NH Collection Palazzo Barocci - *Venice, Italy*

ANNUAL REPORT 2016

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

NH | HOTEL GROUP


001 - 004

NH Collection Doelen
Amsterdam, The Netherlands

ANNUAL REPORT 2016

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Translation of Consolidated Financial Statements and Consolidated Management Report originally issued in Spanish and prepared in accordance with IFRS's as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.

This document was published on recycled paper and is also available in electronic format on our website http://www.nhhotelgroup.com where detailed information on the different sections of the Annual Report 2016 can be found.

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain. In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
NH Hotel Group, S.A.:

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of NH Hotel Group, S.A. ("the Parent") and subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements, so that they present fairly the consolidated equity, consolidated financial position and consolidated results of NH Hotel Group, S.A. and subsidiaries, in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial Reporting framework applicable to the Group in Spain , identified in Note 2.1 to the accompanying consolidated financial statements, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of NH Hotel Group, S.A. and subsidiaries as at 31 December 2016, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2016 contains the explanations which the Parent's directors consider appropriate about the situation of NH Hotel Group, S.A. and subsidiaries, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2016. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of NH Hotel Group, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in R.O.A.C. under no. S0692

Pilar Cerezo Sobrino
28 February 2017

AUDITORES

DELOITTE, S.L.

Año 2017 Nº 01/17/00529
COPIA

Informe de auditoría de cuentas sujeto a la normativa de auditoría de cuentas española o internacional

CONSOLIDATED BALANCE SHEETS

At 31 December 2016 and 31 December 2015 (Thousands of euros)

ASSETS

	Note	31/12/2016	31/12/2015
NON-CURRENT ASSETS:			
Goodwill	6	117,736	118,793
Intangible assets	7	126,453	119,282
Tangible fixed assets	8	1,701,428	1,724,166
Investments accounted for using the equity method	9	10,646	16,678
Non-current financial investments-	10	91,056	160,776
Loans and accounts receivable not available for trading		78,385	154,071
Other non-current financial investments		12,671	6,705
Deferred tax assets	18	152,389	165,797
Other non-current assets		18,939	16,282
Total non-current assets		**2,218,647**	**2,321,774**

	Note	31/12/2016	31/12/2015
CURRENT ASSETS:			
Non-current assets classified as held for sale	11	46,685	45,034
Inventories		9,870	9,508
Trade receivables	12	146,197	169,269
Non-trade receivables-		54,510	73,115
Tax receivables	18	29,231	45,973
Other non-trade debtors		25,279	27,142
Short-term financial investments		1,918	2,190
Cash and cash equivalents	13	136,733	77,699
Other current assets		12,677	12,298
Total current assets		**408,590**	**389,113**
TOTAL ASSETS		**2,627,237**	**2,710,887**

NET ASSETS AND LIABILITIES

	Note	31/12/2016	31/12/2015
EQUITY:			
Share capital	14	700,544	700,544
Reserves of the parent company	14	412,827	499,972
Reserves of fully consolidated companies		137,512	48,480
Reserves of companies consolidated using the equity method		(23,206)	(21,135)
Other equity instruments		27,230	27,230
Currency translation difference		(133,765)	(130,347)
Treasury shares and shareholdings	14	(39,983)	(37,561)
Consolidated profit for the period		30,750	938
Equity attributable to the shareholders of the Parent Company		**1,111,909**	**1,088,121**
Non-controlling interests	14	43,967	37,963
Total equity		**1,155,876**	**1,126,084**

	Note	31/12/2016	31/12/2015
NON-CURRENT LIABILITIES			
Debt instruments and other marketable securities	15	763,637	471,871
Bank borrowings	15	72,720	336,165
Obligations under finance leases		1,435	2,377
Other non-current liabilities	16	34,037	99,180
Provisions for contingencies and charges	17	52,900	48,700
Deferred tax liabilities	18	174,987	196,711
Total non-current liabilities		**1,099,716**	**1,155,004**

	Note	31/12/2016	31/12/2015
CURRENT LIABILITIES:			
Liabilities associated with non-current assets classified as held for sale	11	2,661	-
Debt instruments and other marketable securities	15	2,233	3,613
Bank borrowings	15	23,226	75,272
Obligations under finance leases		1,076	1,267
Trade and other payables	19	229,769	251,043
Tax payables	18	44,938	50,835
Provisions for contingencies and charges	17	11,462	5,330
Other current liabilities	21	56,280	42,439
Total current liabilities		**371,645**	**429,799**
TOTAL LIABILITIES		**2,627,237**	**2,710,887**

Notes 1 to 30 in the Consolidated Annual Report and Annexes I/II form an integral part of the Consolidated Balance Sheet at 31 December 2016.
The Consolidated Balance Sheet at 31 December 2015 is presented solely for the purposes of comparison.

CONSOLIDATED COMPREHENSIVE PROFIT AND LOSS STATEMENTS

For the years 2016 and 2015 (Thousands of euros)

	Note	2016	2015
Revenues	24.1	1,447,903	1,376,634
Other operating income	24.1	7,687	1,207
Net gains on disposal of non-current assets	24.1	41,526	(843)
Procurements		(66,857)	(67,589)
Staff costs	24.3	(415,889)	(398,148)
Depreciation and amortisation charges	6, 7 and 8	(114,170)	(106,159)
Net Profits/(Losses) from asset impairment	7 and 8	(2,686)	30,859
Other operating expenses		(791,011)	(768,075)
Variation in the provision for onerous contracts	17	4,163	19,014
Other operating expenses	24.4	(795,174)	(787,089)
Gains on financial assets and liabilities and other		9,856	4,828
Profit (loss) from companies accounted for using the equity method	10	119	(663)
Finance income	24.2	3,310	5,154
Change in fair value of financial instruments	24.2	435	4,695
Finance costs	24.6	(72,304)	(73,715)
Net exchange differences (Income/(Expense))		(3,561)	2,135
PROFITS / (LOSSES) BEFORE TAX FROM CONTINUING OPERATIONS		**44,358**	**10,320**
Income tax	18	(7,935)	(13,082)
PROFIT / LOSS FOR THE FINANCIAL YEAR - CONTINUING		**36,423**	**(2,762)**
Profit (loss) for the year from discontinued operations net of tax	11	(2,274)	6,068
PROFIT / LOSS FOR THE FINANCIAL YEAR		**34,149**	**3,306**
Currency translation difference		(3,203)	(31,439)
Income and expenses recognised directly in equity		**(3,203)**	**(31,439)**
TOTAL COMPREHENSIVE PROFIT / (LOSS)		**30,946**	**(28,133)**
Profits for the year attributable to:			
Parent Company Shareholders		30,750	938
Non-controlling interests		3,399	2,368
Comprehensive loss attributable to:			
Parent Company Shareholders		27,332	(26,750)
Non-controlling interests	14.4	3,614	(1,383)
PROFIT PER SHARE IN EUROS (BASIC)	**5**	**0.090**	**0.003**

Notes 1 to 31 in the Consolidated Annual Report and Annexes I/II form an integral part of the Consolidated Comprehensive Profit and Loss Statement for 2016. The Consolidated Comprehensive Profit and Loss Statement for 2015 is presented solely for the purposes of comparison.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For 2016 and 2015 (Thousands of euros)

	Share Capital	Reserves of the parent company			Reserves in Companies Consolidated by		Currency translation differences	Equity Instruments	Treasury shares and sharehol-dings	Total	Results attributable to Parent Company	Non-controlling Interests	Total Equity
		Share Premium	Legal reserve	Other reserves	Full conso-lidation	The equity method							
Balances at 31 December 2014	**700,544**	**634,659**	**43,121**	**(53,210)**	**(68,636)**	**(19,794)**	**(102,659)**	**27,230**	**(38,805)**	**(9,550)**	**1,112,900**	**23,768**	**1,136,668**
Adjustments after the end of the year	-	-	-	-	-	-	-	-	-	(433)	(433)	433	-
Initial balance adjusted 1 January 2015	**700,544**	**634,659**	**43,121**	**(53,210)**	**(68,636)**	**(19,794)**	**(102,659)**	**27,230**	**(38,805)**	**(9,983)**	**1,112,467**	**24,201**	**1,136,668**
Net profit (loss) for 2015	-	-	-	-	-	-	-	-	-	938	938	2,368	3,306
Currency translation difference	-	-	-	-	-	-	(27,688)	-	-	-	(27,688)	(3,751)	(31,439)
Recognised income and expenses for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(27,688)**	**-**	**-**	**938**	**(26,750)**	**(1,383)**	**(28,133)**
Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of Profit (Loss) 2014-													
- To Reserves	-	-	-	(127,044)	118,402	(1,341)	-	-	-	9,983	-	-	-
Changes in treasury shares	-	-	-	-	-	-	-	-	1,244	-	1,244	-	1,244
Remuneration scheme in shares	-	-	-	1,866	-	-	-	-	-	-	1,866	-	1,866
Business combination	-	-	-	-	-	-	-	-	-	-	-	14,646	14,646
Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	(1,374)	(1,374)
Other transactions with shareholders or owners	-	-	-	-	(714)	-	-	-	-	-	(714)	1,815	1,101
Other movements	-	-	-	580	(572)	-	-	-	-	-	8	58	66
Balances at 31 December 2015	**700,544**	**634,659**	**43,121**	**(177,808)**	**48,480**	**(21,135)**	**(130,347)**	**27,230**	**(37,561)**	**938**	**1,088,121**	**37,963**	**1,126,084**
Adjustments after the end of the year	-	-	-	-	-	-	-	-	-	-	-	-	-
Initial balance adjusted 1 January 2016	**700,544**	**634,659**	**43,121**	**(177,808)**	**48,480**	**(21,135)**	**(130,347)**	**27,230**	**(37,561)**	**938**	**1,088,121**	**37,963**	**1,126,084**
Net profit (loss) for 2016	-	-	-	-	-	-	-	-	-	30,750	30,750	3,399	34,149
Currency translation difference	-	-	-	-	-	-	(3,418)	-	-	-	(3,418)	215	(3,203)
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
Recognised income and expenses for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(3,418)**	**-**	**-**	**30,750**	**27,332**	**3,614**	**30,946**
Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of Profit (Loss) 2015-													
- To Reserves	-	-	-	(89,072)	90,673	(663)	-	-	-	(938)	-	-	-
Treasury shares and shareholdings	-	-	-	-	-	-	-	-	(2,422)	-	(2,422)	-	(2,422)
Remuneration Scheme in shares	-	-	-	1,927	-	-	-	-	-	-	1,927	-	1,927
Business combination (Notes 2.5.4 and 14.4)	-	-	-	-	1,483	(1,483)	-	-	-	-	-	2,589	2,589
Distribution of dividends (Note 14.4)	-	-	-	-	-	-	-	-	-	-	-	(1,056)	(1,056)
Other transactions with shareholders or owners	-	-	-	-	(782)	-	-	-	-	-	(782)	782	-
Other movements	-	-	-	-	(2,342)	75	-	-	-	-	(2,267)	75	(2,192)
Balances at 31 December 2016	**700,544**	**634,659**	**43,121**	**(264,953)**	**137,512**	**(23,206)**	**(133,765)**	**27,230**	**(39,983)**	**30,750**	**1,111,909**	**43,967**	**1,155,876**

Notes 1 to 30 described in the consolidated Record and Appendices I/II form an integral part of the statement of changes in consolidated assets for the year 2016.
The statement of changes in consolidated assets for the year 2015 is only presented for comparative purposes.

CONSOLIDATED CASH FLOW STATEMENTS

Produced in the twelve-month periods ending 31 december 2015 (Thousands of euros)

	Note	31.12.2016	31.12.2015
1. OPERATING ACTIVITIES			
Consolidated profit (loss) before tax:		**44,358**	**10,320**
Adjustments:			
Depreciation of tangible and amortisation of intangible assets (+)	7 and 8	114,171	106,159
Impairment losses (net) (+/-)	6, 7 and 8	2,685	(30,859)
Allocations for provisions (net) (+/-)	17	(4,163)	(19,014)
Gains/Losses on the sale of tangible and intangible assets (+/-)		(41,526)	843
Gains/Losses on investments valued using the equity method (+/-)	10	(119)	663
Financial income (-)	24.2	(3,310)	(5,154)
Financial expenses and variation in fair value of financial instruments (+)	24.2 and 24.6	71,869	69,020
Net exchange differences (Income/(Expense))		3,561	(2,135)
Profit (loss) on disposal of financial investments		(9,856)	(4,828)
Other non-monetary items (+/-)	24	19,692	1,141
Adjusted profit (loss)		**197,362**	**126,156**
Net variation in assets / liabilities:			
(Increase)/Decrease in inventories		(290)	(801)
(Increase)/Decrease in trade debtors and other accounts receivable		28,622	(17,937)
(Increase)/Decrease in other current assets		13,960	6,353
Increase/(Decrease) in trade payables		(24,586)	10,352
Increase/(Decrease) in other current liabilities	21	(23,478)	(17,809)
Increase/(Decrease) in provisions for contingencies and expenses	17	(7,710)	(470)
(Increase)/Decrease in non-current assets	10.1	291	(8,169)
Increase/(Decrease) in non-current liabilities	16	5,784	2,330
Income tax paid	18	(13,381)	(9,707)
Total net cash flow from operating activities (I)		**176,574**	**90,298**
2. INVESTMENT ACTIVITIES			
Finance income		2,013	4,806
Investments (-):			-
Group companies, joint ventures and associates	a.2.1 and 9	(5,597)	(273)
Tangible and intangible assets and investments in property		(139,392)	(176,083)
Non-current financial investments		-	(77,725)
		(144,989)	**(254,081)**
Disinvestment (+):			
Group companies, joint ventures and associates		-	19,643
Tangible and intangible assets and investments in property		88,590	12,804
Non-current financial investments		30,723	-
		119,313	**32,447**
Total net cash flow from investment activities (II)		**(23,663)**	**(216,828)**
3. FINANCING ACTIVITIES			
Dividends paid out (-)		(1,056)	-
Interest paid on debts (-)		(53,926)	(56,750)
Financial expenses for means of payment	24.6	(14,472)	(13,111)
Interest paid on debts and other interest		(39,454)	(41,242)
Variations in (+/-):			
- Treasury shares		(2,422)	1,244
Debt instruments:			
- Bonds and other tradable securities (+)	15	285,000	-
- Loans from credit institutions (+)	15	28,217	177,111
- Loans from credit institutions (-)	15	(349,874)	(125,617)
- Finance leases		(1,133)	(275)
- Other financial liabilities (+/-)		761	(2,509)
Total net cash flow from financing activities (III)		**(94,433)**	**(6,796)**
4. GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)		58,478	(133,326)
5. Effect of exchange rate variations on cash and cash equivalents (IV)		591	3,064
6. Effect of variations in the scope of consolidation (V)		(35)	7,858
7. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III-IV+VI)		59,034	(122,404)
8. Cash and cash equivalents at the start of the financial year		**77,699**	**200,103**
9. Cash and cash equivalents at the end of the financial year (7+8)		**136,733**	**77,699**

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

NH Hotel Group, S.A. (formerly NH Hoteles S.A.) and Subsidiaries Report on the Consolidated Financial Statements for 2016

1.- ACTIVITY AND COMPOSITION OF THE PARENT COMPANY

NH HOTEL GROUP, S.A. (hereinafter the Parent Company) was incorporated as a public limited company in Spain on 23 December 1981 under the trade name "Material para Ferrocarriles y Construcciones, S.A.", which was subsequently changed to "Material y Construcciones, S.A." (MACOSA) and later to "Corporación Arco, S.A."

In 1992, Corporación Arco, S.A. took over Corporación Financiera Reunida, S.A. (COFIR), while at the same time adopting the trade name of the company taken over and amending its corporate purpose to the new activity of the Parent Company, which focused on the management of its shareholding portfolio.

During the 1998 financial year, Corporación Financiera Reunida, S.A. (COFIR) merged with Grupo Catalán, S.L. and its subsidiaries and Gestión NH, S.A. through the absorption of these companies by the former. Subsequently, Corporación Financiera Reunida, S.A. (COFIR) took over NH Hoteles, S.A., adopted its trade name and broadened its corporate purpose to allow for the direct performance of hotel activities, activities in which it had already been engaged indirectly through its subsidiaries.

Information on these mergers can be found in the financial statements of the years in which said transactions took place.

The General Shareholders' Meeting of 21 June 2014 agreed to change the company's name from "NH Hoteles, S.A." to "NH Hotel Group, S.A."

The Group entered into an agreement with Grupo Inversor Hesperia, S.A. (hereinafter "Hesperia") in 2009 to merge their respective hotel management businesses. As a result, the Group now manages 49 hotels owned or operated by Hesperia. The Group currently manages 31 hotels belonging to Grupo Inversor Hesperia. Such agreement is under renegotiation (see Note 27.3).

The expansion strategy has led to acquisitions in recent years for the Group in diverse European and Latin American markets. In the year 2015 the acquisition of the Colombian hotel chain Hoteles Royal was completed (see Note 2.5.4). With the acquisition of the hotel group Hoteles Royal (see Note 2.5.4), which operated a portfolio of twenty hotels, fifteen in Colombia, four in Chile and one in Ecuador, NH expanded its presence in Latin America. The hotels located in Colombia and Ecuador are operated under a variable income lease, while of the hotels in Chile, three are operated as owners and one as a variable lease, though the latter ceased operations in November 2015.

The Parent Company is the head of a group of subsidiaries engaged in the same activities and that constitute, together with NH Hotel Group, S.A., the NH Hotels Group (hereinafter the "Group" – see Appendices I and II).

At the end of 2016, the Group was operating hotels in 29 countries, with 379 hotels and 58,472 rooms, of which around 77% are located in Spain, Germany, Italy and the Benelux countries.

NH Hotel Group, S.A. has its registered address in Madrid.

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

2.1. Basis of Presentation of the Consolidated Financial Statements

The consolidated financial statements for 2016 were drawn up by the directors of NH Hotel Group, S.A. at the Board meeting held on 28 February 2016, in accordance with the regulatory reporting framework applicable to the Group, as established in the Code of Commerce and all other Spanish corporate law, and in the International Financial Reporting Standards ("IFRS") adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and in Law 62/2003, of 30 December, the Tax, Administrative, Labour and Social Security Measures Act, and as such give a true and fair view of the Group's equity and financial position at 31 December 2016 and of the results of its operations, changes in equity and consolidated cash flows for the year then ended.

The consolidated financial statements for 2016 of the Group and the entities that it comprises have not yet been approved by the shareholders at the respective Annual General Meetings or by the respective shareholders or sole shareholders. Nonetheless, the directors of the Parent Company believe that said financial statements will be approved without any significant changes. The consolidated financial statements for 2015 were approved by the shareholders at the Annual General Meeting held on 21 June 2016 and filed with the Companies Registry of Madrid.

Since the accounting standards and valuation criteria applied in the preparation of the Group's consolidated financial statements for 2016 may differ from those used by some of its member companies, adjustments and reclassifications were used to standardise them and adapt them to IFRS as adopted by the European Union.

2.1.1 Standards and interpretations effective in this period

In 2016 new accounting standards came into force and were therefore taken into account when preparing the consolidated financial statements, but which did not give rise to a change in the Group's accounting policies:

A) New obligatory regulations, amendments and interpretations for the year commencing 1 January 2016.

New standards, amendments and interpretations		Obligatory application in the years beginning on or after:
Approved for use in the European Union		
Amendment to IAS 19 Employee contributions to defined benefit plans (published in November 2013)	The amendment is issued to facilitate the possibility of deducting these contributions from the service cost in the same period they are paid if certain requirements are met.	1 February 2015 (1)
Improvements to IFRS 2010-2012 Cycle (published in December 2013)	Minor amendments to a number of standards.	
Amendments to IAS 16 and IAS 38: Acceptable methods of depreciation and amortisation (published in May 2014)	Clarifies the methods acceptable for depreciating and amortising property, plant and equipment and intangible assets, which do not include those based on income.	1 January 2016
Amendment to IFRS 11: Acquisitions of interests in joint operations (published in May 2014)	Specifies how to account for the acquisition of an interest in a joint venture whose activity constitutes a business.	
Amendments to IAS 16 and IAS 41: Bearer plants (published in June 2014)	Bearer plants will be measured at cost instead of fair value.	
Improvements to IFRS 2012-2014 Cycle (published in September 2014)	Minor amendments to a number of standards.	
Amendment to IAS 27 Equity Method in Separate Financial Statements (published in August 2014)	The equity method in individual financial statements of an investor will be allowed.	
Amendment to IAS 1 disclosure initiative (published in December 2014)	Various clarifications regarding the itemisations (materiality, aggregation, order of the notes, etc.).	
Awaiting approval for use in the European Union as of the date of publication of this document		
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities (published in December 2014)	Clarifications on the exception for consolidation of investment companies.	1 January 2016

(1) The initial entry into the force of this regulation was from 1 July 2014.

These regulations and amendments have been applied to these consolidated financial statements without significant impacts on either the reported figures or the presentation and breakdown of the information, either because they do not entail relevant changes or because they refer to economic facts that do not affect the Group.

B) New regulations, amendments and interpretations which will be obligatory in the years following the year commencing 1 January 2016

The following standards and interpretations had been published by the IASB on the date the consolidated financial statements were drawn up but had not yet entered into force, either because the date of their entry into force was subsequent to the date of these consolidated financial statements or because they had not yet been adopted by the European Union:

New standards, amendments and interpretations		Obligatory application in the years beginning on or after:
Approved for use in the European Union		
IFRS 15 - Revenue from Contracts with Customers (published in May 2014)	New standard on revenue recognition (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31)	1 January 2018
IFRS 9 Financial Instruments (published in July 2014).	Replaces the requirements for classification, valuation, recognition and derecognition of financial assets and liabilities in accounts, hedge accounting and impairment of IAS 39.	
Awaiting approval for use in the European Union as of the date of publication of this document (1)		
New standards		
IFRS 15 improvements published in April 2016	They revolve around the identification of obligations in terms of performance, principal versus agent, licensing and its accrual at a point in time or over time, as well as some clarification of the transitional rules.	1 January 2018
IFRS 16 Leases (published in January 2016)	Replaces IAS 17 and associated interpretations. The main change hinges on the fact that the new standard proposes a single accounting model for lessees who will include all leases (with some exceptions) on the balance sheet with a similar impact to that of the current financial leases (the asset will depreciate due to the right of use and a financial expense for the cost of amortising the liability).	1 January 2019
Amendments and/or interpretations		
Amendment to IAS 27 disclosure initiative (published in January 2016)	Introduces additional disclosure requirements in order to improve information provided to users.	1 January 2017
Amendment to IAS 12: Deferred tax: recovery of underlying assets (published in January 2016)/	Classification of the principles set up in relation to deferred tax and recovery of underlying assets.	
Amendment to IFRS 2 Classification and measurement of share-based payment transactions (published in June 2016)	Narrow-scope amendments clarifying specific matters such as the effects of vesting and non-vesting conditions in cash-settled share-based payments, the classification of share-based payments where there are net settlement clauses and some aspects of the modifications to the terms of a share-based payment.	
Amendment to IFRS 4 Insurance contracts (published in September 2016)	It allows entities within the scope of IFRS 4 the option of applying IFRS 9 ("overlay approach") or their temporary exemption	
Amendment to IAS 40 Reclassification of real estate investments (published in December 2016)	The amendment clarifies that the reclassification of an investment from or to real estate investment is only permitted when there is evidence of a change in its use.	1 January 2018
Improvements to IFRS 2014-2016 Cycle (published in December 2016)	Minor amendments to a number of standards (different effective dates).	
IFRIC 22 Transactions and advances in foreign currency (published in December 2016)	This interpretation establishes the "transaction date" for the purpose of determining the exchange rate applicable in transactions with foreign currency advances.	
Amendments to IFRS 10 and IAS 28 Sale or transfer of assets between an investor and their associate/joint venture (published in September 2014)	Clarification on the result of these operations if dealing with businesses or assets.	No date set

**(1) El estado de aprobación de las normas por la Unión Europea puede consultarse en la página web del EFRAG.*

The Directors have assessed the potential future impacts of these standards and, in particular, the application of IFRS 16 Leases will entail a significant change in the Group's consolidated financial statements, with an increase in assets due to the recognition of the right to use the leased asset and an increase in liabilities due to the corresponding future payment commitments. In this regard, the scope of the transition to the application of the standard and the need for the adaptation of financial reporting systems are being assessed.

In relation to the other standards, amendments and interpretations, the Group is analysing all future impacts of the adoption of these standards and it is not possible to provide a reasonable estimate of their effects until that analysis is complete.

2.2. Information on 2015

As required by IAS 1, the information from 2015 contained in this consolidated annual report is presented solely for comparison with the information from 2016, and consequently does not in itself constitute the Group's consolidated annual accounts for 2015.

2.3. Currency of Presentation

These consolidated financial statements are presented in euros. Any foreign currency transactions have been recognised in accordance with the criteria described in Note 4.9.

2.4. Responsibility for the Information, Estimates Made and Sources of Uncertainty

The Directors of the Parent Company are responsible for the information contained in these consolidated financial statements.

Estimates made by the management of the Group and of the consolidated entities (subsequently ratified by their Directors) have been used in preparing the Group's consolidated financial statements to quantify some of the assets, liabilities, revenue, expenses and undertakings recognised. These estimates essentially refer to:

- Losses arising from asset impairment.
- The assumptions used in the actuarial calculation of liabilities for pensions and other undertakings made to personnel.
- The useful life of the tangible and intangible assets.
- The valuation of consolidation goodwill.
- The market value of specific assets.
- Calculation of provisions and evaluation of contingencies.

