



CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED MANAGEMENT REPORT 2008

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



This document was published on recycled paper and is also available in electronic format on our web page

www.nh-hotels.com, where detailed information on the different sections of

the Annual Report 2008 can be found.



Index

Consolidated Management Report	8
Consolidated Financial Statements.....	52



Index

INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS	6
CONSOLIDATED MANAGEMENT REPORT	8
CORPORATE GOVERNANCE REPORT	19
CONSOLIDATED FINANCIAL STATEMENTS.....	52
CONSOLIDATED BALANCE SHEET	52
CONSOLIDATED PROFIT AND LOSS ACCOUNT	54
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	55
CONSOLIDATED CASH FLOW STATEMENTS	56
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2008.....	57
1. ACTIVITY AND STRUCTURE OF THE PARENT.....	57
2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND BASIS OF CONSOLIDATION.....	57
2.1 Basis of presentation of the consolidated financial statements.....	57
2.2 Information relating to 2007	58
2.3 Currency of presentation	58
2.4 Responsibility for the information, use of estimates and sources of uncertainty.....	58
2.5 Basis of consolidation	59
3. DISTRIBUTION OF EARNINGS	64
4. ACCOUNTING POLICIES	65
4.1 Tangible fixed assets	65
4.2 Investment property.....	65
4.3 Goodwill on consolidation.....	65
4.4 Intangible assets.....	66
4.5 Impairment of tangible and intangible assets excluding goodwill.....	66
4.6 Leases	67
4.7 Financial instruments.....	67
4.8 Inventories.....	68
4.9 Foreign currency transactions and balances	68
4.10 Current/Non-current classification	68
4.11 Income and expense	68
4.12 Government grants	69
4.13 Income tax.....	69
4.14 Employee benefit obligations	69
4.15 Onerous contracts	69
4.16 Remuneration plans linked to the listed price of the share	70
4.17 Own shares held	70
4.18 Provisions	70
4.19 Environmental policy.....	70
4.20 Consolidated cash flow statements.....	70
5. EARNINGS PER SHARE.....	70
6. GOODWILL.....	71
7. INTANGIBLE ASSETS.....	72
7.1 Rights of beneficial use	72
7.2 Lease premiums.....	72
8. TANGIBLE FIXED ASSETS	73
9. PROPERTY INVESTMENT.....	75
10. COMPANIES CONSOLIDATED USING THE EQUITY METHOD	76
11. NON-CURRENT FINANCIAL ASSETS.....	76
11.1 Loans and receivables not held for trading.....	76
11.2 Other non-current financial assets	77

12. INVENTORIES	77
13. TRADE RECEIVABLES	78
14. CURRENT FINANCIAL ASSETS	78
14.1 Held-to-maturity financial assets.....	78
14.2 Held-for-trading financial assets.....	78
15. CASH, BANKS AND OTHER CASH EQUIVALENTS	79
16. EQUITY	79
16.1 Share capital.....	79
16.2 Reserves of the Parent.....	80
16.3 Reserves of subsidiaries.....	80
16.4 Valuation adjustments.....	81
16.5 Treasury shares.....	81
16.6 Minority interests.....	81
17. BANK BORROWINGS	82
18. OTHER NON-CURRENT LIABILITIES	83
19. DERIVATIVE FINANCIAL INSTRUMENTS	84
19.1 Interest-rate derivatives.....	84
19.2 Exchange-rate derivatives.....	85
19.3 Sensitivity analysis of the financial derivatives.....	86
20. SHARE-BASED PAYMENT PLANS	86
21. PROVISIONS FOR CONTINGENCIES AND CHARGES	88
22. TAX MATTERS	89
23. TRADE PAYABLES	93
24. OTHER CURRENT LIABILITIES	93
25. GUARANTEE COMMITMENTS TO THIRD PARTIES AND CONTINGENT ASSETS AND LIABILITIES	94
26. INCOME AND EXPENSES	95
26.1 Revenue and other operating expenses.....	95
26.2 Financial income.....	96
26.3 Staff costs.....	96
26.4 Other operating expenses.....	97
26.5 Operating leases.....	97
26.6 Financial expenses.....	98
27. RELATED PARTY TRANSACTIONS	98
28. INFORMATION BY SEGMENTS	99
28.1 Information about main segments.....	100
28.2 Information about secondary segments.....	100
29. REMUNERATION AND OTHER DECLARATIONS OF THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES	101
29.1 Remuneration of the Board of Directors.....	101
29.2 Remuneration of Senior Executives.....	101
29.3 Details of ownership interests held by directors in companies engaging in similar activities and performance, as independent professionals or as employees, of similar activities.....	101
30. SUBSEQUENT EVENTS	102
31. INFORMATION ABOUT ENVIRONMENTAL POLICY	102
32. RISK EXPOSURE	102
33. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH	103
APPENDIX I: SUBSIDIARIES COMPANIES	104
APPENDIX II: ASSOCIATED COMPANIES	106
APPENDIX III: JOINT VENTURES	107
AUDIT COMMISSION REPORT	108

NH Hoteles, S.A. and Subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2008
and Consolidated Management Report,
together with Independent Auditors'
Report

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.

Deloitte.

Plaza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
España

Tel: +34 915 14 50 00
Fax: +34 915 14 51 80
+34 915 56 74 30

www.deloitte.es

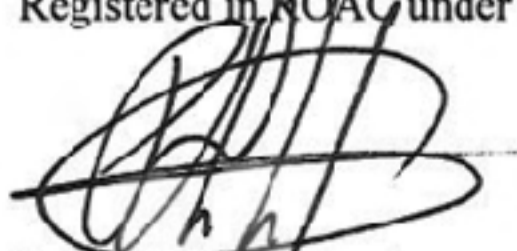
Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

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 2008 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 2008 and revenue in 2008 represented approximately 23% and 28%, respectively, of the Group's totals, and whose contribution to the net consolidated profit for 2008 amounted to approximately EUR 67 million. The financial statements of these companies were audited by other auditors, as indicated in 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. As required by Spanish corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the consolidated figures for 2008 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity, the figures for 2007. Our opinion refers only to the consolidated financial statements for 2008. On 31 March 2008, we issued our auditors' report on the 2007 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 2008 present fairly, in all material respects, the consolidated equity and consolidated financial position of NH Hoteles, S.A. and Subsidiaries at 31 December 2008 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 applied on a basis consistent with that of the preceding year.
4. The accompanying consolidated directors' report for 2008 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 2008. 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

27 February 2009

CONSOLIDATED MANAGEMENT REPORT

for the year ended on 31 december 2008

Development of the group's business and situation

2008 was the year the crisis began in the Eurozone, and none of the markets where NH Hoteles, S.A. operates has escaped this. This crisis began in the summer of 2007 with the crisis in subprime mortgages which has led to turmoil on the financial market which has hit virtually everyone as it has set off a credit crunch the world over, a slow down in labour markets in the United States and in Europe and a fall in the housing market in Spain, of corporate expenditure and investment and in household consumption.

During the first half of the year the economy as a whole in the euro zone managed to weather the storm but was far from able to do so during the rest of the year. Thus, in the third quarter of 2008, six economies recorded negative growth in their gdp's, in particular, in our case, in Italy where the economy fell back on an annual basis.

The RPI went up during the first part of the year to record levels because of the rise in energy prices, and then steadied and by December was just a little above zero. These changes in the inflation rate and the macroeconomic indicators are taking their effect on consumer confidence which has taken a turn for the worse.

In the hotel industry, consumers are paramount as they adapt their budgets and cut back on expenses which has an impact on leisure and weekend tourism. These cutbacks have also started to be made in business and corporate trips, as expenses are cut for meetings, training and incentives because companies find they have to cut back on expenses in order to keep up their margins and remain competitive.

In this situation, in September 2008, NH Hoteles announced that it was slowing down its three-year expansion plan that was set in motion at the beginning of 2007, and now requires greater forecast rates of return on its projects to cover against the uncertainties hanging over the world economy. No investments are planned in property contracts. New acquisitions will be made via essentially variable lease agreements or management agreements, where NH's investment is much lower.

Since January 2007, when the plan began, 10,443 rooms have been added to the NH Group in 82 hotels, distributed geographically as follows: 38.1% in central and eastern Europe (in particular, Germany, the Netherlands, Belgium, Hungary...), 38.6% in southern Europe (Spain and Italy) and 23.3% in Latin America and elsewhere.

In February 2008, the largest acquisition operation of recent years was completed. This was the acquisition of Jolly Hotels, S.p.A, by means of a squeeze-out of minority shareholders, as a result of which this company has been delisted from the Milan Stock Exchange. This has enabled a merger to take place during 2008, which, combined with the move of minority shareholders to the Italian holding company, has facilitated:

- A simplification in the administrative structure. The number of administrative centres has been cut from 3 to only one, which has made for greater efficiency and a saving in costs.
- A single Front Office system, where all the hotels are connected to all the Group's distribution channels, which makes it easier for the new sales structure to have a single objective: the sale of a single portfolio of NH hotels.
- All Jolly's Back office structure has been streamlined to adapt it to the way the Group operates.
- A general policy for keeping expenses in check has helped bring costs in the Italian business unit down by 2.5%, a figure that would be nearly 4% if one takes the effects of inflation into account.

NH Hoteles has started up a plan for improving operating efficiency and cutting back on structural expenses which did not have any noticeable effect up to the year end but which will show its full effect as from the first quarter of 2009. This plan aims to offset part of the fall in margins brought about by adding 2,584 rooms to the Group in 2008, and the drop in sales.

This has enabled the diversification of the Group's sales and earnings to become reality. Thus sales in the Spanish business unit now account for less than 30% and the target is for them not to exceed 25% of the Group's total revenues. The Italian business unit, together with Benelux and Germany-Central Europe each account for 20% and the remaining 10% comes from the Latin American Unit.

In 2008, the Group's two resorts in the Caribbean have started operating, adding more than 1,100 rooms. One, the "NH Real Arena Punta Cana", is in the Dominican Republic and the other, the "NH Riviera Cancún", is on the Mayan Riviera in Mexico.

Furthermore, in mid-2009, the Group plans to open the "NH Premium Punta Cana" which will share part of its basic facilities with the "NH Real Arena Punta Cana".

All this means that the NH Group now has 7 upmarket resorts in the main holiday areas in the Caribbean: Ixtapa, Cancún, Puerto Vallarta, Vera Cruz and Cuba. It also plans to complete two further resorts in the Dominican Republic, one already mentioned above and another in the Cap Cana property development, the "NH Sotogrande at Cap Cana".

The 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 aimed for is to gain a deeper understanding of the expectations of the Group's customers, in order to prepare for them in advance and offer more personalised services, that fit their demands, improving quality and increasing satisfaction. Set out below are some of the products and services that have been developed as a result of this commitment towards innovation: Bonhocio, upselling, payment walkway, electronic billing...

Results

In 2008 sales have consolidated at around 1,500 million euros, with Ebitda at 281 million euros.

This consolidation of revenues, 1.8% higher than the previous year, is due to a slight increase in sales in the hotel business, although the like-for-like hotel business has fallen back 3%. However, the property business has plummeted by 36%.

The results have been affected by the addition of 2,854 rooms (15 hotels) this year, which when added to the rooms the Group already had, made for a total of 51,591 rooms. It is a well-known fact in the industry that hotels need a certain time for hotels to get into their stride and attain the group's average levels of efficiency and performance. In any case, a further figure that is no longer positive is that the average revenue per available room (Revpar) has fallen by 3.88% on average as a result of a 5.23% drop in occupancy and a slight 1.43% increase in the average price for all the business units.

The two business units that have not followed this trend are Germany, where average revenues per available room have gone up 4.45% with a slight fall in occupancy and an increase in average price of nearly 6%, and Central Europe - Austria - Switzerland, where the Revpar has gone up by 5.63%. This confirms the good underlying trend throughout this region of central Europe where the trends of earlier years continue.

A further aspect that has not been overlooked in 2008 has been improving operating efficiency and holding down current and structural costs. This has enabled the hotel Ebitda to remain in line with sales even though the Revpar has fallen, something that is very hard to achieve in the hotel business which is highly leveraged on operating costs.

The Group's property business in 2008 recorded revenues of nearly 51 million euros, compared to 78 million euros the year before, i.e. a 36% drop. Ebitda was 12.69 million euros, compared to 24.29 million euros recorded for the same period in the previous year, i.e. a fall of 47.8%. This fall is due to the worsening of the Spanish property market and has also been affected by the current uncertainty on the international markets. Moreover, sales commitments yet to be recorded in the accounts at the year end totalled 42.20 million euros, with an estimated margin of around 17 million euros. Most of these sales relate to the Moorings of the Marina and the property development Ribera del Marín.

Consolidated Management Account

(million euros)

NH HOTELES,S.A. PROFIT AND LOSS ACCOUNT AS AT 31 DECEMBER 2008

	2008		2007		2008/2007
	M Eur.	%	M Eur.	%	M Eur.
Hotel activity revenues	1,422.8	93%	1,395.8	93%	2%
Real estate sales and others	50.1	3%	77.5	5%	(35%)
Non-recurring revenues	59.5	4%	32.36	2%	84%
TOTAL REVENUES	1,532.4	100%	1,505.7	100%	2%
Real estate cost of sales	(23.0)	(2%)	(41.6)	(3%)	(45%)
Staff Costs	(490.6)	(32%)	(478.8)	(32%)	2%
Other operating expenses	(462.7)	(30%)	(456.0)	(30%)	1%
Non-recurring expenses	(9.6)	(1%)	(4.6)	(0%)	109%
GROSS OPERATING PROFIT	546.5	36%	524.7	35%	4%
Lease payments and property taxes	(265.9)	(17%)	(241.7)	(16%)	10%
EBITDA	280.6	18%	283.0	19%	(1%)
Impairment	(32.5)	(2%)	0.0	NA	NA
Depreciation	(124.0)	(8%)	(109.7)	(7%)	13%
EBIT	124.1	8%	173.3	12%	(28%)
Market value derivatives	(43.8)	(3%)	0.0	NA	NA
Interest income (expense)	(69.2)	(5%)	(62.8)	(4%)	10%
Profit (loss) of compaines carried out using the equity method	(2.3)	(0%)	(2.5)	(0%)	(7%)
EBT	8.8	1%	108.0	7%	(92%)
Corporate income tax	(3.7)	(0%)	(8.5)	(1%)	(56%)
NET INCOME before minority interests	5.1	0%	99.5	7%	(95%)
Minority interests	21.7	1%	(22.1)	(1%)	(198%)
NET INCOME	26.8	2%	77.4	5%	(65%)

Note: This consolidated operating accounting statement has been drawn up in accordance with hotel management grouping criteria which do not always coincide with the accounting criteria used in the consolidated annual accounts of the NH Hoteles Group.

General description of the risk policy

NH focuses its business essentially on the hotel industry and in particular city hotels where quite a high level of operating leverage is a feature that calls for major investments in tangible fixed assets, in particular buildings. Such assets have a long economic cycle which involves investments that need to be financed for the most part by financial debt. The Group's policy has always been to remain financially orthodox and aim to keep solvency ratios constantly high.

Managing the risks to which NH Hoteles is exposed in the course of its business is one the fundamental tenets of how it operates in order to preserve the value of the assets and hence its shareholders' investment. Group Management's objectives include keeping risks down to a minimum and optimising how they are managed by analysing the corresponding risk maps.

Financial risk management is centralised in the Corporate Finance Department. The financial systems needed for checking, on the basis of economic variables, exposure to changes in interest rates and exchange rates, and to credit and liquidity exposures, have been set up.

Next year NH Hoteles will continue to seek out new opportunities to expand more selectively, always attempting to minimise the risks that are inherent in the sector where the Group operates, a feature of which is its sensitivity to economic cycles which therefore means that it has an exposure to changes in prices, although the Group has always managed to use occupancy to offset this.

The Group's credit risk is primarily attributable to its trade receivables. The figures are shown net of provisions for bad debts. The risk is very low because it has a very large number of different customers spread among a large number of agencies and companies. Moreover, part of the accounts receivable are secured by insurance policies and guarantee deposits.

The Group has exposure to interest rates that may affect its performance and cash flow. To keep its effects down, the Group has contracted a series of IRS and Collars as a result of which 40% of its net debt is hedged against increases in interest rates to above 4.5%. The information about the derivatives held by the Company as at 31 December 2008, and its policies in this regard are set out in the accompanying notes to the accounts.

The Group has subsidiary companies in a number of countries which operate in currencies other than the euro, the Group's reference currency. The operating results and financial position of these subsidiary companies (Argentina, Mexico, Chile, Uruguay, United Kingdom, Hungary, Romania) are stated in their local currencies and are later translated at the prevailing exchange rate when they are included in the financial statements. During 2008 the euro has undergone various fluctuations, which have affected sales, equity and cash flow, in comparison with the main world currencies. In order to reduce this exposure as far as possible, the Group endeavours to contract its debts in the same currency as the investment being made and bearing in mind that the revenues generated in areas that use currencies other than the euro account for less than 10% of total revenues.

The level of consolidated net financial debt at the end of December 2008 increased to 1,165.26 million euros, remaining steady in a situation similar to the year before, which was 1,090.24 million euros. The financial leverage ratio (net debt/net equity) has remained at 0.95x lower than the 1x ratio that has always been set as a target by the Group. This situation has enabled the financial covenants the entity must comply with under the loan agreements it has taken out, to be fulfilled. The business unit with the greatest concentration of investments has been Italy, as was announced last year.

For its liquidity exposure, NH Hoteles has an adequate schedule of debt repayment dates. Only 9% of the long-term debt falls due in 2009. The percentage for 2010 is similar. In turn, for financing current liabilities, the Group has a diverse banking pool that provides, in spite of the adverse situation on the debt markets, for credit lines that totalled 425.31 million euros at the year end. This policy ensures that the Group meets its payment commitments without having to borrow funds under burdensome terms.

Maintaining sources of cash flow depends on developments in the hotel business and in the sale of plots and developments in the Group's property business. These variables depend on the general economic cycle and the market situation regarding supply and demand. The Group's business units are capable of generating a high level of recurrent cash flow from their operations.

Shares and shareholders

At 2008 year-end, the share capital of NH Hoteles, S.A. was represented by 147,970,458 fully subscribed and paid-in bearer shares, each with a par value of 2 euros. All these shares have equal voting and dividend rights and are listed on the Continuous Market.

This figure was attained on conclusion of the capital increase of 250 million euros carried out at the beginning of 2007, in an issuance of 16,371,971 shares each with a par value of 2 euros, plus a share premium of 13.27 euros per share.

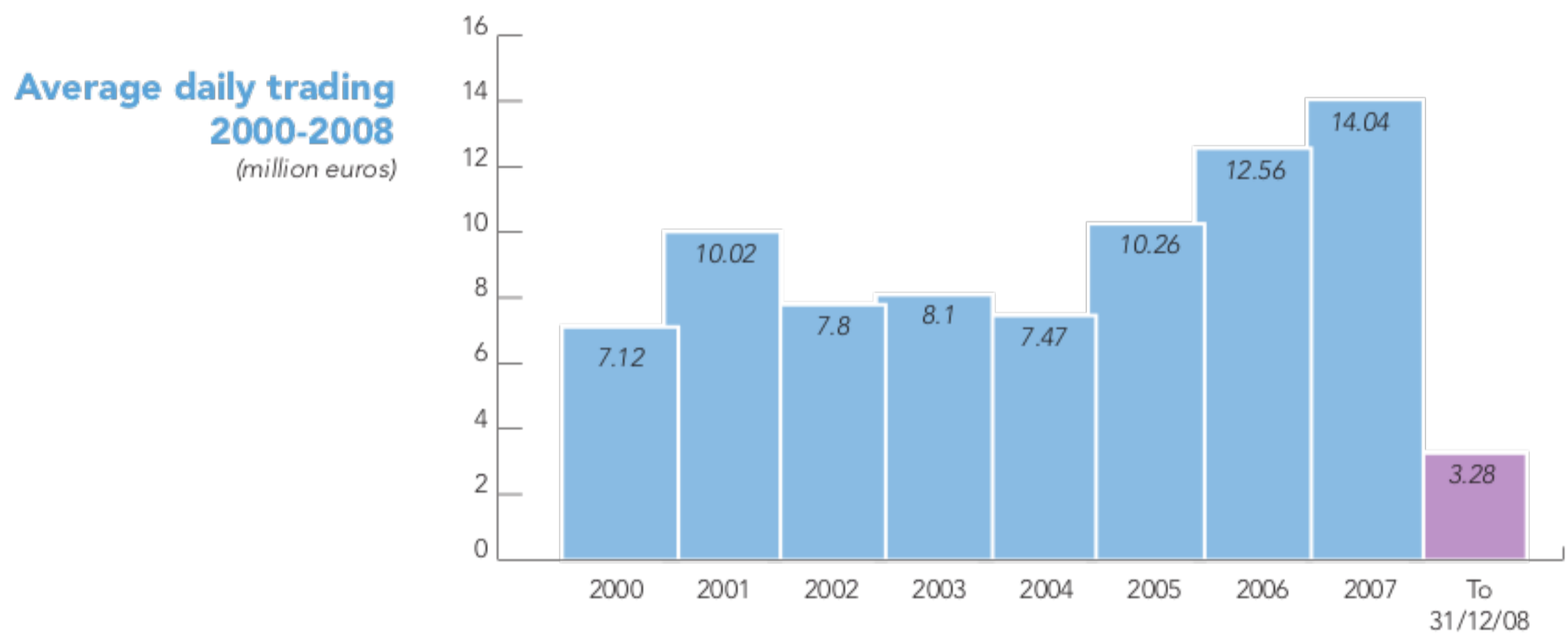
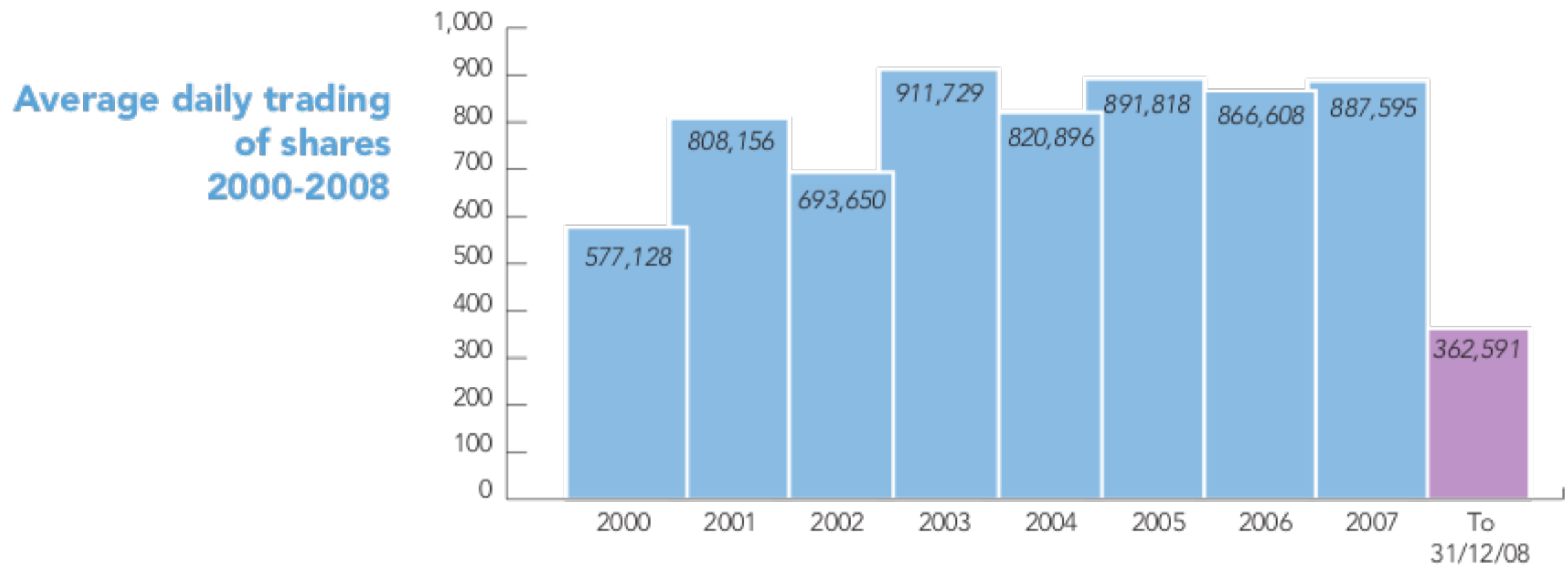
According to the latest notifications the Company has received, and to the notifications made to the Spanish National Securities Market Commission before the year end, the most significant ownership interests were as follows as at 31 December:

	2008	2007
Grupo Inversor Hesperia, S.A.	25.09%	25.09%
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%
GSS III Hurricane B.V.	6.57%	-
Caja de Ahorros de Valencia, Castellón y Alicante	5.66%	5.66%
Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián	5.09%	5.09%
Pontegadea Inversiones, S.L.	5.07%	5.07%
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	5.04%	5.04%
Hoteles Participados, S.L.	5.05%	5.05%
Intesa Sanpaolo SpA	5.00%	4.53%
Longleaf Partners International Fund	4.99%	-
Shares to be used in Remuneration Plans plus holding NH employees	4.27%	4.62%

The average share price of NH Hoteles, S.A. was 9.04 euros (15.82 euros in 2007). It recorded its lowest price in December at 3.64 euros per share (11.40 euros in 2007) and its highest price in January at 12.34 euros per share (18.35 euros in 2007).

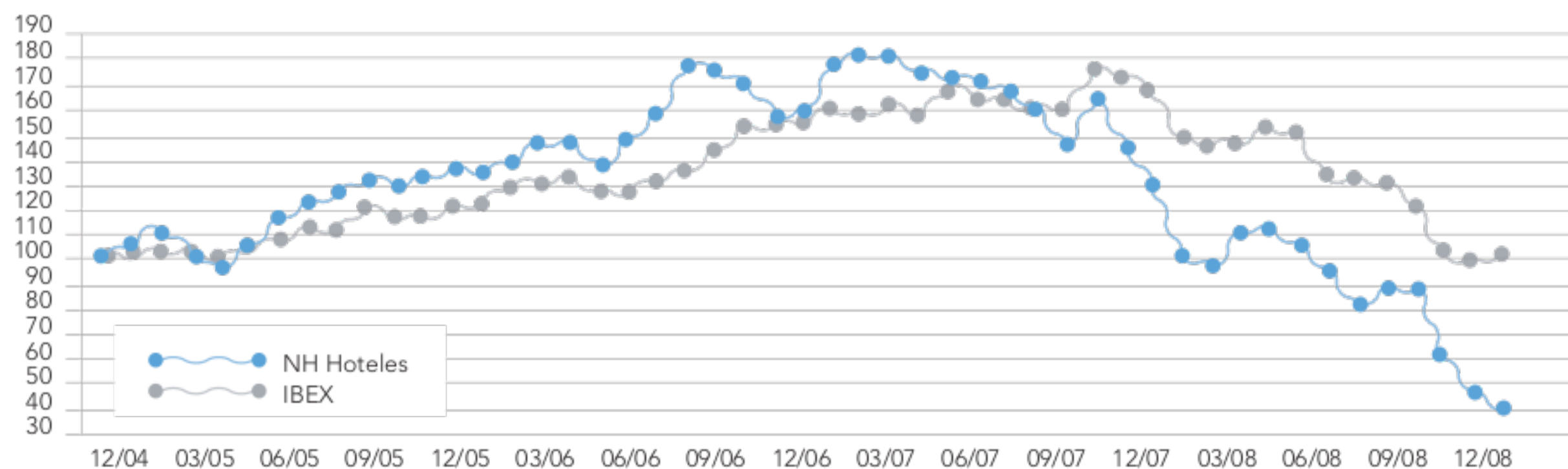
At the year end, NH Hoteles held 3,066,496 of its own shares, representing 2.07% of its share capital at a total cost of 38.03 million euros.

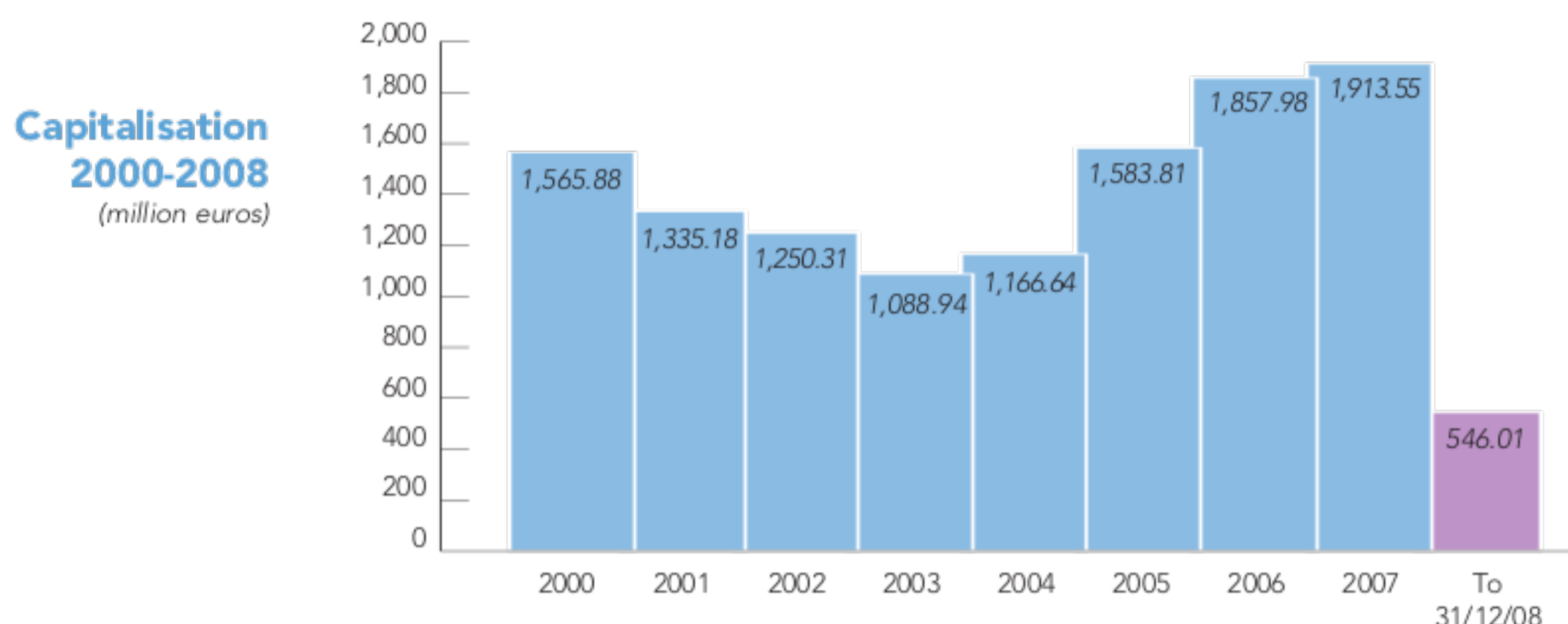
During 2008, 92,098,294 shares of NH Hoteles, S.A. were traded on the Stock Market Interconnection System (224,561,594 shares in 2007). This represents 0.62 times (1.52 times in 2007) the total number of shares into which the share capital is divided, with an average daily rate of trading of 362,591 shares on the Continuous Market.



The following graph shows the trends in share prices and market capitalisation over the last two years.

NH Hoteles - IBEX Performance december 2004 - 2008





Further information in accordance with article 116 bis of the Spanish Securities Market Act

The Board of Directors of NH HOTELES, S.A., in compliance with the terms of the Article 116 bis of the Spanish Securities Market Act, Law 24/1988, dated 28 July, enacted in Law 6/2007, dated 12 April, issued this Explanatory Report on the aspects of the Directors' Report envisaged in said Section, to be submitted to the Company's General Meeting of Shareholders.

a. The capital structure, including the securities that are not traded on an official market in the EU, stating, whenever appropriate, the different classes of shares and the rights and obligations pertaining to each class of shares and the percentage of the share capital it represents

The share capital of NH HOTELES, S.A. is 295,940,916 euros and is represented by 147,970,458 shares, traded by the book-entry system, each with a par value of 2 euros, grouped into a single series and numbered correlatively from 1 through 147,970,458, fully subscribed and paid in.

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 restrictions on the transferability of the shares that represent the Company's share capital.

c. Major direct or indirect ownership interests in the share capital

Set out below is a list of the major ownership interests in the share capital of NH HOTELES, S.A. as of 31 December 2008, according to the public registers:

1. Direct and indirect owners of major ownership interests, excluding the Directors

Name or corporate name of the shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
GRUPO INVERSOR HESPERIA, S.A	37,122,230	-	25.088%
JOSÉ ANTONIO CASTRO SOUSA	-	37,122,230	25.088%
CAJA DE AHORROS Y MONTE DE PIEDAD	-	14,851,795	10.037%
GSS III HURRICANE, B.V.	9,724,692	-	6.572%
MSRESS III MANAGER, LLC	-	9,724,692	6.572%
BANCAJA INVERSIONES, S.A.	8,373,405	-	5.659%
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	-	7,537,500	5.094%
CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.	7,537,500	-	5.094%
AMANCIO ORTEGA GAONA	-	7,503,582	5.071%
PONTEGADEA INVERSIONES, S.L.	7,503,582	-	5.071%
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA (IBERCAJA)	7,459,630	-	5.041%
INTESA SANPAOLO, S.P.A.	3,451,129	3,947,586	5.000%
LONGLEAF PARTNERS INTERNATIONAL FUND	7,387,973	-	4.993%
SOUTHEASTERN ASSET MANAGEMENT, INC	-	7,334,748	4.957%
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	6,715,497	-	4.538%

(*) Via:

Name or corporate name of the indirect shareholder	Name or corporate name of the direct holder of the holding	Number of direct voting rights (*)	% of total voting rights
JOSÉ ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A	37,122,230	25.088%
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	SOCIEDAD DE PROMOCION Y PARTICIPACION EMPRESARIAL CAJA MADRID	8,136,298	5.499%
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	CORPORACIÓN FINANCIERA CAJA DE MADRID	6,715,497	4.538%
MSRESS III MANAGER, LLC	GSS III HURRICANE BV	9,724,692	6.572%
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	CK CORPORACION KUTXA-KUTXA KORPORAZIOA, S.L.	7,537,500	5.094%
AMANCIO ORTEGA GAONA	PONTEGADEA INVERSIONES, S.L.	7,503,581	5.071%
SOUTHEASTERN ASSET MANAGEMENT, INC	LONGLEAF PARTNERS INTERNATIONAL FUND	7,387,973	4.993%
INTESA SANPAOLO, S.P.A.	DIVERSOS ACCIONISTAS DE INTESA SANPAOLO, S.PA	3,947,586	2.670%

2. Members of the Company's Board of Directors who hold voting rights of shares in the Company:

Name or corporate name of the Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
GABRIELE BURGIO	1,482,490	-	1.002%
MANUEL HERRANDO Y PRAT DE LA RIBA	4,627	-	0.003%
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	-	8,373,405 via BANCAJA INVERSIONES, S.A.	5.659%
HOTELES PARTICIPADOS, S.L.	7,469,093	-	5.048%
JOSÉ DE NADAL CAPARÁ	11,262	-	0.008%
MIGUEL RODRÍGUEZ DOMÍNGUEZ	3,000	-	0.002%
RAMÓN BLANCO BALÍN	26,775	15,076 via various different relations of the Director	0.028%
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	8,136,298	-	5.499%
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID, VIA THE INDIRECT SHAREHOLDER CAJA DE AHORROS Y MONTE DE PIEDAD, for the shares in the Company held by CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	6,715,497	-	4.538%
IÑAKI ARRATÍBEL OLAZIREGI	100	-	-
JULIO C. DÍAZ-FREIJO, VIA THE SHAREHOLDER, PONTEGADEA INVERSIONES, S.L.	7,503,581	-	5.071%
IÑAKI ARRATÍBEL OLAZIREGI, VIA THE SHAREHOLDER, CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.	7,537,500	-	5.094%

Total % of voting rights held by the Board of Directors: 31,95 %

The said percentage is represented by voting rights held directly or indirectly by Members of the Board of Directors.

The voting rights held indirectly include the rights held via related persons as this is defined by law, and via shareholders who they represent on a stable basis on the Company's Board of Directors.

d. Any restriction on voting rights

In accordance with the terms of Article 15 of the Company's Articles of Association, no shareholder, regardless of how many shares he may hold, may have more votes than the votes for 10% of the issued voting shares. This limit shall not apply in the General Meetings where, according to the list of those attending, a single shareholder present or represented at the Meeting holds more than 75% of the issued voting shares.

e. Shareholder agreements

The Company has no record of any agreements between its shareholders.

f. Rules applying to the appointment and replacement of members of the governing body and to changes in the Company's Articles of Association

1. Appointing and replacing members of the Board of Directors

The rules governing the appointment, replacement and resignation of members of the Board of Directors are laid down in the Company's Articles of Association and the Company's Regulations for the Board of Directors.

Accordingly, in accordance with Article 20 of the Company's Articles of Association the Company will be administered and represented by the Board of Directors, which will have no less than five and no more than twenty members. The number of members will be set by the General Meeting of Shareholders.

The said Article of the Articles of Association also stipulates that Directors will hold their positions for terms of three years. The position of member of the Board may be revoked or resigned from at any time, and they may be re-elected indefinitely for terms of the same length.

- Appointment of Directors:

The proposed appointments of Directors which shall be submitted by the Board of Directors to the General Meeting of Shareholders for approval and the decisions taken by the Board to make appointments in accordance with its legal powers of co-option shall be made in the form of a proposal to the Appointment and Remuneration Committee, for independent Directors, and subject to a report by said Committee for any other Directors.

Shareholder Directors must be proposed by the respective holders of significant and stable shareholdings. All the other Directors must vote for said appointments by co-option or appointment proposals to be approved by the Board of Directors.

Under the terms of Article 11 of the Regulations of the Board of Directors, the Board of Directors and the Appointment and Remuneration Committee shall endeavour to ensure that the candidates elected be persons who are known to be solvent, competent and experienced and who are prepared to spend a sufficient part of their time on the Company. Particularly special care must be taken when electing those persons called in to hold positions as independent directors.

It is expressly stated that the Board of Directors shall propose or designate persons who qualify under the terms of Article 9.4 of the Regulations to hold positions as Independent Directors, in response to the Recommendations set out in the Unified Code of Good Governance.

For all intents and purposes, the Articles of Association and the Regulations of the Board of Directors remind that any persons who are deemed to be incapable, disqualified, forbidden or incompatible to hold such posts under current law may under no circumstances be proposed for appointment to the Board of Directors.

For said purposes, Article 11.3 of the Regulations of the Board expressly states that "any person who has direct or indirect interests of any kind or who has an employment, professional, commercial or any other kind of relationship with rival companies shall be deemed incompatible to hold a position as Director, unless at least 70% of the members of the Board vote for that person to be exempted".

- Replacing Directors by co-option:

The Board may fill any vacancies that arise as a result of resignations, disability, death, etc. of Board members, regardless of the number involved, on an interim basis, and shall submit its appointments to the first General Meeting held for approval; the persons so appointed must necessarily be shareholders and shall cease to hold the position when the term of the persons whose vacancy they are filling expires.

- Removal of Directors:

The removal of the Directors is expressly provided for in Article 14 of the Regulations of the Board, which states that Directors shall resign from their positions at the end of the term for which they have been appointed or whenever so decided by the General Meeting using the powers granted to it by law.

Furthermore, Directors must tender their resignation to the Board of Directors in the following cases:

- a) When they reach the age of 70. Directors who hold executive positions shall cease to perform said duties when they reach the age of 65 although they may continue to be Directors, if the Board itself so decides. In such cases, the resignation shall be made at the first meeting of the Board held after the General Meeting of Shareholders that approves the accounts for the year in which the Director has reached the age limit.
- b) In the event that executives whose appointments as Directors are associated with their executive positions leave said executive positions or whenever the reasons for which they were appointed no longer exist, this being deemed to be the case for shareholder Directors when the business entity or group he represents no longer holds a major shareholding in the Company's share capital or when, for independent Directors, he becomes an executive of the Company or of any of its subsidiary companies.
- c) In the event that they are disabled, disqualified, forbidden or incompatible to hold said positions, this being understood as including the case set out hereabove, laid down in Article 11.3 of the Regulations of the Board.
- d) In the event that they are severely reprimanded by the Appointment and Remuneration Committee for having failed to fulfil any of their obligations as Directors.
- e) In the event that their remaining on the Board would be likely to affect the creditworthiness or reputation of the Company on the market or in any other way put its interests at risk.

2. Modification of the Company's Articles of Association

The rules that govern changes in the Company's Articles of Association are laid down in Sections 144 et seq of the Companies Act, which require approval by the General Meeting of Shareholders, subject to the majorities provided for in Section 103 of said Act.

Exceptionally, Article 15 of the Company's Articles of Association - concerning the 10% limit on voting rights - may only be changed by a vote in favour of at least 75% of the capital.

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

- The powers of the Chairman and Managing Director shall be:

The Chairman and Managing Director shall be the Chief Executive Office of the Company and, therefore, his appointment or the renewal of his appointment also includes the delegation of all the powers and competencies of the Board that may be delegated, for the effective management of the Company's business, always in accordance with the decisions and guidelines laid down by the General Meeting of Shareholders and the Board of Directors.

In accordance with the terms of Article 17 of the Regulations, the Chairman and Managing Director has the power to implement the decisions taken by the Board itself and, whenever applicable, by the Delegate Committee, which bodies shall be represented permanently with the widest powers, and may take, in emergencies, such measures as he may deem advisable in the Company's interests.

- The powers of the Board of Directors:

The Board of Directors assumes, holds and enforces, in court and out of court, all the management, administration and representation of the Company in all acts that fall within the remit of the corporate object and in all its equity activity, the powers falling to the General Meeting of Shareholders notwithstanding.

In particular, Article 22 of the Articles of Association of NH HOTELES, S.A. state that he is responsible for:

- 1º Managing, organising and overseeing the life and operations of the Company, regarding staff, assets and the course of the company's business.
- 2º Calling General Meetings of Shareholders and implementing their decisions.
- 3º Acknowledging and paying the Company's debts and claiming and collecting any amounts that are owed to or must be handed over to the Company, regardless of who or what body must make the payment, including the State, Regional, Provincial or Municipal authorities or official bodies in general, and the reason or title under which the Company's right originates.
- 4º Entering into contracts of all kinds relating to the corporate object; appointing and dismissing employees; contracting construction work, services, supplies, insurances, guarantee deposits and deposits; arranging leases and evicting tenants, precarious occupants and occupants; entering into settlements and commitments; taking part in competitions and auctions; attending, taking the floor and voting at General Meetings; applying for and giving up concessions and authorizations; setting up, modifying and extinguishing companies and community properties; lending money, setting up and accepting securities, including mortgages, and cancelling them; and, in general, entering into, modifying, renewing and terminating contracts of all kinds.
- 5º Buying, selling, swapping, mortgaging and, under any other title, acquiring, disposing of or encumbering fixed and moveable assets of all kinds, or whole or specific participations in such assets, and rights in rem; making declarations of construction work, demarcations, divisions into plots, material divisions, segregations, groupings, setting up condominiums and any other modifications in real estate properties or mortgage entities; and, in general, to perform any acts of disposal and strict domain on the Company's assets without any exception whatsoever.
- 6º Working with Banks - including the Bank of Spain -, Savings Banks and other financial institutions, doing whatever is allowed by law and banking practice; opening, drawing down on and closing current accounts, passbooks or savings books and deposits of any kind; formalising documents and bank contracts of all kind, such as: loan or credit agreements, commercial guarantees, discounting of bills; drawing down on and cancelling credit lines; drawing, endorsing, accepting, guaranteeing and protesting bills of exchange, promissory notes, cheques and commercial paper in general; giving joint or several guarantees for all kinds of obligations arising in operations with banks on behalf of third parties; setting up, modifying, accepting and cancelling mortgages on fixed or moveable assets, pledges with or without displacement and any other type of right in rem.
- 7º Representing the Company before authorities, civil servants and bodies of all kinds belonging to the Central, Provincial, Municipal or Regional Authorities, and before all kinds of Courts and Tribunals, for any matters, cases or suits in which the Company has an interest, with wide-ranging powers to exercise rights and powers, actions and exceptions, claims and oppositions of all kinds; submitting written documents and ratifying them, challenging, impeaching, proposing and accepting evidence, lodging appeals, including for annulment or review, compromising, accepting awards by legal arbitrators or in equity, agreeing to accept, giving up, relinquishing and performing, in general, whatever he may deem advisable to protect the Company's interests; and granting powers of attorney to Solicitors and Barristers with the powers as he may freely determine, even when they go beyond those listed hereabove. de los intereses sociales; y otorgar poderes a Letrados y Procuradores con las facultades que libremente determine, aunque excedan de las

8° Deciding on the distribution of interim dividends to the shareholders, before the respective financial year has ended or before the annual accounts have been approved, always in accordance with current law.

9° Granting powers of all kinds, including with the power to replace or grant on the powers and revoking such powers.

10° And for all the above, which is given for the sake of information and should not be regarded as complete, as a result of which it must be construed in the widest sense, granting public and private documents without any exception whatsoever.

- Delegation to issue shares

The General Meeting of Shareholders held on 5 May 2006 voted to authorise the Board of Directors, in accordance with the terms of Section 153.1.b) of the Companies Act, to, within the maximum term of five years as from the date said General Meeting was held, to decide, on one or more occasions, to increase its share capital by the maximum amount equal to the half the Company's share capital, and for said purpose to issue new ordinary, redeemable shares, or shares of any kind allowed under the Act, even with a fixed or variable share premium, with or without a right of first refusal (in said latter case in accordance with the requirements, terms and processes stipulated in Section 159 and similar of the Companies Act or such other requirements, terms and processes as may be legally required for said purpose) and, in any case, where the capital increase or increases decided under the terms of this authorisation shall be paid in in cash contributions, and where it is expressly provided that the shares that are issued in accordance with the terms of Section 161.1 of said Act may be partially subscribed, and the powers of the Board of Directors to offer the shares that have not been subscribed by the deadline set for exercising the right of first refusal, in the event that said right were not to be excluded.

