capital of Desarrollos Isla Poniente, S.L. This company has a 50% ownership interest in the Mexican company Desarrollos Isla Poniente, S.A. de C.V., owner of 306 hectares in Acapulco and Isla Mujeres and a call option on 29 additional hectares upon which a tourist property project will foreseeably be developed.

On 17 July 2007 an ownership interest of 27.08% was acquired in Inmobiliaria 3 Puente, S.A. de C.V., a company with buildable land in the city of Puebla (Mexico).

The aggregate effect of the inclusion in the Group's scope of consolidation of the aforementioned companies is as follows:

	Carrying Amount	Adjustments	Fair Value
Property, plant and equipment	17,056	9,167	26,223
Intangible assets	160	-	160
Other non-current assets	3	736	739
Deferred tax	-	(3,813)	(3,813)
Other non-current liabilities	(3,006)	-	(3,006)
Current assets	(3,674)	4,382	708
Net assets acquired	**10,539**	**10,472**	**21,011**
Minority interests			(4,000)
Value of the business combination			**17,011**
Cost of the business combination			**17,011**

The profit contributed to the Group by the entities included in the scope of consolidation in 2007 amounts to EUR 15.96 million.

Had the aforementioned business combinations occured on 1 January 2007, the NH Hoteles Group's revenue and profit for 2007, would have increased and decreased by approximately EUR 17 million and EUR 6 million, respectively.

Lastly, it should be mentioned that Caribe Puerto Morelos, S.A. de C.V., which at 31 December 2006 was accounted for using the equity method is now being fully consolidated.

b. Changes in the scope of consolidation in 2006 Inclusions

The companies that the NH Hoteles Group included in the scope of consolidation in 2006, and the consolidation method used, were as follows:

Company	Consolidation Method	Date of Effective Acquisition
Donnafugata Resort, S.r.l.	Full	01/01/06
Fast Good Islas Canarias, S.L. (a)	Full	07/02/06
Losan Investment, Ltd.	Equity method	10/03/06
NH-Framon Italy Hotel Management, S.r.l.	Full	31/12/06
Satme Invest, S.r.l.	Full	31/12/06
Immobiliare Quattro Canti, S.r.l.	Proportionate	31/12/06
Grande Jolly, S.r.l. (a)	Full	31/12/06
Los Alcornoques de Sotogrande, S.L. (a)	Proportionate	31/12/06

(a) Companies incorporated by the NH Hoteles Group.

On 10 March 2006, Losan Investment, Ltd. was incorporated. The NH Hoteles Group, through its subsidiary NH Hotel Rallye, S.A., acquired an interest in this company of 30% for a total of EUR 2.19 million. This company acquired the ownership of a hotel in Kensington (London), operated under a lease by NH Hoteles, S.A.

On 25 May 2006, 35.63% of the share capital of Latinoamericana de Gestión Hotelera, S.A. was acquired through an exchange of shares held by Equity Internacional Properties, Ltd. of the aforementioned company (1,162,439 shares) for 4,250,000 newly issued shares of NH Hoteles, S.A. of EUR 2 par value each and a share premium of EUR 11.50 each.

On 26 December 2006, the takeover bid launched by the Parent for all the shares of Sotogrande, S.A. was completed, through the issuance, once the result of the bid became known, of 7,815,589 common shares of EUR 2 par value each and a share premium of EUR 11 per share. The aforementioned takeover bid, which led to the acquisition of 18.66% of Sotogrande, S.A., was initially targeted at 20.939% of the share capital, represented by 8,770,130 shares, at a ratio of one new share of NH Hoteles, S.A. for each share of Sotogrande, S.A.

The impact on the consolidated balance sheet at 31 December 2006 of the companies included in the scope of consolidation in 2006 was as follows:

	Book value	Adjustments	Fair value
Property, plant and equipment	39,291	12,142	51,433
Other intangible assets	872	(247)	625
Deferred tax assets	242	-	242
Inventories	93	-	93
Trade and other receivables	12,609	-	12,609
Cash and cash equivalents	20,404	-	20,404
Trade and other payables	(25,625)	-	(25,625)
Bank loans	(372)	-	(372)
Tax liabilities	(15,441)	-	(15,441)
Deferred tax liabilities	(11)	-	(11)
Net assets acquired	**32,062**	**11,895**	**43,957**
Cost of the business combination			**44,941**
Goodwill (Note 6)			**984**

Disposals

On 31 January 2006 the 56.9% ownership interest in Aymerich Golf Management, S.L. held by the Group through Sotogrande, S.A. was sold for EUR 1.84 million. The gain recognised on the transaction amounted to EUR 1.1 million.

On 30 December 2006, 75% of Casino Club de Golf, S.L. was sold for EUR 10.2 million. The parties also entered into cross option agreements for the remaining 25%, to be exercised during the following 18 months, for an amount ranging from EUR 3.6 million and EUR 3.7 million. The gain recognised on this transaction amounted to EUR 6.6 million.

The effect on the consolidated balance sheet at 31 December 2006 of the disposal of the aforementioned companies was as follows:

	Value of retirement	Amount 31.12.05
Property, plant and equipment	8,298	6,736
Other intangible assets	33	31
Inventories	1,401	98
Trade and other receivables	3,127	5,398
Cash and cash equivalents	41	37
Trade and other payables	(859)	(989)
Tax liabilities	(3,498)	(3,491)
Bank loans	(731)	(1,317)
Attributable goodwill	(223)	(223)
Total	**7,589**	**6,280**
Total consideration	**15,300**	
Gains on disposal	**7,711**	

3. DISTRIBUTION OF PROFIT

The proposed distribution of 2007 profit drawn up by the Parent's Board of Directors is as follows:

	Thousands of Euros
Legal reserve	4,598
Voluntary reserves	2,914
Dividends	38,472
Profit of the Parent	**45,984**
Reserves at:	
Fully consolidated companies	34,504
Proportionately consolidated companies	(607)
Companies accounted for using the equity method	(2,438)
Profit of the consolidated Group	**77,443**

The distribution of the profit for 2006 is presented in the consolidated statement of changes in equity.

4. ACCOUNTING POLICIES

The principal accounting principles and policies and measurement bases applied by the Group in preparing these consolidated financial statements in conformity with the IFRSs in force at the date of the corresponding financial statements were, as follows:

4.1 Property, plant and equipment

Property, plant and equipment are carried at acquisition cost less any accumulated depreciation and any recognised impairment losses, except for the subsidiaries whose property, plant and equipment were acquired prior to 31 December 1983 the cost of which was revalued pursuant to the applicable legislation. Subsequent additions were measured at cost.

As a result of the transition to IFRSs, the Group revalued at fair value certain land on the basis of appraisals made by an independent valuer totalling EUR 217 million (gross). The revalued cost of the aforementioned land was considered to be the deemed cost on transition to IFRSs, and the Group did not revalue any of its property, plant and equipment assets at subsequent balance sheet dates. The information on the aforementioned revaluation is as follows (thousands of euros):

Country	Carrying Amount	Fair Value	Gain
Argentina	18,063	39,550	21,487
Belgium	3,484	16,108	12,624
Spain	63,613	157,570	93,957
The Netherlands	118,728	207,039	88,311
Switzerland	3,904	4,600	696
	207,792	**424,867**	**217,075**

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised. Upkeep and maintenance costs are recognised with a charge to the consolidated income statement for the year in which they are incurred.

The Group depreciates its property, plant and equipment by the straight-line method based on the years of estimated useful life of the related assets, as follows:

	Years of estimated useful life
Buildings	33-50
Plant and machinery	10-12
Other fixtures, tools and furniture	5-10
Other items of property, plant and equipment	4-5

4.2 Goodwill on consolidation

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition.

Any excess of the cost of the investments in the consolidated companies over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

1. If it is attributable to specific assets and liabilities of the companies acquired, increasing the value of the assets whose market values were higher than the carrying amounts at which they had been recognised in their balance sheets.
2. If it is attributable to specific intangible assets, recognising it explicitly in the consolidated balance sheet provided that the fair value at the date of acquisition can be measured reliably.
3. The remaining amount is recognised as goodwill, which is allocated to one or more specific cash-generating units (generally hotels) from which it is expected to obtain benefits.

Goodwill is only recognised when it has been acquired for consideration.

Goodwill arising from the acquisition of an associate is recognised as an increase in the value of the investment.

Goodwill arising from acquisitions made prior to the date of transition to IFRSs, 1 January 2004, is measured at its carrying amount at 31 December 2003 in accordance with Spanish GAAP.

Goodwill is not amortised. Accordingly, at each balance sheet date, or if there is any indication of a decline in value, goodwill is tested for impairment to determine whether there is any indication that the goodwill has suffered a permanent loss of value that reduces the recoverable amount thereof to below its carrying amount. If there is any impairment, the goodwill is written down with a charge to the consolidated income statement. An impairment loss recognised for goodwill must not be reversed in a subsequent period.

To perform the aforementioned impairment test, the goodwill is allocated in full to one or more cash-generating units. The recoverable amount of each cash-generating unit is the higher of value in use and the net selling price that would be obtained from the assets associated with the cash-generating unit. Value in use is calculated on the basis of the estimated future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The discount rates used by the NH Hoteles Group for this purpose range from 7.5% to 9%, depending on the risks associated with each specific asset.

4.3 Intangible assets

Intangible assets are specifically identifiable non-monetary assets which have been acquired from third parties or developed by the Group. Only assets whose cost can be estimated objectively and from which the consolidated companies consider it probable that future economic benefits will be generated are recognised.

They are deemed to have an indefinite useful life when it is concluded that they will contribute indefinitely to the generation of profits. All other intangible assets are considered to have a finite useful life.

Intangible assets with indefinite useful lives are not amortised, but rather, are tested for impairment at least once a year (see Note 4.2).

Intangible assets with finite useful lives are amortised on a straight-line basis over their years of estimated useful life.

"Intangible Assets" includes mainly:

i) "Rights of Beneficial Use" includes the cost of the right to operate the NH Plaza de Armas de Sevilla Hotel, acquired in 1994, the amortisation of which is charged to the consolidated income statement over the 30-year term of the lease and on the basis of lease payments increasing at an annual rate of 4%.
ii) "Lease Premiums" includes the amounts paid as a condition to obtain certain hotel leases. These premiums are amortised on a straight-line basis over the term of the related lease.

iii) "Concessions, Patents and Trademarks" includes mainly the amounts paid by Gran Círculo de Madrid, S.A. in the work to refurbish and restore the building housing Casino de Madrid. The costs incurred in the construction work are amortised on a straight-line basis taking into account the term of the concession to operate and manage the services provided in the building housing Casino de Madrid, which expires on 1 January 2037.

iv) "Computer Software" includes several computer programs acquired by the various consolidated companies. These programmes are measured at acquisition cost and are amortised on a straight-line basis at an annual rate of 25%.

4.4 Impairment of property, plant and equipment and intangible assets excluding goodwill

At each balance sheet date, the Group assesses the possible existence of an impairment loss making it necessary to reduce the carrying amounts of its property, plant and equipment and intangible assets. An impairment loss is considered to exist when the recoverable amount is lower than the carrying amount.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is calculated on the basis of the estimated future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The discount rates used by the NH Hoteles Group for this purpose range from 7.5% to 9%, depending on the risks associated with each specific asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount by recognising the related impairment loss in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased up to the limit of the original amount at which it had been carried prior to the recognition of the impairment loss.

The information on the impairment losses detected during the year is included in Note 8 to these financial statements.

4.5 Leases

In general, the Group classifies all leases as operating leases. Leases are classified as finance leases only when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee and when, in addition, the latter has the option to purchase the asset at the end of the lease term in conditions that may be considered to be clearly more advantageous than market conditions.

4.5.1 Operating leases

In operating leases, the ownership of the leased asset and substantially all the risks and rewards relating to the leased assets remain with the lessor.

When the Group acts as lessor, operating lease income is recognised on a straight-line basis, in accordance with the terms agreed on in the related leases. These assets are depreciated in accordance with the policies applied to property, plant and equipment for own use. When the Group acts as lessee, the lease costs are charged to profit or loss on a straight-line basis.

4.5.2 Finance leases

The Group recognises finance leases as assets and liabilities in the consolidated balance sheet for amounts equal at the beginning of the lease to the lower of the market value of the leased asset and the present value of the minimum lease payments. To calculate the present value of the lease payments the interest rate stipulated in the finance lease is used.

The cost of assets acquired under finance leases is presented in the consolidated balance sheet on the basis of the nature of the leased asset.

Finance charges are distributed over the lease term on a time proportion basis.

4.6 Financial instruments

4.6.1 Financial assets

Financial assets are recognised in the consolidated balance sheet when they are acquired. Financial assets are initially recognised at fair value. The financial assets held by the Group companies are classified as:

- Held-for-trading financial assets: assets acquired by the companies with the intention of generating a profit from short-term fluctuations in their prices or from differences between their purchase and sale prices. This heading also includes financial derivatives not considered to qualify for hedge accounting.

- Held-to-maturity investments: financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold from the date of purchase to the date of maturity.

- Originated loans and receivables: financial assets originated by the companies in exchange for supplying cash, goods or services.

Held-for-trading financial assets are measured at fair value at subsequent measurement dates. Gains and losses from changes in fair value are recognised in the net profit or loss for the year.

The fair value of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction acting prudently.

Held-to-maturity investments and originated loans and receivables are measured at amortised cost, and the interest income is recognised in profit or loss on the basis of the effective interest rate. The amortised cost is understood to be the initial cost minus principal repayments, taking into account any reduction for impairment or uncollectibility.

4.6.2 Cash and cash equivalents

"Cash and Cash Equivalents" in the consolidated balance sheet includes cash, demand deposits and other short-term, highly liquid investments that are not subject to any risk of changes in value.

4.6.3 Financial liabilities

Bank loans

Bank loans are recognised at the proceeds received, net of transaction costs. They are subsequently measured at amortised cost. Finance charges are recognised in the income statement on an accrual basis using the effective interest method and are added to the carrying amount of the liability to the extent that they are not settled in the period in which they arise.

Trade and other payables

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments and hedge accounting

The derivatives hedging the risks to which the Group's business activities are exposed, mainly foreign currency and interest rate risk, are measured at fair value at the date on which they are arranged. Subsequent changes in fair value are recognised as follows:

- In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items -attributable to the type of risk being hedged- are recognised directly in the consolidated income statement.

- In cash flow hedges, changes in fair value arising in the effective portion of the hedging instruments are recognised temporarily under "Equity - Valuation Adjustments", and the gains or losses are not recognised in the consolidated income statement until the gains or losses on the hedged item are recognised in profit or loss or until the hedged item matures. The ineffective portion of the hedge is recognised immediately in the consolidated income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the year. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the consolidated income statement as they arise.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

4.7 Inventories

Inventories are measured as follows:

Property business - Sotogrande (see Note 11)

All the costs incurred are identified by geographical area and product in order to determine the cost of each item when it is sold. This method enables a proportional part of the total value of the land and the development costs to be allocated to the cost of the sale, based on the percentage of the total metres available for sale represented by the metres sold.

All land and building lots held for sale are recognised as current assets even if the period for the construction and sale thereof exceeds one year.

i) Undeveloped land is stated at cost, which includes the legal expenses of executing deeds, registration and taxes that are not directly recoverable from the tax authorities.
ii) Developed land is measured at the lower of cost and market. The aforementioned cost includes the cost of the land, external development costs and the technical designs.
iii) Buildings under construction and completed buildings are measured at cost, which includes the proportional part corresponding to the cost of land and infrastructure of the marina or the inner marina and the costs directly incurred in relation to the various property developments (designs, construction permits, progress billings, the legal expenses of declaring new construction projects, property registry costs, etc.). The Group takes into account the market value and the time required to sell the completed developments, making such valuation adjustments as might be required.

Hotel business

iv) Catering foodstuffs are measured at the lower of cost and realisable value.

4.8 Foreign currency transactions and balances

The Group's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognised by applying the exchange rates prevailing at the date of the transaction.

At each consolidated balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the rates prevailing on the consolidated balance sheet date. Any resulting gains or losses are recognised directly in the income statement.

4.9 Current/Non-current classification

In the accompanying consolidated balance sheet, financial assets and debts maturing within 12 months are classified as current items and those maturing within more than 12 months as non-current items.

4.10 Revenue and expense recognition

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Specifically, revenue is measured at the fair value of the consideration receivable and represents the amounts receivable for the goods and services provided in the normal course of business, net of discounts and taxes.

Interest income and expenses are accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable.

4.11 Government grants

The Group companies recognise grants received as follows:

- Non-refundable grants related to assets are measured at the amount awarded. They are treated as deferred income and are taken to income in proportion to the period depreciation on the assets financed by the grants.
- Grants related to income are recognised as income when earned.

4.12 Income tax

The current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes, plus the change in deferred tax assets and liabilities.

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

In certain countries the tax rate varies depending on the manner in which assets are transferred. In such cases, the Group applies the effective rate at which the related amounts are expected to be payable or recoverable. The Group's directors consider that in this case the deferred tax liability calculated covers the amount, if any, that could eventually have to be settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless the temporary difference arises from the initial recognition of goodwill, goodwill for which amortisation is not deductible for tax purposes or the initial recognition of other assets and liabilities in a transaction that affects neither accounting profit (loss) nor taxable profit (tax loss).

Deferred tax assets are recognised for temporary differences to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax asset can be utilised, and the deferred tax assets do not arise from the initial recognition of other assets and liabilities in a transaction that affects neither accounting profit (loss) nor taxable profit (tax loss). The other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised.

The deferred tax assets and liabilities recognised are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

4.13 Employee benefit obligations

The Spanish companies in the hospitality industry are obliged to make a certain number of monthly payroll payments to employees with a certain length of service and who meet certain pre-established requirements when they leave the company's employ due to retirement, permanent disability or reaching a certain age.

The liability incurred in connection with employee benefit obligations is recognised under "Provisions for Contingencies and Charges" in the accompanying consolidated balance sheet (see Note 21).

On 31 December 2006, pursuant to Royal Decree-Law 16/3005, the Group externalised the aforementioned obligations and settled all the services rendered prior to that date.

4.14 Onerous contracts

The NH Hoteles Group considers onerous contracts to be those in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The NH Hoteles Group recognises a provision for the present value of the aforementioned difference between the costs and benefits of the contract.

The pre-tax discount rates used reflect current market assessments of the time value of money and the risks specific to the liability. Specifically, rates of between 7.5% and 9% were used.

4.15 Share-based payment plans

These plans are valued when initially granted using a financial method based on a binomial model that takes into consideration the strike price, volatility, the exercise period, the expected dividends, the risk-free interest rate and the assumptions used with respect to the expected early exercise.

In accordance with IFRS 2, the resulting value is recognised in profit under "Staff Costs" during the period of time established that the employee must remain in the employ of the Group to exercise the option, allocating the value to the consolidated income statement on a straight-line basis from the grant date to the exercise date. As established in the regulations governing the Plan, the settlement thereof will be effected in cash and, therefore, the value obtained is recognised with a balancing entry in liabilities in favour of the employees. Also, each year the Group re-estimates the aforementioned initial valuation and recognises both the portion corresponding to the year in question and the portion corresponding to prior years in profit or loss for the year .

Subsequently, once the period that the employee must remain at the Group for the Plan to be exercised has elapsed, the difference between the settlement value price and the liability recognised as described earlier for the settled transactions is recognised in the consolidated income statement. As regards outstanding transactions at year-end, the amount of the difference between the liability recognised at that date and the related revaluation is also recognised in the consolidated income statement.

Lastly, and as detailed in Note 18 to the consolidated financial statement, in order to cover any possible loss on the share-based payment plan, the Group has arranged a financial instrument to hedge the future cash flows required to settle this remuneration system. This financial instrument is considered to be a derivative and is treated for accounting purposes in accordance with the general rules applicable thereto (see Note 4.6).

4.16 Treasury shares

In accordance to IAS 32, treasury shares are measured at acquisition cost and at year-end were classified under "Treasury Shares" as a reduction of the Group's equity.

The gains and losses obtained by the Group on disposal of treasury shares are recognised under "Share Premium" in the consolidated balance sheet.