In spite of the fact that these estimates were carried out using the best information available at 31 December 2016 on events analysed, it is possible that events may take place in the future which compel their amendment (upwards or downwards) in years to come. This will be done in accordance with the provisions of IAS 8, prospectively recognising the effects of the change in estimate on the consolidated profit and loss statement.

2.5. Consolidation Principles Applied

2.5.1 Subsidiaries (See Appendix I)

Subsidiaries are considered as any company included within the scope of consolidation in which the Parent Company directly or indirectly controls their management due to holding the majority of voting rights in the governance and decision-making body, with the ability to exercise control. This ability is shown when the Parent Company has the power to direct an investee entity's financial and operating policy in order to obtain profits from its activities.

The financial statements of subsidiaries are consolidated with those of the Parent Company by applying the full consolidation method. Consequently, all significant balances and effects of any transactions taking place between them have been eliminated in the consolidation process. If necessary, adjustments are made to the financial statements of the subsidiaries to adapt the accounting policies used to those used by the Group.

Stakes held by non-controlling shareholders in the Group's equity and results are respectively presented in the "Non-controlling interests" item of the consolidated balance sheet and of the consolidated comprehensive profit and loss statement.

The profit or loss of any subsidiaries acquired or disposed of during the financial year are included in the consolidated comprehensive profit and loss statement from the effective date of acquisition or until to the effective date of disposal, as appropriate.

2.5.2 Associates (See Appendix II)

Associates are considered as any companies in which the Parent Company has the ability to exercise significant influence, though it does not exercise either control or joint control. In general terms, it is assumed that significant influence exists when the percentage stake (direct or indirect) held by the Group exceeds 20% of the voting rights, as long as it does not exceed 50%.

Associates are valued in the consolidated financial statements using the equity method; in other words, through the fraction of their net equity value the Group's stake in their capital represents once any dividends received and other equity retirements have been considered. In the case of transactions with an associated company, the corresponding losses or gains are eliminated in the percentage of the Group's stake in its capital.

The profit (loss) net of tax of the associate companies is included in the Group's consolidated comprehensive profit and loss statement, in the item "Profit (Loss) from entities valued through the equity method", according to the percentage of the Group's stake.

If, as a result of the losses incurred by an associate company, its equity were negative, in the Group's consolidated balance sheet it would be nil; unless there were an obligation on the part of the Group to support it financially.

2.5.3 Foreign currency translation

The following criteria have been different applied for converting into euros the different items of the consolidated balance sheet and the consolidated comprehensive profit and loss statement of foreign companies included within the scope of consolidation:

- Assets and liabilities have been converted by applying the effective exchange rate prevailing at year-end.
- Equity has been converted by applying the historical exchange rate. The historical exchange rate existing at 31 December 2003 of any companies included within the scope of consolidation prior to the transitional date has been considered as the historical exchange rate.
- The consolidated comprehensive profit and loss statement has been converted by applying the average exchange rate of the financial year.

Any difference resulting from the application of these criteria have been included in the "Translation differences" item under the "Equity" heading.

Any adjustments arising from the application of IFRS at the time of acquisition of a foreign company with regard to market value and goodwill are considered as assets and liabilities of such company and are therefore converted using the exchange rate prevailing at year-end.

2.5.4 Changes in the scope of consolidation

The most significant changes in the scope of consolidation during 2016 and 2015 that affect the comparison between financial years were the following:

a.1 Changes in the scope of consolidation in 2016

a.1.1 Additions to the consolidation scope

On 27 December 2016, the Group acquired 47% of the share capital of Palacio de la Merced, S.A., for an amount of €2.069 million, of which €621 thousand euros are outstanding.

Up to the date of purchase, the Group held a minority shareholding of 25% in that Company which was consolidated using the equity method. Following the purchase, the Group now holds a 72% participating interest in the share capital, thereby acquiring control of the share capital and, therefore, becoming consolidated by the full consolidation method.

Said acquisition was regulated by the application of the stipulations of IFRS 3 Business Combinations. The effect of the acquisition of the aforementioned participating interest on the consolidated balance sheet at 31 December 2016 was as follows:

	Thousands of euros
Tangible fixed assets (Note 8)	16,813
Intangible fixed assets (Note 7)	2
Other non-current assets	2
Current assets	453
Bank borrowings (non-current)	(4,372)
Bank borrowings (current)	(566)
Deferred tax liabilities	(698)
Other non-current liabilities	(1,301)
Current liabilities	(1,094)
Non-controlling interests (Note 14.4)	(2,589)
Fair value of the acquired entity's net assets	**6,650**
Cost of the previous stake (Note 9)	(1,718)
Net Consideration	(2,069)
Profit of the transaction	**2,863**

In addition, the detail of the book value of the assets acquired and the revaluation carried out is as follows:

	Thousands of euros		
	BOOK VALUE OF THE ASSETS ACQUIRED	REVALUATION CARRIED OUT	FAIR VALUE OF THE ASSETS ACQUIRED
Tangible fixed assets (Note 8)	14,021	2,792	16,813
Intangible fixed assets (Note 7)	2	-	2
Other non-current assets	2	-	2
Current assets	453	-	453
Bank borrowings (non-current)	(4,372)	-	(4,372)
Bank borrowings (current)	(566)	-	(566)
Deferred tax liabilities	-	(698)	(698)
Other non-current liabilities	(1,301)	-	(1,301)
Current liabilities	(1,094)	-	(1,094)
Non-controlling interests (Note 14.4)	-	(2,589)	(2,589)

The effect of the acquisition of the additional ownership interest in the Company brought a positive result of €2.863 million recorded in the "Gains on financial assets and liabilities and other" in the consolidated comprehensive profit and loss statements.

On 28 December 2016, the Group acquired 50% of the inactive company Capredo Investments Gmbh for €3.19 million, of which €3.15 million is still outstanding (see Note 16), now holding 100% of the share capital of this Company. In this regard, the Company owns a plot of land located in the Dominican Republic that does not have the consideration of business in accordance with IFRS 3. Following the acquisition, the Group acquired control of the company whose previous cost amounted to €6.764 million. The net assets associated with Capredo Investments Gmbh are recorded as "Non-current assets classified as held for sale and discontinued operations" (see Note 11).

The effect of the acquisition has not had any effect on the consolidated comprehensive profit and loss statement.

a.1.2 Disposals

On 16 March 2016, the Group carried out the representative sale of a 4% stake in the company Varallo Comercial, S.A., in which it previously held a 14% stake. The net result of the transaction resulted in a consolidated profit of €194 thousand and a negative effect of €635 thousand owing to the conversion differences associated with the aforementioned shareholding, which is entered in the net exchange differences item of the consolidated comprehensive profit and loss statement. As a result of this sale, the Group has lost its significant influence on the aforementioned holding, ceasing to be considered as an associate company and now being recognised under the "Other non-current financial assets" heading at fair value amounting to €9,343 thousand euros (see Note 10.2).

a.2 Changes in the scope of consolidation in 2015

a.2.1 Additions to the consolidation scope

The companies which were incorporated into the scope of consolidation in 2015, along with the method of consolidation employed were the following:

Sociedad	Consolidation method	Effective date of acquisition
Hoteles Royal, S.A. and dependent companies (see Appendix I)	Full consolidation	4/03/2015
Beijing NH Grand China Hotel Management Co, Ltd	Equity method	9/09/2015
Hotel & Congress Technology, S.L.	Equity method	15/04/2015

On 4 March 2015, the Group acquired a shareholding of 97.47%, amounting to a total of 2,969,668 shares, in the share capital of Hoteles Royal, S.A., a Colombian company which is the parent of Hoteles Royal, the Latin American hotel management group. The amount of the remuneration was €94.8 million, with €77.1 million paid and €17.7 million pending payment (updated at the end of 2016 it amounted to €20.5 million, payable in March 2017), recorded under the “Other current liabilities” heading (see Note 21).

The effect of the business combination on the consolidated balance sheet at 31 December 2015 was as follows:

	Thousands of euros
Tangible fixed assets (Note 8)	63,923
Intangible fixed assets (Note 7)	43,295
Deferred tax assets	8,518
Other current assets	24,980
Bank borrowings	(24,965)
Deferred tax liabilities	(26,077)
Other current and non-current liabilities	(16,634)
Non-controlling interests	(14,646)
Net assets acquired	**58,394**
Net Consideration	(94,824)
First consolidation difference (Note 6)	**(36,430)**

In this respect, the detail of the book value acquired and the revaluation carried out is as shown below (in millions of euros):

	Thousands of euros		
	BOOK VALUE OF THE ASSETS ACQUIRED	REVALUATION CARRIED OUT	FAIR VALUE OF THE ASSETS ACQUIRED
Tangible fixed assets	60.8	3.1	63.9
Operating rights of the hotels	-	36.7	36.7
Brand	-	6.6	6.6
Deferred tax assets	8.5	-	8.5
Other current assets	25.0	-	25.0
Bank borrowings	(25.0)	-	(25.0)
Other non-current liabilities	(2.1)	-	(2.1)
Deferred tax liabilities	(9.8)	(16.4)	(26.2)
Trade and other payables	(7.5)	-	(7.5)
Tax payables	(4.0)	-	(4.0)
Provisions for contingencies and charges	(0.7)	-	(0.7)
Other current liabilities	(2.2)	-	(2.2)
Non-controlling interests	(10.2)	(4.4)	(14.6)

On 9 September 2015, the Joint Venture with the shareholding group HNA Hospitality Group CO, LTD was formalised, creating a Chinese company in which the Group is a 49% shareholder. The company's capital increases to USD 20,000 and each part will make an initial payment corresponding to 50% of its shares, with the remaining amount to be paid over the following two years. At 31 December 2015, the Group had contributed USD 300,000. During 2016 it has been done an additional investment of 4,149 thousand euros in the company Beijing NH Grand China Hotel Management Co, Ltd., amounting to 3,060 thousand euros the net book value of the investment at the end of 2016.

On 15 April 2015, the contract for the Joint Venture between the Group and the company MDH Hologram, S.A. was formalised, in virtue of which 50% of the company Hotel & Congress Technology, S.L. was sold, resulting in a 50% shareholding for the NH Hotel Group. The company was incorporated into the consolidation upon commencing activity in 2015, having been previously inactive, with shares accounted for under the heading "Other non-current financial assets" in the year 2014.

a.2.2 Disposals

On 14 January 2015, the Group sold its subsidiary NH Parque de la 93, S.A. The net consideration received amounted to €23 million, of which €3.5 million were pending payment (updated at closing of 2015, it amounted to €3 million).

Part of the outstanding amount, amounting to €0.4 million, was to guarantee working capital in the transaction, and was settled in the month of February 2016. The outstanding amount corresponds to the deductions made by the National Directorate of Taxes and Customs of Colombia at the time of the transaction, amounting to €3.1 million, whose payment was made effective in March 2016. These amounts were recorded under current assets on the consolidated balance sheet in the lines of commercial receivables "Other non-commercial receivables" and "Public administration receivables", respectively.

The Group earned a net gain of €4.7 million from this transaction.

The effect of the exit from the scope of that company on the consolidated balance sheet at 31 December 2015 was as follows:

	Thousands of euros
Tangible fixed assets	16,430
Working capital	1,956
Net assets disposed of	**18,386**
Net Consideration received	23,094
Consolidated benefit (Income)	**(4,708)**

There is also a negative effect of 620 thousand euros owing to the conversion differences associated with the aforementioned shareholding, which is entered in the "net exchange difference" item of the 2015 consolidated comprehensive results.

As of 31 July 2015, the Group had sold its affiliate Donnafugata Resort S.r.l., of which it had a 95.26% shareholding (see Note 11). The net remuneration received was one euro. The result of the transaction was as follows:

	Thousands of euros
Non-Current Assets	45,630
Long-term liabilities	(56,930)
Inter-company losses	3,406
Net assets disposed of	**(7,894)**
Net Consideration	1
Transaction costs	647
Profit of the transaction	**(7,246)**
Result until sale	(1,911)
Total Profit (Loss)	**(9,157)**

2.5.5 Intra-group eliminations

All accounts receivable and accounts payable, and transactions performed between subsidiaries, with associate companies and joint ventures, and among each other, have been eliminated in the consolidation process.

2.5.6 Valuation uniformity

The consolidation of the entities included in the scope of consolidation has been performed based on their individual financial statements, which are prepared in accordance with the Spanish General Accounting Plan for companies resident in Spain and in accordance with their own local regulations for foreign companies. All significant adjustments necessary to adapt them to International Financial Reporting Standards and/or homogenise them with the accounting principles of the parent company have been considered in the consolidation process.

3.- DISTRIBUTION OF PROFITS

The proposed distribution of the profit (loss) for the year prepared by the Parent Company's Directors and that will be submitted for approval by the Shareholders at the General Shareholders' Meeting is as follows (in thousands of euros):

	Financial year 2016
To legal reserve	12.896
To dividends (máximum amount to be distributed 0.05 gross euros per share, by the total number of outstanding shares) (*)	17.034
To offset of prior years' losses	99.034
Total	**128.964**

(*) The final amount to be distributed will be updated based on the number of outstanding and issued shares at the date of the General Meeting of Shareholders.

4.- VALUATION STANDARDS

The main principles, accounting policies and valuation standards applied by the Group to draw up these consolidated financial statements, which comply with IFRS in force on the date of the relevant financial statements, have been the following:

4.1 Tangible fixed Assets

Tangible fixed assets are valued at their original cost. They are subsequently valued at their reduced cost resulting from cumulative depreciation and, as appropriate, from any impairment losses they may have suffered.

Due to the transition to IFRS, the Group reappraised the value of some land to its market value on the basis of appraisals made by an independent expert for a total amount of €217 million. The reappraised cost of such land was considered as a cost attributed to the transition to the IFRS. The Group followed the criterion of not re-valuing any of its tangible fixed assets at subsequent year-ends.

Enlargement, modernisation and improvement costs entailing an increase in productivity, capacity or efficiency or a lengthening of the assets' useful life are recognised as increases in the cost of such assets. Conservation and maintenance costs are charged against the consolidated comprehensive profit and loss statement for the year in which they are incurred.

Withdrawn assets and items, whether arising as a result of a modernisation process or due to any other cause, are accounted for by derecognising the balances presented in the corresponding cost and accumulated depreciation accounts.

The Group depreciates its tangible fixed assets following the straight line method, distributing the cost of the assets over their estimated useful lives, in accordance with the following table:

	Estimated years of useful life
Buildings	33-50
Plant and machinery	10-30
Other plant, fixtures and furniture	5-10
Other fixed assets	4-5

These items are depreciated based on their estimated useful life or the remaining term of the lease, if this is less than the useful life.

The profit or loss resulting from the disposal or withdrawal of an asset is calculated as the difference between the profit from the sale and the asset's book value, and is recognised in the consolidated comprehensive profit and loss statement.

4.2 Consolidation Goodwill

The goodwill generated on consolidation represents the excess of the cost of acquisition over the Group's share in the market value of the identifiable assets and liabilities of a subsidiary.

Any positive differences between the cost of interests in the capital of consolidated and associated entities and the corresponding theoretical carrying amounts acquired, adjusted on the date of the first consolidation, are recognised as follows:

1. If they are assignable to specific equity elements of the companies acquired, by increasing the value of any assets the market value of which is above their net carrying amount appearing in the balance statements.
2. If they are assignable to specific intangible assets, by explicitly recognising them in the consolidated balance sheet, provided their market value on the date of acquisition can be reliably determined.
3. Any remaining differences are recognised as goodwill, which is assigned to one or more specific cash-generating units (in general hotels) which are expected to make a profit.

Goodwill is recognised only when it has been acquired for valuable consideration and represents, therefore, advance payments made by the acquirer of the future economic benefits derived from the assets of the acquired entity that are not individually and separately identifiable and recognisable.

Any goodwill generated through acquisitions prior to the IFRS transition date, 1 January 2004, is kept at its net value recognised at 31 December 2003 in accordance with Spanish accounting standards.

At the time of the disposal of a subsidiary or jointly controlled entity, the amount attributable to the goodwill is included when determining the profits or losses arising from the disposal.

Goodwill arising on the acquisition of companies with a functional currency other than the euro is valued in the functional currency of the acquired company, with the conversion to euros being made at the exchange rate prevailing at the balance sheet date.

Goodwill is not amortised. In this regard, at the end of every year, or whenever there are indications of a loss of value, the Group estimates, using the so-called "Impairment Test", the possible existence of permanent losses of value that would reduce the recoverable amount of goodwill to less than the net cost recognised. Should this be the case, it is written down in the consolidated comprehensive profit and loss statement. Any write-downs recognised cannot subsequently be reversed.

All goodwill is assigned to one or more cash-generating units in order to conduct the impairment test. The recoverable amount of each cash-generating unit is determined as the higher of the value in use and the fair value less sale costs.

The value in use is considered as the current value of expected future cash flows discounted at an after-tax rate that reflects the current market valuation with respect to the cost of money and the specific risks associated with the asset.

As indicated in Note 6, the Group has recorded in its consolidated balance sheet goodwill relating to the subsidiaries NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH for an amount which, at 31 December 2015, totalled €85.18 million. This goodwill is allocated to leased hotels for the Group.

In 2016, the Group changed its estimate of the useful life of the aforementioned goodwill, previously classified as having an indefinite useful life (see Note 6). This change was caused by a re-estimation of the likelihood of renewal of the lease agreements, which is why it has been determined that the useful life of such goodwill coincides with the period of completion of each one of the lease agreements, which vary between 19 and 35 years. The effect of the change on the estimate has been recorded prospectively, an amortisation expense in the amount of €4.695 million euros corresponding to the period elapsed since the date of the change of estimate (1 January 2016) having been recognised in the consolidated comprehensive profit and loss statement for the year 2016. The effect on the consolidated comprehensive profit and loss statement of future years will consist of an amortisation expense based on the estimated useful life of each element of goodwill of the hotels managed by these companies.

4.3 Intangible Assets

Intangible assets are considered to be any specifically identifiable non-monetary assets which have been acquired from third parties or developed by the Group. Only those whose cost can be estimated in an objective way and from which future economic profits are expected are recognised.

Intangible assets are initially recognised at acquisition or production cost and are subsequently measured at their cost less, as appropriate, their accumulated amortisation and any impairment losses they have suffered.

Any assets deemed to contribute indefinitely to the generation of profits are considered to have an indefinite useful life. The remaining intangible assets are considered have a "finite useful life".

Intangible assets with an indefinite useful life are not amortised and are hence subjected to the "impairment test" at least once a year (see Note 4.4).

Intangible assets with a finite useful life are amortised according to the straight-line method on the basis of the estimated years of useful life of the asset in question.

The following are the main items recognised under the "Intangible assets" heading:

i) Hotel Operating Rights: this item reflects, on the one hand, the right to operate Hotel NH Plaza de Armas in Seville, acquired in 1994, amortisation of which is recognised in the consolidated comprehensive profit/loss over the 30-year term of the agreement at a rate which increases by 4% each year. On the other hand, as a consequence of entering into the consolidation Hoteles Royal, S.A., operating rights of the hotel portfolio for 35 years were recognised within this concept.

ii) "Rental agreement premiums" reflect the amounts paid as a condition to obtain certain hotel lease agreements. They are amortised on a straight-line basis depending on the term of the lease.

iii) "Concessions, patents and trademarks" basically reflect the disbursements made by Gran Círculo de Madrid, S.A. for the refurbishment and remodelling of the building where the Casino de Madrid is located. The amortisation of such works is calculated on a straight-line basis by taking into account the term of the concession for operating and managing the services provided in the building where the Casino de Madrid is located, which finalises on 1 January 2037. Furthermore, this item includes the brands of the Grupo Royal with a useful life of 20 years.

iv) The "Software Applications" include the costs incurred by the Group Companies in the acquisition and development of various computer programs acquired by the different consolidated companies. The amortisation of software applications is performed using the straight-line method at a rate of 20-25% per year.

4.4 Impairment in the Value of Tangible and Intangible Assets Excluding Goodwill

The Group evaluates the possible existence of a loss of value each year that would oblige it to reduce the carrying amounts of its tangible and intangible assets. A loss is deemed to exist when the recoverable value is less than the carrying amount.

The recoverable amount is determined as the value in use, with the sole exception of one case, not significant in the context of the assets as a whole, in which the valuation of an independent third party was used as the recoverable amount. The value in use is calculated from the estimated future cash flows, discounted at a discount rate after tax that reflects the current market valuation with respect to the value of money and the specific risks associated with the asset, covering a five-year period and a perpetual value, except in the case of leased hotels that correspond to the lease period, a perpetual value therefore not being considered in the latter.

As a general rule, the Group has defined each of the hotels it operates as cash-generating units, according to the real management of their operations.

In the case of Hoteles Royal, S.A. which was purchased in 2015 (see Note 2.5.4), the cash-generating unit corresponds to the Group as a whole (Colombian, Chilean and Ecuadorian market).

For each CGU (hotel or Royal Group) the operating result is obtained at the end of the year without taking into account non-recurring results (if any) or financial results.

Once the operating result is obtained for each CGU, the impairment test is performed for those for which there are indications of impairment. Among others, the Group considers that a CGU has indications of impairment if it meets the following conditions: it has negative operating results and its business is stable (that is to say, they are not recently opened hotels until, generally speaking, they have been open for 3 years).

In addition, for all those CGUs in which impairment was recognised in previous years, an individual analysis and, therefore, an impairment test is performed for them.

For the estimation of future cash flows, the baseline information is the result of the year approved by the Group's Management and the historical information relating to at least five previous years. The first projected year corresponds to the budget approved by the Board of Directors for the year following the impairment test. The projections for the following years are consistent with the macroeconomic information from external information sources and the knowledge of the business by the Group's Operations Department.

There are a number of factors that are considered by the Group's Management to make the projections, which are:

- Estimate of GDP (Gross Domestic Product) growth issued by the International Monetary Fund (IMF) in its report published in October of each year for the next five years.
- Knowledge of the business/asset/local situation of the local Management of each Business Unit to which each CGU belongs.
- Historical results obtained by the CGUs.
- Repositioning investments in the CGUs.

These factors are reflected in the flows through the following operating assumptions used to obtain the projections:

- Revenue from accommodation is projected as the product of the percentage occupancy, the average room rate (ADR) and the total number of rooms available per year.
- The other revenues are projected based on the average of the relationship between the revenue from accommodation and those revenues.
- Staff costs are calculated based on the average staff costs with a growth in the inflation index (CPI).
- For its part, tax is calculated from the tax rates applicable in each country.
- Direct expenses are directly associated with each of the revenues and are projected on the basis of an average ratio, while undistributed expenses are projected based on the average ratio between these and direct expenses.

The discount rates after tax used by the Group for these purposes range in Europe from 5.8% to 8.2%, and in Latin America from 9.8% to 13.4%, depending on the different risks associated with each specific asset. In this regard, just as the cash flows resulting from the impairment tests were also calculated after tax. On the other hand, the book value with which the value in use is compared does not include any deferred tax liability that could be associated with the assets.

For the calculation of the discount rate the Weighted Average Cost of Capital (CPPC) methodology has been applied: Weighted Average Cost of Capital, as follows:

$$WACC=Ke*E/(E+D) + Kd*(1-T)*D/(E+D)$$

Where:

Ke: Cost of Equity
Kd: Cost of Debt
E: Own Funds
D: Debt Amount
T: Tax rate

The Capital Asset Pricing Model (CAPM) is used to estimate the cost of equity (Ke).

The main variables used to calculate the discount rate are as follows:

- Risk-free rate: the average of the last 12 months of the long-term interest rates, 10-year bond, has been used for each country in the local currency.
- Market risk premium: defined as 6%, based on market reports.
- Beta or systemic risk: Using as external information sources, this information is obtained from independent databases and represents the relationship between companies' risk and global market risk. The re-leveraged beta coefficient has been estimated on the basis of 70% unleveraged betas, the debt structure of comparable companies (Debt / (Debt + Equity) of 32%) and the corresponding tax rate in each country.
- Market value of debt, amounting to 5%.
- Premium by size: based on recent expert reports.

Using a post-tax discount rate and post-tax cash flows is consistent with paragraph 51 of IAS 36, which states that "estimated future cash flows will reflect assumptions that are consistent with the manner of determining the discount rate". In addition, the result of the post-tax flows updated at a post-tax discount rate would obtain the same result with respect to the impairment test if a pre-tax rate were used and, therefore, the impairment and reversion accounting records would be the same.

Below are the pre-tax discount rates of the major countries:

	Discount rate before taxes				
	Germany	Netherlands	Italy	Spain	Mexico
2016	7.87%	8.17%	9.35%	9.00%	15.53%
2015	7.89%	8.81%	9.77%	9.17%	13.71%

If the recoverable amount of an asset is estimated to be lower than its carrying amount, the latter is reduced to the recoverable amount by recognising the corresponding reduction through the consolidated comprehensive profit and loss statement.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the limit of the original value at which such asset was recognised before the loss of value was recognised.

Information on impairment losses detected in the financial year appears in Notes 7 and 8 of this Consolidated Annual Report.