The authorisation given to the Board of Directors has been extended, in the widest sense allowed by Law, to setting out the terms and conditions of every capital increase that is decided to be made under the terms of this authorisation, including, but not only, solely for the sake of information, the powers to provide (in the event that convertible debentures have been issued with a fixed rate of conversion, and in the event that the holders of such debentures were to be affected by the exclusion of the right of first refusal) for a formula for adjusting said ratio so as to offset any dilution in the amount of the conversion right, to apply for any new shares that may be issued as a result of a capital increase or increases to be listed on the stock markets where the company's shares are listed (and may execute whatever documents and perform whatever acts may be needed or advisable for said purpose), and to reword the Articles of the Company's Articles of Association concerning its share capital, after each capital gain has been decided on and carried out, and said powers may, in turn, be delegated by the Board of Directors to its Management Committee, to the Chairman of the Board of Directors and/or to any Directors to whom all or part of the powers of the Board of Directors have been delegated.

Exercising the delegation of powers provided for by the General Meeting of Shareholders to the Board of Directors, on 22 March 2007 a decision was taken to increase the share capital of NH Hoteles, S.A. up to 295,940,916 euros, divided into 147,970,458 shares, each having a par value of 2 euros. Said capital increase was expressly approved by the General Meeting of Shareholders held on 5 May 2006 in order to provide the consideration set for NH Hoteles, S.A. to buy the shares in Sotogrande, S.A. in a Public Takeover Bid.

- Delegations to buy back shares.

The General Meeting of Shareholders held on 17 June 2008 authorised, for an 18-month period, the Board of Directors to take as security and/or acquire, directly or indirectly, own shares, by buying them on an official secondary market for a price not below their par value, nor higher than their listed price at the time of acquisition. At no time may the par value of the shares acquired, together with the shares taken as security, exceed 2008 percent of the Company's total share capital.

h. Major decisions entered into by the Company that come into force, are changed or terminate in the event that the control of the Company changes as a result of a takeover bid, and its effects, except when disclosing them would seriously damage the company's interests. This exception shall not apply when the company is legally required to disclose this information to the public

The NH Hoteles, S.A. group has signed agreements with the shareholders of Residencial Marlin SL and Los Alcornos de Sotogrande, S.L. which provide that the personal characteristics of the shareholders are essential for the development of the projects, and that any change in effective control, be it among the shareholders, or among their parent companies, shall trigger off a procedure whereby the other shareholder may leave the company and be entitled to be refunded the entire amount of its holding in the company plus the damages caused.

The syndicated loan signed between a group company, NH Finance, S.A., as the borrower, and a syndicate of banks for 650 million euros, signed on 2 August 2007, includes a clause which provides for the early termination of the agreement in the event that any circumstances were to occur that were to lead to a change in the control of the company NH Hoteles, S.A.

The NH Hoteles Group has, moreover, loans and credit lines granted, with a combined limit of 35 million euros, which provide for a clause of early repayment for every time there is a change in control of the company NH Hoteles, S.A.

i. Agreements between the company and its administrative and management officers or employees which provide for severance payments when they resign or are dismissed improperly or in the event that the employment relationship ends as a result of a takeover bid.

Except for the Managing Director and six employees, the Company has no agreements other than those provided for in the Workers' Statute or in the Top Management Decree 1382/1985, which provide for severance payments when they resign or are dismissed improperly or in the event that the employment relationship ends as a result of a takeover bid.

For the Chairman and Managing Director and said employees, in order to encourage them to be loyal to and remain in the Company, severance payments are provided for that may be higher than the figure resulting from applying the aforementioned rules in the event of unfair dismissal and change of control.

Outlook for the future

The hotel industry is sensitive to changes in the main macroeconomic variables. All the same, the Group's exposure to economic cycles is limited because it has diversified its sources of revenues internationally and the NH Hoteles brand is a leader in the urban hotel industry.

For 2009, NH Hoteles expects the climate of recession now prevailing in the entire area where it operates will affect both its sales and its earnings although the company has already taken a whole set of measures to adapt its cost structure to the current situation, measures affecting all its cost lines and being applied in all its business units.

It also hopes that its geographical diversification and its customer base will mean that the poor prospects that bode for some of its traditional markets, in Spain in particular, will be offset by other trends that are currently expected to be less pessimistic. It also expects that the policy it has pursued in recent years aimed at gaining the loyalty of its customers and increasing their number, keeping up its active pricing strategy, will be as successful as in prior years.

Subsequent events

No events have taken place after the year end which are likely to have a Major impact on the Group's financial and asset situation.

CORPORATE GOVERNANCE REPORT

LISTED PUBLIC LIMITED COMPANIES

IDENTIFICATION DATA OF THE ISSUER

DATE YEAR END: **31/12/2008** TAX ID NUMBER: **A28027944**

Corporate Name: **NH HOTELES, S.A.**

Standard Corporate Governance Report of the Listed Public Limited Companies

In order to gain a better understanding of the standard report and how it is subsequently drawn up, the instructions for filling it in set out at the end of this report should be read.

A - OWNERSHIP STRUCTURE

A.1 Fill out the following table about the company's share capital:

Date of last modification	Share Capital (euros)	Number of shares	Number of voting rights
22/03/2007	295,940,916.00	147,970,458	147,970,458

State whether there are different classes of shares each with their own set of rights:

NO

A.2 List of direct and indirect holders of major shareholdings, in your company at the year end, not including Directors:

Name or corporate name of the shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
GRUPO INVERSOR HESPERIA, S.A	37,122,230	0	25.088
JOSÉ ANTONIO CASTRO SOUSA	0	37,122,230	25.088
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	0	14,851,795	10.037
GSS III HURRICANE BV	9,724,692	0	6.572
MORGAN STANLEY REAL STATE III MANAGER, LLC	0	9,724,692	6.572
BANCAJA INVERSIONES, S.A.	8,373,405	0	5.659
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	0	7,537,500	5.094
CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.	7,537,500	0	5.094
AMANCIO ORTEGA GAONA	0	7,503,582	5.071
PONTEGADEA INVERSIONES, S.L.	7,503,582	0	5.071
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA (IBERCAJA)	7,459,630	0	5.041
INTESA SANPAOLO, S.P.A.	3,451,129	3,947,586	5.000
LONGLEAF PARTNERS INTERNATIONAL FUND	7,387,973	0	4.993
SOUTHEASTERN ASSET MANAGEMENT, INC	0	7,334,748	4.957
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	6,715,497	0	4.538

Name or corporate name of the indirect owner of the holding	Through: Name or corporate name of the direct owner of the holding	Number of direct voting rights	% of total voting rights
JOSÉ ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A	37,122,230	25.088
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	6,715,497	4.538
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	8,136,298	5.499
MORGAN STANLEY REAL STATE III MANAGER, LLC	GSS III HURRICANE BV	9,724,692	6.572
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	CK CORPORACIÓN KUTXA KUTXA KORPORAZIOA, S.L.	7,537,500	5.094
AMANCIO ORTEGA GAONA	PONTEGADEA INVERSIONES, S.L.	7,503,581	5.071
SOUTHEASTERN ASSET MANAGEMENT, INC	LONGLEAF PARTNERS INTERNATIONAL FUND	7,387,973	4.993

State the most significant movements in shareholder structure during the year:

Name or corporate name of the shareholder	Date of operation	Description of the operation
INTESA SANPAOLO, S.P.A.	02/12/2008	Has exceeded 5% of the Share capital
LONGLEAF PARTNERS INTERNATIONAL FUND	24/10/2008	Has fallen below 5% of the Share capital
SOUTHEASTERN ASSET MANAGEMENT, INC	12/02/2008	Has exceeded 3% of the Share capital

A.3 Fill in the following tables about the members of the company's Board of Directors who hold voting rights of shares in the company:

Name or corporate name of the Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
GABRIELE BURGIO	1,482,490	0	1.002
MANUEL HERRANDO Y PRAT DE LA RIBA	4,627	0	0.003
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	0	8,373,405	5.659
HOTELES PARTICIPADOS, S.L.	7,469,093	0	5.048
IÑAKI ARRATÍBEL OLAZIREGI	100	0	0.000
JOSÉ DE NADAL CAPARÁ	11,262	0	0.008
MIGUEL RODRÍGUEZ DOMÍNGUEZ	3,000	0	0.002
RAMÓN BLANCO BALÍN	26,775	15,076	0.028
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	8,136,298	0	5.499

Name or corporate name of the indirect holder of the holding	Through: name or corporate name of the direct holder of the holding	Number of direct voting rights	% of total voting rights
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	BANCAJA INVERSIONES, S.A.	8,373,405	5.659
RAMÓN BLANCO BALÍN	AMPARO VILLAR CÁNOVAS	7,200	0.005
RAMÓN BLANCO BALÍN	ELENA BLANCO VILLAR	3,938	0.003
RAMÓN BLANCO BALÍN	RAMÓN BLANCO VILLAR	3,938	0.003
% of votes in the possession of the board of directors			17.248

Fill in the following tables about the members of the company's Board of Directors who hold rights over shares in the company:

Name or corporate name of the Director	Nº of direct options	Nº of indirect options	Nº of equivalent shares	% of total voting rights
GABRIELE BURGIO	600,000	0	600,000	0.405

A.4. State, whenever applicable, any family, commercial, contractual or corporate relationships among owners of significant shareholdings, insofar as the Company is aware of them, except in cases in which they are immaterial or are the result of routine business:

A.5. State, whenever applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings and the company and/or its group, except when they are immaterial or are the result of routine business:

A.6 State whether the company has been informed about any shareholder agreements that may affect it in accordance with the terms of Section 112 of the Securities Market Act. If there be any, describe them briefly and list the shareholders bound by the agreement:

NO

State whether the company knows about any agreements entered into between its shareholders. If so, briefly describe them:

NO

Mention expressly any change or breach of any such agreement:

A.7 State whether any private individual or legal entity has or may have control over the company as defined in Section 4 of the Securities Market Act. If so, identify it:

NO

A.8 Fill in the tables about own shares held by the company:

As at the year end:

Number of direct shares	Number of indirect shares (*)	% total share capital
93,611	2,972,885	2.070

(*) Through:

Name or corporate name of the direct holder of the holding	Number of direct shares
GRUPO FINANCIERO DE INTERMEDIACIÓN Y ESTUDIOS, S.A.	2,972,885
Total	2,972,885

Breakdown of significant changes, pursuant to the provisions of RD 1362/2007, that took place in the year:

Disclosure date	Total direct shares acquired	Total indirect shares acquired	% total share capital
30/06/2008	849,990	716,978	1.060
09/07/2008	20,234	11,764	0.010
Increase/(decrease) in own shares held during the period (thousand euros)			2,086

A.9. Terms and conditions of any authorizations granted by the Shareholder Meeting to the Board of Directors to undertake acquisitions and/or transfers of own shares held.

The General Meeting of Shareholders held on 17 June 2008 authorised, for a 18-month period, the Board of Directors to take as security and/or acquire, directly or indirectly, own shares, by buying them on an official secondary market for a price not below their par value, nor higher than their listed price at the time of acquisition. At no time may the par value of the shares acquired, together with the shares taken as security, exceed 2008 percent of the Company's total share capital.

The Board of Directors is expressly empowered to freely dispose of the shares acquired under the aforementioned authorisation in order to comply, as the case may be, with the commitments entered into under the "Stock option compensation schemes" or "linked to the listed share value" set up in the Company that have been duly approved.

A.10. Legal or bylaw restrictions on exercising voting rights, as well as legal restrictions on the acquisition or transfer of holdings in the share capital. State if there are any restrictions on exercising the voting rights:

NO

Cap on percentage of voting rights to which any shareholder may legally exercise

0

State whether the Articles of Association impose any restrictions on voting rights:

YES

Cap on percentage of voting rights that any shareholder may exercise due to a restriction laid down in the Articles of Association 10,000

Description of the restrictions on exercising voting rights laid down by law or in the Articles of Association

According to the terms of Article 11 of the Articles of Association of NH Hoteles, S.A., no shareholder, regardless of how many shares he may hold, may have more votes than the votes for 10% of the issued voting shares. This limit shall not apply in the General Meetings where, according to the list of those attending, a single shareholder present or represented at the Meeting holds more than 75% of the issued voting shares. For the purposes of the previous paragraph, companies belonging to the same group as defined in Article 42 of the Code of Commerce shall be deemed to be a single shareholder.

State whether there are any legal restrictions on the acquisition or transfer of holdings in the share capital:

NO

A.11. State whether the Shareholder Meeting has adopted preventive measures against public takeover bids, pursuant to Law 6/2007.

NO

B - CORPORATE GOVERNANCE STRUCTURE

B.1 Board of Directors

B.1.1 State the maximum and minimum number of members of the Board provided for in the Articles of Association:

Maximum number of directors	20
Minimum number of directors	5

B.1.2 Fill out the following table with the names of the members of the Board of Directors:

Name or corporate name of the director	Representative	Position on the board	Date first appointment	Date latest appointment	Election procedure
GABRIELE BURGIO	-	CHAIRMAN MANAGING DIRECTOR	12/01/1993	05/05/2006	VOTING IN SHAREHOLDERS' MEETING
MANUEL HERRANDO Y PRAT DE LA RIBA	-	DEPUTY CHAIRMAN	13/07/1992	05/05/2006	VOTING IN SHAREHOLDERS' MEETING
ALFONSO MERRY DEL VAL GRACIE	-	DIRECTOR	18/03/1997	05/05/2006	VOTING IN SHAREHOLDERS' MEETING
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	AURELIO IZQUIERDO GÓMEZ	DIRECTOR	17/02/2002	29/05/2007	VOTING IN SHAREHOLDERS' MEETING
HOTELES PARTICIPADOS, S.L.	IGNACIO EZQUIAGA DOMÍNGUEZ	DIRECTOR	29/04/2004	29/05/2007	VOTING IN SHAREHOLDERS' MEETING
IÑAKI ARRATÍBEL OLAZIREGI	-	DIRECTOR	28/10/2008	28/10/2008	CO-OPTION
JOSÉ DE NADAL CAPARÁ	-	DIRECTOR	08/05/1997	17/06/2008	VOTING IN SHAREHOLDERS' MEETING
JULIO C. DÍAZ-FREIJO CERECEDO	-	DIRECTOR	22/02/2006	05/05/2006	VOTING IN SHAREHOLDERS' MEETING
MIGUEL RODRÍGUEZ DOMÍNGUEZ	-	DIRECTOR	29/04/2004	29/05/2007	VOTING IN SHAREHOLDERS' MEETING
RAMÓN BLANCO BALÍN	-	DIRECTOR	12/01/1993	05/05/2006	VOTING IN SHAREHOLDERS' MEETING
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	MARIANO PÉREZ CLAVER	DIRECTOR	17/06/2008	17/06/2008	VOTING IN SHAREHOLDERS' MEETING
Total number of members of the board					11

State the resignations that have taken place from the Board of Directors during the period

Name or corporate name of the Director	Status director at the time of resignation	Resignation date
MATÍAS AMAT ROCA	REPRESENTATIVE	17/06/2008
GSS HURRICANE BV	REPRESENTATIVE	03/10/2008
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	REPRESENTATIVE	28/10/2008

B.1.3. Fill in the following tables about the different types of members of the Board of Directors:

EXECUTIVE DIRECTORS

Name or corporate name of the director	Committee that proposed his/her appointment	Position on the organisation chart of the company
GABRIELE BURGIO	BOARD OF DIRECTORS	CHAIRMAN MANAGING DIRECTOR
Total number of executive directors		1
Total % of the board		9.091

NON-EXECUTIVE SHAREHOLDER REPRESENTATIVE DIRECTORS:

Name or corporate name of the director	Committee that has proposed his/her appointment	Name or corporate name of the major shareholder who he/she represents or has put forward his/her appointment
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	-	CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)
HOTELES PARTICIPADOS, S.L.	NOMINATIONS AND COMPENSATION COMMITTEE	HOTELES PARTICIPADOS, S.L.
IÑAKI ARRATÍBEL OLAZIREGI	-	CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN
JULIO C. DÍAZ-FREIJO CERECEDO	NOMINATIONS AND COMPENSATION COMMITTEE	PONTEGADEA INVERSIONES, S.L.
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	-	CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID
Total number of shareholder directors		5
Total % of Board		45.455

INDEPENDENT DIRECTORS

Name or corporate name of the director	Qualifications	
MANUEL HERRANDO Y PRAT DE LA RIBA	LAW DEGREE	
ALFONSO MERRY DEL VAL GRACIE	DEGREE IN ECONOMICS AND TRADE, BOCCONI UNIVERSITY MILAN PHD PAVIA UNIVERSITY	
JOSÉ DE NADAL CAPARÁ	DEGREE IN CHEMICAL ENGINEERING, IQS BARCELONA (1962-68), MBA ESADE BARCELONA (1966-69) LECTURER IN MARKETING MASTER IN BUSINESS STUDIES IQS, BARCELONA (1980-83)	
MIGUEL RODRÍGUEZ DOMÍNGUEZ	BUSINESSMAN	
RAMÓN BLANCO BALÍN	DEGREE IN ECONOMICS AND BUSINESS STUDIES, TAX INSPECTOR ON LEAVE	
Total number of independent directors		5
Total % of the board		45.455

OTHER OUTSIDE DIRECTORS

Set out the reasons why they cannot be classified as shareholder or independent directors and their relationships, either with the company or its executives, or with its shareholders.

State any changes that have taken place during the period in the status of each director:

Name or corporate name of the Director	Date of change	Previous position	Present position
JOSÉ DE NADAL CAPARÁ	17/06/2008	OTHER EXTERNAL	INDEPENDENT

B.1.4. Please state the reasons, where applicable, for the appointment of shareholder representative directors at the request of shareholders whose ownership in the share capital is less than 5%.

State whether the Board of Directors disregarded formal requests for Board presence made by shareholders whose ownership in the share capital is equal to or greater than others whose call for such presence was met with the appointment of shareholder representative directors. If so, explain the reasons for not meeting their requests.

NO

B.1.5. If any Directors left their seats on the Board prior to the completion of their term, whether they have stated their reasons for resigning and how, to the Board, and if they have done so in writing to the entire Board, please state at least the reasons:

YES

Director's name	Reason for resignation
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	Strategic decision of the shareholder, CAJA DE AHORROS DE GIPUZKOA Y SAN SEBASTIÁN (KUTXA) to directly appoint a private individual as Shareholder Representative Director (Iñaki Arratibel Olaziregi), to represent this shareholder. Its decision to resign was given personally by the shareholder's legal representative to the Company's Board of Directors.
GSS III HURRICANE BV	Strategic reasons of the group to which the shareholder belongs. The notice of the resignation was made by the Director in a letter addressed to the Chairman who reported it to the Board.

B.1.6. State any powers that have been delegated to the managing director/s:

Name or corporate name director	Brief description
GABRIELE BURGIO	ALL THE POWERS OF THE BOARD OF DIRECTORS, EXCEPT FOR THOSE WHICH MAY NOT BE DELEGATED BY LAW OR UNDER THE ARTICLES OF ASSOCIATION

B.1.7. Identify any members of the board of directors who are also board members or executives of other companies that belong to the group of the listed company:

Name or corporate name director	Corporate name of the group company	Position
GABRIELE BURGIO	GRUPO FINANCIERO DE INTERMEDIACIÓN Y ESTUDIOS. S.A.	INDIVIDUAL REPRESENTATIVE OF THE SOLE ADMINISTRATOR NH HOTELES, S.A.
GABRIELE BURGIO	KRASNAPOLSKY HOTELS & RESTAURANTS. BV	MEMBER OF THE "SUPERVISORY BOARD"
GABRIELE BURGIO	NACIONAL HISPANA HOTELES SRL DE CV	DIRECTOR
GABRIELE BURGIO	NH DOMO. DISEÑO Y DECORACIÓN. S.L.	JOINT ADMINISTRATOR
GABRIELE BURGIO	SOTOGRADE. S.A.	DIRECTOR
GABRIELE BURGIO	GRANDE JOLLY. S.r.l.	CHAIRMAN AND MANAGING DIRECTOR
GABRIELE BURGIO	NH HOTELES PARTICIPATIES N.V.	CHAIRMAN AND DIRECTOR
GABRIELE BURGIO	NH ITALIA. S.r.l.	CHAIRMAN AND DIRECTOR
MANUEL HERRANO Y PRAT DE LA RIBA	LOS ALCORNOQUES DE SOTOGRADE. S.L.	DIRECTOR
MANUEL HERRANO Y PRAT DE LA RIBA	RESIDENCIAL MARLIN, S.L.	DIRECTOR
MANUEL HERRANO Y PRAT DE LA RIBA	SOTOGRADE. S.A.	CHAIRMAN AND DIRECTOR
ALFONSO MERRY EL VAL GRACIE	KRASNAPOLSKY HOTELS & RESTAURANTS. BV	MEMBER OF THE "SUPERVISORY BOARD"

B.1.8. State any members of the Board of Directors of the Company who are also members of the Boards of Directors of other companies listed on official securities markets in Spain, apart from the Group, that have been notified to the company:

Name or corporate name director	Corporate name of the listed company	Position
GABRIELE BURGIO	GRUPO FERROVIAL. S.A.	DIRECTOR
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	ARCALIA PATRIMONIOS SOCIEDAD DE VALORES. S.A.	DIRECTOR
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	BANCAJA EMISIONES. S.A.	CHAIRMAN
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	BANCAJA CAPITAL. S.A.	CHAIRMAN
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	BANCO DE VALENCIA. S.A.	CHAIRMAN
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	ENAGAS. S.A.	DEPUTY CHAIRMAN
MIGUEL RORÍGUEZ DOMÍNGUEZ	COMPAÑÍA ESPAÑOLA PARA LA FABRICACIÓN MECÁNICA DEL VIDRIO. S.A.	DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN CONSEJERO EMPRESARIAL CAJA MADRID	MECALUX. S.A.	DIRECTOR

B.1.9. State and, wherever necessary, explain any rules laid down by the company regarding the number of boards on which its directors are allowed to serve:

YES

Explanation of the rules.

Article 29 of the Board Regulations expressly states that Directors must give over the time and effort to their position as is needed to perform it efficiently, and must report to the Nominations and Compensation Committee any matters that might interfere with the required time and effort. Accordingly, Directors may not serve on more than 10 Boards of Directors, apart from the Board of NH Hoteles, S.A. and of family holding and family companies, unless expressly authorised by the Nominations and Compensations Committee after examination of the details of each case.

B.1.10. With reference to recommendation 8 of the Unified Code, state the general policies and strategies of the company that the Board reserves to itself for plenary approval:

Investment and financing policy	YES
The definition of the structure of the group of companies	YES
Corporate governance policy	YES
Corporate social responsibility policy	YES
The strategic business plan and annual management and budgetary targets	YES
Executive management compensation and performance appraisal policies	YES
Risk control and management policies, as well as the periodic monitoring of internal information and control systems	YES
Dividend payout and treasury stock policies, and in particular, their limits	YES

B.1.11 Fill in the following tables about the aggregate compensation accruing to directors during the year.

a) In the company which is the subject of this report:

Item of compensation	Figure in thousand
Fixed Compensation	763
Variable compensation	180
Attendance fees	88
Satutory fees	472
Stock options and/or other financial instruments	438
Other	386
Total	2,327

Other Benefits	Figure in thousand
Advances	0
Loans granted	8,305
Pension Funds and Plans: Contributions	0
Pension Funds and Plans: Obligations entered into	0
Life insurance premiums	32
Guarantees given by the company for the benefit of the directors	0

b) For belonging to the boards of directors and/or senior management of other companies of the group:

Item of compensation	Figure in thousand
Fixed Compensation	0
Variable Compensation	0
Attendance fees	2
Statutory fees	133
Stock options and/or other financial instruments	0
Other	0
Total	135

Other Benefits	Figure in thousand
Advances	0
Loans granted	0
Pension Funds and Plans: Contributions	0
Pension Funds and Plans: Obligations entered into	0
Life insurance premiums	0
Guarantees given by the company for the benefit of the directors	0

c) Total compensation by types of director:

Categories of directors	By company	By group
Executives	1,818	17
External Representative	250	8
Independent	259	110
External	0	0
Total	2,327	135

d) Out of net income attributed to the controlling company:

Total compensation directors (in thousand euros)	2.462
Total compensation directors/profit attributed to the controlling company (expressed in %)	9.2

B.1.12. Identify any senior managers who are not also executive directors, and stated the total compensation accruing to them during the year

Name or corporate name	Position
JESÚS IGNACIO ARANGUREN GONZÁLEZ-TARRÍO	CHIEF STRATEGY OFFICER
ROBERTO CHOLLET IBARRA	CHIEF FINANCIAL OFFICER
LEOPOLDO GONZÁLEZ-ECHENIQUE CASTELLANOS DE UBAO	GENERAL SECRETARY
FRANCISCO ALEJANDRO ZINSER CIESLIK	CHIEF OPERATIONAL OFFICER
IGNACIO DÍAZ LÓPEZ	CORPORATE MANAGER INTERNAL AUDITING
JUAN DE MORA NARVÁEZ	CORPORATE MANAGER HUMAN RESOURCES
Total compensation top management (in thousand euros)	2,988

B.1.13. Identify in aggregate any guarantee or "golden parachute" clauses for senior managers, including executive directors, of the company or its group that cover possible dismissals or changes in control. State whether such contracts must be notified to and/or approved by the governing bodies of the company or of its group:

Number of beneficiaries	6
-------------------------	---

	Board of Directors	General Meeting
Body that authorises the clauses	YES	NO
Is the General Meeting told about the clauses?		NO

B.1.14. Explain the process for setting compensation for members of the Board of Directors, and where applicable, the relevant clauses in the company's Articles of Association.

Procedure for setting the compensation of the members of the Board of Directors and the clauses of the Articles of Association.

Article 35 of the Rules and Regulations of the Board of Directors provides that Directors shall be entitled to be paid compensation as set by the Board of Directors in accordance with the provisions of Law and of the Articles of Association, subject to a report by the Nominations and Compensation Committee. The Board of Directors shall endeavour to ensure that the compensation of the member of the Board be in line with market rates, in companies of similar size and business.

Article 20 of the Company's Articles of Association provides that the compensation of the directors shall consist of a set annual amount and fees for attending the meetings of the Board of Directors and its delegate and consulting Committees. The amount of the compensation that the company may pay the Directors taken all together under both headings shall be equal to three percent of the liquid profits recorded by the Consolidated Group for the previous year. The exact amount to be paid within this limit shall be set by the Board of Directors who shall distribute it among the different Directors. In addition, apart from the compensation provided for in the previous section, there are plans to set up systems of compensation indexed on the share price or which involve handing over shares or share options for the Directors. The use of such systems of compensation must be approved by the General Meeting of Shareholders, which shall determine the value of the shares taken as a reference, the number of options, the price at which the share options are exercised, the duration of this system of compensation and any other conditions that are deemed appropriate. Furthermore, after the legal requirements have been met, similar systems of compensation may be set up for the staff management or other of the Company. The compensation provided for in the above sections, resulting from membership of the Board of Directors, shall be compatible with any other professional or employment earnings that are paid to the Directors for any other executive or advisory duties which they may provide the Company other than for supervising and taking decisions on the Board as part of their duties as Directors, which shall be governed by the legal rules that apply to them.

It should also be pointed out that every year the Board of Directors draws up a report on the Directors' compensation policy, which is notified to the Shareholder Meeting.

State whether the Board, in a plenary session, has reserved to itself the right to approve the following decisions:

Upon proposal by the CEO, the appointment and possible dismissal of senior managers, as well as their severance conditions.
YES

Directors' compensation, as well as, in the case of executive directors, any additional payments for their executive duties and other terms and conditions to be included in their contracts.
YES

B.1.15. State whether the Board of Directors approves a detailed compensation policy and explain what decisions it makes in this regard:
YES

Amount of the fixed items, with a breakdown, whenever applicable, of attendance fees for Board and Committee meetings and an estimate of the resulting fixed annual compensation
YES

Items of variable compensation
YES

Main features of the pension systems, with an estimate of the amount or equivalent annual cost thereof
YES

Terms of the contracts of persons who hold senior management positions as executive directors which must be fulfilled.
YES

B.1.16. State whether the Board submits a report on the compensation policy for directors to the Shareholder Meeting as a separate item on the agenda for a consultative vote. Whenever applicable, explain the points of the report regarding compensation policy approved by the Board for future years, the most significant changes in such policies compared to the policy pursued during the year and an overall summary of how the compensation policy was applied during the year. Describe the role of the Compensation Committee and whether outside advisory services have been used, and if so give the names of the outside consultants who have provided such services:
NO

Issues dealt with in the compensation policy

The Board of Directors approves a Report on the Compensations Policy concerning the members of the Board of Directors as set out in Recommendation 40, which it makes available to shareholders at the Shareholder Meeting.

Role of the Compensation Committee

The Nominations and Compensation Committee plays a major role in all matters relating to compensation policy, be it for members of the Board, or for senior managers of the Company. It is the body that proposes said compensations to the Board.

Has outside advice been used?

Names of the outside consultants

B.1.17. Mention any members of the Board who are likewise members of the Boards of Directors or senior managers or employees of companies that have major shareholdings in the listed company and/or entities of its group:

Provide a detailed explanation, where applicable, of significant affiliations or relationships apart from those addressed in the foregoing section, that link Board members to majorshareholders and/or entities of your group:

B.1.18. State any changes that have been made to the Rules and Regulations of the Board of Directors during the year:
YES

Description of changes

On 22 April 2008, the Board of Directors voted to change Articles 21.1, 21.2, 21.5, 26, b) 1 and 29 of the Rules and Regulations of the Board so as to bring them into line with the Unified Code of Good Governance, and notified the Shareholder Meeting of Shareholders according when it met on 17 June 2008.

B.1.19. Describe the procedures for appointing, re-electing, assessing and removing Directors. List the competent bodies, procedures and formalities to be followed and criteria used in each of these procedures.

Procedures for selecting members of the Board

Directors are appointed by the General Meeting of Shareholders or, on a provisional basis, by the Board itself in accordance with the terms of the Companies Act and the Articles of Association.

The proposed Nominations of Directors which shall be submitted by the Board of Directors to the General Meeting of Shareholders for approval and the decisions taken by the Board to make Nominations in accordance with its legal powers of co-optation must be in accordance with the provisions of the Rules and Regulations of the Board of Directors and shall be made in the form of a proposal to the Appointment and Compensation Committee, for independent Directors, and subject to a report by said Committee for any other Directors.

1. Appointing Non-Executive Directors

The Rules and Regulations of the Board of Directors make particular reference to the designation and appointment of Non-Executive Directors, given their special status when compared to the Executive Directors.

The Board of Directors and the Appointment and Compensation Committee shall endeavour, within their respective remits, to ensure that the candidates elected be persons who are known to be solvent, competent and experienced, who are prepared to spend a sufficient part of their time on the Company. Particularly special care must be taken when electing those persons called in to hold positions as independent directors.

Set out below is a brief description of the basic features involved in designating said Non-Executive Directors:

1.1 External Representative Directors

Shareholder representative directors are defined as being those directors who represent or possess a shareholding equal to or more than what is deemed by law to be a major shareholding or who have been designated in their capacity as shareholders, even when their holding is lower than said amount.

For the purposes of this definition, a Director is deemed to represent a shareholder whenever:

- a) He or she has been appointed exercising the powers of attorney.
- b) He or she is a Director, senior manager, employee or regular supplier of services to said shareholder or to companies belonging to the same group.
- c) The corporate documents show that the shareholder assumes that the Director has been designated by it or represents it.
- d) Is the spouse, person related by a similar relation of affection, or is a relation up to the second degree of a major shareholder.

1.2 Independent Directors

Independent shareholders are defined as shareholders who have been designated on the basis of their personal and professional conditions and may perform their duties without being subject to any relationship with the company, its major shareholders or its senior management.

The following Directors may not under any circumstances qualify as Independent Directors:

- a) When they have been employees or executive directors of companies of the group, unless 3 or 5 years have elapsed, respectively, since they ceased to hold such positions.
- b) When they receive from the company, or from its group, any amount or benefit under any heading other than Director's compensation, unless it is immaterial.

For the purposes of this section, neither dividends nor pension complements received by the Director in view of his or her prior professional or employment relationship shall be taken into account, provided that such complements are unconditional and, accordingly, the company paying them may not suspend, modify or revoke their accrual at its discretion, without being in breach of its obligations.

- c) They are, or have during the last 3 years been, partners in the independent auditors or responsible for the audit report, be it the audit of the listed company of any other company in its group during said period. d) They are executive directors or senior managers of another different company where any Executive Director or senior manager of the company is a Non-Executive Director.
- e) They have or have in the course of the last year had a major business relationship with the company or with any company in its group, either on their own behalf or as a major shareholder, Director or senior manager of a company that has or has had such a relationship.

Business relations are deemed to be relationships of suppliers of goods or services, including financial services, advisors or consultants.

- f) They are major shareholders, Executive Directors or senior managers in any company that receives or has in the course of the last 3 years received large donations from the company or its group.

This definition does not include anyone who is merely a patron of a Foundation that receives donations.

- g) They are the spouses, or persons linked by a similar relation of affection, or relations up to the second degree of an Executive Director or senior manager of the company.
- h) They have not been proposed by the Nominations Committee to be appointed or have their term renewed. i) They fall into any of the categories described in paragraphs a), e) f) or g) hereabove with regard to any major shareholder or shareholder represented on the Board. For family relationships as mentioned in paragraph g), the restriction shall apply not only to the shareholder, but also to its Shareholder Representative Directors in the investee company. Shareholder Representative Directors who lose this status as a result of the shareholder they represent having sold its holding may only be re-elected as Independent Directors when the shareholder they were representing up until then has sold its entire holding in the company.

In order to set up a reasonable balance between the two types of non-executive shareholder, the Board shall bear in mind the company's ownership structure, so that the relationship between each type of director bears a relation with the ratio of stable capital to floating capital.

2. Appointing the Chairman and Managing Director of the Company

The Chairman and Managing Director shall be the Chief Executive Office of the Company and, therefore, his appointment or the renewal of his appointment shall also include the delegation of all the powers and competencies of the Board that may be delegated, for the effective management of the Company's business, always in accordance with the decisions and guidelines laid down by the General Meeting of Shareholders and the Board of Directors.

The Chairman and Managing Director has the power to implement the decisions taken by the Board itself and, whenever applicable, by the Executive Committee, which bodies shall be represented permanently with the widest powers, and may take, in emergencies, such measures as he may deem advisable in the Company's interests.

3. Appointment of the Deputy Chairman of the Board

The Board may elect, from among its members, one or more Deputy Chairmen, who may or may not be executive directors, to stand in for the Chairman, should he so delegate, be absent or ill and, in general, in any event, for any duty or attribution that is deemed appropriate by the Board or by the Chairman himself.

The Chairman shall be replaced by the Deputy Chairman who has executive duties in the Company or, in the absence thereof, by the eldest Deputy Chairman.

4. Appointment of the Secretary of the Board

The Secretary shall be appointed and removed as proposed by the Nominations Committee and approved by the Board in plenary session.

5. Term of the Position

Directors shall hold their positions for three-year terms.

Members of the Board appointed by co-option shall, however, hold their positions until the date of the first General Meeting of Shareholders.

Any Member of the Board who terminates his or her mandate or leaves his or her directorship for any other reason may not, during a period of three years, provide services in any other entity that has a similar or the same corporate object as the Company or any of the companies in its Group.

The Board of Directors, should it deem so appropriate, may release an outgoing Member from this obligation or shorten its term of application.

The proposals to re-elect Members of the Board that the Board of Directors decides to put to the General Meeting must be drawn up in accordance with the formalities, which must include a report issued by the Appropriations and Compensation Committee which assesses the quality of the work and dedication to the position of the Members of the Board proposed during their terms of office.

The Nominations and Compensation Committee is the body that has competence to draw up and review the criteria that must be followed for the membership of the Board of Directors and the selection of candidates.

Every year, the Board, on the basis of a Report by the Nominations and Compensation Committee, assesses the quality and efficiency of the performance of the Board, its Committees, as well as the performance of the Managing Director, the chief executive officer of the company.

Removal of the Directors

Members of the Board shall leave their position at the end of the term for which they were appointed or whenever the General Meeting of Shareholders so decides in accordance with its legally granted attributions.

Members of the Board of Directors must tender their resignation to the Board of Directors in the following cases:

- a) When they reach the age of 70. Directors who hold executive positions shall cease to perform said duties when they reach the age of 65 although they may continue to be Directors, if the Board itself so decides.

In such cases, the resignation shall be made at the first meeting of the Board held after the General Meeting of Shareholders that approves the accounts for the year in which the Director has reached the age limit.

- b) In the event that executives whose Nominations as Directors are associated with their executive positions leave said executive positions or whenever the reasons for which they were appointed no longer exist, this being deemed to be the case for shareholder Directors when the business entity or group he represents no longer holds a major shareholding in the Company's share capital or when, for independent Directors, he becomes an executive of the Company or of any of its subsidiary companies.

- c) In the event that they are disabled, disqualified, forbidden or incompatible to hold said positions under the terms of current legal provisions.

For said purposes, any person who has direct or indirect interests of any kind or who has an employment, professional, commercial or any other kind of relationship with rival companies shall be deemed incompatible to hold a position as Director, unless at least 70% of the members of the Board vote for that person to be exempted.

- d) In the event that they are severely reprimanded by the Appointment and Compensation Committee for having failed to fulfil any of their obligations as Directors.

- e.) In the event that their remaining on the Board would be likely to affect the creditworthiness or reputation of the Company on the market or in any other way put its interests at risk.

B.1.20. Circumstances under which directors are required to resign.

Members of the Board shall leave their position at the end of the term for which they were appointed or whenever the General Meeting of Shareholders so decides in accordance with its legally granted attributions.

Members of the Board of Directors must tender their resignation to the Board of Directors in the following cases:

- a) When they reach the age of 70. Directors who hold executive positions shall cease to perform said duties when they reach the age of 65 although they may continue to be Directors, if the Board itself so decides.

In such cases, the resignation shall be made at the first meeting of the Board held after the General Meeting of Shareholders that approves the accounts for the year in which the Director has reached the age limit.

- b) In the event that executives whose Nominations as Directors are associated with their executive positions leave said executive positions or whenever the reasons for which they were appointed no longer exist, this being deemed to be the case for shareholder Directors when the business entity or group he represents no longer holds a major shareholding in the Company's share capital or when, for independent Directors, he becomes an executive of the Company or of any of its subsidiary companies.

- c) In the event that they are disabled, disqualified, forbidden or incompatible to hold said positions under the terms of current legal provisions.

For said purposes, any person who has direct or indirect interests of any kind or who has an employment, professional, commercial or any other kind of relationship with rival companies shall be deemed incompatible to hold a position as Director, unless at least 70% of the members of the Board vote for that person to be exempted.

- d) In the event that they are severely reprimanded by the Appointment and Compensation Committee for having failed to fulfil any of their obligations as Directors.

- e) In the event that their remaining on the Board would be likely to affect the creditworthiness or reputation of the Company on the market or in any other way put its interests at risk.

B.1.21. Measures taken to limit the risks involved in having the offices of Chairperson and Chief Executive Officer held by the same person:

YES

Measures for limiting risks

Article 17 of the Rules and Regulations of the Board of Directors provides that the Executive Chairman shall hold the position of Chief Executive Officer of the Company [.] and shall be responsible for effectively managing the Company's affairs, always subject to the decisions and criteria set out by the General Meeting of Shareholders and the Board of Directors. The decisions of the Chairman shall, therefore, be in any case subject to and controlled by the General Meeting and the Board of Directors. Furthermore, any agreement or decision of particular significance for the Company must first be put to the Board of Directors of the corresponding compliance committee for approval. Also necessary are the reports and proposals of the different Board Committees for taking certain decisions.

The Rules and Regulations of the Board have moreover provided (Article 12.2) for the Members of the Board to be able to ask the Chairman to include items in the agenda. The Chairman must do so whenever the request has been made at least ten days before the date set for the meeting and the relevant documents have been sent in attached to the request so that they may be passed on to all the other members of the Board.

Finally, it expressly provides that whenever the Chairman of the Board is also the Company's chief executive officer, the Board shall appoint one of the independent Directors to coordinate and relay the concerns of the non-executive Directors and to head the Board's assessment of its Chairman (Article 21.5 of the Rules and Regulations of the Board).

State and, where appropriate, explain whether there are rules allowing one of the independent directors to be able to summon a Board meeting or include new items on the agenda so as to coordinate and voice the concerns of non-executive directors and to direct their development by the Board of Directors.

YES

Explanation of the rules

Article 21 of the Rules and Regulations of the Board provides that Directors may ask the Chairman to include items on the agenda and the Chairman must do so whenever the request has been made at least ten days before the date set for the meeting and the relevant documents have been attached to the request so that they may be passed on to all the other members of the Board. They also provide that whenever the Chairman of the Board is also the Company's chief executive officer, the Board shall appoint one of the independent Directors to coordinate and relay the concerns of the non-executive Directors and to head the Board's assessment of its Chairman.

B.1.22. Are qualified or enhanced majorities required on the Board of Directors for certain types of decisions?**YES**

State how the Board of Directors takes its decisions stating, at least, the quorum and types of majority needed to take decisions:

Description of the decision:

Appointing a Director who directly or indirectly has interests of any kind or has an employment, professional, commercial or any other type of relationship with rival companies.

Quorum

Half of the members of the Board of Directors plus one. 51.00

Type of majority

70% its members 70.00

Description of the decision:

For any decision other than the above

Quorum

Half of the members of the Board of Directors plus one. 51.00

Type of majority

Absolute majority of those present 51.00

B.1.23. Explain if any specific requirements must be met, apart from those required for directors, to qualify to be appointed Chairman.**NO****B.1.24 State whether the chairman has a casting vote:****YES**Issues for which there may be a casting vote

Decisions shall be taken by an absolute majority of the Directors present at the meeting, and the Chairman or the Deputy Chairman standing in for the Chairman shall have a casting vote.

B.1.25. State whether the Articles of Association or the Rules and Regulations of the Board of Directors set any age limits for Directors.**YES**

Age limit chairman	Age limit managing director	Age limit director
65	65	70

B.1.26. State whether the Articles of Association or the Rules and Regulations of the Board of Directors set any limits to the term of office for Independent Directors.**NO**

Maximum term in years 0

B.1.27. In the case of few or no female Directors, explain the reasons thereof and the initiatives taken to remedy the situation.Explanation of the reasons and the initiatives

There are currently no woman Directors on the Board, although the Board of directors and the Nominations and Compensation Committee have the firm intention to take action on this matter in accordance with the Recommendations set out in the Unified Code of Good Governance and in the legal provisions currently in force, both in its wording and in its spirit.

Accordingly, the Nominations and Compensation Committee has been given the express job of ensuring that there is no implicit bias in the selection procedure that prevents woman Directors from being selected and for women with the appropriate professional qualifications and experience to be included on the short-lists for directorships. (Article 26.b of the Rules and Regulations).

In particular, state whether the Nominations and Compensation Committee has set up any procedure to ensure that there is no implicit bias in the selection procedures that prevent women directors from being selected, and to deliberately seek out women candidates who have the necessary qualifications and experience:

YESDescribe the main procedures

Article 26.b) of the Rules and Regulations expressly states that the Nominations and Compensation Committee's duties shall, inter alia, include reporting on the proposals to appoint and remove Directors and Senior Managers of the Company and of its subsidiary companies. When filling any vacancies that may come up in the Board of Directors, the Nominations and Compensation Committee shall ensure that there is no implicit bias in the selection procedure that might prevent women from being selected to be Directors and for women with the appropriate professional qualifications and experience to be included on the short-lists for directorships.

B.1.28. State whether there are any formal procedures for proxy authorizations and voting at Board meetings. If so, briefly describe.

Article 22 of the Rules and Regulations of the Board of Directors states that Directors must attend meetings of the Board in person and, whenever exceptionally they are unable to do so, they shall endeavour to ensure that the powers of attorney they grant another member of the Board includes, as far as possible, appropriate instructions. Such powers may be granted by letter or in any other way that ensures the validity of the representative in the view of the Chairman.

B.1.29. State how many Board Meetings were held in the year. State also, whenever applicable, how many times the Board has met in the absence of the Chairman:

Number of meetings of the board	9
Number of meetings of the board when the chairman does not attend	0

Number of meetings of the Board sub-committees held in the year.

Number of meetings of the executive committee	3
Number of meetings of the audit committee	8
Number of meetings of the Nominations and compensation committee	5
Number of meetings of the Nominations committee	0
Number of meetings of the compensation committee	0

B.1.30. Number of Board meetings held in the year not attended by all of its members. Representatives appointed without specific instructions shall be counted as failures to attend:

Number of times directors failed to attend meetings during the year	9
% of non-attendance total votes during the year	10.000

B.1.31. State whether the individual and consolidated accounts that are presented to the Board for approval have been certified beforehand. NO

Identify, as appropriate, the person/s who has/have certified the company's individual and consolidated annual accounts, to be drawn up by the board:

B.1.32. Explain any processes that have been set up to prevent individual or consolidated accounts approved by the Board from being presented to the Shareholder Meeting with a qualified auditors' report.

Article 40.2 of the Rules and Regulations of the Board provides that the Board of Directors shall endeavour to draw up the final accounts in such a way as to ensure that the Auditor does not qualify them. However, in the event that the Board considers that it must keep to its criterion, it shall publicly explain the content and extent of the differences of opinion.

B.1.33. State whether the Secretary is also a member of the Board. NO**B.1.34. Explain the appointment and removal procedures for the Secretary of the Board, stating whether his/her appointment or removal is notified by the Nominations Committee and approved by the Board in a plenary meeting.**Appointment and removal procedure

In accordance with the terms of Article 19.4 of the Rules and Regulations of the Board, the appointment and removal of the Secretary shall be proposed by the Nominations Committee and approved by the Board in a plenary meeting.

Does the Nominations Committee report on the appointment?	YES
Does the Nominations Committee report on the removal?	YES
Is the Board required to approve the appointment in a plenary meeting?	YES
Is the Board required to approve the removal in a plenary meeting?	YES

Does the secretary to the Board have the job of keeping a special check on compliance with the good governance recommendations?
YES

Observations

As stated in Article 19.3 of the Rules and Regulations of the Board, the Secretary shall make sure that the actions of the Board are formally and materially in accordance with the law and shall ensure compliance with its procedures and rules of good governance.