4.17 Provisions

The Group provisions the estimated amounts required to meet liability arising from litigation in progress, indemnity payments or obligations, and the collateral or guarantees provided by the Group companies that could give rise to a payment obligation (legal or constructive) for the Group, provided that the amount can be estimated reliably.

4.18 Environmental policy

Investments made in connection with environmental activities are measured at acquisition cost and are capitalised to non-current assets or to inventories in the year in which the related expenses are incurred.

The expenses arising from environmental protection and enhancement measures are charged to income in the year in which they are incurred, regardless of when the resulting monetary or financial flow arises.

Provisions for probable or certain third-party liability, litigation in process and outstanding environmental indemnity payments or obligations of undetermined amount not covered by the insurance policies taken out are recorded when the liability or obligation giving rise to the indemnity or payment arises.

4.19 Consolidated cash flow statements

The following terms are used in the consolidated cash flow statements, which were prepared using the indirect method, with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities of the consolidated Group companies and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities.

5. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit or loss attributable to the Group (after taxes and minority interests) by the weighted average number of ordinary shares outstanding during the year, as follows:

	2007	2006	Change
Profit for the year (thousands of euros)	77,443	62,448	24.01%
Weighted average number of shares issued (thousands of shares)	144,337	122,209	18.11%
Weighted average number of treasury shares (thousands of shares)	2,334	76	2971.05%
Weighted average number of outstanding shares (thousands of shares)	142,003	122,133	16.27%
Earnings per share	**0.55**	**0.51**	**6.66%**

6. GOODWILL

The detail of "Goodwill", which relates to the net goodwill arising from the acquisition of certain companies, is as follows (in thousands of euros).

	2007	2006
NH Hoteles Deutschland GmbH and NH Hoteles Austria GmbH	108,674	108,674
NH Italia, S.r.l.	5,426	984
Nacional Hispana de Hoteles, S.R.L. de C.V.	3,161	3,218
Other	1,487	1,526
	118,748	**114,402**

The changes in "Goodwill" in 2007 and 2006 in the consolidated balance sheet were as follows (in thousands of euros):

	Net Goodwill at 31/12/05	Additions	Disposals	Translation Differences	Net Goodwill at 31/12/06
NH Hoteles Deutschland GmbH y NH Hoteles Austria GmbH	108,674	-	-	-	108,674
NH Italia, S.r.l. (Note 2.5.6.)	-	984	-	-	984
Nacional Hispana de Hoteles, S.R.L. de C.V.	3,176	-	-	42	3,218
Other (Note 2.4.6.a)	1,736	-	(223)	13	1,526
	113,586	**984**	**(223)**	**55**	**114,402**

	Goodwill at 31/12/06	Additions	Translation Differences	Goodwill at 31/12/07
NH Hoteles Deutschland GmbH y NH Hoteles Austria GmbH	108,674	-	-	108,674
NH Italia, Srl (Note 2.5.6.)	984	4,442	-	5,426
Nacional Hispana de Hoteles, S.R.L. de C.V.	3,218	-	(57)	3,161
Other	1,526	-	(39)	1,487
	114,402	**4,442**	**(96)**	**118,748**

The recoverable amount of the goodwill relating to NH Hoteles Deutschland GmbH and NH Hoteles Austria GMBH was allocated to each cash-generating unit using earnings, investment and working capital projections for the years remaining in the term of the hotel leases.

The recoverable amounts of the other amounts of goodwill were allocated to each cash-generating unit using at five-year projections and a methodology similar to that used in the allocation of the goodwill of NH Hoteles Deutschland GmbH and NH Hoteles Austria GmbH.

7. INTANGIBLE ASSETS

The detail of "Intangible Assets" and of the changes therein in 2007 and 2006 is as follows (in thousands of euros):

	Balance at 31.12.05	Change in the Scope of Consolidation	Additions/Charge for the year	Disposals	Transfers	Balance at 31.12.06	Change in the Scope of Consolidation	Additions/Charge for the year	Disposals	Balance at 31.12.07
COST										
Rights of beneficial use	31,138	-	-	(65)	-	31,073	-	439	-	31,512
Lease premiums	13,962	742	632	(44)	-	15,292	51,755	834	(5,678)	62,203
Concessions, patents and trademarks	30,817	(2)	3,632	(5)	(218)	34,224	6,588	1,746	(12.018)	30,540
Computer software	20,388	(10)	2,367	(113)	218	22,850	6,294	7,084	(1,247)	34,981
	96,305	**730**	**6,631**	**(227)**	**-**	**103,439**	**64,637**	**10,103**	**(18,943)**	**159,236**
ACCUMULATED AMORTISATION										
Rights of beneficial use	(8,588)	-	(934)	-	-	(9,522)	-	(968)	-	(10,490)
Lease premiums	(4,859)	(109)	(1,626)	-	-	(6,594)	-	(2,783)	5,351	(4,026)
Concessions, patents and trademarks	(10,969)	1	(1,368)	372	-	(11,964)	-	(2,721)	10,118	(4,567)
Computer software	(12,492)	3	(3,723)	111	-	(16,101)	(5,695)	(3,150)	1,101	(23,845)
	(36,908)	**(105)**	**(7,651)**	**483**	**-**	**(44,181)**	**(5,695)**	**(9,622)**	**16,570**	**(42,928)**
CARRYING AMOUNT	**59,397**					**59,258**				**116,308**

7.1 Rights of beneficial use

On 28 July 1994, NH Hoteles, S.A. established a right of beneficial use over the NH Plaza de Armas Hotel in Seville owned by Red Nacional de los Ferrocarriles Españoles (RENFE) for a period of 30 years from the agreement date. As consideration, NH Hoteles, S.A. will pay RENFE EUR 30.20 million over the payment schedule that ends in 2014.

The Group recognised the full amount agreed upon as the price of the transaction under "Rights of Beneficial Use" and, in order to correctly recognise this amount overtime, charges to profit or loss the amount arising from distributing the cost of the right over the 30-year term of the agreement by amount increasing by 4% each year. Also, "Other Current Liabilities" and "Other Non-Current Liabilities" (see Notes 24 and 18) in the accompanying consolidated balance sheet include the amounts not yet paid, at short and long term, which at 31 December 2007 amounted to EUR 1.49 million and EUR 8.97 million, respectively (31 December 2006: EUR 1.49 million and EUR 10.47 million, respectively).

7.2 Lease premiums

In 2007 the column "Change in the Scope of Consolidation" amounting to EUR 51.75 million includes mainly the premium paid by Jolly Hotels, S.p.A. (EUR 15.84 million) and NH-Framon Italy Hotel Management, Srl. (EUR 35.91 million) to obtain the various leases of hotels located in Italy. The aforementioned premium is amortised on a straight-line basis over the term of the related leases.

7.3 Concessions, patents and trademarks

The column "Change in the Scope of Consolidation" includes, inter alia, the 30-year concession for the "Parco degli Aragonesi" hotel amounting to EUR 5.9 million.

7.4 Computer software

The column "Additions/Charge for the Year" includes mainly the costs incurred in 2007 in relation to the project of implementing and standardising the systems of NH-Framon Italy Hotel Management, S.r.l. and Jolly Hotels, S.p.A.

The column "Change in the Scope of Consolidation" includes EUR 6.29 million relating to the addition of the computer systems of NH-Framon Italy Hotel Management, Srl. and Jolly Hotels, S.p.A.

8. PROPERTY, PLANT AND EQUIPMENT

The detail of "Property, Plant and Equipment" and of the changes therein in 2007 and 2006 is as follows (in thousands of euros):

	Balance at 01.01.06	Change in the Scope of Consolidation	Translation Differences	Additions	Disposals	Balance at 31.12.06	Change in the Scope of Consolidation	Translation Differences	Additions	Disposals	Transfers	Balance at 31.12.07
COST												
Land and buildings	1,240,141	22,754	(60,738)	22,160	(11,541)	1,212,776	1,001,299	(23,655)	17,984	(14,770)	17,411	2,211,045
Plant and machinery	386,003	(355)	(13,509)	45,812	(3,584)	414,367	159,833	(4,796)	68,763	(8,039)	11,532	641,660
Other fixtures, tools and furniture	278,010	2,061	(4,266)	31,466	(122)	307,149	135,176	(4,565)	58,620	(12,319)	13,747	497,808
Other items of property, plant and equipment	33,481	(117)	(307)	9,168	(500)	41,725	9,020	(975)	4,142	(13,769)	(14,436)	25,707
Property, plant and equipment in the course of construction	36,524	13,409	(1,377)	11,091	(18,815)	40,832	3,834	(1,413)	41,051	(9,764)	(28,254)	46,286
	1,974,159	**37,752**	**(80,197)**	**119,697**	**(34,562)**	**2,016,849**	**1,309,162**	**(35,404)**	**190,560**	**(58,661)**	**-**	**3,422,506**
ACCUMULATED DEPRECIATION												
Land	(130,710)	1,152	23,826	(11,140)	2,941	(113,931)	(158,162)	4,416	(8,777)	4,885	-	(271,569)
Plant and machinery	(177,413)	2,758	9,729	(26,263)	700	(190,489)	(104,367)	1,845	(41,319)	1,839	-	(332,491)
Other fixtures, tools and furniture	(171,547)	1,461	329	(21,069)	56	(190,770)	(89,279)	2,126	(57,093)	6,319	-	(328,697)
Other items of property, plant and equipment	(17,312)	12	1,892	(2,418)	425	(17,401)	(796)	483	(1,157)	10,665	-	(8,206)
	(496,982)	**5,383**	**35,776**	**(60,890)**	**4,122**	**(512,591)**	**(352,604)**	**8,870**	**(108,346)**	**23,708**	**-**	**(940,963)**
Impairment losses	**(68,863)**	**-**	**422**	**(10,588)**	**8,415**	**(70,614)**	**(22,468)**	**(271)**	**(4,143)**	**19,083**	**-**	**(78,413)**
NET CARRYING AMOUNT	**1,408,314**					**1,433,644**						**2,403,130**

In 2007 and 2006 "Change in Scope of Consolidation" includes the effect of the inclusion/exclusion of the items composing the property, plant and equipment of certain companies that were included in or excluded from the Group's scope of consolidation in each of these years (see Note 2.5.6).

"Translation Differences" includes the effect of the change in the exchange rate used to translate the various items of property, plant and equipment.

The most significant changes in "Property, Plant and Equipment" in 2007 and 2006 were as follows:

i) The most significant additions to "Property, Plant and Equipment", by business unit, in 2007 and 2006 were as follows:

	2007	2006
Spain	68,563	45,305
Benelux	34,270	16,379
Germany	33,114	14,425
Italy	42,193	5,684
Switzerland	574	7,450
Latin America	11,787	29,949
Rest of Europe	59	505
Total	**190,560**	**119,697**

A salient feature of 2006 was the refurbishment of the NH Calderón Hotel (EUR 3.5 million) and the Nhow Milano Hotel (EUR 5.4 million) in Milan, the extension of the NH City Hotel (EUR 9.2 million) in Buenos Aires, the investment made in the NH Santa Fe Hotel (EUR 5.3 million) in Mexico City and the improvement and refurbishment work carried out in various restaurants in the Fast Good chain (EUR 4.3 million).

Also the most significant additions in 2007 were the refurbishment of the NH Frankfurt Airport Hotel (EUR 2.5 million), the enlargement and refurbishment of the NH Stuttgart Airport Hotel (EUR 3.8 million) and the opening of the NH Berlin Kufürstendam Hotel (EUR 2.5 million) in Germany and, the refurbishment of the NH Krasnapolsky Hotel (EUR 3 million) in Amsterdam, the Netherlands. In Spain the most significant additions relate to the refurbishment of the NH Plaza de Armas Hotel (EUR 3.1 million) in Seville, the NH Eurobuilding Hotel (EUR 3.9 million) in Madrid, the NH Calderón Hotel (EUR 3 million), the opening of the NH Constanza Hotel (EUR 5.8 million) both in Barcelona, and the opening of the new Fast Good chain restaurants (EUR 9 million).

The other additions in the two years consist of investments in various hotels of amounts under EUR 2.5 million.

ii) The most significant disposal in 2006 related mainly to the furniture and fixtures of the NH Frankfurt Raunheim Hotel, amounting to EUR 1.4 million, located in Frankfurt.

The most significant disposals in 2007 relate basically to plant and/or furniture of the NH Zuid Limburg Hotels, amounting to EUR 3.3 million, located in the Netherlands and to the fact that certain of the items of property, plant and equipment relating to the NH Stephanie Hotel (EUR 7.95 million) were depreciated in full.

At 31 December 2007, there were items of property, plant and equipment held under finance leases with a cost of EUR 272 thousand and accumulated depreciation of EUR 66 thousand (2006: cost of EUR 2,579 and accumulated depreciation of EUR 587 thousand).

The detail at 31 December 2007 and 2006 of the Group's property, plant and equipment in which impairment had been detected is as follows:

IMPAIRMENT LOSS ATTRIBUTED TO LAND *(thousands of euros):*

Country	Carrying Amount	Fair Value	Impairment Loss 2007	Impairment Loss 2006
Germany	2,636	2,147	(489)	(462)
Belgium	16,889	14,400	(2,489)	(2,489)
Netherlands	47,304	35,593	(11,711)	(11,711)
South Africa	881	422	(459)	(459)
Total	**67,710**	**52,562**	**(15,148)**	**(15,121)**

IMPAIRMENT LOSS ATTRIBUTED TO OTHER ITEMS OF PROPERTY, PLANT AND EQUIPMENT *(thousands of euros):*

Country	Carrying Amount	Fair Value	Impairment Loss 2007	Impairment Loss 2006
Germany	9,555	-	(9,555)	(9,472)
Belgium	2,195	832	(1,363)	(1,363)
Spain	15,488	2,344	(13,144)	(13,955)
Netherlands	32,768	29,555	(3,213)	(17,693)
Italy	79,987	57,518	(22,469)	-
South Africa	1,634	-	(1,634)	(1,634)
Uruguay	7,332	3,146	(4,186)	(4,043)
Mexico	63,636	59,389	(4,247)	(4,247)
Brazil	8,390	4,936	(3,454)	(3,086)
Total	**220,985**	**157,720**	**(63,265)**	**(55,493)**

The Group has taken out insurance policies to cover the possible risks to which its property, plant and equipment are subject and the claims that might be filed against it for carrying on its business activities. These policies are considered to adequately cover the related risks.

9. INVESTMENTS IN ASSOCIATES

The detail of the investments in companies accounted for using the equity method at 31 December 2007 and 2006 is as follows (in thousands of euros):

	Net balance at 31.12.05	Additions	Disposals	Translation Differences	2006 Result	Net balance at 31.12.06	Additions	Disposals	2007 Result	Translation Differences	Net balance at 31.12.07
Jolly Hotels, S.p.A. (*)	34,618	131	-	-	747	35,496	-	(35,496)	-	-	-
Palacio de la Merced, S.A.	1,077	-	-	-	38	1,115	-	-	62	-	1,177
Fonfir1, S.L.	20	-	-	-	-	20	-	-	-	-	20
Harrington Hall Hotel, Ltd.	880	-	-	-	485	1,365	-	-	(1,735)	370	-
Caribe Puerto Morelos, S.A. de C.V. (*)	16,552	12,492	-	-	-	29,044	-	(29,044)	-	-	-
Corporación Hotelera Dominicana, S.A.	33,268	702	(16,707)	(1,770)	-	15,493	127	-	(760)	(1,593)	13,267
Corporación Hotelera Oriental, S.A.	4,121	68	(2,060)	(224)	-	1,905	100	-	(7)	(213)	1,785
Promociones Marina Morelos, S.A. de C.V.	2,192	2,611	-	-	-	4,803	2,232	-	-	-	7,035
Losan Investment, Ltd.	-	2,192	-	-	-	2,192	-	-	(37)	-	2,155
Desarrollos Isla Poniente, S.L. (*)	-	-	-	-	-	-	30,252	-	-	-	30,252
Desarrollos Isla Blanca, S.L. (*)	-	-	-	-	-	-	19,532	-	-	(216)	19,316
Inmobiliaria 3 Puente, S.A. de C.V. (*)	-	-	-	-	-	-	1,836	-	(2)	(29)	1,805
	92,728	**18,196**	**(18,767)**	**(1,994)**	**1,270**	**91,433**	**54,079**	**(64,540)**	**(2,479)**	**(1,681)**	**76,812**

(*) See Note 2.5.6

The most significant financial information relating to the main interests in joint ventures are detailed in Appendix III to the notes to the consolidated financial statements.

10. NON-CURRENT FINANCIAL ASSETS

10.1 Loans and receivables not held for trading

The detail of "Loans and Receivables not Held for Trading" at 31 December 2007 and 2006 is as follows:

	2007	2006
Call and put options arising from the Jolly Hotels transaction (Note 18)	-	277,405
Subordinated loans to companies owning hotels operated by the Group under leases (*)	66,674	57,782
Loans to employees (Note 27)	14,320	14,720
Loans to joint ventures (Note 27) (*)	10,400	10,400
Advances on leases	10,254	5,766
Advances on projects	-	3,500
Accounts receivabl from joint ventures (Note 27)	4,469	5,399
Loan to associates (Note 27) (*)	2,250	2,250
Long-term deposits and guarantees	14,270	12,537
Other	9,888	7,692
	132,525	**397,451**

(*) See the detail of these loans below.

The detail, by maturity, of the various loans granted and of the agreed-upon interest rate is as follows:

	Maturity						
Balance at 31.12.2007	2008	2009	2010	2011	2012	Subsequent Years	Alverage Interest Rate
79,324	9,000	1,400	112	112	112	68,588	3%-6.78%

In 2006 the line item "Call and Put Options Arising from the Jolly Hotels Transaction" includes the value of certain call options for NH Italia, S.r.l and put options for Joker Partecipazioni, S.r.l. and Intesa Sanpaolo S.p.a, which were entered into within the framework of the takeover bid for Jolly Hotels, S.p.A. (see Note 2.5.6.).

The main characteristics of these agreements are as follows:

- Put option for Joker Partecipazioni, S.r.l. and call option for NH Italia, S.r.l. the purpose of which is to transfer to NH Italia, S.r.l, or to Grande Jolly, S.r.l., at the NH Hoteles Group's discretion, the remaining 24.35% ownership interest in the share capital of Jolly Hotels, S.p.a. (once Joker Partecipazioni, S.r.l. had transferred the other 25.7% that it held in Jolly Hotels, S.p.a. in June and July 2007). The amount of the option, equal to EUR 25 per share, totals EUR 121.76 million. This option was exercised on 23 July 2007.

- Put option for Intesa Sanpaolo, S.p.a. and call option for Grande Jolly, S.r.l., the purpose of which is to transfer to Grande Jolly, S.r.l. Banca Intesa, S.p.a.'s holding in Jolly Hotels, S.p.a., representing 4.42% of the share capital. The amount of the option, equal to EUR 25 per share, totals EUR 22.11 million. This option was exercised on 15 November 2007.

- Put option for Joker Partecipazioni, S.r.l. and call option for NH Italia, S.r.l. whereby Joker Partecipazioni, S.r.l. transfers to NH Italia, S.r.l. the 42% holding held by the former in Grande Jolly, S.r.l. (once the 25.7% had been transferred between June and July 2007 and the previous option had been exercised for the remaining 24.35%). The period for exercising the put option runs from 1 June 2007 to 31 December 2010. The call option for NH Italia, S.r.l. may be exercised during the six months following the end of the period for exercising the put option. The amount of the option will be conditional upon the manner in which Joker Partecipazioni, S.r.l. transfers the 25.7% ownership interest in Jolly Hotels, S.p.a. to the NH Group. If it is through purchase and sale and a subsequent capital increase, the option will amount to EUR 87.39 million, and if it is carried out through a capital increase with a non-monetary contribution, it will amount to EUR 133.54 million, which is the amount at which the option was recognised.

On 1 February 2007, Jolly Hotels, S.p.A. was included in the Group's scope of consolidation since effective control had been acquired, and the total ownership interest, both direct and indirect, began to be consolidated in full.

"Subordinated Loans to Companies Owning Hotels Operated by the Group under Leases" includes certain loans granted by the NH Hoteles Group to companies that own hotel buildings in countries such as Germany, Austria and Luxembourg, which are operated by the Group under lease arrangements. Of the total amount of EUR 66.67 million recognised at 31 December 2007, EUR 63 million relate to subordinated loans granted to the owners of hotels in Germany and Austria, the related rent of which has been refinanced.