The evolution of the key assumptions in hotels with indications of impairment in the major countries in local currency was as follows:

	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Germany		Netherlands		Italy		Spain		Mexico	
Post-tax WACC	6.16%	6.45%	6.43%	6.79%	7.04%	7.31%	7.14%	7.38%	11.34%	10.50%
Growth rate	1.98%	2.00%	1.27%	2.00%	1.00%	2.00%	1.56%	2.00%	2.00%	2.00%
Average ADR	€64.8	€81.1	€202.0	€103.60	€114.70	€108.40	€81.50	€77.50	1,926.4 Mex. P	1,430.0 Mex. P
Occupancy level	66.8%	65.3%	68.8%	67.9%	68.8%	67.6%	67.7%	64.4%	70.0%	68.0%

"Average Daily Rate" (ADR): is the quotient of total room revenue for a specific period divided by the rooms sold in that specific period. This indicator is used to compare with companies in the sector the average prices per room of the hotels.

As regards the ADR, the changes are affected by the type of the hotel that shows signs of impairment in each year.

4.5 Lease Rentals

Leases are classified as financial leases whenever the terms of the lease assume that substantially all the risks and benefits inherent in ownership of the leased asset are assumed by the lessee. All other leases are classified as operating leases.

The Group generally classifies all leases as operating leases. Under IAS 17, whether a lease is financial or operating depends on the economic background and nature of the transaction, rather than the mere form of the lease agreement.

The arguments used to classify the leases as operative are as follows:

- The ownership of the asset is transferred to the lessor at the end of the lease;
- There is no option to acquire the asset at the end of the lease;
- The term of the lease does not exceed the economic life of the asset
- The present value of the minimum lease payments does not substantially cover the market value of the underlying asset;
- The duration of leases is always much shorter than the economic useful life of the underlying asset;
- In the event that it is decided to extend the duration of the lease, the terms of the new lease should be renegotiated;
- The group can unilaterally terminate the lease without a penalty being imposed as a consequence;
- The increases or decreases in the residual value of the underlying asset are not borne by the Group, but by the lessor.

4.5.1 Operating leases

In operating lease transactions, ownership of the leased asset and substantially all the risks and rewards deriving from ownership of the asset remain with the lessor.

When the Group acts as the lessor, it recognises the income from operating leases using the straight-line method according to the terms of the agreements signed. These assets are recorded at the acquisition cost of the leased assets under "Tangible fixed assets " and are depreciated in accordance with the policies adopted for similar own-use tangible assets. When the Group acts as the lessee, the leasing costs are charged on a straight-line basis to its comprehensive consolidated income statement, the resulting asset or liability being recognised under "other non-current liabilities" and "other non-current assets" or "other current liabilities" and "other current assets".

4.5.2 Finance leases

The Group recognises finance leases as assets and liabilities in the consolidated balance sheet at the start of lease term at the market value of the leased asset or at the present value of the minimum lease instalments, should the latter be lower. The interest rate established in the agreement is used to calculate the present value of the lease instalments.

The cost of assets acquired under finance leases is presented in the consolidated balance sheet, according to the nature of the leased asset being depreciated in accordance with the policies adopted for similar own-use tangible assets or, where these are shorter, during the relevant lease term.

The financial expenses are distributed over the period of the lease in accordance with a financial criterion. Contingent rent is recognised as an expense for the year in which it is incurred.

4.6 Financial Instruments

4.6.1 Financial assets

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

- Negotiable financial assets: these include any assets acquired by the companies with the aim of taking short-term advantage of any changes their prices may undergo or any existing differences between their purchase and sale price. This item also includes any financial derivatives that are not considered hedges.

- Held to maturity assets: these are assets subject to a fixed or determinable redemption amount with a fixed maturity date. The Group declares its intention and its capacity to keep these in its power from the date of acquisition to their maturity date.

- Loans and accounts receivable originating in the company itself: these are financial assets generated by the companies in exchange for deliveries of cash or the supply of goods or services.

Negotiable financial assets are valued after their acquisition at fair value, any changes in which are recognised through profit or loss for the year.

Fair value of a financial instrument on a given date is construed as the amount for which it could be bought or sold on that same date by two knowledgeable parties acting freely and prudently under conditions of mutual independence.

Held to maturity financial assets and loans and accounts receivable originated by the Group are valued at their amortised cost and accrued interest is recognised in the consolidated comprehensive profit and loss statement on the basis of their effective interest rate. Amortised cost is construed as the initial cost minus any collections or amortisation of the principal, taking into account any potential reductions arising from impairment or default.

As regards with valuation corrections made to trade and other accounts receivable in particular, the criterion used by the Group to calculate the corresponding valuation corrections, if any, generally consists of provisioning for any balances more than 180 days overdue.

The Group derecognises financial assets when the cash flow rights of the corresponding financial asset have expired or have been transferred and the risks and rewards incidental to its ownership have been substantially all transferred.

Conversely, the Group does not derecognise financial assets and recognises a financial liability for an amount equal to the consideration received in the transfers of financial assets in which the risks and rewards inherent in its ownership are substantially all retained.

4.6.2 Cash and cash equivalents

“Cash and Cash Equivalents” in the consolidated balance sheet includes cash, demand deposits and other short-term, highly liquid investments that can be realised in cash quickly and are not subject to a risk of changes in value.

4.6.3 Financial liabilities

ISSUES OF BONDS AND OTHER SECURITIES

Debt issues are initially recognised at the fair value of the consideration received, less the costs directly attributable to the transaction. They are subsequently valued at their amortised cost using the effective interest rate method. Bonds with a maturity date greater than twelve months are classified under non-current liabilities, whereas those with a maturity date of less than twelve months are included in current liabilities.

Convertible bond issues are recognised at the time of their issue, distributing the fair value of the consideration received between their equity and liability components, assigning the residual value obtained after deducting the amount established separately for the liability component, from the fair value of these instruments as a whole, to the equity instrument. The value of any derivative embedded in the compound financial instrument other than the equity component will be included in the liability component.

BANK LOANS

Loans received from banking institutions are recognised at the amount received, net of costs incurred in the transaction. They are subsequently valued at amortised cost. These costs incurred in the transaction and the financial expenses are recognised on an accrual basis in the consolidated comprehensive profit and loss statement using the effective interest rate method, and their amount is added to liabilities to the extent to which they are not settled in the period they were produced.

TRADE AND OTHER PAYABLES

Trade accounts payable are initially recognised at fair value and are subsequently valued at amortised cost using the effective interest rate method.

DERIVATIVES AND HEDGE ACCOUNTING

Derivatives used to hedge the risks to which the Group's operations are exposed, mainly exchange and interest rate risks, are valued at market value on the date they are contracted. Any subsequent changes in their market value are recognised as follows:

- Concerning fair value hedges, the differences produced in both the hedging elements as well as in the hedged elements (regarding the kind of risk hedged) are directly recognised in the consolidated comprehensive profit and loss statement.
- For cash flow hedges, valuation differences in the effective part of the hedge elements are temporarily recognised in the equity item "Equity valuation adjustments" and not recognised as results until the losses or gains of the hedged element are recognised in profit or loss or until the hedged element matures. The ineffective part of the hedge is directly entered into the consolidated comprehensive profit and loss statement.

Hedge accounting is interrupted when the hedging instrument expires or is sold or finalised or exercised, or when it no longer meets the hedge accounting criteria. At that time, any cumulative gain or loss corresponding to the hedging instrument that has been recognised in equity is kept there until the expected transaction is undertaken.

When the transaction covered by the hedge is not expected to take place, the net cumulative gains or losses recognised in equity are transferred to the profit or loss for the period. Any changes in the fair value of derivatives which fail to meet hedge accounting criteria are recognised in the consolidated comprehensive profit and loss statement as they arise.

Derivatives embedded in other financial instruments or in other main contracts are recognised separately as derivatives only when their risks and characteristics are not closely related to those of the main contract and providing such main contracts are not valued at fair value with changes through consolidated comprehensive profit and loss.

VALUATION TECHNIQUES AND ASSUMPTIONS APPLYING TO THE MEASUREMENT OF FAIR VALUE

The fair values of financial assets and liabilities are determined as follows:

- The fair value of financial assets and liabilities under standard terms and conditions which are traded in active liquid markets are based on market prices.
- The fair value of other financial assets and liabilities (excluding derivatives) is determined in accordance with generally accepted valuation models on the basis of cash flow discounting using the price of observable market transactions and contributor listings of similar instruments.
- In order to determine the fair value of interest rate derivatives, cash flow discounting is used based on the implicit flow determined by the interest rate curve according to market conditions. In order to determine the fair value of options, the Group uses the Black-Scholes valuation model and its variants, using for this purpose market volatilities for the strike and maturity prices of said options.

Any financial instruments valued after their initial recognition at fair value are classified as level 1 to 3 based on the extent to which fair value can be observed:

- Level 1: includes any instruments indexed to listed prices (without adjustment) of identical assets or liabilities in active markets.
- Level 2: includes any instruments indexed to other observable inputs (which are not the listed prices included under Level 1) for assets or liabilities, be it directly (i.e., prices) or indirectly (i.e., derived from prices).
- Level 3: includes any instruments indexed to valuation techniques, which include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

In 2015, the Group took out several exchange rate insurance contracts of which one remained in place at the end of 2015, for an amount of USD 16 million. In January 2016, a part of the nominal established was purchased for an amount of USD 5 million at a fixed rate of 1.27964. The remaining nominal of USD 11 million expired in December 2016, having been renegotiated until 1 March 2017 at a rate of 1.2938.

The change in fair value as of 31 December 2016 of these hedges has had a positive effect concerning the 2016 consolidated comprehensive profit and loss statement of €435 thousand (€4,530 thousand in 2015).

These derivative instruments have not been treated as hedging instruments.

4.6.4 Equity instruments

An equity instrument represents a residual interest in the equity of the Parent Company once all its liabilities are subtracted.

Equity instruments issued by the Parent Company are recognised in equity for the amount received, net of the issue expenses.

4.7 Non-Current Assets and Associated Liabilities Held for Sale and Discontinued Operations

Assets and liabilities the carrying amount of which is recovered through a sale and not from continued use are classified as non-current assets held for sale and liabilities associated with non-current assets held for sale. This condition is considered to be met only when the sale is highly probable and the asset is available for immediate sale in its current state, and it is estimated that the sale will be completed within one year from the date of classification.

Non-current assets and associated liabilities classified as held for sale are valued at their historical cost, which in all cases is less than their fair value less selling expenses. For the measurement of fair value, the investment book value plus the amount of the existing unrealised gains of the assets owned by these companies, supported by valuations carried out by independent experts, have been taken into account.

Discontinued operations represent components of the Group which will be disposed of. These components are activities and cash flows that can be clearly distinguished from the rest of the Group, both operationally and for the purposes of financial reporting, and represent lines of business or geographical areas which can be considered as separate from the rest.

4.8 Investments in Associates

Investments in companies over which the Parent exercises significant influence or are jointly controlled are accounted for using the equity method (see Appendix II). The carrying amount of the investment in the associate includes the goodwill and the consolidated statement of comprehensive income includes the share in the results of the associate's operations. If the associate recognises gains or losses directly in equity, the Group also recognises its share in such items directly in equity.

At each year-end, the existence of indicators of a potential impairment of the investment in the associate is assessed in order to recognise the related impairment loss, where appropriate. In order to determine the recoverable amount of the investments in companies whose sole asset consists of property inventories, appraisals were obtained from the same independent valuer that appraised the Group's inventories. In the case of the other companies, discounted cash flow valuations were performed internally, similar to those described in Note 4.4.

4.9 Foreign Currency Transactions and Balances

The Group's functional currency is the euro. Consequently, any transactions in currencies other than the euro are considered as "foreign currency" and are recognised according to the prevailing exchange rate on the date the transactions are performed.

Cash assets and liabilities denominated in foreign currencies are converted into the functional currency at the prevailing exchange rate on the date of each consolidated profit and loss statement. Any gains or losses thus revealed are recognised directly in consolidated comprehensive profit and loss.

4.10 Classification of Financial Assets and Debts into Current and Non-Current

In the attached consolidated balance sheet, financial assets and debts are classified on the basis of their maturity; in other words, those with a maturity date equivalent to or less than twelve months are classified as current and those with a maturity date exceeding this are non-current.

4.11 Income and Expenses

Income and expenses are recognised on an accrual basis, i.e. when the real flow of goods and services they represent occurs, irrespective of the moment when the monetary or financial flows deriving from them arise.

More specifically, income is calculated at the fair value of the consideration to be received and represents the amounts to be collected for the goods and services delivered within the ordinary framework of operations, subtracting any discounts and taxes.

Income and expenses arising from interest are accrued on the basis of a financial timing criterion depending on the outstanding principal to be received or paid and the effective interest rate that applies.

4.12 Official Subsidies

Group companies follow the criteria set out below in recognising official subsidies:

- Non-reimbursable capital subsidies (connected with assets) are valued at the amount granted, recognised as deferred income and taken into profit and loss in proportion to the depreciation of the assets financed by such subsidies during the financial year.

- Operating subsidies are recognised as income at the moment of their accrual.

4.13 Corporate Income Tax

The cost of the year's income tax is calculated through the sum of the current tax resulting from applying the tax rate to the taxable income for the year and then applying the relevant tax adjustments according to the law plus any changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities include temporary differences, being any amounts expected to be payable or recoverable due to differences between the carrying amounts of the assets and liabilities and their tax value, as well as tax loss carry-forwards and any credits resulting from unapplied tax deductions. Said amounts are recognised by applying to the relevant temporary difference or credit the tax rate at which they are expected to be recovered or settled.

In some countries, the tax rate varies depending on whether a transfer of assets is made. In these cases, the Group's policy consists of applying the effective tax rate at which they are expected to be recovered or settled. In the opinion of the Parent's Directors, the deferred tax thus calculated covers the amount which may eventually be settled, if any, in the foregoing case.

Deferred tax liabilities for all taxable temporary differences are recognised, except for those in which the temporary difference arises from the initial recognition of goodwill amortisation of which is not tax-deductible or the initial recognition of other operating assets and liabilities which do not affect either the tax or accounting result.

Deferred tax assets identified as temporary differences are recognised only if it is deemed probable that the consolidated entities will make sufficient tax profits in the future to realise them and they do not come from the initial recognition of other assets and liabilities in a transaction which does not affect either the tax or accounting result. Other deferred tax assets (tax loss carry-forwards and tax credits) are recognised only if it is likely that the consolidated companies will make sufficient tax profits in the future to be able to apply them.

At each year-end, deferred taxes (both assets and liabilities) are reviewed in order to verify that they remain in force and the relevant corrections are made in accordance with the outcome of the analyses conducted.

4.14 Obligations to Employees

Spanish hotel companies are obliged to make a specific number of monthly salary payments to those employees who leave the company due to retirement, permanent disability or upon reaching a certain age and having a certain number of years of service and fulfilling certain pre-established requirements.

In this regard and in compliance with Royal Decree-Law 16/2005, the Group has outsourced its pension obligations for its employees' pension plans.

Also, in accordance with Italian law, employees of Italian companies have the right to compensation if they resign or are dismissed.

Its obligations to personnel also include those arising from contracting pension funds for certain employees, which in the Group, mainly affects the business units of Italy and the Netherlands.

Therefore, to provide for these obligations to future payments to personnel, the Group has recognised a liability under "Provisions for Risks and Charges" (See Note 17).

4.15 Onerous Contracts

The Group considers onerous agreements to be those in which the inevitable costs of fulfilling the obligations they entail exceed the economic benefits expected from them.

The Group follows the principle of recording a provision at the present value of the aforementioned differences between the costs and benefits of the contract, or the compensation foreseen for abandonment of the contract, if such is decided.

The methodology, assumptions and discount rates used to calculate any necessary provisions are applied in accordance with the criteria described in Note 4.4.

4.16 Share-based Remuneration Schemes

These schemes, which are settled in shares, are valued at the time of granting, using a financial method based on a binomial model which takes into consideration the strike price, volatility, the exercise period, the expected dividends, the risk-free interest rate and the assumptions made concerning the financial year.

In accordance with IFRS 2, the above-mentioned valuation is recognised in profit or loss under personnel expenses during the period established as a requirement for the employee to remain in the company before exercising the option. Said value is recognised on a straight-line basis in the consolidated comprehensive profit and loss statement from the date the option is granted until the date on which it is exercised.

Plans settled in shares

The expense for the year is recognised directly in equity. On each subsequent closing date, the Group reviews the estimates regarding the number of options expected to be exercisable, adjusting the equity figure if necessary.

4.17 Treasury Shares

Pursuant to IAS 32, treasury shares are presented by reducing the Group's equity. Treasury shares are recognised at the value of the consideration paid and are deducted directly from equity. Gains and losses on the acquisition, sale, issue or retirement of treasury shares are recognised directly in equity and in no case are they recognised in the consolidated comprehensive profit and loss statement.

4.18 Provisions

The Group follows the policy of provisioning for the estimated amounts arising from ongoing litigation, indemnities or obligations, as well as for any sureties or guarantees granted by Group companies which could involve the Group in a payment obligation (either legal or implicit), provided that the amount can be reliably estimated.

Provisions are quantified based on the best information available on the position and evolution of the events that cause them and are reestimated at the end of each reporting period, being totally or partially reversed when these obligations cease to exist or decrease.

Contingent liabilities, except in business combinations, are not recognised in the consolidated financial statements, but are reported in the notes to the financial statements, in accordance with the requirements of IAS 37.

4.19 Termination Benefits

In accordance with current employment regulations and certain employment contracts, the Group is obliged to pay indemnities to employees who are dismissed under certain conditions. The Group recognised expenses of €13.432 million for this item in 2016 (€4.688 million in 2015).

The consolidated financial statement of 31 December 2016 includes, pursuant to IFRS regulations (IAS 37), a provision in this regard amounting to €6,387 thousand (€1,002 thousand at 31 December 2015).

4.20 Business Combinations

Business combinations whereby the Group acquires control of an entity are accounted for using the acquisition cost method, calculating goodwill as the difference between the sum of the consideration transferred, the non-controlling interests and the fair value of any previous stake in the acquired entity, less the identifiable net assets of the acquired entity, measured at fair value.

In the event that the difference between these items is negative, an income is recognised in the consolidated comprehensive profit and loss statement.

In the case of business combinations carried out in stages, goodwill is measured and recognised only once control of a business has been acquired. To do this, previous holdings are re-measured at fair value and the corresponding gain or loss is recognised.

4.21 Environmental Policy

Investments arising from environmental activities are valued at their original cost and capitalised as increases in the cost of fixed assets or inventory in the financial year in which they are incurred.

Any expenses arising from environmental protection and improvement are recognised in profit or loss for the year in which they are incurred, irrespective of the moment when the cash or financial flows deriving from them arise.

Provisions for likely or certain liabilities, ongoing litigation and outstanding indemnities or obligations of an indeterminate amount connected with the environment and not covered by the insurance policies taken out are established at the time the liability or obligation linked to the indemnities or payment arises.

4.22 Consolidated Cash Flow Statements

The following terms with their corresponding explanation are used in the consolidated cash flow statement prepared using the indirect method:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

- Operational activities: the typical activities of the entities forming the consolidated group, along with other activities that cannot be classified as investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

5.- EARNINGS PER SHARE

Basic earnings per share (EPS) are calculated by dividing the net profit or loss attributable to the Group in a period by the weighted average number of shares in circulation during the period, excluding the average number of treasury shares held during the same period.

In accordance with this:

	31/12/2016	31/12/2015
Net profit for the year (thousands of euros)	30,750	938
Weighted average number of shares in circulation (in thousands)	341,042	341,229
Basic earnings per share in euros	**0.090**	**0.003**

Diluted earnings per share are established on a similar basis to basic earnings per share; however, the weighted average number of shares outstanding is increased by the maximum number of shares to be issued by the convertible bonds: 50,823,338 shares (see Note 15).

	31/12/2016	31/12/2015
Net profit for the year (thousands of euros)	30,750	938
Weighted average number of shares with dilutive effect (in thousands)	391,865	392,052
Diluted earnings per share in euros	**0.078**	**0.002**

6.- GOODWILL

The balance included under this item corresponds to the net goodwill arising from the acquisition of certain companies, and breaks down as follows (thousand of euros):

	2016	2015
NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH	80,485	85,180
Hoteles Royal, S.A.	32,719	29,651
Others	4,532	3,962
Total	**117,736**	**118,793**

The movements in this heading of the consolidated balance sheet in 2016 and 2015 were as follows (in thousand of euros):

Company	Goodwill 31/12/2015	Translation differences	Amortisation	Goodwill 31/12/2016
NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH (Note 4.4)	85,180	-	(4,695)	80,485
Hoteles Royal, S.A.	29,651	3,068	-	32,719
Others	3,962	570	-	4,532
Total	**118,793**	**3,638**	**(4,695)**	**117,736**

Company	Goodwill 31/12/2014	Additions	Translation differences	Impairment	Goodwill 31/12/2015
NH Hoteles Deutschland GmbH and NH Hoteles Austria GmbH	89,945	-	-	(4,765)	85,180
Hoteles Royal, S.A.	-	36,430	(6,779)	-	29,651
Others	3,978	-	(16)	-	3,962
Total	**93,923**	**36,430**	**(6,795)**	**(4,765)**	**118,793**

In 2015 the acquisition of Hoteles Royal, S.A. gave a first consolidation negative difference of €36.4 million. This difference constituted the goodwill of Royal Hotel, S.A. and it emerged as the difference between the purchase price of €94.8 million, and the value of net assets acquired, amounting to €58.4 million, and was recorded according to the report "Purchase Price Allocation "drawn up by an independent third party.

In addition, the valuation of the net assets acquired was carried at fair value, in compliance with IFRS 3 "Business Combinations" and IFRS 13 "Fair Value Measurement", based on appraisal reports of independent experts on material fixed assets and the methodologies "Multi-Period Earnings Method" for the assessment of hotel operating rights, and "Relief from Royalty" for the registration of Hoteles Royal trademarks.

The discount rates after tax used in the projections for the valuation of intangible assets of Hoteles Royal were 10.77% for hotels in Colombia and Ecuador, and 11% for hotels in Chile.

As at 31 December 2016, the goodwill generated by the acquisition of Grupo Royal had been tested for impairment and there was no indication of impairment.

The recoverable amounts of the remaining goodwill are allocated to each cash-generating unit, lease agreements, mainly using projections relating to results, investments and working capital, according to the duration of the contracts (see Note 4.4).

Details of the cash-generating units to which such goodwill arising on consolidation has been allocated is shown below:

	Thousands of euros	
	2016	2015
Grupo Royal CGUs	32,719	29,651
CGU 6	15,113	15,934
CGU 21	9,929	10,392
CGU 22	7,711	7,977
CGU 12	7,042	7,400
CGU 5	6,107	6,456
CGU 13	5,625	5,916
CGU 2	5,027	5,276
CGUs with goodwill allocated individually < €4 M	28,463	29,791
	117,736	118,793

The basic assumptions used to estimate future cash flows of the CGUs mentioned above are detailed below:

- After-tax discount rate: 6.16% and 6.49% for CGUs subject to the same risks (German and Austrian market); and for Grupo Royal CGUs, rates of 13.44% (Colombian and Ecuadorian markets) and 9.84% (Chilean market).
- Terminal value growth rate (g): 1.98% and 2% for Germany and Austria and 3% for Grupo Royal CGUs.

Additionally, and considering the assumption implied in the preceding paragraph, the Group has conducted a sensitivity analysis of the result of the impairment test to changes in the following situations:

NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH

	Average values		
	Impairment test	Scenario 1	Scenario 2
Discount rate (after tax)	6.16% - 6.49%	7.16% - 7.49%	5.16% - 5.49%
Growth rate	1.98% - 2%	0.98% - 1%	2.98% - 3%
Occupancy level	75.61%	71.07%	80.14%
Average ADR	109.2	102.7	115.8

Hoteles Royal, S.A.

	Average values		
	Impairment test	Scenario 1	Scenario 2
Discount rate (after tax)	9.84% - 13.44%	10.84% - 14.44%	8.84% - 12.44%
Growth rate	3%	2%	4%
Occupancy level	60.45%	56.83%	64.08%
Average ADR	267.1	251.1	283.2

"Average Daily Rate" (ADR): is the quotient of total room revenue for a specific period divided by the rooms sold in that specific period. This indicator is used to compare with companies in the sector the average prices per room of the hotels.

In case of scenario 2, it would not have been fitting to record impairment in 2016 and, on the other hand, scenario 1 is an extremely negative and unlikely scenario where the discount rate is sensitised 1 bp above the rate used in the test and a growth rate lower than 1 bp, that is to say with a minimum growth, and with occupancy and average ADR falls of 6%, which would lead to an additional impairment to the one recorded in 2016, amounting to approximately €21 million.

