

# CORPORATE GOVERNANCE REPORT

## IDENTIFICATION DATA OF THE ISSUER

FISCAL YEAR ENDED: 31/12/2009

TAX ID.: A28027944

Corporate Name: NH HOTELES, S.A.

## STANDARD ANNUAL REPORT ON CORPORATE GOVERNANCE 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 LATEST CHANGE	SHARE CAPITAL (EUROS)	NUMBER OF SHARES	NUMBER OF VOTING RIGHTS
23/07/2009	493,234,860.00	246,617,430	246,617,430

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	61,871,380	0	25.088
MR. JOSÉ ANTONIO CASTRO SOUSA	0	61,871,380	25.088
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	0	24,766,704	10.043
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	0	15,147,973	6.142
CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.	15,147,973	0	6.142
BANCAJA INVERSIONES, S.A.	13,955,675	0	5.659
INTESA SANPAOLO, S.P.A.	5,791,685	8,148,802	5.653
MR. AMANCIO ORTEGA GAONA	0	12,512,971	5.074
PONTEGADEA INVERSIONES, S.L.	12,512,971	0	5.074
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA (IBERCAJA)	12,432,716	0	5.041
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	11,206,208	0	4.544

NAME OR CORPORATE NAME OF THE INDIRECT OWNER OF THE HOLDING	THROUGH: NAME OR CORPORATE NAME OF THE DIRECT HOLDER OF THE HOLDING	NUMBER OF DIRECT VOTING RIGHTS	% OF TOTAL VOTING RIGHTS
MR. JOSÉ ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A	61,871,380	25.088
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	11,206,208	4.544
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	13,560,496	5.499
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.	15,147,973	6.142
INTESA SANPAOLO, S.P.A.	PRIVATE EQUITY INTERNATIONAL	8,148,802	3.304
MR. AMANCIO ORTEGA GAONA	PONTEGADEA INVERSIONES, S.L.	12,512,971	5.074



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
GSS III HURRICANE BV	21/07/2009	Has fallen below 5% of the Share capital
GSS III HURRICANE BV	23/07/2009	Has fallen below 3% of the Share Capital
MORGAN STANLEY REAL STATE III MANAGER, LLC	21/07/2009	Has fallen below 5% of the Share capital
MORGAN STANLEY REAL STATE III MANAGER, LLC	23/07/2009	Has fallen below 3% of the Share capital
STANDARD LIFE INVESTMENTS LTD	29/10/2009	Has fallen below 3% of the Share capital
STANDARD LIFE INVESTMENTS LTD	12/10/2009	Has exceeded 3% of the Share capital
LONGLEAF PARTNERS INTERNATIONAL FUND	06/03/2009	Has fallen below 3% of the Share capital
SOUTHEASTERN ASSET MANAGEMENT, INC	10/03/2009	Has fallen below 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
MR. GABRIELE BURGIO	1,600,176	0	0.649
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	0	13,955,675	5.659
MR. FRANCISCO JAVIER ILLA RUIZ	1	0	0.000
HOTELES PARTICIPADOS, S.L.	13,385,269	0	5.428
MR. IÑAKI ARRATÍBEL OLAZIREGI	100	0	0.000
MR. JOSÉ DE NADAL CAPARÁ	18,770	0	0.008
MR. JUAN ANTONIO SAMARANCH SALISACHS	82,000	0	0.033
MR. MIGUEL RODRÍGUEZ DOMÍNGUEZ	3,000	0	0.001
MS. ROSALBA CASIRAGHI	1	0	0.000
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	13,560,496	0	5.499

NAME OR CORPORATE NAME OF THE INDIRECT OWNER 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.	13,955,675	5.659

**% of votes in the possession of the board of directors** **17.276**

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	N° OF DIRECT OPTIONS	N° OF INDIRECT OPTIONS	N° OF EQUIVALENT SHARES	% OF TOTAL VOTING RIGHTS
MR. 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:**

YES

**% of share capital affected:** 20.74 %

**Brief description of the agreement:**

Setting up a Syndicate of Shareholders that will cover all the shares of the Company that are held by the Shareholders for as long as the Shareholders' Agreement is in force, except for any shares acquired as a result of providing financial services to customers or cash and bank and trading activities. Under the terms of this Syndicate, all the members of the Syndicate undertake to use their full voting rights relating to the syndicated shares as a single block and, in particular, that all the syndicated shares vote at General Meetings as a single block in such a way as decided by the majorities as specifically laid down in said Shareholders' Agreement.



**PARTICIPANTS IN THE PARASOCIAL AGREEMENT**

BANCAJA INVERSIONES, S.A.
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA (IBERCAJA)

**% of share capital affected:** 11,570 %

**Brief description of the agreement:**

Setting up a Syndicate of Shareholders that will cover all the shares of the Company that are held by the Shareholders for as long as the Shareholders' Agreement is in force, except for any shares acquired as a result of providing financial services to customers or cash and bank and trading activities. Under the terms of this Syndicate, all the members of the Syndicate undertake to use their full voting rights relating to the syndicated shares as a single block and, in particular, that all the syndicated shares vote at General Meetings as a single block in such a way as decided by the majorities as specifically laid down in said Shareholders' Agreement.

**PARTICIPANTS IN THE PARASOCIAL AGREEMENT**

CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.
HOTELES PARTICIPADOS, S.L.