The rent refinancing transaction had the following impacts on the Group:

- Lease cost savings for a cumulative amount EUR 9.83 million between 2005 and 2007.
- The rent of the hotels subject to these refinancing arrangements is not tied to changes in inflation or in any other index.
- The aforementioned subordinated loans earn annual fixed interest of 3% (EUR 1.9 million and EUR 1.6 million in 2007 and 2006, respectively).

- The new leases include an option to purchase the related buildings, exercisable, as a general rule, in the tenth and fifteenth years from the entry into force thereof.
- These leases were considered to be operating leases on the basis of two opinions issued by independent experts of renowned prestige.

The positive difference between the market value, assuming this to be the purchase value in view of the closeness in time of the purchase and sale transactions, of the aforementioned buildings and the estimated price at which the aforementioned rights could be exercised at 31 December 2007 amounted to approximately EUR 7.33 million (31 December 2006: EUR 6.07 million).

The line "Advances on Leases" includes the advances granted to the owners of certain hotels operated under leases for the purchase by them of decorative objects and furniture which are then discounted from future rent payments.

10.2 Other non-current financial assets

The breakdown of "Other Non-Current Financial Assets" at 31 December 2007 and 2006 is as follows:

	2007	2006
Investments carried at cost	4,861	28,463
Held-for-trading financial assets (Note 19)	3,425	17,402
	8,286	**45,865**

10.2.1 Non-current investment securities

The detail of "Investments Carried at Cost" is as follows:

Company	Location	31.12.07	31.12.06
Desarrollos Isla Blanca, S.L. (*)	Spain	-	19,532
Parque Temático de Madrid, S.A.	Spain	-	8,789
NH Finance, S.A. (*)	Luxembourg	-	2,623
Varallo Comercial, S.A.	Dom. Rep	2,212	2,174
Hanuman Investment, S.L. (*)	Spain	-	2,162
Mil Novecientos Doce, S.A. de C.V.	Mexico	1,026	-
Other investments		1,903	2,254
Impairment loss of Parque Temático de Madrid		-	(8,789)
Other impairment losses		(280)	(282)
		4,861	**28,463**

(*) See Note 2.5.6

In February 2007 the Parent executed the sale of the shares of Parque Temático de Madrid, S.A. This transaction gave rise to a gain of EUR 1.99 million, which is recognised under "Net Gains on Disposal of Non-Current Assets" in the consolidated income statement of the NH Hoteles Group (see Note 26.1)

On 23 June 2006, an ownership interest of 4% in Varallo Comercial, S.A. was acquired, which owns two properties located in La Altagracia (Dominican Republic), upon which two hotel complexes (one of 660 rooms and the other of 375 rooms) will foreseeably be built and which will be operated by NH Hoteles.

11. INVENTORIES

The detail of "Inventories" at 31 December 2007 and 2006 is as follows (in thousands of euros):

	2007	2006
Developed land	39,152	30,681
Undeveloped land	10,734	18,972
Work in progress	29,696	49,507
Finished construction work	27,680	2,993
Ancillary materials and other	11,051	7,520
	118,313	**109,673**

The Group currently owns approximately 1,737,000 square metres of land in Sotogrande (Cádiz). The land's development status is governed by the San Roque General Zoning Plan, approved by the Cádiz Provincial Urban Development Committee on 2 November 1987, in which the land owned by the Group was classified mainly as "programmed" developable land. The average cost of the developed and undeveloped land at 31 December 2007 amounted to EUR 23 per square metre and EUR 12 per square metre, respectively. Also, there are appraisals undertaken by independent valuers which evidence that the market value of this land is higher than its carrying amount.

12. TRADE RECEIVABLES

"Trade Receivables" includes various accounts receivable arising in the course of the Group's operations. The detail of this heading at 31 December is as follows (in thousands of euros):

	2007	2006
Trade receivables for services	172,068	119,445
Trade receivables for property sales	9,319	18,317
	181,387	**137,762**
Less- Allowance for doubtful debts	(16,415)	(10,874)
	164,972	**126,888**

In general, these accounts receivable are not interest earning and mature within 90 days. There are no restrictions as to their use.

The changes in the allowance for doubtful debts in the years ended 31 December 2007 and 2006 were as follows (in thousands of euros):

	2007	2006
Balance at 1 January	**10,874**	**11,228**
Translation differences	68	(49)
Inclusions in scope of consolidation	2,328	-
Charge for the year	3,463	1,475
Amounts used	(318)	(1,780)
Balance at 1 December	**16,415**	**10,874**

The aging of the past-due financial assets that were not considered to constitute doubtful debts at 31 December 2007 is as follows:

	Thousands of Euros
Less than 30 days	50,872
31-60 days	11,788
More than 61 days	6,486
	69,146

13. CURRENT FINANCIAL ASSETS

13.1 Held-to-maturity investments

The detail of "Held-to-Maturity Investments" in the accompanying consolidated balance sheet at 31 December 2007 and 2006 is as follows:

	2007	2006
Fixed-income securities	16,054	7,586
Short-term deposits	-	200,000
	16,054	**207,586**

"Short-Term Deposits" relates to the placement in a short-term interest earning deposit of the cash amount of the capital increase of EUR 200 million at NH Italia, S.r.l. on 27 December 2006 undertaken to finance a portion of the acquisition of Jolly Hotels, S.p.a.

At 31 December 2007 and 2006, both the fixed-income securities and the short-term deposits matured at less than one year and earned average interest at a market rate.

13.2 Held-for-trading financial assets

The detail of "Held-for-Trading Financial Assets" in the accompanying consolidated balance sheet at 31 December 2007 and 2006 is as follows:

	2007	2006
Equity securities	133	417
Interest rate swap (Note 19)	277	11
Allowance for decline in value of equity securities	(73)	(45)
	337	**383**

14. CASH AND CASH EQUIVALENTS

"Cash and Cash Equivalents" includes mainly the Group's cash, as well as bank loans and deposits with a maturity of three months or less. The Group's cash and cash equivalents earned interest at a floating rate tied to Euribor in 2007 and 2006. These assets are measured at fair value.

There are no restrictions as to the use of these balances.

15. EQUITY

15.1 Share capital

At 31 December 2005, the Parent's share capital was represented by 119,532,898 fully subscribed and paid bearer shares of EUR 2 par value each.

On 5 May 2006, the shareholders at the Annual General Meeting resolved to carry out two capital increases with the disapplication of pre-emption rights, with the following characteristics:

- Capital increase of a par value of EUR 8.5 million, through the issuance of 4,250,000 ordinary shares of EUR 2 par value each, of the same class and series as those currently existing, with a share premium of EUR 11.5 per share. The new shares issued were fully subscribed and paid by Equity International Properties, Ltd. through the non-monetary contribution of 1,162,439 shares of Latinoamericana de Gestión Hotelera, S.A. The aforementioned capital increase was registered at the Mercantile Registry of Madrid on 25 May 2006.

- Capital increase for a maximum par value of EUR 17.54 million, through the issuance of up to 8,770,130 ordinary shares of EUR 2 par value each, of the same class and series as those then existing, with a share premium of EUR 11 per share. The aforementioned capital increase was approved for the purpose of settling the takeover bid launched by the Parent, through an exchange of shares, for all the 8,770,130 shares of Sotogrande, S.A. not owned by it.

On 26 December 2006, the takeover bid launched for Sotogrande, S.A. was completed, with the issuance of 7,815,589 ordinary shares of EUR 2 par value each and a share premium of EUR 11 per share.

As a result of the transactions described, at 31 December 2006, the share capital of the Parent was represented by 131,598,487 fully subscribed and paid bearer shares of EUR 2 par value each.

On 27 November 2006, the Board of Directors of NH Hoteles, S.A. resolved to increase capital, through a monetary contribution, by up to EUR 32,743,942 through the issuance of a maximum of 16,371,971 new shares of EUR 2 par value each, of the same class and series as those currently existing, with a share premium of EUR 13.27 per share. The capital increase, which was fully subscribed and paid, was registered at the Mercantile Registry of Madrid on 23 March 2007.

As a result of the aforementioned capital increase, at 31 December 2007, the share capital of the Parent was represented by 147,970,458 fully subscribed and paid bearer shares of EUR 2 par value each. All the shares carry the same voting and dividend rights, are admitted for listing on the Madrid Stock Market Interconnection System.

Per the latest notifications received by the Parent and the communications sent to the Spanish National Securities Market Commission (CNMV) prior to each year-end, the main shareholders at 31 December were as follows:

	2007	2006
Grupo Inversor Hesperia, S.A.	25.09%	22.19%
Caja de Ahorros y Monte de Piedad de Madrid	10.04%	10.04%
Morgan Stanley Real Estate Special situations Fund III GP LLP	5.96%	-
Caja de Ahorros de Valencia, Castellón y Alicante	5.66%	5.56%
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastian	5.09%	5.09%
Pontegadea Inversiones, S.L.	5.07%	9.33%
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	5.04%	4.54%
Hoteles Participados, S.L.	5.05%	5.04%
Intesa Sanpaolo, SpA	4.53%	-
Shares earmarked for share-based payment plans for executives	4.60%	3.32%

At the end of 2007 and 2006 the various members of the Board of Directors held or were stable representatives of shares representing approximately 37.91% and 30.97% of the share capital, respectively.

The main objectives of the NH Hoteles Group's capital management are to ensure short- and long-term financial stability, the positive market performance of the shares of NH Hoteles, S.A. and the adequate financing of its investments while maintaining borrowing levels. All this is aimed at ensuring that the NH Hoteles Group can maintain its financial strength and the soundness of its financial ratios in order to support its businesses and maximise value for its shareholders.

In 2007 the NH Hoteles Group's strategy did not change with respect to 2006, maintaining a gearing ratio of 0.81x which is far below the ratio of 1x which has at all times been proposed as the Group's objective. The gearing ratios at 31 December 2007 and 2006 were as follows (in thousands of euros):

	2007	2006
Bank borrowings (*) (Note 16)	(1,165,133)	(886,633)
Liability derivative instruments (Note 19)	(6,619)	(1,909)
Gross debt	**(1,171,752)**	**(888,542)**
Asset derivative instruments (Note 19)	3,702	17,413
Held-to-maturity investments (Note 13.1)	16,054	207,586
Held-for-trading financial assets (Note 13.2)	60	372
Cash and cash equivalents (Note 14)	61,699	42,369
Cash assets	**81,515**	**267,740**
Total net debt	**(1,090,237)**	**(620,802)**
Total equity	1,339,810	1,031,288
Financial gearing	**0.81**	**0.60**

(*) Current and non-current bank borrowings excluding debt arrangement expenses.

15.2 Reserves of the Parent

i) Legal reserve

Under the Consolidated Spanish Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

ii) Share premium

The Consolidated Spanish Companies Law expressly permits the use of the share premium account balance to increase capital and does not establish any restrictions as to its use.

As indicated in the Note 2.5.6 to the accompanying consolidated financial statements, in 2006 the Parent carried out two capital increases to acquire the ownership interest held by the minority shareholders in Latinoamericana de Gestión Hotelera, S.A. and Sotogrande, S.A. through the exchange thereof for shares of the Parent, with an overall increase in the value of the related share premium of EUR 134.85 million.

Since the Parent controlled and fully consolidated the aforementioned subsidiaries prior to the aforementioned capital increases, the difference between the value of the minority interests acquired and the price of subscription of each of the capital increases, together with the expenses associated therewith, totalling EUR 76.83 million, was recognised under "Share Premium" in the accompanying consolidated balance sheet at 31 December 2006.

As indicated in Note 15.1 to the accompanying consolidated financial statements, in 2007 the Parent increased its share capital by 16,371,971 shares of EUR 2 par value each and a share premium of EUR 13.27 per share, which led to an increase in the value of the share premium, net of the expenses associated with the aforementioned capital increase, of EUR 215.37 million.

iii) Other restricted reserves

Until the balances of "Start-up Costs" and "Goodwill" (excluding goodwill on consolidation) recognised in the individual financial statements of the companies included in the scope of consolidation of the NH Hoteles Group have been fully amortised, no dividends may be distributed unless the unrestricted reserves are at least equal to the amount of the unamortised balances of these headings.

At 31 December 2007, reserves totalling EUR 14,696 thousand could not be distributed (31 December 2006: EUR 1,553 thousand) since they related to the reserve for treasury shares that the Parent is obliged to recognise in its individual financial statements, pursuant to current Spanish corporate law.

Lastly, reserves totalling EUR 28,877 thousand could not be distributed as a result of the acquisition of the AHORA, S.L. Group in 2003 by the NH Hoteles Group.

iv) Dividends

The shareholders at the Annual General Meeting of 5 May 2006 approved the payment of a gross dividend with a charge to voluntary reserves of EUR 0.26 per share, representing payment of a total dividend of EUR 31.08 million.

15.3 Reserves of subsidiaries

The detail, by company, of "Reserves of Subsidiaries" in the consolidated balance sheets - after considering the effect of consolidation adjustments - and of the exchange differences recognised in equity as a result of the consolidation process is as follows (in thousands of euros):

	2007		2006	
Fully and proportionately consolidated companies	**Reserves**	**Exchange Differences**	**Reserves**	**Exchange Differences**
NH Participaties, N.V. and subsidiaries	223,674	(360)	196,957	(84)
Sotogrande, S.A. and subsidiaries	75,635	-	72,027	-
Latinoamericana de Gestión Hotelera, S.A. and subsidiaries	20,913	(20,819)	(6,902)	(3,412)
NH Italia, S.r.l. and subsidiaries	6,851	(1,813)	(2,869)	-
NH Private Equity, B.V. and subsidiaries	73	-	80	-
NH Central Europe GmbH & Co. KG and subsidiaries	(57,004)	(1)	(60,939)	(21)
Caribe Puerto Morelos, S.A. de C.V.	-	(3,401)	-	-
Other Spanish hotel companies	36,871	547	37,188	(387)
Subtotal	**307,013**	**(25,847)**	**235,542**	**(3,904)**
Companies accounted for using the equity method				
Jolly, S.p.A.	-	-	8,463	-
Palacio de la Merced, S.A.	(419)	-	(456)	-
Fonfir, S.L.	(4)	-	(4)	-
Harrington Hall Hotel, Ltd.	107	85	(379)	-
Corporación Hotelera Dominicana, S.A.	(3)	(3,360)	-	(1,771)
Corporación Hotelera Oriental, S.A.	(3)	(434)	-	(224)
Subtotal	**(322)**	**(3,709)**	**7,624**	**(1,995)**
TOTAL	**306,691**	**(29,556)**	**243,166**	**(5,899)**

15.4 Valuation adjustments

Cash flow hedges

"Valuation Adjustments" in the consolidated balance sheet includes the net amount of changes in the fair value of financial derivatives designated as cash flow hedging instruments (see Note 4.6.3).

The changes in the balance of this heading in 2007 and 2006 were as follows (in thousands of euros):

	2007	2006
Beginning balance	2,100	4,772
Additions	419	3,306
Disposals	(2,099)	(5,978)
Ending balance	**420**	**2,100**

The valuation adjustment reserve in equity relating to the share-based payment plan, amounting to EUR 45 thousand, will be recognised in profit or loss in full during 2008 which coincides with the last exercise period for the aforementioned Plan (see Note 20).

The valuation adjustment reserve in equity relating to the interest rate derivatives, amounting to EUR 375 thousand, will be recognised in profit or loss between 2008 and 2012 on the basis of the maturity of the hedged loan agreements (see Note 19).

15.5 Treasury shares

During 2007 the Group purchased 5,352,864 shares (2006: 616,862 shares) and sold 4,120,543 shares (2006: 411,219 shares), within the legally established limits and with the mandatory notifications to the Spanish National Securities Market Commission and to the Stock Exchange Governing Companies.

At year-end, the Group owned 1,462,864 shares of NH Hoteles, S.A. (2006 year-end: 230,543 shares) representing 0.98% of its share capital with a cost of EUR 22,809 thousand (2006 year-end: EUR 3,504 thousand).

15.6 Minority interests

The detail, by company, of "Minority Interests" in the consolidated balance sheets at 31 December 2007 and 2006 and of the profit or loss attributable to minority interests in 2007 and 2006 is as follows (in thousands of euros):

	2007		2006	
Company	Minority Interests	Profit (Loss) Attributable to Minority Interests	Minority Interests	Profit (Loss) Attributable to Minority Interests
NH Italia, S.p.A. and subsidiaries	170,608	19,723	136,756	(2,996)
Latinoamericana de Gestión Hotelera, S.A. and subsidiaries	15,205	1,053	12,745	130
Sotogrande, S.A. and subsidiaries	11,993	143	11,893	179
NH Participaties N.V. and subsidiaries	3,201	374	4,147	696
Other Spanish hotel companies	13,727	771	11,137	1,093
	214,734	**22,064**	**176,678**	**(898)**

The changes in "Minority Interests" in 2007 and 2006 are summarised as follows (in thousands of euros):

	2007	2006
Beginning balance	**176,678**	**119,682**
Profit (loss) for the year attributable to minority interests	22,064	(898)
Changes in the scope of consolidation	121,662	142,517
Change in percentages of ownership	(102,963)	(82,326)
Dividends paid to minority interests	(992)	(2,042)
Exchange differences	(1,715)	(255)
Ending balance	**214,734**	**176,678**

In 2007 and 2006 "Changes in the Scope of Consolidation" includes the balances of certain companies included in the Group's scope of consolidation for the first time in those years (see Note 2.5.6), and the acquisition by Intesa Sanpaolo, S.p.a. of shares of NH Italia, S.r.l. through a monetary contribution of EUR 133.74 million.

In 2007 "Change in Percentages of Ownership" includes basically the acquisition of 22.39% of Jolly Hotels, SpA from 1 February 2007, the date of the acquisition of control over this company, and in 2006 the acquisition of 35.63% of the share capital of Latinoamericana de Gestión Hotelera, S.A. and 18.66% of Sotogrande, S.A. (see Note 2.5.6).