7.- INTANGIBLE ASSETS

The breakdown and movements under this heading during 2016 and 2015 were as follows (in thousand of euros):

	Balance at 31/12/2014	Change in consolidation boundary	Currency translation difference	Inclusions/ Allowances	Retire-ments	Transfers	Balance at 31/12/2015	Change in scope of consolidation (see Note 2.5.4)	Currency translation difference	Inclusions/ Allowances	Retirements	Transfers to other items	Balance at 31/12/2016
COSTE													
Hotel operating rights	30,610	36,660	(6,826)	99	(150)	-	60,393	-	3,078	4,835	(131)	-	68,175
Rental agreement premiums	67,669	-	-	627	-	-	68,296	-	-	-	(1,256)	-	67,040
Concessions, patents and trademarks	32,600	6,635	(1,111)	107	(129)	-	38,102	-	555	305	(2)	65	39,025
Software applications	86,969	-	(13)	18,481	(243)	-	105,194	7	(10)	15,100	(3,631)	10	116,670
	217,848	**43,295**	**(7,949)**	**19,314**	**(522)**	**-**	**271,985**	**7**	**3,623**	**20,240**	**(5,020)**	**75**	**290,910**
CUMULATIVE DEPRECIATION													
Hotel operating rights	(18,914)	-	134	(2,339)	149	13,902	(7,068)	-	(154)	(2,973)	138	(80)	(10,137)
Rental agreement premiums	(8,645)	-	113	(2,012)	-	(728)	(11,272)	-	-	(2,014)	871	(4,725)	(17,140)
Concessions, patents and trademarks	(15,728)	-	36	(794)	28	-	(16,458)	-	(49)	(841)	2	13,689	(3,657)
Software applications	(73,275)	-	105	(9,646)	223	(13,175)	(95,768)	(5)	236	(11,091)	2,271	(8,962)	(113,319)
	(116,562)	**-**	**388**	**(14,792)**	**400**	**-**	**(130,566)**	**(5)**	**33**	**(16,919)**	**3,282**	**(78)**	**(144,253)**
Impairment	(22,444)	-	-	-	307	-	(22,137)	-	1	(2,303)	1,495	2,740	(20,204)
NET BOOK VALUE	**78,842**						**119,282**						**126,453**

7.1 Hotel Operating Rights

The increase in hotel rights in the current year comes from the investment made in improvements under the management contract of the hotel NH Collection Grand Hotel Krasnapolsky. This investment will be allocated to the consolidated comprehensive profit and loss statement over 12.5 years according to the average useful life of the assets making it up, during which period it is estimated that the investment made will be recovered.

In 2015 additions to the rights of use in the current year in the column of changes in the scope of consolidation amounting to €36.7 million arise from the purchase of Hoteles Royal.

On 28 July 1994, NH Hoteles, S.A. was granted a right of use on Hotel NH Plaza de Armas in Seville, which is owned by Red Nacional de los Ferrocarriles Españoles (RENFE), for a thirty-year period commencing on the date the agreement was executed. NH Hoteles, S.A. paid RENFE the amount of 30.20 million euros in accordance with a payment schedule which concluded in 2014. The Group has reflected the entire amount agreed upon as the transaction's price in the "Hotel operating rights" item. In order to correctly accrue this price, the result of spreading out the cost over the thirty-year term of the agreement was assigned to the consolidated comprehensive profit and loss statement in accordance with an increasing instalment with a percentage annual growth of 4%.

7.2 Concessions, Patents and Trademarks

In 2015, as a result of the entry into the scope of consolidation of Grupo Hoteles Royal, brands operated by the Royal Hotel Group with a useful life of 20 years have been recognised under this heading.

7.3 Software Applications

The most significant inclusions in the current year were in Spain, as a result of the investments made to develop the corporate WEBSITE and implement front office systems of the hotels and IT transformation plan projects.

Additionally, there were reductions in computer applications amounting to €1,143 thousand, which have been registered under the heading "Net result on disposal of non-current assets" in the 2016 consolidated comprehensive profit and loss statement.

8.- PROPERTY, PLANT & EQUIPMENT

The breakdown and movements under this heading during 2016 and 2015 were as follows (in thousand of euros):

	Balance at 31/12/2014	Change in consolidation boundary	Currency translation difference	Additions	Retire-ments	Transfers	Balance at 31/12/2015	Changes in scope of consolidation (see Note 2.5.4)	Currency translation difference	Additions	Retirements	Transfers to other items	Balance at 31/12/2016
COST													
Land and buildings	1,658,675	49,415	(20,215)	23,817	(11,755)	1,627	1,701,564	17,210	(2,215)	22,699	(49,831)	6,429	1,695,856
Plant and machinery	758,408	383	(1,818)	62,925	(35,630)	1,619	785,887	7,421	(1,492)	48,046	(52,083)	7,490	795,269
Other plant, fixtures and furniture	470,520	3,657	2,069	48,187	(56,270)	1,585	469,748	1,966	(898)	30,914	(46,559)	2,816	457,987
Other fixed assets	342	363	(75)	189	(96)	12	735	-	-	612	(548)	(5)	794
Assets under construction	18,012	699	(1,242)	25,805	(191)	(4,843)	38,240	-	(334)	16,335	(11,760)	(16,768)	25,713
	2,905,957	**54,517**	**(21,281)**	**160,923**	**(103,942)**	**-**	**2,996,174**	**26,597**	**(4,939)**	**118,606**	**(160,781)**	**(38)**	**2,975,619**
ACCUMULATED AMORTISATION													
Buildings	(298,952)	(3,852)	1,938	(21,744)	6,731	-	(315,879)	(2,942)	1,311	(24,399)	15,897	(740)	(326,752)
Plant and machinery	(511,011)	39	909	(40,427)	29,733	-	(520,757)	(5,034)	565	(41,845)	35,342	(1,006)	(532,735)
Other plant, fixtures and furniture	(385,678)	(2,841)	(2,900)	(29,054)	54,195	-	(366,278)	(1,808)	308	(26,258)	43,596	(304)	(350,744)
Other fixed assets	(340)	(370)	58	(142)	128	-	(666)	-	-	(55)	314	(27)	(434)
	(1,195,981)	**(7,024)**	**5**	**(91,367)**	**90,787**	**-**	**(1,203,580)**	**(9,784)**	**2,184**	**(92,557)**	**95,149**	**(2,077)**	**(1,210,665)**
Impairment	(103,616)	-	(129)	(14,418)	49,735	-	(68,428)	-	7	(13,221)	18,283	(167)	(63,526)
NET BOOK VALUE	**1,606,360**						**1,724,166**						**1,701,428**

The net additions in the year in the column "Changes in the scope of consolidation" come from the purchase of 47% of the company Palacio de la Merced, S.A. (see Note 2.5.4).

In 2015 the net additions in the year in the column "Changes in the scope of consolidation" come from the purchase of Hoteles Royal, depreciated due to the departure of NH Parque de la 93, S.A. (see Note 2.5.4).

The main additions and reductions in 2016 are due to the repositioning plan carried out by the Group, with refurbishments in all Business Units. The main reforms have been made in hotels such as NH Collection Colón Madrid, NH Collection Barcelona Podium, NH Collection Liberdade, NH Collection Barcelona Gran Hotel Calderón and NH Nacional (Spain), NH Collection Nuremberg City, NH Hamburg Mitte, NH Weinheim and NH Erlangen (Germany), NH Collection Palazzo Cinquecento, NH Milano Congress Centre and NH Genova Centro (Italy), NH Barbizon Palace, NH Doelen, NH Schiphol Airport, NH Conference Centre Leeuwenhorst and NH Hotel du Grand Sablon (Benelux) and Mexico City (Latin America).

At 31 December 2016, there were tangible fixed asset elements with a net book value of 344 million euros (697 million euros in 2015) to guarantee several mortgage loans (see Note 15).

The breakdown of impairment by country is as follows (in thousands of euros):

	2016	2015
Spain	14,415	21,440
Italy	46,463	42,756
Germany	1,675	2,614
Others	973	1,618
Total impairment	**63,526**	**68,428**

Impairment write-offs include €6.939 million corresponding to the impairment allocated to hotels transferred.

Impairment amounting to €13.221 million has been recognised for certain assets due to the worsening of future expectations of cash flows for different reasons, including the opening of competitors' hotels or the loss of an important customer.

Also, impairment write-offs included €4.627 million as a result of the Group's criterion of continuing to depreciate fixed assets with allocated impairment.

Lastly, asset disposals occurred due to works carried out in the hotels by repositioning in the amount of €10.383 million which has been registered under the heading "Net result on disposal of assets" of the 2016 consolidated comprehensive profit and loss statement.

The Group has taken out insurance policies to cover any possible risks to which the different elements of its tangible fixed assets are subject, and to cover any possible claims that may be filed against it in the course of its activities. It is understood that such policies sufficiently cover the risks to which the Group is exposed.

Firm purchase undertakings amounted to 46.4 million euros at 31 December 2016. These investments will be made between 2017 and 2019.

The recoverable amount of the CGUs subject to impairment or reversal (not the entire portfolio of the Group) is as follows:

Million euros	2016	2015
	Recoverable amount	Recoverable amount
CGU A	93.9	90.9
CGU B	43.4	48.3
CGU C	37.1	38.7
CGU D	30.0	32.3
CGU E	25.3	31.8
CGU F	24.3	28.4
CGU G	18.3	26.6
CGU H	16.1	18.1
CGU I	13.8	14.4
CGU J	12.6	13.2
Top Ten	**314.8**	**342.7**
Italy	76.3	92.3
Spain	79.5	49.0
Benelux	2.6	1.7
Rest of Europe	(1.1)	0.4
Germany	4.8	(1.7)
Other CGUs	**162.1**	**141.7**
Total	**476.9**	**484.4**

9.- INVESTMENTS VALUED USING THE EQUITY METHOD

The movements under this heading of the consolidated balance sheet during 2016 and 2015 were as follows (in thousands of euros):

Sociedad	Net Balance at 31/12/2015	Additions	Other movements	Profit (Loss) 2016	Translation differences	Changes in Scope of Consolidation (Note 2.5.4)	Net Balance at 31/12/2016
Varallo Comercial, S.A. (Note 2.5.4)	7,186	-	-	-	2,246	(9,432)	-
Inmobiliaria 3 Poniente, S.A. de C.V.	1,968	-	-	295	(327)	-	1,936
Palacio de la Merced, S.A. (Note 2.5.4)	1,542	-	-	176	-	(1,718)	-
Mil Novecientos Doce, S.A. de C.V.	1,935	-	-	149	(295)	-	1,789
Consorcio Grupo Hotelero T2, S.A. de C.V.	837	-	-	280	(144)	-	973
Hotelera del Mar, S.A.	1,717	-	-	(37)	(213)	-	1,467
Borokay Beach, S.L.	1,420	-	-	(12)	-	-	1,408
Beijing NH Grand China Hotel Management Co, Ltd	-	4,149	(412)	(672)	(5)	-	3,060
Hotel & Congress Technology, S.L.	73	-	-	(60)	-	-	13
Total	**16,678**	**4,149**	**(412)**	**119**	**1,262**	**(11,150)**	**10,646**

Company	Net Balance at 31/12/2014	Additions	Profit (Loss) 2015	Translation differences	Net Balance at 31/12/2015
Varallo Comercial, S.A.	7,412	-	(1,107)	881	7,186
Inmobiliaria 3 Poniente, S.A. de C.V.	2,179	-	186	(397)	1,968
Palacio de la Merced, S.A.	1,448	-	94	-	1,542
Mil Novecientos Doce, S.A. de C.V.	2,082	-	91	(238)	1,935
Consorcio Grupo Hotelero T2, S.A. de C.V.	877	-	158	(198)	837
Hotelera del Mar, S.A.	2,384	-	133	(800)	1,717
Borokay Beach, S.L.	1,434	-	(14)	-	1,420
Beijing NH Grand China Hotel Management Co, Ltd	-	270	(276)	6	-
Hotel & Congress Technology, S.L.	-	1	72	-	73
Total	**17,816**	**271**	**(663)**	**(746)**	**16,678**

During 2016 an additional contribution of €4.149 million was made in the company Beijing NH Grand China Hotel Management Co, Ltd.

The Group's policy on holdings in associated companies consists of ceasing to book losses in these companies if the associated company's consolidated losses attributable to the Group are equivalent to or exceed the cost of its holding in them, provided there are no additional contingencies or guarantees connected with existing losses. This is the situation of the stake in Losan Investment, Ltd.

10.- NON-CURRENT FINANCIAL INVESTMENTS

10.1 Loans and Accounts Receivable not Available for Trading

The breakdown of this item at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Subordinated loans to companies owning hotels operated by the Group through leases (*)	43,085	41,879
Accounts receivable in respect of put option for Sotocaribe	-	58,250
Other collection rights	16,395	16,395
Other loans	-	18,212
Lease advance payments	3,122	3,279
Loans to associates (Note 25)	244	672
Long-term deposits and sureties	13,984	13,396
Others	1,555	1,988
Total	**78,385**	**154,071**

**These loans accrue a fixed annual interest rate of 3%.*

The "Subordinated loans to companies owning hotels operated by the Group through leases" item includes a series of loans granted by the Group to companies which own hotels in countries such as Germany, Austria, Luxembourg, the Netherlands, Italy and Spain, and which are operated by the Group under a leasing agreement.

The main features of these agreements are as follows:

- Hotel rentals are not subject to evolution of the inflation rate or to that of any other index.
- The above-mentioned subordinated loans accrue interest at a fixed rate of 3% per year (2.31 million euros in 2016 and 2.40 million euros in the preceding year).
- Lease agreements establish a purchase right on properties subject to agreements that, as a general rule, may be executed in the fifth, tenth and fifteenth year from the entry into force of the agreement.
- The model used for these lease agreements has been analysed and independent experts consider them to be operating leases.

In 2014 an agreement was reached for the complete transfer of the real estate business segment located in Cádiz (Spain) of Sotogrande, S.A., the ownership of the shares in the international assets, which included the shares in the company Sotocaribe, S.L. (a company 35.5% owned by the NH Group), being excluded from the transaction.

The formalisation of the sale of Sotogrande, S.A. involved the transfer of ownership of the Sotocaribe, S.L. shares, despite not being included in the scope of consolidation subject to the transaction. The price agreed for the transfer of the Sotocaribe shares amounted to €58 million, to be paid within a maximum period of 5 years. As a consequence, the consolidated financial statements for the year 2015 reflected a long-term loan for this amount. In addition, in the same act, a "put and call option agreement" was entered into by and between Sotogrande, S.A. and NH Hotel Group, S.A., under which, within a maximum period of 5 years from the signing of this agreement, NH Hotel Group, S.A. had the option to purchase the Sotocaribe, S.L. shares for €58 million and Sotogrande, S.A. is under the obligation to sell these shares. After 5 years, if the call option has not been executed by NH Hotel Group, S.A., Sotogrande, S.A. has the option to sell to NH Hotel Group, S.A. the Sotocaribe, S.L. shares, and NH Hotel Group, S.A. is under the obligation to buy for a period of 30 days. Given the certainty that at the most once 5 years have elapsed and by virtue of the cross-purchase options, NH Hotel Group, S.A. will acquire title to the Sotocaribe, S.L. shares, and will assume the risks and rewards during the 5 years, the Parent Company's directors opted to maintain the holding in Sotocaribe, S.L. in the consolidated balance sheet at its pre-transaction book value and classification (see Note 11) and recognise the non-current financial liability at the option exercise price, i.e. €58 million (see Note 16).

However, according to the prospective interpretation by the Group of the agreement and that of IAS 32, in which a financial asset and a financial liability may be offset, meaning that their net amount is recognised in the consolidated balance sheet, given that the entity currently has the legally enforceable right to offset the amounts recognised and intends to settle at the net amount, the account receivable and the liability related to the call option described in Note 10 have been offset because it is considered that the requirements for offset have been met. Likewise, based on the analysis of IAS 39 it has not been considered necessary to record any derivative instruments linked to call and put options.

The "Other collection rights" item reflects the claim filed against the insurance company that underwrote the ten-year construction insurance. The amount claimed corresponds to the repairs made and pending in the Los Cortijos de Sotogrande housing development.

"Other Loans" included the loan granted to the owner of the NHow Rotterdam hotel, operated on a management basis, which accrues a fixed annual interest rate of 3%, which was collected in 2016.

The "Lease advance payments" item consists of advance payments made to the owners of certain hotels operated under a lease arrangement for the purchase of decoration and furniture; these are discounted from future rental payments.
As regards the fair value of financial assets, it does not differ significantly from its book value

10.2 Other non-current financial investments

This heading of the consolidated balance sheet comprised, at 31 December 2016 and 2015, the following equity interests, valued at cost:

	Thousands of euros	
	2016	**2015**
Varallo Comercial, S.A. (Nota 2.5.4)	9,343	-
NH Panamá	3,767	3,767
Other investments	679	3,200
Provisions (Note 2.5.4)	(1,118)	(262)
Total	**12,671**	**6,705**

As regards the fair value of financial assets, it does not differ significantly from its book value.

11.- NON-CURRENT ASSETS HELD FOR SALE, LIABILITIES LINKED TO NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In accordance with IFRS 5, Non-current assets classified as held for sale and discontinued operations (see Note 4.7), the group has classified non-strategic assets under this heading which, pursuant to the Strategic Plan, are undergoing divestment with committed sales plans.

The assets classified as held for sale, after deducting their liabilities, were measured at the lower of their carrying amount and the expected sales price minus costs.

In 2015, the Group classified as discontinued operations the companies Donnafugata Resort, S.R.L., Sotocaribe, S.L. and Capredo Investments, GmbH; these companies represented the Group's entire real estate activity.

Subsequently, as of 31 July 2015, the Group formalised the sale of its affiliate Donnafugata Resort S.r.l., of which it has a 95.26% shareholding (see Note 2.5.4).

At 31 December 2015, only Sotocaribe, S.L. (see Note 10.1) and Capredo Investments, GmbH remained classified as discontinued operations.

On 28 December 2016, the Group acquired 50% of the company Capredo Investments Gmbh (see Note 2.5.4.).

The sections below detail, by type, the various income and balance sheet items relating to assets and liabilities classified as held for sale and discontinued operations.

Consolidated balance sheets. Headings of Non-current assets and liabilities classified as held for sale

A movement by balance headings of the assets and liabilities presented under the corresponding Held for Sale headings at 31 December 2016 and 2015 is shown below (in thousands of euros):

	31.12.2015	Net Variation	Change in the scope of consolidation (see Note 2)	31.12.2016
Property, plant and equipment	-	-	12,113	12,113
Intangible assets	-	-	-	-
Investment property	-	-	-	-
Financial assets	45,034	(3,714)	(6,764)	34,556
Investments accounted for using the equity method	45,034	(3,714)	(6,764)	34,556
Other non-current financial investments	-	-	-	-
Deferred tax assets	-	-	-	-
Inventories	-	-	-	-
Accounts receivable for sales and services and trade receivables	-	-	-	-
Tax receivables	-	-	-	-
Other current financial assets	-	-	-	-
Cash	-	-	2	2
Other current assets	-	-	14	14
Non-current assets classified as held for sale	**45,034**	**(3,714)**	**5,365**	**46,685**
Bank borrowings (non-current)	-	-	-	-
Obligations under finance lease	-	-	-	-
Other non-current liabilities	-	-	615	615
Capital subsidies	-	-	-	-
Other liabilities	-	-	615	615
Provisions for contingencies and charges	-	-	-	-
Deferred tax liabilities	-	-	-	-
Bank borrowings (current)	-	-	-	-
Trade payables	-	-	376	376
Tax receivables	-	-	1,670	1,670
Other current liabilities	-	-	-	-
Liabilities associated with assets classified as held for sale	**-**	**-**	**2,661**	**2,661**

	31.12.2014	Net Variation	Change in the scope of consolidation (see Note 2)	31.12.2015
Property, plant and equipment	38.783	(793)	(37.990)	-
Intangible assets	15	-	(15)	-
Investment property	-	-	-	-
Financial assets	46.988	(1.954)	-	45.034
Investments accounted for using the equity method	46.956	(1.922)	-	45.034
Other non-current financial investments	32	(32)	-	-
Deferred tax assets	293	-	(293)	-
Inventories	669	(496)	(173)	-
Accounts receivable for sales and services and trade receivables	1.749	1.035	(2.784)	-
Tax receivables	535	(501)	(34)	-
Other current financial assets	-	-	-	-
Cash	6.022	(2.030)	(3.992)	-
Other current assets	139	210	(349)	-
Non-current assets classified as held for sale	**95.193**	**(4.529)**	**(45.630)**	**45.034**
Bank borrowings (non-current)	-	-	-	-
Obligations under finance lease	-	-	-	-
Other non-current liabilities	15.781	-	(15.781)	-
Capital subsidies	15.781	-	(15.781)	-
Other liabilities	-	-	-	-
Provisions for contingencies and charges	469	355	(824)	-
Deferred tax liabilities	286	-	(286)	-
Bank borrowings (current)	28.212	427	(28.639)	-
Trade payables	3.642	489	(4.131)	-
Tax receivables	306	(323)	17	-
Other current liabilities	7.379	(93)	(7.286)	-
Liabilities associated with assets classified as held for sale	**56.075**	**855**	**(56.930)**	**-**

The net changes column includes impairments associated with investments accounted for using the equity method.

Consolidated comprehensive profit and loss statements

The profit and loss of the discontinued operations shown in the accompanying consolidated comprehensive profit and loss statement is broken down by company as follows (in thousands of euros):

	Capredo Investments, GmbH	Sotocaribe, S.L.	Donnafugata Resort, S.R.L.	Total
2016				
Profit (loss) before tax	(159)	(2,115)	-	(2,274)
Profit (loss) for the year from discontinued operations net of tax	(159)	(2,115)	-	(2,274)
2015				
Net turnover and other operating income	-	-	3,382	3,382
Operating expenses	-	-	(4,238)	(4,238)
Operating profit (loss)	-	-	(856)	(856)
Profit (loss) before tax	(101)	(1,077)	(1,911)	(3,089)
Profit (loss) for the year from discontinued operations net of tax	(101)	(1,077)	(1,911)	(3,089)

Consolidated cash flow statements

The consolidated cash flow statements for the fully consolidated companies in 2016 and 2015 are detailed below (in thousands of euros):

2016	Capredo Investments, GmbH
Operating activities:	
Profit (loss) before tax	-
Adjustments	-
Net variation in assets and liabilities	-
Total net cash flow from operating activities I	-
Finance income	-
Disinvestment	-
Non-current financial investments	-
Total net cash flow from investment activities II	-
Financing activities	-
Interest paid on debts	-
Variation in:	
Bank borrowings	-
Total net cash flow from financing activities III	-
GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)	**-**
Effect of variations in the scope of consolidation (IV)	2
Cash and cash equivalents at the start of the financial year	-
Cash and cash equivalents at end of year	2

2015	Donnafugata Resort, S.R.L.
Operating activities:	
Profit (loss) before tax	(2,005)
Adjustments	846
Net variation in assets and liabilities	(4,862)
Total net cash flow from operating activities I	(6,021)
Finance income	208
Disinvestment	-
Non-current financial investments	-
Total net cash flow from investment activities II	(208)
Financing activities	-
Interest paid on debts	(208)
Variation in:	
Bank borrowings	-
Total net cash flow from financing activities III	(208)
GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)	**(6,021)**
Cash and cash equivalents at the start of the financial year	6,022
Cash and cash equivalents at end of year	1

12.- TRADE RECEIVABLES

This item reflects different accounts receivable from the Group's operations. The breakdown at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Trade receivables for services provided	159,885	181,523
Provision for bad debts	(13,688)	(12,254)
Total	**146,197**	**169,269**

As a general rule, these receivables do not accrue interest and are due at less than 90 days with no restrictions on how they may be used.

Movements in the provision for bad debts during the years ending 31 December 2016 and 2015 were as follows:

	Thousands of euros	
	2016	2015
Balance at 1 January	12,254	13,042
Changes in scope	58	73
Currency translation difference	(7)	(88)
Additions	2,830	2,605
Applications	(1,447)	(3,378)
Balance at 31 December	**13,688**	**12,254**

The analysis of the ageing of financial assets in arrears but not considered impaired at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Less than 30 days	18,380	21,786
From 31 to 60 days	11,488	11,034
More than 60 days	32,122	41,881
Total	**61,990**	**74,701**

13.- CASH AND CASH EQUIVALENTS

This item essentially includes the Group's cash position, along with any loans granted and bank deposits that mature at no more than three months. The average interest rate obtained by the Group for its cash and cash equivalents balances during 2016 and 2015 was a variable Euribor-indexed rate. These assets are recognised at their fair value.

There are no restrictions on cash withdrawals, except for €1.275 million reserved in accordance with a firm commitment with the co-owners of Hoteles Royal for future investments in the hotels and €2.445 million reserved in accordance with a commitment acquired with the owner of a hotel in Italy to undertake repositioning investments.

As at 31 December 2016, there were no restrictions on the receipt of dividends distributed by the companies in which the Parent Company holds a direct or indirect minority shareholding.

As a result of the enactment of Royal Decree 1558/2012 of 15 November, of Article 42 bis of Royal Decree 1065/2007 of 27 July, approving the General Regulations on tax management, inspection and procedures, and implementing the common rules of the procedures for applying taxes, which establishes certain reporting obligations with regard to overseas assets and rights, among others, it is disclosed that some members of the NH Hotel Group S.A. Board of Directors have the right, as representatives or authorised officials, to dispose of bank accounts located abroad, which are in the name of Group companies. The reason certain Board members have the right to dispose of overseas bank accounts is that they are directors or board members of said subsidiaries.

NH Hotel Group S.A. holds other accounting documents, namely the consolidated annual accounts, from which sufficient data can be extracted in relation to the aforementioned accounts.

14.-EQUITY

14.1 Subscribed share capital

NH Hotel Group, S.A. share capital at the end of 2016 comprised 350,271,788 fully subscribed and paid up bearer shares with a par value of € 2 each. All these shares carry identical voting and economic rights and are traded on the Continuous Market of the Spanish Stock Exchanges.