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 agreements during the year:

**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
0	91,057	0.037

(\*) Through:

NAME OR CORPORATE NAME OF THE DIRECT HOLDER OF THE HOLDING	NUMBER OF DIRECT SHARES
GRUPO FINANCIERO DE INTERMEDIACIÓN Y ESTUDIOS, S.A.	91,057
<b>Total</b>	<b>91,057</b>

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
25/03/2009	217,318	1,964,303	1.475

Increase/(decrease) in own shares held during the period (thousand euros)	291
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**A.9. Conditions and time period 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 16 June 2009 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. In no event may the par value of the shares acquired, together with the shares taken as security, exceed the cap set by law at the time.

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 remuneration schemes" or "linked to the listed share value" set up in the Company that have been duly approved.

**A.10 State, whenever applicable, any legal or articles of association 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**

Maximum percentage of voting rights to which any shareholder may legally exercise	0
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State whether the Articles of Association impose any restrictions on voting rights:

**YES**

Maximum percentage of voting rights to which any shareholder may exercise under the terms of a statutory restriction	20,000
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**DESCRIPTION OF THE RESTRICTIONS ON EXERCISING VOTING RIGHTS LAID DOWN BY LAW OR IN THE ARTICLES OF ASSOCIATION**

In accordance with the terms of Article 15 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 20% 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 51% 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**

If so, explain the measures approved and the terms under which the restrictions will no longer hold:

**B - STRUCTURE OF THE COMPANY'S ADMINISTRATION**

**B.1 Board of Directors**

B.1.1 State the maximum and minimum directors 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
MR. GABRIELE BURGIO	-	CHAIRMAN AND CHIEF EXECUTIVE OFFICER	12/01/1993	16/06/2009	VOTE AT SHAREHOLDERS' MEETING
MR. ANTONIO VIANA BAPTISTA	-	DIRECTOR	16/06/2009	16/06/2009	VOTE AT SHAREHOLDERS' MEETING
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	MR. AURELIO IZQUIERDO GÓMEZ	DIRECTOR	17/02/2002	29/05/2007	VOTE AT SHAREHOLDERS' MEETING
MR. FRANCISCO JAVIER ILLA RUIZ	-	DIRECTOR	27/10/2009	03/12/2009	VOTE AT SHAREHOLDERS' MEETING
HOTELES PARTICIPADOS, S.L.	MR. IGNACIO EZQUIAGA DOMÍNGUEZ	DIRECTOR	29/04/2004	29/05/2007	VOTE AT SHAREHOLDERS' MEETING
MR. IÑAKI ARRATÍBEL OLAZIREGI	-	DIRECTOR	28/10/2008	16/06/2009	VOTE AT SHAREHOLDERS' MEETING
MR. JOSÉ DE NADAL CAPARÁ	-	DIRECTOR	08/05/1997	17/06/2008	VOTE AT SHAREHOLDERS' MEETING
MR. JUAN ANTONIO SAMARANCH SALISACHS	-	DIRECTOR	03/12/2009	03/12/2009	VOTE AT SHAREHOLDERS' MEETING
MR. JULIO C. DÍAZ-FREIJO CERECEDO	-	DIRECTOR	22/02/2006	16/06/2009	VOTE AT SHAREHOLDERS' MEETING
MR. MIGUEL RODRÍGUEZ DOMÍNGUEZ	-	DIRECTOR	29/04/2004	29/05/2007	VOTE AT SHAREHOLDERS' MEETING
MS. NURIA ITURRIAGAGOITIA RIPOLL	-	DIRECTOR	16/06/2009	16/06/2009	VOTE AT SHAREHOLDERS' MEETING
MS. ROSALBA CASIRAGHI	-	DIRECTOR	12/05/2009	16/06/2009	VOTE AT SHAREHOLDERS' MEETING
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	MR. ANGEL CÓRDOBA DÍAZ	DIRECTOR	17/06/2008	17/06/2008	VOTE AT SHAREHOLDERS' MEETING

<b>Total number of directors</b>	<b>13</b>
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State the resignations that have taken place from the Board of Directors during the period

NAME OR CORPORATE NAME OF THE DIRECTOR	DIRECTOR STATUS AT TIME OF RESIGNATION	RESIGNATION DATE
MR. RAMÓN BLANCO BALÍN	INDEPENDENT	16/06/2009
MR. ALFONSO MERRY DEL VAL GRACIE	INDEPENDENT	16/06/2009
MR. MANUEL HERRANDO Y PRAT DE LA RIBA	INDEPENDENT	27/10/2009

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
MR. GABRIELE BURGIO	BOARD OF DIRECTORS	CHAIRMAN - CHIEF EXECUTIVE OFFICER
Total number of executive directors		1
Total % of the board		7.692

#### EXTERNAL PROPRIETARY DIRECTORS

NAME OR CORPORATE NAME OF THE DIRECTOR	COMMITTEE THAT HAS PROPOSED THE DIRECTOR'S APPOINTMENT	NAME OR CORPORATE NAME OF THE MAJOR SHAREHOLDER WHO HE/SHE REPRESENTS OR THAT HAS PROPOSED THE DIRECTOR'S APPOINTMENT
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	-	CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)
MR. FRANCISCO JAVIER ILLA RUIZ	NOMINATING AND COMPENSATION COMMITTEE	GRUPO INVERSOR HESPERIA, S.A
HOTELES PARTICIPADOS, S.L.	NOMINATING AND COMPENSATION COMMITTEE	HOTELES PARTICIPADOS, S.L.
MR. IÑAKI ARRATÍBEL OLAZIREGI	-	CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN
MR. JULIO C. DÍAZ-FREJO CERECEDO	NOMINATING AND COMPENSATION COMMITTEE	PONTEGADEA INVERSIONES, S.L.
MS. ROSALBA CASIRAGHI	NOMINATING AND COMPENSATION COMMITTEE	INTESA SANPAOLO, S.P.A.
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	-	CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID
Total number of proprietary directors		7
Total % of Board		53.846