16. BANK BORROWINGS

The breakdown of the bank borrowings at 31 December 2007 and 2006 is as follows (in thousands of euros):

	Limit	Available	Drawn Down	2007	2008	2009	2010	2011	Subsequent Years
Mortgage-backed loans	281,461	3,500	277,961	-	43,755	34,128	38,951	69,993	91,134
Fixed interest	12,048	-	12,048	-	843	843	4,448	241	5,673
Floating interest	269,413	3,500	265,913	-	42,912	33,285	34,503	69,752	85,461
Asset-backed loans	776,919	285,000	491,919	-	54,246	23,157	53,273	100,563	260,680
Fixed interest	803	-	803	-	414	185	17	17	170
Floating interest	776,116	285,000	491,116	-	53,832	22,972	53,256	100,546	260,510
Subordinated loans	75,000	-	75,000	-	-	-	-	-	75,000
Floating interest	75,000	-	75,000	-	-	-	-	-	75,000
Credit facilities	486,148	169,177	316,971	-	145,031	24,832	147,108	-	-
Floating interest	486,148	169,177	316,971	-	145,031	24,832	147,108	-	-
Accrued interest payable			3,282		3,282				
Debt arrangement expenses			(9,374)		(861)	(1,520)	(1,520)	(1,520)	(3,953)
Bank borrowings at 31/12/07	**1,619,528**	**457,677**	**1,155,759**	**-**	**245,453**	**80,597**	**237,812**	**169,036**	**422,861**
Bank borrowings at 31/12/06 (net of arrangement expenses)	**1,087,680**	**206,778**	**879,333**	**349,756**	**164,788**	**130,536**	**139,688**	**20,987**	**73,578**

The detail of the mortgage-backed loans, syndicated or otherwise, is as follows (in thousands of euros):

Country	Mortgaged Asset	Balance at 31.12.07 Fixed Interest	Balance at 31.12.07 Floating Interest	Total	Carrying Amount of Mortgaged Asset
Spain	NH Calderón	-	13,113	13,113	36,059
	Hotel NH Eurobuilding commercial premises	-	49	49	1,007
	NH Lagasca	-	13,600	13,600	18,322
	NH Ppe. De la Paz	-	7,262	7,262	11,300
	NH Alcalá	5,409	-	5,409	13,214
	NH Sotogrande	-	8,565	8,565	12,593
	Las Cimas 2 -Sotogrande development	-	5,303	5,303	6,455
	Total Spain	**5,409**	**47,892**	**53,301**	**98,950**
Uruguay	NH Columbia	-	203	203	7,951
	Total Uruguay	**-**	**203**	**203**	**7,951**
Mexico	Santa Fe project	-	6,575	6,575	11,121
	Total Mexico	**-**	**6,575**	**6,575**	**11,121**
Netherlands	NH Groningen	-	2,940	2,940	3,969
	Total Netherlands	**-**	**2,940**	**2,940**	**3,969**
Switzerland	NH Fribourg Hotel	6,639	-	6,639	6,688
	Total Switzerland	**6,639**	**-**	**6,639**	**6,688**
Italy	Donnafugata	-	9,468	9,468	20,507
	Villa de San Mauro	-	4,500	4,500	7,500
	Hotel Quattro Canti project	-	794	794	4,950
	Roma Vittorio Veneto	-	22,921	22,921	7,429
	Ischia	-	29,250	29,250	4,581
	Torino Ligure	-	7,500	7,500	1,655
	La Spezia	-	3,333	3,333	1,109
	Fierenze	-	6,000	6,000	4,182
	Catania	-	10,833	10,833	6,401
	Trieste	-	8,667	8,667	2,606
	Torino Ambasciatori	-	9,375	9,375	9,375
	Milanofiori and conf. centre	-	24,300	24,300	15,994
	Genova	-	9,188	9,188	6,661
	Carlton Amsterdam	-	8,125	8,125	9,821
	Madison Tower	-	4,614	4,614	13,698
	Lotti Paris	-	4,638	4,638	32,103
	ST Ermins (London)	-	44,797	44,797	72,596
	Total Italy	**-**	**208,303**	**208,303**	**221,169**
Total		**12,048**	**265,913**	**277,961**	**349,848**

The floating-rate asset-backed loans include the following loans:

- A syndicated loan of EUR 650 million granted to NH Finance, S.A. by 34 European banks on 2 August 2007. The undrawn balance of EUR 285 million at 31 December 2007 was drawn down by the Group on 2 January 2008 in order to refinance its structural debt and to cover working capital facilities. Following this drawdown, the amount drawable by the Group against credit facilities totalled EUR 454 million.

  This loan matures on 2 August 2012 and bears annual interest at Euribor plus a spread ranging from 0.6% to 0.70% on the basis of the "Net financial debt/Ebitda" ratio. The loan will be repaid in half-yearly instalments. The first payment will amount to EUR 32.5 million and will be made in August 2010; the second will amount to EUR 65 million and will be made in February 2011 and the remaining three will be for amounts equal to 15%, 30% and 40% of the loan and will be made in the following years through final maturity.

  The aforementioned loan requires the achievement of certain financial ratios. At 31 December 2007, none of the ratios was of such status as to give rise to a call by the lenders for early repayment of the loans.

- A syndicated loan through Banco Bilbao Vizcaya Argentaria granted to NH Hoteles, S.A. for a maximum amount of EUR 42.07 million to finance the acquisition, through a takeover bid, of Promociones Eurobuilding, S.A. (a company absorbed in 2002 by NH Hoteles, S.A.). At 31 December 2007, EUR 21 million were outstanding in this connection. This loan bears interest at a rate equal to Euribor plus a spread and is being repaid progressively from 2001 to 2011.

- A loan of USD 40 million granted by Caja Madrid to finance the transactions currently being carried out in the Caribbean region. The loan bears interest at a rate equal to Libor plus a spread and repayment will begin in May 2008 and end in 2010.

- A loan of EUR 10 million granted to Jolly Hotels, S.p.A. by Banca Populare de Vicenza. This loan bears floating interest tied to Euribor plus a spread and matures in June 2014.

Also, "Subordinated Loans" includes two 30-year loans of EUR 40 million and EUR 35 million (maturing in November 2036 and September 2037, respectively) which had been fully drawn down at 31 December 2007. Both loans bear interest at a rate equal to Euribor plus a spread of 1.70% and are repayable in full on maturity.

The Group's financing bore interest at the following rates in 2007 and 2006:

	2007	2006
Mortgage-backed loans		
Fixed interest	3.52%	4.80%
Floating interest	Euribor +1.15	Euribor +1.10
Asset-backed loans		
Fixed interest	4.39%	5.19%
Floating interest	Euribor +0.70	Euribor +0.88
Floating rate subordinated loan	Euribor +1.70	Euribor +1.70
Credit facilities	Euribor +0.30	Euribor +0.33

17. OBLIGATIONS UNDER FINANCE LEASES

The detail of the NH Hoteles Group's finance leases at 31 December 2007 and 2006 is as follows:

	Present Value of Lease Payments		Nominal Amount of Lease Payments	
	2007	2006	2007	2006
Amounts payable under finance leases				
Inmobiliaria Sotogrande fixtures				
Within one year	15	14	16	16
Between two and five years	24	37	24	39
Hotel Príncipe de la Paz furniture				
Within one year	24	197	19	200
Between two and five years	-	22	5	22
Hotel Almenara fixtures				
Within one year	43	40	39	42
Between two and five years	22	63	27	64
Amount due for settlement within 12 months (shown under current liabilities)	**82**	**251**	**74**	**258**
Amount due for settlement after 12 months (shown under non-current liabilities)	**46**	**122**	**56**	**125**
	128	**373**	**130**	**383**
Less: future finance charges				
Inmobiliaria Sotogrande fixtures	N/A	N/A	(1)	(3)
Hotel Príncipe de la Paz furniture	N/A	N/A	-	(3)
Hotel Almenara fixtures	N/A	N/A	(1)	(4)
Present value of lease obligations	**128**	**373**	**128**	**373**

In the year ended 31 December 2007, the average effective interest rate on the payables was 3.05% (4.70% in 2006). Interest rates are set at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All the lease obligations are denominated in euros.

The fair value of the Group's lease obligations approximates their carrying amount.

18. OTHER NON-CURRENT LIABILITIES

The detail of "Other Non-Current Liabilities" in the accompanying consolidated balance sheets at 31 December 2007 and 2006 is as follows (in thousands of euros):

	2007	2006
Call and put options arising from the Jolly Hotels transaction	87,393	277,405
Call and put option arising from the Framon transaction	21,784	-
Preference shares issued by subsidiaries	-	28,818
Grants related to assets	15,424	14,643
Loans to joint ventures (Note 27)	10,400	10,400
Rights of beneficial use of Hotel Plaza de Armas (Note 7.1)	8,970	10,465
2007-2113 share-based payment plan (Note 20)	4,794	-
Interest rate derivative financial instruments (Note 19)	765	1,282
Other liabilities	289	3,143
	149,819	**346,156**

"Call and Put Options Arising from the Jolly Hotels Transaction" includes the liability relating to certain call options for NH Italia, S.r.l. and put options for Joker Partecipazioni, S.r.l. and Intesa Sanpaolo, S.p.a. (, arranged within the framework of the transaction to acquire a controlling interest in Jolly Hotels, S.p.A. in order to agree on the gradual transfer to the NH Hoteles Group of the holdings in Jolly Hotels S.p.A. that these companies owned at that date (see Note 10.1).

"Call and Put Option Arising from Framon Transactions" includes the liability relating to the call option for NH Italia, S.r.l. and put option for Tourist Ferry Boat, S.r.l. (the former owner of the Framon chain) in the latter's 25% ownership interest in the joint venture set up by the two companies, NH-Framon Italy Hotel Management, S.r.l. The price of the option, which may be exercised from December 2011 onwards, was established on the basis of a pre-determined Ebitda multiple.

"Preference Shares Issued by Subsidiaries" includes the preference shares issued by NH Participaties NV. not yet reimbursed at 31 December 2007 and 2006 and which, due to their nature were classified as a financial liability. These preference shares, which bore annual interest at a non-deductible fixed rate of 5.55%, were reimbursed in full on 28 December 2007.

"Grants Related to Assets" includes basically the grants received for the construction of the hotels and golf courses of Sotogrande, S.A. and Hoteles y Gestión Sotogrande, S.A. and the grants related to assets received for certain projects under development. The detail of these grants for 2007 and 2006 is as follows (in thousands of euros):

	2007	2006
Hotel Almenara and golf course	3,777	3,196
Hotel Sotogrande	642	15
Donnafugata Resort	6,201	6,200
Hotel Baglio Oneto	2,081	2,249
Hotel Parco Degli Aragonesi	2,707	2,944
Other	16	39
	15,424	**14,643**

19. DERIVATIVE FINANCIAL INSTRUMENTS

The detail of the derivative financial instruments in the consolidated balance sheets at 31 December 2007 and 2006 is as follows (in thousands of euros):

	Amount at 31.12.07		Amount at 31.12.06	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
Interest rate derivatives (Notes 10.2 13.2 18 and 24)	1,362	1,310	1,189	1,486
Foreign currency derivatives (Note 18)	-	515	130	423
2003-2008 share based payment plan (Note 20)	2,340	-	16,094	-
2007-2013 share based payment plan (Note 20)	-	4,794	-	-
Total	**3,702**	**6,619**	**17,413**	**1,909**

19.1 Interest rate derivatives

Following is a detail of the derivative financial instruments and their corresponding fair values at 31 December 2007 and 2006, together with the notional amount at the end of each year with which they are associated. This information is presented (in thousands of euros) by separating the derivatives that qualify for hedge accounting (pursuant to the requirements of IAS 39) from those considered to be ineffective.

		Fair Value 31.12.07		Fair Value 31.12.06		Outstanding Nominal Amount			
Subsidiary	Instrument	Asset	Liability	Asset	Liability	31.12.2007	31.12.2008	31.12.2009	31.12.2010 and Subsequent Years
Effective hedges									
NH Finance	Collar	1,055	-	-	-	150,000	150,000	150,000	142,500
NH Hoteles	IRS	22	-	-	-	5,409	4,808	4,207	-
NH Hoteles	Collar	8	-	-	-	2,400	2,400	2,400	-
Total effective hedges		**1,085**	**-**	**-**	**-**	**157,809**	**157,208**	**156,607**	**142,500**
Ineffective hedges									
NH Finance	Options	-	(765)	-	-	150,000	150,000	150,000	142,500
NH Hoteles	Accrual swap	209	-	1,181	-	51,256	-	-	-
Krasnapolsky	Accrual swap	-	(226)	-	(1,192)	49,692	-	-	-
Krasnapolsky	Collar	-	(7)	-	(279)	33,861	-	-	-
NH Hoteles	Knock-in IRS	24	-	8	-	5,000	-	-	-
NH Hoteles	Options	14	-	-	(15)	10,000	-	-	-
Jolly Hotels UK	Collar	-	(311)	-	-	38,843	34,015	28,712	27,352
Jolly Hotels	Accrual swap	30	-	-	-	3,333	-	-	-
Jolly Hotels	Collar	-	(1)	-	-	861	-	-	-
Total ineffective hedges		**277**	**(1,310)**	**1,189**	**(1,486)**	**342,846**	**184,015**	**178,712**	**169,852**
Total hedges		**1,362**	**(1,310)**	**1,189**	**(1,486)**	**500,655**	**341,223**	**335,319**	**312,352**

In order to determine the fair value of the interest rate derivatives (fixed-rate swaps or "IRSs", options or "Collars" and other), the Group discounts the future cash flows on the basis of the implicit interest determined by the euro interest rate curve based on the market conditions at the date of measurement.

Effective hedges

The Group hedges the interest rate risk on a portion of the syndicated financing (through NH Finance, S.A.) and other Group financing at floating rates in euros through IRS and collars (combination of options). In the IRS, interest rates are swapped so that the Group receives a floating rate (3-month Euribor) from the bank in exchange for paying a fixed interest rate for the same nominal amount. The floating rate received as a result of the derivative offsets the interest paid on the financing being hedged. The end result is a payment of fixed interest on the hedged financing. Similarly, in the collars, caps and floors are established for the Euribor to which the financing is tied. The IRS designated as a hedge has a fixed rate of 4.25% and the collars have Euribor floors and caps of 3.50% and 4.50%, respectively.

The amount, net of tax, recognised in equity at 31 December 2007 as the effective portion of the IRS and collar hedging relationships totalled EUR 375 thousand (see Note 15.4). The Group has designated the appropriate hedges at 31 December 2007 and they are fully effective. In these hedges, the risk hedged is that of fluctuations in the floating rate on the hedged financing tied to Euribor.

Ineffective hedges

These instruments relate basically to knock-in options and structured swaps on various amounts of financing arranged by the Group. The most significant hedges relate to knock-in options arranged by NH Finance, S.A. in relation to the syndicated financing, whereby the company has to pay the bank an interest rate of 4.2% if Euribor reaches 3.5%.

The changes in the fair value of these interest rate derivatives led to the recognition of a loss of EUR 226 thousand in the consolidated income statement for 2007 (2006: EUR 144 thousand).

19.2 Foreign currency derivatives

In order to determine the fair value of the foreign currency derivatives (foreign currency hedges or forwards), the Group uses the euro spot rate and the interest rate curves of the euro and the other currencies involved in the derivatives and, by discounting future flows, determines the value of the derivatives arranged.

The detail of the foreign currency derivatives arranged by the Group at 31 December 2007 and 2006 and of their fair values is as follows (in thousands of euros):

		Fair Value				
		31.12.07	31.12.06			Nominal
Subsidiary	Instrument	Liability	Asset	Liability	Maturity	Amount (USD)
NH Hoteles	EUR/USD forward	(515)	-	-	16/01/08	9,725
NH Hoteles	EUR/USD forward	-	130		22/05/09	26,300
NH Hoteles	EUR/USD forward	-	-	(147)	12/01/07	11,000
NH Hoteles	USD option with collar	-	-	(138)	12/01/07	5,000
NH Hoteles	EUR/USD extra forward	-	-	(138)	12/01/07	5,000
Total		**(515)**	**130**	**(423)**		**57,025**

None of the financial instruments shown above qualify for hedge accounting pursuant to the requirements of IAS 39.

The only financial instrument outstanding at 31 December 2007 relates to the USD purchase hedge (amounting to EUR 9,725 thousand) arranged by the Group within the framework of its international expansion strategy, which enables it to buy US dollars at a price previously agreed on.

The foreign currency derivatives outstanding at 31 December 2006 were arranged to hedge a loan denominated in US dollars maturing in 2009 but repaid earlier, and to hedge the effect of possible fluctuations in the US dollar/euro exchange rate on payments relating to the investment in Desarrollos Isla Blanca, S.L. (see Note 24).

The changes in the fair value of these foreign currency derivatives led to the recognition of a loss of EUR 0.08 million in the accompanying consolidated income statement for 2007 (2006: EUR 0.29 million).

19.3 Sensitivity analysis of the derivative financial instruments

Analysis of sensitivity to interest rate changes

The changes in the fair value of the interest rate derivatives arranged by the Group depend on the changes in the long-term euro interest rate curve. The fair value of the derivatives at 31 December 2007 was EUR 52 thousand.

The detail of the analysis of the sensitivity of the fair values of the derivatives arranged by the Group at 2007 year-end, in both equity (derivatives qualifying for hedge accounting) and profit or loss (derivatives not qualifying for hedge accounting) is as follows (in thousands of euros):

	Positive/(Negative) Effect	
Sensitivity	Equity	Profit or Loss
+0.5% (increase in rates)	1,836	340
-0.5% (decrease in rates)	(1,505)	(549)

The sensitivity analysis shows that the fair value of the interest rate derivatives designated as hedges increases with a rise in interest rates because the derivatives are IRSs or collars in which the interest rate paid by the Group is fixed or there is a cap and, therefore, the Group is hedged against increases in interest rates.

The sensitivity of the derivatives at 31 December 2007 will effect the Group's consolidated equity and consolidated profit or loss to the extent that market circumstances could change.

Analysis of sensitivity to exchange rate changes

The changes in the fair value of the foreign currency derivatives arranged by the Group depend mainly on fluctuations in the US dollar/euro spot rate and on changes in short-term interest rates. The fair value of these derivatives at 31 December 2007 represented a liability for the NH Hoteles Group of EUR 515 thousand.

The detail of the analysis of the sensitivity of the fair values of the derivatives arranged by the Group at 2007 year-end is as follows (in thousands of euros):

Sensitivity in Profit or Loss	31.12.2007
+10% (appreciation of euro)	(599)
-10% (depreciation of euro)	733

The fair value of the EUR/USD currency derivatives drops when the value of the euro rises and increases when the value of the euro falls, since US dollars are purchased at a fixed exchange rate.

20. SHARE-BASED PAYMENT PLANS

At 31 December 2007, the Group had two share-based payment plans in force (2003-2007 Plan and 2007-2012 Plan). In 2006 the previous share-based payment plan (2001 Plan) was settled in full. The changes in the number of rights granted in the framework of these share-based payment plans in 2007 and 2006 were as follows:

	2001 Plan	2003 Plan	2007 Plan
Granted at 1 January 2006	**363,876**	**2,300,000**	**-**
Options exercised	(363,759)	-	-
Options cancelled/expired	(117)	(131,602)	-
Outstanding at 31 December 2006	**-**	**2,168,398**	**-**
Options granted	-	-	3,582,804
Options exercised	-	(1,648,220)	-
Outstanding at 31 December 2007	**-**	**520,178**	**3,582,804**

On 29 May 2007, the Annual General Meeting announced and approved a new share option plan, "2007 Plan", for certain executives of the Group, separated into two groups. On expiry of the Plan (there are various exercise periods), these executives will receive remuneration equal to the appreciation in the period in the Parent's share price based on the strike price with respect to the selling price which will be the simple arithmetic mean of the closing market price of the shares on the 15 trading days immediately prior to the settlement date.

The 2007 Plan will enable the executives included therein to receive an incentive, conditional upon their remaining at the Group in the period from 2007 to 2012, based on the appreciation in the market price of the Parent's shares.

The main features of the Plan are as follows:

- Beneficiaries: executives of NH Hoteles, S.A. and its corporate group, designated by the Appointments and Remuneration Committee. At 31 December 2007, 162 Group executives were beneficiaries, to whom 3,582,804 options had been granted at that date.
- Maximum number assignable : 3,790,000 options.
- Exercise price: EUR 17.66 for the first group made up of 31 executives and EUR 15.27 for the second group made up of 131 executives.
- The Plan does not provide in any case for the delivery of shares to the beneficiaries, but rather for a cash settlement if the share price rises to above the exercise price.

This Plan was measured and recognised in the consolidated income statement as indicated in Note 4.15. The staff costs associated with this Plan amounted to EUR 705 thousand at 31 December 2007. The main assumptions used in measuring this Plan granted in 2007 are as follows:

- Time of service at the Group in order to be able to exercise the options: five years for all the beneficiaries. The Plan may be exercised in three equal parts each year from 29 May 2010.
- Risk-free rate: 4.17%.
- Dividend yield: 2.11%.

In November 2007 the Group arranged an equity swap to hedge the possible loss that might arise from this share-based Incentive Plan. The main features of this swap are as follows:

- The number of shares covered by the swap is equal to the number of options granted, i.e. 3,790,000.
- The Group will pay the bank an amount based on Euribor plus a spread, to be applied to the result of multiplying the number of units by the initial price.
- If the share market price is above the transfer price but below the strike price, the Group will receive the difference between the two amounts. If the market price is below the transfer price, the Group will make good the loss incurred by the bank.

This swap is a derivative for accounting purposes, and was treated as indicated in Note 4.6. At 31 December 2007, the finance costs associated with this swap amounted to EUR 4,794 thousand (see Note 19).

Also, the NH Group granted its executives in 2003 a share-based remuneration plan with the following features:

Year Granted	Number of Rights	Exercise Price	Exercise Period
2003	2,700,000	7.14	30/04/07 to 29/04/08

The Group arranged an equity swap with a bank to hedge the possible loss that might arise from this option Plan. The 2003 Plan does not provide in any case for the delivery of shares, but rather for a cash settlement if the share price rises to above the strike price. When the Plan is implemented the bank will sell the shares and pay the Group the proceeds from the sale minus the exercise price of the shares. If this gave rise to a loss for the bank, the Group will assume the related amount. At 31 December 2007, the number of options covered was equal to the number of options outstanding at that date. In relation to this swap, the Group pays the bank an amount based on Euribor plus a spread, to be applied to the result of multiplying the number of units by the initial price.