B.1.35. State, whenever applicable, what procedures have been set up by the company to safeguard the independence of auditors, financial analysts, investment banks and rating agencies.

The Board of Directors has set up, via the Auditing and Compliance Committee, a stable, professional relationship with the Company's internal Auditors, strictly respecting their independence. Accordingly, the Auditing and Compliance Committee keeps a check on any situations likely to put the independence of the external Auditors of the company at risk and, specifically, supervises the percentage of their fees compared to the total fees paid to the auditing firm. Accordingly, Article 25.b.6) states that the Auditing and Compliance Committee is competent, inter alia, to handle relations with the Auditor for receiving information regarding any issues that may put the Auditor's independence at risk, and any other issues relating to the process of performing the audit of the accounts, as well as to receive information and keep up the communications with the Auditor provided for under audit legislation and in technical auditing rules.

The Auditing and Compliance Committee also keeps a check on the independence and efficiency of internal auditing, proposing the selection, appointment, re-election and removal of the head of the internal auditing department. Furthermore, it proposes the budget of the internal auditing

department and receives regular information about its activities, and checks that senior management take the conclusions and recommendations of its reports into account. This Committee also has the job of overseeing the process of the preparation and accuracy of the financial information concerning the company and, as applicable, the group, and reviews compliance with requirements, the proper definition of the consolidation scope and that accounting policies are correctly applied.

B.1.36. State whether the Company has changed its independent auditing firm during the year. If so, identify the incoming and outgoing auditors:
NO

Incoming auditor **Outgoing auditor**

In the event that there are disagreements with the outgoing auditor, explain what they are:

NO

B.1.37. State whether the firm of auditors provides any non-audit services to the company and/or group, and if so, state the amount of fees for such work and the percentage it represents of total fees invoiced to the company and/or group:

YES

	Company	Group	Total
Fees for non-audit services (thousand euros)	212	418	630
Fees for non-audit services/Total amount invoiced by the auditing firm (in %)	54.080	31.240	36.420

B.1.38. State whether the report from the auditors on the accounts for the previous year has any qualifications or exceptions. If so, state the reasons given by the Chairman of the Auditing Committee to explain the content and extent of these qualifications or exceptions.
NO

B.1.39. State the number of consecutive years that the current auditing firm has conducted audits of the annual accounts of the company and/or its Group. Also state the percentage represented by the number of years audited by the current auditing firm out of the total number of years in which the accounts were audited.

	Company	Group
Number of consecutive years	7	7

	Company	Group
Number of years audited by the current auditing firm/Number of years that the company has been audited (in %)	31.8	31.8

B.1.40. Significant shareholdings of members of the Board of Directors of the company in the capital of companies that have the same, similar or complementary type of activity as that of the company or its group, and that have been reported to the company. State also any positions held or duties performed in such entities.

Name or corporate name of the director	Name of the corporate object	% holding	Position or duties
GABRIELE BURGIO	MOLA 15, S.L.	10.000	NONE
MANUEL HERRANO Y PRAT DE LA RIBA	PROMOCARCANO. S.A.	8.400	NONE
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	HOTEL BARCELONA GOLF,S.A.	16.800	NONE
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	HOTEL ALAMEDA VALENCIA, S.L.	100.000	NONE
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	GRAN HOTEL XIRIVELLA, S.L. UNIPERSONAL	100.000	NONE
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	PLAYA HOTELS RESORTS, S.L.	6.630	NONE
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	PROHORESA	29.930	NONE

B.1.41. State whether a procedure exists for directors to be provided with outside counsel or expert assistance.

YES

Details of the procedure

Article 28 of the Rules and Regulations of the Board of Directors expressly states that the Directors may ask for legal, accounting and financial advisors or other experts to be contracted, at the Company's expense, to help them in the performance of their duties. The commissions must be for specific, significant, complex matters that come up in the course of their duties. The decision to contract such services must be notified to the Chairman of the Company and shall be implemented through the Secretary to the Board, unless the Board of Directors does not deem such contracting necessary or advisable.

B.1.42. State whether a procedure exists for directors to be provided with the necessary information to prepare the meetings of governing bodies on a timely basis:

YES

Details of the procedure

Article 27 of the Rules and Regulations of the Board reflect the right and duty of disclosure of the members of the Board of Directors. Accordingly, it states that every Director must gather whatever information he or she deems necessary or advisable at any moment in time in order to perform his or her duties properly.

For said purpose, Directors shall have wide-ranging powers to find out about any aspect of the Company, to examine its books, records, documents and any other background information of corporate operations to the extent necessary or advisable in order to properly perform their duties.

Such right of disclosure also extends to the different subsidiary companies that belong to the consolidated group, and must always be exercised in accordance with the requirements of good faith.

B.1.43. State and, where applicable, provide details on whether the company has established rules or procedures that require directors to notify and, where applicable, resign in cases in which they may damage or undermine the standing, credibility and reputation of the company:
YES

Explain the rules

Article 14.2.e) of the Rules and Regulations of the Board of Directors of NH Hoteles, S.A. expressly provides that Directors must tender their resignations 'in the event that their remaining on the Board would be likely to affect the creditworthiness or reputation of the Company on the market or in any other way put its interests at risk'.

They also provide that under no circumstances may any persons who are deemed to be incapable, disqualified, forbidden or incompatible to hold such posts under current law be proposed for appointment to the Board of Directors

B.1.44. State whether any of the Board members has notified the Company of being involved in lawsuit or if any court proceedings have been filed against him or her for any of the offences listed in Section 124 of the Companies Act.
NO

State whether the Board of Directors has analysed the case. If this is the case, explain its decision, giving the grounds for its decision, as to whether or not to let the director remain in office.

NO

B.2 Board Committees

B.2.1. List all the Board committees and their members.

EXECUTIVE COMMITTEE:

Name	Position	Type
GABRIELE BURGIO	CHAIRMAN	EXECUTIVE
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	VOCAL	REPRESENTATIVE
JULIO C. DÍAZ-FREIJO CERECEDO	VOCAL	REPRESENTATIVE
MANUEL HERRANO Y PRAT DE LA RIBA	VOCAL	INDEPENDENT
RAMÓN BLANCO BALÍN	VOCAL	INDEPENDENT
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	VOCAL	REPRESENTATIVE

AUDIT COMMITTEE

Name	Position	Type
RAMÓN BLANCO BALÍN	CHAIRMAN	INDEPENDENT
HOTELES PARTICIPADOS, S.L.	VOCAL	REPRESENTATIVE
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	VOCAL	REPRESENTATIVE

NOMINATIONS AND COMPENSATIONS COMMITTEE

Name	Position	Type
JOSÉ DE NADAL CAPARÁ	CHAIRMAN	INDEPENDENT
MANUEL HERRANO Y PRAT DE LA RIBA	VOCAL	REPRESENTATIVE
MIGUEL RODRÍGUEZ DOMÍNGUEZ	VOCAL	REPRESENTATIVE

B.2.2. State whether the following duties and responsibilities are assigned to the Audit Committee:

To supervise the preparation and integrity of the financial information for the Company, and, where applicable, its group of companies, reviewing compliance with regulatory requirements and legal provisions, the scope of the consolidation perimeter and the correct application of accounting principles.

YES

To carry out regular reviews of internal control and risk management systems so that key risks can be properly pinpointed, managed and reported on.

YES

To ensure the independence and efficacy of internal audit; propose the selection, appointment, re-appointment and, where applicable, removal of the internal audit manager; propose a budget for the internal audit service; receive periodic information on its activities; and ensure that senior management is aware of the conclusions and recommendations contained in such reports.

YES

To establish and supervise a mechanism that allows employees to confidentially, and if considered appropriate, anonymously report any irregularities they notice within the Company that may be of potential importance, especially financial and accounting irregularities.

YES

To submit to the Board proposals for selection, appointment, re-appointment and replacement of the independent auditors and the terms and conditions of their engagement.

YES

To regularly receive information from the independent auditors on the audit plan and on the progress and outcome of its execution, verifying that senior management is duly aware of its recommendations.

YES

To ensure the independence of the externally-hired auditing firm.

YES

In the case of groups of companies, to help the group auditors take charge of the audits of the companies belonging to the group.

YES

B.2.3. Description of the rules of organization and procedure, as well as duties and responsibilities, assigned to each of the Board committees.

Committee name

NOMINATIONS AND COMPENSATION COMMITTEE

Brief description

a) Membership.

The Nominations and Compensation Committee shall have at least three and at most five members. All the members of this Committee must be non-executive Directors, and a majority of members must be independent directors.

The Chairman of the Nominations and Compensation Committee must be an independent Director and shall be appointed by the Committee itself from among its members.

b) Competencies.

Any other commission that may be assigned to it by the Board of Directors notwithstanding, the Nominations and Compensation Committee shall have the following competencies:

- To report on the proposed Nominations and removals of Directors and Senior Managers of the Company and its subsidiary companies. When filling any vacancies that may come up in the Board of Directors, the Nominations and Compensation Committee shall ensure that there is no implicit bias in the selection procedure that might prevent women from being selected to be Directors and for women with the appropriate professional qualifications and experience to be included on the short-lists for directorships
- To approve the compensation brackets of the Senior Managers of the Company.
- To approve the standard contracts for Senior Managers.
- To lay down the rules on compensation for the Chairman and, whenever applicable, for the Managing Director.
- To examine or organise, in the manner deemed appropriate, the succession of the Chairman and chief executive officer and, whenever applicable, to make proposals to the Board, so that said succession takes place in an organised, well planned fashion.
- To propose the rules on compensation of the Directors to the Board of Directors and the review them on a regular basis to ensure that they are in line with the duties they perform, in accordance with the terms of Article 35 of these Rules and Regulations.
- To report on the incentive plans.
- To carry out an annual examination of the compensation policy for Directors and Senior Managers.
- To report on the proposed Nominations of the Executive Committee and other Board Committees.
- To draw up and keep a record of the situations of the Company's Directors and Senior Managers; and - To exercise such other competencies as are assigned to the Committee under the terms of these Rules and Regulations.

All the action taken by the Nominations and Compensation Committee shall be reported to the Board of Directors at the first meeting it holds and the relevant documents shall, in any case, be made available so that it may be informed about this action in order to exercise its competencies.

c) Modus operandi

The Nominations and Compensation Committee shall meet whenever the Chairman deems appropriate or whenever a request to this effect is made by two of its members or the Board of Directors.

Committee name

EXECUTIVE COMMITTEE:

Brief description

a) Membership

The Executive Committee shall be made up of the Chairman of the Board and no fewer than three and no more than nine Directors, appointed by the Board of Directors.

The Board shall ensure that the membership structure of the different categories of Directors on the Executive Committee be similar to the structure of the Board of Directors and that its Secretary be the Secretary to the Board.

In any case, the appointment or renewal of members of the Executive Committee must get the backing of a vote of at least two-thirds of the members of the Board of Directors in order to be valid.

b) Modus operandi

The Executive Committee shall meet whenever called by its Chairman. The Chairman and Secretary of the Executive Committee shall be the Chairman and Secretary of the Board of Directors. Furthermore, one or more Deputy Chairmen and a Deputy Secretary may be appointed. The Executive Committee shall be deemed to have a quorum whenever half plus one of its members are present or represented by another member.

Decisions shall be taken by a majority vote of the Directors attending or represented at the meeting. In the event of a tied vote, the Chairman shall have a casting vote.

c) Relationship with the Board of Directors.

The Executive Committee shall report to the Board on a timely basis about the matters discussed and the decisions taken at its meetings.

Committee name

AUDITING COMMITTEE

Brief description

a) Membership.

The Auditing and Compliance Committee shall have no fewer than three and no more than five Directors appointed by the Board of Directors. All the members of this Committee must be non-executive Directors.

The members of the Auditing and Compliance Committee, and in particular its Chairman, shall be appointed bearing in mind their knowledge and experience in accounting, auditing or risk management.

The Chairman of the Auditing and Compliance Committee must be an independent Director and shall be appointed from among its non-executive director members, and must be replaced every four years. He or she may be re-elected once again after a year has elapsed since the end of his or her last term.

b) Competencies.

Any other commission that may be assigned to it by the Board of Directors notwithstanding, the paramount job of the Auditing and Compliance Committee shall be to support the Board of Directors in its duties as supervisor and it shall, specifically, have at least the following competencies:

- To report, through its Chairman, to the General Meeting of Shareholders on the issues that are put to it by the shareholders regarding matters that fall within the Committee's remit.
- To propose to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of the Auditor referred to in Section 204 of the Companies Act, as well as, whenever appropriate, the terms under which the Auditor is to be contracted, the scope of his professional mandate and the revocation or renewal of his appointment.
- To ensure the independence and efficacy of internal audit; propose the selection, appointment, re-appointment and, where applicable, removal of the internal audit manager; propose a budget for the internal audit service; receive periodic information on its activities; and ensure that senior management is aware of the conclusions and recommendations contained in such reports.
- To supervise the preparation and integrity of the financial information for the Company, and, where applicable, its group of companies, reviewing compliance with regulatory requirements and legal provisions, the scope of the consolidation perimeter and the correct application of accounting principles.
- To establish and supervise a mechanism that allows employees to confidentially, and if considered appropriate, anonymously report any irregularities they notice within the Company that may be of potential importance, especially financial and accounting irregularities.
- To handle relations with the Auditor for receiving information regarding any issues that may put the Auditor's independence at risk, and any other issues relating to the process of performing the audit of the accounts, as well as to receive information and keep up the communications with the Auditor provided for under audit legislation and in technical auditing rules.
- To oversee compliance and the internal codes of conduct, and the rules on corporate governance.
- To report to the Board, before the Board takes the relevant decisions, on the financial information which the company must, as a listed company, publish on a regular basis.
- To report to the Board on all matters concerning operations with related parties, as defined by the current Companies Act (Section 127 ter).
- To report to the Board on the creation or acquisition of holdings in companies for special purposes or which are domiciled in countries or territories that qualify as tax havens, and any other transactions or operations of a similar nature which are of a complexity such that they may impair the transparency of the group, and
- To exercise such other competencies as are assigned to the Committee under the terms of these Rules and Regulations or which may be assigned to it by the Board of Directors.

c) Modus operandi.

The Auditing and Compliance Committee shall meet at least once a quarter and whenever it may be appropriate, after been called by the Chairman, on his own decision or in response to a request made by two of the members of the Committee or of the Board of Directors.

The Auditing and Compliance Committee may call on any employee or executive of the company, or the Company's Auditor to attend its meetings.

B.2.4. State the powers assigned to each committee to make recommendations, issue opinions and, where applicable, delegate powers.

Committee name

NOMINATIONS AND COMPENSATION COMMITTEE

Brief description

To report on the proposed Nominations and removals of Directors and Senior Managers of the Company and its subsidiary companies; when filling any vacancies that may come up in the Board of Directors, the Nominations and Compensation Committee shall ensure that there is no implicit bias in the selection procedure that might prevent women from being selected to be Directors and for women with the appropriate professional qualifications and experience to be included on the short-lists for directorships, seeking to approve the compensation brackets for the Company's

Senior Managers; to approve the standard contracts for Senior Managers; to lay down the rules on compensation for the Chairman and, whenever applicable, for the Managing Director; to examine or organise, in the manner deemed appropriate, the succession of the Chairman and chief executive officer and, whenever applicable, to make proposals to the Board, so that said succession takes place in an organised, well planned fashion; to propose the rules on compensation of the Directors to the Board of Directors and the review them on a regular basis to ensure that they are in line with the duties they perform, in accordance with the terms of Article 35 of these Rules and Regulations; To report on the incentive plans; to carry out an annual examination of the compensation policy for Directors and Senior Managers; to report on the proposed Nominations of the Executive Committee and other Board Committees; to draw up and keep a record of the situations of the Company's Directors and Senior Managers and to exercise such other competencies as are assigned to the Committee under these Rules and Regulations.

Committee name

EXECUTIVE COMMITTEE:

Brief description

Empowered to take decisions at a general level and, consequently, expressly empowered with all the powers pertaining to the Board of Directors, except for those which are not allowed to be delegated under the terms of the law or of the Company's Articles of Association. The Board of Directors may, moreover, entrust the Executive Committee with further duties.

Committee name

AUDITING COMMITTEE

Brief description

Its paramount job shall be to support the Board of Directors in its duties as supervisor and it shall, accordingly, be empowered with all the powers granted, be it under the terms of the Companies Act, or under the Company's Articles of Association, and the Rules and Regulations of the Board of Directors on matters concerning auditing and compliance.

B.2.5. Indicate, where applicable, if there are any rules and regulations for the Board Committees, where they are available for consultation and any changes or amendments made during the year. Likewise indicate whether an annual report on the activities of each Committee has been prepared on a voluntary basis.

Committee name

NOMINATIONS AND COMPENSATION COMMITTEE

Brief description

The Rules and Regulations of the Board of Directors lay down comprehensive, detailed rules that govern the structure, modus operandi and competencies of the Nominations and Compensation Committee (Article 26 of the Rules and Regulations)

These Rules and Regulations may be consulted at any time on the NH Hoteles, S.A. web site. On 23 January 2007, the Board of Directors approved a new set of Rules and Regulations of the Board of Directors, which essentially brought in the Recommendations set out in the Unified Code of Good Governance, which also affected the modus operandi and competencies of the Nominations and Compensation Committee.

Later, on 22 April 2009, the wording of the Rules and Regulations were partially amended again in order to bring it into line with the Conthe Code. These changes included a new paragraph in Article 26, b) 1, which expressly states that the Nominations and Compensation Committee shall ensure that there is no implicit bias in the selection procedure that might prevent women from being selected to be Directors and for women with the appropriate professional qualifications and experience to be included on the short-lists for directorships.

Furthermore, Reports on the action taken by the Auditing and Compliance Committee and the Nominations and Compensation Committee are approved every year.

Committee name

EXECUTIVE COMMITTEE:

Brief description

The rules on the structure, modus operandi and competencies of the Executive Committee are expressly set out in Articles 23 and 24 of the Rules and Regulations of the Board. These Rules and Regulations of the Board may be consulted at any time on the NH Hoteles, S.A. web site, in the section on Shareholder Information

On 23 January 2007, the Board of Directors approved a new set of Rules and Regulations of the Board of Directors, which essentially brought in the Recommendations set out in the Unified Code of Good Governance. In 2008 no changes affecting the rules and modus operandi of the Executive Committee were made.

Committee name

AUDITING COMMITTEE

Brief description

Article 25 of the Rules and Regulations of the Board of Directors lay down all the rules that govern the structure, modus operandi and competencies of the Audit and Compliance Committee.

These Rules and Regulations have been published on the NH Hoteles, S.A. web site, www.nh-hotels.com, in the section on Shareholder Information.

On 23 January 2007, the Board of Directors approved a new set of Rules and Regulations of the Board of Directors, in order to bring them into line with the Recommendations set out in the Unified Code of Good Governance. These changes also included a change to Article 25, which is worded as stated in the Recommendations set out in the Unified Code of Good Governance on the modus operandi, structure and competencies of the Auditing Committee. No further changes affecting the rules governing this Committee were made last year.

Every year, moreover, Reports have been approved on the activities of the Auditing and Compliance Committee.

B.2.6. State whether the composition of the Executive Committee reflects the proportions of the different types of Directors on the Board.

YES

C. - INTERCOMPANY TRANSACTIONS

C.1. State whether the Board, in a plenary session, has reserved itself powers to approve, based on a favourable report from the Audit Committee or any other entrusted with such a task, the transactions in which the Company engages with its directors, significant shareholders or shareholders with Board representation, or parties related to them:

YES

C.2. List the significant transactions made during the year that involve a transfer of resources or obligations between companies or entities of the Group and the Company's significant shareholders.

Name or corporate name of the major shareholder	Name or corporate name of the company or entity in its group	Nature of the relationship	Type of operation	(Thousand euros)
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	NH HOTELES, S.A.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	54,564
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	NH FINANCE, S.A.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	15,000
PONTEGADEA INVERSIONES, S.L.	NH HOTEL RALLYE PORTUGAL LTD.	CONTRACTUAL	Leases	863
PONTEGADEA INVERSIONES, S.L.	NH HOTELES, S.A.	CONTRACTUAL	Leases	5,294
PONTEGADEA INVERSIONES, S.L.	NH NUMANCIA, S.A.	CONTRACTUAL	Leases	912
PONTEGADEA INVERSIONES, S.L.	NH PAMPLONA, S.A.	CONTRACTUAL	Leases	2,518
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA (IBERCAJA)	NH FINANCE, S.A.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	3,500
INTESA SANPAOLO, S.P.A.	GRANDE JOLLY, S.r.l.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	31,916
INTESA SANPAOLO, S.P.A.	JOLLY HOTEL HOLLAND	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	6,875
INTESA SANPAOLO, S.P.A.	JOLLY HOTELS USA, INC	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	4,880

C.3. List the significant transactions involving a transfer of resources or obligations between the Company or entities of its Group, and the Directors or Senior Managers or the Company.

Name or corporate name of the administrators or executives	Name or corporate name of the company or entity in its group	Nature of the operation	Type of operation	(Thousand euros)
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	NH FINANCE, S.A.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	25,000
GABRIELE BURGIO	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements: loans and capital contributions (lender)	8,305
HOTELES PARTICIPADOS, S.L.	NH FINANCE, S.A.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	12,500
HOTELES PARTICIPADOS, S.L.	NH FINANCE, S.A.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	7,500
JESÚS IGNACIO ARANGUREN GONZÁLEZ-TARRÍO	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements: loans and capital contributions (lender)	3,437
ROBERTO CHOLLET IBARRA	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements: loans and capital contributions (lender)	2,578
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	NH FINANCE, S.A.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	40,000
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	NH HOTELES, S.A.	CONTRACTUAL	Commitments entered into	50,028

C.4. List of significant transactions carried out by the Company with other companies belonging to its same Group which have not been eliminated in the process of consolidation and are not part of the Company's routine business.

Corporate name of the group company	(Thousand euros)	Brief description of the operation
HARRINGTON HALL HOTEL LIMITED	2,250	LOAN
LOS ALCORNOQUES DE SOTOGRADE, S.L.	5,509	LOAN
RESIDENCIAL MARLIN, S.L.	9,000	LOAN

C.5. Mention any conflicts of interests that Directors may be involved in, pursuant to Section 127.3 of the Companies Act.

NO

C.6. List of the procedures set up to identify, determine and settle possible conflicts of interest between the Company and/or its Group and its Directors, Senior Managers or major shareholders.

Article 32 of the Rules and Regulations of the Board sets out the rules for detecting, determining and settling any conflicts of interest that may arise between the company and/or its group and its Directors. The actual wording of this Article states that the Directors shall perform their duties with complete loyalty to the interests of the Company.

To this end, the Directors must comply with the following obligations and prohibitions:

- a) The Directors may not use the Company's name or invoke their status as Administrators to carry out any operation on their own behalf or on behalf of persons related to them.
- b) No Director may carry out, for his or her own benefit or for the benefit of anyone who is related to him or her, any investments or operations linked to the Company's assets which he or she has learnt about in the course of his duties as a Director, whenever such operations have been offered to the Company or the Company has an interest therein, unless the company has rejected them without the Director having had any influence on the decision.
- c) The Directors may not use the Company's assets or avail themselves of their position in the Company to achieve any material benefit unless they have paid proper consideration therefor.

If the benefit is received by virtue of their position as a shareholder, it shall only be proper if the principle of equal treatment of shareholders is fulfilled.

- d) The Directors must notify the Board of Directors about any situation that may bring them directly or indirectly into conflict with the company's interests. In the event of conflict, the Director in question shall refrain from taking part in the operation giving rise to the conflict.
- e) The Directors must refrain from voting on any matters in which they, or anyone related to them, have a direct or indirect interest.
- f) No Director may carry out, directly or indirectly, any professional or business operation or transaction with the Company or with any of the companies in its Group, whenever said operations are not part of the Company's normal course of business or are not performed on an arms'-length basis, unless the Director informs the Board of Directors about such operations beforehand and at least 80% of the members of the Board attending or represented to the meeting vote, subject to a report from the Nominations and Compensation Committee, in favour of the transaction.
- g) The Directors must report any holding they or anyone related to them have in the capital of any company which engages in the same, a similar or a complementary activity as that which constitutes the corporate object, any positions or duties that they hold therein, and the performance of any type of activity that constitutes the corporate object for their own account or as salaried employees thereof.

The Board of Directors may, at the proposal of the Nominations and Compensation Committee, prevent Directors from holding senior positions in companies that compete with the Company or with any of the companies in its Group.

For the purposes set out in the previous paragraph, the term anyone related to the Directors as being the persons referred to in Section 127 ter. 5 of the Companies Act.

The Internal Code of Conduct also defines the general duties and obligations of loyalty that the Directors and senior management of the Company have undertaken to fulfil, which concern in general terms matters relating to conflicts of interest, standards of behaviour relating to privileged information, disclosure of significant information and securities transactions.

C.7. Is more than one company of the Group listed on the securities market in Spain?

YES

Identify the subsidiary companies that are listed:

Listed Subsidiary Company
SOTOGRADE, S.A.

State whether the respective areas of activity and possible business relationships between them have been publicly, precisely defined, as well as the relationships of the listed dependent company with other companies in the group:

YES

Define any possible business relationships between the parent company and the listed subsidiary company and between the listed subsidiary company and all the other companies in the group

The relationships stemming from existing management agreements between the companies

Identify the measures set up to settle any conflicts of interest that might arise between the listed subsidiary company and the other companies in the group:

Methods for settling any conflicts of interest that might arise

The measures for settling any conflicts of interest that could arise between NH Hoteles, S.A. and the listed company that belongs to its group, Sotogrande, S.A., are defined by the Auditing and Compliance Committee of the respective companies. Appropriate solutions are put forward and are approved, whenever necessary, by each company's Board of Directors.

D - RISK CONTROL SYSTEMS

D.1. General description of the risk policies of the company and/or group, listing and evaluating the risks covered by the system, along with an explanation of the extent to which such systems are tailored to the profile of each type of risk.

The Risk Control Systems for the business activities of the NH Hoteles S.A. Group can be classified as follows:

- Financial Risk Control- Strategic Development Risk Control
- Business Risk Control, operational and environmental - Regulatory Risk Controls
- Other preventive procedures

1. Financial Risk Controls

The Group controls its financial risks using the following systems:

- 1.1 Manual of Procedures: Major operations carried out by the NH Hoteles Group are standardised in a manual of internal procedures, be it for purchasing circuits, managing assets, cash and banks, monthly closure procedures, etc. Furthermore, the rules governing accounting matters have been laid down for all the Group's companies, in Spain and abroad.

- 1.2 Internal Audit: The internal audit department works on an ongoing basis, focused largely on identifying risk situations and in assessing how they are managed. An annual audit plan has thus been defined which aims, inter alia, to check that the rules and procedures laid down are properly applied, at the level of the corporate departments and in each particular hotel.
- 1.3 Auditing Committee: The Auditing Committee reports directly to the Board of Directors. It ensures that all the Group's Internal Control Systems are working properly. Moreover, at regular intervals it analyses the main business risks and the systems set up to manage and control them and is responsible for relations with the Group's external auditors.
- 1.4 Centralised Management: The Group manages its financial policies, interest rates and exchange rates on a non-speculative basis in a single, centralised manner at the Directorate General for Corporate Economics and Finance.

2. Strategic Risk Control Systems

- 2.1 The NH Hoteles Group has a team of professionals whose job it is to analyse strategic opportunities of various different kinds. This team selects the alternatives that best fit the Group's global strategy and submit them to the Expansion and Management Committee and, later, to the Executive Committee and the Board of Directors.
- 2.2 The Group has identified a series of employees who, every time an acquisition is made, set up an Integration Committee, aimed at standardising the policies and procedures of various different critical areas (human resources, information systems, sales and marketing, ...)
- 2.3 The Expansion Committee reports to the Executive Committee. It analyses the operations put to it. Its members come from each of the areas for analysing each and every one of the opportunities and risks of the businesses that are submitted to the group.

3. Business Risk Control Systems, operations and the environment

- 3.1 The Management Committee meets every week and analyses, on the one hand, the information on the control panels prepared by the Management Control Corporate Department to assess the performance of the operations, and on the other, it monitors in greater depth the aspects of sales assessment obtained through the computer system.

It also lays down the policy for all the company's departments and monitors compliance with the market policy for the Committee.

- 3.2 The Group's policy, in particular in its Golf business, is aimed at respecting the environment to the utmost. It has therefore contracted the services of an environmental consultancy to diagnose and provide advice on the Group's actions.

4. Regulatory Risk Control Systems

This group includes all those risks connected with legal rules that are likely to affect day-to-day operations, the drawing up of contracts (customers and suppliers), complying with legal, administrative, international, state, regional or municipal rules, and renewing lease and management agreements. There is a procedure for simultaneous approval at different levels in the organisation which ensures that the agreements are properly approved. Furthermore all the risks affecting this sector are regularly reviewed by the Internal Audit Department as part of its annual plan.

The company also has subcontracted companies that ensure compliance with health, safety on the job, safety of the facilities, fire-prevention regulations, etc.

5. Other preventive procedures

5.1 Employee and safety

The safety and health plans for employees involve planning the processes that are likely to give rise to risks and setting up appropriate safety measures.

The Company provides many training courses to its own employees and to sub-contracted staff.

5.2 Insurance

The NH Hoteles Group's policy is to have wide cover by taking out insurance policies for risks that are likely to arise. There is also a policy of ongoing reviews of covers.

5.3 Risk Map

The Auditing Committee of the NH Hoteles Group has drawn up a risk map that covers a wide range of up to 14 types of risk ranging from future rent commitments to the state of the operating permits of the hotels, and commitments under financial covenants in loans.

This plan is updated every year to identify any threats that might affect the Group in its operations.

D.2. State whether any risks have arisen during the year, some of the different types of exposures (operational, technological, financial, legal, reputation, tax) .) that affect the company and/or its group.

YES

If so, state the reasons for this and if the control systems set up have worked.

Risk arising in the year

Risks inherent to the activity

Reasons

Carrying on the activities carried on by NH Hoteles, S.A.

How the control systems work

The systems for preventing and controlling risk have been found to be working properly, as a result of which the measures set up have to date been found to be operating satisfactorily.

D.3. State whether there is any committee or other governing body in charge of setting up and supervising control mechanisms.

YES

If so, list its duties

Name of the committee or body

Auditing and Compliance Committee

Description of duties

The Auditing Committee reports directly to the Board of Directors. It ensures that all the Group's Internal Control Systems are working properly. Moreover, at regular intervals it analyses the main business risks and the systems set up to manage and control them and is responsible for relations with the Group's external auditors.

In general it supports the Board of Directors in its duties as supervisor and it shall, accordingly, be empowered with all the powers granted, be it under the terms of the Companies Act, or under the Company's Articles of Association, and the Rules and Regulations of the Board of Directors on matters concerning auditing and compliance.

Name of the committee or body

Internal Audit Department

Description of duties

Identifying and assessing risk situations defining an annual audit plan has thus been defined which aims, inter alia, to check that the rules and procedures laid down are properly applied, at the level of the corporate departments and in each particular hotel.

D.4. Identification and description of the processes of compliance with regulations that affect the company and/or the group.Department of Prevention of On-the-Job Risks

The systems for preventing on-the-job risks are assessed and audited internally on an ongoing basis. The scope extends to central departments and all the hotels.

Internal Audit

The Internal Audit Department, which reports directly to the Chairman and is at the disposal of the Board of Directors via the Auditing and Compliance Committee, helps in managing the risks to which the Group is exposed when fulfilling its objectives.

Thus, the Audit Department carries out a continuous assessment of the risk control procedures and systems, organisation models and management variables in the most significant areas of the NH Hotels, S.A. Group. The corresponding conclusions are reported to the heads of the areas being assessed and to Senior Management of the Group, including, whenever appropriate, recommending specific action to be taken to implement improvements. The Audit Department therefore takes an active part in preventing and controlling fraud. Internal Code of Conduct

Furthermore, on 26 June 2003, the Board of Directors of NH Hoteles, S.A. approved the Internal Code of Conduct of NH Hoteles, S.A. and its Group of Companies on the Securities Markets, which must be complied with by its recipients and lays down rules governing all matters relating to standards of behaviour with regard to securities, conflicts of interest, standards of behaviour concerning privileged information, and securities transactions, inter alia.

Security Policy

All the Company's employees sign a Security Policy document which sets out the security policy of NH Hoteles with regard to data processing and data communications. Its purpose is to ensure that every member of staff is informed, clearly and briefly, about the security policy of NH Hoteles in connection with the use of information systems, access to facilities, software and using e-mail and the Internet in the work place, in order to clearly define behaviour that is not allowed when using these work tools of NH Hoteles.

E - SHAREHOLDER MEETINGS**E.1. State and if necessary describe any quorums to hold the Annual General Meeting of shareholders pursuant to the Company's Articles of Association. Differences vis-à-vis the rules of minimum requirements provided for in the Companies Act.**

NO

	% quorum not the same as set in Section 102 of the Companies Act for general cases	% quorum not the same as set in Section 103 of the Companies Act for special cases of Section 103
Quorum required when first called	0	0
Quorum required when first called	0	0

E.2. Mention and if necessary describe any differences in the decision-making procedures vis-à-vis the guidelines provided for in the Companies Act.

YES

Describe any differences with regard to the rules laid down in the Companies Act.

Describe the differences

Article 15 of the Company's Articles of Association states that Shareholder Meetings shall take their decisions by a majority of the votes of the shares present or represented. Every share shall entitle its holder to one vote. No shareholder, regardless of how many shares he or she may hold, may have more votes than the votes for 10% of the issued voting shares. This limit shall not apply in the Shareholder Meetings where, according to the list of those attending, a single shareholder present or represented at the Meeting holds more than 75% of the issued voting shares.

Article 15 provides for an exception to the rule set out above (majority of the votes attending or represented) 'any decision to amend this Article must be backed by the vote of at least 75% of the capital'.

E.3. List the rights of shareholders with regard to Shareholder Meetings apart from those provided for in the Companies Act.**- Right to information:**

Article 9 of the Rules and Regulations of the Shareholder Meeting provides that as from the date the announcement calling the Shareholder Meeting is published, the Company shall make available to its shareholders the documents and information that it must provide them by law or under the terms of its Articles of Association concerning the items on the agenda, and shall include these documents and information on the Company website as from said date. This notwithstanding, shareholders may obtain these documents and information immediately and free of charge at the Company's registered address or may ask the Company to send them free of charge, in the cases and subject to the terms laid down by law.

Furthermore, as from the date the announcement calling the Shareholder Meeting is published, and in order to facilitate attendance by the shareholders at the Shareholder Meeting and so that they may take part in the Meeting, the Company shall include on its website, to the extent that they are available, in addition to the documents and information required by law, anything that the Company deems advisable for the purposes referred to and in particular, but not only, the following:

- a) The full text of all the proposed decisions that are to be put to the Shareholder Meeting which have already been approved by the Board of Directors, any changes made by the Board of Directors prior to the date of the Meeting notwithstanding, whenever this is legally possible.
- b) Information about where the Shareholder Meeting is to be held, describing, whenever appropriate, how to gain access to the venue.
- c) Procedure for getting attendance cards or the certificate issued by the entities who are legally authorised to do so.
- d) Methods and procedures for granting proxy rights for the Shareholder Meeting.
- e) Any methods and procedures for voting by post.
- f) Any other points of interest for the meeting, such as whether or not there are simultaneous translations facilities, if the Shareholder Meeting is to be broadcast or the information in other languages.

This information may be subject to changes at any time. Any such changes shall be published on the Company's website.

The Company shall provide, sufficiently in advance, the information and documents referred to in sections 1 and 2 a) hereabove, to the National Securities Market Commission and to such other Market Governing Bodies as may be appropriate.

Article 10 of these Rules and Regulations also sets out everything concerning the rights of shareholders to be informed and states that as from when the notice calling the Shareholder Meeting is published, and up to the seventh last day prior to the date set for holding the meeting when first called, any shareholder may apply in writing to the Company's Board of Directors for any information or clarification he or she may deem necessary, or put in writing any question he or she may deem appropriate, about the matters included in the Agenda of the Meeting published when the announcement calling the meeting is made or about any information available to the public that the Company has provided to the National Securities Market Commission since the previous Shareholder Meeting was held.

The Board of Directors must provide, up until the date the Shareholder Meeting is held, in writing, any information or clarification that has been requested, and also to give written answers to any questions made. The replies to the questions and to the requests for information made shall be sent via the Secretary to the Board of Directors, by any of the members of the board or by anyone who has been expressly empowered by the Board of Directors for said purpose.

While the Shareholder Meeting is being held, the Company's shareholders may verbally ask for any information or clarification they deem advisable about the matters included in the agenda and, if the shareholder's right cannot be satisfied at that moment in time, the Administrators must provide this information in writing within seven days after the Meeting ends.

The Administrators must provide the information asked for under the terms of the above sections, except in cases where, in the opinion of the Chairman, making public the information asked for would be damaging to the Company's interests.

Information may not be held back when the request is supported by shareholders who represent at least one quarter of the share capital.

- Suggestions made by shareholders.

Notwithstanding the right of shareholders, in the cases and terms provided for by law, to apply for certain matters to be included on the agenda of the Meeting which they ask to be called, shareholders may, at any time, after giving proof of their shareholder status, make suggestions relating to the organisation, operations and competencies of the Shareholder Meeting.

- Right to attend

Article 12 of the Rules and Regulations sets out the rules on the right to attend meetings. In this regard it provides that Shareholder Meetings may be attended by shareholders who hold the minimum number of shares required under the Articles of Association registered in their name in the appropriate record of notes in account five days before the date the meeting is to be held, provided that they provide proof of their status in the form of the relevant attendance card or share certificates issued in their name by any of the entities that participate in the body that manages this accounting record or directly by the Company itself, or in any other manner allowed under current Law. This card or certificate may be used by shareholders as a proxy document for the Meeting in question. Shareholders who do not hold the minimum number of shares required to attend may, at any time, delegate their proxy rights, as set out in the next Article, to a shareholder who is entitled to attend the Meeting, or to group together with other shareholders in the same situation so as to attain the number of shares needed, in which case they must grant their proxy rights to one of those shareholders. Such groups must be set up specially for each Meeting, and be recorded in some written form.

The Chairman may authorise that anyone whom he deems advisable may attend although the Meeting may reject such permission.

- Proxy rights

Article 13 of the Rules and Regulations of the Shareholder Meetings states that any shareholder who is entitled to attend Shareholder Meetings may be represented by somebody else, who does not have to be a shareholder. The proxy must be accepted by the representative and must be granted specially for each Meeting, either as a printed power of attorney on the attendance card or else in any other manner allowed by Law, except as provided for in Section 108 of the Companies Act for cases where family relations act as representatives and the granting of general powers of attorney.

Proxy may also be granted using data transmission that properly guarantee the proxy right attributed and the identity of the represented party. The proxy granted shall be accepted when granted in these ways when the electronic document whereby the proxy is granted included the recognised electronic signature used by the represented party or any other type of signature that gives sufficient guarantee of authenticity and for identifying the shareholder who is granting the proxy and complies with all the other requirements laid down in law current at the time.

The documents which record the proxies or powers of attorney for the Shareholder Meeting shall set out the instructions as to how to vote, it being understood that if no express instructions are given, the representative shall vote for the decision proposed by the Board of Directors for the items on the agenda.

In the absence of voting instructions, because the Shareholder Meeting is to vote on matters that were not included on the agenda and were therefore not known when the proxy rights were granted, the proxy holder may vote as he or she best deems appropriate, in the interests of

the Company and of the shareholder he or she is representing. This shall also be the case when the proposal or proposals put to the vote at the Shareholder Meeting have not been drawn up by the Board of Directors.

In the event that the proxy document or power of attorney fails to state the particular person who is granted powers to represent the shareholder, said powers shall be deemed to have been granted to the Chairman of the Board of the Company or the person designated by the Chairman of the Board, or whosoever may stand for him in chairing the Shareholder Meeting.

In the event that a public application of representation has been drawn up in accordance with the terms of Section 107 of the Companies Act, the Administrator who is given such powers of attorney shall be subject to the voting restriction set out in Section 114 of the Securities Market Act for cases of conflict of interest.

Proxy rights shall always be revocable. If the represented shareholder attends the Shareholder Meeting in person, this shall constitute a revocation of the proxy.

- Right to vote

The shareholders present or represented at the Meeting may vote on the proposed decisions put to the Shareholder Meeting. Decisions taken by Shareholder Meetings shall be taken subject to the majorities stipulated by law. Each share shall be entitled to one vote.

Shareholders who are private individuals who are not entitled to act legally and legal entities that are shareholders shall be represented by persons who are, according to the Law, entitled to act as their duly accredited representatives.

In any case, either in the event of voluntary representation or legal representation, shareholders may not have more than one representative at the Meeting.

The Chairman of the General Meeting of Shareholders or, by delegation by the Chairman, the Secretary to said Meeting, shall settle any doubts that may arise as to the validity and efficiency of the documents whereby each shareholder is entitled to attend Shareholder Meetings individually or by grouping his or her shares together with those of other shareholders, and to delegate or grant proxy powers to somebody else, and shall endeavour to regard as invalid or inefficient only those documents that fail to meet the minimum requirements laid down by law or in the Articles of Association as being essential, and only if such defects have not been remedied.

E.4. State any measures that have been taken to encourage shareholder participation at Shareholder Meetings.

In order to encourage shareholders to attend Shareholder Meetings, the Company makes available to its shareholders the documents and information that it must provide them concerning the items on the agenda, and shall include these documents and information on the Company website as from said date. This notwithstanding, shareholders may obtain these documents and information immediately and free of charge at the Company's registered address or may ask the Company to send them free of charge, in the cases and subject to the terms laid down by law.

Furthermore, as from the date the announcement calling the Shareholder Meeting is published, and in order to facilitate attendance by the shareholders at the Shareholder Meeting and so that they may take part in the Meeting, the Company shall include on its website, to the extent that they are available, in addition to the documents and information required by law, anything that the Company deems advisable for the purposes referred to and in particular, but not only, the following:

- a) The full text of all the proposed decisions that are to be put to the Shareholder Meeting which have already been approved by the Board of Directors, any changes made by the Board of Directors prior to the date of the Meeting notwithstanding, whenever this is legally possible.
- b) Information about where the Shareholder Meeting is to be held, describing, whenever appropriate, how to gain access to the venue.
- c) Procedure for getting attendance cards or the certificate issued by the entities who are legally authorised to do so.
- d) Methods and procedures for granting proxy rights for the Shareholder Meeting. e) Any methods and procedures for voting by post.
- f) Any other points of interest for the meeting, such as whether or not there are simultaneous translations facilities, if the Shareholder Meeting is to be broadcast or the information in other languages.

As from when the notice calling the Shareholder Meeting is published, and up to the seventh last day prior to the date set for holding the meeting when first called, any shareholder may apply in writing to the Company's Board of Directors for any information or clarification he or she may deem necessary, or put in writing any question he or she may deem appropriate, about the matters included in the Agenda of the Meeting published when the announcement calling the meeting is made or about any information available to the public that the Company has provided to the National Securities Market Commission since the previous Shareholder Meeting was held.

The Board of Directors must provide, up until the date the Shareholder Meeting is held, in writing, any information or clarification that has been requested, and also to give written answers to any questions made. The replies to the questions and to the requests for information made shall be sent via the Secretary to the Board of Directors, by any of the members of the board or by anyone who has been expressly empowered by the Board of Directors for said purpose.

While the Shareholder Meeting is being held, the Company's shareholders may verbally ask for any information or clarification they deem advisable about the matters included in the agenda and, if the shareholder's right cannot be satisfied at that moment in time, the Administrators must provide this information in writing within seven days after the Meeting ends.

In any case, in order to facilitate the flow of information between the shareholders and the Company, a Department of Investor and Shareholder Relations has been set up to which they may send e-mails or phone in order to clear up any doubts they may have about the corporate governance of the Company.

In addition to all the above, NH Hoteles, S.A. has a website which provides shareholders and investors in general with information about the most significant events that take place with regard to the company. The corporate website brings together significant information and documents on corporate governance and aims to become a method of communicating with shareholders, providing them with up-to-date information about any matters that may be of importance.

The Administrators must provide the information asked for under the terms of the above sections, except in cases where, in the opinion of the Chairman, making public the information asked for would be damaging to the Company's interests, except when the request is backed by shareholders representing at least one quarter of the Company's share capital.

E.5. State whether the Chairman of the Shareholder Meeting is likewise the Chairman of the Board of Directors. Describe any measures adopted to guarantee the independence and proper conduct of Shareholder Meetings.

YES

Describe the measures

The Rules and Regulations of the Shareholder Meeting, which govern all matters relating to calling, preparing and holding the Shareholder Meeting, and shareholders' rights, ensures that the Meeting goes off properly.

Furthermore the presence of a Notary is requested to draw up the minutes of the Meeting and perform the duties relating to drawing up the minutes, such as taking part in organising the order for taking the floor as set out in the Meeting and taking note or keeping word-for-word records of anything shareholders wish to say.

E.6. Mention any amendments that have been introduced during the year in the Rules and Regulations of Shareholder Meetings.

No amendments were made to the Rules and Regulations of Shareholder Meetings last year.

The latest amendment to these Rules and Regulations was approved by the Extraordinary Shareholder Meeting held on 5 March 2007 to bring them into line with the Recommendations of the Unified Code of Good Governance.

E.7. Provide information on attendance at Shareholder Meetings held in the year referred to in this report:

Date Annual Meeting	% of actual attendance	% represented	ATTENDANCE INFORMATION		Total
			Electronic vote	% postal vote Other	
17/06/2008	12.573	76.962	0.000	0.000	89.535

E.8. Briefly describe the decisions taken at Shareholder Meetings held during the year and percentage of votes in favour of each decision.