#### EXTERNAL INDEPENDENT DIRECTORS

**Name or corporate name of the director** MR. ANTONIO VIANA BAPTISTA

**Qualifications** MBA; Honours of Distinction; INSEAD, Fontainebleau (Francia); Master en European Economics.

**Name or corporate name of the director** MR. JOSÉ DE NADAL CAPARÁ

**Qualifications** Degree in Chemical Engineering, IQS Barcelona (1962-68), MBA Esade Barcelona (1966-69) lecturer in Marketing Master in Business Studies IQS, Barcelona (1980-83)

**Name or corporate name of the director** MR. MIGUEL RODRÍGUEZ DOMÍNGUEZ

**Qualifications** Businessman

**Name or corporate name of the director** MS. NURIA ITURRIAGAGOITIA RIPOLL

**Qualifications** Degree in Economics and Business Studies, Deusto University; General Management Programme, IESE; International Marketing, Accounts and Finance, Business Policy, Human Resources Management, Buckingham College of Higher Education (United Kingdom).

Total number of independent directors	4
Total % of the board	30.769

#### OTHER EXTERNAL DIRECTORS

NAME OR CORPORATE NAME OF THE DIRECTOR	COMMITTEE THAT HAS PROPOSED THE DIRECTOR'S APPOINTMENT
MR. JUAN ANTONIO SAMARANCH SALISACHS	NOMINATING AND COMPENSATIONS COMMITTEE



Total number of other external directors	1
Total % of the board	7.692

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

**Name or corporate name of the Director** MR. JUAN ANTONIO SAMARANCH SALISACHS

**Company, executive or shareholder with whom he is linked** NH HOTELES, S.A.

**Grounds** The company GBS Finanzas, S.A., in which the Director is a top executive, has on occasions, and in any case prior to his appointment as a Director, had business relations with the NH Hoteles group.

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

B.1.4 Please state the reasons, where applicable, for the appointment of proprietary 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 proprietary 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** MR. MANUEL HERRANDO Y PRAT DE LA RIBA

**Reason for resignation** Mr. Herrando y Prat de la Riba tendered his resignation on personal grounds which he stated at the meeting of the Board of Directors.

B.1.6 State the powers that have been delegated to the Chief Executive Officer/s, if any:

**Name or corporate name of director** MR. GABRIELE BURGIO

**Brief description** 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
MR. GABRIELE BURGIO	GRUPO FINANCIERO DE INTERMEDIACIÓN Y ESTUDIOS. S.A.	REPRESENTATIVE OF THE SOLE ADMINISTRATOR NH HOTELES. S.A.
MR. GABRIELE BURGIO	KRASNAPOLSKY HOTELS & RESTAURANTS. BV	MEMBER OF THE "SUPERVISORY BOARD"
MR. GABRIELE BURGIO	NACIONAL HISPANA HOTELES SRL DE CV	DIRECTOR
MR. GABRIELE BURGIO	NH DOMO DISEÑO Y DECORACIÓN S.L.	JOINT ADMINISTRATOR
MR. GABRIELE BURGIO	SOTOGRADE. S.A.	DIRECTOR
MR. GABRIELE BURGIO	NH HOTELES PARTICIPATIES N.V.	CHAIRMAN AND DIRECTOR
MR. GABRIELE BURGIO	NH ITALIA. S.R.L.	CHAIRMAN AND DIRECTOR
MR. FRANCISCO JAVIER ILLA RUIZ	NH HOTELES ESPAÑA. S.L.	DIRECTOR

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
MR. 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 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)	BANCAJA EMISIONES. S.A.	CHAIRMAN
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	ENAGAS. S.A.	DEPUTY CHAIRMAN
MR. MIGUEL RODRÍGUEZ DOMÍNGUEZ	COMPAÑÍA ESPAÑOLA PARA LA FABRICACIÓN MECÁNICA DEL VIDRIO. 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 Nominating 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 Nominating 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 EUROS
Fixed Compensation	775
Variable Compensation	900
Attendance fees	76
Statutory Compensation	439
Stock options and/or other financial instruments	0
Other	235
<b>Total</b>	<b>2,425</b>

OTHER BENEFITS	FIGURE IN THOUSAND EUROS
Advances	0
Loans granted	8,305
Pension Funds and Plans: Contributions	0
Pension Funds and Plans: Obligations entered into	0
Life insurance premiums	42
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 EUROS
Fixed Compensation	0
Variable Compensation	0
Attendance fees	1
Statutory Compensation	125
Stock options and/or other financial instruments	0
Other	0
<b>Total</b>	<b>126</b>



OTHER BENEFITS	FIGURE IN THOUSAND EUROS
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 type of director**

CATEGORIES OF DIRECTORS	BY COMPANY	BY GROUP
Executives	1,948	16
External Proprietary	248	0
External Independent	226	110
Other External Directors	3	0
<b>Total</b>	<b>2,425</b>	<b>126</b>

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

Total compensation directors (in thousand euros)	2,551
Total compensation directors/profit attributed to the controlling company (expressed in %)	-2.6

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
MR. ROBERTO CHOLLET IBARRA	CHIEF FINANCIAL OFFICER
MR. LEOPOLDO GONZÁLEZ-ECHENIQUE CASTELLANOS DE UBAO	GENERAL SECRETARY
MR. JUAN DE MORA NARVÁEZ	CORPORATE MANAGER HUMAN RESOURCES
MR. JESÚS IGNACIO ARANGUREN GONZÁLEZ-TARRÍO	CHIEF STRATEGY OFFICER
MR. IGNACIO DÍAZ LÓPEZ	CORPORATE MANAGER INTERNAL AUDITING
MR. FRANCISCO ALEJANDRO ZINSER CIESLIK	CHIEF OPERATIONAL OFFICER