Analysis of sensitivity to the NH Hoteles share price
The changes in the fair value of the NH Hoteles share price derivatives arranged by the Group depend mainly on fluctuations in the market price of the share and on changes in euro interest rates and dividend projections made by market players. The net fair value of these derivatives at 31 December 2007 represented a liability of EUR 2,454 thousand (an asset of EUR 16,094 thousand in 2006).

The detail of the analysis of the sensitivity of the fair values of the derivatives arranged by the Group at 31 December 2007 (in thousands of euros):

Sensibility in Profit or Loss	31/12/07
+10% (rise in share price)	5,258
-10% (fall in share price)	(5,258)

The sensitivity analysis shows that when the share price rises, the negative fair value of the derivatives falls, whereas when the share price falls, the negative fair value increases.

21. PROVISIONS FOR CONTINGENCIES AND CHARGES

The detail of "Provisions for Contingencies and Charges" at 31 December 2007 and 2006 and of the main changes therein in 2007 and 2006 is as follows (in thousands of euros):

	Balance at 31.12.2005	Inclusions in Scope of Consolidation	Charge for the Year	Amounts Used and Reductioins	Transfers	Balance at 31.12.2006
Long-term provisions for contingencies and charges:						
Onerous contracts	19,222	-	-	-	(2,166)	17,056
Provision for pensions and similar obligations	12,329	276	811	(658)	-	12,758
Provision for share-based payment plan (Note 20)	8,016	-	5,977	(200)	-	13,793
Other claims	3,432	-	3,244	(3)	-	6,673
	42,999	**276**	**10,032**	**(861)**	**(2,166)**	**50,280**
Short-term provisions for contingencies and charges:						
Onerous contracts	4,768	-	-	(4,060)	2,166	2,874
Other claims	3,124	-	-	(346)	-	2,778
	7,892	**-**	**-**	**(4,406)**	**2,166**	**5,652**
Total	**50,891**	**276**	**10,032**	**(5,267)**	**-**	**55,932**

	Balance at 31.12.2006	Inclusions in Scope of Consolidation	Charge for the Year	Amounts Used and Reductioins	Transfers	Balance at 31.12.2007
Long-term provisions for contingencies and charges:						
Onerous contracts	17,056	1,858	2,108	(500)	(3,801)	16,721
Provision for pensions and similar obligations	12,758	20,556	5,325	(11,469)	-	27,170
Provision for share-based payment plan (Note 20)	13,793	-	2,804	(13,599)	-	2,998
Other claims	6,673	3,821	7,947	(1,350)	(3,450)	13,641
	50,280	**26,235**	**18,184**	**(26,918)**	**(7,251)**	**60,530**
Short-term provisions for contingencies and charges:						
Onerous contracts	2,874	-	-	(4,011)	3,801	2,664
Other claims	2,778	1,519	-	(1,892)	3,450	5,855
	5,652	**1,519**	**-**	**(5,903)**	**7,251**	**8,519**
Total	**55,932**	**27,754**	**18,184**	**(32,821)**	**-**	**69,049**

Onerous contracts
The NH Hoteles classified certain hotel lease contracts the maturity of which was established at between 2008 and 2028 as onerous. Although the performance of these hotels is positive in terms of gross operating profit, it is loss-making in terms of Ebitda and the termination of the aforementioned leases would entail the payment in full of the outstanding years of rent.

Provision for pensions and similar obligations
"Provision for Pensions and Similar Obligations" includes mainly the provision recorded by the Group to cover the pension plans agreed upon with its employees personal amounting to EUR 22,355 thousand (31 December 2006: EUR 10,482 thousand). This account includes the T.F.R. (Trattamento di fine rapporto), an amount paid to all workers in Italy when they leave a company for whatever reason.

This is treated as an item of remuneration, payment of which is deferred and provisions for which are recognised on the basis of the fixed and variable monetary remuneration and compensation in kind, the amount of which is reviewed periodically. The related period provision is equal to the remuneration divided by 13.5. The accumulated provision is increased each year by a fixed percentage of 1.5% plus 75% of the increase in the CPI.

The projected unit credit method was used to measure the obligations arising from this pension plan.

The main assumptions used in calculating the actuarial liability were as follows:

	2007	2006
Discount rate	2.60%	4.00%
Expected annual salary increase rate	2.50%	2.50%
Expected rate of return on plan assets	4.24%	3.75%

<u>Other claims</u>
"Other Claims" includes mainly the provision of EUR 5.1 million recognised by the Group for the indemnity payments that might arise from the unilateral termination of certain leases for premises in the Jolly Lotti Hotel in Paris.

22. TAX MATTERS

The detail of the tax receivables at 31 December 2007 and 2006 is as follows (in thousands of euros):

	2007	2006
Deferred tax assets		
Tax assets	290	1,707
Tax assets due to impairment of assets	28,212	13,367
Deferred tax assets relating to employees	920	3,273
Other deferred tax assets	15,224	16,292
Total	**44,646**	**34,639**
Current tax assets		
Income tax	2,236	424
VAT	15,618	8,494
Tax withholdings and prepayments	7,925	5,896
Presumed income tax	300	1,378
Other tax receivables	244	2
Total	**26,323**	**16,194**

The balances of "Deferred Tax Assets" relate mainly to the deferred tax assets arising from the decline in value of certain assets and the recognition of tax losses.

The changes in "Deferred Tax Assets" in 2007 were as follows (in thousands of euros):

	2007	2006
Beginning balance	**34,639**	**35,868**
Additions due to inclusions in the scope of consolidation	12,336	242
Other additions	1,441	1,607
Derecognition of tax assets	(1,417)	(2,931)
Derecognition of deferred tax assets relating to employees	(2,353)	-
Derecognition of tax loss carryforwards	-	(147)
Ending balance	**44,646**	**34,639**

Pursuant to Article 12.5 of the Spanish Corporation Tax Law, the Group is deducting for tax purposes the financial goodwill that arose on the acquisition of the Astron Group. The amortisation taken for tax purposes in 2007 amounted to EUR 8.9 million.

Since in prior years an impairment loss had been recognised in connection with a portion of that goodwill and the related deferred tax asset had not been recognised, the aforementioned amortisation for tax purposes did not give rise to any change in the temporary differences.

At 31 December 2007, the difference between the tax charge and the accounting charge amounted to EUR 29.5 million, i.e. EUR 8.85 million yet to be deducted in the tax returns for the coming four years.

The detail of the tax payables at 31 December 2007 and 2006 is as follow (in thousands of euros)::

	2007	2006
Deferred tax liabilities		
Asset revaluations	274,742	98,775
Change of IETU tax regulations in Mexico	1,237	-
Derivative financial instruments	400	350
Total	**276,379**	**99,125**
Current tax liabilities		
Income tax	4,892	7,883
VAT	6,614	4,971
Personal income tax withholdings	8,324	5,156
Tax on income from movable capital	475	293
Social security costs	8,815	5,759
Other	3,599	2,487
Total	**32,719**	**26,549**

The balance of the deferred tax liabilities relates mainly to the revaluation of various assets of the Group.

The changes in the deferred tax liabilities in 2007 were as follows (in thousands of euros):

	2007	2006
Beginning balance	**99,125**	**124,438**
Allocation to profit or loss due to reinvestment	(1,546)	(3,286)
Change due to inclusions in the scope of consolidation (Note 2.5.6.)	202,863	(3,021)
Reduction due to change in tax rates	(20,523)	-
Other amounts allocated to profit or loss	(3,540)	(19,006)
Ending balance	**276,379**	**99,125**

On 17 September 2007, the "Ley del Impuesto Empresarial a Tasa Única" (IETU) (Flat Rate Business Tax Law) was approved in Mexico. This Law will apply to tax periods beginning on or after 1 January 2008. Therefore, from 2008 onwards the Mexican subsidiaries will have to calculate their income tax twice, on the one hand in accordance with the Income Tax Law and on the other in accordance with the IETU Law, and must pay over the resulting higher amount to the Mexican Treasury.

The new tax must be calculated by applying a tax rate of 17.5% (16.5% for 2008 and 17% for 2009) to the result obtained on the basis of cash flows, which is obtained by reducing the full amount of operating income obtained by the amount of the authorised deductions. The aforementioned Law also repealed the "Impuesto al Activo" (asset tax) that had applied to several of the Mexican subsidiaries in 2007 and prior years.

As a result of the entry into force in 2008 of the IETU Law, the Group, pursuant to IAS 12, adjusted the balance of "Deferred Tax Liabilities" on the liability side of the accompanying consolidated balance sheet at 31 December 2007 by EUR 1,237 thousand and recognised a deferred income tax expense for the same amount in the accompanying consolidated income statement for 2007.

The reduction due to the change in tax rates relates basically to the net effect of the change in the income tax rate approved in Italy in 2007. This change, which will apply from 1 January 2008, reduced the tax rate from 37.5% to 31.5%. It also includes the change arising from the Spanish income tax reform introduced by Law 35/2006. As a result of these reductions in tax rates, the Group adjusted the tax rate used to calculate the deferred tax assets and liabilities and used the rate that at 31 December 2007 was expected to apply in the periods in which the assets are realised and the liabilities are settled

Income tax expense

The NH Hoteles Group companies are grouped together geographically and file their tax returns in accordance with the legislation in force in their respective countries.

Income tax is calculated on the basis of the accounting profit or loss determined by application of the generally accepted accounting principles in each country, which does not necessarily coincide with the taxable profit or tax loss.

The reconciliation of the accounting profit to the taxable profit for income tax purposes is as follows (in thousand of euros):

	2007	2006
Accounting profit (after tax and before minority interests)	**99,507**	**61,550**
Income tax	8,495	25,395
Accounting profit (before tax and minority interests)	**108,002**	**86,945**
Permanent differences	40,522	(7,170)
Temporary differences	15,089	4,054
Consolidation adjustments	(82,669)	16,516
Taxable profit before offset of tax losses	**80,944**	**100,345**
Offset of tax losses	(1,871)	(421)
Taxable profit	**79,073**	**99,924**

The various foreign subsidiaries calculate the income tax expense in accordance with the applicable legislation and the tax rates in force in their respective countries.

Consolidated tax group of the Parent

NH Hoteles, S.A. files consolidated tax returns with all the companies resident for tax purposes in Spain in which during the tax period it has held a direct or indirect ownership interest of at least 75%, pursuant to the provisions of Chapter VII of Title VII of the Consolidated Spanish Corporation Tax Law, approved by Legislative Royal Decree 4/2004.

In 2007 Casino Club de Golf, S.L. was excluded from the consolidated tax group and, therefore, the gains amounting to EUR 6.5 million not yet included in the tax base arising from intra-Group transactions in 2003 must now be included in the taxable profit.

The accounts receivable and payable arising in this connection are settled by NH Hoteles, S.A., the Parent of the tax group. The Group does not give any consideration for the tax losses contributed by the other consolidated tax group companies.

The Group has been undertaking restructuring transactions that qualify for taxation under the special regime for mergers, spin-offs, asset contributions and share exchanges. The legally required disclosures are included in the notes to the consolidated financial statements for the related years.

Years open for review by the tax authorities

At 31 December 2007, the consolidated companies generally had the last four years open for review by the tax authorities for the main taxes applicable to them.

In relation to the years open for review, there could be contingent liabilities which cannot be objectively quantified which Group management considers not to be significant.

A partial tax audit is currently underway which is confined to the period investment valuation provisions recognised at Latinoamericana de Gestión Hotelera, S.A. and NH Hoteles, S.A. No material contingent liabilities are expected to arise from this tax audit.

Tax credits taken by the consolidated tax group of the Parent

The tax credits taken in 2007 relate mainly to the tax credit for investment and export activities.

In calculating the income tax no tax credits for investments in measures to reduce environmental impact were deducted.

The detail of the tax group's unused tax credits at 31 December 2007 is as follows

Year Earned	Unused Tax Credits	Amount
2001 to 2006	Investment in export activities	44,067
2001 to 2006	Other	167
		44,234

Also, the consolidated tax group of the Parent availed itself in the past of the deferral for reinvestment of extraordinary income, the main characteristics of the reinvestment being as follows (in thousands of euros):

		Amount Deducted			
Year Earned	Income Qualifying for Deferral	Prior Years	2007	Amount Not Yet Included in the Tax Base	Last Year for Reinvestment
1997	9,399	8,056	1,343	-	2007
1998	1,625	1,161	232	232	2008
1999	75,144	28,387	6,548	40,210	2049
2000	3,738	1,602	535	1,601	2010
2001	4,335	1,239	619	2,477	2011

This income was reinvested in various equity investments except for the income generated in 1999, which was reinvested in the acquisition of buildings.

Following is a description of the income for 2007 and prior years qualifying for the tax credit for the reinvestment of extraordinary income, pursuant to Article 42 of the Consolidated Spanish Corporation Tax Law (in thousands of euros):

Year	Date of transfer	Income qualifying	Deduction Applied	Deduction Pending	Company generating the capital gain	Company that reinvests
2002	February	25,738	4,375	-	NH Hoteles, S.A.	NH Hotel Rallye, S.A.
2002	February	3,282	558	-	NH Pamplona, S.A.	NH Hotel Rallye, S.A.
2002	April	8	-	1	Sotogrande, S.A.	NH Hotel Rallye, S.A.
2002	December	1,087	185	-	NH Hoteles, S.A.	NH Hotel Rallye, S.A.
2003	May	3,085	617	-	NH Establecimientos Hoteleros, S.A.	NH Hotel Rallye, S.A.
2003	September	3,037	607	-	NH Hoteles, S.A.	NH Hotel Rallye, S.A.
2004	March	365	73	-	NH Hoteles, S.A.	NH Hotel Rallye, S.A.
2005	May	700	140	-	NH Hoteles, S.A.	NH Hotel Rallye, S.A.
2005	May	19	4	-	NH Hoteles, S.A.	NH Hotel Rallye, S.A.
2006	January	735	147	-	Sotogrande, S.A.	Sotogrande, S.A.
2006	December	3,480	696	-	NH Hoteles, S.A.	Sotogrande, S.A.
2006	December	3,100	620	-	NH Hoteles, S.A.	Sotogrande, S.A.

The gains arising in 2002 and 2003 were reinvested in the acquisition of 80% of the Astron Group (now NH Hoteles Deutschland GmbH, and NH Hoteles Austria GmbH) in November 2002. The obligation to maintain the investment for a period of three years ended in November 2005.

The gains arising in 2004 and 2005 were reinvested in the acquisition of 38% of Nacional Hispana de Hoteles, S.R.L. de C.V. (a group of hotel companies in Mexico) in January 2005. The obligation to maintain the investment for a period of three years ends in January 2008.

The gains arising in 2006 were reinvested in the acquisition in July 2006 of 50% of Desarrollos Isla Blanca, S.L. for EUR 19.53 million. The obligation to maintain the investment for a period of three years ends in July 2009.

Tax loss and tax credit carryforwards
At 31 December 2007, the consolidated tax group of the Parent did not have any tax loss carryforwards.

Within the consolidated tax group of the Parent, Retail Invest, S.A., European Golf Booking, S.L., NH Profesional Organizado y Realizado, S.L., NH Atardecer Caribeño, S.L., Latinoamericana de Gestion Hotelera, S.A. y Hotelera Onubense, S.A. have tax losses that were incurred prior to joining the tax group, which may only be offset against the profits of these companies, the detail being as follows (in thousands of euros):

Year Incurred	Amount	Last Year for Offset
1994	145	2009
1995	3,403	2010
1996	4,132	2011
1997	11,236	2012
1998	4,648	2013
1999	197	2014
2000	55	2015
2001	16,035	2016
2002	40,829	2017
2003	25,314	2018
2004	7,311	2019
2005	17	2020
2006	14,612	2021
	127,934	

23. TRADE PAYABLES

The detail of "Trade and Other Payables" in the consolidated balance sheets at 31 December 2007 and 2006 is as follows (in thousands of euros):

	2007	2006
Trade payables	205,032	194,114
Customer advances	30,520	24,829
	235,552	**218,943**

"Trade Payables" relates to accounts payable arising in the ordinary course of the Group's operations.

"Customer Advances" includes mainly advances from customers of Sotogrande, S.A. amounting to EUR 15 million (31 December 2006: EUR 16.35 million).

24. OTHER CURRENT LIABILITIES

The detail of "Other Current Liabilities" at 31 December 2007 and 2006 is as follows (in thousands of euros):

	2007	2006
Remuneration payable	31,589	16,522
Obligations under leases	1,591	-
Short-term interest rate derivatives (Note 19)	1,060	-
Acquisition of minority interests of Astron*	-	15,000
Desarrollos Isla Blanca, S.L.	-	15,620
Sundry accounts payable	30,726	10,237
	64,966	**57,379**

(*) Acquisition of minority interests in NH Hoteles Deutschland GmbH, and NH Hoteles Austria GmbH.

25. GUARANTEE COMMITMENTS TO THIRD PARTIES AND CONTINGENT ASSETS AND LIABILITIES

The Group has been provided with bank guarantees amounting to EUR 9.32 million (31 December 2006: EUR 8.45 million) which, in general, secure the fulfilment of certain obligations assumed by the consolidated companies in the performance of their business activities.

At 31 December 2007, the Group had taken out insurance policies to cover possible damage to property, plant and equipment, loss of profit and third-party liability. The insured sum adequately covers the aforementioned assets and risks.

Commitments to third parties

- On 29 March 2005 and 10 March 2006, the shareholders of Harrington Hall Hotel, Ltd. and Losan Investment, Ltd. -NH Hotel Rallye S.A. and Losan Hoteles, S.L.- entered into agreements whereby if the latter received an offer to acquire all the shares of either company at a price considered to be a market price, Losan Hoteles, S.L. could oblige NH Hotel Rallye S.A., which would be obliged to accept, to transfer its shares to the third party that had made the offer. However, NH Hotel Rallye, S.A. will have a preferential right to acquire the shares of Harrington Hall Hotel, Ltd. and Losan Investment, Ltd. owned by Losan Hoteles, S.L.

- On 1 December 2005 an agreement was entered into with Intesa Sampaolo, S.p.A. for the acquisition by the latter of an ownership interest in NH Italia, S.r.l., in which it was granted a put option on the shares acquired, exercisable in the period from March 2008 to March 2013. The price will be established as the fair market value determined by an independent investment bank. The price will be paid in cash or in shares of NH Hoteles, S.A. at the latter's choice. "Minority Interests" in the accompanying consolidated balance sheet includes the value of the investment of Intesa Sanpaolo in NH Italia, S.r.l. amounting to EUR 170.61 million (see Note 15.6).

- The framework agreement entered into on 2 August 2006 between Tourist Ferry Boat, S.r.l. (owner of the Framon chain) and NH Italia, S.r.l. to operate in the Italian market through a joint venture (owned 75% by NH Italia, S.r.l. and 25% by Tourist Ferry Boat, S.r.l.) to which the two companies would contribute their assets included a put option for TFB and a call option for NH Italia, S.r.l. on TFB's holding that may be exercised from December 2011 onwards. The price, to be paid in cash, will be determined on the basis of a pre-established Ebitda multiple.

- Within the framework of acquisition of control over Jolly Hotels, S.p.A., certain call and put option agreements were signed, of which the only agreement still in force at the date of preparation of these consolidated financial statements was the agreement whereby Joker may sell to NH Italia its ownership interest in Grande Jolly, in the period from 1 June 2007 to 31 December 2010, and NH Italia may exercise the call option in the six-month period immediately after 31 December 2010. The option exercise price is EUR 25 per share, giving a total of EUR 87.39 million.

- Within the framework of the transactions in the Caribbean and under the agreement for the management of the Edén Real Arena complex, NH Hoteles, S.A. is obliged to achieve a minimum level of profitability to cover the borrowings of USD 35 million obtained for the construction of the hotel.

Contingent assets and contingent liabilities
Following is a description of the main contingent assets and liabilities of the NH Hoteles Group at the date of preparation of these consolidated financial statements:

- A Group company has filed an appeal for judicial review at the Andalucía High Court against the Resolution dated 8 August 2006 of the Department of Public Works and Transport of the Andalucía Autonomous Community government rejecting the appeal filed against the Department Order dated 14 June 2006 approving the revision of the charge for the administrative concession for the construction and operation of the marina and inner marina in Sotogrande. The amount of the claim is estimated at EUR 326 thousand.