According to the latest notifications received by the Parent Company and the notices given to the National Securities Market Commission before the end of every financial year, the shareholders with shareholdings above 3% at 31 December 2016 and 2015 were as follows:

	2016	2015
HNA Group Co Limited	29.50%*	29.50%
Oceanwood Capital Management LLP	11.97%	7.58%
Hesperia Group	9.27%**	9.23%
Henderson Global Investors LTD	4.19%***	4.19%

** Although at 31/12/2016 the shareholding of HNA Group Co Limited amounted to 29.50%, on 27/02/2017 this company reported that its shareholding fell to 29.34%.*
*** The shareholding of Hesperia Group consists of the direct shareholding held by Grupo Inversor Hesperia, S.A. (9.10%) and Eurofondo (0.17%).*
**** Although at 31/12/2016 the shareholding of Henderson Global Investors Ltd amounted to 4.19%, on 31/01/2017 this company reported that its shareholding had fallen to 2.98%.*

At year-end 2016 and 2015, members of the Board of Directors were the holders or proxies of shareholdings representing approximately 21.28% and 46.34% of the share capital, respectively.

The main aims of the Group's capital management are to ensure short-term and long-term financial stability, a positive trend for NH Hotel Group, S.A. share prices, and suitable funding for investments and indebtedness. All the above is geared towards ensuring that the Group maintains its financial strength and the strength of its financial ratios, enabling it to maintain its businesses and maximise value for its shareholders.

During recent years, the evolution of the business has allowed to reduce the ratio of accounting financial leverage from 0.72x to 0.63x. The ratios of accounting financial leverage at 31 December 2016 and 2015 are the following:

	Thousands of euros	
	2016	2015
Bonds and other marketable securities (Note 15)	765,870	475,484
Bank borrowings and other financial liabilities (Note 15)	95,946	411,437
Gross accounting debt	**861,816**	**886,921**
Cash and cash equivalents (Note 13)	136,733	77,699
Liquid assets	**136,733**	**77,699**
Total net accounting debt	**725,083**	**809,222**
Total Equity	1,155,876	1,126,084
Accounting financial leverage	**0.63x**	**0.72x**

14.2 Parent Company Reserves

i) Legal reserve

In accordance with the Consolidated Text of the Corporate Companies Act, 10% of the net profit for each year must be allocated to the legal reserve until it reaches at least 20% of share capital. The legal reserve may be used to increase capital provided the remaining balance does not fall below 10% of the increased capital amount. With the exception of the aforementioned purpose, and when it does not exceed 20% of share capital, this reserve may be used only to offset losses, provided no other reserves are available for this purpose.

ii) Share premium

The Consolidated Text of the Corporate Enterprises Act expressly allows the balance of this reserve to be used to increase capital and imposes no restrictions on its availability

14.3 Treasury shares and shareholdings

At the end of the year, NH Hotel Group, S.A. had 9,600,000 treasury shares in its balance sheet, broken down as follows:

- Loan of securities linked to the convertible bond issue dated 8 November 2013: On 4 November 2013, the Spanish National Securities Market Commission (CNMV) was notified of the loan of 9,000,000 treasury shares to the three financial institutions involved in the placement of the bonds convertible to or exchangeable for shares of NH Hotel Group S.A. amounting to €250 million. The purpose of this loan was to allow said financial entities to offer the shares to the subscribers to the convertible bonds requesting them (see Note 15).

  At 31 December 2016, of those 9,000,000 shares, 6,930,886 had been returned by the financial institutions and are therefore currently held by NH Hotel Group S.A. However, according to the terms of the securities loan, they remain available to the financial institutions, who may borrow them at any time until the convertible bonds have been cancelled or amortised.

- In August, the Parent Company purchased 600,000 treasury shares.

14.4 Non-controlling interests

The movements in this heading in 2016 and 2015 are summarised below:

	Thousands of euros	
	2016	2015
Opening balance	**37,963**	**24,201**
Comprehensive profit (loss) attributable to non-controlling interests	3,614	(1,383)
Percentage changes in purchases/sales (Note 2.5.4)	2,589	16,461
Dividends paid to non-controlling interests	(1,056)	(1,374)
Other movements	857	58
Closing balance	**43,967**	**37,963**

The “Dividends paid to non-controlling interests” item basically reflects the dividends paid out in 2016 to the following companies: NH Marín, S.A., for €250 thousand, Hoteles Royal, S.A., for €307 thousand, NH Las Palmas, S.A., for €100 thousand, and Latinoamericana de Gestión Hotelera, S.A., for €399 thousand.

15.-DEBT IN RESPECT OF BOND ISSUES AND BANK BORROWINGS

The balances of the “Bonds and other negotiable securities” and “Debts with credit institutions” items at 31 December 2016 and 2015 were as follows:

	Thousands of euros			
	2016		2015	
	Long-term	Short-term	Long-term	Short-term
Convertible bonds	238,724	-	233,251	-
Guaranteed senior notes maturing in 2019	250,000	-	250,000	-
Guaranteed senior notes maturing in 2023	285,000	-	-	-
Borrowing costs	-	6,248	-	3,613
Arrangement expenses	(10,087)	(4,015)	(11,380)	
Debt instruments and other marketable securities	**763,637**	**2,233**	**471,871**	**3,613**
Syndicated loans	-	-	221,600	21,200
Mortgages	33,078	4,325	32,262	13,183
Unsecured loans	2,158	9,072	11,736	3,596
Subordinated loans	40,000	-	75,000	-
Credit lines	-	9,944	-	36,861
Arrangement expenses	(2,516)	(1,015)	(4,433)	(1,060)
Borrowing costs	-	900	-	1,492
Bank borrowings	**72,720**	**23,226**	**336,165**	**75,272**
Total	**836,357**	**25,459**	**808,036**	**78,885**

The current fair value of the guaranteed senior notes maturing in 2019 and the convertible bonds, bearing in mind that the reference interest rate would be the one applied to the bonds issued during 2016, would mean such bonds amounting to €224 million and €232 million, respectively. With regard to financial liabilities tied to a variable interest rate, because of their variable configuration, their fair value does not differ from their book value.

Convertible bonds

On 31 October 2013, the Parent Company placed convertible bonds among institutional investors, for a total of €250 million, with the following characteristics:

Amount of the issue	€250,000,000
Nominal value of the bond	€100,000
Maturity	5 years
Rank of debt	Unguaranteed senior
Issue price	100%
Coupon	4%
Exchange price	€4.919
Conversion premium	30%
Redemption price	100%
Maximum number of shares to issue	50,823,338

In certain circumstances, at the request of the bondholder or Parent Company, this instrument may be redeemed or converted early.

This transaction is considered an instrument comprising liabilities and equity, with the equity at the time of issuance worth €27.23 million.

As is commonplace for this type of issue, and in order to enhance the liquidity of the instrument on the secondary market, NH Hotel Group, S.A. signed a security loan agreement with the placing entities for up to 9,000,000 million treasury shares. This loan bears interest at 0.5% and was drawn to the extent of 2,069,114 shares at 31 December 2016 (see Note 14.3).

Guaranteed senior notes maturing in 2019

On 30 October 2013 the Parent Company placed guaranteed senior notes, which mature in 2019, at the nominal value of €250 million. The nominal yearly interest rate for said issuance of notes is 6.875%.

Guaranteed senior notes maturing in 2023

On 23 September 2016 the Parent Company placed guaranteed senior notes, which mature in 2023, at the nominal value of €285 million. The nominal yearly interest rate for said issuance of notes is 3.75%.

The Parent Company used the proceeds from this issuance to repay the following loans in advance and to pay the issuance expenses:

- Secured syndicated loan with final maturity in November 2018 arranged between NH Finance, S.A. and a group of financial institutions amounting to €200 million. This syndicated loan comprised two tranches:

  - Tranche A: via a commercial loan for €133,333 thousand; The outstanding balance settled was €104,833 thousand.

  - Tranche B: via a revolving commercial credit for €66,667 thousand; The drawn down balance settled was €43,000 thousand.

- Mortgage loan with final maturity in November 2017 arranged between the Parent Company and a group of financial institutions on 13 February 2015 to refinance mortgage debt in Italy for €40,000,000. The outstanding balance settled was €32,000 thousand.

- Mortgage loan with final maturity in October 2018 arranged between the Parent Company and a group of financial institutions on 26 June 2015 to refinance mortgage debt in Germany for €36,000 thousand million. The outstanding balance settled was €33,000 thousand.

- Secured loan arranged between NH Europa, S.L.U and a group of financial institutions in December 2014 as part of the restructuring of the financial debt of Donnafugata in the amount of €7,000 thousand. The outstanding balance settled was €5,900 thousand.

- Subordinated loan arranged on 26 September 2007 between the Parent Company and a credit institution. The outstanding balance settled was €35,000 thousand.

- Bilateral credits arranged between the Parent Company, NH Italia S.p.a. and various financial institutions. The drawn down balance cancelled was €23,667 thousand.

Secured credit line

On 22 September 2016, the Parent Company and NH Finance, S.A. entered into a revolving business credit with credit institutions amounting to €250,000 thousand ("syndicated credit line") with a maturity of three years, extendable to five years at the time of the refinancing of the guaranteed senior bonds maturing in 2019. As at 31 December 2016, this financing had not been drawn down.

Obligations under the senior bond contracts maturing in 2019 and 2023 and those arising from the syndicated credit line

The senior bonds maturing in 2019, the senior bonds maturing in 2023 and the syndicated credit line require the fulfilment of a series of obligations and limitations of essentially homogeneous content as regards with the assumption of additional borrowing or provision of guarantees in favour of third parties, the granting of real guarantees on assets, the sale of assets, investments that are permitted, restricted payments (including the distribution of dividends to shareholders), transactions between related parties, corporate transactions and disclosure obligations. These obligations are detailed in the issue prospectuses for the aforementioned bonds, as well as in the credit agreement of the syndicated credit line. In addition, the syndicated credit line requires compliance with financial ratios; in particular (i) an interest coverage ratio of > 2.00x, (ii) a debt coverage ratio of < 5.50x and (iii) a Loan to Value ratio of < 55% up to the maturity or refinancing date of the bonds maturing in 2019. At the maturity or refinancing date of the aforementioned bonds, the Loan to Value ratio must be <70% and, as from that date, the applicable Loan to Value ratio will depend on the level of NH's indebtedness at any given time, as indicated below:

- Debt-to-income ratio > 4.00x: LTV Ratio = 70%
- Debt-to-income ratio ≤ 4.00x: LTV Ratio = 85%
- Debt-to-income ratio ≤ 3.50x: LTV Ratio = 100%

At 31 December 2016 aforementioned ratios are fully met.

Package of guaranteed senior bonds maturing in 2019 and 2023 and syndicated credit line

The guaranteed senior bonds maturing in 2019 and 2023 and the syndicated credit line (undrawn at 31 December 2016) share the following guarantees, in part already granted as collateral for the guaranteed senior bonds maturing in 2019 and the syndicated loan settled through the issuance of the guaranteed senior bonds maturing in 2023: (i) pledge of shares: 100% of the share capital of (A) Diegem, (B) Immo Hotel BCC NV, (C) Immo Hotel Belfort NV, (D) Immo Hotel Brugge NV, (E) Immo Hotel Diegem NV, (F) Immo Hotel Gent NV, (G) Immo Hotel GP NV, (H) Immo Hotel Mechelen NV, (I) Immo Hotel Stephanie NV, (J) Onroerend Goed Beheer Maatschappij Van Alphenstraat Zandvoort, B.V. and (K) NH Italia, S.p.A. (ii) first-tier mortgage guarantee on the following hotels located in the Netherlands: NH Conference Centre Koningshof, owned by Koningshof, B.V.; NH Conference Centre Leeuwenhorst, owned by Leeuwenhorst Congres Center, B.V.; NH Schiphol Airport, owned by Onroerend Goed Beheer Maatschappij Kruisweg Hoofddorp, B.V.; NH Zoetermeer, owned by Onroerend Goed Beheer Maatschappij Danny Kayelaan Zoetermeer, B.V.; NH Conference Centre Sparrenhorst, owned by Sparrenhorst, B.V.; NH Barbizon Palace, owned by Onroerend Goed Beheer Maatschappij Prins Hendrikkade Amsterdam, B.V.; NH Best, owned by Onroerend Goed Beheer Maatschappij Maas Best, B.V.; NH Capelle, owned by Onroerend Goed Beheer Maatschappij Capelle aan den IJssel, B.V.; NH Geldrop, owned by Onroerend Goed Beheer Maatschappij Bogardeind Geldrop, B.V.; NH Marquette, owned by Onroerend Goed Beheer Maatschappij Marquette Heemskerk, B.V.; and NH Naarden, owned by Onroerend Goed Beheer Maatschappij IJsselmeerweg Naarden, B.V. and the joint guarantee on first demand of the main operating companies in the group wholly owned by the Parent Company.

Limitation on the distribution of Dividends

The guaranteed senior bonds maturing in 2019 and 2023 and the syndicated credit line described above contain clauses limiting the distribution of dividends.

In the case of the senior bonds maturing in 2019 and 2023, the distribution of dividends is generally permitted provided that (a) the interest coverage ratio is > 2.0x and (b) the sum of restricted payments from 8 November 2013 is less than the sum of, essentially, 50% of NH's consolidated net income (but 100% of consolidated losses) from 1 July 2013 to the date of the last quarterly accounts available (this is what is known as the CNI Builder) and 100% of the net contributions to NH's capital from 8 November 2013.

Additionally, being alternative and without a requirement to be concurrent with the previous provision:

(i) in the case of bonds maturing in 2019: NH may distribute dividends for an annual amount equivalent to 5% of NH's market capitalisation, provided that (a) NH's free float percentage exceeds 20% and (b) the leverage ratio (debt/EBITDA) is not greater than 4.5x; and

(ii) in the case of bonds maturing in 2023, NH may distribute dividends provided that the leverage ratio (gross debt/EBITDA) does not exceed 4.5x.

Finally, and also as an additional alternative and without a requirement of concurrency with the previous provisions, the guaranteed senior bonds maturing in 2019 and 2023 include a basket of 25.000.000 Eur for restricted payments (including dividends) starting from November 2013.

In the case of the syndicated credit line, the distribution of a percentage of the NH Group's consolidated net profit from the previous year is allowed, provided that there has been no breach of the financing agreement and the Net Debt (adjusted proforma by the amount of the dividend payment)/ EBITDA Ratio is less than 4.0x. The maximum percentage of the consolidated net profit to be distributed will depend on the Net Debt (adjusted proforma by the amount of the dividend payment)/ / EBITDA Ratio, according to the following breakdown:

- Net Debt / EBITDA ≤ 4.0x: Percentage of consolidated net profit: 75%
- Net Debt / EBITDA ≤ 3.5x: Percentage of consolidated net profit: 100%
- Net Debt / EBITDA ≤ 3.0x: Percentage of consolidated net profit: without limitation

Syndicated loans

All the syndicated loans were settled with funds from the issuance of guaranteed senior bonds amounting to €285,000,000 maturing in 2023.

Mortgages

The detail of the mortgage loans and credits is as follows (in thousand of euros):

Mortgaged asset		Fixed rate	Variable Interest	Total	Net value value mortgaged asset
Spain	NH Lagasca	-	5,440	5,440	17,488
	NH Palacio de la Merced	-	4,938	4,938	16,811
Total Spain		**-**	**10,378**	**10,378**	**34,299**
Mexico	NH Querétaro	-	1,634	1,634	4,558
	NH Santa Fe	-	1,284	1,284	7,122
Total Mexico		**-**	**2,918**	**2,918**	**11,680**
Netherlands	NH Groningen	-	1,098	1,098	6,788
Total Netherlands		**-**	**1,098**	**1,098**	**6,788**
Italy	NH Villa San Mauro	-	2,051	2,051	1,063
Total Italy		**-**	**2,051**	**2,051**	**1,063**
Chile	NH Antofagasta and NH Plaza de Santiago	20,958	-	20,958	26,335
Total Chile		**20,958**	**-**	**20,958**	**26,335**
Total		20,958	16,445	37,403	80,165

The NH Palacio de La Merced mortgage loan of €4,938 thousand has been fully consolidated since December 2016, the month in which the Parent Company through its subsidiary NH Hoteles España, S.A. acquired an additional 49% in the company that owns that hotel, thereby obtaining a total indirect shareholding of 72%.

On 29 July 2016, Inmobiliaria Royal, S.A. signed a mortgage for €20,958 thousand with final maturity in July 2036 with partial repayments to refinance the mortgage debt in Chile and to finance the repositioning investment of the NH Plaza de Santiago hotel.

Assets granted as mortgage security against the syndicated credit line of €250 million (undrawn at 31 December 2016) and guaranteed senior bonds in the joint amount of €535 million, maturing in 2019 and 2023, can be broken down as follows (thousands of euros):

Mortgaged asset		Net value value mortgaged asset
Total Spain	**NH Eurobuilding**	
Netherlands	NH Barbizon Palace	70,860
	NH Conference Centre Leeuwenhorst	53,630
	NH Conference Centre Koningshof	38,959
	NH Schiphol Airport	42,128
	NH Conference Centre Sparrenhorst	17,007
	NH Zoetermeer	7,775
	NH Naarden	10,996
	NH Capelle	6,394
	NH Geldrop	7,217
	NH Best	4,713
	NH Marquette	4,227
Total Netherlands		**263,906**
Net value of assets assigned as mortgage collateral		263,906
Value of guaranteed debt		**535,000**
Fixed interest		535,000
Variable interest (amount of the syndicated credit line undrawn)		250,000

There are also companies whose shares are pledged as collateral for said lines of financing.

Subordinated loan

A loan amounting to €40 million fully drawn at 31 December 2016 and with a single maturity and repayment in 2037, are included in this item. The interest rate of these loans is the 3-month Euribor plus a differential.

Credit lines

At 31 December 2016, the balances under this item include the amount drawn down from several loan agreements and credit facilities. The joint limit of these loan agreements and credit facilities at 31 December 2016 amounted to €68.852 million, of which €9.944 million had been drawn down at that date. Additionally, at 31 December 2016, the Parent Company had a guaranteed syndicated long-term credit line amounting to €250 million.

Detail of current and non-current payables

The detail, by maturity, of the items included under "Non-Current and Current Payables" is as follows (in thousands of euros):

				Maturity						
Instrument	**Limit**	**Available**	**Disposed**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Resto**
Mortgages	37,403	-	37,403	-	4,325	6,587	2,449	1,901	1,784	20,357
Fixed rate	20,958	-	20,958	-	314	314	629	629	734	18,338
Variable interest	16,445	-	16,445	-	4,011	6,273	1,820	1,272	1,050	2,019
Subordinated loans	40,000	-	40,000	-	-	-	-	-	-	40,000
Variable interest	40,000	-	40,000	-	-	-	-	-	-	40,000
Convertible bonds	238,724	-	238,724	-	-	238,724	-	-	-	-
Fixed rate	238,724	-	238,724	-	-	238,724	-	-	-	-
Guaranteed senior notes mat. in 2019	250,000	-	250,000	-	-	-	250,000	-	-	-
Fixed rate	250,000	-	250,000	-	-	-	250,000	-	-	-
Guaranteed senior notes mat. in 2023	285,000	-	285,000	-	-	-	-	-	-	285,000
Fixed rate	285,000	-	285,000	-	-	-	-	-	-	285,000
Unsecured loans	11,230	-	11,230	-	9,072	1,149	706	303	-	-
Variable interest	11,230	-	11,230	-	9,072	1,149	706	303	-	-
SUBTOTAL	**862,357**	**-**	**862,357**	**-**	**13,397**	**246,460**	**253,155**	**2,204**	**1,784**	**345,357**
Secured credit line	250,000	250,000	-	-	-	-	-	-	-	-
Variable interest	250,000	250,000	-	-	-	-	-	-	-	-
Credit lines	68,852	58,908	9,944	-	9,944	-	-	-	-	-
Variable interest	68,852	58,908	9,944	-	9,944	-	-	-	-	-
Arrangement expenses	-	-	(17,633)	-	(5,030)	(5,082)	(3,510)	(883)	(926)	(2,202)
Borrowing costs	-	-	7,148	-	7,149	-	-	-	-	-
Borrowing at 31/12/2016	**1,181,208**	**308,908**	**861,816**	**-**	**25,458**	**241,379**	**249,645**	**1,321**	**858**	**343,155**
Borrowing at 31/12/2015	**929,523**	**30,833**	**886,921**	**78,885**	**56,380**	**413,610**	**248,352**	**2,377**	**618**	**86,699**

16.- OTHER NON-CURRENT LIABILITIES

The breakdown of the "Other non-current liabilities" item in the accompanying consolidated balance sheets, at 31 December 2016 and 2015, is as follows:

	Thousands of euros	
	2016	2015
At amortised cost:		
Purchase option on Sotocaribe, S.L. (Note 10)	-	58,250
Linearisation of revenue	16,122	14,946
Capital subsidies	10,285	2,715
Acquisition of Capredo Investment GmbH (Note 2.5.4)	3,150	-
Acquisition of Hoteles Royal, S.A. (Note 21)	-	19,238
Loans from shareholders	550	550
Other liabilities	3,930	3,481
	34,037	**99,180**

At 31 December 2016, "Capital subsidies" basically included subsidies received for hotel renovations, broken down by country as follows:

	Thousands of euros	
	2016	2015
Germany	6,866	2,467
Spain	1,832	-
Portugal	1,124	-
Others	463	248
	10,285	**2,715**

At 31 December 2016, the Directors of the Parent Company considered that all the requirements stipulated for such subsidies had been fulfilled and therefore deemed them as non-reimbursable.

17.- PROVISIONS FOR RISKS AND CHARGES

The breakdown of "Provisions for risks and charges" at 31 December 2016 and 2015, together with the main movements recognised in those years were as follows:

	Thousands of euros				
	Balance at 31/12/2014	Additions	Applications/ Reversals	Transfers	Balance at 31/12/2015
Provisions for contingencies and extraordinary costs:					
Onerous contracts	26,986	12,993	(19,258)	(4,174)	16,547
Provision for pensions and similar obligations	13,797	1,792	(1,387)	-	14,202
Other claims (Note 22)	16,147	4,959	(4,486)	1,331	17,951
	56,930	**19,744**	**(25,131)**	**(2,843)**	**48,700**
Provisions for contingencies and current expenses:					
Onerous contracts	10,114	-	(10,114)	4,793	4,793
Provision for restructuring and other	4,721	-	(4,184)	-	537
	14,835	**-**	**(14,298)**	**4,793**	**5,330**
Total	**71,765**	**19,744**	**(39,429)**	**1,950**	**54,030**

	Thousands of euros				
	Balance at 31/12/2015	Additions	Applications/ Reversals	Transfers and other changes	Balance at 31/12/2016
Provisions for contingencies and extraordinary costs:					
Onerous contracts	16,547	6,390	(4,121)	(4,022)	14,794
Provision for pensions and similar obligations	14,202	3,502	(1,451)	432	16,685
Other claims (Note 22)	17,951	8,070	(3,756)	(844)	21,421
	48,700	17,962	(9,328)	(4,434)	52,900
Provisions for contingencies and current expenses:					
Onerous contracts	4,793	-	(4,995)	4,477	4,275
Provision for restructuring and other (Note 22)	537	8,349	(1,699)	-	7,187
	5,330	8,349	(6,694)	4,477	11,462
Total	**54,030**	**26,311**	**(16,022)**	**43**	**64,362**

Onerous contracts

The Group considers onerous agreements to be those in which the inevitable costs of fulfilling the obligations that such agreements entail exceed the economic benefits expected from them.

The Group records as a provision for onerous contracts the present value of the net losses derived from the contract or the compensation foreseen for abandonment of the contract, if such were decided. These provisions are reversed at the time that either of the above two events is fulfilled.

The reversal of the provision for onerous contracts for the year includes, on the one hand, the amount of the provision overdue during the year, and on the other, the re-estimation of the necessary provision at the end of the year. The part of the provision overdue in the year corresponds to the losses recorded by the CGUs in the income statements, while the re-estimation of the provision is due to the improvement in the activity of the CGUs.

The methodology, assumptions and discount rates used to make such estimates follow the same criteria as described in Note 4.4.

The reconciliation between the amount recorded in the income statement and the changes in the provision for onerous contracts for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Reversal of provision for realised losses	(4,995)	(10,114)
Reversal	(4,121)	(19,258)
Total reversals	**(9,116)**	**(29,372)**
Allowances	4,953	10,359
Allowance for financial effect provision update	1,379	2,609
Exchange rate effect	58	25
Total allowances	**6,390**	**12,993**
Net effect on the income statement	(2,726)	(16,379)

Provision for pensions and similar obligations

The "Provisions for pensions and similar obligations" account includes the pension fund of a certain number of employees of the Netherlands business unit, and the T.F.R. "Trattamento di fine rapporto" in Italy, an amount paid to all workers in Italy at the moment they leave the company for any reason. This is another remuneration element, whose payment is deferred and annually allocated in proportion to fixed and variable remuneration both in kind and in cash, which is valued on a regular basis. The annual amount to be reserved is equivalent to the remuneration amount divided by 13.5. The annual cumulative fund is reviewed at a fixed interest rate of 1.5% plus 75% of the increase in the consumer price index (CPI).

At the end of 2016, the liabilities entered against this item were of €16,685,000 (€14,202,000 at 31 December 2015).