<b>Total compensation of senior management (in thousand euros)</b>	<b>3,076</b>
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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:

<b>Number of beneficiaries</b>	<b>6</b>
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	BOARD OF DIRECTORS	GENERAL MEETING
Body that authorises the clauses	YES	NO

Is the General Meeting told about the clauses	NO
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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 remuneration provided for in the previous section, there are plans to set up systems of remuneration indexed on the share price or which involve handing over shares or share options for the Directors. The use of such systems of remuneration 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 remuneration 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 of the company's chief executive, the appointment and possible dismissal of senior managers, as well as their compensation clause.	NO
Directors' compensation, as well as, in the case of executive directors, any additional remuneration for their executive duties and other contract conditions.	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 fixed components, with a breakdown, where applicable, of Board and Board committee attendance fees, with an estimate of the fixed annual payment they give rise to	YES
Items of variable compensation	YES
Main features of the pension systems, with an estimate of the amount or equivalent annual cost thereof.	YES
Conditions to apply to the contracts of those who hold senior management positions as executive directors.	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 COVERED 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 Nominating 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:

NAME OR CORPORATE NAME OF THE DIRECTOR	CORPORATE NAME OF THE MAJOR SHAREHOLDER	POSITION
MR. FRANCISCO JAVIER ILLA RUIZ	GRUPO INVERSOR HESPERIA, S.A	CHIEF EXECUTIVE OFFICER
MS. ROSALBA CASIRAGHI	INTESA SANPAOLO, S.P.A.	MEMBER OF THE AUDITING AND COMPLIANCE COMMITTEE
MS. ROSALBA CASIRAGHI	INTESA SANPAOLO, S.P.A.	MEMBER OF THE BOARD OF SURVEILLANCE



Provide a detailed explanation, where applicable, of significant affiliations or relationships apart from those addressed in the foregoing section, that link Board members to major shareholders 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:

**NO**

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-option 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 EXTERNAL DIRECTORS**

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

The Board of Directors and the Nominating 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 External Directors:

#### **1.1 Proprietary Directors**

Proprietary 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 an External 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 Nominating 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) here above 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 Proprietary Directors in the investee company. Proprietary 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 external directors, 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 CHIEF EXECUTIVE OFFICER OF THE COMPANY**

The Executive Chairman and the Chief Executive Officer shall be the first executive officer 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 Executive Chairman and Chief Executive Officer 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 Nominating 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 two 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 submit to the General Meeting must be drawn up in accordance with the formalities, which must include a report issued by the Nominating 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 Nominating and Compensation Committee is the body that has competence to 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 Nominating and Compensation Committee, assesses the quality and efficiency of the performance of the Board, its Committees, as well as the performance of the Chairman- CEO and first 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 and formalize the correspondent resignation, 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 proprietary 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 interest of any kind or who has an employment, professional, commercial or any other kind of relationship with competing 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 Nominating 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 and formalize the correspondent resignation, 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 proprietary 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 interest of any kind or who has an employment, professional, commercial or any other kind of relationship with competing 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 Nominating 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 Explain whether the duties of the top executive of the company are taken on by the chairman of the Board. Whenever applicable, state the measures that have been taken to limit the risks of accumulation of powers in a single person:**

**YES**

**MEASURES FOR LIMITING RISKS**

Article 17 of the Board of Directors Regulations provides that the Executive Chairman shall be the Chief Executive Officer of the Company and shall have powers of effective management of the Company's business, always in accordance with the decisions and criteria laid down 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 submit to the Board of Directors or 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 21.2) for the Members of the Board to be able to request 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 external 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 give voice to the concerns of the external directors and to head 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 external Directors and to head the Board's assessment of its Chairman.



B.1.22 Are qualified majorities, other than those required by law, required for certain 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 competing companies.

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

TYPE OF MAJORITY	%
70% of 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 in the event of a tied vote, 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 OF CHAIRMAN	AGE LIMIT OF CHIEF EXECUTIVE OFFICER	AGE LIMIT OF 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
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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**

NH Hoteles, S.A. now has two female Directors who were appointed during 2009.

In any case, the Nominating and Compensation Committee has been given the express duty to ensure 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 Nominating 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:

**YES**



## DESCRIBE THE MAIN PROCEDURES

Article 26.b) of the Rules and Regulations expressly states that the Nominating 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 Nominating 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	13
Number of meetings of the board when the chairman does not attend	0

Number of meetings of the Board Committees held during the year:

Number of meetings of the executive committee	0
Number of meetings of the audit committee	10
Number of meetings of the nominating and compensation committee	9
Number of meetings of the nominating 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	13
% of non-attendance total votes during the year	9.980

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, whenever applicable, any processes that have been set up by the Board 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 of the Board is also a Director 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 Nominating 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 Nominating Committee and approved by the Board in a plenary meeting.