General Meeting of Shareholders held on 17 June 2008

First: To approve the Annual Accounts and Directors' Report Percentage of votes of those attending in favour of the decision: 85.661%

Second: Re-electing Directors:

2.1 To appoint Sociedad de Promoción y Participación Empresarial Caja de Madrid, S.A. as Representative Director to replace Matías Amat Roca

Percentage of votes of those attending in favour of the decision: 99.382%

2.2 To re-elect José de Nadal Capará as an Independent Director Percentage of votes of those attending in favour of the decision: 85.754%

Third: Purchases of own shares

Percentage of votes of those attending in favour of the decision: 85.662%

Four: To appoint the Auditor for the Company and its consolidated Group Percentage of votes of those attending in favour of the decision: 100.00%

Five: To authorise payments to employees and executives of the company - including senior managers and executive directors up to 12,000 euros of their performance-related pay in the form of shares in the company, at their listed price on the date of transfer

Percentage of votes of those attending in favour of the decision: 85.753%

Sixth: To delegate powers of attorney to formalise, interpret, rectify and enforce the decisions taken by the general meeting of shareholders

Percentage of votes of those attending in favour of the decision: 99.908%

E.9. State whether there is any restriction in the Articles of Association setting a minimum number of shares needed to attend Shareholder Meetings.

NO

E.10. State and justify the policies pursued by the Company with regard to proxy voting at Shareholder Meetings.

Any shareholder who is entitled to attend Shareholder Meetings may be represented by somebody else, who does not have to be a shareholder. The proxy rights must be granted in accordance with the terms and scope set in the Companies Act, in writing and specially for each Meeting. This restriction shall not apply when the representative is the spouse, ascendant or descendent of the represented shareholder, nor when the representative holds general powers of attorney executed in a public document to administer the all the assets owned by the shareholder in Spain.

Proxy may also be granted using methods of transmission from a distance that properly guarantee the identity of the represented shareholder and of the representative, if this has been determined.

Under the terms of the Rules and Regulations of Shareholder Meetings and of the Company's Articles of Association, proxy may also be granted using data transmission that properly guarantee the proxy right attributed and the identity of the represented party. The proxy granted shall be accepted when granted in these ways when the electronic document whereby the proxy is granted included the recognised electronic signature used by the represented party or any other type of signature that gives sufficient guarantee of authenticity and for identifying the shareholder who is granting the proxy and complies with all the other requirements laid down in law current at the time.

The documents which record the proxies or powers of attorney for the Shareholder Meeting shall set out the instructions as to how to vote, it being understood that if no express instructions are given, the representative shall vote for the decision proposed by the Board of Directors for the items on the agenda.

The Chairman of the General Meeting of Shareholders or, by delegation by the Chairman, the Secretary to said Meeting, shall settle any doubts that may arise as to the validity and efficiency of the documents whereby each shareholder is entitled to attend Shareholder Meetings individually or by grouping his or her shares together with those of other shareholders, and to delegate or grant proxy powers to somebody else, and shall endeavour to regard as invalid or inefficient only those documents that fail to meet the minimum requirements laid down by law or in the Articles of Association as being essential, and only if such defects have not been remedied.

Article 13 of the Articles of Association expressly states that if the represented shareholder attends the Shareholder Meeting in person, this shall constitute a revocation of the proxy.

E.11. State whether the company knows about the policies of institutional investors with regard to their involvement or non-involvement in corporate decisions.

NO

E.12. Give the address and method of accessing corporate governance information on the company's website.

All the information of interest to shareholders, including the Corporate Governance Reports approved every year are available at all times on the NH Hoteles, S.A. website, www.nh-hotels.com, in the section on Shareholder Information.

F. LEVEL OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

State the extent to which the company is following the recommendations of the Unified Code of Good Governance. In the event that it is not complying with any of them, explain the recommendations, standards, practices or policies being applied by the company.

1. The Articles of Association of listed companies should not impose an upper limit on the votes that can be cast by a single shareholder, or impose other restrictions that could hinder the takeover of the company by means of share purchases on the securities market.

See sections: A.9, B.1.22, B.1.23 and E.1, E.2

Explain

According to the terms of Article 11 of the Articles of Association of NH Hoteles, S.A., no shareholder, regardless of how many shares he may hold, may have more votes than the votes for 10% of the issued voting shares. This limit shall not apply in the General Meetings where, according to the list of those attending, a single shareholder present or represented at the Meeting holds more than 75% of the issued voting shares.

2. Whenever a parent and its subsidiary company are listed, both should clearly define:

a) The type of business or activity they each engage in and any business dealings between them, as well as between the subsidiary and other group companies.

b) The systems in place to ultimately settle any conflicts of interest that might arise.

See sections: C.4 and C.7

Complies

3. Even when commercial law does not expressly require, any decisions involving a structural or corporate change in the Company should be submitted to the General Meeting of Shareholders for approval, particularly the following:

a) Converting listed companies into holding companies through the process of "subsidiarising", i.e., reassigning to subsidiaries core activities that were previously carried out by the originating firm, even though the latter retains full control of the former;

b) Acquiring or selling key operating assets, whenever this would effectively alter the corporate purpose;

c) Transactions that effectively add up to the company's liquidation.

It complies in part

The subsidiarisation referred to in section a) of this Recommendation has not been submitted to Shareholder Meeting for approval, because it has only replicated in Spain what was already being applied in all the countries where it operates.

4. Detailed proposals of the resolutions to be adopted at the Shareholder Meeting, including information referred to in Recommendation 28, should be disclosed and made available at the same time as the publication of the call to the Shareholder Meeting.

Complies

5. Separate votes should be cast at Shareholder Meetings on materially separate issues, so that shareholders may express their preferences in each case. This rule should particularly apply in the following cases:

a) The appointment or ratification of directors, with separate voting on each candidate;

b) In the case of amendments to the Bylaws, each article or groups of articles that are materially separate should be voted on individually.

See section: E.8

Complies

6. Companies should allow split votes so that brokers or custodians who are shareholders of record and but act on behalf of different clients can issue their votes according to the instructions of such clients.

See section: E.4

Complies

7. The Board of Directors should perform its duties with unity of purpose and independent judgment, affording all shareholders the same treatment and consideration. It should be guided at all times by the Company's best interests and accordingly, strive to maximize its value over time.

It should likewise ensure that the Company abides by applicable laws and regulations in its dealings with stakeholders; fulfil its obligations and covenants in good faith; respect the customs and good practices of the sectors and territories where it does business; and uphold any additional social responsibility principles it has voluntarily adhered to.

Complies

8. Board's core mission should be to approve the Company's strategy and the organization needed for its implementation, as well as to oversee and ensure that Management meets the designated goals and objectives and pursues the Company's interests and corporate purpose. Accordingly, the Board should fully reserve to itself the rights and powers to approve:

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

- i) The strategic or business plan, as well as annual management and budgetary targets;
 - ii) Investment and funding policies;
 - iii) The definition of how the companies of the Group should be structured;
 - iv) Corporate governance policies;
 - v) Corporate social responsibility policies;
 - vi) Executive management compensation and performance appraisal policies;
 - vii) Risk control and management policies, as well as the periodical monitoring of internal information and control systems.
 - viii) Dividend pay-out and treasury stock policies, in particular with regard to their limits.
- See sections: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

- i) At the proposal of the Company's CEO, the appointment and possible removal of senior managers, as well as their severance conditions;
See section: B.1.14
- ii) Directors' compensation, and any additional compensation to executive directors for their executive duties and responsibilities and other terms and conditions included in their contracts;
See section: B.1.14
- iii) Financial information that the Company, as a listed company, is required to disclose on a regular basis;
- iv) Any and all kinds of investments and/or transactions that, due to their amount or special features, may be regarded as strategic, except where the Shareholder Meeting is specifically entrusted with the task of approving them;
- v) The creation or acquisition of holdings in companies for special purposes or which are domiciled in countries or territories that qualify as tax havens, and any other transactions or operations of a similar nature which are of a complexity such that they may impair the transparency of the group. c) Transactions between the Company and its directors, its major shareholders or shareholders with Board representation, or parties related to them ("related-party transactions").

Nevertheless, this Board authorization may not be required in related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard contracts applied on an across-the-board basis to a large number of clients and customers;
2. They are made at market rates that are generally set by suppliers of goods and services;
3. They amount to no more than 1% of the Company's annual revenues.

It is recommended that the Board approve the related-party operations subject to a favourable report by the Auditing Committee or, whenever applicable, of whichever other committee has been given this job; and that the directors who are affected, apart from neither exercising nor delegating their voting rights, shall leave the room while the Board is debating and voting on this point.

It is recommended that the competencies attributed to the Board herein shall not be able to be delegated, except as mentioned in b) and c), which may be taken in cases of emergency by the Executive Committee and subsequently ratified by the Board in a plenary meeting.
See sections: C.1 and C.6

It complies in part

These recommendations have been complied, except as set out in section b.i). The decision on appointing and removing senior managers, should be taken and continue to be taken by the Company's Chief Executive. This notwithstanding, the Rules and Regulations of the Board give the Nominations and Compensation committee the faculty to draw up a prior report on the appointment and removal of executives who report directly to the Managing Director.

9. The Board of Directors should be the right size to make it work effectively and encourage the greatest participation of its members, and therefore it would be advisable to have no less than five and no more than fifteen members.

See section: B.1.1

Complies

10. In the Board's structure, non-executive shareholder representative and independent directors should represent a broad majority of the Board members and the number of executive directors should be the minimum required, consistent with the complexity of the corporate Group and the percentage of the share capital held by executive directors.

See sections: A.2, A.3, B.1.3 and B.1.14

Complies

11. If there are any non-executive directors who cannot be classified as shareholder representative or independent, the Company should explain the reasons thereof and their ties with either the Company, its executive managers and/or its shareholders.

See section: B.1.3

Not Applicable

12. Among non-executive directors, the ratio between shareholder representative and independent directors should reflect the existing proportion between the share capital represented by shareholder-representative directors and the remaining share capital.

The strict interpretation of this principle of proportionality may be relaxed so that the percentage of shareholder representative directors is in fact greater than what would strictly correspond to the total percentage of capital they represent, in the following cases:

1. In large-cap companies where few or no equity holdings attain the legal threshold for being considered significant shareholdings, despite the considerable sums actually invested.
2. Whenever this involves companies in which a plurality of shareholders are represented on the Board but such shareholders otherwise have no ties among them.
See sections: B.1.3, A.2 and A.3

Explain

This Recommendation is fully complied with if one excepts the shareholding currently held by Grupo Inversor Hesperia, S.A. in NH HOTELES, S.A., which represents 25.088% of the share capital. The reasons for this exclusion lie in the fact that it is a direct competitor of NH HOTELES, S.A. and is therefore not compatible with the company's interests under the terms of Article 132.2 of Royal Legislative Decree 1564/1989, dated 22 December, which enacted the current Companies Act. This is all in accordance with the Rules and Regulations of the Board of Directors of the company which state, in Article 11.3, that any person who has direct or indirect interests of any kind or who has an employment, professional, commercial or any other kind of relationship with rival companies shall be deemed incompatible to hold a position as Director, unless at least 70% of the members of the Board vote for that person to be exempted.

13. Independent directors should account for at least one third of the total number of Board members.
See section: B.1.3

Complies

14. The Board should explain the type of each directorship to the Shareholder Meeting requested to appoint these directors or ratify their appointment. This should be confirmed or reviewed on an annual basis in the Corporate Governance Report, after being verified by the Nominations Committee. This report should likewise disclose the reasons for the appointment of shareholder representative directors at the request of shareholders whose stake in the Company's share capital is less than 5%; and it should furthermore explain the reasons for rejecting, where applicable, formal requests for Board presence made by shareholders whose equity stakes are equal to or greater than those of others who were indeed granted shareholder-representative directorships.
See sections: B.1.3 and B.1.4

Complies

15. If there are few or no female directors, the Board should explain the reasons thereof and the initiatives taken to remedy this situation, and in particular, the Nominations Committee should take the proper steps to ensure that, whenever vacancies arise:

- a) The selection process for filling such vacancies has no hidden gender bias;
- b) The Company makes a conscious and deliberate effort to include women candidates who meet the desired professional background and requisites.
See sections: B.1.2, B.1.27 and B.2.3

Complies

16. The Chairman, who is responsible for ensuring that the Board runs smoothly and efficiently, should strive to guarantee that all the Board members receive sufficient information prior to the meetings; encourage the directors to engage in discussion and actively participate in the meetings, safeguarding their freedom to take a stand on the issues brought before them and to express their opinions; and organize and coordinate regular and timely evaluations of the Board, or where appropriate, of the Company's Chairman or Chief Executive Officer, with the chairpersons of the respective Board sub-committees.
See section: B.1.42

Complies

17. They also provide that whenever the Chairman of the Board is also the Company's chief executive officer, the Board shall appoint one of the independent Directors to call a meeting of the Board or to include new items on the agenda; to coordinate and voice the concerns of non-executive directors; and oversee the Board's evaluation of its Chairman.
See section: B.1.21

Complies

18. The Corporate Secretary should do his best to ensure that the Board's actions:

- a) Abide by the spirit and letter of the law and their enforcing regulations, including those issued by regulatory agencies;
- b) Meet the provisions of the Company's Articles of Association and the Rules and Regulations for Shareholder Meetings, the Board of Directors and any others that the Company may have;
- c) Keep in mind any recommendations on good corporate governance contained in this Unified Code that the Company has adhered to.

And, in order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nominations Committee and approved by the Board in a plenary meeting; and furthermore, the appointment and removal procedure should clearly be specified in the Rules and Regulations of the Board of Directors.

See section: B.1.34

Complies

19. The Board should meet as frequently as needed to properly carry out its duties, following a pre-established schedule of meetings and issues drawn up at the beginning of the year, allowing each director to propose the inclusion of additional unforeseen items on the agenda.

See section: B.1.29

Complies

20. Non-attendance at Board meetings should be limited to strictly unavoidable circumstances and should be specified in the Annual Corporate Governance Report. Whenever proxies are required, they should be granted with the proper voting instructions.
See sections: B.1.3 and B.1.30

It complies in part

Even though Article 22 of the Rules and Regulations of the Board expressly states that Directors must attend meetings of the Board in person and, whenever exceptionally they are unable to do so, they shall endeavour to ensure that the powers of attorney they grant another member of the Board includes, as far as possible, appropriate instructions, such instructions are not always recorded in writing, and may also be given verbally.

21. Whenever the Secretary or directors express concerns about a specific proposal or, in the case of directors, on the progress of the Company and such concerns are not resolved within the Board, the person expressing them may request that they be recorded in the minutes.

Complies

22. The Board, in a plenary meeting, should evaluate the following points on an annual basis:

- a) The quality and efficiency of the Board's stewardship;
 - b) Based on a report submitted by the Nominations Committee, how well the Chairman and Chief Executive Officers have carried out their duties;
 - c) The performance of the sub-committees on the basis of the reports provided by such committees.
- See section: B.1.19

Complies

23. All directors should be able to exercise their rights to receive any additional information they require on matters that come under the Board's authority. Unless the Articles of Association or the Rules and Regulations of the Board determine otherwise, such requests should be addressed to the Chairman or the Secretary.

See section: B.1.42

Complies

24. All the directors should be entitled to rely on the Company for the counsel and guidance needed to perform their duties. Furthermore, the Company should provide the suitable channels for the directors to exercise this right, which under special circumstances may include external counsel or assistance at the Company's expense.

See section: B.1.41

Complies

25. Companies should establish an induction programme to familiarise new directors with the Company, and its corporate governance rules, as promptly and broadly as possible. Companies should also offer their directors refresher or professional development programmes whenever circumstances so advise.

It complies in part

Even though the Rules and Regulations of the Board do not expressly provide for such an induction programme, nor for refresher courses, Article 28 of the Rules and Regulations does provide that 'the Directors may ask for legal, accounting and financial advisors or other experts to be contracted, at the Company's expense, to help them in the performance of their duties', and this company takes to mean that such advisory services may include any induction programmes for new Directors so that they may become familiarised with the Company, and refresher courses, whenever circumstances so require.

26. Companies should require directors to dedicate sufficient time and effort to their Board duties in order to ensure they are performed effectively and therefore:

- a) Directors should inform the Nominations Committee of their other professional obligations, in case these interfere with the dedication and commitment required for their duties on the Company's Board;

- b) Companies should lay down rules on the number of Boards their directors are allowed to serve on.

See sections: B.1.2, B.1.27 and B.2.3

Complies

27. The proposal to appoint or re-elect directors submitted to the Annual Meeting by the Board, as well as provisional Nominations by co-option, should be approved by the Board: a) Upon proposal by the Nominations Committee with regard to independent directors. b) On the basis of a report from the Nominations Committee in the case of the remaining Boardmembers.

See section: B.1.2

Complies

28. The Company should make the following information on its directors available on its website and keep it permanently updated:

- a) Professional and biographical background;
- b) Other Boards on which they serve, whether or not they belong to listed companies; c) An indication as to whether the directorship is executive, shareholder representative or independent, stating, in the second case, the shareholder which they represent and to whom they are affiliated; d) The date of their first and subsequent Nominations, and; e) Shares and/or share options held in the Company.

Complies

29. Independent directors should not serve as such for more than 12 consecutive years.

See section: B.1.2

Explain

This case applies to only one of the Directors.

30. Shareholder representative directors should resign whenever the shareholders they represent sell their entire stake in the Company. In the event that such shareholders reduce their stakes, the number of shareholder representatives they are entitled to should likewise be reduced in the same proportion.

See sections: A.2, A.3 and B.1.2

Complies

31. The Board of Directors should not propose the removal of any independent director prior to the completion of his or her term of office as specified in the Bylaws, except where just cause is determined by the Board, based on a report from the Nominations Committee. In particular, just cause will be presumed whenever the director is in breach of his or her fiduciary duties or has engaged in any of the circumstances listed in section III.5 of this Code. The removal of independent directors may also be proposed whenever takeover bids, mergers or similar corporate transactions lead to changes in the shareholding structure of the Company, in order to meet the proportionality criteria set out in Recommendation 12.

See sections: B.1.2, B.1.27 and B.2.3

Complies

32. Companies should establish rules requiring directors to inform the Board, and where applicable, resign under any circumstances that may jeopardize the credibility and good standing of the Company and in particular, require that they report any criminal charges brought against them, and the status of any subsequent court or legal proceedings.

In the event that a director were to be prosecuted or summoned to appear in trial for any offence mentioned in Section 124 of the Companies Act, the Board should examine the case as soon as possible and basing its opinion on the specific circumstances, should decide whether to confirm or remove the director from his position. The Board should give a proper account of the above in the Corporate Governance Report.

See sections: B.1.3 and B.1.44

Complies

33. All directors should clearly express their disagreement or disapproval whenever they believe that a proposed resolution submitted to the Board may go against the Company's best interests. In particular, independent and other directors unaffected by the conflict of interest should challenge any decision that may go against the interests of shareholders not represented on the Board. Whenever the Board adopts significant or reiterated resolutions on issues on which a director has expressed serious concerns or reservations, said director should draw the pertinent conclusions and if he chooses to resign over such a matter, he should explain the reasons for leaving in a letter, as referred to in the following recommendation.

This recommendation should also be applicable to the Secretary of the Board, even if he or she does not hold a directorship.

Complies

34. In the event that a Director were to resign or leave his or her position before the end of his or her term for any reason, the Director shall explain the reasons for doing so in a letter sent to all the members of the Board. Notwithstanding the publication of such resignation as a significant event, the reasons for the resignation must be disclosed in the Annual Corporate Governance Report.

See section: B.1.5

It complies in part

Resignations have been notified either directly by the outgoing Director, or in a letter sent to the Chairman who has reported its contents to all the other members of the Board.

35. The Company's compensation policy, as approved by the Board, should specify at least the following points:

- a) Amount of fixed components, with a breakdown, where applicable, of Board and sub-committee meeting attendance fees, and an estimate of the associated fixed annual pay for board members;
- b) Performance-related components, including, in particular:
 - i) The types of directors to which they apply, as well as an explanation of the ratio of variable-to-fixed pay components;
 - ii) Performance appraisal criteria to calculate an entitlement to the award of shares, share options or any other performance-related components;
 - iii) Key parameters and grounds for any annual bonus schemes or other non-cash benefits or perquisites; and
 - iv) An estimate of the sum total of variable payments arising from the proposed compensation policy, based on the level of compliance with pre-set targets or benchmarks.
- c) Key features of pension and insurance schemes (for example, supplementary pensions, life insurance plans and other arrangements), with an estimate of their total amount or equivalent annual cost;
- d) Conditions that the employment contracts of executive directors and senior managers must honour, including:
 - i) Duration;
 - ii) Notification periods; and
 - iii) Any other clauses regarding hiring bonuses, as well as compensation or golden parachute clauses due to early termination or rescission of the contractual relationship between the Company and the executive director.

See section: B.1.15

Complies

36. Compensation involving awards of stock in the Company or companies of the Group, option awards or share-based incentives, non-equity incentive plans or pension/retirement schemes should be strictly limited to executive directors. This recommendation shall not extend to deliveries of shares, when they are subject to the directors remaining in their positions until they are removed as directors.
See sections: A.3 and B.1.3

Complies

37. Non-executive directors' remuneration should sufficiently compensate them for their commitment and dedication, qualifications and the responsibilities involved in the performance of their duties, but not be so high as to compromise their independence. but not be so high as to compromise their independence.

Complies

38. In the case of performance-based pay or incentive plans, deductions should be calculated for any possible qualifications contained in the independent auditors' report that may reduce earnings.

Complies

39. In the case of earnings-based pay, compensation policies should include technical safeguards to ensure that they reflect the professional performance of the beneficiaries and not just the general progress of the markets or the Company's sector, or other similar circumstances.

Complies

40. The Board should submit a report on the directors' compensation policy to the consultative vote of the Annual Meeting, as a separate item on the agenda. This report should be made available to shareholders either separately or in any other manner the Company deems advisable.

The aforementioned report should focus on the compensation policy the Board has approved for the current year, with reference, as the case may be, to the policy planned for future years. It will address all the issues referred to in Recommendation 35, except those cases that may involve the disclosure of commercially-sensitive information. It should also highlight the most significant changes in the Company's compensation policy compared to the previous year and include a broad summary of how the policy was applied over the year concerned.

The Board should also report to the Annual Meeting on the role of the Nominations Committee in designing the policy and if outside counsel was sought, the identity of the external advisors or consultants hired for such purposes.
See section: B.1.16

It complies in part

Every year the Board of Directors draws up a Report on the aforementioned matters, which is submitted to the shareholders meeting for its consideration, but not for voting.

41. The Notes to the Accounts should list the individual compensation packages for directors during the year, including:

- a) A breakdown of each director's compensation, in particular:
 - i) Attendance fees and other fixed payments associated with directorships;
 - ii) Additional compensation for acting as Chairperson or member of a Board Committee;
 - iii) Any payments made under profit-sharing schemes or bonuses and the reason for granting them;
 - iv) Contributions on behalf of directors to defined-contribution pension plans; or any increase in directors' vested rights in the case of contributions to defined benefit schemes;
 - v) Any severance packages agreed or paid out;
 - vi) Any compensation they receive as directors of other group companies;
 - vii) Compensation received by executive directors in conjunction with their senior management positions;
 - viii) Any kind of compensation other than those listed above, regardless of its nature or the company making such payment, especially when it is considered a related-party transaction or when its omission would detract from a true and fair view of the total compensation received by the director.
- b) A breakdown of shares, stock options or share-based incentives awarded in the year to the directors, itemised by:
 - i) Number of shares or options awarded in the year, and the terms set for exercising the options;
 - ii) Number of options exercised in the year, specifying the number of shares involved and the executed price;
 - iii) Number of options outstanding at year-end, specifying their price, date and other exercise conditions;
 - iv) Any change in the year in the exercise terms of previously-awarded options.
- c) Information on the relationship in the previous year between the compensation awarded to executive directors and the Company's earnings or any other performance measure.

It complies in part

The Annual Report sets out most of the information referred to in points a) and b), but does not include the information referred to in point c) in the Notes to the Accounts.

42. In cases in which the Company has an Executive Committee, the breakdown of its members by director category should reflect that of the Board, and the Board's Secretary should act as this Committee's Secretary.
See sections: B.1.3 and B.2.6

Complies

43. The Board should be kept fully apprised of the business transacted and resolutions adopted by the Executive Committee and all of the Board members should receive copies of the minutes of Executive Committee meetings.

Explain

Even though no copy of the minutes of committee meetings is sent to them, the Chairman of the Executive Committee does report on the matters discussed by the Committee. The Board is therefore always kept informed about the matters discussed and the decisions taken at meetings of the Executive Committee. Furthermore, Members of the Board always have access to the minutes.

44. In addition to the mandatory existence of an Audit Committee, pursuant to the Securities Market Act, the Board of Directors should form a committee, or two separate committees, for nominations and compensation. The rules governing the composition and working procedures of the Audit Committee and the Nominations and Compensation Committee should be set forth in the Rules and Regulations of the Board of Directors, and include the following:

- a) The Board should appoint members of such committees taking into account the background, expertise and experience of its directors and the duties and responsibilities of each Committee; discuss their proposals and reports; and oversee and evaluate their work, reporting back to the first full Board meeting held thereafter;
- b) Such committees should be exclusively made up of non-executive directors, having a minimum of 3 members. Executive directors or senior managers may also attend meetings at the express invitation of the committees;
- c) Committees should be chaired by an independent director;
- d) They may engage outside experts or consultants whenever they feel this is necessary for the performance of their duties;
- e) Meeting proceedings should be recorded in the minutes and sent to all the Board members.

See sections: B.1.3 and B.2.3

Complies

45. The task of overseeing compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nominations and Compensation Committee, or if one exists separately, the Corporate Governance Compliance Committee.

Complies

46. The members of the Auditing and Compliance Committee, and in particular its Chairman, shall be appointed bearing in mind their knowledge and experience in accounting, auditing or risk management.

Complies

47. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

Complies

48. The internal audit manager should present an annual work program to the Audit Committee; directly report on any incidents arising during its implementation; and submit an activities report at the end of each year.

Complies

49. The control and risk management policy should at least specify:

- a) The different types of risks (operational, technological, financial, legal, reputational...) faced by the Company, including, with regard to financial or economic risks, the contingent liabilities and other off-balance-sheet risks;
- b) The levels of risk that the Company considers acceptable;
- c) The measures established to mitigate the impact of identified risks, should they actually materialize;
- d) The internal control and reporting systems that will be applied to oversee and manage these risks, including contingent liabilities and off-balance-sheet risks.

See sections: D

Complies

50. The Audit Committee's role and sphere of influence should be:

1. With regard to internal control and reporting systems:

- a) To supervise the preparation and integrity of the financial information for the Company, and, where applicable, its group of companies, reviewing compliance with regulatory requirements and legal provisions, the scope of the consolidation perimeter and the correct application of accounting principles.
- b) To carry out regular reviews of internal control and risk management systems so that key risks can be properly pinpointed, managed and reported on.
- c) To ensure the independence and efficacy of internal audit; propose the selection, appointment, re-appointment and, where applicable, removal of the internal audit manager; propose a budget for the internal audit service; receive periodic information on its activities; and ensure that senior management is aware of the conclusions and recommendations contained in such reports.
- d) To establish and supervise a mechanism that allows employees to confidentially, and if considered appropriate, anonymously report any irregularities they notice within the Company that may be of potential importance, especially financial and accounting irregularities.

2. With regard to the independent auditors:

- a) To submit to the Board proposals for selection, appointment, re-appointment and replacement of the independent auditors and the terms and conditions of their engagement.
- b) To regularly receive information from the independent auditors on the audit plan and on the progress and outcome of its execution, verifying that senior management is duly aware of its recommendations.
- c) To ensure the independence of the externally-hired auditing firm, and, accordingly:

- i) To ensure that the Company reports any change in the auditing firm to the Spanish Securities Market Commission (CNMV), accompanied by a statement on the possible existence of discrepancies that may have arisen with the outgoing auditing firm, and if so, the reasons thereof.
- ii) To ensure that the Company and the independent auditors respect and honour prevailing standards on the provision of non-auditing services, the limits on the focus of the auditors' business, and generally speaking, any other existing standards aimed at guaranteeing the auditors' independence;
- iii) To examine the circumstances leading to the resignation, where applicable, of the independent auditors, if this should happen.

d) In the case of groups of companies, to help the group auditors take charge of the audits of the companies belonging to the group.
See sections: B.1.10, B.1.13, B.1.14 y D.3

Complies

51. The Audit Committee should be entitled to meet with any of the company's employees or senior managers, and to summon them without the presence of another senior manager.

Complies

52. The Audit Committee should provide information on the following items referred to in Recommendation 8 prior to any related resolutions passed by the Board:

- a) The financial information that the Company, as a publicly-traded company, must disclose on a regular basis. The Committee should ensure that interim accounts are prepared using the same accounting principles as the annual accounts and, accordingly, may ask the independent auditors to conduct a limited review.
- b) The creation or acquisition of shares in special-purpose entities or entities with registered offices in countries or territories regarded as tax havens, and any other similar transactions or operations whose complexity could jeopardize the group's transparency.
- c) Related-party transactions, except in cases in which their review has been entrusted to another supervision and oversight committee.

See sections: B.1.3 and B.2.3

Complies

53. The Board of Directors should always strive to present the accounts to the Shareholder Meeting unqualified and without exceptions in the audit report. In the exceptional event that such qualifications or exceptions do exist, the Chairman of the Audit Committee and the auditors should provide a clear explanation to shareholders on the nature and extent of such reservations or qualifications.
See section: B.1.38

Complies

54. A majority of the members of the Nominations Committee - or of the Nominations and Compensation Committee, if there is only one - should be independent directors.

See section: B.2.1

Complies

55. The Nominations and Compensation Committee should have the following duties in addition to those set out in foregoing recommendations:

- a) To evaluate the skills, knowledge and experience required on the Board, define the roles and capabilities required of the candidates to fill each vacancy accordingly and decide on the time commitment and dedication needed for them to properly carry out their duties;
- b) To examine or plan, in the manner deemed advisable, the succession of the Chairperson and Chief Executive Officer, and where applicable, make proposals to the Board so that such succession takes place in an orderly and well-planned way;
- c) To report on appointments and removals of senior managers as proposed to the Board by the Chief Executive Officer; d) Inform the Board on gender-diversity issues as explained in Recommendation 14 of this Code.

See section: B.2.3

Complies

56. The Nominations Committee should consult with the Chairperson and Chief Executive Officer, especially with regard to matters involving executive directors.

Any Board members may ask the Nominations Committee to consider potential directorship candidates to fill vacancies arising on the Board.

Complies

57. The Nominations and Compensation Committee should have the following duties in addition to those listed in foregoing recommendations, namely:

- a) To make proposals to the Board of Directors regarding:
 - i) Compensation policies for directors and senior managers;
 - ii) Additional compensation and other contractual conditions for executive directors; iii) Basic contractual conditions for senior managers.

b) To oversee compliance with the compensation policies set by the Company.

See sections: B.1.3 and B.2.3

Complies

58. The Nominations and Compensation Committee should consult with the Company's Chairman and Chief Executive Officer, especially in connection with matters involving senior managers.

Complies

G - OTHER INFORMATION OF INTEREST

List and explain the contents of any relevant principles or aspects of corporate governance applied by the Company that has not been covered in this report.

SECTION B.1.2:

The director Ramón Blanco Balín was first appointed on 12 January 1993. He resigned his directorship on 5 May 1994, and was appointed once again to the Board on 18 March 1997.

SECTION B.1.3:

Alfonso Merry del Val needs special mention. In addition to being an Independent Director, he is in charge of ensuring the NH HOTELES, S.A. complies with its corporate responsibility. Accordingly, he meets the Corporate Director for Human Resources of the Company regularly, and carries out in-depth monitoring of this matter so as to ensure that the company strictly complies with the rules on corporate responsibility.

SECTION B.1.11:

Under the terms of Article 20 of the Articles of Association of NH HOTELES, S.A., directors' compensation shall consist of a set annual amount and fees for attending the meetings of the Board of Directors and its Committees. The sum of these two items may not exceed 3% of the net earnings recorded by the consolidated group in the previous year.

This amount expressly does not include any other professional compensation earned by the Directors for any executive duties they performed in the Company or the group.

Set out below are the amounts paid in 2008 individually to each Director as their set annual payment and fees for attending meetings of the Board of Directors and its Committees:

CHAIRMAN OF THE BOARD OF DIRECTORS AND OF THE EXECUTIVE COMMITTEE:

Mr. Gabriele Burgio

- Board attendance fees 2008: 42,000 euros
- Executive Committee attendance fees: 9,000 euros
- Total attendance fees: 51,000 euros

DEPUTY CHAIRMAN:

Mr. Manuel Herrando y Prat de la Riba

- Board attendance fees 2008: 42,000 euros
- Executive Committee attendance fees: 9,000 euros
- Nominations and Compensation Committee attendance fees: 5,547.78 euros
- Total attendance fees: 56,547.78 euros

DIRECTORS:

Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián

- Board attendance fees 2008: 34,655.74 euros
- Total attendance fees: 34,655.74 euros

Mr. Alfonso Merry del Val

- Board attendance fees 2008: 42,000 euros
- Total attendance fees: 42,000 euros

Mr. Ramón Blanco Balín

- Board attendance fees: 42,000 euros
- Executive Committee attendance fees: 9,000 euros
- Audit Committee attendance fees: 14,794.08 euros
- Total attendance fees: 65,794.08 euros

Mr. José de Nadal Capará

- Board attendance fees 2008: 42,000 euros
- Nominations and Compensation Committee attendance fees: 5,547.78 euros
- Total attendance fees: 47,547.78

Mr. Julio C. Díaz-Freijo Cerecedo

- Board attendance fees 2008: 42,000 euros
- Executive Committee attendance fees: 9,000 euros
- Total attendance fees: 51,000 euros

Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)

- Board attendance fees 2008: 42,000 euros
- Executive Committee attendance fees: 9,000 euros
- Total attendance fees: 51,000 euros

Hoteles Participados, S.L.:

- Board attendance fees 2008: 42,000 euros
- Audit Committee attendance fees: 7,359.30 euros
- Total attendance fees: 49,359.30 euros

Sociedad de Promoción y Participación Empresarial Caja Madrid:

- Board attendance fees 2008: 19,393.44 euros
- Executive Committee attendance fees: 3,000 euros
- Audit Committee attendance fees: 2,453.10 euros
- Total attendance fees: 24,846.54 euros

Mr. Miguel Rodríguez Domínguez:

- Board attendance fees 2008: 42,000 euros
- Audit Committee attendance fees: 4,744.83 euros
- Total attendance fees: 46,744.83 euros

Mr. Iñaki Arratibel Olaziregui

- Board attendance fees 2008: 7,344.26 euros
- Total attendance fees: 7,344.26 euros

GSSIII Hurricane:

- Board attendance fees 2008: 31,786.89
- Total attendance fees: 31,786.89

SECTION B.1.12:

The list of members of Senior Management records the situation as at 31 December 2008. Anyone else who might have qualified as Senior Management during the year has not been included.

SECTION B.2.1:

The Committees have their own (non-member) Secretaries who are JOSÉ María Mas Millet, for the Nominations and Compensation Committee and the Executive Committee, and Roberto Chollet Ibarra, for the Audit and Compliance Committee.

SECTION C.2.:

It should be pointed out that the lease agreements between the major shareholder PONTEGADEA INVERSIONES, S.L. and some of the companies of the NH HOTELES, S.A. group were actually signed by PONTEGADEA INMOBILIARIA, S.L., a 100% owned (indirectly) subsidiary of PONTEGADEA INVERSIONES, S.L.

SECTION C.3.:

The loans referred to in the table in this section, made between HOTELES PARTICIPADOS, S.L. and the company NH FINANCE, S.A., have actually been signed by the two shareholders who make up 50% of the company HOTELES PARTICIPADOS, S.L., i.e. Caja Murcia (for 7,500 thousand euros) and Caixa Nova (for 12,500 thousand euros).

This section may include any other relevant information, clarification or particularity related to previous sections of the report, insofar as they are significant and not reiterative.

Specifically indicate whether the Company is subject to corporate governance legislation applicable in countries other than Spain and, if so, include the mandatory information to be disclosed whenever this is different from what is required in this report.

BINDING DEFINITION OF INDEPENDENT DIRECTORS:

State whether any of the Independent Directors has or has had any material relationship with the Company, its significant shareholders and/or its executives, as defined in section 5 of the Unified Code of Good Governance, that may compromise or influence his or her independence in the discharge of his or her duties: **YES**

Director's name

Mr. Manuel Herrando y Prat de la Riba

Type of relationship

Chairman of Sotogrande, S.A., a company 96.65% owned by NH Hoteles, S.A.

Explanation

His compensation for this item is not material for this purpose.

Date and signature:

This Corporate Governance Report has been approved by the Company's Board of Directors on 27/02/2009

State whether any Directors voted against or abstained from approving this Report. **NO**

CONSOLIDATED FINANCIAL STATEMENTS

NH HOTELES, S.A. AND SUBSIDIARIES

Consolidated Financial Statements for 2008 prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2008 AND 31 DECEMBER 2007

(Thousand euros)

ASSETS	Note	31.12.08	31.12.07
NON-CURRENT ASSETS:			
Tangible fixed assets	8	2,402,489	2,397,647
Goodwill	6	122,205	118,748
Intangible assets	7	122,507	116,308
Investment property	9	5,983	5,483
Companies consolidated using the equity method	10	74,637	76,812
Non-current financial assets-		156,148	140,811
Loans and receivables not held for trading	11.1	145,317	132,525
Other non-current financial assets	11.2	10,831	8,286
Deferred tax assets	22	53,053	44,646
Other non-current assets		6,171	1,239
Total non-current assets		2,943,193	2,901,694

ASSETS	Note	31.12.08	31.12.07
CURRENT ASSETS:			
Inventories	12	128,559	118,313
Trade receivables	13	127,998	164,972
Non-Trade receivables		65,381	50,065
Taxes receivables	22	33,295	21,431
Other non-trade receivables		32,086	28,634
Current financial assets-		7,448	16,391
Held-to-maturity investments	14.1	7,381	16,054
Held-for-trading financial assets	14.2	67	337
Cash and banks and other cash equivalents	15	17,032	61,699
Other current assets		4,706	7,562
Total current assets		351,124	419,002
TOTAL ASSETS		3,294,317	3,320,696

LIABILITIES AND NET EQUITY	Note	31.12.08	31.12.07
NET EQUITY:			
Share capital	16.1	295,941	295,941
Reserves of the Parent	16.2	463,758	496,946
Reserves in fully consolidated companies	16.3	374,206	306,567
Reserves in proportionally consolidated companies	16.3	(160)	446
Reserves in companies consolidated using the equity method	16.3	(2,734)	(322)
Equity valuation adjustments	16.4	(6,296)	420
Translation differences		(56,076)	(29,556)
Treasury Shares	16.5	(38,027)	(22,809)
Consolidated profit for the year		26,792	77,443
Net equity attributable to shareholders of the Parent		1,057,404	1,125,076
Minority interests	16.6	233,698	214,734
Total net equity		1,291,102	1,339,810
NON-CURRENT LIABILITIES:			
Issue of debentures and other held-for-trading securities		-	30
Bank borrowings and other financial liabilities	17	1.008.180	910.306
Creditors under finance leases		4	46
Other non-current liabilities	18	203.097	149.819
Provisions for contingencies and charges	21	47.393	60.530
Deferred tax liabilities	22	258.358	276.379
Total non-current liabilities		1.517.032	1.397.110
CURRENT LIABILITIES:			
Issue of debentures and other held-for-trading securities		30	39
Bank borrowings and other financial liabilities	17	191,248	245,453
Creditors under finance leases		40	82
Trade creditors and other accounts payable	23	208,246	235,552
Other current financial liabilities		4,309	8,071
Taxes and Social Security contributions	22	26,164	27,827
Provisions for contingencies and charges	21	8,519	8,519
Other current liabilities	24	47,627	58,233
Total current liabilities		486,183	583,776
TOTAL LIABILITIES AND NET EQUITY		3,294,317	3,320,696

Notes 1 to 32 to the Accounts and Appendices I/III thereto are an integral part of the consolidated balance sheet as at 31 December 2008. The consolidated balance sheet as at 31 December 2007 is presented solely for purposes of comparison.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED ON 31 DECEMBER 2008 AND 2007

(Thousand euros)

	Note	31.12.08	31.12.07
Net turnover	26.1	1,460,108	1,458,962
Other operating income	26.1	11,027	31,366
Net profit/(loss) on disposals of non-current assets	8 and 26.1	54,409	25,730
Supplies		(129,476)	(132,425)
Staff costs	26.3	(464,922)	(465,375)
Amortization and depreciation		(124,172)	(109,453)
Net losses due to asset impairment		(32,060)	(277)
Other operating expenses	26.4	(650,229)	(637,697)
OPERATING PROFIT/(LOSS)		124,685	170,831
Profit and loss of companies accounted for using the equity method	10	(2,290)	(2,479)
Financial income	26.2	8,617	9,769
Changes in the fair value of financial instruments		(43,108)	(5,756)
Financial expenses	26.6	(77,860)	(65,456)
Net exchange differences (Income / (Expense))		(1,264)	1,093
PROFIT BEFORE TAXATION FROM CONTINUING ACTIVITIES		8,780	108,002
Corporation tax	22	(3,730)	(8,495)
PROFIT/(LOSS) FOR THE YEAR		5,050	99,507
Attributable to:			
Shareholders of the Parent		26,792	77,443
Minority interests	16.6	(21,742)	22,064
Earnings per share in euros (basic and diluted)	5	0.18	0.55

Notes 1 to 32 described in the Notes to the Accounts and Appendices I/III are an integral part of the consolidated profit and loss accounts for 2008. The consolidated profit and loss account for 2007 is presented solely for purposes of comparison.

CONSOLIDATED STATEMENTS OF CHANGES IN NET EQUITY FOR 2008 AND 2007

(Thousand euros)

	Reserves of the Controlling Company				Reserves in companies consolidated by			Translation Differences	Equity Valuation Adjustments	Treasury Shares	Profit Attributable to the Parent	Total	Minority Interests	Total Equity
	Share Capital	Share Premium	Legal Reserve	Voluntary Reserves	full consolidation	proportional consolidation	the equity method							
Balances as 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/(loss) 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)
Total 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 of 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 as at 31 December 2007	295,941	395,876	28,877	72,193	306,567	446	(322)	(29,556)	420	(22,809)	77,443	1,125,076	214,734	1,339,810
Net profit/(loss) for 2008	-	-	-	-	-	-	-	-	-	-	26,792	26,792	(21,742)	5,050
Translation differences	-	-	-	-	-	-	-	(26,520)	-	-	-	(26,520)	(4,025)	(30,545)
Cash flow hedges	-	-	-	-	-	-	-	-	(6,716)	-	-	(6,716)	(118)	(6,834)
Total income and expenses recognised in the period	-	-	-	-	-	-	-	(26,520)	(6,716)	-	26,792	(6,444)	(25,885)	(32,329)
Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	59,850	59,850
Distribution of 2007 Profit-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- To Reserves	-	-	4,598	2,914	72,949	(606)	(2,412)	-	-	-	(77,443)	-	-	-
- To Dividends	-	-	-	(38,472)	-	-	-	-	-	-	-	(38,472)	(1,100)	(39,572)
Change in treasury shares	-	(2,086)	-	-	-	-	-	-	-	(15,218)	-	(17,304)	-	(17,304)
Changes in the scope of consolidation	-	-	-	-	-	-	-	-	-	-	-	-	7,065	7,065
Acquisition of minority interests	-	-	-	-	(3,030)	-	-	-	-	-	-	(3,030)	(20,794)	(23,824)
Other movements	-	(142)	-	-	(2,280)	-	-	-	-	-	-	(2,422)	(172)	(2,594)
Balances as at 31 December 2008	295,941	393,648	33,475	36,635	374,206	(160)	(2,734)	(56,076)	(6,296)	(38,027)	26,792	1,057,404	233,698	1,291,102

Notes 1 to 32 of the Report and Appendices I/III are an integral part of the consolidated statements of changes in net equity for the year ended on 31 December 2008.

The consolidated statement of changes in net equity for the year ended on 31 December 2007 is presented solely for purposes of comparison.

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED ON 31 DECEMBER 2008 AND 2007

(Thousand euros)

	2008	2007
1. OPERATING ACTIVITIES		
Consolidated profit /(loss) before taxes	8,780	108,002
Adjustments to profit:		
Depreciation and amortisation of tangible and intangible assets (+)	124,172	109,453
Losses on asset impairment (net) (+/-)	32,060	277
Provisions (net) (+/-)	10,741	10,055
Gains/Losses on disposals of tangible and intangible assets (+/-)	(54,409)	(5,730)
Gains/Losses on investments valued using the equity method (+/-)	2,290	2,479
Financial income (-)	(8,617)	(9,769)
Financial expenses and changes in the fair value of financial instruments (+)	122,232	70,119
Other non-cash items (+/-)		
Adjusted profit /(loss)	237,249	284,886
Net change in assets / liabilities:		
(Increase)/Decrease in inventories	(10,246)	(8,640)
(Increase)/Decrease in trade debtors and other accounts receivable	21,658	(49,557)
(Increase)/Decrease in other current assets	2,856	5,423
Increase/(Decrease) in trade creditors	(27,306)	16,609
Increase/(Decrease) in other current liabilities	11,669	27,178
Aumento/(Disminución) in provisions for charges and liabilities	(23,878)	3,062
Income taxes paid	(31,430)	(28,067)
Total net cash flows from operating activities (I)	180,572	250,894
2. INVESTING ACTIVITIES		
Financial income	8,617	9,769
Investments (-):		
Group and associated companies and joint ventures	(88,437)	(1,062,328)
Tangible and intangible assets and property investments	(114,684)	(178,204)
Permanent investments	(26,781)	(18,719)
Investments and other current financial assets	-	(8,468)
Other assets	(13,339)	(10,007)
	(243,241)	(1,277,726)
Disposals (+):		
Group and associated companies and joint ventures	5,498	352,141
Tangible and intangible assets and property investments	76,287	43,056
Non-current financial assets	3,702	42,139
Financial investments and other current financial assets	8,943	200,046
Other assets	-	85
	94,430	637,467
Total net cash flows from investing activities (II)	(140,194)	(630,490)
3. FINANCING ACTIVITIES		
Dividends paid (-)	(38,472)	-
Interest paid on borrowings (-)	(73,298)	(67,904)
Changes in (+/-):		
Equity instruments		
- Share capital	-	32,744
- Reserves	(49,276)	161,959
- Minority interests	40,706	15,992
Liability instruments (+/-):		
- Bank borrowings	39,107	278,874
- Finance leases	(84)	(245)
- Debentures and other held-for-trading securities	(39)	(26)
- Other non-current financial liabilities	(3,689)	(22,468)
Total net cash flows from financing activities (III)	(85,045)	398,926
5. GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)	(44,667)	19,330
4. Effect of exchange rate fluctuations on cash and cash equivalents (IV)	(2,043)	(1,124)
6. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III-IV)	(42,624)	20,454
7. Cash and cash equivalents at beginning of the year	61,699	42,369
8. Cash and cash equivalents as at end of the year (7+5)	17,032	61,699

The accompanying Consolidated Notes 1 to 32 to the Accounts and Appendices I to III are an integral part of the consolidated cash flow statement for 2008. The consolidated statement of cash flows for 2007 is presented solely for the sake of comparison.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2008

1. Activity and structure of the Parent

NH HOTELES, S.A. (hereinafter the Parent) was set up as a Spanish public limited company ("sociedad anónima") in Spain on 23 December 1881 under the name "Material para Ferrocarriles y Construcciones, S.A.", which subsequently changed its name to "Material y Construcciones, S.A." (MACOSA) and later to "Corporación Arco, S.A."