- The Parent is appearing as a defendant as the guarantor of certain promissory notes issued by a Group company in the acquisition of a hotel in Argentina. The complainants are claiming the exchange difference between Argentine pesos and US dollars paid which, together with the related interest and costs, amounts to approximately EUR 2.2 million.

- A complaint has been filed against the Parent and another two Group companies by the former minority shareholders of a company acquired alleging negligence and abuse of dominant position to the detriment of the public interest and to further their interests as majority shareholders. The amount claimed totals USD 10 million.

- The NH Hoteles, S.A. Group has entered into agreements with the shareholders of Residencial Marlín, S.L. and of Los Alcornoques de Sotogrande, S.L. establishing that the personal characteristics of the shareholders are essential for the implementation of the projects and that any change in effective control, both at the shareholders and at the parents thereof, would trigger a procedure whereby the other shareholder may cease to be a shareholder with entitlement to recover its assets and receive compensation for damage and losses caused.

- The syndicated loan amounting to EUR 650 million arranged on 2 August 2007 by a Group company, NH Finance, S.A., as the borrower, and a syndicate of banks, includes a clause that establishes the early repayment thereof when circumstances occur that give rise to a change of control over NH Hoteles, S.A

- In addition, the NH Hoteles Group has loans and credit facilities, with an overall limit of EUR 35 million, which include early repayment clauses in the event of a change of control over NH Hoteles, S.A.

At 31 December 2007 there were certain other proceedings in progress against the Group that cannot be objectively quantified. The Parent's directors consider that such losses as might arise for the Group as a result of this litigation would not have a material effect on its net worth.

26. INCOME AND EXPENSES

26.1 Revenue and other operating income

The detail of "Revenue" and "Other Operating Income" in the consolidated income statements for 2007 and 2006 is as follows (in thousands of euros):

	2007	2006
Room accommodations	856,911	625,512
Catering	371,171	277,837
Events rooms and other	94,075	51,221
Real estate	75,053	69,373
Golf and sports clubs	2,541	7,013
Rental and other services	63,875	63,565
Revenue	**1,463,626**	**1,094,521**
Grants related to income	119	141
Reversal of provision for contingencies and charges	-	164
Other operating income	46,583	14,076
Other operating income	**46,702**	**14,381**
Net gain on asset disposals	**5,730**	**10,491**

The detail of revenue by geographical market for 2007 and 2006 is as follows (in thousands of euros):

	2007	2006
Spain - Hotels	436,540	415,409
Spain - Real estate	41,497	69,372
Benelux	305,705	273,679
Italy	288,908	16,040
Germany	226,145	207,165
Latin America	68,452	63,174
Latin America - Real estate	33,556	-
Rest of Europe	62,823	49,682
	1,463,626	**1,094,521**

"Other Operating Income" includes the amount by which the net fair values of the identifiable assets, liabilities and contingent liabilities of Jolly Hotels, S.p.A. exceeds the cost of the business combination (excluding the effect thereof on minority interests), amounting to EUR 21.4 million (see Note 2.5.6). It also includes the income from the charges invoiced to hotels operated under management arrangements and from services provided by the NH Hoteles Group to third parties.

The detail of "Net Gain on Disposal of Assets" at 31 December 2007 and 2006 is as follows (in thousands of euros):

	2007	2006
Gains on disposals of investments (Note 10.2.1)	1,992	7,711
Net gain on disposal of property, plant and equipment	3,738	2,780
Net gain on asset disposals	**5,730**	**10,491**

"Net Gain on Asset Disposals" relates in 2007 to the gain on the sale of the NH Zuid Limburg Hotel, Jolly Caserta and the shares of Parque Temático de Madrid and in 2006 to the gain on the sale of Casino Club de Golf, S.L and Aymerich Golf Management, S.L.

26.2 Finance income

The detail of "Finance Income" in the consolidated income statement is as follows (in thousands of euros):

	2007	2006
Dividend income	58	43
Income from marketable securities	538	489
Interest income	6,345	5,133
Income from derivative instruments	2,828	1,313
	9,769	**6,978**

26.3 Staff costs

The detail of "Staff Costs" in the consolidated income statement is as follows (in thousands of euros):

	2007	2006
Wages, salaries and similar expenses	354,205	267,421
Employee benefit costs	65,927	54,083
Termination benefits	5,541	2,991
Contributions to pension and similar plans	10,289	3,822
Other employee benefits	29,413	11,458
	465,375	**339,775**

The average number of employees at the Parent and at the fully consolidated companies in 2007 and 2006, by professional category and gender, was as follows:

	Men	Women	2007 Total
General management of the Group	6	1	7
Managers and Department Heads	412	385	797
Other line personnel	311	276	587
Salespersons	242	260	502
Clerical staff	317	376	693
Other staff	6,204	6,368	12,572
Average number of employees	**7,492**	**7,666**	**15,158**

	Men	Women	2006 Total
General management of the Group	6	1	7
Managers and Department Heads	298	260	558
Other line personnel	302	259	561
Salespersons	239	241	480
Clerical staff	307	353	660
Other staff	5,934	6,005	11,939
Average number of employees	**7,086**	**7,119**	**14,205**

The average age of the Group's employees is approximately 35, with an average length of service of 7.1 years.

"Staff Costs" includes the fixed and variable remuneration tied to the consolidated Group's profitability of the NH Hoteles management team, amounting to EUR 8.4 million in 2007. It also includes the fixed and variable remuneration paid to the Company's directors who hold executive positions at the Group, which in 2007 amounted to EUR 3.8 million (see Notes 29.1 and 29.2).

26.4 Other operating expenses

The detail of "Other Operating Expenses" in the consolidated income statements for 2007 and 2006 is as follow (in thousands of euros):

	2007	2006
Rent	241,659	184,190
Outside services	375,348	271,248
Period provisions for contingencies and charges	10,055	3,244
	627,062	**458,682**

"Outside Services" includes the fees for statutory audit services provided by two audit firms to the various companies composing the NH Hoteles Group. In 2007 the fees paid to the principal auditor amounted to EUR 1.11 million (2006: EUR 0.66 million) and those paid to other auditors amounted to EUR 0.55 million (2006: EUR 0.53 million).

Also, the fees for other professional services provided to the NH Hoteles Group by the principal auditor amounted to EUR 0.16 million in 2007 (2006: EUR 0.10 million), and those paid to other auditors amounted to EUR 0.39 million (2006: EUR 0.24 million).

26.5 Operating leases

At 31 December 2007 and 2006 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as shown in the table below.

The present value of the lease payments was calculated by applying a discount rate in line with the Company's weighted average cost of capital and includes the obligations that the NH Hoteles Group considers that it will have to meet in the future in connection with a minimum guaranteed level of profitability of the hotels operated under management arrangements (in thousands of euros):

	2007	2006
Within one year	236,837	186,480
Between two and five years	990,425	637,867
After five years	1,127,453	1,095,705
Total	**2,354,715**	**1,920,052**

The term of the operating leases arranged by the NH Hoteles Group ranges from 15 to 25 years.

The detail by business unit of the present value of the lease payments is as follows (in thousands of euros):

	Within one Year	Between Two and Five Years	After Five Years	Total
Spain	81,986	349,308	434,604	865,898
Germany	70,248	281,908	266,172	618,328
Italy	42,599	194,837	219,996	457,432
Benelux	21,631	82,417	127,018	231,066
Switzerland, Austria, Romania and Hungary	18,449	74,458	78,076	170,983
Latin America	1,924	7,497	1,587	11,008
Total	**236,837**	**990,425**	**1,127,453**	**2,354,715**

26.6 Finance costs

The detail of "Finance Costs" in the consolidated income statements for 2007 and 2006 is as follows (in thousands of euros):

	2007	2006
Interest costs	69,466	35,928
Interest on debentures and bonds	5	7
Costs relating to derivatives	5,217	1,464
Other finance costs	7,159	2,758
	81,847	**40,157**

27. RELATED PARTY TRANSACTIONS

Set forth below are the main balances and transactions arising in the course of the business activities of the Parent and its Group in 2007 and 2006 with their various related parties.

Loans and receivables not available for trading (see Note 10.1)
The detail of this heading at 31 December 2007 and 2006 is as follows (in thousands of euros):

	2007	2006
Loans to employees	14,320	14,720
Loans to joint ventures		
Residencial Marlin loan	9,000	9,000
Los Alcornoques de Sotogrande loan	1,400	1,400
Accounts receivable from joint ventures	4,469	5,399
Loans to associates	2,250	2,250
	31,439	**32,769**

"Loans to Employees" include the loans granted in 1998 to Group executives for the acquisition of shares of the Parent amounting to EUR 14.32 million (31 December 2006: EUR 14.72 million). In 2007 the loan of EUR 0.4 million granted to one Group executive was repaid in full. The loans outstanding at 31 December 2007 are sufficiently secured and mature in January 2008, and the borrowers may renew the loans each year until April 2010. At the date of preparation of these consolidated financial statements all the borrowers had renewed their loans.

"Loans to Joint Ventures" includes the proportional part of the subordinated participating loans granted by Sotogrande, S.A. to Residencial Marlin, S.L. and Los Alcornoques de Sotogrande, S.L. (owned on an equal-footing basis with Pontegadea Inversiones, S.L.) for the acquisition of land lots. These participating loans earn interest at Euribor (4.3%), which increases when the profits of the companies exceed certain established levels.

These loans mature on 31 December 2008 and 29 December 2009, respectively. At 31 December 2007, the directors of Sotogrande, S.A. intended to renew the loan granted to Residencial Marlin on maturity.

"Accounts Receivable from Joint Ventures" includes the account receivable from Los Alcornoques de Sotogrande, S.L., a joint venture of the Group. The maturity of this balance is conditional upon the approval of the new San Roque General Urban Zoning Plan, but it must be paid in any case by December 2011.

"Loans to Associates" relates to the subordinated loan granted by the NH Hoteles Group to Harrington Hall Hotel, Ltd. in order to refinance the pre-existing debt of the company acquired.

The detail of the finance income arising from the aforementioned loans is as follows (in thousands of euros):

	2007	2006
Loans to joint ventures	386	225
Accounts receivable from joint ventures	57	-
Loans to associates	302	91
	745	**316**

Financing agreements with Group shareholders

The detail of the financing agreements with Group shareholders at 31 December 2007 and 2006 is as follows (in thousands of euros):

	2007	2006
Caja Madrid	104,650	31,150
Bancaja	25,000	21,350
Banca Intesa Sanpaolo	17,461	-
La Kutxa	15,000	-
Caixa Nova	12,500	4,130
Caja Murcia	7,500	1,652
Ibercaja	3,500	8,262
	185,611	**66,544**

The accrued finance costs associated with the financing agreements with shareholders of the Parent amounted to EUR 7,204 thousand in 2007 (2006: EUR 3,721 thousand).

Also, in November 2007 the Group arranged an equity swap of EUR 50,028 thousand with Caja Madrid to cover the financial liability arising from the 2007-2011 share-based payment plan (see Note 20). At 31 December 2007 the finance costs associated with this swap amounted to EUR 4,794 thousand.

Other agreements with related parties

The Company has various operating lease arrangements with Pontegadea Inversiones, S.L. for a total amount of EUR 8,364 thousand in 2007 (2006: EUR 7,742 thousand).

The remuneration of the Company's directors and executives is disclosed in Notes 29.1 and 29.2.

28. SEGMENT REPORTING

Segment reporting is structured on a primary basis by business segment and on a secondary basis by geographical segment.

Primary segments - business segments

The business lines described below were established on the basis of the NH Hoteles Group's organisational structure at 2007 year-end, taking into account, on the one hand, the nature of the goods and services offered and, on the other, the customer segments at which they are targeted.

In 2007 the NH Hoteles Group engaged mainly in two major lines of business – hospitality and real estate – which constitute the basis on which the Group presents the information relating to its primary segment.

The Group does not include its catering business as a primary segment since it cannot be separated from the hotel room accommodation business, since together they make up one business, the hospitality business.

Secondary segments - geographical segments

Also, the Group's business activities are located in Spain, Benelux, Germany, the rest of Europe, South America and the rest of the world.

The segment reporting below is based on reports prepared by the NH Hoteles Group which are generated through a computer application which categorises the transactions by business line and geographical area.

The segment's ordinary revenue relates to the ordinary revenue directly attributable to the segment plus the relevant proportion of the Group's general income that can be allocated to the segment using reasonable allocation bases. Segment revenue does not include interest or dividend income or gains on sale of investments or gains on redemption or extinguishment of debt. The Group includes in segment revenue the share of results of associates and joint ventures accounted for using the equity method and the share of the revenue of proportionately consolidated joint ventures.

The segment result is presented before any adjustment relating to minority interests.

Segment assets and liabilities are those directly related to its operating activities.

Segment information about these businesses is presented below.

28.1 **Primary segments** (in thousands of euros):

	Hospitality		Real Estate		Total	
	2007	2006	2007	2006	2007	2006
REVENUE						
Sales and other operating income	1,435,275	1,038,972	75,053	69,930	1,510,328	1,108,902
Net gain on disposal of non-current assets	5,730	10,491	-	-	5,730	10,491
Total income	**1,441,005**	**1,049,463**	**75,053**	**69,930**	**1,516,058**	**1,119,393**
RESULTS						
Profit from operations	158,589	87,465	22,877	26,785	181,466	114,250
Share of results of associates	(1,652)	1,273	(827)	(3)	(2,479)	1,270
Finance income	9,230	5,862	539	1,116	9,769	6,978
Net exchange differences	1,093	4,604	-	-	1,093	4,604
Finance costs	(81,341)	(39,317)	(506)	(840)	(81,847)	(40,157)
Profit before tax	85,919	59,887	22,083	27,058	108,002	86,945
Tax	(5,184)	(15,771)	(3,311)	(9,624)	(8,495)	(25,395)
Profit for the year	80,735	44,116	18,772	17,434	99,507	61,550
Minority interests	22,064	(898)	-	-	22,064	(898)
Profit attributable to the Parent	58,671	45,014	18,772	17,434	77,443	62,448

	Hospitality		Real Estate		Total	
	2007	2006	2007	2006	2007	2006
OTHER INFORMATION						
Non-current asset additions	189,202	118,762	1,358	935	190,560	119,697
Depreciation and amortisation charge	(107,924)	(69,951)	(1,529)	(1,598)	(109,453)	(71,549)
Net impairment losses	(277)	(3,190)	-	-	(277)	(3,190)
BALANCE SHEET						
ASSETS						
Segment assets	30,040,416	2,413,956	211,201	211,103	3,251,617	2,625,059
Investments in associates	44,081	74,035	32,731	17,398	76,812	91,433
Total consolidated assets	**3,084,497**	**2,487,991**	**243,932**	**228,501**	**3,328,429**	**2,716,492**
LIABILITIES AND EQUITY						
Segment liabilities and equity	3,084,497	2,487,991	243,932	228,501	3,328,429	2,716,492
Total consolidated liabilities and equity	**3,084,497**	**2,487,991**	**243,932**	**228,501**	**3,328,429**	**2,716,492**

28.2 **Secondary segments reporting**

The breakdown of certain of the Group's consolidated balances based on the geographical location of the companies that gave rise to them is as follows (in thousands of euros):

	Revenue		Total Assets		Additions to tangible and intangible assets	
	2007	2006	2007	2006	2007	2006
Spain	478,036	484,781	689,651	746,266	75,122	49,581
Benelux	305,705	273,679	1,038,717	938,207	35,234	16,418
Italy	288,908	16,040	32,934	610,995	43,743	6,656
Germany	226,145	207,165	172,530	144,834	34,043	15,294
Latin America	102,008	63,174	1,084,444	250,542	11,886	30,314
Rest of Europe	62,824	49,682	307,312	25,648	634	8,065
Total	**1,463,626**	**1,094,521**	**3,325,588**	**2,716,492**	**200,663**	**126,328**

29. REMUNERATION AND OTHER REPRESENTATIONS OF THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

29.1 Remuneration of directors

The detail of the salaries, bylaw-stipulated directors emoluments and attendance fees earned in 2007 and 2006 by the members of the Parent's managing bodies, Board of Directors (12 members), Standing Committee (6 members), Audit and Control Committee (3 members) and Appointments and Remuneration Committee (3 members) is as follows (in thousands of euros):

Type of Director	2007	2006
Executive directors	3,796	2,283
Non-executive nominee directors	197	208
Non-executive independent directors	335	372
Other non-executive directors	56	74
Total	**4,384**	**2,937**

It should be mentioned that the total amount of the remuneration earned for all items by all of the directors expressly includes the amount earned by the executive director as beneficiary of the various share-based payment programmes in force at the Group which totalled EUR 2,356 thousand (2006: EUR 262 thousand). When the corresponding share-based payment plan was approved and came into force, this amount was duly hedged through the arrangement of an equity swap and, therefore, it did not entail a cash outflow for the Group

These amounts include the attendance fees and bylaw-stipulated directors emoluments received by the Parent's directors at fully and proportionately consolidated companies and companies accounted for using the equity method, which totalled EUR 120 thousand in 2007 (2006: EUR 115 thousand).

In 2007, as in 2006, no amounts were paid to the directors for professional services.

29.2 Remuneration of senior executives

The remuneration of the Management Committee members at 31 December 2007 and 2006, excluding those who are also members of the Board of Directors (whose remuneration is detailed above), was as follows (in thousands of euros):

	2007	2006
Monetary remuneration	2,586	2,645
Exercise of share-based payment plan	5,525	263
Compensation in kind	244	167
	8,355	**3,075**

The total amount of the remuneration earned by the senior executives as beneficiaries of the various share-based payment programmes was duly hedged through the arrangement of an equity swap and, therefore, it did not entail a cash outflow for the Group.

29.3 Detail of ownership interests held by directors in companies engaging in similar activities and performance, as independent professionals or as employees, of similar activities by the directors

Pursuant to Article 127 ter., 4 of the Spanish Companies Law, introduced by Law 26/2003, of 17 July, amending Securities Market Law 24/1988, of 28 July, and the Consolidated Spanish Companies Law, in order to increase the transparency of corporations, set forth below is a detail of companies that engage in an activity that is identical, similar or complementary to the activity that constitutes the company object of NH Hoteles, S.A. in which its directors hold equity interests, and of the functions, if any, that they discharge thereat:

Owner	Investee	Line of Business	Number of Shares	Functions
Caja Ahorros de Valencia, Castellón y Alicante	Hotel Alameda Valencia, S.L.	Hospitality	90%	-
Caja Ahorros de Valencia, Castellón y Alicante	Playa Hotels & Resorts, S.L.	Hospitality	6.87%	-
Caja Ahorros de Valencia, Castellón y Alicante	Prohore, S.A.	Real estate	29.93%	-
Caja Ahorros de Guipúzkoa y San Sebastián	Losan Hotels World Value Added I, S.L.	Hospitality	5.01%	Director
Caja Ahorros de Guipúzkoa y San Sebastián	Fontecruz Inversiones, S.L.	Hospitality	5.24%	Director
Manuel Herrando y Prat de la Riba	Promoarcano, S.A.	Real estate	8.40%	-
Gabriele Burgio	Mola 15, S.L.	Real estate	10%	-

Also, in 2007 the directors performed the following activities, as independent professionals or as employees, at companies engaging in activities that are identical, similar or complementary to the activity that constitutes the company object of NH Hoteles, S.A. or of any of its subsidiaries:

Owner	Investee	Line of Business	Functions
Gabriele Burgio	Sotogrande, S.A.	Real estate	Director
	Ferrovial, S.A.	Real estate	Director
	Nacional Hispana de Hoteles S.R.L de C.V.	Hospitality	Director
	Grupo Financiero de Intermediación y Estudios, S.A. (Grufir, S.A.)	Hospitality	Director
	Krasnapolsky Hotels & Restaurants, N.V.	Hospitality	Member of the Supervisory Board
	NH Participaties, N.V.	Hospitality	Chairman and director
	NH Domo Diseños y Decoración, S.L.	Decoration	Director acting jointly
	NH Italia, S.r.l.	Hospitality	Chairman and Director
	Jolly Hotels, S.p.A.	Hospitality	CEO
	Grande Jolly, S.r.l.	Hospitality	Director
Alfonso Merry del Val Gracie	Krasnapolsky Hotels & Restaurants, N.V.	Hospitality	Member of the Supervisory Board
Manuel Herrando y Prat de la Riba	Sotogrande, S.A.	Real estate	Chairman
Matias Amat Roca	Sotogrande, S.A.	Real estate	Representative of the Board

30. EVENTS AFTER THE BALANCE SHEET DATE

- On 26 February 2008, the Board of Directors of Sotogrande S.A. accepted the resignation of Gustavo Gabarda Durán from his position of CEO of Sotogrande, S.A.