Does the Nominating Committee report on the appointment?	YES
Does the Nominating 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 duty 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 external 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 duty 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**

In the event that there are disagreements with the outgoing auditor, explain its contents:

**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)	220	44	264
Fees for non-audit services/Total amount invoiced by the auditing firm (in %)	55.000	6.810	25.240

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	8	8
Number of years audited by the current auditing firm/Number of years that the company has been audited (in %)	34.8	34.8

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
MR. GABRIELE BURGIO	MOLA 15, S.L.	10.000	NONE
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	PLAYA HOTELS RESORTS, S.L.	6.640	NONE
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	HOTEL BARCELONA GOLF,S.A.	17.410	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)	HOTEL ALAMEDA VALENCIA, S.L.	100.000	NONE
CAJA DE AHORROS DE VALENCIA. CASTELLÓN Y ALICANTE (BANCAJA)	PROHORESA	29.930	NONE
MR. FRANCISCO JAVIER ILLA RUIZ	HOTEL COMTAT DE VIC, S.A.	23.500	NONE
MR. FRANCISCO JAVIER ILLA RUIZ	DESARROLLO TURÍSTICO ISLA BONITA, C.A.	0.000	MEMBER OF BOARD
MR. FRANCISCO JAVIER ILLA RUIZ	HESPERIA AMSTERDAM, B.V.	0.000	JOINT ADMINISTRATOR
MR. FRANCISCO JAVIER ILLA RUIZ	CORPORACIÓN HOTELERA HEMTEX, S.A.	0,000	MEMBER OF BOARD
MR. FRANCISCO JAVIER ILLA RUIZ	HESPERIA VICTORIA UK LIMITED	0.000	SOLE ADMINISTRATOR
MR. FRANCISCO JAVIER ILLA RUIZ	HOTELES Y GESTIÓN, S.A.	0.900	NONE
MR. FRANCISCO JAVIER ILLA RUIZ	HOTELS HESPERIA ANDORRA, S.A.	0.000	SECRETARY TO THE BOARD AND GENERAL LEGAL REPRESENTATIVE

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 inform and, where applicable, resign in cases in which they may damage 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 a 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 OR DELEGATE COMMITTEE

NAME	POSITION	TYPE
MR. GABRIELE BURGIO	CHAIRMAN	EXECUTIVE
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	DIRECTOR	PROPRIETARY
MR. JULIO C. DÍAZ-FREIJO CERECEDO	DIRECTOR	PROPRIETARY
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	DIRECTOR	PROPRIETARY

### AUDIT COMMITTEE

NAME	POSITION	TYPE
MR. ANTONIO VIANA BAPTISTA	CHAIRMAN	INDEPENDENT
HOTELES PARTICIPADOS, S.L.	DIRECTOR	PROPRIETARY
MR. IÑAKI ARRATÍBEL OLAZIREGI	DIRECTOR	PROPRIETARY
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	DIRECTOR	PROPRIETARY

### NOMINATING AND COMPENSATION COMMITTEE

NAME	POSITION	TYPE
MR. JOSÉ DE NADAL CAPARÁ	CHAIRMAN	INDEPENDENT
MR. FRANCISCO JAVIER ILLA RUIZ	DIRECTOR	PROPRIETARY
MS. NURIA ITURRIAGAGOITIA RIPOLL	DIRECTOR	INDEPENDENT

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**

NOMINATING AND COMPENSATION COMMITTEE

#### **Brief description**

##### **a) Membership**

The Nominating 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 Nominating 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 Nominating 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 Nominating 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 CEO.
- 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 Nominating 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 Nominating 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 OR DELEGATE 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 Board 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 needs in order to be valid a vote of at least two-thirds of the members of the Board of Directors.

##### **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**  
AUDIT 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 external or 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 advisory and consultancy powers assigned to each committee and, where applicable, the powers delegated to each of the committees.

**Committee name**  
NOMINATING 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 Nominating 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 Chief Executive Officer; 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 OR DELEGATE 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**

AUDIT 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 (LSA), 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**

NOMINATING 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 Nominating 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 Nominating and Compensation Committee.

Later, on 22 April 2008, the wording of the Rules and Regulations were partially amended again in order to bring it into line with the Code. These changes included a new paragraph in Article 26, b) 1, which expressly states that the Nominating 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 Nominating and Compensation Committee are approved every year.

**Committee name**

EXECUTIVE OR DELEGATE 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**

AUDIT 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](http://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)	47,622
CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID	NH HOTELES, S.A.	CONTRACTUAL (Credit line limit 27,500)	Agreements for financing loans and contributions to capital (borrower)	26,598
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
INTESA SANPAOLO, S.P.A.	GRANDE JOLLY, S.R.L.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	23,807
INTESA SANPAOLO, S.P.A.	GRANDE JOLLY, S.R.L.	CONTRACTUAL (Credit line limit 5,500)	Agreements for financing loans and contributions to capital (borrower)	5,500
INTESA SANPAOLO, S.P.A.	JOLLY HOTEL HOLLAND NV	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	5,625
INTESA SANPAOLO, S.P.A.	JOLLY HOTELS USA, INC	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	4,714
INTESA SANPAOLO, S.P.A.	NH HOTELES, S.A.	CONTRACTUAL (Credit line limit 15,000)	Agreements for financing loans and contributions to capital (borrower)	12,202
PONTEGADEA INVERSIONES, S.L.	LOS ALCORNOQUES DE SOTOGRANDE, S.L.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	1,066
PONTEGADEA INVERSIONES, S.L.	NH HOTEL RALLYE PORTUGAL LTD.	CONTRACTUAL	Leases	666
PONTEGADEA INVERSIONES, S.L.	NH HOTELES ESPAÑA, S.L.	CONTRACTUAL	Leases	9,577
PONTEGADEA INVERSIONES, S.L.	RESIDENCIAL MARLIN, S.L.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	13,238
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
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA (IBERCAJA)	NH HOTELES, S.A.	CONTRACTUAL (Credit line limit 6,000)	Agreements for financing loans and contributions to capital (borrower)	5,961