The breakdown of the main assumptions used to calculate actuarial liabilities is as follows:

	2016		2015	
	Netherlands	Italy	Netherlands	Italy
Discount rates	1.80%	0.13%	2.70%	0.15%
Expected annual rate of salary rise	2.50%	1.25%	2.50%	1.90%
Expected return from assets allocated to the plan	1.80%	2.02%	2.70%	2.18%

Other claims

The "Other claims" item includes provisions for disputes and risks that the Group considers likely to occur. Among the most significant are the provisions created on the basis of the action brought in the proceedings claiming breach of contract in a property development, as well as other claims received in relation to the termination of certain leases where certain amounts are claimed. No decision on these claims is expected in the short term (see Note 22).

Provision for restructuring and other

The provision for restructuring and other arises due to the reorganisation in the Group in previous years and departures of members of the management team. At the end of 2016, the Group's provisions amounted to €7,187,000.

18.- TAX NOTE

Tax consolidation scheme

The Group operates in many countries and is therefore subject to the regulations of different tax jurisdictions regarding taxation and corporate income tax.

NH Hotel Group, S.A. and another 15 companies with tax domicile in Spain in which it held a direct or indirect stake of at least 75% during the 2016 tax period are subject to the tax consolidation scheme governed by Title VII, Chapter VI of Law 27/2014 on Corporate Income Tax.

The companies belonging to the tax group have signed an agreement to share the tax burden. Hence, the Parent Company settles any credits and debts which arise with subsidiary companies due to the negative and positive tax bases these contribute to the tax group.

The companies that make up the tax consolidation group are the following:

NH Hotel Group, S.A.
Latinoamericana de Gestión Hotelera, S.L.
NH Central Reservation Office, S.L.
NH Hoteles España, S.A.
NH Hotel Ciutat de Reus, S.A.
Gran Círculo de Madrid, S.A.
NH Logroño, S.A.
Iberinterbrokers, S.L.
NH Europa, S.L.
Atardecer Caribeño, S.L.
Hoteles Hesperia, S.A.
Nuevos Espacios Hoteleros, S.A.
Coperama Holding, S.L.
Coperama Spain, S.L.
NH Las Palmas, S.A.
NH Lagasca, S.A.

As a result of the reorganisation carried out during 2016, the following companies were excluded from the Spanish tax consolidation group: Fast Good Peninsula Ibérica, S.L., Resorts Europa, S.L., NH Establecimientos Complementarios Hoteleros, S.A., Cofir, S.L., Inversores y Gestores Asociados, S.A., Grupo Financiero de Intermediación y Estudios, S.A. and Fashion Tapas, S.L.

Corporation tax is calculated on the financial or accounting profit or loss resulting from the application of generally accepted accounted standards in each country, and does not necessarily coincide with the tax result, this being construed as the tax base.

In 2016, Spanish companies pay taxes at the general tax rate of 25% irrespective of whether they apply the consolidated or separate taxation schemes. The foreign companies are subject to the prevailing tax rate in the countries where they are domiciled. In addition, taxes are recognised in some countries at the estimated minimum profit on a complementary basis to Corporation Tax.

The prevailing income tax rates in the different jurisdictions where the Group has significant operations are as follows:

Country	Nominal Rate
Argentina [1]	35.0%
Colombia [1]	34.0%
Chile	22.5%
Belgium	33.9%
Panama	25.0%
Brazil	34.0%
Mexico	30.0%
Uruguay	25.0%
Dominican Republic	28.0%
Germany	30.0%

Country	Nominal Rate
Romania	16.0%
Poland	19.0%
Switzerland	8.5%
Dominican Rep.	19.0%
Luxembourg	19.0%
Italy	24.0%
Netherlands	25.0%
France	33.3%
Portugal	21.0%

(1) Jurisdictions in which there is a minimum taxable income.

Financial years subject to tax inspection

In accordance with Spanish tax legislation, the years open for review to the Consolidated Tax Group are:

Tax	Pending Periods
Corporation	2014 and 2015
VAT	2014, 2015 and 2016
IRPF (personal income tax)	2014, 2015 and 2016
Non-resident Income Tax	2014, 2015 and 2016

During the fiscal year 2016, in Spain there were no open tax inspections in progress.

In Germany, an inspection procedure has been opened which is reviewing the amount of negative tax bases still to be offset by the companies in Germany. The Group's Directors do not expect any significant contingencies to arise from the inspection result.

Regarding the financial years open to inspection in the rest of the group, contingent liabilities not susceptible to objective quantification may exist, which are not significant in the opinion of the Group's Directors.

Balances with Public Administrations

The composition of the debit balances with Public Administrations at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Deferred tax assets		
Tax credits	108,515	114,452
Tax assets due to asset impairment	31,744	30,987
Tax withholdings of workforce	2,581	2,185
Other prepaid taxes	9,549	18,173
Total	**152,389**	**165,797**

	Miles de Euros	
	2016	2015
Short-term taxes receivable		
Income tax	9,303	11,296
Value Added Tax	12,538	26,789
Other tax receivables	7,390	7,888
Total	**29,231**	**45,973**

The movements of the "Deferred tax assets" item in 2016 and 2015 were as follows:

	Thousands of euros	
	2016	2015
Opening balance	**165,797**	**157,858**
Asset impairment	757	(4,366)
Generation of assets due to tax losses	12,305	9,107
Settlements of assets due to tax losses	(16,760)	(11,370)
Activation of deductions	865	11,267
Settlement of deductions	(2,346)	-
Derecognition of tax credits due to a change in tax rate	-	(1,104)
Changes due to the entry into the scope of consolidation	-	8,518
Others	(8,229)	(4,113)
Total	**152,389**	**165,797**

The recognition of assets was mainly due to the recognition of tax losses in Spain in the amount of €7.377 million as a result of the favourable resolution of the Tax Authority regarding the deductibility of an additional tax loss in the sale of Sotogrande carried out in 2014 and the recognition of tax losses in Germany in the amount of €3.001 million as a result of the expected positive results in future years.

The settlement of assets was mainly due to the settlement of tax losses in Spain in the amount of €15.36 million. Of this amount, €8.701 million related to the derecognition of tax credits arising from tax losses as a result of the aforementioned reorganisation carried out in Spain, and a further €6.086 million corresponded to the settlement of tax losses as a result of the adjustment of the Tax for 2015 after the final settlement was presented in 2016.

As mentioned in the previous paragraph, the reorganisation in Spain entailed the derecognition of tax credits amounting to €8.701 million. However, the effect of that derecognition of tax credits was offset by a reduction of the Tax Group's current expenditure by €11.694 million due to the fact that, as a consequence of the merger, a tax loss of €46.775 million was generated in Spain.

At 31 December 2016, the Group had assets resulting from tax losses and deductions amounting to €108.515 million (€114.452 million in 2015). At 31 December 2016, the tax credit recovery plan that supports the recognition of these tax credits had been updated based on the Group's business plan. Given that the results of the tax credit recovery plan are satisfactory, the Parent Company's Directors have decided to maintain the tax credits recognised in the consolidated balance sheet.

At 31 December 2016, the Group had tax loss carryforwards worth €566.518 million (€577.458 million at 31 December 2015) and deductions amounting to €29.637 million (€30.068 million in 2015) that had not been registered in the accompanying consolidated balance sheet because the Directors considered they did not meet accounting standard requirements. These assets are grouped as follows (base amount):

	Thousands of euros	
	2016	2015
Finance costs and negative tax bases		
Non-deductible financial expenses in Spain	223,095	180,467
Non-deductible financial expenses in Italy	6,424	17,243
Non-deductible financial expenses in Germany	5,366	12,900
Negative tax bases generated by the Spanish entities before consolidation	106,325	108,750
Negative tax bases generated in Austria	24,449	23,400
Negative tax bases generated in Latin America	4,175	2,765
Negative tax bases generated in Luxembourg	53,231	53,231
Negative tax bases generated in Spain	-	-
Negative tax bases generated in Italy	1,797	13,801
Negative tax bases generated in Germany	141,656	164,900
Total	**566,518**	**577,458**
Deductions		
Deductions generated in Spain	29,637	30,068
Total	**29,637**	**30,068**
Total	**596,155**	**607,525**

Finance costs, which are not considered deductible in the Spanish corporate income tax when exceeding 30% of the operating revenue of the tax group calculated in accordance with Article 16 of Law 27/2014 of 27 December, on Corporate Income Tax, amount to €223,095,000 in 2016 (€180,467,000 in 2015). There is no deadline for offsetting non-deductible finance costs. Regarding Italian and German Corporate Income Tax, tax regulations in those countries are similar to those of Spain on the deductibility limit of financial expenses. In accordance with Italian and German legislation, there is no deadline for offsetting non-deductible finance costs.

The changes in non-recorded credits in 2016 were mainly due to the fact that in Spain no finance costs were deducted owing to the application of the aforementioned regulations, and losses and deductions were offset against the profit generated in the year. In Italy losses were offset and finance costs generated were deducted, and in Germany finance costs were deducted and losses which had passed the tax credit recovery test were recognised.

The composition of the credit balances with Public Administrations at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	**2015**
Deferred tax liabilities		
Revaluation of assets and other valuation differences	174,987	196,711
Total	**174,987**	**196,711**

	Thousands of euros	
	2016	**2015**
Short-term taxes payable		
Income tax	12,454	15,545
Value Added Tax	3,042	8,509
Personal Income Tax	6,687	7,010
Tax on Income from Capital	2,100	217
Social Security	7,045	7,568
Others	13,610	11,986
Total	**44,938**	**50,835**

The movements in deferred tax liabilities during 2016 are as follows:

	Thousands of euros	
	2016	**2015**
Opening balance	**196,711**	**179,730**
Derecognition of liabilities due to change in tax rate	-	(10,309)
Addition of liabilities due to entry into scope (Note 2.5.4)	698	26,077
Others	(22,422)	1,213
Closing balance	**174,987**	**196,711**

The decrease in deferred tax liabilities is mainly due to the combined effect of the entry in the consolidation scope of the Palacio de la Merced and the reversal of impairment of revalued assets. The detail, by country and item, of these deferred taxes is as follows:

	Thousands of euros			
	Tax credits	**Prepaid Taxes**	**Total Assets**	**Liabilities**
Spain	99,738	22,202	121,940	37,527
Benelux	1,927	1	1,928	1,157
Italy	3,114	10,558	13,672	110,198
Germany	3,001	1,180	4,181	589
Others	735	9,933	10,668	25,516
TOTAL	**108,515**	**43,874**	**152,389**	**174,987**

Reconciliation of the accounting result to the tax result

The reconciliation between the consolidated comprehensive profit or loss statements, the corporation tax base, current and deferred tax for the year, is as follows:

	Thousand euros														
	2016												2015	
	Spain	Italy	Germany	Nether-lands (1)	Latin America (2)	Luxembourg	Romania	Switzerland	Czech R.	Poland	Portugal	Others	TOTAL	Spanish entities	Other entities
Profits/(losses) from continuing operations	**(14,054)**	**12,030**	**5,964**	**23,538**	**15,721**	**2,638**	**174**	**(2,931)**	**432**	**(4)**	**5**	**845**	**44,358**	**(65,135)**	**81,524**
Profit (loss) for the year from discontinued operations net of tax	(2,274)	-	-	-	-	-	-	-	-	-	-	-	(2,274)		
Consolidated Profit before taxes	(16,328)	12,030	5,964	23,538	15,721	2,638	174	(2,931)	432	(4)	5	845	42,084	(65,135)	81,524
Adjustments to the consolidated result:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consolidation adjustments	2,889	-	4,695	-	-	-	-	-	-	-	-	-	7,584	(14,378)	4,765
Permanent differences	2,934	(1,155)	(5,556)	(4,835)	(3,512)	(2,508)	344	3,500	(432)	65	75	(808)	(11,888)	45,163	245
Temporary differences	12,546	6,282	(2,816)	2,489	5,542	-	-	-	-	-	-	-	24,043	(16,116)	(17,379)
Tax base (Taxable profit/ loss)	2,041	17,157	2,286	21,191	17,750	131	517	569	-	61	80	38	61,821	(50,467)	69,157
Total current tax income / (expense)	(535)	(1,685)	(685)	(5,354)	(5,150)	(25)	(83)	(48)	-	(12)	(17)	(11)	(13,605)	11,455	(23,773)
Total deferred tax income / (expense)	3,427	1,706	1,940	768	1,692	-	-	-	-	-	-	-	9,533	(4,029)	(5,939)
Total other income / (expense)	(205)	(2,101)	(32)	(315)	(1,224)	-	-	11	-	-	-	-	(3,866)	-	9,204
Total Corporate Tax income / (expense)	**2,687**	**(2,080)**	**1,223**	**(4,901)**	**(4,682)**	**(25)**	**(83)**	**(37)**	**-**	**(12)**	**(17)**	**(11)**	**(7,938)**	**7,426**	**(20,508)**
Current income tax to be refunded / (to pay)	**818**	**220**	**192**	**(489)**	**3,957**	**-**	**(11)**	**-**	**-**	**(1)**	**26**	**44**	**4,756**	**1,004**	**10,291**

(1) The Netherlands business area includes Belgium and France

(2) The Latin America business area includes the profits and losses obtained by the Group in Argentina, Mexico, Uruguay, the Dominican Republic, Colombia, Chile, Panama and Brazil.

Specifically for the case of Spain, Royal Decree-Law 3/2016, of 2 December, has introduced a series of amendments with effect from 1 January 2016, being the main ones that have affected the Group the following:

- Limitation of the offset of negative tax bases for companies with a net turnover of more than €60 million to 25%. This fact has been taken into account in the tax credit recovery plan related to the aforementioned negative tax bases.

- Limitation on the application of deductions to avoid double taxation to 50% of the quota.

- The reversal of impairments of shareholdings that were tax deductible in tax periods prior to 2013 and which as from 1 January are no longer tax deductible and, therefore, must be included in corporate income tax for a minimum annual amount using the straight-line method for five years. Accordingly, the Group has included approximately €31 million in the tax assessments of the related Spanish companies in 2016.

Deductions generated by the consolidated tax group of the Parent Company

At 31 December 2016, the Tax Group held the following tax credit carry-forward (Thousand of euros):

Year Origin	Deduction pending application	Amount
2002 to 2010	Investment in export activity	28,605
2009 to 2015	Tax deduction to avoid double taxation	8,921
2002 to 2015	Other	1,897
		39,423

19.- COMMERCIAL CREDITORS AND OTHER ACCOUNTS PAYABLE

The breakdown of this item in the consolidated balance sheet at 31 December 2016 and 2015 is as follows (Thousand of euros):

	Thousands of euros	
	2016	2015
Trade and other payables	205,357	227,128
Advance payments from customers	24,412	23,915
	229,769	**251,043**

The heading "Commercial Creditors and Other Accounts Payable" covers the accounts payable derived from commercial activity typical of the Group.

The "Advance payments from customers" item mainly includes customer deposits arising from the Group's hotel businesses.

20.- INFORMATION ON DEFERRED PAYMENTS TO SUPPLIERS. THIRD ADDITIONAL PROVISION.

Below is the information required by Additional Provision Three of Law 15/2010 of 5 July and modified according to the Resolution of 29 January 2016, of the Institute of Accounting and Auditing, on the information to be incorporated in the record of annual financial statements relating to the average period for payment to suppliers in commercial transactions of Spanish companies.

	2016	2015
	Days	Days
Average period for payment to suppliers	**79**	**70**
Ratio of paid transactions	81	68
Ratio of transactions pending payment	38	85
	Amount (thousand of euros)	Amount (thousand of euros)
Total payments made	322,308	263,703
Total payments pending	18,785	28,747

The above information on payments to suppliers of Spanish companies refer to those which by their nature are trade creditors due to debts with suppliers of goods and services. The table includes, therefore, the "Commercial Creditors and Other Accounts Payable" item in current liabilities of the attached consolidated balance sheet at 31 December 2016 and 2015.

The average period for payment to suppliers has been calculated, as stated in the Resolution of 29 January 2016, of the Institute of Accounting and Auditing, using the weighted average of the two ratios explained below:

- Ratio of paid transactions: average payment period of transactions paid in 2016 weighted by the amount of each transaction.
- Ratio of transactions pending payment: average period between the invoice date and the end of the year weighted by the amount of each transaction.

21.- OTHER CURRENT LIABILITIES

At 31 December 2016 and 2015, this item is broken down as follows:

	Thousands of euros	
	2016	2015
Outstanding remuneration	32,526	27,928
Acquisition of Hoteles Royal, S.A. (Notes 2.5.4 and 16)	21,523	-
Linearisation of revenue	742	1,371
Liabilities from contract termination	470	667
Put option for Donnafugata Resort, S.r.l.	-	10,335
Other creditors	1,019	2,138
Total	**56,280**	**42,439**

The heading "Acquisition of Hoteles Royal, S.A." reflects the liability corresponding to the part of the consideration paid for the acquisition in March 2015 of the stake equivalent to 97.47% of the share capital of Hoteles Royal, S.A., which remained outstanding for an amount of €17.7 million, which as at 31 December 2016 amounted to €21.5 million (€19.2 million in the previous year). The evolution with respect to the previous year is due to the updating of the value and the effect of the exchange rate. Payment of this debt will foreseeably be made effective in March 2017.

In 2016 the liability arising from the put option for Donnafugata Resort, S.R.L. was settled by means of a reverse factoring solution issued on 22 October 2015.

22.- THIRD-PARTY GUARANTEES AND CLAIMS IN PROGRESS

As at 31 December 2016, NH had a total of €30.062 million euros in economic or financial bank guarantees issued by various banks.

Of these, €12,150 thousand euros guarantee obligations related to cash pooling contracts or centralised treasury management with several banks and, therefore, their execution would be linked to a breach by NH of those contractual obligations.

Of the remainder, €15.671 million guarantee leasing contract obligations in various countries, and €2.241 million guarantee tax and other obligations vis-à-vis public bodies in Italy.

At 31 December 2016, the Group had taken out insurance policies to cover risks arising from damage to material goods, loss of profits and third-party liability. The capital insured sufficiently covers the assets and risks mentioned above.

Commitments to third parties

- The Company currently acts as co-guarantor for a syndicated loan granted by two banks to the associate Sotocaribe, S.L. which at 31 December 2016 had an outstanding principal of €22.469 million (equivalent to USD 23.685 million at 31 December 2015) and final maturity on 5 April 2017.
- On 10 March 2006, NH Europa, S.A. and Losan Hoteles, S.L. (now Carey Property, S.L.) signed a shareholders' agreement on Losan Investments Ltd. (the owner of the Kensington Hotel), by means of which, should Losan Investments Ltd. receive an offer to purchase 100% of its shares at a price deemed to be a market price, Losan Hoteles, S.L. (now Carey Property, S.L.) may require NH Europa, S.A. to transfer its shares to the third party who made the offer and the latter will be obliged to accept. However, NH Europa, S.A. will have preferential acquisition rights over shares held by Losan Hoteles, S.L. (now Carey Property, S.L.) in Losan Investments Ltd.
- Under the agreements reached between the NH Group and HNA Group regarding the joint venture, a right of "Tag-along" is recognised, in the sense that if one of the partners receives a takeover bid by a third party for 100% of the shares in the company, the other partner has the option to exercise their right of first refusal or may communicate its irrevocable offer to sell the shares it holds in the aforementioned joint venture, and under the conditions of sale supplied by the third party; if the third party does not accept the offer of the other partner to sell the rest of the shares in the company, the other partner is not allowed to sell its shares to the third party.
- Within the framework of new development projects in the normal course of business, in which the NH Group subsidiaries act as lessees or operators, the Group's parent company gives personal guarantees in favour of third parties to secure its contractual obligations.
- Within the framework of the Group's financing, personal and real guarantees have been granted to fulfil the obligations guaranteed under the financing agreements (see Note 15).
- A Group company in which NH has an ownership interest granted to the other shareholders a call option on shares owned by NH in that company, in a sufficient number so that those shareholders, adding the shares to those which now belong to them, could acquire shares representing, in total, up to a maximum of 50% of the share capital. To this end, it was acknowledged to the optionees that natural or legal persons related to the other opting shareholders could take over their position as opting parties without needing the consent of the other optionee or NH.
- Within the framework of the sale of a hotel, NH as a seller agreed to undertake the extension of the aforementioned hotel, and agreed with the buyer a put option in favour of the buyer, NH being obliged to accept the exercise of that option provided that certain conditions are met and for a price agreed between both parties.

Claims in progress

The Group's main contingent assets and liabilities on the date these consolidated financial statements were drawn up, are set out below:

- NH Group has appeared in the insolvency proceedings of Viajes Marsans, S.A. and Tiempo Libre, S.A., from the unsettled estate of Gonzalo Pascual Arias and Gerardo Díaz Ferrán, and in the voluntary insolvency proceedings against María Angeles de la Riva Zorrilla, in order to claim outstanding amounts. The Group also appears in the voluntary bankruptcy proceedings of Transhotel and Orizonia. Said balances were provisioned in consolidated financial statements in the amounts deemed not recoverable.
- The owner of four hotels in the Netherlands has claimed in court the payment of €2,723 thousand plus interest and costs to a Dutch subsidiary because there was allegedly a change of the control situation in the year 2014, which supposedly entitles him to claim a fine, according to the lease. The Court of First Instance dismissed in its entirety the claim brought by the owner. However, the owner has filed an appeal, the subsidiary has submitted its allegations and the proceedings are ongoing in the aforementioned court pending a decision.

- The owner of a hotel has filed a suit against a Group company, demanding compliance with certain contractual obligations. Following notification of the dismissal of the appeal, an appeal for review due to breach of procedure and an appeal in cassation were lodged, which have still not been resolved.

- The NH Group filed an arbitration claim requesting the validity of the declaration of resolution to sell practised at fifteen premises in San Roque, the decision on which was in favour of the NH Group. However, an application for annulment of the award has been filed and the proceedings are still pending a decision.

- The NH Group has filed an arbitration claim requesting the validity of the resolution of the leasing contract of a Hotel urged by the Group in 2015, with the claim for damages. The award, among other pronouncements, states the contractual and legal obligations of the sublessor to have been partially breached and states that the termination of the sublease agreement is unlawful and that it therefore remains in force.

- Two companies have lodged claims against two NH Group companies in Germany due to the termination of two lease agreements and claiming specific amounts, including damages.

- A claim has been filed against two of the Group's companies seeking payment of unpaid instalments from 1 January 2008 to 31 May 2013, in addition to an unspecified amount corresponding to the period thereafter until a judgement is issued, plus interest and costs. In its ruling on the case the Court of First Instance established an amount lower than that claimed. However, the NH Group companies have filed an appeal.

- On the occasion of the agreements reached in 2014 for the sale of the shares held by NH Hotel Group, S.A in the company Sotogrande, S.A., NH Group agreed to subrogate to the position of Sotogrande, S.A. for certain disputes assuming all rights and obligations relating thereto, and are summarised as follows:

    • Plaintiff in the proceedings against construction agents for construction defects in twenty-five homes and contractual liability, as well as a claim against the insurer.

    • Defendant in the claim process for contractual breaches by a property developer

- A shareholder of the NH Group has requested that certain of the resolutions adopted at the General Shareholders' Meeting be annulled.

- The Company could be subject to claims for amounts assumed under a share purchase agreement.

- There are amounts related to possible compensation for the termination of a certain service contract, which are under discussion and whose maximum amounts have been fully provisioned.

The Directors of the Parent Company consider that the hypothetical loss incurred by the Group as a result of such actions would not significantly affect the equity of the Group.

23.- LONG-TERM INCENTIVE PLAN

On 25 June 2013, the Company's General Shareholders Meeting approved a long-term share-based incentive plan ("the plan") for the NH Hotel Group SA's executives and employees, as follows:
The plan will consist of the grant of ordinary shares of NH Hotel Group, S.A. to the beneficiaries calculated as a percentage of the fixed salary, according to their level of responsibility. The number of shares to be granted shall be subject to the degree of fulfilment of the following objectives:

• TSR (total shareholder return) at the end of each of the plan cycles, comparing the performance of NH Hotel Group, SA shares with the following indices:

  o IBEX Medium Cap
  o Dow Jones Euro Stoxx Travel & Leisure

• EBITDA, discounting the amount corresponding to rentals compared annually with the forecasts of the Company's strategic plan.

If the minimum degree of fulfilment established in the aforementioned objectives is not achieved, the plan beneficiaries shall not be entitled to shares under said plan.

The plan is aimed at a maximum of 100 beneficiaries. The Board of Directors, at the proposal of the CEO, may include new members in the plan.

The plan will have a total duration of five years, divided into three three-year cycles:

• The first cycle commences on 1/1/2014 with delivery of shares in 2017.
• The second cycle commences on 1/1/2015 with delivery of shares in 2018.
• The third cycle commences on 1/1/16 with delivery of shares in 2019.

The first cycle of the plan (1/1/2014 – 31/12/2016) is being settled, the number of shares to be delivered to each beneficiary will be that obtained by multiplying the number of shares promised by the degree of compliance with the objectives (internal and external metrics) after this compliance is approved by the Board of Directors. Once approved, the delivery of the shares to the beneficiaries will take place during the first week of March.

The Board of Directors will be authorised to decide, before the start of each of the cycles, the effective implementation thereof in accordance with the Group's financial position at the time. At 31 December 2016, all the cycles had been approved by the Board of Directors.