- On 15 February 2008, the Group received the approval of the Italian Antitrust Authorities to implement the share exchange agreement whereby Tourist Ferry Boat, S.r.l. ("TFB") will acquire an interest of 5% in NH Italia (through a capital increase) through the contribution to that company of 25% of the shares of NH Framon Management, S.r.l., as a result of which the shareholder structure of NH Italia after the agreement has been executed will be as follows:

	Percentage of Ownership
NH Hotel Rallye, S.A.	52.25%
Banca Intesa Sanpaolo, S.p.A.	42.75%
TFB, S.r.l.	5%

31. INFORMATION ON ENVIRONMENTAL POLICY

The business activities carried on by the Group through Sotogrande, S.A. include the management of the integral water cycle serving the Sotogrande residential development and the surrounding area which includes the treatment and purification of waste water in order to reduce damage to the environment.

The Group's waste water treatment- and purification-related assets include two waste water treatment plants, with a capacity to serve up to 20,000 inhabitants, which are interconnected so that the treated effluent is dumped through a marine outfall. The Group has also housed a tertiary treatment system in its plants to further treat the waste water for use as part of the watering system of the Real Club de Golf Sotogrande with which an agreement was entered into in this connection. The tertiary treatment plant has been in service since July 2003. The implementation of the tertiary system will lead to an annual reduction in drinking water consumption of between 200,000 m^3 and 300,000 m^3.

Also, the Group's activities relating to the development and operation of the Sotogrande residential development currently focus on urban land with approved subdivision plats and, therefore, in these circumstances, the Group does not have to perform environmental impact studies prior to commencing the related property or tourist resort development work. However, the Group's policy is oriented towards maximum respect for the environment and, accordingly, it has contracted the services of an environmental consultancy firm to provide environmental diagnosis and advisory services in connection with the business activities of the Group.
The aforementioned environmental assets, net of the related accumulated depreciation and amortisation, at 31 December 2007, amounted to EUR 1,834 thousand (2006: EUR 1,631 thousand).

The Group had not recognised any provisions at the end of 2007 or 2006 for environmental contingencies or claims and was unaware of the existence of any liabilities in this connection.

32. RISK EXPOSURE

The Group's financial risk management is centralised in the Corporate Finance Department. This department has the necessary mechanisms in place to control, depending on the Group's financial structure and position and the economic variables of the industry, the fluctuations in interest and foreign exchange rates, as well as credit and liquidity risks, and uses, when necessary, occasional hedging transaction. Following are the main financial risks faced by the Group and the policies established:

Credit risk

The Group's main financial assets are cash and cash equivalents (see Note 14), and trade and other receivables (see Note 12). In general, the Group places its cash and cash equivalents at banks with a high credit rating and a portion of its trade and other receivables are secured through guarantees and advances from tour operators.

The Group does not have a significant credit risk concentration with third parties, due both to the diversification of its financial assets and to the distribution of the commercial risk among a large number of customers with low collection periods.

Interest rate risk

The Group is exposed, in relation to its financial assets and liabilities, to fluctuations in interest rates that could have an adverse effect on its results and cash flows. In order to reduce this risk, the Group has established policies and has arranged financial instruments and, accordingly, approximately between 40% and 60% of the net financial debt is tied to a fixed interest rate.

Pursuant to the disclosure requirements of IFRS 7, the Group analysed the sensitivity to possible fluctuations in interest rates that could arise in the markets in which it operates. On the basis of these requirements, the Group estimates that an increase in interest rates of 50 basis points would lead to an increase of EUR 5,720 thousand in the Group's finance costs.

In addition to the impacts that changes in interest rates cause on the financial assets and liabilities that constitute the net cash position, changes could arise in valuation of the financial instruments arranged by the Group (see Note 19). The effects of the changes in interest rates on the effective derivatives are recognised with a charge to equity, whereas the effects of the non-effective derivatives are recognised in the consolidated income statement. Note 19 to the accompanying consolidated financial statements details the analysis performed on the sensitivity of the aforementioned hedges to changes in interest rates.

Lastly, the non-current financial assets detailed in Note 10 above are also subject to interest rate risk.

Foreign currency risk

The Group is exposed to exchange rate fluctuations that could affect its sales, results, equity and cash flows, arising mainly from:

- Investments in foreign countries (principally in Mexico, Argentina, the Dominican Republic and the UK).

- Transactions carried out by Group companies that carry on their business activities in countries whose currency is not the euro (principally in Mexico, Argentina, the Dominican Republic and the UK).

In order to reduce this risk, the Group has established policies and arranged financial derivatives (see Note 19). In particular, the Group attempts to bring the composition of its financial debt in line with the cash flows in the various currencies. Also, financial instruments are arranged to reduce the exchange differences arising from foreign currency transactions.

The Group analysed the sensitivity to possible fluctuations in exchange rates that could arise in the markets in which it operates. To this end, the Group considered the fluctuations of the principal currencies, other than its functional currency, in which it operates (the US dollar, Argentinean peso, Mexican peso and pound sterling). On the basis of this analysis, the Group estimates that a 5% fall in value of the corresponding currencies would result in the following impact on equity (in thousands of euros):

	Equity	Results
US dollar	(2,171)	(72)
Pound sterling	(345)	(6)
Argentine peso	(3,146)	(177)
Mexican peso	(5,505)	(434)

Liquidity risk

Exposure to adverse situations in the debt or capital markets may hinder or prevent the coverage of the financing required for the adequate performance of the business of the Group and its Strategic Plan.

The management of this risk centres on the detailed monitoring of the maturity schedule of the Group’s borrowings, and the proactive management and maintenance of credit lines that enable the coverage of foreseeable cash requirements.

The Group’s liquidity position for 2008 is based on the following points:

- At 31 December 2007, the Group had cash and cash equivalents amounting to EUR 61,699 thousand.

- EUR 454,177 thousand drawable against credit facilities, after drawing down EUR 285,000 thousand against the syndicated loan on 2 January 2008, amounting to.

- The Group's business units have the capacity to generate significant and recurring cash flows from operations. Cash flows from operations in 2007 amounted to EUR 259,950 thousand.

- The Group's capacity to increase its financial debt, since at 31 December 2007 the financial gearing ratio stood at 0.81 (see Note 15).

Lastly, the Group systematically makes cash forecasts for each business unit and geographical area in order to assess their requirements. The liquidity policy adopted by the Group ensures the fulfilment of its payment obligations without having to resort to high interest-bearing financing, thereby allowing it to continuously maintain the Group's liquidity position.

Market risk

The Group is exposed to the risk relating to the changes in price of the shares of listed companies. This risk affects the Parent's share-based payment plans. In order to reduce this market risk, the Group arranged the equity swap described in Note 20 above. Also, the aforementioned Note 20 includes detail on the analysis of the sensitivity of this financial derivative to +/- 10% changes in the price of the Parent's shares.

33. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of IFRSs as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

APPENDIX I: SUBSIDIARIES

Details on the Company's subsidiaries at 31 December 2007 are as follows:

Investee	Registered Office of the Investee	Main Business Activity of the Investee	% of Ownership of the Parent in the Investee	% of Voting Rights Controlled by the Parent	Carrying Amount Recognised at the Parent	Thousands of Euros			
						Assets	Liabilities	Equity	Result for the Year
Alfa Reserveringskantoor CV BA (**)	Brussels	Hospitality	100%	100%	-	(0.07)	0.07	(14.81)	14.81
Aránzazu Donosti, S.A. (*)	Guipuzcoa	Hospitality	100%	100%	6,373.00	10,758.45	(1,708.45)	(7,333.00)	(1,717.00)
Astron Kestrell Ltd (**)	Plettenberg Bay	Hospitality	100%	100%	(1,091.78)	866.68	(1,958.46)	1,132.40	(40.62)
Atardecer Caribeño	Madrid	Real estate	100%	100%	48.00	46.00	-	(47.00)	1.00
Central Europe Management	Germany	Hospitality	100%	100%	25.00	39.63	(3.00)	(34.00)	(3.00)
Centrumhotel Park Molenvijver N.V. (**)	Genk	Hospitality	100%	100%	180.02	1,147.87	(967.86)	(450.83)	270.81
Chartwell de México, S.A. de C.V. (*)	Mexico City	Real estate	100%	100%	4,906.89	5,124.21	(217.32)	(4,877.87)	(29.02)
Chartwell de Nuevo Laredo, S.A. de C.V. (*)	Nuevo Laredo (Mexico)	Hospitality	100%	100%	62.91	750.01	(687.11)	(537.82)	474.91
Chartwell Inmobiliaria de Coatzacoalcos, S.A. de C.V. (*)	Coatzacoalcos (Mexico)	Hospitality	100%	100%	2,535.92	2,811.21	(275.29)	(2,237.58)	(298.33)
Chartwell Inmobiliaria de Juárez, S.A. de C.V. (*)	Juárez (Mexico)	Hospitality	100%	100%	5,145.96	5,425.90	(279.94)	(5,202.17)	56.21
Chartwell Inmobiliaria de Monterrey, S.A. de C.V. (*)	Montrrey (Mexico)	Hospitality	100%	100%	5,303.23	6,197.85	(894.62)	(5,030.05)	(273.17)
City Hotel SA (*)	Buenos Aires	Hospitality	50%	50%	6,923.81	19,988.82	(6,756.92)	(11,977.36)	(1,254.68)
Club Deportivo Sotogrande, S.A.	San Roque	Tourist services	93.95%	93.95%	2,503.00	4,896.00	(269.00)	(4,565.00)	(62.00)
Cofir, S.L.	Madrid	Holding company	100%	100%	60,101.00	63.93	-	(64.00)	-
Columbia Palace Hotel S.A. (*)	Montevideo	Hospitality	96.03%	96.03%	3,345.19	8,398.24	(5,052.99)	(3,132.10)	(213.12)
Comexotel SA (**)	Brussels	Hospitality	100%	100%	309.57	1,214.68	(905.11)	182.05	(491.62)
D'Assaut SA (**)	Brussels	Hospitality	100%	100%	5,939.44	8,973.95	(3,034.51)	(4,895.94)	(1,043.49)
De Nederlandse Club Ltd. (**)	Somerset West	Inactive	100%	100%	-	-	-	-	-
Desarrollo Inmobiliario Santa Fe	Mexico City	Real estate	50%	50%	5,004.62	13,926.70	(8,922.08)	(6,240.70)	1,236.08
DFE Vastgoed B.V.	Hilversum	Inactive	100%	100%	-	-	-	-	-
EHVB SCRL (**)	Diegem	Holding company	100%	100%	35,882.55	82,546.20	(46,663.65)	(28,411.65)	(7,470.90)
Establecimientos Complementarios Hoteleros, S.A.	Barcelona	Hospitality	100%	100%	839.00	178.00	(676.00)	(132.00)	630.00
Etudes & Entreprise (**)	Brussels	Hospitality	100%	100%	3,197.02	12,224.13	(9,027.11)	(2,124.25)	(1,072.78)
European Golf Booking Center, S.L.	Madrid	Inactive	100%	100%	88.00	109.00	-	(72.00)	(38.00)
Expl. mij. Grand Hotel Krasnapolsky B.V.	Amsterdam	Hospitality	100%	100%	14,490.05	40,787.54	(17,921.33)	(18,678.13)	(4,188.08)
Expl. Mij. Hotel Best B.V.	Best	Hospitality	100%	100%	461.47	2,244.42	(1,782.94)	(199.42)	(262.06)
Expl. mij. Hotel Caransa B.V.	Amsterdam	Inactive	100%	100%	310.57	-	310.57	(309.70)	(0.87)
Expl. mij. Hotel Doelen B.V.	Amsterdam	Hospitality	100%	100%	3,383.78	5,217.78	(1,834.00)	(2,469.65)	(914.13)
Expl. Mij. Hotel Naarden B.V.	Naarden	Hospitality	100%	100%	631.39	4,377.27	(3,745.87)	(310.09)	(321.30)
Expl. mij. Hotel Schiller B.V.	Amsterdam	Hospitality	100%	100%	4,204.89	7,798.88	(3,593.99)	(3,105.71)	(1,099.18)
Exploitatiemij. Alba Mechelen N.V. (**)	Mechelen	Hospitality	100%	100%	931.59	1,081.64	(150.04)	(1,027.63)	96.04
Exploitatiemij. Flanders Gent N.V. (**)	Gent	Hospitality	100%	100%	3,152.10	3,265.37	(113.26)	(3,127.38)	(24.73)
Exploitatiemij. Max NV (**)	Brussels	Hospitality	100%	100%	75,862.65	76,485.64	(622.99)	(74,173.78)	(1,688.86)
Exploitatiemij. Tropenhotel B.V.	Amsterdam	Hospitality	100%	100%	(11.36)	189.18	(200.54)	11.90	(0.54)
Explotaciones Hoteleras Condor, S.L.	Barcelona	Hospitality	55%	55%	299.00	1,157.38	(340.00)	(734.00)	(83.00)
Fast Good América, S.L.	Madrid	Catering	75%	75%	232.00	229.23	(8.00)	(230.00)	8.00
Fast Good Península Ibérica	Madrid	Catering	100%	100%	3.00	(2,874.14)	(1,885.00)	1,964.00	2,795.00
Franquicias Lodge, S.A. de C.V. (*)	Mexico City	Real estate	100%	100%	164.66	169.38	(4.73)	(391.05)	226.40
Gran Círculo de Madrid, S.A. (*)	Madrid	Hotel	99%	99%	36,789.00	42,748.19	(5,591.19)	(35,598.00)	(1,559.00)
Grande Jolly SRL.	Milan	Hotel	51%	51%	28,885.00	428,790.00	(307,410.00)	(130,844.00)	9,464.00
Grupo Financiero de Intermediación y Estudios, S.A.	Madrid	Holding company	100%	100%	361.00	553.55	-	(556.00)	2.00
Grupo Hotelero Querétaro, S.A. de C.V.	Mexico City	Real estate	50%	50%	1,530.14	1,532.67	(2.53)	(1,524.56)	(5.57)
HEM Atlanta Rotterdam B.V.	Rotterdam	Hospitality	100%	100%	3,230.55	8,664.50	(5,433.95)	(2,061.20)	(1,169.35)
HEM Distelkade Amsterdam B.V.	Amsterdam	Hospitality	100%	100%	19,184.89	26,970.30	(7,785.41)	(17,438.66)	(1,746.23)
HEM Epen Zuid Limburg B.V.	Wittem	Hospitality	100%	100%	(2,146.51)	10,265.84	(12,412.35)	2,080.10	66.41
HEM Forum Maastricht B.V.	Maastricht	Hospitality	100%	100%	696.28	5,721.34	(5,025.06)	(582.49)	(113.79)
HEM Jaarbeursplein Utrecht B.V.	Utrecht	Hospitality	100%	100%	2,698.12	8,821.41	(6,123.30)	(1,635.65)	(1,062.47)
HEM Janskerkhof Utrecht B.V.	Utrecht	Hospitality	100%	100%	413.47	1,731.95	(1,318.49)	(251.42)	(162.05)
HEM Marquette Heemskerk B.V.	Heemskerk	Hospitality	100%	100%	(810.49)	2,239.02	(3,049.51)	626.73	183.76
HEM Onderlangs Arnhem B.V.	Arnhem	Hospitality	100%	100%	(56.98)	2,653.50	(2,710.48)	328.70	(271.72)
HEM Rokkeveen Zoetermeer B.V.	Zoetermeer	Hospitality	100%	100%	(203.73)	3,630.99	(3,834.72)	82.11	121.62
HEM Spuistraat Amsterdam B.V.	Amsterdam	Hospitality	100%	100%	7,668.32	11,914.42	(4,246.10)	(5,511.49)	(2,156.83)
HEM Stadhouderskade Amsterdam B.V.	Amsterdam	Hospitality	100%	100%	6,441.40	16,218.66	(9,777.26)	(4,905.40)	(1,536.00)
HEM Van Alphenstraat Zandvoort B.V.	Zandvoort	Hospitality	100%	100%	1,453.81	8,108.27	(6,654.46)	(658.54)	(795.27)
Highmark Geldrop B.V.	Geldrop	Hospitality	100%	100%	(867.97)	3,602.42	(4,470.39)	706.10	161.87