In 1992, Corporación Arco, S.A. absorbed Corporación Financiera Reunida, S.A. (COFIR) taking the corporate name of the absorbed company and adapting its corporate object to the new business activity of the Parent, focused on managing its share 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. and took the corporate name of the absorbed company and extended its corporate object to allow it to carry on hotel business activities directly, activities it was already carrying on indirectly through its subsidiary companies.

The information relating to these mergers is contained in the financial statements for the years in which the related transactions were performed.

In October 1999 a takeover bid was made for 100% of the capital of Sotogrande, S.A. which has meant that the Group has controlled over 75% at all times.

In 2000 the expansion strategy began, essentially in Europe, aimed at creating a strong world brand in the urban hotel segment. This began by integrating the Dutch Hotel firm "Krasnapolsky Hotels and Restaurants, N.V.", continued with the acquisition of the Mexican company "Nacional Hispana de Hoteles, S.r.l. de C.V." in June 2001 and was completed in 2002 with the purchase of the German hotel company Astron Hotels.

During the period 2003-2005, the Group has entered several European markets, through organic growth, such as Italy and Romania, and entered new cities such as London. In 2005, it also embarked on its growth strategy in the quality tourist sector with a major real estate component with projects in Cap Cana (Dominican Republic) and Rivera Maya (Mexico).

Once the acquisitions made in earlier years have been consolidated, the Group has continued to pursue its international expansion strategy in 2007 and 2008, by acquiring the Italian hotel chains Framon and Jolly Hotels. The Group has also continued to grow organically by adding 2,854 new rooms (15 hotels) in 2008.

At the end of 2008, NH Hoteles was already present, with hotels operating, in 22 countries, with 345 hotels and 51,591 rooms, 83% of which are in Spain, Germany, Italy and the Benelux.

NH Hoteles S.A.'s registered address 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 2008, prepared by the Administrators of NH Hoteles, S.A. at the meeting held on 27 February 2009, have been obtained from the accounting records and the financial statements of the Parent and, of its subsidiaries.

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union in accordance with the terms of Regulation (EC) N° 1606/2002, of the European Parliament and by the Tax, Administrative and Social Policy Measures Act, Law 62/2003, dated 30 December, which present fairly the Group's consolidated equity and the financial position of the Group as at 31 December 2008 and the results of its operations, the changes in consolidated net equity and of the consolidated cash flows in the year then ended, in accordance with current accounting legislation.

The 2008 consolidated financial statements of the Group and of the companies that make up the group for 2008 have yet to be approved by their respective General Meetings of Shareholders. However, the Administrators of the Controlling Company are of the opinion that these annual accounts will be approved without any significant changes.

2.1.1 Standards and interpretations in force in this period

This year IFRIC 11 and IAS 2 "Group and Treasury Share Transactions" and the change in IAS 39/IFRS 7 "Reclassification of financial instruments" have come into force. Adopting these new interpretations and changes has not had any impact on the Group's consolidated financial statements.

2.1.2. Standards and interpretations issued but not in force yet

As at the date of preparation of these consolidated financial statements, the following standards and interpretations had been published by the IASB that had not yet come into force, either because their effective date is subsequent to the date of these consolidated financial statements, or because they have not yet been endorsed by the European Union:

		Compulsory Application Financial years beginning as from
Standards and amendments and revisions:		
IFRS 8	Operating segments	1 January 2009
Revision of IAS 23	Interest cost	1 January 2009
Revision of IAS 1	Presentation of financial statements	1 January 2009
Revision of IFRS 3 (1)	Business combinations	1 July 2009
Change in IAS 27 (1)	Consolidated and individual financial statements	1 July 2009
Change in IFRS 2	Terms of accrual and cancellations	1 January 2009
Change in IAS 32 and IAS 1 (1)	Put option instruments at fair value and obligations arising on liquidation	1 January 2009
Change in IFRS 1 and IAS 27 (1)	Cost of a subsidiary in the separate financial statements of a parent	1 January 2009
Change in IAS 39 (1)	Items qualifying as hedged items	1 July 2009
Interpretations:		
IFRIC 12 (1)	Service Concession Arrangements	(3)
IFRIC 13	Customer Loyalty Programmes	1 January 2009 (2)
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2009 (2)
IFRIC 15 (1)	Agreements for the construction of real estate	1 January 2009
IFRIC 16 (1)	Hedges of a net investment in a foreign operation	1 October 2008
IFRIC 17 (1)	Distributions of non-cash assets to owners	1 July 2009
IFRIC 18 (1)	Transfers of assets from customers	1 July 2009

(1) Standards and interpretations not adopted by the European Union as at the date these financial statements were prepared.

(2) Compulsory application date in accordance with approval in the Official Journal of the European Union.

(3) This interpretation has not been approved yet. As published by the Accounting Regulatory Committee (ARC) of the EU, it is expected to be approved for use in the EU with a new effective date which would put off compulsory application until 2010. (The effective date originally set by the IASB was in theory 1 January 2008).

2.2 INFORMATION RELATING TO 2007

In accordance with the requirements of IAS 1, the information contained in these notes of the consolidated financial statements referring to 2007 is presented, for the purposes of comparison, with the information for 2008 and, therefore, it does not constitute the consolidated financial statements of the Group for 2007.

2.3 CURRENCY OF PRESENTATION

These financial statements are presented in euros. Transactions in foreign currencies are translated in accordance with the criteria described in Note 4.9.

2.4 RESPONSIBILITY FOR THE INFORMATION, USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

The information contained in these 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 commitments reported herein. These estimates basically refer to:

- The impairment losses on certain assets
- The assumptions used in the actuarial calculation of the pension liabilities and other commitments regarding to personnel
- The useful life of tangible and intangible fixed assets
- The valuation of goodwill on consolidation
- The fair value of certain assets
- Estimates of onerous contracts

These estimates were made based on the best information available for the events analysed. However, events that take place in the future might require their modification, which would be applied in accordance with the terms of IAS 8.

As at the date these consolidated financial statements were issued, there were no circumstances that might have constituted a significant source of uncertainty as to the effect that such events could have on the accounts in future years.

2.5 BASIS OF CONSOLIDATION

2.5.1 Subsidiaries

Dependent companies are defined as those companies included in the scope of consolidation which are directly or indirectly managed by the Controlling Company because it holds a majority of the voting rights in the representative and decision-making bodies and is able to exercise its control, which ability is shown when the Controlling Company has powers to direct the financial and operational powers of an investee company for the purpose of making a profit from its activities.

The financial statements of the subsidiaries are fully consolidated with those of the Parent. Consequently, all material balances and effects of intercompany transactions have been eliminated on consolidation.

The share of the minority shareholders in the equity and the profit of the Group is presented under "Minority Interests" in the consolidated balance sheet and in the consolidated income statement.

The results of subsidiaries acquired during the year are included in the consolidated income statement as from the effective date of their acquisition to year-end. Similarly, the results of subsidiaries disposed during the year are included in the consolidated income statement as from the beginning of the year to the date of disposal.

2.5.2 Joint ventures

Joint ventures are defined as ventures in which the investee companies are managed jointly by the Parent and by third parties who are not related to the Group, where none of them have a greater level of control than the other. The financial statements of joint ventures are consolidated using the proportional method and, therefore, the aggregation of balances and the subsequent eliminations are made in the same proportion to the Group's ownership interest in the capital of these entities.

Whenever necessary, the financial statements of these companies are adjusted to adapt their accounting policies used to those applied by the Group.

2.5.3 Associated companies

Associated companies are defined as companies over which the Parent is in a position to exercise a significant influence, but neither control nor joint control. In general, significant influence is deemed to exist when the Group's percentage of the (direct or indirect) ownership interest exceeds 20% of the voting rights, provided that it does not exceed 50%.

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

2.5.4 Valuation of consolidated companies on acquisition

Until 1 January 2004, the date of transition to IFRSs by the NH Hoteles Group, the differences between the cost of acquiring of the investment in consolidated companies and their related underlying book value at the date of acquisitions that could not be allocated to assets and liabilities up or down to their market value, were included, whenever positive, in the caption "Goodwill" on the consolidated balance sheet.

For acquisitions of subsidiaries and joint ventures made from the date on which the IFRS 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 and above their fair values, is recognised in the caption "Goodwill" in the consolidated balance sheet.

Conversely, in the event that the cost of acquisition the net identifiable assets were lower than their fair values, this lower value "negative difference on consolidation" would be taken to the consolidated profit and loss account for the year.

Goodwill generated in acquisitions of associated companies is recognised as an increase in the carrying amount of the investment.

2.5.5 Translation of foreign currency

The different captions of the balance sheet and the income statements of the foreign companies that have been included in the scope of consolidation have been translated into euros using the following criteria:

- Assets and liabilities have been translated at the official year-end exchange rate.
- Equity has been translated applying the historical exchange rate. The historical exchange rate of the companies included in the scope of consolidation prior to the date of transition has been deemed to be the exchange rate prevailing on 31 December 2003.
- The income statement has been translated using the average exchange rate for the year.

The differences resulting from applying these criteria have been included in equity in the caption "Translation differences".

The adjustments made as a result of applying the IFRS when a foreign company is acquired, relating to the fair value and goodwill, are deemed to be assets and liabilities of that company and, therefore, are translated at the year-end exchange rate.

2.5.6 Changes in the scope of consolidation

The most significant changes in the scope of consolidation during 2008 and 2007 that affect the comparison of figures between years have been as follows:

a.1 Changes in the scope of consolidation in 2008

a.1.1 Newly consolidated companies

The detail of the companies that have been included in the scope of consolidation in 2008 and the method of consolidation used is as follows:

Company	Method of consolidation	Effective date acquisition
Borokay Beach, S.L.	Full	30/05/2008
De Sparrenhorst B.V.	Full	01/01/2008
Hotel Porta Rossa, S.r.l.	Full	28/02/2008
Blacom, S.A.	Full	02/08/2008
Syllabus, S.A.	Full	02/08/2008
Polis Corporation, S.A.	Full	02/08/2008
Capredo Investments, Gmbh	Equity method	01/01/2008
Mil Novecientos Doce, S.A. de C.V.	Equity method	01/07/2008
Consortio Grupo Hotelero T2, S.A. de C.V.	Equity method	01/07/2008

On 30 May 2008, the Group acquired, through its dependent company NH Hoteles España, S.L., 50% of the share capital of Borokay Beach, S.L., registered in Madrid, the owner of the hotel NH Alanda in Marbella.

The cost of the investment totalled 7,350 thousand euros. Set out below is an analysis of this business combination (in thousand euros):

	Book value	Fair value
Tangible fixed assets	21,221	21,221
Intangible assets	271	271
Tax	5,575	5,575
Long-term bank loans	(10,885)	(10,885)
Other long-term payables	(4,707)	(4,707)
Current	3,225	3,225
Net assets acquired	14,700	14,700
Minority interests	-	(7,350)
Market value of the holding	14,700	7,350
Cost of the business combination		7,350
Difference		-

This company was set up on 13 March 2008. Its capital was increased by a non-cash contribution of the hotel NH Alanda on 22 April 2008, as a result of which the book value and the fair value of this building are the same.

On 30 May 2008 NH Hoteles España, S.L. subscribed to a capital increase in cash whereby it acquired 50% of this company.

On 1 January 2008, the Group acquired, through its dependent company NH The Netherlands B.V., 100% of the share capital of De Sparrenhorst B.V. registered in Nunspeet (Netherlands), which owns a hotel in Nunspeet.

The cost of the investment totalled 14,574 thousand euros. Set out below is an analysis of this business combination (in thousand euros):

	Book value	Adjustments	Fair value
Tangible fixed assets	9,624	10,580	20,204
Deferred taxes	-	(455)	(455)
Long-term bank loans	(5,757)	-	(5,757)
Other long-term payables	-	-	-
Current	582	-	582
Net assets acquired	4,449	10,125	14,574
Market value of the holding	4,449	10,125	14,574
Cost of the business combination			14,574
Difference			-

On 28 February 2008, the Group acquired, through its dependent company NH Italia, S.r.l., 100% of the share capital of Hotel Porta Rossa, S.r.l. registered in Florence (Italy). This company operates a hotel in Florence under a lease contract.

The cost of the investment totalled 9,189 thousand euros. Set out below is an analysis of this business combination (in thousand euros):

	Book value	Adjustments	Fair value
Tangible fixed assets	187	-	187
Intangible assets	229	11,760	11,989
Deferred taxes	-	(2,817)	(2,817)
Long-term bank loans	(97)	-	(97)
Other long-term payables	(207)	-	(207)
Current	134	-	134
Net assets acquired	246	8,943	9,189
Market value of the holding	246	8,943	9,189
Cost of the business combination			9,189
Difference			-

On 2 August 2008, the Group acquired, through its dependent company Latina de Gestión Hotelera, S.A., 100% of the companies Blacom, S.A and Syllabus, S.A. and 50% of Polis Corporation, S.A. The companies Blacom, S.A. and Syllabus, S.A. hold 34% of the capital of the group Inmobiliaria Aconcagua, S.A. which owns and operates the hotel NH Crillón in Buenos Aires. Polis Corporation, S.A. owns the hotel NH 9 de Julio, in Buenos Aires, which is being adapted up to the Group's standards of quality. It is estimated to be opened in the first half of 2009.

The cost of the investment totalled 24,924 thousand euros. Set out below is an analysis of this business combination (in thousand euros):

	Book value	Adjustments	Fair value
Tangible fixed assets	3,176	13,708	16,884
Other long-term assets	314	-	314
Deferred taxes	-	(3,839)	(3,839)
Current	256	-	256
Net assets acquired	3,746	9,869	13,615
Minority interests	-	286	286
Market value of the holding	3,746	10,155	13,901
Cost of the business combination			24,924
Goodwill (Note 6)			8,871
Surplus over the cost of the business combination acquired from minority shareholders			2,152

On 1 January 2008, Capredo Investments, GmbH joined the consolidated Group. This company is registered in Switzerland and has become the parent of the real-estate projects in the Dominican Republic and Mexico. This company was not consolidated in 2007 as it was dormant.

On 1 July 2008, a minority holding was acquired in the Consorcio Grupo Hotelero T2, S.A. de C.V which owns a hotel being built in Terminal T2 in Mexico City.

Furthermore, it should be mentioned that the holding in the company Mil Novecientos Doce, S.A. de C.V., recorded in 2007 as a holding recorded at cost, has been consolidated using the equity method in 2008.

The market values of the hotels acquired 2008 in the operations described above were set by appraisals performed by independent experts or valuation models made by the own company on the basis of the following main assumptions:

- The valuation was calculated on the basis of a projection of the hotels' operating revenues over ten years.
- The rate of growth used was 2% for the hotels that are stable.
- The projects have been valued on the basis of conservative assumptions assuming that the time needed to build the hotels will be long and the rates of growth will be virtually flat over the launch periods.
- The valuation provided for a maintenance plan for hotels in operation and an investment plan for projects under construction.
- The discount rate used for calculating the present market value of the hotels was 9%. This is the estimate risk rate of the Group for its investments (as from June 2008 the company has raised this rate to 10% for purpose of prudence).

The adjustment for deferred taxes was the result of applying the effective tax rate of each country to the corresponding capital gains and losses when businesses were combined. The average rate was 20%.

For business combinations that have taken place on 1 January 2008, the "revenues" and the "profit" of NH Hoteles Group for 2008 would have increased by approximately 1.8 million euros and 0.36 million euros, respectively.

Company	Method of consolidation	Effective date of retirement
Hotel Della Volpe Ltda.	Global	03/08/2008
HEM Distelkade Amsterdam BV	Global	31/12/2008

On 3 August 2008 and 31 December 2008 the Group sold its holdings in Hotel Della Volpe Ltda. and HEM Distelkade Amsterdam BV.

	Retirement value	Value as at 31.12.07
Tangible fixed assets	-	31,299
Intangible assets	-	290
Tax	(3,007)	-
Bank loans ic	5,560	-
Other long-term debts		(3,043)
Current	186	(1,320)
Net assets sold	2,739	27,226
Minority interests	-	-
Market value of the holding	2,739	27,226
Consideration	2,739	-
Profits on disposals	-	-

a.2 Changes in the scope of consolidation in 2007:

a.2.1 Jolly Hotels, S.p.A.

On 1 February 2007, Jolly Hotels, S.p.A. joined the consolidated Group when its takeover came into effect. On that date NH Hoteles controlled, through NH Italia, S.r.l., 74.47% of Jolly Hotels, S.p.A., 20% directly and 54.47% under call option contracts for the benefit of NH Italia, S.r.l. and sale to Joker Partecipazioni, 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 holders of the rights of sale representing 25.7%, 24.35% and 4.42% of Jolly Hotels, S.p.A. exercised their respective put options, as a result of which the NH Group came to directly hold a further 54.47% of Jolly Hotels, S.p.A. through the dependent company Grande Jolly, S.p.A.

During the first stage, on 1 February 2007, the NH Hoteles Group calculated the cost of the business combination of 74.47% of Jolly Hotels, S.p.A., as set out below (in thousand euros):

	Book value	Adjustments	Book value
Tangible fixed assets	348,701	559,166	907,867
Intangible assets	1,779	15,872	17,651
Other long-term assets	17,366	-	17,366
Long-term bank loans	(184,597)	-	(184,597)
Deferred taxes	(15,259)	(165,620)	(180,879)
Other long-term debts	(25,030)	(12,177)	(37,207)
Current	(80,724)	-	(80,726)
Net assets acquired	62,234	397,241	459,475
Minority interests			(134,490)
Market value of the holding			324,985
Cost of the business combination			320,233
Surplus of the business combination			(4,752)

The market value of the hotels owned by Jolly Hotels S.p.A. was calculated from appraisals performed by an independent expert.

The increase of the NH Hoteles Group's holding in the fair value of the identifiable assets, liabilities and contingent liabilities of Jolly Hotels, S.p.A. over the cost of the business combination, which amounted to 4.8 million euros, was taken to profit and loss in 2007. This surplus has been recorded in the captions "other operating income" and "minority interests" on the consolidated income statement for 2007, at 21.4 million euros and 16.6 million euros, respectively.

During the second stage, the NH Hoteles Group, on 21 February 2007, submitted a takeover bid to the Regulatory Authority of the Stock Market (Consob) for 25.53% of the share capital of Jolly Hotels, S.p.A., at a price of 25 euros per share. On 18 April 2007, as a result of the Public Offer of Compulsory Purchase, the NH Hoteles Group took over a further 8.64% of Jolly Hotels, S.p.A., which gave it control over 83.11%. Later on in 2007, further holdings were acquired on the market until, as at 31 December 2007, the direct holding amounted to 96.86% of Jolly Hotels, S.p.A..

In September 2007, the General Meeting of Shareholders of Jolly Hotels, S.p.A. and Grande Jolly, S.r.l. approved the plan to merge the two companies, at which time the minority shareholders who did not wish to take part in said merger became entitled to a right of separation. This right was exercised by 0.84% of the minority shareholders. This merger finally took place on 1 April 2008, at which time Jolly Hotels, S.p.A. ceased to exist, as it was absorbed into Grande Jolly, S.r.l. Later on, in December 2007, the NH Hoteles Group made a Public Offer of Residual Purchase of all the remaining shares in Jolly Hotels S.p.A., which was completed on 8 February 2008 and took up 2.2% of the capital. On 14 February 2008, the Consob approved the right to acquire the remaining shares ("squeeze out") in Jolly Hotels, S.p.A. which affected the remaining 0.1% of the shares. The settlement of the right of separation and the squeeze out were made on 1 April 2008. As at 31 December 2008, NH Italia's holding in Grande Jolly, S.r.l. stood at 97.4%.

In this regard, the difference between the figure recorded in the books for the minority interests acquired after the takeover and the price paid for the takeover has been recorded in equity for 2007 and 2008 in the caption "Reserves in Fully Consolidated Companies", at 4.3 million and 1.02 million euros, respectively.

a.2.2 Framon Group

The business combination took place in 2007, after the outstanding legal aspects and formalities had been settled.

The value of the consideration committed for 100% of the operation is as set out below (in thousand euros):

	Book value	Adjustments	Fair value
Tangible fixed assets (*)	21,874	1,528	23,402
Intangible assets	5,219	35,912	41,131
Other long-term assets	12,592	2,760	15,352
Long-term bank loans	(11,838)	-	(11,838)
Deferred taxes	(1,371)	(16,800)	(18,171)
Other long-term debts	(5,425)	-	(5,425)
Current	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 another project being developed during 2006. They were therefore included in the scope of consolidation as at 31.12.06.

The fair value of the assets owned (two hotels) was calculated on the basis of appraisals performed by an independent expert. The fair value of all the other assets (thirteen hotels and four projects) was calculated on the basis of an analysis of discounted cash flows.

The value of the consideration committed included the cost incurred by NH for acquiring 75% of the assets operated under the Framon brand name, together with the expenses indirectly imputable to this transaction and the value at which the call option held by NH Italia and the sale to TFB of 25% of NH-Framon Hotel Italy Management, S.r.l. were estimated. The contra account, of 22 million euros, was recorded in the caption "Other non-current liabilities" (see Note 18) on the consolidated balance sheet for 2007.

On 13 May 2008, the dependent company NH Italia, S.r.l. reached an agreement with Tourist Ferry Boat, S.r.l. to exercise the call option held by NH Italia on the remaining 25% NH-Framon Hotel Italy Management, S.r.l.

The price of taking up this option was 14,996 thousand euros, which were paid with equity instruments by making a capital increase for this amount in NH Italia which was subscribed to in full by TFB. The shortfall between the valuation of the call option for 5% of the share capital in NH Italia on the consolidated accounts of the NH Group as at 31 December 2007 and the price at which it was exercised has been recorded as an adjustment in the goodwill assigned to NH Framon and to intangible assets recorded as "Lease premiums".

As part of the agreement dated 13 May 2008 signed by NH Italia and TFB, a new cross option has been set up in the form of a call option held by NH Italia and a put option held by TFB for the 5% in NH Italia held by the TFB group. This was stated at its fair value (14,996 thousand euros). On 14 October 2008, a capital increase in NH Italia of 140 euros was subscribed. This meant that the option corresponding to 5% has increased in value (7 million euros). As at 31 December 2008, the value of the option totalled 21,996 thousand euros which was recorded in the caption "Other non-current liabilities" (see Note 18) on the consolidated balance sheet. The call option held by NH Italia may be taken up as from May 2012 and will expire in 2017. The put option held by TFB may be taken up as from March 2010 and will expire in 2014. The exercise price of the option shall be calculated on the basis of the fair value.

a.2.3 Other inclusions in the scope of consolidation in 2007:

Set out below are all the other companies that the NH Hoteles Group included in the scope of consolidation during 2007.

Company	Method of consolidation	Effective date addition
Edificio Metro, S.A.	Full	02/03/2007
NH Hoteles France, S.r.l.	(a) Full	19/04/2007
Hotelera Lancaster, S.A.	Full	19/04/2007
Hanuman Investment, S.L.	(a) Full	30/06/2007
Inmobiliaria 3 Puente, S.A. de C.V.	Consolidated using the equity method	17/07/2007
NH Finance, S.A.	Full	30/08/2007
Desarrollos Isla Poniente, S.L.	Consolidated using the equity method	15/10/2007
Desarrollos Isla Blanca, S.L.	Consolidated using the equity method	27/12/2007

(a) Companies incorporated by the NH Hoteles Group

On 19 April 2007, a 50% holding was acquired in Hotelera Lancaster, S.A., a company that owned a 115-room hotel in Buenos Aires (Argentina) which came into operation in September 2007.

On 2 March 2007, Edificio Metro, S.A., a company that owned a plot of land in Buenos Aires (Argentina) where a 106-room hotel is being built and is expected to open in 2009.

On 27 December 2007, the Group acquired the interest of Desarrollos Isla Blanca, S.A., through Sotogrande, S.A. Subsequently, Desarrollos Isla Blanca, S.A., was brought into the scope of consolidation after the Urban Development Plan was published in the Official Gazette of the Government of the State of Quintana Roo. The Group acquired 50% of the share capital of this company, which has a 50% holding 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 it plans to build a tourist property development with the right to build 18 rooms per hectare on the basis of the area's Urban Development Plan.

On 15 October 2007, the group acquired 50% of the share capital of Desarrollos Isla Poniente, S.L. through Latinoamericana de Gestión Hotelera, S.A. This company has a 50% holding in the Mexican company Desarrollos Isla Poniente, S.A. de C.V., owner of 306 hectares in Acapulco and Isla Mujeres and call option on 29 additional hectares where it plans to build a tourist property development.

On 17 July 2007, a 27.08% holding was acquired in Inmobiliaria 3 Puente, S.A. de C.V., a company which owns a plot of land which may be built on in the city of Puebla (Mexico).

The aggregate effect the inclusion into the Group's scope of consolidation of the aforementioned companies is as follows (in thousand euros):

	Book value	Adjustments	Fair value
Tangible fixed assets	17,056	9,167	26,223
Intangible assets	160	-	160
Other long-term assets	3	736	739
Deferred taxes	-	(3,813)	(3,813)
Other long-term debts	(3,006)	-	(3,006)
Current	(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

3. Distribution of earnings

Set out below is the distribution of 2008 earnings proposed by the Board of Directors of the Controlling Company:

	Thousand euros
Legal reserve	1.858
Voluntary reserves	16.721
Profits of the Controlling Company	18,579
Reserves in consolidated companies	8,213
Profit of the Consolidated Group	26,792

The distribution of profit and loss for 2007 is presented in the consolidated statements of change in net equity.

4. Accounting policies

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

4.1 TANGIBLE FIXED ASSETS

Tangible fixed assets are registered at cost of acquisition, less accumulated depreciation and any recognised loss for impairment, except for those dependent companies whose tangible fixed assets were acquired before 31 December 1983 where the cost price was revalued in accordance with various legal provisions. Later additions have been stated at cost.

At the time of the changeover to IFRS, the Group restated at market value certain pieces of land based on assessments made by an independent expert, by a gross total amount of 217 million euros. The revalued cost of this land was regarded as cost attributed in the changeover to the IFRS. The Group's policy has been not to revalue any of its tangible fixed assets when closing its accounts for subsequent financial years. Set out below is the information concerning the revaluation:

Country	Thousand euros		
	Book value	Fair value	Capital gain
Argentina	18,063	39,550	21,487
Belgium	3,484	16,108	12,624
Spain	63,613	157,570	93,957
Netherlands	118,728	207,039	88,311
Switzerland	3,904	4,600	696
	207,792	424,867	217,075

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are registered as an increase in the cost thereof. Expenditure for maintenance and repairs is charged to consolidated expense for the year in which they are accrued.

The Group charges depreciation for its tangible fixed assets by the straight-line method based on the years of estimated useful life of the related assets, as follows:

	Estimated useful life in years
Buildings	33-50
Plant and machinery	10-12
Others fixtures, tools and furniture	5-10
Other tangible fixed assets	4-5

4.2 INVESTMENT PROPERTY

Records the value of the land, buildings and other constructions that have been kept on either to be operated under leases or to make a capital gain when they are sold.

Property investments are stated at cost of acquisition. Buildings under construction are stated at the cost of the corresponding certificates of completed construction work plus the expenses relating to the project (management of construction work, fees, architect's fees, etc.) and are written off on a straight-line basis over their useful life, which is the same as used for similar items of tangible fixed assets.

Interest expense imputable to these capital expenditures is capitalised over the period of construction work until they become ready for sale and is regarded as an increase cost of the investment. Should interest income be earned on current-asset investments of surpluses, such income shall reduce the cost of the investment.

Income and earnings are recognised when the assets are sold to buyers and executed in deeds, which is when the rights and obligations pertaining thereto are transferred. Income from rent is taken to profit and loss on an accruals basis.

Rental expenses are recognised on an accruals basis and all maintenance, management and depreciation expenses for the assets rented are charged to expense.

The Group regularly calculates the fair value of its investment property assets, using the assessments carried out by independent experts as a reference (see Note 9).

4.3 GOODWILL ON CONSOLIDATION

The goodwill generated on the consolidation represents the excess of the acquisition cost compared with the Group's holding in the market value of identifiable assets and liabilities in a dependent company or joint venture on the date of acquisition.

Any positive differences between the cost of the holdings in the capital of consolidated and associated companies and the corresponding theoretical book values acquired, adjusted on the date of first consolidation, are imputed as follows:

1. If they can be assigned to specific assets and liabilities of the companies acquired, increasing the value of the assets for which the market values are higher than their net book values as recorded on these companies' balance sheets.
2. If they can be assigned to specific intangible assets, by being explicitly recognised in the consolidated balance sheet provided that their market value as at the date of acquisition can be reliably determined.
3. Any other differences that cannot be imputed are recorded as goodwill which is assigned to one or more specific cash-generating units (in general, hotels) which are expected to make a profit.

Goodwill is only recorded when it has been acquired in return for valuable consideration.

The goodwill generated on the acquisition of associated companies is recorded in the accounts as an increased value of the holding.

The goodwill generated on acquisitions made prior to the date of the changeover to the IFRS, 1 January 2004, remain at its net book value as recorded as at 31 December 2003 in accordance with Spanish accounting principles.

Goodwill is not written down. In this regard, every year end, or whenever there are signs of decline in value, the Group estimates, using the "Impairment test" the likelihood of there being permanent impairments that reduce the recoverable value of the goodwill to below the net cost recorded. If this is the case, it is charged to profit and loss. Any write-downs so recorded cannot be reversed later on.

In order to carry out this impairment test, all the goodwill is assigned to one or more cash-flow generating units. The recoverable value of the assets associated with the cash-flow generating unit is calculated as the higher of the useful value and the net sale price that would be obtained. The useful value is calculated based on estimated future cash flows, discounted at a rate before tax that reflects the present market value with regard to the value of money and the specific risks associated with the asset.

The discount rates used by the NH Hoteles Group for these purposes vary between 8.7% and 14%, depending on the different risks associated with each specific asset.

4.4 INTANGIBLE ASSETS

Intangible assets are defined as non-monetary assets that can be specifically identified, that have been acquired from third parties or have been developed by the Group. They are only recognised in the accounts when their cost can be estimated objectively and financial benefits are expected to be made from them in the future.

They are deemed to have an "indefinite useful life" whenever it is concluded that they will contribute indefinitely to the generation of benefits. All other intangible assets are deemed to have a "definite useful life".

Intangible assets with indefinite useful lives are not written down. They are therefore subject to the "impairment test" at least once a year (see note 4.2).

Intangible assets with defined useful lives are amortised on a straight-line basis, calculated on the basis of the estimated useful lives of the respective assets.

Intangible assets" records, fundamentally, the following items:

- i) Rights of beneficial use: records the cost of the right to operate the Hotel NH Plaza de Armas in Seville, acquired in 1994, which is being written off against the consolidated profit and loss account over the 30 years of the term of the contract at a rate that is increasing by 4% a year.
- ii) The "Premiums for rent contracts" records the amounts paid as a condition for obtaining certain contracts to rent hotels, which are written down on a straight-line basis over the term of the rent contract
- iii) "Concession, patents and trade marks" record, basically, the disbursements made by Gran Círculo de Madrid, S.A. on the construction work to renovate and remodel the building which houses the Casino of Madrid. The amortisation of this work is calculated on a straight-line basis taking into account the term on which the concession contract for operating and managing the services provided in the building where the Casino de Madrid is housed expires, 1 January 2037.
- iv) "Computer applications" include various different computer programs that have been acquired by the different consolidated companies. These programs are valued at cost and are amortised on a straight-line basis at an annual rate of 25%.

4.5 IMPAIRMENT OF VALUE OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

Every year, the Group makes a valuation of the possibility of value impairments that require that the book values of its tangible and intangible fixed assets be reduced. An impairment is deemed to exist whenever the recoverable value is lower than the book value.

The recoverable value is calculated as the higher of net sale value and useful value. The useful value is calculated based on estimated future cash flows, discounted at a rate before tax that reflects the present market value with regard to the value of money and the specific risks associated with the asset.

The discount rates used by the NH Hoteles Group for these purposes vary between 8.7% and 14%, depending on the different risks associated with each specific asset.

If it is estimated that the recoverable value of an asset is lower than its book value, its book value is written down to its recoverable value and the corresponding write-down is charged to profit and loss.

In the event that a loss due to impairment is reversed later on, the amount recorded for the asset in books is written up to the limit of the original value at which said asset had been recorded prior to the recognition of said impairment in value.

The information concerning the impairment losses detected in the year is set out in Note 8 to these accounts

4.6 LEASES

The Group, in general, classifies all leases as operating leases. It only classifies them as financial leases when they substantially transfer the risks and advantages of ownership to the lessee and when, furthermore, the lessee holds an option to purchase the asset when the contract ends under terms that may be deemed to be clearly better than market terms.

4.6.1 Operating leases

in operating leases, the ownership of the asset leased and, substantially all the risks and advantages of ownership of the asset, remain with the lessor.

When the Group is the lessor, it recognises the income from operating leases on a straight-line basis, in accordance with the terms set out in the contracts signed. These assets are written off in accordance with the policies adopted for similar tangible assets of its own that it uses. Whenever the Group is the lessee, the lease expenses are charged to profit and loss on a straight-line basis.

4.6.2 Finance leases

The Group recognises financial leases as assets and liabilities on the balance sheet, on inception of the lease, at the market value of the leased assets or at the present value of the minimum lease instalments, whenever this is lower. To calculate the present value of the lease instalments, the contractual interest rate is used.

The cost of the assets acquired under finance leases is presented on the consolidated balance sheet, according to the nature of the asset that is the object of the contract.

Interest expense is distributed over the period of the lease on a pay-back basis.

4.7 FINANCIAL INSTRUMENTS

4.7.1 Financial assets

Financial assets are recognised on the consolidated balance sheet when they are acquired, and are recorded initially at their fair value. The financial assets maintained by the Group companies are classified as:

- Traded financial assets: are assets acquired by the companies for the purpose of making a short-term gain on changes in their prices or on the differences between their purchase and sale prices. This caption also includes financial derivatives that are not regarded as accounting hedge.
- Financial assets at maturity: assets for which the collections are for a fixed or determinable amount with preset maturity dates. The Group states that it intends and is able to hold these assets from when they are purchased until they mature.
- Loans and accounts receivable generated by the company itself: financial assets originated by the companies in exchange for providing cash flow, supplying assets or services.

The held-for-trading financial assets are valued at their "fair value" after they have been acquired, and any changes in their fair value are taken to profit and loss for the year.

The fair value of a financial instrument on a particular date is defined as the amount at which it could be bought or sold on that date between two properly informed parties, acting freely and prudently on an arms'-length basis.

Financial assets at maturity and loans and accounts receivable originated by the Group are stated at amortised cost. Accrued interest is taken to profit and loss on the basis of their effective rate of interest. Amortised cost is defined as the initial cost less the collections or repayments of the principal, taking into account any potential reductions for impairment or non-payment.

4.7.2 Cash, banks and other cash equivalents

This caption on the consolidated balance sheet records cash, sight deposits and other current-asset investments that are highly liquid and may be quickly realised as cash and are not subject to any risk of change in their value.

4.7.3 Financial Liabilities

Bank loans

Bank loans are recorded at the amount received, net of the direct costs incurred in the transaction. They are subsequently valued at amortised cost. Financial expenses are recorded on the accruals basis in the profit and loss account using the effective interest method. Any amounts not settled in the period they occur are added to the amount of liabilities recorded in the books.

Trade creditors and other accounts payable

Trade creditor accounts are recorded to begin with at their fair value and, later, they are valued at their amortised cost using the effective interest rate method.

Financial derivatives and accounting for hedges

Hedges used to cover the risk to which the Group's business is exposed, chiefly exchange rate and interest rate exposures, are valued at market value on the date they are contracted. Any subsequent changes in market value are recorded as follows:

- Differences arising in hedging items and hedged items in fair value hedges, in so far as they refer to the type of risk hedged against, are taken directly to consolidated profit and loss.
- For cash-flow cover, the differences in valuation arising in the efficient part of the cover of the hedging items are recorded on a transitional basis in the equity caption "Valuation Adjustments to equity". They are not taken to profit and loss until the losses or gains on the hedged item are taken to profit and loss or until the date the hedged item matures. The inefficient part of the cover is taken directly to consolidated profit and loss.

Hedges stop being recorded in the accounts when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies to be recorded as cover in the accounts. At that moment in time, any accumulated profit and loss corresponding to the hedging instrument that has been recorded in net equity is kept in net equity until the planned operation takes place. When the operation that is being hedged is not expected to take place, the accumulated net gains or losses recognised in net equity are taken to profit and loss for the year. Any changes in the fair value of the financial derivatives that fail to qualify to be recorded as hedges in the accounts are taken to consolidated profit and loss as and when they occur.

Financial derivatives implicit in other financial instruments or other main contracts are recorded separately as derivatives only when their risks and characteristics are not closely linked to those of the main contracts and whenever said main contracts are not stated at their fair value by recognising the changes that have taken place in fair value in the profit and loss account.

4.8 INVENTORIES

The various different categories of stocks have been valued using the following criteria:

Real estate business - Sotogrande (see Note 12)

All the costs incurred are identified for each 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 assigned to the cost of the sale, based on the percentage that the metres sold represent in proportion to the total metres available for sale in each area.

All the land and sites are classified under current assets even though it may take more than one year to build and sell them.

- i) Undeveloped land: valued at cost, which includes the legal costs of executing deeds, registration and taxes that cannot be directly recovered from the Tax Authorities.
- ii) Developed land: valued at the lowest of cost or market value. The mentioned cost includes the cost of the land, the external cost of urban development and the technical projects.
- iii) Buildings under construction and completed buildings: Are valued at cost, which includes the proportional part of the costs of land and infrastructure of the Pleasure Port and Inner Marina and the costs that are directly incurred in connection with the different developments (projects, building permits, works certificates, legal expenses relating to the declaration of new construction work, registration, etc.). The Group takes into account the market value and the time it takes for its finished products to be sold, making the necessary adjustments in values whenever they are required.

Hotel business

The food in the catering services is valued at the lower of cost or realisable value.

4.9 FOREIGN CURRENCY TRANSACTIONS AND BALANCES

The Group uses the euro as its working currency. Consequently, operations in currencies other than the euro are deemed to be denominated in "foreign currency" and are recorded in accordance with the exchange rates prevailing on the date the operations are carried out.

On every balance sheet date, the monetary assets and liabilities denominated in foreign currency are translated into the working currency at the exchange rates prevailing on the balance sheet date. Any gains or losses that arise are taken directly to consolidated profit and loss.

4.10 CURRENT/NON-CURRENT CLASSIFICATION

In the accompanying consolidated balance sheet, the financial assets and the debts are classified depending on when they fall due, i.e. as current when they fall due in or before twelve months and as long-term when they fall due after more than twelve months.

4.11 INCOME AND EXPENSE

Income and expenses are recorded on the accruals basis, i.e. when the flow of assets and services which they represent actually takes place, irrespective of when the resulting monetary or financial flow occurs.

Specifically, income is calculated at the fair value of the consideration to be received and represents the amount receivable for the assets handed over or the services provided in the ordinary course of business, after deducting discounts and taxes.

Interest income and expense accrues on a pay-back basis, based on the principal outstanding receivable or payable and the applicable effective rate of interest.

In accordance with IAS 18, the Group records sales of properties under contraction and hence any profit thereon in its accounts when the risks and significant advantages thereof have been transferred to the buyer and the buyer has taken effective control over the property.

As a general rule, in accordance with the principle of correlation of income and expense, staff commissions on sales and others of a general nature (commercial, advertising, etc...) that cannot be specifically allotted to the developments, even though they are undoubtedly connected therewith, which have been incurred between when the developments began and the time the sale is recorded in the accounts, are recorded in the accounts under the caption "other current assets" under assets on the balance Sheet to be charged to expense when the sales are recorded in the accounts, provided that at the end of each year the margin on the sales contracts yet to be recorded in the accounts is larger than the expenses.

4.12 GOVERNMENT GRANTS

The Companies in Group have recorded grants received in accordance with the following criteria:

- Non-refundable capital grants (linked to assets) are stated for the amount granted. They are recorded as deferred income and released to income in proportion to the depreciation recorded during the year by the assets that are being financed by these grants.
- Operating grants are taken to income when they accrue.

4.13 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.

The deferred tax assets and liabilities include any timing differences that are identified as the amounts that are expected to become payable or collectible on the differences between the book values of the assets and liabilities and their tax values, as well as any tax loss carryforwards and credits for unused tax deductions. These amounts are recorded by applying the rate of taxation at which the corresponding timing difference or credit is expected to be refunded or paid.

In some countries the rate of taxation varies depending on the form taken by the asset transfer. In these cases the Group's policy has been to apply the effective rate at which the tax is expected to be refunded or paid. The Administrators of the Group are of the opinion that, in this case, the deferred tax calculated covers any amount that may eventually be paid in tax.

Deferred tax liabilities are recognised for all taxable timing differences, except when the timing difference derives from the initial recognition of goodwill the write-downs on which are not tax deductible or the initial recognition of other assets and liabilities in operations that affect neither the tax result nor the book result.

For their part, deferred tax assets, identified with timing differences are only recognised when it is deemed probable that the consolidated companies are going to recording sufficient taxable income in the future to be able to make them effective and do not stem from the original recognition of other assets and liabilities in an operation that affects neither the tax result nor the book result. All other deferred tax assets (tax loss carryforwards yet to be offset and deductions yet to be used) are recognised only in the event that the consolidated companies are going to recording sufficient taxable income in the future to be able to make them effective.

The deferred tax assets and liabilities recorded are reviewed every time accounts are closed, in order to check that they remain in force and to make whatever corrections may be appropriate on the basis of the results of the analyses carried out.

4.14 EMPLOYEE BENEFIT OBLIGATIONS

The Spanish companies in the hotel industry are required to pay a certain number of months' pay to employees of a certain seniority and meet certain prerequisites, who leave the company's employ when they retire or become permanently disabled or reach a certain age.

The liabilities accruing on these commitments to staff are recorded in the caption "Provisions for charges and liabilities" on the accompanying consolidated balance sheet (see Note 21).

In accordance with Royal Decree 16/2005, the Group has externalised these commitments, and finances all the services that have accrued beforehand

4.15 ONEROUS CONTRACTS

The NH Hoteles Group defines onerous contracts as being those where the unavoidable costs of fulfilling the obligations that arise thereunder exceed the financial benefits that are expected to be gained therefrom

The NH Hoteles Group policy is to record a provision for the present value of said difference between the costs and the benefits of the contract.

The discount rates before taxes used reflect the present valuation of money on the market, and the specific risks of these contracts. Specifically, a rate of 8.7% has been used.

4.16 REMUNERATION PLANS LINKED TO THE LISTED PRICE OF THE SHARE

A value is set for these plans when they start to be executed using a financial method based on a binomial model that takes into account the option price, the volatility, the term for taking up the option, expected dividends, the risk-free interest rate and the assumptions made for the expected year in advance.

This valuation is taken to profit and loss, in accordance with IFRS 2, in the caption personnel expenses over the period of time the employee must remain in the Group's employee in order to qualify for the option. This value is taken to consolidated profit and loss on a straight-line basis of the period that runs from the date the option is granted to the date it is taken up. Under the Regulations of the Plan, it must be settled in cash. The valuation set is therefore recognised with a contra account in liabilities due to the employees. Likewise, every year the Group re-estimates its original valuation and takes the part for the year in questions and the part relating to prior years in profit or loss for the year.

Later, after the period the employee must remain in the Group's employ in order to qualify for the option plan has elapsed, the difference between the settlement price and the liability recognised as described hereabove for the operations settled is taken to consolidated profit and loss. For outstanding operations at the year end, the amount of the difference between the liability recognised on the date and the corresponding revaluation is also taken to consolidated income statement.

Finally, as set out in Note 19 to the consolidated accounts, in order to cover against the possibility of the Remuneration plan running out of funds, the Group has contracted a financial instrument to hedge against the future cash flows needed to settle this remuneration system. This financial instrument qualifies as a derivative and is treated in the accounts in accordance with the general rules that govern derivatives (see Note 4.7).

4.17 OWN SHARES HELD

In accordance with IAS 32, treasury shares are stated as a reduction in the Group's Equity.

The profits and losses recorded by the Group on the disposal of these treasury shares are recorded in the caption "Share premium" on the consolidated balance sheet.

4.18 PROVISIONS

The Group's policy is to set up provisions for the estimated amounts needed to meet any liabilities that arise from litigation in progress, indemnities or obligations, and for the guarantee deposits and guarantees granted by Group companies that may entail a (legal or implicit) payment obligation for the Group, provided that the amount can be reliably estimated.

4.19 ENVIRONMENTAL POLICY

Investments made in connection with environmental activities are registered at cost of acquisition and capitalised as an increased cost of fixed assets or inventories in the year these expenses are incurred.

Expenses arising from the protection and improvement of the environment are charged to expense in the year they are incurred, regardless of when the related monetary or financial flow takes place.

The provisions for probable or certain contingencies, disputes in progress or indemnities or obligations outstanding for an undetermined amount of an environmental nature, not covered by the insurance policies that have been taken out, are recorded when the liability or the obligation that sets off the indemnity or payment arises.