The number of shares to be delivered to each beneficiary shall be that resulting from dividing the maximum amount destined to each beneficiary in each cycle by NH's share price in the ten days prior to the grant date of each cycle ("reference value").

The total maximum amount destined to the plan in each of the cycles is as follows:

- First cycle: €6,170,000
- Second cycle: €5,830,000
- Third cycle: €4,440,000
- Total: €16,440,000

The beneficiaries must remain in the Group on each of the plan settlement dates, notwithstanding the exceptions deemed appropriate. Also, the aforementioned minimum TSR and EBITDA thresholds must be reached.

The effect of this item on the consolidated comprehensive profit and loss statement for 2016 was €1.701 million (€1.415 million in 2015).

24.- INCOME AND EXPENSES

24.1 Income

The breakdown of these headings in the consolidated comprehensive profit and loss statements for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Hotel occupancy	1.014.179	954.218
Catering	312.561	310.391
Meeting rooms and others	75.060	69.502
Rentals and other services	46.103	42.523
Revenues	**1.447.903**	**1.376.634**
Operating subsidies	1	11
Other operating income	7,686	1,196
Other operating income	7,687	1,207
et gain (loss) on disposal of assets	**41,526**	**(843)**

"Rentals and Other Services" includes the income from fees invoiced to hotels operated on a management basis and the services provided by the NH Group to third parties.

The breakdown of net turnover by geographical markets in 2016 and 2015 was as follows:

	Thousands of euros	
	2016	2015
Spain	361,380	325,515
Germany	307,668	288,288
Benelux	276,102	263,749
Italy	266,412	266,965
Rest of Europe	99,085	93,536
Latin America	137,256	138,581
Total	**1,447,903**	**1,376,634**

24.2 Financial income and changes in the fair value of financial instruments

The breakdown of the amount of financial income is:

	Thousands of euros	
	2016	**2015**
Dividend income	884	1,130
Income from marketable securities	142	525
Interest income	1,738	3,092
Other financial income	546	407
Total	**3,310**	**5,154**

The breakdown of the amount of changes in the fair value of financial instruments

	Thousands of euros	
	2016	**2015**
Foreign exchange derivative financial instruments (Note 4.6.3)	(435)	(4.530)
Put option for Donnafugata Resort, S.r.l.	-	(165)
Total change in fair value of financial instruments	**(435)**	**(4.695)**

24.3 Personnel expenses

This item in the consolidated comprehensive profit and loss statement is broken down as follows:

	Thousands of euros	
	2016	**2015**
Wages, salaries and similar	307,123	299,033
Social security contributions	75,202	74,341
Indemnifications	13,432	4,688
Contributions to pension plans and similar	8,581	8,645
Other social expenses	11,551	11,441
Total	**415,889**	**398,148**

The average number of people employed by the Parent Company and the companies consolidated through full consolidation in 2016 and 2015 broken down by professional categories was as follows:

	2016	**2015**
Group's general management	7	7
Managers and heads of department	1,494	1,426
Technical staff	966	899
Sales representatives	784	748
Administrative staff	214	231
Rest of workforce	10,521	10,548
Total	**13,986**	**13,859**

The breakdown of the personnel at 31 December 2016 and 2015, by gender and professional category, is as follows:

	31-12-2016		31-12-2015	
	Males	**Females**	**Males**	**Females**
Group's general management	6	1	6	1
Managers and heads of department	872	621	785	558
Technical staff	536	430	456	380
Sales representatives	237	540	177	519
Administrative staff	94	131	64	126
Rest of workforce	4,992	5,272	4,890	5,285
Total	**6,737**	**6,995**	**6,378**	**6,869**

The average number of people with disabilities equivalent to or greater than 33%, directly employed by the Parent Company and fully consolidated companies in Spain in 2016, broken down by professional categories, is as follows:

	2016	2015
Managers and heads of department	5	3
Technical staff	14	12
Administrative staff	5	5
Rest of workforce	91	78
Total	**115**	**98**

The average age of the Group's workforce was approximately 38.9 and average seniority in the Group was 9 years.

24.4 Other operating expenses

The detail of "Other Operating Expenses" of the consolidated statement of comprehensive income for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Lease rentals	287,951	282,597
External services	503,247	503,244
Others	3,976	1,248
Total	**795,174**	**787,089**

Shown below is a breakdown of the items included in "External services":

	Thousands of euros	
	2016	2015
Outsourcing of services	111,261	107,022
Commissions and bonuses for customers	80,445	58,207
Supplies	45,542	50,253
Maintenance and cleaning	40,913	40,352
Laundry and related costs	36,141	35,196
Costs associated with information technologies	32,396	32,317
Marketing and merchandising	26,154	26,876
Other external services	130,395	153,021
Total	**503,247**	**503,244**

In 2016, the Group experienced a higher level of activity in its hotel business, which led to an increase in some operational expenses directly related to the level of activity, such as the outsourcing of certain services, maintenance and cleaning of the hotels and laundry service, among others. Also, the increase recorded in revenue per available room explains the increase in associated agency commission expenses. However, savings were achieved in other items such as supplies and marketing and merchandising, among others.

During 2016 and 2015, the fees for account auditing and other services provided by the auditor of the Group's consolidated annual accounts, Deloitte, S.L., and the fees for services invoiced by the entities related to it by control, shared ownership or management, were as follows:

	Thousands of euros	
	2016	2015
Auditing services	478	472
Other verification services	426	263
Total auditing and related services	904	735
Tax consulting services	598	471
Other services	202	398
Total other services	800	869
Total professional services	**1,704**	**1,604**

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

	Thousands of euros	
	2016	**2015**
Auditing services	1,149	1,208
Other verification services	24	20
Total auditing and related services	1,173	1,228
Tax consulting services	115	131
Other services	6	3
Total other services	121	134
Total	**1,294**	**1,362**

During 2016, other audit firms different from Deloitte, S.L. or entities linked to Deloitte, S.L. by means of control, common ownership or management, have provided with accounting audit services to the companies part of the Group amounting to 83 thousand euros (130 thousand euros during 2015). Additionally, the fees accrued during 2016 by such firms related to tax advisory services have been 384 thousand euros (221 thousand euros during 2015) and other services amounting to 461 thousand euros (372 thousand euros during 2015).

24.5 Operating Leases

At 31 December 2016 and 2015, the Group had made undertakings concerning future minimal rental payments by virtue of non-cancellable operating lease agreements, which expire as set out in the table below.

The current value of the rental payments has been calculated by applying a post-tax discount rate in keeping with the cost of capital of each of the countries and includes the commitments which the Group estimates will have to be met in the future to guarantee a fixed income or minimum return from hotels operated under a management agreement.

	Present value	
Thousands of euros	**2016**	**2015**
Less than one year	259,112	272,870
Between two and five years	867,428	900,908
More than five years	1,151,056	1,056,344
Total	**2,277,596**	**2,230,122**

The term of the operating lease agreements signed by the Group ranges from 5 to 40 years. Agreements likewise include several methods to determine the rent to be paid. Basically, the methods for determining rentals can be summarised as fixed rentals indexed to a consumer price index; fixed rentals complemented by a variable part indexed to the property's operating profits; or completely variable rentals, determined by business performance during the year. In some cases, variable rentals are set with a minimum profitability threshold for the owners of the property under operation.

The breakdown by business unit of the current value of the rental instalments at 31 December 2016 is as follows (thousands of euros):

	Less than one year	Between two and five years	More than five years	Total
Spain	68,901	207,625	140,106	416,632
Germany and Central Europe	99,513	326,638	390,595	816,745
Italy	40,286	138,940	135,279	314,505
Benelux	46,217	185,801	480,494	712,513
Latin America	4,195	8,424	4,582	17,202
Total	**259,112**	**867,428**	**1,151,056**	**2,277,597**

The breakdown by business unit of the current value of the rental instalments at 31 December 2015 is as follows (thousands of euros):

	Less than one year	Between two and five years	More than five years	Total
Spain	75,521	248,127	193,219	516,867
Germany and Central Europe	104,970	355,749	418,190	878,909
Italy	43,858	114,397	77,936	236,191
Benelux	45,559	178,986	364,851	589,396
Latin America	2,962	3,649	2,148	8,759
Total	**272,870**	**900,908**	**1,056,344**	**2,230,122**

24.6 Finance costs

The detailed balance of this chapter of the consolidated statement of comprehensive income for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Expenses for interest	45,892	46,011
Financial expenses for means of payment	14,472	13,111
Financial effect relating to restatement of provisions and other financial liabilities	2,775	3,868
Amortisation of debt arrangement expenses	7,833	5,404
Financial effect of exit of NH Alcalá	-	4,394
Other financial expenses	1,332	927
Total financial expenses	**72,304**	**73,715**

"Financial effect relating to restatement of provisions and other financial liabilities" includes in the year 2016 the result of the restatement of the provision for the lease agreements of hotels classified as onerous and the part of the consideration for the acquisition of 97.47% of the share capital of Hoteles Royal, S.A. which remained outstanding until March 2017.

In 2016, the Parent Company amortised in advance the arrangement expenses corresponding to those lines of financing that were settled with the funds from the issuance of guaranteed senior bonds which were placed on 23 September 2016.

25.- RELATED PARTY TRANSACTIONS

In addition to its subsidiaries, associates and joint ventures, the Group's "related parties" are considered to be the "key management personnel" of the Parent Company (Board Members and Directors, along with their immediate relatives), as well as organisations over which key management personnel may exert significant influence or control.

Transactions carried out by the Group with its related parties during 2016 are stated below, distinguishing between major shareholders, members of the Board of Directors and Directors of the Parent Company and other related parties. The conditions of the related-party transactions are equivalent to those of transactions carried out under market conditions:

	Thousands of euros			
	31/12/2016			
Income and Expenses	Significant shareholders	Directors and Executives	Associates or companies of the Group	Total
Expenses:				
Finance costs	-	-	-	-
Management or cooperation agreements	-	-	-	-
R&D transfers and licence agreements	-	-	277	277
Lease rentals	-	-	-	-
Reception of services	-	-	-	-
Purchase of goods (finished or in-progress)	-	-	-	-
Write-downs for bad debts and doubtful accounts	-	-	-	-
Losses on retirement or disposal of assets	-	-	-	-
Other expenses	-	-	-	-
	-	**-**	**277**	**277**
Income:				
Finance income	-	-	22	22
Management or cooperation agreements	7,454	-	3,237	10,691
R&D transfers and licence agreements	-	-	-	-
Dividends received	-	-	-	-
Lease rentals	-	-	-	-
Provision of services	-	-	-	-
Sale of goods (finished or in-progress)	-	-	-	-
Gains on retirement or disposal of assets	-	-	-	-
Other income	-	-	-	-
	7,454	**-**	**3,259**	**10,713**

Income and Expenses	Thousands of euros			
	31/12/2015			
	Significant shareholders	Directors and Executives	Associates or companies of the Group	Total
Expenses:				
Finance costs	1,167	-	-	1,167
Management or cooperation agreements	-	-	-	-
R&D transfers and licence agreements	-	-	550	550
Lease rentals	-	-	-	-
Reception of services	-	-	-	-
Purchase of goods (finished or in-progress)	-	-	-	-
Write-downs for bad debts and doubtful accounts	-	-	-	-
Losses on retirement or disposal of assets	-	-	-	-
Other expenses	-	-	-	-
	1,167	-	550	1,717
Income:				
Finance income	-	-	437	437
Management or cooperation agreements	6,244	-	2,641	8,885
R&D transfers and licence agreements	-	-	-	-
Dividends received	-	-	-	-
Lease rentals	-	-	-	-
Provision of services	-	-	-	-
Sale of goods (finished or in-progress)	-	-	-	-
Gains on retirement or disposal of assets	-	273	-	273
Other income	-	-	-	-
	6,244	273	3,078	9,595

The heading "Management or cooperation agreements" includes the amounts that have accrued in the form of management fees payable to the NH Hoteles Group during the period of 2016 and 2015 by virtue of the hotel management agreement signed with Grupo Inversor Hesperia, S.A. It also states earned income reflected in contracts with partners.

Other Financing agreements:

	Thousands of euros	
	2016	2015
Loans to associates		
Consorcio Grupo Hotelero T2, S.A. de C.V. (Note 10.1)	244	672
Sotocaribe, S.L.	5,955	4,820
Total	6,199	5,492

Other operations

By virtue of the contractual relationship entered into with Grupo Inversor Hesperia, S.A., at 31 December 2016 EUR 1.88 million had not yet been received for various reasons, of which €0.21 million were due on said date. At 31 December 2016, the net balance recognised in relation to Grupo Inversor Hesperia, S.A. came to €0.81 million (€2 million at 31 December 2015)

26.- INFORMATION BY SEGMENTS

The Group divides its activity into the real estate (see Note 11) and hotel segments. Additionally, within the hotel segment, sub-segments are identified by geographic area, which are included in the breakdowns reflected in the consolidated financial statements for information purposes.

The factors taken into account when defining the segments were as follows:

a) They carry on business activities from which they can earn income from ordinary activities and incur expenses (including income from ordinary activities and expenses for transactions with other components of the Group).

b) They obtain operating results that are regularly reviewed by the entity's highest decision-making authority to decide on the resources to be allocated to the segment and to evaluate its performance.

c) They have different financial information.

The Management Committee is the body responsible for making decisions regarding the Group's segments. Accordingly, it analyses the Group's results distinguishing between the aforementioned subsegments.

26.1 Information on main segments

The breakdown of the segment information required by IFRS 8 is as follows:

	Thousand Euros													
	Hotel													
	2016							2015						
	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others
OTHER INFORMATION														
Fixed assets Additions	138,846	44,674	45,811	24,190	15,220	8,752	199	180,236	66,152	31,806	36,877	27,421	17,268	712
Amortizations	(114,170)	(36,512)	(19,047)	(24,894)	(23,017)	(8,007)	(2,693)	(106,159)	(36,779)	(17,174)	(24,245)	(17,415)	(7,567)	(2,979)
Net impairment losses	(2,686)	(951)	666	(3,367)	925	-	41	30,859	(15,688)	(759)	(1,510)	4,907	(17,998)	189
BALANCE SHEET														
ASSETS														
Assets by segments	2,604,463	735,232	646,955	486,445	303,009	422,179	10,643	2,694,209	780,871	623,844	534,084	319,005	397,344	39,061
Equity method investments	(23,911)	4,467	-	-	-	(28,391)	13	(28,356)	2,961	-	-	-	(24,744)	(6,573)
Total consolidated assets	2,580,552	739,699	646,955	486,445	303,009	393,788	10,656	2,665,853	783,832	623,844	534,084	319,005	372,600	32,488
LIABILITIES														
Equity and liabilities by segments	2,580,552	739,699	646,955	486,445	303,009	393,788	10,656	2,665,853	783,832	623,844	534,084	319,005	372,600	32,488
Total consolidated Liabilities and Net Equity	**2,580,552**	**739,699**	**646,955**	**486,445**	**303,009**	**393,788**	**10,656**	**2,665,853**	**783,832**	**623,844**	**534,084**	**319,005**	**372,600**	**32,488**

	Thousand Euros													
	Real Estate													
	2016							2015						
	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others
OTHER INFORMATION														
Fixed assets Additions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net impairment losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BALANCE SHEET														
ASSETS														
Assets by segments	12,129	-	-	-	-	-	12,129	-	-	-	-	-	-	-
Equity method investments	34,556	-	-	-	-	34,556	-	45,034	-	-	-	-	38,387	6,647
Total consolidated assets	46,685	-	-	-	-	34,556	12,129	45,034	-	-	-	-	38,387	6,647
LIABILITIES														
Equity and liabilities by segments	46,685	-	-	-	-	34,556	12,129	45,034	-	-	-	-	38,387	6,647
Total consolidated Liabilities and Net Equity	**46,685**	**-**	**-**	**-**	**-**	**34,556**	**12,129**	**45,034**	**-**	**-**	**-**	**-**	**38,387**	**6,647**

	Thousand Euros													
	Total													
	2016							2015						
	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others
OTHER INFORMATION														
Fixed assets Additions	138,846	44,674	45,811	24,190	15,220	8,752	199	180,236	66,152	31,806	36,877	27,421	17,268	712
Amortizations	(114,170)	(36,512)	(19,047)	(24,894)	(23,017)	(8,007)	(2,693)	(106,159)	(36,779)	(17,174)	(24,245)	(17,415)	(7,567)	(2,979)
Net impairment losses	(2,686)	(951)	666	(3,367)	925	-	41	30,859	(15,688)	(759)	(1,510)	4,907	(17,998)	189
BALANCE SHEET														
ASSETS														
Assets by segments	2,616,591	735,232	646,954	486,445	303,009	422,179	22,772	2,694,209	780,871	623,844	534,084	319,005	397,344	39,061
Equity method investments	10,646	4,468	-	-	-	6,165	13	16,678	2,962	-	-	-	13,643	74
Total consolidated assets	2,627,237	739,700	646,954	486,445	303,009	428,344	22,785	2,710,887	783,833	623,844	534,084	319,005	410,987	39,135
LIABILITIES														
Equity and liabilities by segments	2,627,237	739,700	646,954	486,445	303,009	428,344	22,785	2,710,887	783,833	623,844	534,084	319,005	410,987	39,135
Total consolidated Liabilities and Net Equity	**2,627,237**	**739,700**	**646,954**	**486,445**	**303,009**	**428,344**	**22,785**	**2,710,887**	**783,833**	**623,844**	**534,084**	**319,005**	**410,987**	**39,135**

26.2 Information on sub-segments

The following table shows the breakdown of certain Group consolidated balances in accordance with the geographical distribution of the entities giving rise to them:

	2016 (Thousand Euros)						
Significant information of the profit and loss statement by geographic area	**Spain**	**Benelux**	**Italy**	**Germany**	**Latin America**	**Rest of Europe**	**Total**
Revenues	361.380	276.102	266.412	307.668	137.256	99.085	1.447.903
Amortizations	(41.206)	(19.047)	(24.894)	(18.323)	(8.007)	(2.693)	(114.170)
Financial expenses	(55.445)	1.044	(4.810)	(6.365)	(5.039)	(1.689)	(72.304)
Profit (loss) from companies accounted for using the equity method	208	-	-	-	687	(776)	119
Onerous provision variation	4.862	-	840	477	-	(2.016)	4.163
Income tax	489	(6.433)	1.478	1.649	(4.906)	(212)	(7.935)
Profit (loss) for the year from discontinued operations net of tax	-	-		-	(2.115)	(159)	(2.274)

	2015 (Thousand Euros)						
Significant information of the profit and loss statement by geographic area	**Spain**	**Benelux**	**Italy**	**Germany**	**Latin America**	**Rest of Europe**	**Total**
Revenues	325.515	263.749	266.965	288.288	138.581	93.536	1.376.634
Amortizations	(36.779)	(17.174)	(24.245)	(17.415)	(7.567)	(2.979)	(106.159)
Financial expenses	(54.563)	(249)	(6.908)	(6.685)	(3.968)	(1.342)	(73.715)
Profit (loss) from companies accounted for using the equity method	79	-	-	-	(539)	(203)	(663)
Onerous provision variation	21.612	-	278	847	-	(3.723)	19.014
Income tax	4.274	(8.446)	3.158	(1.192)	(10.394)	(482)	(13.082)
Profit (loss) for the year from discontinued operations net of tax	-	-	7.246	-	(1.077)	(101)	6.068

27.- REMUNERATION AND OTHER STATEMENTS MADE BY THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

In June 2016, the shareholder HNA and the CEO ceased to be members of the Board of Directors. Taking into account this fact, the composition of the main bodies at 31 December 2016 was as follows:

- Board of Directors: 11 members in 2016 (13 in 2015),
- Executive Committee: 4 members in 2016 (6 in 2015),
- Audit and Control Committee: 5 members in 2016 (6 in 2015) and
- Appointments and Remuneration Committee: 6 members in 2016 (7 in 2015).

The amount accrued during 2016 and 2015 by the members of the Parent Company's Board of Directors, taking into account the aforementioned fact affecting the 2016 fiscal year, in relation to the remuneration of the CEO, bylaw stipulated directors' fees and attendance fees, is as shown in the following notes.

27.1 Remuneration of the Board of Directors

	Thousands of Euros	
Remuneration item	**2016**	**2015**
Fixed remuneration	451	1,100
Variable remuneration	-	466
Parent Company: allowances	274	139
Parent Company: attendance allowances	509	493
Options on shares and other financial instruments	-	1,452
Indemnifications/other	10	5
Life insurance premiums	4	76
Total	**1,248**	**3,731**

Of the 11 members of the Board of Directors, at 31 December 2016, 2 were women and 9 were men (12 people in 2015: one woman and eleven men).

In relation to the chapter "Share transactions and/or other financial instruments", both in the case of the CEO and of the members of Senior Management, the objective remuneration earned has been taken into account.

The premiums paid in 2016 for the liability insurance of Directors and Executives amounted to €103 thousand.

27.2 Remuneration of senior management

The remuneration of members of the Management Committee at 31 December 2016 and 2015, excluding those who simultaneously held office as members of the Board of Directors (whose remuneration has been set out above), is detailed below:

	Thousands of Euros	
	2016	**2015**
Pecuniary remuneration	2,617	2,830
Remuneration in kind	161	65
Others	890	620
Total	**3,668**	**3,515**

There were seven members of Senior Management at 31 December 2016.

The accrued part of the variable remuneration is included within the remuneration of Senior Management, excluding the CEO.

The two conditions that must be met simultaneously to be considered Senior Management are, on the one hand, forming part of the Management Committee and, on the other, reporting directly to the Delegate Committee or to an Executive Managing Director.

27.3 Information on conflicts of interest on the part of Directors

At year-end 2016, the members of the Board of Directors of NH Hotel Group, S.A. have indicated that they are not in any situation of conflict, direct or indirect, that they or persons related to them, as defined in the Act, may have with the interests of the Company, except the GIHSA representative directors, who have reported:

- An agreement has been entered into between NH Hotel Group, S.A and Grupo Inversor Hesperia, S.A. for the billing of sales generated for the GIHSA hotels through the "Web Media Expenses" website. The agreement was signed, following information and deliberation by the Audit Committee and the Board of Directors, on 24 and 25 February 2016.

- On 5 December 2016, following information and deliberation in previous meetings by the Audit Committee and the Board of Directors, NH Hotel Group, S.A. and Grupo Inversor Hesperia, S.A. entered into a non-binding agreement of intent with the objective of establishing a new framework for management by NH of 28 hotels in the portfolio of hotels owned by the GIHSA group. The terms and conditions of the Agreement of Intent were unanimously approved by NH's Board of Directors, following a favourable report from its Audit and Control Committee.

During the aforementioned Board meetings, both were absent and abstained from taking decisions.

28.- EVENTS AFTER THE REPORTING PERIOD

On 9 February 2017, the Group disposed of an asset for a price of 23 million euros, generating a capital gain of €9.2 million before tax.

29.- INFORMATION ON ENVIRONMENTAL POLICY

The NH Group had not allocated any provisions for environmental contingencies and claims at year-end 2016.

The NH Group has no activities which require specific information to be shown in the environmental policy.

NH Group is certified by leading international standards such as ISO 50001, which certifies the efficiency of the hotel network's energy management on an international scale, and ISO 14001, which certifies environmental management.

The NH Group reports its climate-change commitment and strategy to the Carbon Disclosure Project (CDP). The valuation of CDP places NH Hotels Group among the companies in the hotel sector that are taking new measures to effectively reduce emissions, which indicates more advanced environmental management.

NH Hotel Group forms part of FTSE4 Good, an index on the London Stock Exchange which recognises the socially responsible behaviour of companies worldwide.

30.- EXPOSURE TO RISK

The Group financial risk management is centralised at the Corporate Finance Division. This Division has put the necessary measures in place to control exposure to changes in interest and exchange rates on the basis of the Group's structure, financial position and economic environmental variables as well as credit and liquidity risks. If necessary, hedges are made on a case-by-case basis. The main financial risks faced by the Group's policies are described below:

Credit risk

The Group's main financial assets include cash and cash equivalents (see Note 13), as well as trade and other accounts receivable (see Note 12). In general terms, the Group holds its cash and cash equivalents in entities with a high credit rating and part of its trade and other accounts receivable are guaranteed by deposits, bank guarantees and advance payments by tour operators.

The Group has no significant concentration of third-party credit risk due to the diversification of its financial investments as well as to the distribution of trade risks with short collection periods among a large number of customers.

Interest rate risk

The Group's financial assets and liabilities are exposed to fluctuations in interest rates, which may have an adverse effect on its results and cash flows. In order to mitigate this risk, the Group has established policies and has refinanced its debt at fixed interest rates through the issuance of convertible bonds and guaranteed convertible senior notes. At 31 December 2016, approximately 91% of the gross borrowings was tied to fixed interest rates.

In accordance with reporting requirements set forth in IFRS 7, the Group has conducted a sensitivity analysis on possible interest-rate fluctuations in the markets in which it operates, based on these requirements.

Through the sensitivity analysis, taking as a reference the outstanding amount of that financing that has variable interest, it is estimated the increase in the interest that would arise in the event of a rise in the reference interest rates.

In the event that the increase in interest rates were 0.25%, the financial expense would increase by €191 thousand plus interest.

In the event that the increase in interest rates were 0.5%, the financial expense would increase by €382 thousand plus interest.

In the event that the increase in interest rates were 1%, the financial expense would increase by €764 thousand plus interest.