**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
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA)	NH HOTELES, S.A.	CONTRACTUAL (Credit line limit 15,000)	Agreements for financing loans and contributions to capital (borrower)	14,992
MR. GABRIELE BURGIO	NH HOTELES, S.A.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	8,305
HOTELES PARTICIPADOS, S.L.	DESARROLLO INMOBILIARIO SANTA FE	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	5,481
HOTELES PARTICIPADOS, S.L.	NH FINANCE, S.A.	CONTRACTUAL	Agreements for financing loans and contributions to capital (borrower)	7,500
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 HOTELES, S.A.	CONTRACTUAL (Credit line limit 1,000)	Agreements for financing loans and contributions to capital (borrower)	993
MR. JESÚS IGNACIO ARANGUREN GONZÁLEZ-TARRÍO	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements: loans and capital contributions (lender)	3,437
MR. 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	56,282

**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** HARRINGTON HALL HOTEL LIMITED  
(Thousand euros) 7069

**Brief description of the operation** LOAN

**Corporate name of the group company** LOS ALCORNOQUES DE SOTOGRANDE, S.L.  
(Thousand euros) 5539

**Brief description of the operation** LOAN

**Corporate name of the group company** RESIDENCIAL MARLIN, S.L.  
(Thousand euros) 735

**Brief description of the operation** PROVISION OF SERVICES

**Corporate name of the group company** RESIDENCIAL MARLIN, S.L.  
(Thousand euros) 13238

**Brief description of the operation** LOAN

**Corporate name of the group company** RESIDENCIAL MARLIN, S.L.  
(Thousand euros) 708

**Brief description of the operation** CURRENT ACCOUNT

**Corporate name of the group company** RESIDENCIAL MARLIN, S.L.  
(Thousand euros) 105

**Brief description of the operation** CURRENT ACCOUNT

**C.5. Mention any conflicts of interests that Directors may be involved in, pursuant to Section 127.ter 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 previously reports the Board of Directors about such operations and the Board of Directors, subject to a report from the Nominating and Compensation Committee, approves the transaction with at least 80% of the members of the Board attending or represented to the meeting vote, voting 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, as well as 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 Nominating 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.

The Audit and Control Committee has the duty, inter alia, of ensuring compliance with the internal codes of conduct and the codes of corporate governance.

#### **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, Sotograde, 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:

- Controlling Financial Risk
- Controlling the Strategic Investment Risk
- Business Risk Control, operational and environmental
- Regulatory risk control systems
- Other preventive procedures

#### 1. Controlling Financial Risk

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. Controlling Strategic Investment Risk

- 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 Management 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 procedures 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 (LSA), 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. Secretary General  
The General Secretary is competent to assess and reduce legal risks, and to ensure that the rules are complied with.

**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 behaviours that are not allowed when using these work tools of NH Hoteles.

**E - GENERAL SHAREHOLDERS' MEETING**

**E.1. State and if necessary describe the quorum required at the General Shareholders Meeting pursuant to the Company's Articles of Association. Describe any differences vis-à-vis the rules of minimum requirements provided for in the Companies Act (LSA).**

NO

	% OF QUORUM DIFFERENT TO THAT SET IN ART. 102 LSA FOR GENERAL CASES	% OF QUORUM DIFFERENT TO THAT SET IN ART. 103 LSA FOR SPECIAL CASES OF ART.103
Quorum required when first called	0	0
Quorum required when called the second time	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 (LSA).**

YES



**Describe any differences with regard to the rules laid down in the Companies Act (LSA).****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 may hold, may have more votes than the votes for 20% 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 51% 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 with the vote in favour of at least 51% of the capital'.

**E.3. List the rights of shareholders with regard to Shareholder Meetings apart from those provided for in the Companies Act (LSA).****- 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 submitted 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 distance voting.
- 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 or clarifications 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) here above, to the National Securities Market Commission and to such other Market Governing Bodies as may be appropriate.

Article 10 of the Regulations also sets out all the rules regarding the right to information of shareholders 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 General Meeting ends.

The Administrators must provide the information asked for under the terms of the two 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 especially 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 Article 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 or distance 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 Article 107 of the Companies Act, the Administrator who is given such powers of attorney shall be subject to the voting restriction set out in Article 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 distance voting.
- 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	% postal vote		Total
			Electronic vote	Other	
16/06/2009	17.754	60.259	0.000	0.000	78.013
03/12/2009	44.144	48.436	0.000	0.000	92.580

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

**I.- General Meeting of Shareholders held on 16 June 2009**

**One:** To approve the Annual Accounts and Directors' Report  
Percentage of votes of those attending in favour of the decision: 83.219%

**Two:** Renewal, ratification, appointment and dismissal of Directors.

2.1 Ratification of the appointment of Mr. Iñaki Arratibel as a Proprietary Director by cooption.  
Percentage of votes of those attending in favour of the decision: 99.2659%

2.2 Ratification of the appointment of Ms. Rosalba Casiraghi as a Proprietary Director by cooption. Percentage of votes of those attending in favour of the decision: 99.2659%



- 2.3 Appointment of Mr. Antonio Viana Baptista as Director.  
Percentage of votes of those attending in favour of the decision: 83.2106%
- 2.4 Appointment of Ms. Nuria Iturriagoitia as an Independent Director  
Percentage of votes of those attending in favour of the decision: 83.2178%
- 2.5 Reelection of Mr. Gabriele Burgio as Executive Director.  
Percentage of votes of those attending in favour of the decision: 82.7343%
- 2.6 Reelection of Mr. Manuel Herrando y Prat de la Riba as an Independent Director.  
Percentage of votes of those attending in favour of the decision: 83.2178%
- 2.7 Reelection of Mr. Julio C. Díaz-Freijo Cerecedo as a Proprietary Director  
Percentage of votes of those attending in favour of the decision: 83.2178%