4.20 CONSOLIDATED CASH FLOW STATEMENTS

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

- Cash flows: inflows and outflows of cash and cash equivalents. Cash equivalents are defined as high-liquidity current-asset investments with little risk of change in value.
- Operating activities: the normal activities of the companies that make up the consolidated group, and any other activities that cannot be classified as investing or financing activities.
- Investment activities: the activities relating to the acquisition, alienation or disposal by other means of long-term assets and other capital expenditures not included in cash and cash equivalents.
- Financing activities: the activities that give rise to changes in the size and structure of net equity and the liabilities that are not part of the operating activities.

5. Earnings per share

The basic earnings per share are calculated by dividing the net profit attributed to the Group (after taxes and minority interests) by the weighted average number of shares outstanding during the year, as follows (in thousand shares):

	Thousand euros		
	2008	2007	Change
Profit for the year (thousand euros)	26,792	77,443	(65.40%)
Weighted average number of shares issued	147,970	144,337	2.52%
Weighted average number of own shares held	2,482	2,334	6.34%
Weighted average number of shares outstanding	145,488	142,003	2.45%
Earnings per share	0.18	0.55	(67.27%)

6. Goodwill

The balance recorded under this caption is for the net goodwill that has appeared on the purchase of certain companies. Set out below is an analysis of this balance (thousand euros):

	2008	2007
NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH	108,674	108,674
Polis Corporation, S.A.	8,871	-
NH Italia, S.r.l.	-	5,426
Nacional Hispana de Hoteles, S.r.l. de C.V.	3,174	3,161
Others	1,486	1,487
	122,205	118,748

Set out below is the movement in this chapter of the consolidated balance sheet in 2008 and 2007 (in thousand euros):

	Goodwill 31.12.06	Additions to scope	Translation difference	Goodwill 31.12.07
NH Hoteles Deutschland, GmbH y NH Hoteles Austria, GmbH	108,674	-	-	108,674
NH Italia, S.r.l.	984	4,442	-	5,426
Nacional Hispana de Hoteles, S.r.l. de C.V.	3,218	-	(57)	3,161
Others	1,526	-	(39)	1,487
	114,402	4,442	(96)	118,748

	Goodwill 31.12.07	Additions to scope	(Retirements)	Translation difference	Goodwill 31.12.07
NH Hoteles Deutschland, GmbH y NH Hoteles Austria, GmbH	108,674	-	-	-	108,674
Polis Corporation, S.A. (Note 2.5.6)	-	8,871	-	(10)	8,861
Grupo NH Italia, S.r.l. (Note 2.a.2.2)	5,426	-	(5,426)	-	-
Nacional Hispana de Hoteles, S.r.l. de C.V. and other Latin American companies	3,161	-	-	(19)	3,142
Others	1,487	-	-	41	1,528
	118,748	8,871	(5,426)	12	122,205

The recoverable value of the goodwill of NH Hoteles Deutschland, GmbH. and NH Hoteles Austria, GmbH. has been assigned to each unit that generates cash flow using projects for results, capital expenditures and working capital, for the remaining years of operation of the rent agreements of the hotels.

The recoverable values of the other goodwill have been assigned to each unit that generates cash flow using five-year forecasts and using a methodology similar to that used for assigning the goodwill of NH Deutschland, GmbH. and NH Hoteles Austria, GmbH.

7. Intangible assets

Set out below is an analysis and the movements on the different intangible assets accounts in 2008 and 2007 (in thousand euros):

	Balance as at 31.12.06	Change in the scope of consolidation	Additions/ Charges	Disposals	Balance as at 31.12.07	Change in the scope of consolidation	Additions/ Charges	Disposals	Balance as at 31.12.08
COST									
Rights of beneficial use	31,073	-	439	-	31,512	-	980	-	32,492
Lease premiums	15,292	51,755	834	(5,678)	62,203	12,260	825	(1,170)	74,118
Concessions, patents and trademarks	34,224	6,588	1,746	(12,018)	30,540	-	126	(93)	30,573
Computer software	22,850	6,294	7,084	(1,247)	34,981	229	7,287	(1,341)	41,156
	103,439	64,637	10,103	(18,943)	159,236	12,489	9,218	(2,604)	178,339
AMORTISATION ACCUMULATED									
Rights of beneficial use	(9,522)	-	(968)	-	(10,490)	-	(1,197)	-	(11,687)
Lease premiums	(6,594)	-	(2,783)	5,351	(4,026)	-	(7,557)	960	(10,623)
Concessions, patents and trademarks	(11,964)	-	(2,721)	10,118	(4,567)	-	(2,174)	5	(6,736)
Computer software	(16,101)	(5,695)	(3,150)	1,101	(23,845)	-	(3,787)	846	(26,786)
	(44,181)	(5,695)	(9,622)	16,570	(42,928)	-	(14,715)	1,811	(55,832)
NET BOOK VALUE	59,258				116,308				122,507

7.1 RIGHTS OF BENEFICIAL USE

On 28 July 1994, NH Hoteles, S.A. set up a right of beneficial use on the Hotel NH Plaza de Armas Hotel in Seville, owned by the Red Nacional de Ferrocarriles Españoles (RENFE), for a period of 30 years as from the date the agreement was signed. The price to be paid for this by NH Hoteles, S.A. to RENFE is 30.20 million euros, in instalments that will be paid up to the year 2014.

The Group has recorded under "Rights of beneficial use" all the amount agreed as the price for the operation and, in order to suitably record it in the respective financial periods, it takes the result of spreading the cost of the right over the thirty years of the term of the agreement to consolidated profit and loss, using an amount that increases by 4% every year. In turn, the captions "Other current liabilities" and "Other long-term liabilities" (see Notes 24 and 18) on the accompanying consolidated balance sheet record the amounts pending payment in the short and long term as at 31 December 2008, which amount to 1.49 million euros and 7.48 million euros, respectively (1.49 million euros and 8.97 million euros as at 31 December 2007).

7.2 LEASE PREMIUMS

In 2008, the column "Changes in scope of consolidation" essentially recorded 11,99 million euros for the premium paid by NH Italia, S.r.l. to obtain the lease contract on the hotel NH Porta Rossa in Florence. The term of this lease agreement runs from 1 January 2008 to 31 December 2037 and the premium is written off on a straight-line basis over the life of the contract.

8. Tangible fixed assets

Set out below is an analysis and the movements on the different start-up expenses in 2008 and 2007 (in thousand euros):

	Balance as at 31.12.06	Change in the scope of consolidation	Translation diferences	Additions	Disposals	Transfers	Balance as at 31.12.07	Change in the scope of consolidation	Translation diferences	Additions	Disposals	Balance as at 31.12.08
COST												
Land and structures	1,212,776	1,001,299	(23,655)	17,984	(14,770)	10,208	2,203,842	57,198	(46,208)	13,235	(38,504)	2,189,563
Technical plant and machinery	414,367	159,833	(4,796)	68,763	(8,039)	11,532	641,660	3,902	(2,853)	55,947	(31,904)	666,752
Other plant, tools and furniture	307,149	135,176	(4,565)	58,620	(12,319)	13,747	497,808	2,778	(5,007)	47,578	(16,686)	526,471
Other tangible fixed assets	41,725	9,020	(975)	4,142	(13,769)	(14,436)	25,707	754	(210)	963	(5,617)	21,597
Fixed assets under construction	40,832	3,834	(1,413)	41,051	(9,764)	(28,254)	46,286	2,942	(684)	33,925	(6,617)	75,852
	2,016,849	1,309,162	(35,404)	190,560	(58,661)	(7,203)	3,415,303	67,574	(54,962)	151,648	(99,328)	3,480,235
DEPRECIATION ACCUMULATED												
Structures	(113,931)	(158,162)	4,416	(8,777)	4,885	1,720	(269,849)	(220)	3,711	(22,088)	6,900	(281,546)
Technical plant and machinery	(190,489)	(104,367)	1,845	(41,319)	1,839	-	(332,491)	(1,849)	1,851	(44,209)	15,889	(360,809)
Other plant, tools and furniture	(190,770)	(89,279)	2,126	(57,093)	6,319	-	(328,697)	(1,764)	1,936	(40,309)	9,861	(358,973)
Other tangible fixed assets	(17,401)	(796)	483	(1,157)	10,665	-	(8,206)	(671)	127	(2,559)	833	(10,476)
	(512,591)	(352,604)	8,870	(108,346)	23,708	1,720	(939,243)	(4,504)	7,625	(109,165)	33,483	(1,011,804)
Provisions	(70,614)	(22,468)	(271)	(4,143)	19,083	-	(78,413)	-	-	(32,060)	44,531	(65,942)
NET BOOK VALUE	1,433,644						2,397,647					2,402,489

In 2008 the Group analysed how certain buildings it owed were being used in order to get the best possible use of them. It reclassified a series of premises and garages to investment property as they are essentially rented out. The amount involved totalled 7,995 thousand euros in cost and 2,012 thousand euros in accumulated depreciation (7,203 thousand euros in cost and 1,720 thousand euros in accumulated depreciation in 2007) (see Note 9).

In 2008 and 2007 the column "Change in scope of consolidation" records the effect of the inclusion/retirement of tangible fixed assets of certain companies that were included/excluded in the consolidated group during each of these years (see Note 2.5.6).

The column "Differences on translation" records the effect of the change in the exchange rate used for translating the different tangible fixed asset captions.

i) The most significant movements in this item during 2008 and 2007 are as follows:

	2008	2007
Spain	39,607	68,563
Benelux	32,126	34,270
Germany	18,530	33,114
Italy	40,042	42,193
Switzerland	1,149	574
Latin America	18,944	11,787
Rest of Europe	1,250	59
	151,648	190,560

The most significant additions in 2008 were the renovation of the hotels in Italy as part of the general annual plan carried out on the hotels NH Vittorio Veneto (11.5 million euros) in Rome, Grand Hotel Convento Di Amalfi (8.4 million euros) in Amalfi, NH Cavalieri (3.9 million euros) in Pisa, NH Firenze (3.2 million euros) in Florence, NH Bologna de la Gare (3.1 million euros) in Bologna and the opening of the hotel NH Giustiniano (3.5 million euros) in Rome.

In the Netherlands the following hotels have been renovated and fitted out: NH Gent Belfort (4.8 million euros) in Gant and NH Grand Hotel Krasnapolsky (4.7 million euros) and NH Musica (3.3 million euros) in Amsterdam.

In Spain, the most significant additions relate to the wholesale renovations of the hotels NH Calderón in Barcelona and the NH Plaza de Armas in Seville, totalling 5.4 million euros.

All the other additions in these two years consist of capital expenditures at different hotels for amounts of less than 2.5 million euros.

The most significant additions in 2007 were the renovation of the hotel NH Frankfurt Airport (2.5 million euros), the extension and renovation of the NH Stuttgart Airport (3.8 million euros) and the opening of the NH Berlin Kufürstendam (2.5 million euros) in Germany and the renovation of the NH Krasnapolsky (3 million euros) in Amsterdam, in the Netherlands. In Spain the largest additions were for the renovation of the hotel NH Plaza de Armas (3.1 million euros) in Seville, the NH Eurobuilding (3.9 million euros) in Madrid, the NH Calderón (3 million euros), the opening of the NH Constanza (5.8 million euros) both in Barcelona y the opening of new restaurants in the Fast Good chain (9 million euros).

- ii) The main retirements in 2008 were essentially the sale of the hotels NH Alcalá, NH Luz de Huelva and NH Santander, all in Spain, with a net book value of 16 million euros, which generated a net profit of 27.5 million euros, the sale of the hotel NH Central Station in the Netherlands, with a net book value of 1.89 million euros, which generated a net profit of 20.1 million euros and the writing off of fully depreciated assets in the hotels NH Mexico City and Hotel Hilton Aeropuerto in Mexico, totalling 2.57 million euros.

The most significant retirements in 2007 were for the most part for technical plant and/or furniture of the hotels NH Zuid Limburg, totalling 3.3 million euros, in the Netherlands, and the writing off of some fully depreciated fixed assets at the hotel NH Stephanie (7.95 million euros).

- iii) In 2008, the Group analysed whether certain tangible assets that had become impaired in prior years, located in Germany, Belgium, the Netherlands, Mexico and South Africa could be recovered. It ascertained that the impairment loss in these assets was permanent and therefore wrote off their cost and the 32.93 million euro provision set up.

As at 31 December 2008, there were tangible fixed assets acquired under finance leases totalling 209 thousand euros in cost and 52 thousand euros in accumulated depreciation (272 thousand euros in cost and 66 thousand euros in accumulated depreciation in 2007).

Set out below is an analysis, as at 31 December 2008 and 2007, of the tangible fixed assets of the Group where an impairment of value has been detected:

Country	Thousand euros			
	Book value	Fair value	Provision 2008	Provision 2007
Germany	6,231	-	(6,231)	(10,044)
Belgium	-	-	-	(3,852)
Brazil	-	-	-	(3,454)
Spain	39,111	8,800	(30,311)	(13,144)
Netherlands	-	-	-	(14,924)
Italy	63,334	37,343	(25,991)	(22,469)
Mexico	-	-	-	(4,247)
South Africa	-	-	-	(2,093)
Uruguay	6,555	3,146	(3,409)	(4,186)
Total	115,231	49,289	(65,942)	(78,413)

The Group has signed insurance policies to cover against the exposure to risk of its different tangible fixed assets, as well as against any claims that may be filed against it for carrying on its business. These policies are deemed to provide sufficient cover for the risk exposure of these assets.

9. Property investments

Set out below is an analysis and the movements on the different intangible asset accounts in 2008 and 2007 (in thousand euros):

	Balance as at 31.12.06	Transfers	Balance as at 31.12.07	Additions	Balance as at 31.12.08
COST					
Structures	-	7,203	7,203	792	7,995
	-	7,203	7,203	792	7,995
AMORTIZATION ACCUMULATED					
Structures	-	(1,720)	(1,720)	(292)	(2,012)
	-	(1,720)	(1,720)	(292)	(2,012)
NET BOOK VALUE			5,483		5,983

Set out below are the most significant investments recorded under this caption on the consolidated balance sheet:

- Premises D.02 Sotogrande Pleasure Harbour
- Premises E.07 Sotogrande Pleasure Harbour
- Finca Hípica Valderrama
- Restaurante Valderrama
- International School

The Company's investment property relates mainly to properties destined for operations under lease. Set out below is an analysis of the distribution of these investments:

	Square Metres
Offices	219
Restaurants	416
Sports Centre	11,215
Educational Centre	5,445
	17,295

The fair value of the Group's investments as at 31 December 2008, calculated on the basis of assessments made by independent third parties, totalled 21,041 thousand euros, approximately.

In 2008 and 2007, income from earnings on the investment property owned by the Group totalled 443 thousand euros and 432 thousand euros, respectively. And, direct operating expenses for investment property totalled 16 thousand euros and 78 thousand euros, respectively.

At the end of 2008 and 2007, there were no restrictions on making further property investments nor on the collection of income on such property, or in connection with any funds received as a result of any disposal.

The Group has signed insurance policies to cover against the exposure to risk of its different investment properties, as well as against any claims that may be filed against it for carrying on its business. These policies are deemed to provide sufficient cover for the risk exposure of these assets.

10. Companies consolidated using the equity method

Set out below is an analysis as at 31 December 2008 and 2007 of the holdings in companies consolidated using the equity method (in thousand euros):

	Net balance as at 31.12.06	Additions	Retirements	Profit/(loss) 2007	Translation difference	Net balance as at 31.12.07	Additions	Retirements	Transfers	Profit/(loss) 2008	Translation difference	Net balance as at 31.12.08
Desarrollos Isla Poniente, S.L. (*)	-	30,252	-	-	-	30,252	6	-	-	(202)	(788)	29,268
Desarrollos Isla Blanca, S.L. (*)	-	19,532	-	-	(216)	19,316	-	-	-	-	(1,125)	18,191
Capredo Investments GmbH (*)	-	-	-	-	-	-	17	-	15,052	(1,263)	794	14,600
Promociones Marina Morelos, S.A. de C.V.	4,803	2,232	-	-	-	7,035	3,258	-	-	-	(2,856)	7,437
Losan Investment, Ltd.	2,192	-	-	(37)	-	2,155	1,125	-	-	(767)	(833)	1,680
Inmobiliaria 3 Puente, S.A. de C.V. (*)	-	1,836	-	(2)	(29)	1,805	-	(108)	-	79	(295)	1,481
Palacio de la Merced, S.A.	1,115	-	-	62	-	1,177	-	-	-	(69)	-	1,108
Mil Novecientos Doce, S.A. de C.V. (*)	-	-	-	-	-	-	-	-	1,026	(67)	(165)	794
Consortio Grupo Hotelero T2, S.A. de C.V. (*)	-	-	-	-	-	-	76	-	-	(1)	(17)	58
Fonfir1, S.L.	20	-	-	-	-	20	-	-	-	-	-	20
Caribe Puerto Morelos, S.A. de C.V.	29,044	-	(29,044)	-	-	-	-	-	-	-	-	-
Corporación Hotelera Dominicana, S.A. (*)	15,493	127	-	(760)	(1,593)	13,267	-	-	(13,267)	-	-	-
Corporación Hotelera Oriental, S.A. (*)	1,905	100	-	(7)	(213)	1,785	-	-	(1,785)	-	-	-
Harrington Hall Hotel, Ltd.	1,365	-	-	(1,735)	370	-	-	-	-	-	-	-
Jolly Hotels, S.p.A.	35,496	-	(35,496)	-	-	-	-	-	-	-	-	-
	91,433	54,079	(64,540)	(2,479)	(1,681)	76,812	4,482	(108)	1,026	(2,290)	(5,285)	74,637

(*) See Note 2.5.6

The most important financial information concerning the main holdings in joint ventures is set out in Appendix III to these notes to the consolidated accounts.

11. Non-current financial assets

11.1 LOANS AND RECEIVABLES NOT HELD FOR TRADING

Set out below is an analysis of other long-term debtors into 31 December 2008 and 2007 (in thousand euros):

	2008	2007
Subordinate loans to companies that own hotels operated by the Group under lease (*)	78,317	66,674
Loans to staff (Note 27)	14,320	14,320
Loans to joint ventures (Note 27) (*)	11,228	10,400
Advance lease payments	7,039	10,254
Accounts receivable from joint ventures (Note 27)	4,469	4,469
Loan to associated companies (Note 27) (*)	2,250	2,250
Long-term deposits and guarantee deposits	9,440	14,270
Other	18,254	9,888
	145,317	132,525

(*) See list of these loans below

Set out below is an analysis of the different loans granted, together with the interest rate set:

Balance as at 31/12/2008	Due Date						Average Interest Rate
	2009	2010	2011	2012	2013	Remainder	
91,795	-	10,187	1,041	-	-	80,567	3% -7.43%

The line "Subordinate loans to companies that own hotels operated by the Group under lease" records a series of loans granted by the NH Hoteles Group to companies owning hotel buildings in Germany, Austria, Luxembourg, the Netherlands and Spain, which are operated by the Group under lease agreements. The total figure of 78.32 million euros recorded as at 31 December 2008 is for subordinate loans granted to hotel owners.

These operations, aimed to begin with to refinance rents, are now being used to grow the Group. Set out below are the main characteristics of these agreements:

- The rent of the hotels shall not be pegged to inflation or to any other index.
- These subordinate loans shall earn interest at a fixed annual rate of 3% (2.09 million euros for 2008 and 1.9 million euros the year before).
- The new rent agreements provide for a right to purchase the buildings leased under the contracts, which may be taken up, as a general rule, in the tenth and fifteenth periods as from when they come into force.
- The model of these rental agreements has been analysed taking them to be operating leases, by well-known, independent experts.

In the event that the current market value of the assets covered by the options were to remain in line with their historical cost, and that the financial options could have been taken up at the end of 2008, the Group thinks that there is likely to be a positive difference between the two figures.

The line "Advance lease payments" record advances paid to the owners of certain hotels that are operated under leases so that said owners could buy decoration items and furniture. They are discounted from future lease payments.

11.2 OTHER NON-CURRENT FINANCIAL ASSETS

Set out below is an analysis of this caption as at 31 December 2008 and 2007 (in thousand euros):

	2008	2007
Holdings stated at cost	10,831	4,861
Traded financial assets (Note 19)	-	3,425
	10,831	8,286

11.2.1 Holdings stated at cost

Set out below is an analysis of "Holdings in companies stated at cost" (in thousand euros):

Company	Domcile	31.12.08	31.12.07
Hotelera del Mar, S.A.	Argentina	3,847	-
Varallo Comercial, S.A.	Domin. Rep.	2,958	2,212
NH Panamá, S.A.	Panama	2,692	-
Mil Novecientos Doce, S.A. de C.V. (*)	Mexico	-	1,026
Other capital expenditures		1,614	1,903
Otras Provisions		(280)	(280)
		10,831	4,861

(*) See Notes 2.5.6 and 10

In August 2008, the Group company Latina de Gestión Hotelera, S.A. bought 300 shares representing 20% of the company Hotelera del Mar, S.A. This company will operate a hotel under a concession agreement in the City of Mar del Plata (Argentina).

In September 2008, the company NH Panamá was acquired. This company is the owner of a hotel project in Panama.

These companies were not consolidated as at 31 December 2008 because as at said date they were dormant.

12. Inventories

Set out below is an analysis of inventories into 31 December 2008 and 2007 (in thousand euros):

	2008	2007
Developed land	45,315	39,152
Undeveloped land	10,917	10,734
Construction work in progress	-	29,696
Finished construction work	61,829	27,680
Auxiliary material and other	10,498	11,051
	128,559	118,313

The Group currently owns approximately 1,737,000 square metres of land. The planning status of this land is governed by the General Urban Zoning Plan of San Roque, approved by the Provincial Town Planning Committee of Cadiz on 2 November 1987, which classifies the land owned by the Group mostly as programmed land that qualifies for development. The average cost of the developed land is 20 euros per square metre and 14 euros per square metre for the undeveloped land, as at 31 December 2008. The Group also has assessments carried out by independent third parties according to which the market value of this land is higher than its book value.

13. Trade receivables

This caption records different accounts receivable as a result of the Group's activities. Set out below is an analysis of "Trade receivables" as at 31 December (in thousand euros):

	2008	2007
Trade receivable for services provided	134,324	172,068
Trade receivable for sales of property products	7,978	9,319
	142,302	181,387
Less, provision for bad debts	(14,304)	(16,415)
	127,998	164,972

As a general rule, these accounts receivable earn no interest, and fall due within 90 days. There are no restrictions on how they may be used.

Movements of the provision for bad debts during the years ended on 31 December 2008 and 2007 are as follows (in thousand euros):

	2008	2007
Balance as at 1 January	16,415	10,874
Translation differences	(24)	68
Newly consolidated companies	38	2,328
Provisions	2,114	3,463
Applications	(4,239)	(318)
Balance as at 31 December	14,304	16,415

Set out below is an analysis of the age of the financial assets overdue but not deemed to have been impaired as at 31 December 2008:

	Thousand euros
Less than 30 days	47,081
31 - 60 days	24,122
More than 61 days	18,155
	89,358

14. Current financial assets

14.1 HELD-TO-MATURITY FINANCIAL ASSETS

This caption on the accompanying consolidated balance sheet as at 31 December 2008 and 2007, is made up of the following accounts (in thousand euros):

	2008	2007
Fixed-income securities	7,381	16,054
	7,381	16,054

As at 31 December 2008 and 2007, fixed-income financial assets all mature in less than one year and earn an average market rate of interest.

14.2 HELD-FOR-TRADING FINANCIAL ASSETS

This caption on the accompanying consolidated balance sheet as at 31 December 2008 and 2007, is made up of the following accounts (in thousand euros):

	2008	2007
Equities	132	133
Interest rate swap (see Note 19)	-	277
Provision for decline in value of equities	(65)	(73)
	67	337

15. Cash, banks and other cash equivalents

This caption includes mainly the Group's cash and bank accounts, as well as bank loans and deposits that initially expire within no more than three months. The average interest rate earned by the Group on the balances of its cash, banks and other cash equivalents during 2008 and 2007 was a floating rate benchmarked to Euribor. These assets are recorded at their fair value.

There are no restrictions on the use of cash.

16. Equity

16.1 SHARE CAPITAL

As at 31 December 2008 and 2007, the Controlling Company's share capital was represented by 147,970,458 fully subscribed and paid-in bearer shares, each with a par value of 2 euros.

All the shares have equal voting and financial rights and are listed on the Continuous Market in Madrid.

According to the latest notifications the Controlling Company has received, and to the notifications made to the Spanish Securities Exchange Commission before the year end, the most significant shareholdings were as follows as at 31 December:

	2008	2007
Grupo Inversor Hesperia, S.A.	25.09%	25.09%
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%
Gss III Hurricane B.V.	6.57%	-
Caja de Ahorros de Valencia, Castellón y Alicante	5.66%	5.66%
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián	5.09%	5.09%
Pontegadea Inversiones, S.L.	5.07%	5.07%
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	5.04%	5.04%
Hoteles Participados, S.L.	5.05%	5.05%
Intesa Sanpaolo, SpA	5.00%	4.54%
Longleaf Partners International Fund	4.99%	-
Shares to be used in Remuneration Plans plus Management Team's holding	4.27%	4.60%

At the end of 2008 and 2007, the different members of the Board of Directors held or were the stable representatives of shareholdings representing approximately 31.95% and 37.91% of the share capital, respectively.

The main objectives for managing the capital of the NH Hoteles Group is to ensure short-term and long-term financial stability, that the shares of NH Hoteles, S.A. perform well and there are sufficient funds for the investments, maintaining its level of borrowing. All this is aimed at ensuring that the NH Hoteles Group remains financially strong and its financial ratios are sound, so that it supports its businesses and maximises value for its shareholders.

During 2008, the strategy of the NH Hoteles Group is the same as for the previous year. It has kept its financial leverage ratio at 0.95 x lower than the 1x ratio that the Group has always kept as its target. Set out below are the leverage ratios as at 31 December 2008 and 2007:

	Thousand euros	
	2008	2007
Bank loans and overdrafts (*) (Note 17)	1,201,014	1,165,133
Derivative liability instruments (Note 19)	51,735	6,619
Gross debt	1,252,749	1,171,752
Derivative asset instruments (Note 19)	-	3,702
Held-to-maturity investments (Note 14.1)	7,381	16,054
Traded financial assets (Note 14)	67	60
Cash, banks and other cash equivalents (Note 15)	17,032	61,699
Cash assets	24,480	81,515
Total Net Debt	1,228,269	1,090,237
Total Equity	1,291,102	1,339,810
Financial leverage	0.95	0.81

(*) Short-term and long-term bank loans and overdrafts not including the cost of formalising debts and unmatured accrued interest.

16.2 RESERVES OF THE PARENT

i) Legal reserve

The current Spanish Companies Act stipulates that 10% of the net profits of the year must be appropriated to the Legal reserve until it attains at least 20% of 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. Except for this purpose, and whenever its balance does not exceed 20% of share capital, this reserve may only be used to offset losses whenever there are no other reserves available.

ii) Share premium

The current Spanish Companies Act expressly allows the balance of this reserve to be used for increasing capital and lays down no restrictions whatsoever on how it may be used.

iii) Other reserves not available for distribution

Until such time as goodwill (not including goodwill on consolidation) recorded in the individual Annual Accounts of the companies that are included in the scope of consolidation of the NH Hoteles Group have been written off, no dividends may be distributed, unless the amount of reserves available for distribution is at least equal to the unamortised balances.

Reserves totalling 38,027 thousand euros as at 31 December 2008 (14,696 thousand euros as at 31 December 2007) may not be distributed, because they correspond to the reserve for own shares held that the Controlling Company is required to set up in its individual annual accounts, in accordance with current commercial law.

Finally, reserves totalling 28,877 thousand euros may not be distributed, as a result of the acquisition of Grupo AHORA, S.L. by the NH Hoteles Group in 2003.

iv) Dividends

The General Meeting of Shareholders held on 27 May 2008 approved the payment of a gross dividend charged against voluntary reserves of 0.26 euros per share, which involved paying out a total dividend of 38.47 million euros.

16.3 RESERVES OF SUBSIDIARIES

Set out below is an analysis for each company of the balances of this account in the consolidated balance sheets - after taking into account the effect of the consolidation adjustments - and the differences on exchange recognised in net equity as a result of the consolidation process:

	Thousand euros			
	2008		2007	
Fully and proportionately consolidated companies	Reserves	Translation differences	Reserves	Translation differences
NH Participaties, N.V. and subsidiaries	211,896	(916)	223,674	(360)
Sotogrande, S.A. and subsidiaries	78,644	-	75,635	-
Latinoamericana de Gestión Hotelera, S.A. and subsidiaries	48,796	(43,742)	20,913	(20,819)
NH Italia, S.r.l. and subsidiaries	22,601	(4,688)	6,851	(1,813)
NH Private Equity, B.V. and subsidiaries	73	-	73	-
NH Central Europe GmbH & Co. KG, and subsidiaries	(67,455)	66	(57,004)	(1)
Caribe Puerto Morelos, S.A. de C.V.	5,266	(1,138)	-	(3,401)
Other foreign hotel companies	(1,253)	1,771	(647)	547
Other Spanish hotel companies	75,478	-	37,518	-
Subtotal	374,046	(48,647)	307,013	(25,847)
Consolidated using the equity method				
Palacio de la Merced, S.A.	(358)	-	(419)	-
Fonfir, S.L.	(4)	-	(4)	-
Harrington Hall Hotel, Ltd.	(1,629)	369	107	85
Losan Investment, Ltd.	32	(3,689)	-	-
Capredo Investment GmbH	(773)	(4,109)	(6)	(3,794)
Inmobiliaria 3 Puente SA de CV	(2)	-	-	-
Subtotal	(2,734)	(7,429)	(322)	(3,709)
TOTAL	371,312	(56,076)	306,691	(29,556)

16.4 VALUATION ADJUSTMENTS

Cash-flow covers

This caption on the consolidated balance sheet records the net amount of the changes in value of the financial derivatives designated as cash-flow hedging instruments (see note 4.6.3).

Set out below is the movement in the balance of this caption during 2008 and 2007:

	Thousand euros	
	2008	2007
Opening Balance	420	2,100
Additions	(6,648)	419
Retirements	(68)	(2,099)
Closing balance	(6,296)	420

During 2008 the 45 thousand euro reserve for adjustments to equity for the valuation relating to the Remuneration Plan linked to the share's listed price has expired, at the same time as the last period for exercising said Plan (see Note 20).

During 2008, an interest-rate derivative expired, cancelling out 23 thousand euros of the reserve for adjustments to equity for the valuation.

The negative reserve for adjustments to equity for the valuation of interest rate derivatives in force as at 31 December 2008, totalling 6,296 thousand euros, shall take place between 2009 and 2013 as and when the loan agreement being hedged reach their expiry dates (see Note 20).

16.5 TREASURY SHARES

At the year end, the Group held 3,066,496 shares in NH Hoteles, S.A., (1,462,864 at the end of 2007) representing 2.07% of the share capital, at a cost of 38,027 thousand euros (22,809 thousand euros at the end of 2007).

16.6 MINORITY INTERESTS

Set out below is an analysis, by companies, of the balance of the caption "Minority Interests" on the consolidated balance sheets as at 31 December 2008 and 2007 and the share of outside shareholders in profit and loss for 2008 and 2007: 2008 y 2007 y el resultado correspondiente a los socios externos en los ejercicios 2008 y 2007 se presenta a continuación:

Company	Thousand euros			
	2008		2007	
	Minority interests	Profit/(loss) Attributed to Minority interests	Minority interests	Profit/(loss) Attributed to Minority interests
NH Italia, S.p.A. and subsidiaries	187,183	(20,077)	170,608	19,723
Latinoamericana de Gestión Hotelera, S.A. and subsidiaries	14,461	385	15,205	1,053
Sotogrande, S.A. and subsidiaries	11,009	(246)	11,993	143
NH Participaties N.V. and subsidiaries	3,176	334	3,201	374
Other Spanish hotel companies	17,869	(2,138)	13,727	771
	233,698	(21,742)	214,734	22,064

Set out below is a summary of the movement in this caption during 2008 and 2007:

	Thousand euros	
	2008	2007
Opening Balance	214,734	176,678
Capital increases	59,850	-
External shareholders' share in profit/(loss) for the year	(21,742)	22,064
Changes in the scope of consolidation	7,065	121,662
Changes in holding percentages	(20,794)	(102,963)
Dividends paid to minority shareholders	(1,100)	(992)
Cash-flow covers	(118)	-
Other movements	(172)	-
Translation differences	(4,025)	(1,715)
Closing balance	233,698	214,734

The line "Changes in the scope of consolidation" essentially recorded in 2008 the acquisition of 3.14% of Jolly Hotels, SpA, after the squeeze-out had been successfully completed. In 2008 and 2007, the balances of certain companies which were included for the first time in the scope of consolidation of the Group in those years (see note 2.5.6).

The line "Capital increases" records the minority interest (42.75%) that Intesa Sanpaolo, SpA. has in the 140 million euro capital increase subscribed to in NH Italia, S.r.l. on 13 October 2008.

The line "Change in percentages of holdings" basically records, in 2007, the acquisition of 22.39% of Jolly Hotels, SpA.

17. Bank borrowings

	Limit	Available for drawdown	Drawdown	2008	2009	2010	2011	2012	2013	Remainder
Mortgage loans	248,690	3,345	245,345	-	62,262	35,718	42,891	25,722	36,905	41,847
Fixed interest	4,576	-	4,576	-	71	345	350	354	358	3,099
Variable Interest	244,114	3,345	240,769	-	62,191	35,373	42,541	25,368	36,547	38,748
Loans secured by collateral	762,804	-	762,804	-	62,539	68,424	171,801	457,034	2,004	1,002
Fixed interest	169	-	169	-	169	-	-	-	-	-
Variable Interest	762,635	-	762,635	-	62,370	68,424	171,801	457,034	2,004	1,002
Subordinate loans	75,000	-	75,000	-	-	-	-	-	-	75,000
Variable Interest	75,000	-	75,000	-	-	-	-	-	-	75,000
Credit lines	543,171	425,305	117,865	-	59,919	39,540	18,406	-	-	-
Variable Interest	543,171	425,305	117,865	-	59,919	39,540	18,406	-	-	-
Interest debt	-	-	7,845	-	7,845	-	-	-	-	-
Formalisation expenses	-	-	(9,431)	-	(1,317)	(1,520)	(1,520)	(1,520)	(1,520)	(2,034)
Debt situation as at 31.12.08	1,629,665	428,650	1,199,428	-	191,248	142,162	231,578	481,236	37,389	115,815
Debt situation as at 31.12.07	1,619,528	457,677	1,155,759	245,453	80,597	237,812	169,036	281,686	38,984	102,191

Set out below is an analysis of syndicated and unsyndicated mortgage loans (in thousand euros):

Country	Asset mortgaged	Balance as at 31/12/08			Net book value of the asset mortgaged
		Fixed interest	Variable interest	Total	
Spain	NH Calderón	-	11,747	11,747	40,345
	Local Comercial Hotel NH Eurobuilding	-	15	15	970
	NH Lagasca	-	12,760	12,760	18,806
	NH Ppe. De la Paz	-	6,724	6,724	10,714
	NH Alanda	-	10,885	10,885	26,026
	NH Sotogrande	-	7,986	7,986	12,364
	Promoción Las Cimas 2 -Sotogrande	-	4,886	4,886	13,021
Total Spain		-	55,003	55,003	122,246
Mexico	Grupo Hotelero Queretaro	-	1,481	1,481	3,063
	Santa Fe Proyect	-	6,154	6,154	9,788
Total Mexico		-	7,635	7,635	12,851
Netherlands	NH Groningen	-	4,149	4,149	6,100
Total Netherlands		-	4,149	4,149	6,100
Switzerland	NH Fribourg Hotel	4,576	-	4,576	7,909
Total Suiza		4,576	-	4,576	7,909
Italy	Donnafugata	-	12,849	12,849	24,589
	Villa de San Mauro	-	4,500	4,500	7,371
	Proyecto Hotel Quattro Canti	-	715	715	2,492
	Roma Vittorio Veneto	-	22,473	22,473	92,391
	Ischia	-	22,750	22,750	39,737
	Torino Ligure	-	6,000	6,000	22,982
	La Spezia	-	2,778	2,778	18,490
	Fierenze	-	5,000	5,000	40,195
	Catania	-	9,167	9,167	14,550
	Trieste	-	7,333	7,333	22,266
	Torino Ambasciatori	-	8,125	8,125	16,078
	Milanofiori y centro conv.	-	21,600	21,600	50,160
	Genova	-	8,339	8,339	29,094
	Carlton Amsterdam	-	6,875	6,875	15,659
	Madison Tower	-	4,880	4,880	17,838
	Lotti Parigi	-	3,420	3,420	28,170
	ST Ermin's	-	27,178	27,178	75,904
Total Italy		-	173,982	173,982	517,966
Total		4,576	240,769	245,345	667,072

The line "Loans secured by floating interest collateral security" records the following loans:

- A syndicated loan granted to NH Finance, S.A. by 34 European banks on 2 August 2007, for 650 million euros. The balance outstanding as at 31 December 2007 totalled 285 million euros, which were drawn down by the Group on 2 January 2008 to finance its structural debt and cover current debts.

This loan expires on 2 August 2012 and pays annual interest at Euribor plus a spread that varies between 0.60% and 0.70% depending on the Net financial debt/EBITDA ratio". This loan shall be repaid in six-monthly instalments. The first repayment shall be made in August 2010 and shall be for 32.5 million euros; the next payment shall be made in 2011 and shall be for 65 million euros. The remaining three payments for the equivalent of 15%, 30% and 40% shall be made the following year until it finally expires.

This loan requires that certain financial ratios be complied with. As at 31 December 2008, none of these are in a position that is likely to trigger off a declaration of early termination by the lending entities.

- A syndicated loan through Banco Bilbao Vizcaya Argentaria granted to NH Hoteles, S.A. for a maximum of 42.07 million euros, to be used to finance the acquisition in 1997, via a Takeover Bid, of Promociones Eurobuilding, S.A. (a company that was absorbed in 2002 by NH Hoteles, S.A.). As at 31 December 2008, 17 million euros were still outstanding. The interest on this loan is charged at a rate equal to Euribor plus a spread and the loan will be repaid gradually starting in 2001 and ending in 2011.
- A 40 million dollar loan granted by Caja Madrid, to finance the operations that are currently taken place in the Caribbean. It earns interest at Libor plus a spread. It began to be repaid in May 2008 and will be fully repaid in May 2010. The balance as at 31 December 2008 the balance was 26.6 million dollars (19.56 million euros).
- A 10 million euro loan granted to the company Jolly Hotels, S.p.A. (now Grande Jolly, SpA.) by Banca Popolare de Vicenza which pays interest at a Euribor linked rate and expires in June 2014.

Furthermore, the line "Subordinate loans" includes two loans for 75 euros that had been drawn down in full as at 31 December 2008. These loans pay interest at Euribor plus a spread of 1.70%. They are for a 30-year term and are to be repaid as a lump sum when they expire.

Set out below are the average interest rates for financing the Group during 2008 and 2007:

	2008	2007
Mortgage loans		
Fixed interest	3.98%	3.52%
Variable interest	Euribor +0.92	Euribor +1.15
Loans secured by collateral		
Fixed interest	3.62%	4.39%
Variable interest	Euribor +0.73	Euribor +0.70
Subordinated variable interest loan	Euribor +1.70	Euribor +1.70
Credit lines	Euribor +0.70	Euribor +0.30

18. Other non-current liabilities

Set out below is an analysis of the caption "Other long-term liabilities" on the accompanying consolidated balance sheets as at 31 December 2008 and 2007 (in thousand euros):

	Thousand euros	
	2008	2007
Purchase and put options on the Jolly Hotels operation	87,393	87,393
Systems of remuneration linked to the listed price of the share 2007-2013 (Note 20)	36,611	4,794
Purchase and put option for the Framon operation	21,996	21,784
Interest rate financial derivatives (Note 19)	15,124	765
Capital grants	14,335	15,424
Residencial Marlin, S.L. (Note 27)	10,188	9,000
Right of beneficial use of Hotel Plaza de Armas (Note 7.1)	7,475	8,970
Loans to shareholders	1,786	-
Los Alcornosques de Sotogrande, S.L. (Note 27)	1,040	1,400
Other liabilities	7,147	289
	203,097	149,819

The caption "Purchase and put options for the Jolly Hotels operation" records the liability for a call option held by NH Italia, S.r.l. and put option held by Joker Partecipazioni, S.r.l. (hereinafter referred to as Joker), which were signed for as part of the operation in which Jolly Hotels, S.p.A. (hereinafter referred to as Jolly) was taken over so as to agree on the gradual transfer of its holding in Jolly Hotels, S.p.A. to the NH Hoteles Group (see Note 10.1). As at 31 December 2008 and 2007, the put option held by Joker and the call option held by NH Italia, S.r.l. are in force, whereby Joker will transfer its 42% holding in Grande Jolly, S.r.l. to NH Italia, S.r.l. The put option, for 87,393 thousand euros, may be taken up between 1 June 2007 and 31 December 2010. The call option held by NH Italia, S.r.l. may be taken up during the six months after the end of the period for taking up the put option.

The caption "Call and put option for the Framon operation" recorded, as at 31 December 2007, the liability for the contract for the call option held by NH Italia, S.r.l. and the put option held by Tourist Ferry Boat, S.r.l. (hereinafter referred to as TFB), the company that previously owned the Framon hotel chain, for the 25% holding it held in the joint venture set up by the two companies, NH-Framon Italy Hotel Management, S.r.l. On 13 May 2008, this option was taken up for 14,996 thousand euros, which were paid in equity instruments, by means of a capital increase for said amount in NH Italia, S.r.l. which was fully subscribed by TFB. (See Note 2.5.6).

As part of the agreement signed between NH Italia, S.r.l. and TFB on 13 May 2008, a new cross option has been set up with a call option held by NH Italia and a sale option held by TFB for 5% of NH Italia, S.r.l. This option was originally recorded at 14,996 thousand euros, the market value assessed by an independent third party at the time the option was taken up. Later its value was increased by a further 7,000 thousand euros, as a result of the proportional imputation of the 5% of the 140 million euro capital increase subscribed to in NH Italia on 13 October 2008. Therefore, at the end of 2008, the value of the aforementioned option stood at 21,996 thousand euros.

The line "Capital grants" basically records, as at 31 December 2008, a total of 14.34 million euros for the grants received to build the hotels and golf courses of Sotogrande, S.A. for 2.96 million euros (4.43 million euros as at 31 December 2007) and the capital grants received for the projects under way which are listed below:

	Thousand euros	
	2008	2007
Donnafugata	6,200	6,200
Baglio Oneto	2,081	2,081
Parco Degli Aragonesi	2,707	2,707
Other grants	390	-
	11,378	10,988

As at 31 December 2008, the Administrators of the Controlling Company considered that all the requirements relating to these grants had been met. They therefore regard them as non-refundable.

The figures recorded in the lines "Residencial Marlin, S.L." and "Los Alcornos de Sotogrande, S.L." are for the proportional part (50%) of the participating loans granted to these companies by the minority shareholder of Sotogrande, S.A. (50% in these companies), which expire on 31 December 2009 and 25 December 2009, respectively (see Note 10.1). The interest rate for these participating loans is Euribor, which is increased when the profits of each of these companies exceed certain set amounts. As at 31 December 2008, the Administrators of Sotogrande, S.A. intended to extend the terms of the loans to Residencial Marlin and Los Alcornos de Sotogrande when they expire.

The line "Loans to partners" basically records the 1.24 million euro loan granted to the owner of the hotel NH Lancaster, which expires in March 2012. Interest accrues on this loan at an annual rate of 12%. It is being repaid in six-monthly instalments

19. Derivative financial instruments

Set out below is an analysis of financial derivatives on the consolidated balance sheet as at 31 December 2008 and 2007:

Description	Thousand euros		
	Figure as at 31.12.08		Figure as at 31.12.07
	Financial	Financial Assets	Financial liabilities
Interest-rate derivatives (Note 18)	15,124	1,362	1,310
Exchange-rate derivatives	-	-	515
Systems of remuneration linked to the listed price of the share 2003-2008	-	2,340	-
Systems of remuneration linked to the listed price of the share 2007-2013 (Notes 18 and 20)	36,611	-	4,794
Total	51,735	3,702	6,619

19.1 INTEREST-RATE DERIVATIVES

Set out below are the financial derivatives and their fair values as at 31 December 2008 and 2007, and the date of expiry of the notionals they are linked to. This information is given (in thousand euros) separating the derivatives that are deemed to be accounting hedge (in accordance with the requirements laid down in IAS 39) from the derivatives regarded as not efficient.

Subsidiary Company	Instrument	Fair value	Fair value		Nominal outstanding			31.12.2011 and later
		31.12.08 Liabilities	31.12.07 Assets	31.12.07 Liabilities	31.12.2008	31.12.2009	31.12.2010	
Efficient hedges								
NH Finance	Collar	(7,486)	1,055	-	360,000	360,000	342,000	324,000
NH Hoteles	Collar	(33)	8	-	2,400	2,400	-	-
Donnafugata	IRS	(239)	-	-	14,750	14,750	14,273	13,287
NH Hoteles	IRS	-	22	-	-	-	-	-
Total efficient hedges		(7,758)	1,085	-	377,150	377,150	356,273	337,287
Inefficient hedges								
NH Finance	Options	(6,016)	-	(765)	360,000	360,000	342,000	324,000
NH Hoteles	Accrual Swap	-	209	-	-	-	-	-
Krasnapolsky	Accrual Swap	-	-	(226)	-	-	-	-
Krasnapolsky	Collar	-	-	(7)	-	-	-	-
NH Hoteles	IRS	-	24	-	-	-	-	-
NH Hoteles	Options	-	14	-	-	-	-	-
Jolly Hotels UK	Collar	(1,350)	-	(311)	26,262	22,168	21,118	-
Jolly Hotels	Accrual Swap	-	30	-	-	-	-	-
Jolly Hotels	Collar	-	-	(1)	-	-	-	-
Total inefficient hedges		(7,366)	277	(1,310)	386,262	382,168	363,118	324,000
Total hedges		(15,124)	1,362	(1,310)	763,412	759,318	719,391	661,287

To set the fair value of the interest-rate swaps (IRS), options or Collars and other derivatives, the Group discounts cash flows based on the implicit flows determined by the curve of interest rates for the euro, according to market conditions on the date of valuation.