Investee	Registered Office of the Investee	Main Business Activity of the Investee	% of Ownership of the Parent in the Investee	% of Voting Rights Controlled by the Parent	Carrying Amount Recognised at the Parent	Thousands of Euros			
						Assets	Liabilities	Equity	Result for the Year
Highmark Hoofddorp B.V.	Hoofddorp	Hospitality	100%	100%	(5,715.50)	17,008.72	(22,724.22)	5,402.35	313.15
Hotel Albar Ciudad Albacete, S.L.	Albacete	Hospitality	100%	100%	746.00	1,497.00	(189.00)	(1,023.00)	(285.00)
Hotel Ciutat de Mataró, S.A.	Barcelona	Hospitality	50%	50%	1,078.00	2,036.40	(722.00)	(1,097.00)	(217.00)
Hotel de Ville BV.	Amsterdam	Hospitality	100%	100%	(497.17)	2,753.01	(3,250.18)	348.62	148.56
Hotel Expl.mij. Capelle a/d IJssel B.V.	Capelle a/d Ijssel	Hospitality	100%	100%	3,497.10	6,223.85	(2,726.74)	(3,349.62)	(147.48)
Hotel Expl.mij. Diegem N.V. (**)	Diegem	Hospitality	100%	100%	2,042.90	23,810.81	(21,767.91)	(1,326.69)	(716.21)
Hotel Management Fribourg, S.A.	Fribourg	Hospitality	100%	100%	2,000.00	10,476.06	(8,550.99)	(1,785.76)	(138.81)
Hotel Palacio de Castilla, S.A.	Salamanca	Hospitality	83%	83%	5,588.00	4,682.51	(600.00)	(3,485.00)	(597.00)
Hoteleira Brasil Ltda. (*)	Brazil	Hospitality	100%	100%	14,185.00	13,632.17	(368.13)	(13,391.58)	127.59
Hotelera de la Parra, S.A. de C.V. (*)	Mexico City	Hospitality	100%	100%	15,035.12	29,108.49	(14,073.37)	(15,219.91)	184.79
Hotelera Onubense, S.A.	Huelva	Hospitality	99.45%	99.45%	5,462.00	3,500.79	(486.65)	(3,000.00)	(14.00)
Hotelera Tlalnepantla, S.A. de C.V.	Mexico City	Hospitality	100%	100%	92.04	1,272.54	(1,180.50)	(96.75)	4.72
Hoteles Express, S.L. (*)	Barcelona	Hospitality	100%	100%	7,448.00	21,129.09	(11,018.00)	(10,962.00)	(2,566.00)
Hoteles y Gestión Sotogrande, S.L.	San Roque	Hospitality	100%	100%	5,727.00	14,083.00	(14,206.00)	(513.00)	636.00
Inmobiliaria y Financiera Aconcagua SA (*)	Buenos Aires	Hospitality	50%	50%	2,781.36	3,145.78	(2,268.26)	(707.20)	(170.38)
Immobiliare 4 Canti SRL.	Messina	Hospitality	50%	50%	1,551.54	5,249.12	(3,650.70)	(1,811.42)	213.00
Inversores y Gestores Asociados, S.A.	Madrid	Holding company	100%	100%	3,005.00	1,039.41	(1,116.26)	(255.00)	332.00
Jan Tabak N.V. (**)	Bussum	Hospitality	56%	56%	3,045.49	7,162.42	(3,046.90)	(3,462.30)	(653.22)
Koningshof B.V.	Veldhoven	Hospitality	100%	100%	23,775.18	56,911.90	(33,136.72)	(21,705.69)	(2,069.49)
Krasnapolsky Belgian Shares B.V.	Hilversum	Holding company	100%	100%	(8,521.77)	53.03	(8,574.79)	8,521.77	-
Krasnapolsky Events B.V.	Amsterdam	Inactive	100%	100%	69.12	69.12	-	(69.12)	-
Krasnapolsky H&R Onroerend Goed B.V.	Hilversum	Real estate	100%	100%	85,665.09	143,034.65	(57,369.57)	(79,336.48)	(6,328.60)
Krasnapolsky Hotels & Restaurants N.V. (**)	Hilversum	Holding company	100%	100%	455.68	8,441.96	(7,986.29)	3,034.72	(3,490.40)
Krasnapolsky Hotels Ltd (**)	Somerset West	Hospitality	100%	100%	(954.66)	2,009.77	(2,964.43)	1,081.10	(126.44)
Krasnapolsky ICT B.V.	Hilversum	Other Activity	100%	100%	15.54	15.54	-	(15.54)	-
Krasnapolsky Hotels & Restaurants N.V.	Hilversum	Holding Company	100%	100%	428,121.15	402,722.72	25,398.43	(378,633.65)	(49,487.50)
Krasnapolsky Management B.V.	Amsterdam	Inactive	100%	100%	(34.48)	-	(34.48)	34.48	-
Latina Chile SA (*)	Santiago de Chile	Hospitality	100%	100%	3,062.07	12,691.30	(416.27)	(11,682.29)	(592.74)
Latina de Gestión Hotelera, S.A. (*)	Buenos Aires	Hospitality	100%	100%	28,289.74	68,308.54	(9,577.88)	(57,034.27)	(1,696.19)
Latinoamericana de Gestión Hotelera, S.A. (*)	Madrid	Hospitality	64.56%	64.56%	186,995.00	35,672.22	(129,970.00)	(217,362.00)	(4,106.00)
Leeuwenhorst Congres Center B.V.	Noordwijkerhout	Hospitality	100%	100%	41,836.15	74,672.51	(32,836.36)	(39,486.24)	(2,349.91)
Lenguados Vivos, S.L.	Madrid	Hospitality	100%	100%	3.00	(377.92)	-	382.00	(4.00)
Marquette Beheer B.V.	Hilversum	Real estate	100%	100%	389,052.11	467,794.39	(78,742.28)	(377,188.01)	(11,864.10)
Museum Quarter B.V.	Amsterdam	Hospitality	100%	100%	2,405.47	5,052.33	(2,646.86)	(2,029.48)	(375.99)
Nacional Hispana de Hoteles, S.A. (*)	México City	Hospitality	100%	100%	99,095.48	106,946.33	(7,850.85)	(96,976.40)	(2,119.09)
NH Caribbean Management B.V.	Hilversum	Management	100%	100%	(100.19)	10.83	(111.02)	100.19	-
NH Central Europe GmbH & Co. KG (*)	Germany	Hospitality	100%	100%	243,293.00	69,656.03	(466.15)	(69,470.00)	280.00
NH Domo y Decoración ,S.L.	Madrid	Decoration	50%	50%	2.00	-	-	-	-
NH Framon Italy Hotels Management SRL	Milan	Hospitality	100%	100%	39,947.96	61,269.36	(27,450.32)	(38,877.79)	5,058.75
NH Hotel Ciutat de Reus, S.A.	Barcelona	Hospitality	90%	90%	1,118.00	1,929.57	(355.00)	(1,141.00)	(434.00)
NH Hotel Rallye, S.A. (*)	Barcelona	Hospitality	100%	100%	145,763.00	62,935.17	(85,558.17)	5,120.00	17,503.00
NH Hoteles Austria GmbH (*)	Vienna	Hospitality	80%	80%	9,667.00	3,865.27	(3,135.65)	(650.00)	(80.00)
NH Hoteles Deutschland GmbH (*)	Berlin	Hospitality	80%	80%	55,789.00	34,950.74	(21,417.28)	(13,697.00)	164.00
NH Hoteles Participaties, NV (**)	Hilversum	Holding company	100%	100%	225,553.00	608,053.63	(111,961.58)	(486,049.04)	(10,043.00)
NH Hotels USA, Inc	Houston (USA)	Real Estate	100%	100%	171.44	276.86	(105.42)	(156.85)	(14.59)
NH Hungary Hotel Management Ltd. (*)	Budapest	Hospitality	100%	100%	353.00	496.46	(321.00)	(200.00)	(24.00)
NH Italia S.r.l.	Milan	Hospitality	51%	51%	152,091.00	930,777.84	(749,491.00)	(2,451.00)	(178,836.00)
NH Lagasca, S.A.	Barcelona	Hospitality	100%	100%	643.00	19,486.54	(14,871.00)	(3,381.00)	(1,235.00)
NH Laguna Palace SpA	Mestre - VE	Hospitality	100%	100%	11,352.74	14,454.52	(4,677.04)	(10,765.47)	988.00
NH Las Palmas, S.A. (*)	Gran Canaria	Hospitality	73.87%	73.87%	12,275.00	19,035.10	(3,122.00)	(14,789.10)	(1,124.00)
NH Logroño, S.A.	Logroño	Hospitality	76.47%	76.47%	599.00	2,917.81	(763.00)	(1,788.00)	(367.00)
NH Málaga, S.A. (*)	Málaga	Hospitality	100%	100%	2,369.00	6,280.62	(2,255.62)	(3,129.00)	(896.00)
NH Management Black Sea S.R.L.	Bucharest	Hospitality	100%	100%	300.00	1,074.60	(160.55)	(410.60)	(503.46)
NH Marin, S.A. (*)	Málaga	Hospitality	50%	50%	1,686.00	3,774.80	(912.79)	(2,173.00)	(689.00)
NH Numancia, S.A.	Barcelona	Hospitality	51%	51%	667.00	10,844.50	(10,267.00)	(378.00)	(199.00)
NH Pamplona, S.A. (*)	Madrid	Hospitality	100%	100%	13,410.00	14,821.14	(13,992.14)	(374.00)	(455.00)
NH Private Equity, BV	Netherlands	Holding company	100%	100%	1,080.00	1,066.97	175.50	(1,208.46)	(34.01)
NH Profesional Realizado y Organizado S.L.	Madrid	Training	100%	100%	2.00	1.00	-	(1.00)	-

Investee	Registered Office of the Investee	Main Business Activity of the Investee	% of Ownership of the Parent in the Investee	% of Voting Rights Controlled by the Parent	Carrying Amount Recognised at the Parent	Thousands of Euros			
						Assets	Liabilities	Equity	Result for the Year
NH Rallye Portugal Lda.	Portugal	Hospitality	100%	100%	2,205.00	2,164.09	(398.00)	(1,851.00)	85.00
NH Santander, S.A.	Santander	Hospitality	100%	100%	7,750.00	2,697.61	(1,116.61)	(925.00)	(656.00)
NH The Netherlands B.V. (vh GTI B.V.)	Hilversum	Holding company	100%	100%	333,709.82	316,699.42	17,010.40	(284,758.82)	(48,951.00)
NH Tortona Srl	Milan	Hospitality	70%	70%	2,264.29	9,621.86	(10,208.80)	(322.05)	909.00
NH University, S.L.	Barcelona	Hospitality	100%	100%	30.00	54.52	(1.00)	(54.00)	-
Nuevos Espacios Hoteleros, S.L.	Madrid	Hospitality	50%	50%	2,050.00	9,078.87	(8,722.00)	(327.00)	(30.00)
Olofskapel Monumenten B.V.	Amsterdam	Real estate	100%	100%	333.14	1,539.52	(1,206.38)	(227.98)	(105.16)
Operadora Nacional Hispana, S.A. De C.V. (*)	Mexico City	Real estate	100%	100%	3,303.90	14,972.20	(11,668.30)	(3,540.54)	236.63
Palatium Amstelodamum N.V.	Amsterdam	Hospitality	100%	100%	8,260.24	21,533.19	(13,272.95)	(6,488.15)	(1,772.10)
Panorama Hotel SA (*)	Córdoba (Argentina)	Hospitality	100%	100%	7,351.18	6,417.02	(874.53)	(5,102.94)	(439.55)
Rest. d'Vijff vlieghen en Moeder Hendrina B.V.	Amsterdam	Holding company	100%	100%	154.03	-	154.03	(154.03)	-
Restaurant D'Vijff Vlieghen B.V.	Amsterdam	Catering	100%	100%	1,555.80	3,721.53	(2,165.73)	(1,390.81)	(164.99)
Retail Invest, S.A.	Madrid	Hospitality	100%	100%	24,627.00	14.00	(848.00)	986.00	(152.00)
Satme SRL.	Messina	Hospitality	100%	100%	9,006.33	19,957.38	(16,140.78)	(4,064.60)	248.00
Servicios Chartwell de Nuevo Laredo, S.A. de C.V. (*)	Nuevo Laredo (Mexico)	Real estate	100%	100%	2.59	103.10	(100.51)	17.82	(20.41)
Servicios Corporativos Chartwell Coatzacoalcos, S.A. de C.V. (*)	Coatzacoalcos (Mexico)	Real estate	100%	100%	0.07	0.07	-	5.16	(5.22)
Servicios Corporativos Chartwell Monterrey, S.A. de C.V. (*)	Monterrey (Mexico)	Real estate	100%	100%	(1.24)	147.38	(148.62)	(8.48)	9.72
Servicios Corporativos Hoteleros, S.A. de C.V. (*)	Mexico City	Real estate	100%	100%	345.89	1,231.28	(885.38)	(329.28)	(16.61)
Servicios Corporativos Krystal Zona Rosa, S.A. de C.V. (*)	Mexico City	Real estate	100%	100%	(63.47)	405.09	(468.56)	85.04	(21.57)
Servicios de Operación Turística, S.A. de C.V. (*)	Guadalajara (Mexico)	Real estate	100%	100%	139.84	436.92	(297.08)	(128.30)	(11.54)
Servicios é Inmuebles Turísticos, S.A. de C.V. (*)	Guadalajara (Mexico)	Hospitality	100%	100%	62,515.30	60,500.38	2,014.92	(59,444.71)	(3,070.59)
Servicios Hoteleros Tlalnepantla, S.A. de C.V. (*)	Mexico City	Real estate	100%	100%	(2.23)	2.92	(5.15)	4.85	(2.62)
Sotogrande, S.A. (*)	Cádiz	Real estate	96.68%	96.68%	201,011.00	237,375.00	(25,294.00)	(206,330.00)	(5,752.00)
Stadskasteel Oudaen B.V.	Utrecht	Inactive	100%	100%	(1,099.76)	(1,563.04)	463.28	1,099.76	0.00
t Goude Hooft B.V.	The Hague	Inactive	100%	100%	(1,076.08)	(1,057.01)	(19.06)	1,076.08	0.00
Toralo S.A. (*)	Uruguay	Hospitality	100%	100%	19,908.00	6,340.93	(359.61)	(6,201.36)	220.08
Hotelera Lancaster, S.A. (*)	Buenos Aires	Hospitality	50%	50%	5,683.06	7,083.75	(3,585.61)	(2,899.74)	(598.40)
Edificio Metro, S.A. (*)	Buenos Aires	Hospitality	95%	95%	6,113.25	1,767.39	(55.71)	(1,699.46)	(11.97)
Fast Good Chile	Santiago de Chile	Catering	86%	86%	710.00	13,796.49	(9,694.52)	(28,979.75)	24,877.77
Hotelera de Chile	Santiago de Chile	Hospitality	100%	100%	2,037.17	2,050,616.68	(61,337.74)	(1,923,684.75)	(65,594.00)
NH Brazil (*)	Brazil	Hospitality	100%	100%	15,416.89	10,802.79	(2,761.19)	(8,294.76)	253.26
HOTELBETRIEBE PENTLING GMBH	Alemania	Hospitality	100%	100%	1,974.00	(12,584.34)	(45.33)	12,479.00	151.00
Hanuman Investment, S.L.	Tenerife	Hospitality	37%	37%	2,162.00	7,283.39	(3,270.00)	(4,045.00)	32.00
Fast Good Islas Canarias	Las Palmas	Catering	50%	50%	350.00	440.00	(232.00)	(616.00)	408.00
Donnafugata Resorts, S.R.L.	Italy	Tourist services	51%	51%	2,607.00	24,891.00	(19,747.00)	(5,163.00)	19.00
Hotelbetriebe Adersstraße GmbH	Germany	Hospitality	100%	100%	-	(3,857.57)	(7.00)	3,779.00	85.00
HOTELBETRIEBE BAYREUTHER STRAßE GMBH	Germany	Hospitality	100%	100%	-	(78.44)	(6.00)	78.00	6.00
Hispana Santa fe, S.A. de C.V.	Mexico City	Hospitality	50%	50%	(7.28)	74.44	(81.72)	22.36	(15.08)
Caribe Puerto Morelos, S.A. de C.V. (*)	Mexico City	Hospitality	100%	100%	-	208.06	(90.37)	214.61	(332.32)
IZD Hotel Betriebs GMBH	Vienna	Hospitality	100%	100%	506.94	3,091.75	(1,887.00)	(1,519.00)	314.00
JOLLY HOTELS S.P.A. (*)	Vicenza	Hospitality	97%	97%	415,413.00	308,214.00	(243,148.00)	(68,791.00)	3,725.00
JH Holland N.V. (*)	Amsterdam	Hospitality	100%	100%	31,730.00	51,608.81	(10,540.03)	(37,809.78)	(3,259.00)
JH UK Ltd. (*)	London	Hospitality	100%	100%	4,345.00	20,242.34	(11,701.23)	(6,661.93)	(1,879.18)
JH St Ermin's B.V. (*)	Amsterdam	Real state	100%	100%	20,222.00	81,014.22	(59,006.51)	(21,893.49)	(114.22)
JH USA Management Inc. (*)	New York	Hospitality	100%	100%	367.00	378.31	(21.41)	(356.90)	-
JH USA Inc. (*)	Wilgminton	Hospitality	100%	100%	10,385.00	22,476.02	(12,008.06)	(9,264.23)	(1,203.72)
JH Deutschland GmbH (*)	Cologne	Hospitality	100%	100%	1,563.00	8,864.00	(8,165.00)	(1,561.00)	862.00
JH France S.A. (*)	Paris	Hospitality	100%	100%	14,355.00	33,865.00	(27,474.00)	(9,016.00)	2,625.00
JH Belgio S.A. (*)	Brussels	Hospitality	100%	100%	713.00	3,120.55	(2,047.43)	(8.13)	(1,064.99)
NH ORIO SRL	Milan	Hospitality	80%	80%	88.00	1,326.10	(1,235.61)	(110.00)	19.51
Liberation Exploitatie B.V.	Sprang Capelle	Hospitality	100%	100%	(2,461.95)	4,546.47	(7,008.43)	1,787.35	674.61
Hotel expl. mij. Stationsstraat Amersfoort B.V.	Amersfoort	Hospitality	100%	100%	(185.37)	(185.37)	-	185.37	-
Hotel Belfort N.V.	Gent	Hospitality	100%	100%	2,290.75	10,671.20	(8,380.44)	(2,301.98)	11.23
Hotel Boeverie N.V.	Bruges	Hospitality	100%	100%	2,623.00	365,521.00	(364,754.00)	(1.00)	81.00
NH Finance, S.A.	Luxembourg	Financial	100%	100%	1,499.64	10,697.77	(9,198.13)	(1,509.48)	9.84
VSOP VIII B.V. (**)	Groningen	Hospitality	50%	50%	652.57	6,612.63	(5,307.49)	(921.33)	(383.81)

(*) Companies audited by Deloitte

(**) Companies audited by Price Waterhouse Coopers

APPENDIX II: JOINT VENTURES

Details on the Company's joint ventures at 31 December 2007 are as follows:

Investee	Registered Office of the Investee	Main Business Activity of the Investee	% of Ownership of the Parent in the Investee	% of Voting Rights Controlled by the Parent	Carrying Amount Recognised at the Parent	Thousands of Euros			
						Assets	Liabilities	Equity	Result for the Year
Los Alcornoques de Sotogrande, S.L.	San Roque	Real estate	50	50	250.00	15,287.00	(14,784.00)	(500.00)	(3.00)
Resco Sotogrande. S.L.	San Roque	Real estate	50	50	817.00	12,960.00	(10,854.00)	(2,492.00)	386.00
Residencial Marlin. S.L. (*)	San Roque	Real estate	50	50	1,315.00	91,369.00	(88,757.00)	(2,621.00)	9.00

(*) Companies audited by Deloitte

APPENDIX III: ASSOCIATES

The following table gives information on the Company's associated companies as 31 December 2007:

Company	Registered Office	Business Activity	Method Used to Account for the Investment	% of Ownership	% of Voting Rights Controlled by NH Hoteles	Miles de euros				
						Net Carrying Amount	Datos de la Entidad Participada			
							Assets	Liabilities	Equity	Result for the Year
Fonfir 1, S.L.	Madrid	Real estate	Accounted for using the equity method	50%	50%	2	201,340	(169,100)	(31,278)	(961)
Palacio de la Merced, S.A.	Burgos	Hospitality	Accounted for using the equity method	25%	25%	1,533	18,007	(12,698)	(5,063)	(246)
Harrington Hall Hotel, Ltd. (*)	London	Hospitality	Accounted for using the equity method	25%	25%	1,259	36,919	(39,308)	(1,009)	3,398
Corporación Hotelera Dominicana, S.A.	Santo Domingo	Real estate	Accounted for using the equity method	25%	25%	12,753	54,002	(3,458)	(52,998)	2,454
Corporación Hotelera Oriental, S.A.	Santo Domingo	Hospitality	Accounted for using the equity method	25%	25%	1,863	7,696	(304)	(7,418)	26
Desarrollos Isla Blanca, S.L.	Madrid	Real estate	Accounted for using the equity method	50%	50%	19,532	24,422	(2,893)	(21,710)	180
Promociones Rivera Morelos, S.A. de C.V.(*)	Cancún	Hospitality	Accounted for using the equity method	20%	20%	18,228	42,572	-	(42,572)	-
Desarrollos Isla Poniente	Madrid	Real estate	Accounted for using the equity method	50%	50%	2	13,867	(1,755)	(12,790)	678
Inmobiliaria 3 Poniente, S.A. de C.V.	Mexico	Hospitality	Accounted for using the equity method	27%	27%	460,643	1,756,295	(55,446)	(1,796,355)	95,505
Losan Investment, Ltd.	London	Hospitality	Accounted for using the equity method	30%	30%	2192	50,028	(43,486)	(6,106)	(436)

(*) Companies audited by Deloitte

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
NH Hoteles, S.A.:

1. We have audited the consolidated financial statements of NH HOTELES, S.A. and SUBSIDIARIES comprising the consolidated balance sheet at 31 December 2007 and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made. Our work did not include an examination of the financial statements of certain Group companies whose assets at 31 December 2007 and revenue in 2007 represented approximately 21% and 24%, respectively, of the Group's totals, and whose contribution to the net consolidated profit for 2007 amounted to approximately EUR 49 million in profits. The financial statements of these companies were audited by other auditors, as indicated in the Appendix I to the notes to the accompanying consolidated financial statements. Our opinion as expressed in this report is based, with respect to the ownership interests in these companies, solely on the reports of the other auditors.

2. The accompanying consolidated financial statements for 2007 were prepared by the Group in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs), which require, in general, that financial statements present comparative information. In this regard, as required by Spanish corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the consolidated figures for 2007 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements, the figures for 2006. On 30 March 2007, we issued our auditors' report on the 2006 consolidated financial statements in which we expressed an unqualified opinion.

3. In our opinion, based on our audit and on the reports of the other auditors referred to in paragraph 1 above, the accompanying consolidated financial statements for 2007 present fairly, in all material respects, the consolidated equity and consolidated financial position of NH Hoteles, S.A. and Subsidiaries at 31 December 2007 and the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards as adopted by the European Union which were

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, Tomo 13.650, folio 188, sección 8, hoja M-54414, inscripción 96, C.I.F.: B-79104469. Domicilio Social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso - 28020 Madrid

Member of
Deloitte Touche Tohmatsu

4. The accompanying consolidated directors' report for 2007 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2007. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Group's accounting records.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Pablo Hurtado March

31 March 2008

NH
HOTELES

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