**Three:** Capital increase

Percentage of votes of those attending in favour of the decision: 83.2178%

**Four:** Board authorisation for Capital increase.

Percentage of votes of those attending in favour of the decision: 83.1384%

**Five:** Delegation issues

Percentage of votes of those attending in favour of the decision: 83.2132%

**Six:** Purchases of own shares

Percentage of votes of those attending in favour of the decision: 83.2492%

**Seven:** Appointment of Auditors for the company and for its consolidated group

Percentage of votes of those attending in favour of the decision: 99.9670%

**Eight:** Delegation of 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: 99.9996%

**II.- Extraordinary General Meeting on 3 December 2009**

**One:** Ratification and Appointment

1.1 Ratification of the appointment of Mr. Francisco Javier Illa as a Proprietary Director

Percentage of votes of those attending in favour of the decision: 94.4682%

1.2 Appointment of Mr. Juan Antonio Samaranch Salisachs

Percentage of votes of those attending in favour of the decision: 99.9108%

**Two:** Change in Articles of Association

Percentage of votes of those attending in favour of the decision: 99.8940%

**Three:** Delegation of powers of attorney to formalise, interpret, rectify and enforce the decisions taken by the Extraordinary General Meeting of Shareholders

Percentage of votes of those attending in favour of the decision: 99.9279%

**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 especially 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 transmissions 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](http://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*

In accordance with the terms of Article 15 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 20% 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 51% of the issued voting shares.

**2. Whenever a parent and its subsidiary company are listed, both should clearly and publicly 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 subsidiarising referred to in section a) of this Recommendation has not been submitted to the General Meeting of Shareholders of the company for approval, because the process of subsidiarising the company that is the majority shareholder of the hotel assets in Spain has been completed during the year, thus replicating the corporate structure of the group in all the other companies and regions 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 notice to call the Shareholder Meeting is published.**

*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 Articles of Association, 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 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 business plan and annual management and budgetary targets;
- ii) Investment and financing policy;
- iii) The definition of the structure of the group of companies;
- 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 periodic monitoring of internal information and control systems.
- viii) Dividend payout and treasury stock policies, and in particular, their limits.

See sections: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

- i) Upon proposal by the chief executive officer, the appointment and possible dismissal of senior managers, as well as their severance conditions.

See section: B.1.14

- ii) Directors' compensation, as well as, in the case of executive directors, any additional remuneration for their executive duties and other terms and conditions to be 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<sup>a</sup>. They are governed by standard contracts applied on an across-the-board basis to a large number of clients and customers;
- 2<sup>a</sup>. They are made at market rates that are generally set by suppliers of goods and services;
- 3<sup>a</sup>. 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 duty; 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 with, except as set out in section b.i), where the Board of Directors holds that the decision on appointing and removing senior managers should be taken and continue to be taken by the Company's Chief Executive Officer. This notwithstanding, the Rules and Regulations of the Board give the Nominating and Compensation Board competencies to draw up a prior report on the appointment and removal of executives who report directly to the CEO.

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, external proprietary directors 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 external directors who cannot be classified as proprietary directors 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

*Complies*

12. Among external directors, the ratio between proprietary directors and independent directors should reflect the existing proportion between the share capital represented by proprietary directors and the remaining share capital.

The strict interpretation of this principle of proportionality may be relaxed so that the percentage of proprietary 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

*Complies*



**13. Independent directors should account for at least one third of the total number of Board members.**

See section: B.1.3

*Explain*

The Board of Directors of the company has thirteen members, four of whom are Independent Directors. To comply with the criterion set in this Recommendation, 4.33 Independent Directors would be required. Bearing in mind that Directors are indivisible and in accordance with general rules on rounding up and down, the company thinks that the structure of the Board complies with Recommendation 13.

**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 Nominating 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 proprietary 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 Nominating 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 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 external directors; and oversee the Board's evaluation of its Chairman.**

See section: B.1.21

*Complies*

**18. The Secretary of the Board 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 Nominating 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.1.28 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 operation;
  - b) Based on a report submitted by the Nominating Committee, how well the Chairman and Chief Executive Officer have carried out their duties;
  - c) The performance of its committees on the basis of the reports furnished by the same.
- 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 of the Board.**

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.**

*Complies*

**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 Nominating 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.1.8, B.1.9 and B.1.17

*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 Nominating Committee with regard to independent directors.
  - b) On the basis of a report from the Nominating Committee in the case of the remaining Board members.
- 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, proprietary or independent, stating, in the case of proprietary directors, 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

*Complies*

**30. Proprietary 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 Articles of Association, except where just cause is determined by the Board, based on a report from the Nominating 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.1.5 and B.1.26

*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 Article 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.1.43 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*

The resignations have been notified verbally by the outgoing Director to the Board of Directors. The grounds for the resignation are reported in this Annual Corporate Governance Report.

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 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. External 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.

*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 will stress the most significant changes in these policies compared to the policies pursued last year referred to by the General Meeting. It will also include an overview of how the compensation policy was applied last year.

The Board should also report to the Annual Meeting on the role of the Nominating 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 draws up a Report that replicates virtually all the information referred to in Recommendation 35 reporting on virtually all the information set out above. The contents of this report are presented to the General Meeting, without being put to the vote.

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.2.1 and B.2.6

*It complies in part*

The Executive Committee did not meet in 2009. It has therefore not been possible to designate the two Independent Directors who could have filled the two vacancies that arose as a result of the resignation tendered by Manuel Herrando y Prat de la Riba, and the expiry of Ramón Blanco Balín's term as director. The Board firmly intends to designate new members of the Executive Committee and so comply with Recommendation 42 of the Unified Code of Good Governance so that the membership structure of the different categories of Directors be similar to the structure of the Board itself, and that its Secretary be the Secretary to the Board.