Efficient hedges

The Group hedges against interest rate exposure on part of the syndicated financing (through NH Finance, S.A.) and other financing of the Group at variable interest rates in euros using interest rate swaps (IRS) and collars. In IRS, the interest rates are swapped so that the Group receives a variable interest rate (3 month Euribor) from the bank, in return for paying a flat rate of interest on the same nominal. The variable interest rate received for the derivative offsets the payment of interest on the funding being hedged. The final outcome is that it pays a fixed rate of interest on the financing that has been hedged. Similarly, the collars set a cap and a floor for the Euribor on the financing. The collars used to hedge the syndicated financing, taken out in 2007, are for floors of 3.50% and caps of 4.50% for Euribor, and the collars contracted during the first half of 2008 have floors of between 2.65% and 3.30% and caps of 4.50% for Euribor.

The figure recognised in Equity for the effective part of the Cash Flow Hedging Relationships of the IRS and Collars net of tax, total minus 6,670 thousand euros as at 31 December 2008 (plus 375 thousand euros as at 31 December 2007) (see Note 15.2). The Company has designated the relevant Hedging Relationships as at 31 December 2008 and 2007, and they are fully effective. In these hedging relationships the exposure covered is the fluctuation in the variable Euribor rate for the financing being hedged.

Inefficient hedges

These are basically Knock-in options and Structured swaps for various different financing of the Group. The largest hedge is for the knock-in options contracted by NH Finance, S.A. for the syndicated financing, under which the Company undertakes to pay the bank an interest rate that varies depending on the contract between 3.2% and 4.2%, whenever Euribor hits a specific barrier set at between 2.65% and 3.50%, depending on the contract.

The change in the fair value of these interest rate derivatives has given rise to a loss that has been charged to profit and loss for 2008 of 6,155 thousand euros (226 thousand euros for 2007).

19.2 EXCHANGE-RATE DERIVATIVES

To calculate the fair value of the exchange-rate derivatives (Exchange Insurance or Forwards), the Group uses the spot rate of exchange for the euro and the rate curves for the euro and the currencies involved in the derivatives and, discounting flows, calculates the value of the derivatives contracted.

As at 31 December 2008, no exchange-rate derivative is in force. As at 31 December 2007 the Group had taken out, as part of its international expansion strategy, insurance to purchase USD (for 9,725 thousand dollars) expiring on 16 January 2008, in order to purchase dollars at a prearranged price.

The financial instrument referred to, which had a fair value, as at 31 December 2007, of (515) thousand euros, was not classified as accounting hedge in accordance with IAS 39 requirements, and had an adverse effect on last year's consolidated profit and loss account of 0.08 million euros as a result of changes in its fair value.

19.3 SENSITIVITY ANALYSIS OF THE FINANCIAL DERIVATIVES

Sensitivity analysis of interest rate

The changes in fair value of the interest rate derivatives contracted by the Group depend on the change in the long-term euro interest-rate curve. The fair value of these derivatives totalled minus 15,124 thousand euros as at 31 December 2008 (52 thousand euros as at 31 December 2007)

Set out below is the sensibility analysis of the fair values of the derivatives contracted by the Group as at the end of 2008 and 2007, in Equity ("accounting hedge") and in Profit and Loss "non-accounting hedge"):

Sensitivity	Thousand euros			
	Equity		Profit/(loss)	
	2008	2007	2008	2007
+0,5% (rise in the rate curve)	3,898	1,836	1,356	340
-0,5% (fall in the rate curve)	(4,301)	(1,505)	(992)	(549)

The sensitivity analysis shows that the interest rate derivatives designated as "accounting hedge" record increases in its positive value with regard to increases in the rate curve, because they are IRS or collars where the interest rate paid by the Group is fixed or capped and, therefore, the Group has hedged against rises in interest rates.

The sensitivity of the derivatives as at 31 December 2008 will affect Equity and the Profit and Loss Account, to the extent that market conditions can change.

Exchange-rate sensitivity analysis

Changes in the fair value of the exchange-rate derivate contracted by the Group as at 31 December 2007 depend for the most part on changes in the spot dollar-euro exchange rate, and on trends in short-term interest-rate curves. The fair value of this derivative, as at 31 December 2007, was minus 515 thousand euros.

Set out below is a sensitivity analysis of the fair value of the derivative taken out by the Group at the end of 2007 (in thousand euros):

Sensitivity in Profit and Loss	31.12.07
+10% (appreciation of the euro)	(599)
-10% (depreciation of the euro)	733

The fair value of the EUR/USD exchange rate derivative went down when the euro went up, and went up when the euro went down, as a result of which this meant that dollars were being bought at a fixed rate of exchange.

20. Share-based payment plans

As at 31 December 2008, the Group had a System of remuneration linked to the listed price of the share in force. This plan was approved in May 2007. During 2007 the previous System of remuneration linked to the listed price of the share was executed in its entirety (Plan 2003). Set out below is the movement in the number of rights granted under these Remuneration plans in 2008 and 2007:

	Plan 2003	Plan 2007
In force as at 31 December 2006	2,168,398	-
Options granted	-	3,582,804
Options taken up	(1,648,220)	-
In force as at 31 December 2007	520,178	3,582,804
Options granted	-	-
Options taken up	(520,178)	-
In force as at 31 December 2008	-	3,582,804

On 29 May 2007, the General Meeting of Shareholders announced and approved a new share options plan "Plan 2007" for certain top managers of the Group, divided up into two categories. When it matures (there are two tranches to be exercised), these top managers may receive financial compensation equal to any increase in the share price of the Controlling Company over the period over and above the strike price compared to the sale price that shall be the listed price of the shares for the 10 stock market sessions prior to the strike date.

Plan 2007 will enable the top managers covered by the plan to be paid an incentive linked to their remaining with the Group over the period 2007-2012, in the event that the share price of the Controlling Company goes up.

Set out below are the main characteristics of the Plan:

- Beneficiaries: Top managers of NH Hoteles, S.A. and its group of companies, designated by the Appointments and Remunerations Committee. As at 31 December 2008, 162 top managers of the Group were beneficiaries and had been allotted 3.582.804 options in all
- Maximum number that may be assigned: 3,790,000 options
- Strike price: 17.66 euros for group one consisting of 31 top managers and 15.27 euros for group two consisting of 131 top managers

A value is set for this Plan and it is recognised on the consolidated profit and loss account as indicated in Note 4.15. The impact of the Plan on the profit and loss account for 2008 was a reduction in personnel expenses of 588 thousand euros (an increase of 705 thousand euros in 2007) (See Note 20). Set out below are the main assumptions used for setting a value for this Plan granted in 2007:

- Length of time with the Group to qualify for the option: 5 years for the total. The Plan may be taken up by third parties on an annual basis as from 29 May 2010
- Risk-free rate: 4.17%
- Dividend return: 2.11%

In November 2007, the Group took out a financial swap contract to hedge against the possibility of equity loss that would result from this Incentive Plan linked to the share price being taken up. Set out below are the main characteristics of the contract:

- The number of shares is equal to maximum number of options granted: 3,790,000
- The Group shall pay the bank a yield based on Euribor plus a spread to be applied to the result of multiplying the number of units by the initial price
- The Group may rescind all or part of the contract early, in which case, if the share price is lower than the initial price, the Group shall pay the bank the difference. If the share price is higher than the original price, the Group shall be paid the difference between the two figures

In accordance with accounting rules, a provision of 31.8 million euros (4.8 million euros in 2007) has been set up to cover any loss that might be incurred by the counterparty financial institution as a result of a fall in the share price that is the object of the financial swap.

In 2003, the NH Group also granted its top managers a Remuneration plan linked to the share price with the following characteristics:

Year granted	Number of rights	Strike price	Strike period
2003	2,700,000	7.32	30/4/07 to 29/4/08

The Group signed a financial swap contract with a financial institution to hedge against any financial loss that might arise as a result of the options in this Plan being taken up. Plan 2003 did not provide under any circumstances for the shares to be handed over but only for a settlement in cash in the event that the share price were to rise above the strike price. When the options in the plan were taken up the financial institution had sold the shares and handed over the proceeds of the sale, less the strike price of the shares, to the Group. With regard to this contract, the Group paid the financial institution interest based on Euribor plus a spread, on the result of multiplying the number of units by the initial price. As at 31 December 2008, the Plan has been taken up in full and the financial swap contract that hedged it had been terminated.

Sensitivity analysis of the NH Hoteles share price

The changes in the fair value of the derivatives over the NH Hoteles share price contracted by the Group depend mainly on the change in the share price, and on the trend in the Euro interest rate curve and the estimates for dividends made by market agents. The net fair value of these derivatives is minus 36,611 thousand euros as at 31 December 2008 (minus 2,454 thousand euros as at 31 December 2007).

Set out below is an analysis of the sensitivity analysis of the fair values of the derivatives contracted by the Group:

Sensitivity in earnings (thousand euros)	31.12.08	31.12.2007
+10% (increase in the share price)	1,399	5,258
-10% (fall in the share price)	(1,399)	(5,258)

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

21. Provisions for contingencies and charges

Set out below is an analysis of the "Provisions for charges and liabilities" as at 31 December 2008 and 2007, together with the main movements recorded during said years (in thousand euros):

	Thousand euros					Balance as at 31/12/2007
	Balance as at 31/12/2006	Additions to scope	Provisions	Applications (Reductions)	Transfers	
Provisions for liabilities and non-current expenses:						
Onerous contracts	17,056	1,857	2,108	(500)	(3,801)	16,720
Provision for pensions and similar obligations	12,758	20,556	5,325	(11,469)	-	27,170
Provision for Remuneration Plan based on the share price (Note 10.2.2)	13,793	-	2,804	(13,598)	-	2,999
Other claims	6,673	3,821	7,947	(1,350)	(3,450)	13,641
	50,280	26,234	18,184	(26,917)	(7,251)	60,530
Provisions for current liabilities and expenses:						
Contracts for valuable consideration	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	27,753	18,184	(32,820)	-	69,049

	Thousand euros					Balance as at 31/12/2008
	Balance as at 31/12/2007	Additions to scope	Provisions	Applications (Reductions)	Transfers	
Provisions for liabilities and non-current expenses:						
Onerous contracts	16,720	-	2,571	-	(6,065)	13,226
Provision for pensions and similar obligations	27,170	-	203	(3,511)	-	23,862
Provision for Remuneration Plan based on the share price (Note 10.2.2)	2,999	-	-	(2,882)	-	117
Other claims	13,641	-	7,579	(11,032)	-	10,188
	60,530	-	10,353	(17,425)	(6,065)	47,393
Provisions for liabilities and current expenses:						
Contracts for valuable consideration	2,664	-	-	(2,425)	6,065	6,304
Other claims	5,855	-	388	(4,028)	-	2,215
	8,519	-	388	(6,453)	6,065	8,519
Total	69,049	-	10,741	(23,878)	-	55,912

Onerous contracts

The NH Hoteles Group has classified a series hotel lease agreements for which payments commitments have been entered into for between 2009 and 2028. Although these hotels' operations are profitable as far as gross operating profit (GOP) is concerned, they are loss-making at the level of Ebitda. Cancelling these contracts would involve paying all the rent outstanding for the years remaining in the lease.

Provision for pensions and similar obligations

The account "Provision for pensions and similar obligations" includes, mainly, the provision set up by the Group to cover the pension plans arranged with its staff, for an amount of 20,219 thousand euros (22,355 thousand euros as at 31 December 2007). This account includes the T.F.R. (Trattamento di fine rapporto), which is the amount paid to all workers in Italy when they leave a company's employ for whatever reason. It is an extra item of remuneration, the payment of which is deferred and which is provided for on an annual basis in line with the fixed and variable remuneration in cash and in kind and is evaluated on a regular basis. The amount to be provided for every year is equal to the annual remuneration divided by 13.5. The fund accumulated annually is restated at a fixed rate of 1.5% plus 75% of the increase in the RPI.

The method used to calculate the valuation of the obligations relating to this pension plan was the projected credit unit method.

Set out below are the main assumptions used when calculating the actuarial liability:

	2008	2007
Discount rates	5.75%	2.60%
Forecast annual rate of wage increases	2.50%	2.50%
Forecast return on the assets earmarked for the plan	4.75%-5.75%	4.24%

Other claims

The applications recorded in 2008 in the account "Other claims" essentially relate to the payment of the indemnity for the unilateral termination of a number of lease agreements for several premises located in the hotel Jolly Lotti in Paris, totalling 1.3 million euros, and for the payment for settling a number of disputes from prior years, totalling 1.6 million euros.

22. Tax matters

Set out below is an analysis of the debit balances with the Tax and Social Security Authorities as at 31 December 2008 and 2007:

	Thousand euros	
	2008	2007
Deferred tax assets		
Tax credits	6,098	290
Tax assets on asset impairment	26,109	28,212
Staff-related advance taxes	920	920
Financial derivatives	4,050	-
Other advance taxes	15,876	15,224
Total	53,053	44,646
Short-term tax and Social Security refundable		
Corporation Tax	4,273	5,269
Value Added Tax	26,971	15,618
Assumed Tax on Profits	1,773	300
Other Taxes Refundable	278	244
Total	33,295	21,431

The balances of "Deferred tax assets" basically record the advance taxes arising as a result of the loss impairment of certain assets and the capitalising of tax losses.

Set out below is the movement in advance taxes in 2008 and 2007:

	Thousand euros	
	2008	2007
Opening Balance	44,646	34,639
Additions for newly consolidated companies	-	12,336
Other additions	4,050	1,441
Tax credits	5,808	(1,417)
Advance taxes written off	(1,451)	(2,353)
Closing balance	53,053	44,646

The Group, in accordance with Section 12.5 of the Corporation Tax Act, is deducting the goodwill that arose when it acquired the Astron Group from tax. The amount written off for tax purposes this year totalled 8.9 million euros.

As in prior years a loss impairment of part of this goodwill had been charged and the related advance tax had not been created, this tax write-off has not led to any movement in timing differences.

As at 31 December 2008, the difference between the tax and the reported cost was 23.1 million euros, i.e. 6.9 million euros yet to be applied in the tax returns for the next three years.

Set out below is an analysis of the credit balances with the Tax and Social Security Authorities as at 31 December 2008 and 2007:

	Thousand euros	
	2008	2007
Deferred tax liabilities		
Revaluations of assets	258,358	274,742
Change in IETU Rules Mexico	-	1,237
Financial derivatives	-	400
Total	258,358	276,379
Short-term tax and Social Security accounts		
Value Added Tax	2,975	6,614
Personal Income Tax	7,828	8,324
Tax on Investment Income	479	475
Social security costs	9,210	8,815
Other	5,672	3,599
Total	26,164	27,827

The balance of the deferred taxes records basically the restatement of a number of the Group's assets.

Set out below is an analysis of movements in deferred tax liabilities during 2008:

	Thousand euros	
	2008	2007
Opening Balance	276,379	99,125
Application for reinvestment	-	(1,546)
Change for newly consolidated companies (See Note 2.5.6)	7,111	202,863
Retirement for change in tax rates	-	(20,523)
Other applications	(25,132)	(3,540)
Closing balance	258,358	276,379

In accordance with the Flat Rate Business Tax (IETU) Act passed in 2007 which came into force as from 1 January 2008, the Mexican dependent companies must calculate, as from this year, the amount of the tax on profits twice, on the one hand in accordance with the rules laid down in the Corporation Tax Act and on the other as defined in the Flat Rate Business Tax Act, and must pay the larger of the two amounts.

The new tax must be calculated at a rate of 17.5% (16.5% for 2008 and 17% for 2009) of earnings based on cash flows, which are the result of reducing total revenues on the activities for which the authorised deductions apply. On the other hand, this Act also approved the derogation of the Tax on Assets, a method of taxation used up to and including 2007, by several of the Mexican dependant companies.

As a result of the IETU's coming into force in 2008, the Group, applying the accounting treatments provided for in IAS 12, adjusted the balance of the caption "Deferred taxes on profits" under liabilities on the accompanying consolidated balance sheet as at 31 December 2007 by 1,237 thousand euros, and recorded a corporation tax expense on deferred profits for the same amount on the accompanying consolidated profit and loss account for 2007.

The retirement for changes in tax rates basically records the net effect of the change in the tax rate approved in Italy during 2007. This change, which came into force on 1 January 2008, meant a reduction in the rate of tax from 37.5% to 31.5%. It also records the change brought about by the tax reform of corporation tax in Spain, brought in by Law 35/2006. As a result of these reductions in the tax rates, the Group proceeded to standardise the rate of tax at which the deferred tax assets and liabilities are calculated, using the rate which, as at 31 December 2007, was expected to be applied in the period in which the asset is to be realised or the liability to be paid.

Corporation Tax expense

The companies that make up the NH Hoteles Group are grouped together geographically and file their tax returns, in accordance with the law in force in the corresponding countries.

Corporation Tax is calculated on the basis of the financial or book profit obtained in accordance with general accepted accounting principles in each country, which is not necessarily the same as the figure for taxable income used as a basis for assessing the tax.

The reconciliation between reported profits and the Corporation Tax basis of assessment is set out below (in thousand euros):

	2008	2007
Book profit/(loss) (after taxation and before outside shareholders)	5,050	99,507
Corporation tax	3,730	8,495
Book profit/(loss) (before outside shareholders)	8,780	108,002
Permanent differences	19,964	40,522
Timing differences	24,899	15,089
Consolidation adjustments	(13,760)	(82,669)
Prior taxable income	39,883	80,944
Offset of tax loss carryforwards	(4,665)	(1,871)
Basis of assessment	35,218	79,073

The different foreign dependent companies calculate their corporation tax expense in accordance with their own laws, and in line with the rates of taxation in force in each country.

Consolidated Group of the Controlling Company

NH Hoteles, S.A. consolidates for tax purposes with all the companies that are tax residents in Spain where it has held a direct or indirect holding during the tax period of at least 75%, in accordance with the rules laid down in Title VII, Chapter VII of the current Corporation Tax Act, enacted by Royal Legislative Decree 4/2004.

During 2007, the company Casino Club de Golf, S.L. left the consolidated group. As a result, the tax return should include the capital gains yet to be included from intercompany operations for 2003, which totalled 6.5 million euros.

The accounts payable or receivable generated under this heading are settled by NH Hoteles, S.A., the Controlling Company of the Group. Group policy is not to remunerate tax loss carryforwards that are contributed by any of the other companies included in the Consolidated Group.

The group has been performing restructuring operations that qualify for the "Special Rules on Mergers, Spin Offs, Asset contributions and Securities swaps". The mentions required by law are made in the Notes to the Annual Accounts for the appropriate year.

Years open to tax inspection

As at 31 December 2008, as a general rule the main taxes applying to the consolidated companies for the last four years are open to inspection by the corresponding tax authorities.

For the years open to inspection there may be contingent liabilities that cannot be objectively quantified. In the opinion of the Administrators of the Group, they are not significant.

Deductions made by the consolidated group of the Controlling Company

The deductions made during 2005 correspond fundamentally to the deduction for investing in export business.

When calculating Corporation Tax, no amount has been deducted for investing in measures aimed at reducing the environmental impact.

As at 31 December 2008, the Tax Group had the following unused tax incentives (in thousand euros):

Year of Origin	Deductions outstanding	Thousand euros
2001 as at 2001.2008.07	Investment in export business	46,542
2001 as at 2001.2008.07	Other	207
		46,749

In the same way, the Consolidated Group of the Controlling Company made use, in the past, of the "Deferral for reinvesting extraordinary income". Set out below are the main features of this reinvestment (in thousand euros):

Year of Origin	Income qualifying for deferral	Prior years	2008	Amount outstanding	Last year for deferral
1997	9,399	9,399	-	-	2007
1998	1,625	1,393	232	-	2008
1999	75,144	34,934	6,547	33,663	2009
2000	3,738	2,136	534	1,068	2010
2001	4,335	1,858	619	1,858	2011

The reinvestment of all this income took the form of various different financial holdings, except for the one that appeared in 1999, which was reinvested in acquiring properties.

Set out below is a description of the income for the year and for prior years qualifying for the deduction for reinvesting extraordinary profits, in accordance with the terms of Section 42 of the current Corporation Tax Act, as per the following analysis (in thousand euros):

Year	Date of transfer	Qualifying revenue	Deduction		Company that generates the capital gain	Company that reinvests
			Made	Outstanding		
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	-	-	NH Hoteles, S.A.	Sotogrande, S.A.
2008	June	7,021	-	843	NH Hoteles España S.L.	NH Hotel Rallye, S.A.
2008	June	19,630	-	2,356	NH Hotel Rallye, S.A.	NH Hotel Rallye, S.A.
2008	June	3,627	-	435	Hotelera Onubense, S.A.	NH Hotel Rallye, S.A.
2008	June	1,583	-	190	Gran Círculo de Madrid, S.A.	NH Hotel Rallye, S.A.

The reinvestment of the capital gains generated in 2002 and 2004 was used in the purchase of 80% of the Astron Group (now NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH) made in November 2002. The obligation to hold the investment for 3 years ended in November 2005.

The reinvestment of the capital gains made in 2004 and 2005 was made in the purchase of 38% of Nacional Hispana de Hoteles, S.r.l. de C.V. (set of hotel companies in Mexico) made in January 2005. The obligation to hold the investment for 3 years ended in January 2008.

The reinvestment of the capital gains made in 2006 was made in the purchase in July 2006 of 50% of the company Desarrollos Isla Blanca, S.L., for 19.53 million euros. The obligation to hold the investment for 3 years will be met in July 2009.

In 2008, the Group carried out a capital increase in its Italian subsidiary via NH Hotel Rallye S.A. for 73 million euros to be used to acquire further hotels and renovate existing ones.

Tax loss carryforwards and deductions outstanding

As at 31 December 2008, the Tax Consolidated Group headed by the Controlling Company had tax loss carryforwards totalling 8,992 thousand euros which may be offset up to 2022.

The companies in the Tax Consolidated Group headed by the Controlling Company that recorded tax loss carryforwards before they joined the group are 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. and Hotelera Onubense, S.A. Such prior tax loss carryforwards may only be offset against profits made by those same companies (in thousand euros):

Year of origin	Amount	Period for offsetting
1995	3,207	2010
1996	3,937	2011
1997	11,107	2012
1998	4,119	2013
1999	-	2014
2000	-	2015
2001	14,354	2016
2002	40,829	2017
2003	25,314	2018
2004	7,299	2019
2005	1	2020
2006	14,596	2021
2007	107	2022
2008	1,829	2023
	126,699	

23. Trade payables

Set out below is an analysis of this caption on the consolidated balance sheet as at 31 December 2008 and 2007:

	Thousand euros	
	2008	2007
Trade payables	188,633	205,032
Advances from trade debtors	19,613	30,520
	208,246	235,552

The caption "Trade creditors" records the accounts payable as a result of the Group's normal trading activities.

The line "Advances from trade debtors" includes mainly advance payments made by trade debtors of Sotogrande, S.A., amounting to 5.68 million euros (15 million euros as at 31 December 2007).

24. Other current liabilities

Set out below is an analysis of this caption as at 31 December 2008 and 2007:

	Thousand euros	
	2008	2007
Compensation payable	26,846	31,589
Leases payable	574	1,591
Advance sales and rebates (sundry)	1,005	-
Sundry creditors	19,202	25,053
	47,627	58,233

25. Guarantee commitments to third parties and contingent assets and liabilities

The Group has been granted guarantees by financial institutions totalling 22.84 thousand euros (9.32 thousand euros as at 31 December 2007) which, in general, guarantee the performance of certain obligations entered into by the consolidated companies in the course of their business activities.

As at 31 December 2008, the Group has contracted insurance policies to cover against risks for damage to tangible fixed assets, for loss of profit and public liability. The insured capital sufficiently covers said assets and risks

Commitments with regard to third parties

- On 29 March 2005 and 10 March 2006, the agreements of the shareholders of the company Harrington Hall Hotel Limited (the company that owns the Hotel Harrington Hall) and Losan Investment Ltd. (the company that owns the Hotel Kensington) between NH Hotel Rallye S.A. and Losan Hoteles, S.L., whereby in the event that the latter company were to receive an offer to purchase 100% of the shares of either of the companies at a price deemed to be a market price, Losan Hoteles, S.L. may demand that NH Hotel Rallye S.A., which shall be required to accept, transfer its shares to the third-party buyer who has made the offer. NH Hotel Rallye, S.A. shall, however, hold a right of first refusal on Losan Hoteles, S.L.'s shares in Harrington Hall Hotel, Ltd. and Losan Hoteles, Ltd.
- On 1 December 2005, an agreement was reached with Intesa Sanpaolo, S.p.a. whereby Intesa Sanpaolo, S.p.A. became a shareholder of NH Hoteles Italia, S.r.l., in which a put option was granted for the holding acquired, in the period between March 2008 and March 2013. The price shall be set on the basis of fair market value, as determined by an independent investment bank. The price shall be paid in cash or NH Hoteles, S.A. shares, as NH Hoteles, S.A. chooses. The caption "Minority interests" on the accompanying consolidated balance sheet records the value of the investment of Intesa Sanpaolo in NH Italia, S.r.l., amounting to 187.18 million euros (see Note 16.6).
- On 23 April 2008, and further to the agreement dated 2 August 2006, TFB (Tourist Ferry Boat, S.r.l.)'s 25% holding in NH-Framon Hotel Management, S.r.l. was swapped for a 5% holding in NH Italia, S.r.l. This agreement provides for a cross option between NH Hoteles, S.A. and TFB for acquiring this holding over the two to nine years after the signing of the agreement. The payment shall be made in NH Hoteles, S.A. shares or in cash, as NH Hoteles, S.A. chooses. (see note 18)
- As part of the takeover of Jolly Hotels, S.p.A., a series of cross option contracts were signed, the only one of which remains in force as at the date these consolidated annual accounts were drawn up is the agreement whereby Joker Partecipazioni, S.r.l. may sell its holding in the capital of Grand Jolly to NH Italia over the period running from 1 June 2007 to 31 December 2010 and NH Italia may exercise its call right over the 6 months starting as from 31 December 2010. The strike price of the option is 87.93 million euros, which are recorded under the caption "Other non-current liabilities" on the accompanying consolidated balance sheet (see Note 19).
- In the operations in the Caribbean, and in the management agreement for the Edenh Real Arena complex, NH Hoteles, S.A. has undertaken to achieve a minimum profit that guarantees the covering of the 35 million dollar funding obtained in order to build the hotel.
- As part of the process of turning Sotogrande, S.A. group into an international business, and in particular via its Italian subsidiary, Donnafugata Resort, S.r.l., certain shareholder who represent 30% of its share capital have been granted a put option for the period running from October 2009 to 2013. The price shall be set at market albeit bearing in mind the forecasts approved for the company in September 2008. The price shall be paid in cash.
- In December 2008, Latina de Gestión Hotelera, S.L. granted a put option to the minority shareholder of the company Polis Corporation, S.L. which owns the hotel 9 de julio in Buenos Aires for all its shares. This option may be taken up in halves during 2009 and 2010. Payment shall be in cash and the amount shall be the same as paid by the NH Group to buy its 50% holding plus the contributions made up to the strike date. As at 31 December 2008, the strike price was recorded in the caption "Other non-current liabilities" on the consolidated balance sheet (see Note 19)

Contingent assets and liabilities

The main contingent assets and liabilities for the NH Hoteles Group as at the date these consolidated annual accounts were drawn up are as set out below:

- During 2008, a Group company in Italy terminated its service agreement with the building company in charge of the construction work on the tourist complex being developed by that Group company, as a result of a number of breaches of contract. As a result of this termination, the building company has sued the company for 15 million euros in damages.
- The Group company has also sued the building company for approximately 30 million euros in damages. Although the legal process is at an early stage, the Administrators of the Controlling Company, on the basis of the opinion of the Group's lawyers, consider that the report of the expert appointed by the Court will uphold the Group's position and that the ruling on this dispute will not give rise to any liabilities that could affect its net worth.
- The Controlling Company has been sued, in its capacity as surety, for some promissory notes issued by a Group Company when buying a hotel in Argentina. The plaintiffs are suing for the foreign exchange difference between Argentinean pesos and dollars paid, which together with interest and legal costs amount to approximately 334 thousand euros.

- Agedi and AIE have sued the Controlling Company for breach of contract with regard to the agreement on copyright. The figure claimed totals 286 thousand euros.
- The NH Hoteles, S.A. group has signed agreements with the shareholders of Residencial Marlin SL and Los Alcornos de Sotogrande, S.L. which provide that the personal characteristics of the shareholders are essential for the development of the projects, and that any change in effective control, be it among the shareholders, or among their parent companies, shall trigger off a procedure whereby the other shareholder may leave the company and be entitled to be refunded the entire amount of its holding in the company plus the damages caused.
- The syndicated loan signed by a group company, NH Finance, S.A., which is the borrower, and a syndicate of banks, for 650 million euros, signed on 2 August 2007, includes a clause that provides for early termination of the agreement in the event that anything were to occur that were to lead to a change in control over the company NH Hoteles, S.A.
- The NH Hoteles Group also has been granted loans and credit lines, with a combined limit of 35 million euros, which include an early termination clause in the event that control of the company NH Hoteles, S.A. were to change.

As at 31 December 2008, other claims, which cannot be objectively quantified, have been made against the Group. The Directors of the Controlling Company consider that any hypothetical loss the Group might eventually suffer as a result of these disputes would not have a significant effect on the Group's net worth.

26. Income and expenses

26.1 REVENUE AND OTHER OPERATING EXPENSES

Set out below is an analysis of these captions on the consolidated profit and loss account for 2008 and 2007:

	Thousand euros	
	2008	2007
Room accommodation	899,228	852,247
Catering	376,390	371,171
Reception rooms and other	100,750	94,075
Property	50,050	75,053
Golf and Sports Clubs	4,186	2,541
Rents and other services	29,504	63,875
Net sales	1,460,108	1,458,962
Operating grants	215	119
Other operating revenues	10,812	31,247
Other operating revenues	11,027	31,366
Net profit/(loss) on disposals of assets	54,409	25,730

Set out below is an analysis of net turnover for different geographical markets for 2008 and 2007:

	Thousand euros	
	2008	2007
Spain - Hotels	422,372	436,540
Spain - Property	50,050	41,497
Benelux	317,071	305,705
Italy	295,373	288,908
Germany	237,266	226,145
Latin America	70,711	63,788
Latin America Property	-	33,556
Rest of Europe	67,265	62,823
	1,460,108	1,458,962

The line "Other operating income" in 2007 recorded the amount by which the net fair value of the identifiable assets, liabilities and contingent liabilities of Jolly Hotels, S.p.A. exceeded the cost of the business combination (not including its effect on minority shareholders). Furthermore, in 2008 and 2007, the revenues from royalties invoiced to hotels operated under management agreements were recorded, as were the services provided by the NH Hoteles Group to third parties.

Set out below is an analysis of the caption "Net profit/loss on disposals of assets" as at 31 December 2008 and 2007:

	Thousand euros	
	2008	2007
Profits on disposals of holdings	-	1,992
Profit/(loss) on disposals of tangible fixed assets	54,409	23,738
Net profit/(loss) on disposals of assets	54,409	25,730

The "Profit on the disposal of assets" for 2008 records the capital gains recorded on the sale of the hotels NH City Nord, NH Alcalá, NH Luz de Huelva and NH Ciudad de Santander, and in 2007, for the capital gain recorded on the sale of the hotels NH Zuid Limburg, Jolly Caserta and the shares in the Theme Park in Madrid.

26.2 FINANCIAL INCOME

Set out below is an analysis of the balance of this item on the consolidated profit and loss account:

	Thousand euros	
	2008	2007
Income from traded securities	900	538
Interest income	7,544	6,345
Other financial income	173	2,886
	8,617	9,769

26.3 STAFF COSTS

Set out below is an analysis of staff costs on the consolidated profit and loss account:

	Thousand euros	
	2008	2007
Wages, salaries and similar expenses	342,577	354,205
Employee benefit costs	79,966	65,927
Indemnities	8,785	5,541
Pension plan contributions and similar	9,002	10,289
Other social charges	24,592	29,413
	464,922	465,375

The average number of employees in the Controlling Company and the companies that have been fully consolidated in 2008 and 2007, divided into categories and according to sex, is as follows:

	2008		
	Men	Women	Total
General management of the Group	6	1	7
Managers and Heads of Department	401	388	789
Other line personnel	303	281	584
Sales staff	231	261	492
Clerical staff	304	380	684
Other staff	6,021	6,597	12,618
Average number of employees	7,266	7,908	15,174

	2007		
	Men	Women	Total
General management of the Group	6	1	7
Managers and Heads of Department	412	385	797
Other line personnel	311	276	587
Sales staff	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

The average age of the Group's workforce is approximately 36.7 years, with an average seniority in the NH Group of 7.9 years.

The item "Staff costs" includes the fixed and variable remuneration, linked to the performance of the consolidated group, of the management team of NH Hoteles, totalling 3 million euros in 2008 (8.4 million euros in 2007). It also records the fixed and variable remuneration for the Directors of the Controlling Company who also hold executive positions in the Group, which in 2008 amounted to 1.8 million euros (3.8 million euros in 2007). (see notes 29.1 and 29.2)

26.4 OTHER OPERATING EXPENSES

Set out below is an analysis of this caption of the consolidated profit and loss account for 2008 and 2007:

	Thousand euros	
	2008	2007
Leases	265,890	241,659
External services	362,323	385,983
Charges to provisions for charges and liabilities	22,016	10,055
	650,229	637,697

The "External Services" account records the fees for statutory auditing services provided by four auditing firms to the different companies that make up the NH Hoteles Group. The fees of the main auditor during 2008 amounted to 1.17 million euros (1.15 million euros in 2007) and the fees of all the other auditors totalled 0.56 million euros (0.55 million euros in 2007).

Furthermore, the fees for other professional services provided to the NH Hoteles Group by the main auditor amounted, in 2008, to 0.21 million euros (0.16 million euros in 2007) and the fees of all the other auditors totalled 0.42 million euros (0.57 million euros in 2007).

26.5 OPERATING LEASES

As at 31 December 2008 and 2007, the Group had acquired commitments for future minimum lease instalments under operating leases that cannot be cancelled, falling due on the dates shown in the table below:

The present value of the lease instalments has been calculated using a discount rate in line with the weighted average cost of capital of the Group. It includes the commitments which the NH Group estimates it will have to meet in the future for a guaranteed minimum return on the hotels being operated under management agreements.

	Thousand euros	
	2008	2007
Less than one year	252,987	236,837
Between two and five years	968,595	990,425
More than five years	870,933	1,127,453
Total	2,092,515	2,354,715

The average life of the operating lease agreements signed by the NH Hoteles Group varies between 10 and 25 years.

Set out below is an analysis for each business unit of the present value of the lease instalments (thousand euros):

	Less than one year	Between two and five years	More than five years	Total
Spain	81,992	315,374	287,453	684,819
Germany	79,819	312,060	257,790	649,669
Italy	38,693	149,743	124,339	312,775
Benelux	31,852	115,686	139,227	286,765
Switzerland, Austria, Romania, Hungary	18,037	68,442	60,531	147,010
Latin America	2,594	7,290	1,593	11,477
Total	252,987	968,595	870,933	2,092,515

26.6 FINANCIAL EXPENSES

Set out below is an analysis of the balance of this item on the consolidated profit and loss account for 2008 and 2007:

	Thousand euros	
	2008	2007
Interest expense	77,574	58,292
Interest on debentures and bonds	-	5
Other financial expenses	286	7,159
Financial expenses	77,860	65,456
Expenses of derivatives	43,108	5,756

27. Related party transactions

Set out below is an analysis of the main balances and transactions which have been carried out by the Group with different related parties in 2008 and 2007:

Loans and accounts receivable not available for trading

Set out below is an analysis of this caption as at 31 December 2008 and 2007:

	Thousand euros	
	2008	2007
Loans to staff	14,320	14,320
Loans to joint ventures:		
Residencial Marlin, S.L.	9,000	9,000
Los Alcornosques de Sotogrande, S.L.	1,040	1,400
Accounts receivable from joint ventures:		
Los Alcornosques de Sotogrande, S.L.	4,469	4,469
Other accounts receivable from joint ventures	2,539	383
Loan to associated companies	2,250	2,250
	33,618	31,822

The caption "Loans to staff" includes the loans made to top managers who joined the Group in order to buy shares in the Controlling Company totalling 14.32 million euros as at 31 December 2008 and 2007. There are sufficient guarantees for the loans in force as at 31 December 2008 and the borrowers may extend the terms of these loans until, at the latest, 30 April 2010.

The line "Loans to joint ventures" records the proportional part of the subordinate participating loans granted by Sotogrande, S.A. to the companies Residencial Marlin, S.L. and Los Alcornosques de Sotogrande, S.L. for acquiring plots of land. These participating loans earn interest at Euribor (4.3%), which is increased when the profits of each of the companies exceed certain set amounts.

These loans expire on 31 December 2009 and 25 December 2009, respectively. As at 31 December 2008, the Administrators of Sotogrande, S.A. intended to extend the loans to the companies Residencial Marlin and Los Alcornosques de Sotogrande when they expire.

The line "Accounts receivable from joint ventures- Los Alcornosques de Sotogrande" records the balance receivable from Los Alcornosques de Sotogrande, S.L., a joint venture of the Group. This balance will fall due when the new Zoning Rules for San Roque are approved and must in any case be paid by December 2011.

The line "Other accounts receivable from joint ventures" records the current balance as at 31 December 2008 for the services provided by Sotogrande, S.A. for building work, and the commissions invoiced on the sale of flats and premises. In 2008, the Group recorded revenues of 1,066 thousand euros for these services (1,313 thousand euros in 2007).

The caption "Loan to associated companies" records the subordinate loan granted by the NH Hoteles Group to the company Harrington Hall Hotel, Ltd. for the purpose of refinancing the acquired company's prior financial debt.

Set out below is the financial income generated by the loans and accounts receivable mentioned above:

	Thousand euros	
	2008	2007
Loans to joint ventures	466	386
Accounts receivable from joint ventures	53	57
Loan to associated companies	170	302
	689	745

Funding agreements with shareholders of the Group

Set out below is an analysis of the funding agreements with shareholders of the Group as at 31 December 2008:

	Thousand euros	
	2008	2007
Caja Madrid	94,565	104,650
Banca Intesa Sanpaolo	43,672	17,461
Bancaja	25,000	25,000
La Kutxa	15,000	15,000
Caixa Nova	12,500	12,500
Caja Murcia	7,500	7,500
Ibercaja	3,500	3,500
	201,737	185,611

The financial expenses accrued in connection with the financing agreements with shareholders of the Controlling Company totalled 11,635 thousand euros in 2008 (7,204 thousand euros in 2007).

Furthermore, in November 2007 the Group entered into a financial swap contract with Caja Madrid for 50,028 thousand euros, to hedge against any impairment of net worth that might arise as a result of the Remuneration Plan linked to the Share Price 2007-2011 (See Note 20). As at 31 December de 2008 the financial expenses relating to this contract total 2,650 thousand euros (4,794 thousand euros as at 31 December 2007).

Other related party agreements

The Company has signed a number of operating lease agreements with Pontegadea Inversiones, S.L., totalling 9,588 thousand euros in 2008 (8,364 thousand euros in 2007).

Remuneration relating to the Board of Directors and members of Top Management of the Company is analysed in Notes 29.1 and 29.2 to these Annual Accounts.

28. Information by segments

The information by segments is structure, first of all, on the basis of the Group's different lines of business and, secondly, on a geographical basis.

Main segments - business

The business lines described below were established on the basis of the NH Hoteles Group's organisational structure at 2008 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 2008, the NH Hoteles Group focused its activities on two major lines of business, hotels and property, which are the basis used by the Group to present the information about its main segment.

The Group does not include restaurant services as a main segment of its activity as this activity cannot be separated from its accommodation business, as combined together they constitute a single business, the hotel business.

Secondary segments - geographical

Furthermore, the Group operates in Spain, the Benelux, Germany, Italy the rest of Europe, South America and the rest of the world.

The information by segments set out below is based on the reports drawn up by the NH Hoteles Group and is generated using a computer application that divides the transactions into categories according to their line of business and geographical location.

The ordinary income of the segment records the ordinary income directly attributable to the segment plus the relevant proportion of the general income of the group that may be distributed to it on a fair distribution basis. The ordinary income of each segment does not include interest or dividend income or the gains on sales of investments or debt surrender or termination operations. The Group includes its holdings in the results of associated companies and joint ventures that area consolidated using the equity method in its ordinary income by segments. Also included is the corresponding proportion of the ordinary income of joint ventures consolidated using the proportional method.

The profit and loss of the segment is presented before any adjustment for minority interests.

The assets and liabilities of the segments are those directly connected with its operations.

Set out below is the information for each segment of these activities.

28.1 INFORMATION ABOUT MAIN SEGMENTS

	Thousand euros					
	Hotel		Property		Total	
	2008	2007	2008	2007	2008	2007
INCOME-						
Sales and other operating income	1,420,199	1,435,275	50,936	75,053	1,471,135	1,510,328
Net profit on disposals of long-term assets	54,409	5,730	-	-	54,409	5,730
Total revenues	1,474,608	1,441,005	50,936	75,053	1,525,544	1,516,058
PROFIT/(LOSS)-						
Operating result	113,668	147,954	11,017	22,877	124,685	170,831
Share in profit and loss of associated companies	(1,027)	(1,652)	(1,263)	(827)	(2,290)	(2,479)
Financial income	6,279	9,230	2,338	539	8,617	9,769
Net differences on exchange	(1,264)	1,093	-	-	(1,264)	1,093
Changes in fair value of financial instruments	(43,108)	(5,756)	-	-	(43,108)	(5,756)
Interest expense	(76,220)	(64,950)	(1,640)	(506)	(77,860)	(65,456)
Profit/(loss) before taxes	(1,672)	85,919	10,452	22,083	8,780	108,002
Taxes	(1,135)	(5,184)	(2,595)	(3,311)	(3,730)	(8,495)
Profit for the year	(2,807)	80,735	7,857	18,772	5,050	99,507
Minority interests	(21,732)	22,064	(10)	-	(21,742)	22,064
Profit/(loss) attributed to the Controlling Company	18,925	58,671	7,867	18,772	26,792	77,443

	Thousand euros					
	Hotel		Property		Total	
	2008	2007	2008	2007	2008	2007
OTHER INFORMATION						
Fixed asset additions	157,501	189,202	4,157	1,358	161,658	190,560
Amortisation	(125,769)	(107,924)	1,597	(1,529)	(124,172)	(109,453)
Net losses due to asset impairment	(32,670)	(277)	-	-	(32,670)	(277)
BALANCE SHEET						
ASSETS						
Assets by segment	3,003,075	3,030,720	216,605	218,056	3,219,680	3,243,884
Shareholdings in associated companies	41,846	44,081	32,791	32,731	74,637	76,812
Total consolidated assets	3,044,921	3,074,801	249,396	250,787	3,294,317	3,320,696
SHAREHOLDERS' EQUITY AND LIABILITIES						
Liabilities and equity by segment	3,044,768	3,081,656	249,549	243,932	3,294,317	3,320,696
Total Consolidated Liabilities and Net Equity	3,044,768	3,081,656	249,549	243,932	3,294,317	3,320,696

28.2 INFORMATION ABOUT SECONDARY SEGMENTS

Set out below is a table that provides an analysis of certain consolidated balances of the Group in accordance with the geographical distribution of the companies that originate them:

	Thousand euros					
	Net turnover		Total Assets		Additions to tangible and intangible assets	
	2008	2007	2008	2007	2008	2007
Spain	472,422	478,036	1,153,213	1,059,796	47,976	75,123
Benelux	317,071	305,705	703,069	716,915	32,175	35,234
Italy	295,373	288,908	999,780	1,084,444	40,910	43,743
Germany	237,266	226,145	152,826	172,530	20,244	34,043
Latin America	70,711	97,344	258,706	254,077	18,988	11,886
Rest of Europe	67,265	62,824	26,723	32,934	1,365	634
Total	1,460,108	1,458,962	3,294,317	3,320,696	161,658	200,663

29. Remuneration and other declarations of the board of directors and senior executives

29.1 REMUNERATION OF THE BOARD OF DIRECTORS

Set out below is the amount accrued in 2008 and 2007 to the members of the Governing Bodies of the Controlling Company, the Board of Directors (11 members), the Delegate Committee (6 members), the Audit and Control Committee (3 members) and the Appointments and Remunerations Committee (3 members) in salary, for attending statutory meetings and attendance fees:

Categories of Directors	Thousand euros	
	2008	2007
Executives	1,835	3,796
Outside Shareholders	258	197
Independent Outside	369	335
Other Outside	-	56
Total	2,462	4,384

State that the total amount of all items of remuneration paid to all the Directors expressly includes the amount paid to the Managing Director in his capacity as beneficiary of the different Remuneration Plans based on the share price in force in the group, which totalled 438 thousand euros (2,356 thousand euros in 2007), which amount, when the corresponding Remuneration Plan was approved and brought into force, was hedged appropriately by taking out an equity swap, as a result of which it has involved the Group in no cash outlay.

These amounts include the attendance fees and fees for attending statutory meetings paid to the Directors of the Controlling Company in fully and proportionally consolidated companies and companies consolidated using the equity method, which totalled 142 thousand euros in 2008 (120 thousand euros in 2007).

In 2008, as in 2007, the Company has not made any payments for professional services to the members of the Board of Directors.

29.2 REMUNERATION OF SENIOR EXECUTIVES

The remuneration of the members of the Management Committee as at 31 December 2008 and 2007, not including those who are also members of the Board of Directors (whose remuneration has been set out hereabove) is set out below:

	Thousand euros	
	2008	2007
Cash remuneration	2,212	2,586
Exercising the Remuneration Plan based on the share price	496	5,525
Remuneration in kind	280	244
	2,988	8,355

The total amount of remuneration paid to Top Management as beneficiaries of the different Remuneration Plans based on the share price was suitably hedged by taking out an appropriate equity swap, as a result of which it involved the Group in no cash outlay.

29.3 DETAILS OF OWNERSHIP INTERESTS HELD BY DIRECTORS IN COMPANIES ENGAGING IN SIMILAR ACTIVITIES AND PERFORMANCE, AS INDEPENDENT PROFESSIONALS OR AS EMPLOYEES, OF SIMILAR ACTIVITIES.