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.

*Complies*



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 structure and working procedures of the Audit Committee and the Nominating 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 external directors, having a minimum of three 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.2.1. 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 Nominating and Compensation Committee, or if one exists separately, the Corporate Governance Compliance Committee.

*Complies*

46. The members of the Auditing 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 external 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.1.35, B.2.2, B.2.3 and 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) Financial information that the Company, as a listed company, is required to 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.2.2 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 sections: B.1.38

Complies

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

See section: B.2.1.

Complies

55. The Nominating Committee should have the following duties in addition to those listed in foregoing recommendations, namely:

- 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 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.
- 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 Nominating Committee should consult with the Chairperson and Chief Executive Officer, especially with regard to matters involving executive directors.

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

Complies

57. The Nominating 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.1.14 and B.2.3

Complies

58. The Nominating and Compensation Committee should consult with the Company's Chairman and Chief Executive Officer, especially in connection with matters involving executive directors and 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 A.3.:

The information set out in table A.3 records only the number of votes held directly by the private individuals and legal entities who are members of the Board of Directors. It does not count two votes held by the legal entities for which some proprietary directors have been designated.

### SECTION A.5.:

All relationships of a trading, contractual or corporate nature between holders of major holdings in the Company and/or its group have been described in section C.2 and C3 (whenever the major shareholders are at the same time Directors of the Company). It has not been felt necessary to reproduce them in Section A.5 as these operations are deemed to have arisen in the normal course of business.

### 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 2009 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 2009: 37,800 Euros
- Executive Committee attendance fees: 0 Euros
- Total Fees: 37,800 Euros

#### DIRECTORS:

##### Mr. José de Nadal:

- Board attendance fees 2009: 37,800 Euros
- Nominating and Compensation Committee attendance fees: 16,643 Euros
- Total Fees: 54,443.34 Euros

##### Mr. Julio Díaz-Freijo Cerecedo:

- Board attendance fees 2009: 37,800 Euros
- Executive Committee attendance fees: 0 Euros
- Total Fees: 37,800 Euros

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

- Board attendance fees 2009: 37,800 Euros
- Executive Committee attendance fees: 0 Euros
- Total attendance fees: 37,800 Euros

##### Hoteles Participados, S.L.:

- Board attendance fees 2009: 37,800 Euros
- Audit Committee attendance fees: 9,812.40 Euros
- Total Fees: 47,612.40 Euros

##### Sociedad de Promoción y Participación Empresarial Caja Madrid:

- Board attendance fees 2009: 37,800 Euros
- Audit Committee attendance fees: 8,585.85 Euros
- Total attendance fees: 46,385.85 Euros

##### Mr. Miguel Rodríguez Domínguez:

- Board attendance fees 2009: 37,800 Euros
- Audit Committee attendance fees: 1,581.61 Euros
- Total Fees: 39,381.61 Euros

##### Mr. Iñaki Arratibel Olaziregui

- Board attendance fees 2009: 37,800 Euros
- Audit Committee attendance fees: 5,547.78 Euros
- Total Fees: 43,347.78 Euros

##### Mr. Manuel Herrando y Prat de la Riba

- Board attendance fees 2009: 25,476.16 Euros
- Nominating and Compensation Committee attendance fees: 14,794.08 Euros
- Total Fees: 40,270.24 Euros

##### Ms. Nuria Iturriagoitia Ripoll

- Board attendance fees 2009: 20,505.21 Euros
- Nominating and Compensation Committee attendance fees: 1,849.26 Euros
- Total attendance fees: 22,354.47 Euros

##### Mr. Ramón Blanco Balín

- Board attendance fees 2009: 17,294.79 Euros
- Audit Committee attendance fees: 9,246.30 Euros
- Total Fees: 26,541.09 Euros

##### Mr. Alfonso Merry del Val Gracie

- Board attendance fees 2009: 17,294.79 Euros
- Total Fees: 17,294.79 Euros

##### Mr. Francisco Javier Illa Ruiz

- Board attendance fees 2009: 12,323.84 Euros
- Nominating and Compensation Committee attendance fees: 1,849.26 Euros
- Total Fees: 14,173.10 Euros

##### Mr. Juan Antonio Samaranch Salisachs

- Board attendance fees 2009: 3,003.29 Euros
- Total Fees: 3,003.29 Euros

##### Ms. Rosalba Casiraghi

- Board attendance fees 2009: 20,505.21 Euros
- Total Fees: 20,505.21 Euros

##### Mr. Antonio Viana-Baptista

- Board attendance fees 2009: 20,505.21 Euros
- Audit Committee attendance fees: 5,547.78 Euros
- Total Fees: 26,052.99 Euros

### SECTION B.2.1:

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

Furthermore, it should be mentioned that, although as at 31 December 2009, the structure of the Nominating and Compensation Committee was as set out in section B.2.1., as at the date of this Report there has been a change in the membership structure as Ms. Nuria Iturriagoitia Ripoll has been designated Chairwoman of the Committee, and Mr. de Nadal Capará has become a member of the Committee. These changes were duly notified to the CNMV.

### 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 and Caixa Nova.

### SECTION F.25.:

The Company systematically pursues the policy, included in its internal procedures, that when it selects new Directors, they are given information courses and brought up to date about the different management structures used to provide them with information and information about internal aspects of the company so that they may better perform their duties as Directors of NH Hoteles, S.A.

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:

**NO**

**Date and signature:**

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

**01/03/2010**

State whether any Directors voted against or abstained from approving this Report.

**NO**

**NOTE:** The present document is a translation of a duly approved spanish language document and in the event of any discrepancy the original spanish language document shall prevail.