In accordance with the terms of Section 127 ter . 4 of the Companies Act brought in by Law 26/2003 dated 17 July, which modified the Securities Market Act, Law 24/1988, dated 28 July, and the current Companies Act, for the purpose of making public limited companies more transparent, set out below are the companies with the same, similar or complementary types of activity to the corporate object of NH Hoteles, S.A., in which its Administrators have shareholdings, as well as any positions they may hold therein:

Holding	Investee Company	Activity	Number of shares
Caja Ahorros de Valencia, Castellón y Alicante	Hotel Alameda Valencia SL	Hotel	100.00%
Caja Ahorros de Valencia, Castellón y Alicante	Playa Hotels & Resorts, S.L.	Hotel	6.63%
Caja Ahorros de Valencia, Castellón y Alicante	Prohore, S.A.	Property	29.93%
Caja Ahorros de Valencia, Castellón y Alicante	Hotel Barcelona Golf, S.A.	Hotel	16.80%
Caja Ahorros de Valencia, Castellón y Alicante	Gran Hotel Xirivella, S.L.	Hotel	100%
Manuel Herrando y Prat de la Riba	Promoarcano, S.A.	Property	8.40%
Gabriele Burgio	Mola 15, S.L.	Property	10%

The Administrators have also engaged in the following activities during 2008, as self-employed or salaried workers, in companies with the same, similar or complementary types of activities to the corporate object of NH Hoteles, S.A. or any of its subsidiaries:

Holder	Investee Company	Activity	Duties
Gabriele Burgio	Sotogrande, S.A.	Property	Director
	Ferrovial, S.A.	Property	Director
	Nacional Hispana de Hoteles S.r.l.de C.V.	Hotel	Director
	Grupo Financiero de Intermediación y Estudios, S.A. (Grufir, S.A.)	Hotel	Represent. of Sole Administrator
	Krasnapolsky Hotels & Restaurants, N.V.	Hotel	Member of the "Supervisory Board"
	NH Participaties, N.V.	Hotel	Chairman and Director
	NH Domo Diseños y Decoración, S.L.	Decoration	Joint Administrator
	NH Italia, S.r.l.	Hotel	Chairman and Director
	Grande Jolly, S.r.l.	Hotel	Managing Director
Alfonso Merry del Val Gracie	Krasnapolsky Hotels & Restaurants, N.V.	Hotel	Member of the "Supervisory Board"
Manuel Herrando y Prat de la Riba	Sotogrande, S.A.	Property	Chairman
Manuel Herrando y Prat de la Riba	Residencial Marlin, S.A.	Property	Director
Manuel Herrando y Prat de la Riba	Los Alcornosques de Sotogrande, S.L.	Property	Director

30. Subsequent events

No subsequent sheet events have occurred since the year end that are likely to have any significant effects.

31. Information about environmental policy

The activities carried on by the Group through Sotogrande, S.A. include managing the integrated water cycle in the area covered by the Sotogrande Estate and its surroundings. This management includes draining and purifying sewerage. The aim of these two latter activities is to reduce the damage to the environment.

The Group's assets associated with its drainage and purification activity include 2 sewerage purification plant, capable of meeting the needs of a population of up to 20,000 inhabitants, connected to one another so that the cleaned affluent flows into the sea through an undersea outlet. In one of its purifying plants, the Company Sotogrande, S.A. has also built a tertiary treatment system aimed at purifying the water even more so that they may be used partially for watering the Real Club de Golf Sotogrande with which a contract has been signed to this effect. The tertiary treatment plant is now operational as it came into service in July 2003. The introduction of this tertiary system will make for a reduction in the consumption of drinking water of between 200,000 and 300,000 m³ /year.

Furthermore, the Group, as part of its activity to promote and develop the Sotogrande Estate, is now focusing its attention on urban land with partial plans that have been approved. It therefore has no need to carry out any environmental impact studies prior to carrying out its property or tourist developments. However, the Group's policy is aimed at respecting the environment to the utmost. It has therefore contracted the services of an environmental consultancy to diagnose and provide advice on environmental matters in the actions of the Controlling Company.

The assets of an environmental nature described total, net of depreciation as at 31 December 2008, 1,851 thousand euros (1,834 thousand euros in 2007). The Group had set up no provision at the end of 2008 for environmental contingencies or claims as there are none.

32. Risk exposure

The Group centralises the management of its financial exposure in the Corporate Finance Department. This Department has set up the systems needed to keep a check, depending on the structure and financial position of the Group and of the economic variables of the environment, on its interest-rate and foreign exchange exposure, and its credit and liquidity exposures, and whenever necessary it makes use of one-off hedging operations. Set out below is a description of the main financial exposures and the related policies of the Group:

Credit exposure

The Group's main financial assets are cash and cash equivalents (see Note 15), and trade debtors and other accounts receivable (see Note 13). As a general rule, the Group keeps its cash and cash equivalents in banks with high credit ratings and part of its trade debtor and other accounts receivable are secured by guarantee deposits, guarantees and advance payments made by tour operators.

The Group does not have a significant concentration of third-party credit exposure, as its investments are highly diversified and the trade exposure is spread over a large number of customers with short collection periods.

Interest-rate exposure

The Group's financial assets and liabilities are exposed to fluctuations in interest rates that could have an adverse effect on its earnings and cash flow. In order to reduce this exposure, the Group has set up policies and contracted financial instruments so that approximately 40% of its net financial debt is benchmarked to fixed interest rates.

In accordance with the reporting requirements laid down in IFRS 7, the Group has carried out a sensitivity analysis of the fluctuations in interest rates that might occur in the markets where it operates. Based on said requirements, the Group estimates that a 50 base point increase in interest rates would push up its financial expenses by 5,830 thousand euros.

In addition to the impacts that the changes in the interest rates have on the financial assets and liabilities that make up the net cash position, changes may take place in the valuation of the financial instruments contracted by the Group (see Note 19). The effects of the changes in interest rates on efficient derivatives are recorded as a charge to net equity, while the effects on inefficient derivatives are taken to the consolidated profit and loss account. Note 19 of the accompanying notes to the accounts gives a sensitivity analysis of these derivatives to changes in interest rates.

Finally, the long-term financial instruments listed in Note 11 to these Annual Accounts are also subject to interest rate exposure.

Foreign-exchange exposure

The Group is exposed to fluctuations in exchange rates that may affect its sales, earnings, equity and cash flows, essentially as a result of:

- Investments in foreign countries (mainly in Mexico, Argentina, the Dominican Republic and the United Kingdom).
- Operations carried out by Group companies who do business in countries with currencies other than the euro (mainly in Mexico, Argentina, the Dominican Republic and the United Kingdom).

In order to keep down this exposure, the Group has set up policies and contracted certain financial derivatives (see Note 19). In particular, the Group endeavours to keep the structure of its financial debt in line with its cash flows in the different currencies. It also contracts financial instruments to reduce exchange differences for transactions denominated in foreign currency.

The Group has carried out a sensitivity analysis with regard to fluctuations that might occur in exchange rates in the markets where it is doing business. For this, the Group has looked at fluctuations in the major currencies, other than its functional currency, in which it operates (United States dollar, Argentinean peso, Mexican peso and pound sterling). On the basis of this analysis, the Group estimates that a 5% depreciation in the corresponding currencies would have the following effect on its net worth:

	Thousand euros	
	Equity	Profit/(loss)
United States dollar	(1,247)	(4)
Pounds sterling	(2,160)	(68)
Argentinean peso	(3,515)	(223)
Mexican peso	(3,805)	(175)

Liquidity exposure

Exposure to adverse situations in the debt or capital markets might make it difficult or impossible to cover the financial requirements for the Group to properly do business and for its Strategic Plan.

Managing this exposure focuses on detailed monitoring of the schedule of repayments of the Group's financial debt, and proactively managing and maintaining the credit lines that allow it to cover expected cash requirements.

The Group's liquidity position for 2009 is based on the following points:

- As at 31 December 2008 the Group had cash and cash equivalents amounting to 17,032 thousand euros.
- Its availabilities on credit lines, after drawing down the syndicated loan of 425,630 thousand euros on 2 January 2008, amounted to 428,650 thousand euros.
- The Group's business units are capable of generating significant, recurring cash flow from their operations. The flow from operations in 2008 totalled 192,439 thousand euros.
- The ability of the Group to increase its financial debt, since as at 31 December 2009, its financial leverage ratio stood at 0.95 (see Note 16).

Finally, the Group makes systematic cash forecasts for each business unit and geographical area in order to assess their needs. This liquidity policy pursued by the Group ensures that payment commitments entered into are met without having to resort to seeking funds under burdensome terms, thus enabling it to monitor the Group's liquidity status on an ongoing basis.

Market exposure

The Group is exposed to the risk linked to changes in the share prices of listed companies. This risk arises in the systems of remuneration that are linked to the share price of the Controlling Company. In order to reduce this market exposure the Group has signed the financial swap contract described in Note 19 to these consolidated accounts. Note 19 also give a sensibility analysis of this financial derivative with regard to changes of +/- 10% in the share price of the Controlling Company.

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.

These notes to the Accounts are a translation of notes originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

APPENDIX I: SUBSIDIARIES

Details on the Company's subsidiaries at 31 December 2008, are as follows:

Investee Company	Address of Investee Company	Main activity of the Investee Company	% holding of the parent company in the investee company	% voting rights controlled by the parent company	Net book value recorded in the parent company	Thousand euros			
						Assets	Liabilities	Equity	Profit and loss for the year
Astron Kestrell,, Ltd. (**)	Plettenberg Bay	Hotel	100%	100%	(859.11)	671.38	(1,530.49)	833.45	25.65
Atlantic Hotel Exploitatie, B.V.	Den Haag	Hotel	100%	100%	1,164.11	2,814.84	(1,650.73)	(1,653.50)	489.38
Caribe Puerto Morelos, S.A. de C.V. (*)	Mexico City	Hotel	100%	100%	1,427.96	3,714.77	(115.01)	(2,942.81)	(656.95)
Chartwell de México, S.A. de C.V. (*)	Mexico City	Property	100%	100%	4,182.33	4,195.63	(13.30)	(4,018.75)	(163.58)
Chartwell de Nuevo Laredo, S.A. de C.V. (*)	Nuevo Laredo (Mexico)	Hotel	100%	100%	(361.05)	609.05	(970.10)	(124.08)	485.13
Chartwell Inmobiliaria de Coatzacoalcos, S.A. de C.V. (*)	Coatzacoalcos (Mexico)	Hotel	100%	100%	2,275.69	2,357.97	(82.28)	(2,057.32)	(218.36)
Chartwell Inmobiliaria de Juárez, S.A. de C.V. (*)	Juárez (Mexico)	Hotel	100%	100%	4,242.97	4,609.98	(367.02)	(4,239.72)	(3.25)
Chartwell Inmobiliaria de Monterrey, S.A. de C.V. (*)	Monterrey (Mexico)	Hotel	100%	100%	4,518.43	5,025.55	(507.13)	(4,343.29)	(175.13)
City Hotel, S.A. (*)	Buenos Aires	Hotel	50%	50%	7,714.78	18,929.67	(5,002.79)	(12,665.01)	(1,261.88)
Club Deportivo Sotogrande, S.A.	San Roque	Tourist Services	93.48%	93.48%	2,503.00	4,687.49	(219.59)	(4,626.98)	159.08
Cofir, S.L.	Madrid	Holding	100%	100%	60.10	63.32	(0.00)	(63.58)	0.27
Columbia Palace Hotel, S.A. (*)	Montevideo	Hotel	100%	100%	3,016.79	7,714.12	(4,697.31)	(3,096.18)	79.36
De Sparrenhorst, B.V.	Nunspeet	Hotel	100%	100%	14,821.10	25,119.56	(10,298.47)	(14,574.72)	(246.38)
Desarrollo Inmobiliario Santa Fe, S.A. de C.V.	Mexico City	Property	50%	50%	1,592.34	10,904.06	(7,719.38)	(4,287.27)	1,102.60
Donnafugata Resorts, Srl.	Italy	Tourist Services	50.68%	50.68%	2,607.00	22,809.00	(18,076.00)	(5,142.00)	409.00
Edificio Metro, S.A. (*)	Buenos Aires	Hotel	100%	100%	9,092.21	4,616.61	(182.00)	(4,501.67)	67.07
Establecimientos Complementarios Hoteleros, S.A.	Barcelona	Hotel	100%	100%	839.00	878.49	(1,301.21)	(364.09)	786.81
Expl. mij. Grand Hotel Krasnapolsky, B.V.	Amsterdam	Hotel	100%	100%	16,109.69	65,381.14	(49,271.46)	(14,490.05)	(1,619.63)
Expl. Mij. Hotel Best, B.V.	Best	Hotel	100%	100%	580.34	4,028.77	(3,448.43)	(461.47)	(118.86)
Expl. mij. Hotel Caransa, B.V.	Amsterdam	Dormant	100%	100%	310.57	-	310.57	(310.57)	-
Expl. mij. Hotel Doelen, B.V.	Amsterdam	Hotel	100%	100%	4,016.81	7,229.12	(3,212.32)	(3,383.78)	(633.03)
Expl. Mij. Hotel Naarden B.V.	Naarden	Hotel	100%	100%	972.45	8,291.25	(7,318.79)	(631.39)	(341.06)
Expl. mij. Hotel Schiller B.V.	Amsterdam	Hotel	100%	100%	5,149.39	11,841.37	(6,691.97)	(4,204.89)	(944.50)
Exploitiemij. Tropic Hotel B.V.	Amsterdam	Hotel	100%	100%	(10.16)	843.72	(853.88)	11.36	(1.20)
Explotaciones Hoteleras Condor, S.L.	Barcelona	Hotel	55%	55%	298.88	3,698.06	(3,212.71)	(816.87)	331.51
Fast Good América, S.L.	Madrid	Catering	100%	100%	232.20	-	(214.57)	(220.61)	435.18
Fast Good Islas Canarias, S.A.	Las Palmas	Catering	50%	50%	350.00	22.79	(177.31)	(207.18)	361.69
Fast Good Península Ibérica, S.A.	Madrid	Catering	100%	100%	5,003.05	327.47	(2,918.41)	89.61	2,501.33
Franquicias Lodge, S.A. de C.V. (*)	Mexico City	Property	100%	100%	147.81	152.49	(4.68)	(133.66)	(14.15)
Gran Círculo de Madrid, S.A. (*)	Madrid	Hotel	98.74%	98.74%	36,788.87	63,471.50	(24,442.62)	(37,155.93)	(1,872.94)
Grande Jolly, Srl. (*)	Milan	Hotel	97.40%	97.40%	337,519.06	778,390.32	(361,012.46)	(434,937.74)	17,559.88
Grupo Financiero de Intermediación y Estudios, S.A.	Madrid	Holding	100%	100%	360.60	609.62	(16.45)	(26,429.73)	25,836.56
Grupo Hotelero Monterrey, S.A. de C.V.	Mexico City	Hotel	100%	100%	947.91	2,383.63	(1,435.72)	(1,691.39)	743.48
Grupo Hotelero Querétaro, S.A. de C.V.	Mexico City	Property	50%	50%	774.38	3,528.56	(1,979.81)	(1,634.06)	85.31
Hanuman Investment, S.L.	Tenerife	Hotel	50%	50%	2,161.55	4,488.16	(913.25)	(3,910.97)	336.06
HEM Atlanta Rotterdam, B.V.	Rotterdam	Hotel	100%	100%	4,170.51	14,626.38	(10,455.86)	(3,230.55)	(939.96)
HEM Epen Zuid Limburg, B.V.	Wittem	Hotel	100%	100%	(1,602.70)	12,778.14	(14,380.84)	1,616.40	(13.70)
HEM Forum Maastricht, B.V.	Maastricht	Hotel	100%	100%	1,118.99	9,608.15	(8,489.16)	(696.28)	(422.71)
HEM Jaarbeursplein Utrecht, B.V.	Utrecht	Hotel	100%	100%	4,033.14	15,932.14	(11,899.00)	(2,698.12)	(1,335.02)
HEM Janskerkhof Utrecht, B.V.	Utrecht	Hotel	100%	100%	630.75	2,780.86	(2,150.10)	(413.47)	(217.29)
HEM Marquette Heemskerk, B.V.	Heemskerk	Hotel	100%	100%	(759.94)	4,532.98	(5,292.91)	810.49	(50.55)
HEM Onderlangs Arnhem, B.V.	Arnhem	Hotel	100%	100%	197.00	4,471.37	(4,274.37)	56.98	(253.99)
HEM Spuistraat Amsterdam, B.V.	Amsterdam	Hotel	100%	100%	9,536.19	16,711.83	(7,175.65)	(7,668.32)	(1,867.87)
HEM Stadhouderskade Amsterdam, B.V.	Amsterdam	Hotel	100%	100%	6,688.69	26,273.01	(19,584.33)	(6,441.40)	(247.29)
HEM Van Alphenstraat Zandvoort, B.V.	Zandvoort	Hotel	100%	100%	2,269.87	13,620.26	(11,350.39)	(1,453.81)	(816.06)
Highmark Geldrop, B.V.	Geldrop	Hotel	100%	100%	(915.37)	6,101.24	(7,016.61)	867.97	47.40
Highmark Hoofddorp, B.V.	Hoofddorp	Hotel	100%	100%	(5,656.00)	28,780.81	(34,436.81)	5,715.50	(59.51)
Hispana Santa Fe, S.A. de C.V.	Mexico City	Hotel	50%	50%	(1.37)	39.57	(42.30)	5.94	(3.20)
Hotel Ciutat de Mataró, S.A.	Barcelona	Hotel	51%	51%	1,077.58	4,671.88	(3,485.73)	(1,101.84)	(84.31)
Hotel de Ville, B.V.	Amsterdam	Hotel	100%	100%	(505.13)	4,181.04	(4,686.18)	497.17	7.96
Hotel Expl. Mij Amsterdam Noord, B.V.	Amsterdam	Hotel	100%	100%	(963.47)	11,315.98	(12,279.45)	(154.03)	1,117.50
Hotel Expl. mij. Capelle a/d IJssel, B.V.	Capelle a/d IJssel	Hotel	100%	100%	3,789.96	9,074.33	(5,284.37)	(3,497.10)	(292.86)
Hotel expl. mij. Danny Kayelaan Zoetermeer, B.V.	Zoetermeer	Hotel	100%	100%	(155.46)	6,404.79	(6,560.25)	203.73	(48.27)
Hotel Expl. mij. Diegem, N.V. (**)	Diegem	Hotel	100%	100%	72.82	101,675.04	(8,300.60)	(88,078.15)	(5,296.29)
Hotel Expl. Mij Leijenberghlaan Amsterdam, B.V.	Amsterdam	Hotel	100%	100%	4,177.19	6,256.74	(2,079.55)	(4,473.82)	296.64
Hotel expl. mij. Stationsstraat Amersfoort, B.V.	Amersfoort	Hotel	100%	100%	(186.84)	-	(186.84)	185.37	1.47
Hotel Management Fribourg, S.A.	Fribourg	Hotel	100%	100%	2,000.00	14,960.78	(9,142.96)	(3,189.39)	(2,628.43)
Hotel Palacio de Castilla, S.A.	Salamanca	Hotel	83.33%	83.33%	5,588.00	8,223.41	(4,357.08)	(3,473.15)	(393.18)

Investee Company	Address of Investee Company	Main activity of the Investee Company	% holding of the parent company in the investee company	% voting rights controlled by the parent company	Net book value recorded in the parent company	Thousand euros			
						Assets	Liabilities	Equity	Profit and loss for the year
Hotel Porta Rossa, S.r.l.	Florenca	Hotel	100%	100%	9,084.58	648.15	(763.35)	(256.45)	371.65
Hoteleira Brasil Ltda. (*)	Brazil	Hotel	100%	100%	823.70	572.13	(130.67)	(4,834.81)	4,393.34
Hoteleria de la Parra, S.A. de C.V. (*)	Mexico City	Hotel	100%	100%	11,859.60	23,531.85	(11,672.26)	(12,479.35)	619.76
Hoteleria del Mar, S.A.	C. Mar de Plata	Hotel	20%	20%	3,846.65	-	-	-	-
Hoteleria Lancaster, S.A. (*)	Buenos Aires	Hotel	50%	50%	3,965.39	6,249.04	(2,815.71)	(3,044.41)	(388.92)
Inmobiliaria y Financiera Aconcagua SA (*)	Buenos Aires	Hotel	50%	50%	2,896.11	3,197.09	(1,862.23)	(843.60)	(491.27)
Inmobiliaria 3 Poniente S.A. de C.V.	Puebla (Mexico)	Hotel	27.08%	27.08%	1,738.67	7,165.35	(745.55)	(6,814.88)	395.08
Immobiliare 4 Canti, Srl. (*)	Messina	Hotel	50%	50%	1,551.54	5,091.73	(3,846.91)	(1,423.76)	178.94
Inversores y Gestores Asociados, S.A.	Madrid	Holding	100%	100%	3,094.43	1,195.05	(1,133.81)	(33.95)	(27.29)
Jan Tabak, N.V. (**)	Bussum	Hotel	79%	79%	8,104.22	10,596.26	(2,490.34)	(7,433.99)	(671.94)
JH Belgium, S.A. (*)	Brussels	Hotel	100%	100%	-	2,420.65	(726.32)	(1,073.13)	(621.20)
JH Deutschland, GmbH (*)	Cologne	Hotel	100%	100%	31,417.04	3,476.96	(1,541.59)	(698.63)	(1,236.74)
JH France S.A. (*)	Paris	Hotel	99.99%	99.99%	-	33,865.00	(27,474.00)	(9,016.00)	2,625.00
JH Holland, N.V. (*)	Amsterdam	Hotel	100%	100%	147,811.51	56,874.43	(13,007.44)	(41,070.68)	(2,796.31)
JH St Ermin's, B.V. (*)	Amsterdam	Property	100%	100%	25,888.82	76,032.34	(37,759.46)	(37,975.51)	(297.37)
JH UK, Ltd. (*)	London	Hotel	100%	100%	4,345.00	2,190.11	4,892.20	(5,958.72)	(1,123.58)
JH USA, Inc. (*)	Wilginton	Hotel	100%	100%	8,725.88	22,064.79	(10,467.67)	(10,416.89)	(1,180.22)
Koningshof, B.V.	Veldhoven	Hotel	100%	100%	25,719.96	72,928.52	(47,208.55)	(23,775.18)	(1,944.79)
Krasnapolsky Belgian Shares, B.V.	Hilversum	Holding	100%	100%	(8,521.77)	-	(8,521.77)	8,521.76	-
Krasnapolsky Events, B.V.	Amsterdam	Dormant	100%	100%	69.12	69.12	(0.00)	(69.12)	-
Krasnapolsky H&R Onroerend Goed, B.V.	Hilversum	Property	100%	100%	92,001.13	141,719.48	(49,718.34)	(85,665.08)	(6,336.05)
Krasnapolsky Hotels, Ltd. (**)	Somerset West	Hotel	100%	100%	(1,053.87)	1,727.68	(2,781.55)	1,337.88	(284.01)
Krasnapolsky Hotels & Restaurants N.V.	Hilversum	Holding	100%	100%	466,716.53	473,561.28	(6,844.75)	(407,949.87)	(58,766.67)
Krasnapolsky ICT, B.V.	Hilversum	Other business activity	100%	100%	15.54	15.54	-	(15.54)	-
Krasnapolsky International Holding, B.V.	Hilversum	Holding	100%	100%	2,394.58	58,003.17	(55,608.60)	41.60	(2,436.18)
Latina Chile SA (*)	Santiago de Chile	Hotel	99.99%	99.99%	10,769.23	12,123.10	(555.44)	(9,107.20)	(2,460.46)
Latina de Gestión Hotelera, S.A. (*)	Buenos Aires	Hotel	100%	100%	28,289.74	86,389.01	(21,165.91)	(67,012.07)	1,788.96
Latinoamericana de Gestión Hotelera, S.A. (*)	Madrid	Hotel	100%	65%	186,994.92	258,618.41	(148,234.58)	(106,870.44)	(3,513.39)
Leeuwenhorst Congres Center, B.V.	Noordwijkerhout	Hotel	100%	100%	44,773.82	89,574.47	(44,800.65)	(41,836.15)	(2,937.67)
Lenguados Vivos, S.L.	Madrid	Hotel	100%	100%	803.02	2,742.35	(8,228.60)	5,348.10	138.14
Liberation Exploitatie, B.V.	Sprang Capelle	Hotel	100%	100%	(3,266.36)	7,036.06	(10,302.43)	2,461.95	804.41
Marquette Beheer, B.V.	Hilversum	Property	100%	100%	239,945.56	243,810.37	(3,864.81)	(229,130.03)	(10,815.53)
Museum Quarter, B.V.	Amsterdam	Hotel	100%	100%	2,663.82	7,881.54	(5,217.72)	(2,405.47)	(258.35)
Nacional Hispana de Hoteles, S.A. (*)	Mexico City	Hotel	68%	68%	82,859.95	91,626.99	(8,767.03)	(81,653.22)	(1,206.74)
NH Atardecer Caribeño, S.L.	Madrid	Property	100%	100%	48.05	2,558.68	(1,310.31)	(47.04)	(1,201.32)
NH Belgium cvba	Diegem	Holding	100%	100%	134.22	80,532.68	(1,526.41)	(78,368.61)	(637.67)
Blacom, S.A.	Buenos Aires	Investment	100%	100%	4,271.16	1,141.99	75.20	(1,211.30)	(5.89)
NH Caribbean Management, B.V.	Hilversum	Management	100%	100%	(100.19)	-	(100.19)	100.19	-
NH Central Europe, GmbH & Co. KG (*)	Germany	Hotel	100%	100%	8,639.63	68,504.11	(479.85)	(69,189.88)	1,165.62
NH Central Europe Management, GmbH	Berlin	Hotel	100%	100%	48.05	43.31	(3.39)	(37.02)	(2.90)
NH Domo y Decoración, S.L.	Madrid	Decoration	50%	50%	2.00	0.03	(0.44)	(0.23)	0.65
NH Finance, S.A. (*)	Luxembourg	Financial	100%	100%	2,623.00	641,446.88	(643,388.47)	1,628.43	313.16
NH Framon Italy Hotels Management, S.r.l. (*)	Milan	Hotel	100%	100%	54,944.45	82,497.37	(58,302.74)	(33,653.68)	9,459.06
NH Hotel & Service, GmbH	Berlin	Hotel	100%	100%	99.83	130.61	(30.78)	83.94	(183.76)
NH Hotel Ciutat de Reus, S.A.	Barcelona	Hotel	90.10%	90.10%	1,118.15	4,215.69	(2,973.93)	(973.98)	(267.78)
NH Hotel Rallye, S.A. (*)	Barcelona	Hotel	100%	100%	265,762.87	292,038.90	(191,027.59)	(100,659.79)	(351.52)
NH Hotelbetriebs.-u. Dienstleistungs, GmbH	Berlin	Hotel	100%	100%	1,974.00	1,984.56	(15,235.61)	12,629.67	621.39
NH Hotelbetriebs-u. Entwiklungs, GmbH	Berlin	Hotel	100%	100%	-	-	(3,982.35)	3,864.07	118.28
NH Hoteles Austria, GmbH (*)	Vienna	Hotel	100%	100%	9,667.00	2,645.32	(3,269.30)	(729.63)	1,353.60
NH Hoteles Deutschland, GmbH (*)	Berlin	Hotel	100%	100%	61,434.14	23,624.38	(18,924.95)	(13,784.99)	9,085.56
NH Hoteles España, S.L.	Barcelona	Hotel	100%	100%	98,126.81	145,904.26	(51,121.03)	(90,367.22)	(4,416.01)
NH Hoteles Participaties, NV (**)	Hilversum	Holding	100%	100%	225,553.56	597,453.61	(87,038.18)	(448,641.96)	(61,773.47)
NH Hoteles Polska, Sp. Z.o.o.	Poland	Hotel	100%	100%	13.99	53.66	(6.80)	(12.06)	(34.80)
NH Hotels USA, Inc.	Houston (USA)	Property	100%	100%	169.57	350.90	(181.33)	(136.25)	(33.32)
NH Hungary Hotel Management, Ltd. (*)	Budapest	Hotel	100%	100%	12.80	67.79	(246.11)	(185.13)	363.45
NH Italia. Srl. (*)	Milan	Hotel	52.50%	52.50%	225,241.00	510,621.16	(83,051.63)	(439,408.14)	11,838.61
NH Lagasca, S.A.	Barcelona	Hotel	100%	100%	643.38	23,920.58	(19,297.69)	(4,241.81)	(381.08)
NH Laguna Palace SpA	Mestre - VE	Hotel	100%	100%	11,352.74	12,865.87	(3,824.50)	(9,701.28)	659.91
NH Las Palmas, S.A. (*)	Gran Canaria	Hotel	56.13%	56.13%	11,833.38	24,676.62	(10,894.98)	(12,731.26)	(1,050.39)
NH Logroño, S.A.	Logroño	Hotel	76.47%	76.47%	598.65	4,551.95	(2,487.37)	(2,038.27)	(26.30)
NH Management Black Sea, S.r.l.	Bucharest	Hotel	100%	100%	300.16	1,404.72	(146.33)	(770.97)	(487.41)
NH Marin, S.A. (*)	Malaga	Hotel	50%	50%	1,686.39	5,816.26	(3,194.47)	(2,212.43)	(409.35)
NH Numancia, S.A.	Barcelona	Hotel	100%	100%	667.17	4,260.35	(3,885.26)	(531.30)	156.22
NH Orio, S.r.l. (*)	Milan	Hotel	80%	80%	88.00	3,432.19	(3,969.17)	(90.49)	627.47
NH Private Equity, B.V.	Netherlands	Holding	100%	100%	(3,220.48)	4,567.31	(7,787.80)	852.52	2,367.96
NH Rallye Portugal Lda.	Portugal	Hotel	99.90%	99.90%	2,004.94	2,066.14	(581.96)	(1,768.20)	284.02
NH The Netherlands, B.V. (vh GTI, B.V.)	Hilversum	Holding	100%	100%	389,298.14	235,837.58	153,460.56	(333,709.82)	(55,588.32)
NH Tortona, S.r.l.	Milan	Hotel	70%	70%	2,264.29	7,308.15	(10,741.10)	3,067.15	365.80
IZD Hotel Betriebs, GmbH	Vienna	Hotel	100%	100%	-	1,430.87	(694.48)	(1,204.75)	468.36
Nuevos Espacios Hoteleros, S.L.	Madrid	Hotel	50%	50%	2,050.43	11,114.72	(11,329.46)	(154.27)	369.01
Olofskapel Monumenten, B.V.	Amsterdam	Property	100%	100%	448.77	1,339.36	(890.59)	(333.14)	(115.62)
Operadora Nacional Hispana, S.A. De C.V. (*)	Mexico City	Property	100%	100%	2,988.31	17,691.77	(14,703.45)	(2,676.06)	(312.25)

Investee Company	Address of Investee Company	Main activity of the Investee Company	% holding of the parent company in the investee company	% voting rights controlled by the parent company	Net book value recorded in the parent company	Thousand euros			
						Assets	Liabilities	Equity	Profit and loss for the year
Palatium Amstelodamum, N.V.	Amsterdam	Hotel	100%	100%	8,477.12	34,894.78	(26,417.66)	(8,260.24)	(216.87)
Panorama Hotel SA (*)	Cordoba (Argentina)	Hotel	99.99%	99.99%	6,924.47	6,288.10	(647.25)	(5,288.65)	(352.20)
Polis Corporation, S.A.	Buenos Aires	Hotel	50%	50%	10,191.50	3,926.56	(726.20)	(3,212.67)	12.31
Rest. d'Vijff vlieghe en Moeder Hendrina, B.V.	Amsterdam	Holding	100%	100%	1,739.07	6,162.36	(4,423.29)	(1,555.80)	(183.26)
Restaurant D'Vijff Vlieghe, B.V.	Amsterdam	Catering	100%	100%	1,739.07	6,162.36	(4,423.29)	(1,555.80)	(183.26)
Retail Invest, S.A.	Madrid	Hotel	100%	100%	27,326.99	3,219.02	(2,587.74)	(1,678.43)	1,047.15
Satme S.r.l. (*)	Messina	Hotel	100%	100%	9,006.33	19,237.25	(16,750.74)	(3,368.13)	881.62
Servicios Chartwell de Nuevo Laredo, S.A. de C.V. (*)	Nuevo Laredo (Mexico)	Hotel	100%	100%	7.48	75.15	(67.67)	(1.14)	(6.34)
Servicios Corporativos Chartwell Coatzacoalcos, S.A. de C.V. (*)	Coatzacoalcos (Mexico)	Hotel	100%	100%	0.07	0.07	-	5.16	(5.22)
Servicios Corporativos Chartwell Monterrey, S.A. de C.V. (*)	Monterrey (Mexico)	Property	100%	100%	(1.15)	218.79	(219.94)	1.02	0.13
Servicios Corporativos Hoteleros, S.A. de C.V. (*)	Mexico City	Hotel	100%	100%	451.64	1,127.66	(676.02)	(255.98)	(195.66)
Servicios Corporativos Krystal Zona Rosa, S.A. de C.V. (*)	Mexico City	Hotel	100%	100%	(38.70)	171.73	(210.44)	49.50	(10.79)
Servicios de Operación Turística, S.A. de C.V. (*)	Guadalajara (Mexico)	Hotel	100%	100%	125.29	383.22	(257.94)	(119.67)	(5.62)
Servicios e Inmuebles Turísticos, S.A. de C.V. (*)	Guadalajara (Mexico)	Hotel	100%	100%	54,291.70	53,568.91	722.79	(51,020.91)	(3,270.79)
Servicios Hoteleros Tlalnepantla, S.A. de C.V. (*)	Mexico City	Hotel	100%	100%	(2.20)	3.00	(5.19)	1.39	0.80
Sotogrande, S.A. (*)	Cadiz	Property	96.72%	96.72%	201,277.65	270,885.34	(67,092.76)	(206,659.18)	2,866.59
Stadskasteel Oudaen, B.V.	Utrecht	Dormant	100%	100%	(1,099.76)	-	(1,099.76)	1,099.76	0.00
Syllabus	Buenos Aires	Investment	99.99%	99.99%	269.77	54.07	(2.49)	(49.82)	(1.76)
t Goude Hooft, B.V.	The Hague	Dormant	100%	100%	(1,076.08)	-	(1,076.08)	1,076.08	0.00
Toralo S.A. (*)	Uruguay	Hotel	100%	100%	20,115.52	5,991.31	(148.75)	(5,624.06)	(218.50)
Hotelbetriebe Bayreuther Strabe, GmbH	Germany	Hotel	100%	100%	-	130.61	(30.78)	83.94	(183.76)
VSOP VIII, B.V. (**)	Groningen	Hotel	50%	50%	845.62	8,150.51	(6,459.27)	(1,305.14)	(386.10)
Servicios Corporativos de Tlalnepantla, S.A. de C.V.	Mexico City	Hotel	100%	100%	(2.20)	3.00	(5.19)	1.39	0.80

(*) Companies audited by Deloitte

(**) Companies audited by PriceWaterhouseCoopers

APPENDIX II: ASSOCIATED COMPANIES

Company	Address	Activity	% holding	% Voting Rights controlled by NH Hoteles	Net book value	Thousand euros			
						Information about the Investee Company			Profit and loss for the year
					Assets	Liabilities	Equity		
Capredo Investments, GmbH	Switzerland	Holding	50%	50%	15,052.00	27.00	-	(27.00)	-
Consorcio Grupo Hotelero T2, S.A. de C.V.	Mexico D.F.	Hotel	10%	10%	76.00	10,424.70	(9,716.35)	(678.81)	(29.55)
Desarrollos Isla Blanca, S.L.	Madrid	Property	50%	50%	19,532.00	26,151.12	(4,808.62)	(20,958.29)	(384.21)
Desarrollos Isla Poniente, S.L.	Madrid	Property	50%	50%	30,258.00	30,326.37	0.61	(30,287.46)	(39.53)
Fonfir 1, S.L.	Madrid	Property	50%	50%	20.00	201,340.00	(169,101.00)	(31,278.00)	(961.00)
Harrington Hall Hotel, Ltd. (*)	London	Hotel	25%	25%	1,259.35	55,327.58	(73,573.03)	1,731.50	16,513.95
Inmobiliaria 3 Poniente, S.A. de C.V.	Mexico	Hotel	27%	27%	1,697.00	7,165.35	(745.55)	(6,814.88)	395.08
Losan Investment, Ltd.	London	Hotel	30%	30%	3,280.00	34,808.68	(29,931.33)	(4,838.25)	(39.10)
Mil Novecientos Doce, S.A. de C.V.	Mexico	Hotel	25%	25%	1,026.00	10,120.92	(6,393.90)	(4,100.35)	373.33
Palacio de la Merced, S.A.	Burgos	Hotel	25%	25%	1,177.00	23,709.77	(18,134.96)	(5,300.78)	(274.04)
Promociones Marina Morelos, S.A. de C.V. (*)	Cancun	Hotel	26%	26%	10,293.00	78,010.15	(47,697.05)	(30,313.10)	-

APPENDIX III: JOINT VENTURES

Set out below is information about the three property companies that are registered in San Roque (Cadiz), which are consolidated with the Controlling Company using the proportional method. As at 31 December 2008, the parent company's holding in the investee companies and the proportion of voting rights controlled by the parent company was 50%, as set out below:

Investee Company	Net book value recorded in the parent company	Thousand euros			
		Assets	Liabilities	Equity	Profit and loss for the year
Los Alcornos de Sotogrande, S.L.	250.00	13,692.00	(13,144.00)	(596.00)	48.00
Resco Sotogrande, S.L.	817.00	13,122.00	(11,846.00)	(2,104.00)	828.00
Residencial Marlin, S.L. (*)	1,306.00	107,000.00	(98,754.00)	(2,604.00)	(5,642.00)

(*) Company audited by Deloitte

DECLARATION OF LIABILITY OF THE ADMINISTRATORS FOR THE PURPOSES OF THE TERMS OF ARTICLE 8.1.b OF ROYAL DECREE 1362/2007, DATED 19 OCTOBER, WHICH DEVELOPS THE SECURITIES MARKET ACT, LAW 24/1988, DATED 28 JULY.

The Board of Directors of NH HOTELES, S.A., meeting on 27 February 2009, declared that, as far as it knows, the consolidated financial statements that are being presented, drawn up in accordance with applicable accounting principles, give a true and fair view of the net equity, financial position and results of the NH HOTELES, S.A. and subsidiaries, taken together, and the directors' report includes a faithful analysis of the information required.

AUDIT COMMISSION REPORT

1) Duties, competence and working of the Audit Committee

The main duties of the Audit and Control Committee are to support the Board of Directors in its surveillance and control duties. The most important of these duties is to ensure that generally accepted accounting principles are properly applied and to check that the internal control systems used when drawing up the individual and consolidated Annual Accounts are adequate and complete.

As a result of the enactment of the new rules on corporate transparency and Governance, the rules governing the Committee are now to be included in the Bylaws. Thus, Article 25 of the Bylaws, which was included in the Bylaws as a result of a decision taken by the General Meeting of Shareholders held on 28 April 2003, is now worded as follows:

1. "Inside the Board of Directors, an Audit and Control Committee shall be set up - in accordance with the requirements laid down by Section 141 of the Companies Act - made up of at least three and at most five Directors appointed by the Board of Directors. The majority of the members of this Committee must be non-executive Directors.
2. The Chairperson of the Audit and Control Committee shall be appointed by the Committee itself from among its non-executive director members, and must be replaced every four years. He/she may be re-elected once again after a year has elapsed since the end of his last term
3. The Audit and Control Committee shall have at least the following competences:
 - a) to report, through its Chairperson, to the General Meeting of Shareholders on the issues that are raised by the shareholders regarding matters that fall within the Committee's remit;
 - b) to propose to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of the Auditor referred to in Section 204 of the Companies Act, as well as, whenever appropriate, the terms under which the Auditor is to be contracted, the scope of his/her professional mandate and the revocation or renewal of his/her appointment;
 - c) to supervise the internal auditing services;
 - d) to be informed about the financial information process and the internal control systems; and
 - e) to handle relations with the Auditor for receiving information regarding any issues that may put the Auditor's independence at risk, and any other issues relating to the process of auditing the accounts, as well as to receive information and keep up the communications with the Auditor provided for under audit legislation and in the technical audit standards.
 - f) to assure the observance of the internal Code of Ethics and the Corporate Governance rules
4. The Committee shall meet at least once a quarter and whenever it is deemed appropriate, after being convened by the Chairperson, on his/her own decision or in response to a request made by two of the members of the Committee or of the Board of Directors.
5. The Audit and Control Committee shall have a quorum whenever at least half of its members are either present or represented; and it shall make its decisions by a majority vote of those present or represented. The Chairperson shall have a casting vote.
6. The Board of Directors may develop and complete the above rules in its Regulations, in accordance with the terms of the Bylaws and the Act."

2) Members of the Audit Committee

During the period 2008 D.Miguel Rodríguez Domínguez was appointed as a member of the Compensation and Nominating Committee so he left the Audit and Control Committee and was replaced by Sociedad de Promocion y participacion Empresarial Caja Madrid.

The Audit Committee currently consists of:

Directors:

Chairman:	Ramón Blanco Balín	- Independent
Member:	Hoteles Participados	- Shareholder
Member:	Sociedad de Promocion y participacion Empresarial Caja Madrid	- Shareholder

3) Relations with external Auditors

The Parent company of the NH Hoteles Group has been audited since 1986. The main auditors since then are listed below:

Year	Auditor
1986	Peat Marwick
1987	Peat Marwick
1988	Peat Marwick
1989	Peat Marwick
1990	Peat Marwick
1991	Peat Marwick
1992	Peat Marwick
1993	Arthur Andersen
1994	Arthur Andersen
1995	Arthur Andersen
1996	Arthur Andersen
1997	Arthur Andersen
1998	Arthur Andersen
1999	Arthur Andersen
2000	Andersen
2001	Andersen
2002	Deloitte
2003	Deloitte
2004	Deloitte
2005	Deloitte
2006	Deloitte
2007	Deloitte
2008	Deloitte

The 2008 Consolidated Annual Accounts were audited by two renown independent firms:

- Deloitte is the main auditor. As such, it issues the audit opinion on the Consolidated Annual Accounts. It checked the accounts of the companies in the Spain/Portugal, Mexico, MERCOSUR and Sotogrande Business Units, which account for 77% of the assets and 71% of consolidated net profit.
- PriceWaterhouse Coopers audited the Netherlands/Belgium, and Austria/Switzerland Business Units, which account for 23% of assets and 32% of total revenues. Deloitte was appointed for a one-year term, as the Group's main auditor at the General Meeting of Shareholders of NH Hoteles held on 17 June 2008 and as auditor of the various Business Units listed above at their respective General Meetings of Shareholders held during the first half of 2008.

That firm has been the Group's main auditor since 2002, although the partner in charge of the audit changed in 2003, 2005 and 2007. The total fees received by the firm for its auditing services for 2008 totaled 1.17 million euros (1.15 million euros in 2007).

PriceWaterhouse Coopers (PWC) was appointed, also for a one-year term, as auditor of the Business Unites listed above at the respective General Meetings of Shareholders held during the first half of 2008. PWC has been the auditor of the Dutch, Belgian and Swiss Companies

since 1998 and of the Austrian Companies since 2004. The portuguese companies have been audited by Batista, Costa y Asociados .Fees for all these audit services for 2008 totaled 0.56 million euros (0.55 million euros in 2007).

4) Content and results of the work of the Audit Committee

The Audit Committee held 8 meetings in 2008 and dealt with the following issues:

- a) Analyzing and assessing, together with the external auditors, the Financial Statements and the Notes to the Financial Statements for 2007 and 2008, checking that their audit opinion was issued under conditions of complete independence.
- b) Reviewing the regular public financial information prior to its being analyzed and approved by the Board of Directors so that it is reliable, transparent and drafted by applying standard accounting principles and criteria.
- c) Monitoring the Internal Audit Plan for 2008, examining its conclusions and the implementation, whenever applicable, of any corrective measures that are needed.
- d) Ending the elaboration of the Manual on administrative/operational processes for the hotels. This project was started in 2007 and has been continued in 2008 with the implementation in The Netherlands and Germany and the planning in the rest of countries. Italy will be developed in the fourth quarter of 2009.
- e) Updating the different types of risk to which the activities of NH Hoteles are exposed. Designing the Group's definitive Risk Map by hiring an external consultancy to provide support to the project.
- f) Examining the Annual Corporate Governance Report, before submitting it to the Board of Directors for study and approval, with a special emphasis on the analysis of the record of situations of Directors and Managers.
- h) Analyzing the operations with related companies to check that have been performed within marketing conditions

5) Priorities for 2009

The priorities of this Committee for 2009, apart from those related to the drafting and issuing of public financial information focus on:

1. Auditing the specific control areas to assure the correctness of the deployment of the processes included in the Manual on administrative/operational for all the hotels.
2. Implementing the Manual on administrative/operational procedures in Italy. Creation of a deployment team to adapt the existing processes to the specific characteristics of the country
3. Performing preventing audits in order to create the right controls to avoid the fraud in the hotels . Increasing of the IT systems integrity in point of sales
4. Monitoring the Internal Audit Plan.

To conclude this report, it should be pointed out that in order to carry out all the work mentioned above, this Committee has had access, whenever it has deemed this useful, to all the outside professionals (auditors, appraisers and consultants) and members of the economic and financial departments, internal auditors and management control it has deemed necessary.

Meet us

345 hotels

51,591 rooms

22 countries in Europe, America and Africa



NH Hoteles

Santa Engracia, 120

28003 - Madrid

T: +34 91 451 97 18

F: +34 91 451 97 89

www.nh-hotels.com



Due to NH Hoteles' commitment to the preservation of the environment, NH Hoteles has published this Report on paper made of pure cellulose fibre, bleached using ECF processes, fully recyclable, biodegradable and coming from sustainable forests with chain-of-custody certification.

Exclusive use of vegetable oil-based inks with minimal Volatile Organic Compounds (VOC'S). Varnish predominantly based on renewable natural raw materials.