The results in equity would be similar to those recorded in the income statement but taking into account their tax effect, if any.

Lastly, the long-term financial assets set out in Note 10 of this annual report are also subject to interest-rate risks.

Exchange rate risk

The Group is exposed to exchange-rate fluctuations that may affect its sales, results, equity and cash flows. These mainly arise from:

- Investments in foreign countries (essentially Mexico, Argentina, Colombia, Chile, Ecuador, the Dominican Republic, Panama and the United States).
- Transactions made by Group companies operating in countries whose currency is other than the euro (essentially Mexico, Argentina, Colombia, Chile, Ecuador, the Dominican Republic, Venezuela, the United States and the United Kingdom).

In this respect, the detail of the effect on the currency translation difference of the main currencies in 2016 was as follows:

	Thousands of euros	
	Currency translation difference	Changes with respect to 2015
US dollar	4,481	408
Argentine peso	(90,694)	(5,746)
Mexican peso	(16,969)	(6,155)
Colombian peso	(7,675)	7,725

The changes in the currency translation difference of the above currencies was mainly due to the movements in exchange rates between 31 December 2015 and 31 December 2016:

Year-end euro reference exchange rate	31/12/2016	31/12/2015	Change
US dollar	0.948680	0.918530	3.28%
Argentine peso	0.059910	0.071110	(15.75%)
Mexican peso	0.045930	0.052870	(13.13%)
Colombian peso	0.000320	0.000290	10.34%

As can be observed in the table, the movements in the exchange rate of the currencies with respect to the end of the previous year is in line with the changes in equity associated with these currencies.

Below is a detail of the movements in the average exchange rate between 2015 and 2016 of the aforementioned currencies:

Average euro reference exchange rate in the year	2016	2015	Variación
US dollar	0.903420	0.901630	0.20%
Argentine peso	0.061180	0.097330	(37.14%)
Mexican peso	0.048390	0.056770	(14.76%)
Colombian peso	0.000300	0.000330	(9.09%)

For these currencies an analysis was carried out to determine if it would be better to apply a monthly average or cumulative average exchange rate, and no significant difference resulted from this analysis.

In addition, a sensitivity analysis was performed in relation to the possible fluctuations in the exchange rates that might arise in the markets in which it operates. For this analysis, the Group has taken into consideration fluctuations in the main currencies with which it operates other than its functional currency (the US dollar, the Argentine peso, the Mexican peso and the Colombian peso). On the basis of this analysis, the Group considers that a 5% depreciation in the corresponding currencies would have the following impact on equity:

	Thousands of euros		
	Revenues	Equity	Net Profit (Loss)
US dollar	(580)	(833)	519
Argentine peso	(1,638)	(1,393)	29
Mexican peso	(1,657)	(2,320)	(148)
Colombian peso	(2,628)	(2,699)	31

The Group does not have investments in any country with a currency declared hyperinflationary. Nevertheless, if we consider Venezuela as a hyperinflationary market the contribution of this market is irrelevant since it represents only 0.025% of sales and 0.016% of assets with respect to the Group's total.

Liquidity risk

Exposure to adverse situations in debt or capital markets could hinder or prevent the Group from meeting the financial needs required for its operations and for implementing its Strategic Plan.

Management of this risk is focused on thoroughly monitoring the maturity schedule of the Group's financial debt, as well as on proactive management and maintaining credit lines that allow forecast cash needs to be met.

The Group's liquidity position in 2016 is based on the following points:

- The group had cash and cash equivalents amounting to €136,733 thousand at 31 December 2016.

- Available undrawn credit lines amounting to €308.908 million at 31 December 2016, of which €250 million represent credit lines not drawn down in the medium term.

The Group's business units have the capacity to generate cash flow from their operations. Cash flow from operations in 2016 amounted to €201.108 million, calculated as adjusted income collected in the Cash Flow Statement of €197.362 million plus/minus the following changes in working capital: increase in inventories of €290 thousand, increased commercial debits and other accounts receivable of €28.622 million and increased commercial credits of €24.586 million.

- The Group's capacity to increase its financial borrowing; given that it has non-collateralised assets and meet the financial ratios required by the financing agreements.

Lastly, the Group makes cash flow forecasts on a systematic basis for each business unit and geographical area in order to assess their needs. This Group liquidity policy ensures payment undertakings are fulfilled without having to request funds at onerous conditions and allows its liquidity position to be monitored on a continuous basis.

31.- TRANSLATION

Translation of 2016 Consolidated Financial Statements and Consolidated Management Report originally issued in Spanish and prepared in accordance with IFRS's as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.

APPENDIX I: SUBSIDIARIES

The data on the Parent company's subsidiaries at 31 December 2016 are presented below:

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee company	% of voting rights controlled by parent company
Airport Hotel Frankfurt-Raunheim, GmbH & Co.	Munich	Real estate	94%	100%
Artos Beteiligungs, GmbH	Munich	Holding company	94%	100%
Astron Immobilien, GmbH	Munich	Holding company	100%	100%
Astron Kestrell Ltd.	Plettenberg Bay	Hotel Business	100%	100%
Atlantic Hotel Exploitatie B.V.	The Hague	Hotel Business	100%	100%
Blacom, S.A.	Buenos Aires	Investment	100%	100%
Chartwell de México, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Chartwell de Nuevo Laredo, S.A. de C.V.	Nuevo Laredo	Hotel Business	100%	100%
Chartwell Inmobiliaria de Coatzacoalcos, S.A. de C.V.	Coatzacoalcos	Hotel Business	100%	100%
City Hotel, S.A.	Buenos Aires	Hotel Business	50%	50%
Columbia Palace Hotel, S.A.	Montevideo	Hotel Business	100%	100%
Grupo Hotelero Queretaro, S.A.	Querétaro	Hotel Business	69%	100%
Coperama Servicios a la Hosteleria, S.L.	Barcelona	Procurement network	100%	100%
DAM 9 B.V.	Amsterdam	Holding company	100%	100%
De Sparrenhorst, B.V.	Nunspeet	Hotel Business	100%	100%
Desarrollo Inmobiliario Santa Fe, S.A. de C.V.	Mexico City	Hotel Business	50%	50%
Edificio Metro, S.A.	Buenos Aires	Hotel Business	100%	100%
Expl. Mij. Grand Hotel Krasnapolsky B.V.	Amsterdam	Hotel Business	100%	100%
Expl. Mij. Hotel Best B.V.	Best	Hotel Business	100%	100%
Expl. Mij. Hotel Doelen B.V.	Amsterdam	Hotel Business	100%	100%
Expl. Mij. Hotel Naarden B.V.	Naarden	Hotel Business	100%	100%
Expl. Mij. Hotel Schiller B.V.	Amsterdam	Hotel Business	100%	100%
Exploitatiemaatschappij Caransa Hotel, B.V.	Amsterdam	Without activity	100%	100%
Exploitatie Mij. Tropenhotel B.V.	Hilversum	Hotel Business	100%	100%
Fast Good Islas Canarias, S.A.	Las Palmas	Catering	100%	100%
Franquicias Lodge, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Gran Círculo de Madrid, S.A.	Madrid	Catering	99%	99%
Grupo Hotelero Monterrey, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Grupo Hotelero Querétaro, S.A. de C.V.	Querétaro	Hotel Business	69%	69%
Heiner Gossen Hotelbetrieb, GmbH	Mannheim	Hotel Business	100%	100%
HEM Atlanta Rotterdam B.V.	Hilversum	Hotel Business	100%	100%
HEM Epen Zuid Limburg B.V.	Wittem	Hotel Business	100%	100%
HEM Forum Maastricht B.V.	Maastricht	Hotel Business	100%	100%
HEM Jaarbeursplein Utrecht B.V.	Utrecht	Hotel Business	100%	100%
HEM Janskerkhof Utrecht B.V.	Hilversum	Hotel Business	100%	100%
HEM Marquette Heemskerk B.V.	Hilversum	Hotel Business	100%	100%
HEM Onderlangs Arnhem B.V.	Arnhem	Hotel Business	100%	100%
HEM Spuistraat Amsterdam B.V.	Amsterdam	Hotel Business	100%	100%

All companies end the year on 31/12/2016

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee company	% of voting rights controlled by parent company
HEM Stadhouderskade Amsterdam B.V.	Amsterdam	Hotel Business	100%	100%
HEM Van Alphenstraat Zandvoort B.V.	Hilversum	Hotel Business	100%	100%
Hesperia Enterprises de Venezuela, S.A.	Margarita Island	Hotel Business	100%	100%
Highmark Geldrop B.V.	Geldrop	Hotel Business	100%	100%
Highmark Hoofddorp B.V.	Hoofddorp	Hotel Business	100%	100%
Hispana Santa Fe, S.A. de C.V.	Mexico City	Hotel Business	50%	50%
Hotel Aukamm Wiesbaden, GmbH & Co.	Munich	Real estate	94%	100%
Hotel de Ville B.V.	Groningen	Hotel Business	100%	100%
Hotel Expl. Mij. Amsterdam Noord B.V.	Amsterdam	Hotel Business	100%	100%
Hotel Expl. Mij. Leijenberghlaan Amsterdam B.V.	Amsterdam	Hotel Business	100%	100%
Hotel Expl. Mij. Capelle a/d Ijssel, B.V.	Capelle a/d Ijssel	Hotel Business	100%	100%
Hotel Expl. Mij. Danny Kayelaan Zoetermeer B.V.	Hilversum	Hotel Business	100%	100%
Hotel Expl. Mij. Stationsstraat Amersfoort B.V.	Amersfoort	Hotel Business	100%	100%
Hotel Holding Onroerend Goed d'Vijff Vlieghen B.V.	Hilversum	Hotel Business	100%	100%
Hotel Houdstermaatschappij Jolly, B.V.	Amsterdam	Holding company	100%	100%
Hoteleira Brasil, Ltda.	Brazil	Hotel Business	100%	100%
Hotelera de la Parra, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Hotelera Lancaster, S.A.	Buenos Aires	Hotel Business	50%	50%
Hotelera de Chile, S.A.	Santiago de Chile	Hotel Business	100%	100%
Hoteles Hesperia, S.A.	Barcelona	Hotel Business	100%	100%
Hotelexploitatiemaatschappij Vijzelstraat Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%
Hotels Bingen & Viernheim, GmbH & Co.	Munich	Real estate	94%	94%
Inmobiliaria y Financiera Aconcagua, S.A.	Buenos Aires	Hotel Business	100%	100%
Inmobiliaria y financiera Chile S.A.	Santiago de Chile	Real estate	100%	100%
Jan Tabak N.V.	Bussum	Hotel Business	81%	81%
JH Belgium, S.A.	Brussels	Hotel Business	100%	100%
JH Deutschland, GmbH	Cologne	Hotel Business	100%	100%
JH Holland N.V.	Amsterdam	Hotel Business	100%	100%
JH USA, Inc.	Wilmington	Hotel Business	100%	100%
Koningshof B.V.	Veldhoven	Hotel Business	100%	100%
Krasnapolsky Belgian Shares B.V.	Hilversum	Holding company	100%	100%
COPERAMA Benelux, B.V.	Amsterdam	Procurement network	100%	100%
Krasnapolsky H&R Onroerend Goed B.V.	Amsterdam	Real estate	100%	100%
Krasnapolsky Hotels & Restaurants N.V.	Amsterdam	Holding company	100%	100%
Krasnapolsky Hotels Ltd.	Somerset West	Hotel Business	100%	100%
Krasnapolsky ICT B.V.	Hilversum	Without activity	100%	100%
Krasnapolsky International Holding B.V.	Amsterdam	Holding company	100%	100%
Latina Chile, S.A.	Santiago de Chile	Hotel Business	100%	100%
Latina de Gestión Hotelera, S.A.	Buenos Aires	Hotel Business	100%	100%

All companies end the year on 31/12/2016

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee company	% of voting rights controlled by parent company
Latinoamericana de Gestión Hotelera, S.L.	Madrid	Holding company	100%	100%
Leeuwenhorst Congres Center B.V.	Noordwijkerhout	Hotel Business	100%	100%
Liberation Exploitatie B.V.	Sprang Capelle	Hotel Business	100%	100%
Marquette Beheer B.V.	Hilversum	Real estate	100%	100%
Museum Quarter B.V.	Hilversum	Hotel Business	100%	100%
Nacional Hispana de Hoteles, S.A.	Mexico City	Hotel Business	100%	100%
Aguamarina S.A.	Dominican Republic	Corporate services	100%	100%
NH Atardecer Caribeño, S.A.	Madrid	Corporate services	100%	100%
NH Belgium, cvba	Diegem	Holding company	100%	100%
NH Caribbean Management B.V.	Hilversum	Management	100%	100%
NH Central Europe Management GmbH	Berlin	Hotel Business	100%	100%
NH Central Europe GmbH & Co. KG	Berlin	Hotel Business	100%	100%
NH Central Reservation Office, S.A.	Madrid	Call Centre	100%	100%
NH FINANCE, S.A.	Luxembourg	Financial company	100%	100%
NH Financing Services S.a r.l.	Luxembourg	Financial company	100%	100%
NH Hotel Ciutat de Reus, S.A.	Barcelona	Hotel Business	90%	90%
NH Europa, S.A.	Barcelona	Hotel Business	100%	100%
NH Hotelbetriebs.-u. Dienstleistungs, GmbH	Berlin	Hotel Business	100%	100%
NH Hotelbetriebs-u Entwicklungs, GmbH	Berlin	Hotel Business	100%	100%
NH Hoteles Austria GmbH	Vienna	Hotel Business	100%	100%
NH Hoteles Deutschland, GmbH	Berlin	Hotel Business	100%	100%
NH Hoteles España, S.A.	Barcelona	Hotel Business	100%	100%
NH Hoteles France S.A.S.U.	France	Hotel Business	100%	100%
NH Hoteles Switzerland GmbH	Fribourg	Hotel Business	100%	100%
NH Hotels Czequia, s.r.o.	Prague	Hotel Business	100%	100%
NH Hotels Polska, Sp. Zo.o.	Poland	Hotel Business	100%	100%
NH Hotels USA Inc.	Houston	Hotel Business	100%	100%
NH Hungary Hotel Management, Ltd.	Budapest	Hotel Business	100%	100%
NH Lagasca, S.A.	Madrid	Hotel Business	75%	75%
NH Las Palmas, S.A.	Gran Canaria	Hotel Business	75%	75%
NH Logroño, S.A.	Logroño	Hotel Business	76%	76%
NH Marin, S.A.	Barcelona	Hotel Business	50%	50%
NH Private Equity, B.V.	Luxembourg	Hotel Business	100%	100%
NH Hotel Rallye Portugal, Lda.	Portugal	Hotel Business	100%	100%
NH The Netherlands B.V. (formerly GTI B.V.)	Hilversum	Holding company	100%	100%
Nhow Rotterdam, B.V.	The Hague	Hotel Business	100%	100%
Hotel Exploitatiemaatschappij Diegem N.V	Diegem	Hotel Business	100%	100%
Noorderweb, B.V.	Hilversum	Hotel	100%	100%
Nuevos Espacios Hoteleros, S.A.	Madrid	Hotel Business	100%	100%

All companies end the year on 31/12/2016

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee company	% of voting rights controlled by parent company
Objekt Leipzig Messe, GmbH & Co.	Munich	Real estate	94%	100%
Olofskapel Monumenten B.V.	Amsterdam	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Atlanta Rotterdam, B.V.	Rotterdam	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Bogardeind Geldrop, B.V.	Geldrop	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Capelle aan den Ijssel, B.V.	Capelle a/d Ijssel	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Danny Kayelaan Zoetermeer, B.V.	Zoetermeer	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Ijsselmeerweg Naarden, B.V.	Naarden	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Kruisweg Hoofddorp, B.V.	Hoofddorp	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Maas Best, B.V.	Best	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Marquette Heemskerk, B.V.	Heemskerk	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Prins Hendrikkade Amsterdam, B.V.	Amsterdam	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Van Alphenstraat Zandvoort, B.V.	Zandvoort	Real estate	100%	100%
Operadora Nacional Hispana, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Palatium Amstelodamum N.V.	Amsterdam	Hotel Business	100%	100%
Polis Corporation, S.A.	Buenos Aires	Hotel Business	100%	100%
Restaurant D'Vijff Vlieghen B.V.	Amsterdam	Catering	100%	100%
Servicios Chartwell de Nuevo Laredo, S.A. de C.V.	Nuevo Laredo	Hotel Business	100%	100%
Servicios Corporativos Chartwell Monterrey, S.A. de C.V.	Monterrey	Hotel Business	100%	100%
Servicios Corporativos Hoteleros, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Servicios Corporativos Krystal Zona Rosa, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Servicios de Operación Turística, S.A. de C.V.	Guadalajara	Hotel Business	100%	100%
Servicios Hoteleros Tlalnepantla, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Nhow Amsterdam, B.V.	Utrecht	Without activity	100%	100%
Toralo, S.A.	Montevideo	Hotel Business	100%	100%
VSOP VIII B.V.	Groningen	Hotel Business	50%	50%
Coperama Spain, S.L.	Spain	Procurement network	100%	100%
Hoteles Royal, S.A.	Bogotá	Holding company	97%	100%
Eurotels Chile S.A.	Chile	Holding company	97%	100%
Hotel Andino Royal S.A.S.	Bogotá	Hotel Business	97%	100%
Hotel Hacienda Royal Ltda	Bogotá	Hotel Business	97%	100%
Hotel La Boheme Ltda	Bogotá	Hotel Business	97%	100%
Hotel Medellín Royal Ltda	Medellín	Hotel Business	97%	100%
Hotel Pacífico Royal Ltda	Cali	Hotel Business	97%	100%
Hotel Parque Royal S.A.S.	Bogotá	Hotel Business	97%	100%
Hotel Pavillon Royal Ltda.	Bogotá	Hotel Business	97%	100%
Hotelera Norte Sur S.A	Chile	Real estate	97%	100%
Hoteles Royal del Ecuador S.A. Horodelsa	Quito	Hotel Business	54%	55%
HR Quántica SAS	Bogotá	Hotel Business	50%	51%

All companies end the year on 31/12/2016

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee company	% of voting rights controlled by parent company
Inmobiliaria Royal S.A	Chile	Real estate	66%	67%
Inversiones SHCI	Bogotá	Real estate	97%	100%
Promotora Royal S.A.	Bogotá	Real estate	97%	100%
Royal Hotels Inc.	USA	Hotel Business	97%	100%
Royal Hotels International Latin América Inc	USA	Hotel Business	97%	100%
Royal Santiago Hotel S.A.	Chile	Hotel Business	66%	67%
Soc. Operadora Barranquilla Royal SAS	Barranquilla	Hotel Business	97%	100%
Soc. Operadora Cartagena Royal SAS	Cartagena	Hotel Business	97%	100%
Soc. Operadora Calle 100 Royal SAS	Bogotá	Hotel Business	97%	100%
Soc. Operadora Urban Royal Calle 26 SAS	Bogotá	Hotel Business	97%	100%
Soc. Operadora Urban Royal Calle 93 SAS	Bogotá	Hotel Business	97%	100%
Sociedad Hotelera Calle 7A Ltda	Bogotá	Hotel Business	97%	100%
Sociedad Hotelera Cien Internacional S.A.	Bogotá	Hotel Business	62%	64%
Sociedad Hotelera Cotopaxi S.A.	Quito	Hotel Business	54%	55%
Sociedad Operadora Nh Royal Panama S.A.	Ciudad de Panamá	Hotel Business	100%	100%
NH Italia, S.p.A.	Milan	Hotel Business	100%	100%
Immo Hotel Bcc N.V.	Diegem	Real estate	100%	100%
Immo Hotel Belfort N.V.	Diegem	Real estate	100%	100%
Immo Hotel Brugge N.V.	Diegem	Real estate	100%	100%
Immo Hotel Diegem N.V.	Diegem	Real estate	100%	100%
Immo Hotel Gent N.V.	Diegem	Real estate	100%	100%
Immo Hotel Gp N.V.	Diegem	Real estate	100%	100%
Immo Hotel Stephanie N.V.	Diegem	Real estate	100%	100%
Immo Hotel Mechelen N.V.	Diegem	Real estate	100%	100%
NH Management Black Sea Srl	Bucharest	Hotel Business	100%	100%
NH Brasil Abrasil Administraçao De Hoteis E Participadas Ltda.	Villa Olímpica	Hotel Business	100%	100%
Capredo Investments GmbH (*)	Switzerland	Holding company	100%	100%
Palacio de la Merced, S.A.(*)	Burgos	Hotel Business	72%	100%
Latinoamericana Curitiba Administracao De Hoteis Ltda(*)	Curitiba	Hotel Business	100%	100%
Coperama Italia S.R.L.(*)	Milan	Procurement network	100%	100%

All companies end the year on 31/12/2016
(*) Additions to the scope 2016

APPENDIX II: ASSOCIATES

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee company	% of voting rights controlled by parent company
Borokay Beach, S.L.	Madrid	Hotel Business	50%	50%
Consorcio Grupo Hotelero T2, S.A. de C.V.	Mexico City	Hotel Business	10%	10%
Inmobiliaria 3 Poniente, S.A. de C.V.	Puebla	Hotel Business	27%	27%
Mil Novecientos Doce, S.A. de C.V.	Mexico	Hotel Business	25%	25%
Losan Investment Ltd.	London	Hotel Business	30%	30%
Sotocaribe, S.L.	Madrid	Holding company	36%	36%
Hotelera del Mar, S.A.	Mar de Plata	Hotel Business	20%	20%
Hotel & Congress Technology, S.L.	Madrid	R+D services	50%	50%
Beijing NH Grand China Hotel Management Co, Ltd	Beijing	Hotel Business	49%	49%

All companies end the year on 31/12/2016

CONSOLIDATED MANAGEMENT REPORT

For the financial year ending 31 December 2016

EVOLUTION OF BUSINESS AND GROUP'S SITUATION

NH Hotel Group is an international hotel operator and one of the leading urban hotel companies worldwide in terms of number of rooms. The Group operates nearly 380 hotels and 60,000 rooms in 30 countries, and has a significant presence in Europe.

The centralised business model allows it to offer a consistent level of service to its customers in different hotels in different regions. The corporate and regional headquarters offer to hotels a wide range of functions such as sales, reservations, marketing and systems.

In 2016, world economic activity grew at a pace of +3.0% (Data and estimates provided by the E.C. "European Economic Forecast – Autumn 2016" November 2016), very similar to the previous year (+3.1%). More specifically, in the Eurozone the provisional growth rate for 2016 was 1.7% (+2.0% in 2015). Estimates differ significantly by country and region. In advanced economies, the fact that their outlook is already moderate and they are shrouded in considerable uncertainty may lead to a rise in political unrest. In line with the above data, when comparing the growth rates of the four countries that bring together the largest proportion of sales and results of the Group, it is observed that in Germany (+1.9% in 2016 vs. +1.7% in 2015) growth increased compared with the previous year, Spain (+3.2% in 2016 vs. +3.2% in 2015), and Italy (+0.7% in 2016 vs. +0.7% in 2015) maintain similar growth rates to the previous year and the Netherlands (+1.7% in 2016 vs. +2.0% in 2015) slightly reduced its growth.

According to UNWTO, there were 1.235 billion international tourist arrivals in 2016, a +3.9% increase from the year before. This is the seventh consecutive year with growth since the 2009 economic crisis. The results in Europe were quite uneven, given that a number of destinations were affected by security concerns. In 2016, international arrivals stood at 620 million, that is, 12 million more (+2%) than in 2015. Northern Europe (+6%) and Central Europe (+4%) recorded solid results, whereas in Southern and Mediterranean Europe the arrivals only increased by +1% and in Western Europe the figure remained stable

In this context, the results archived in 2016 due to of the favourable trend in the hotel business throughout the year, the effect of the initiatives it carried out and, particularly, the repositioning of its brands and hotels, the Group recorded a significant increase in prices.

During 2016, the value of the price strategy was enhanced, greater Group growth being obtained in the top cities compared to direct competitors, where there are market measures in place.

Furthermore, in order to improve the quality and strengthen the NH Collection brand, the repositioning investment phase was completed in Benelux and Germany in 2016, following the investment made mainly in Spain and Italy in 2015.

As a result, revenue in 2016 amounted to €1,447.9 million, representing a growth of +5.2% (+€71.3 million), well above the increase in operating costs. As a result of the improvement in operating management, the Profit for the year attributable to the Parent Company stood at €30.8 million compared to €0.9 million in 2015.

One of the most notable milestones of these three years of transformation is the effective materialisation of a new value proposition by the NH Hotel Group, focused on a new brand architecture, the flagship brands NH Collection, NH Hotel, nhow and Hesperia, and a different new tangible experience and feel for each brand.

Meanwhile, the Group improved the customer experience thanks to implementing a solid operational vision, including the new elements making up the hotels' basic product range, known as "Brilliant Basics", which are already in place in all of the establishments and which are contributing to a better experience and higher average score of the customers.

The trend in quality indicators confirms the improvement in user ratings for the Group's hotels throughout 2016. At Group level, 34% of the portfolio is positioned in the top 10 of the city's Trip Advisor (45% for NH Collection hotels) and 52% of the hotels are in the top 30 (62% for NH Collection hotels), which demonstrates the highest levels of quality perceived by customers.

Also, thanks to its relaunch, the NH Rewards loyalty programme now has over 6.8 million members, 26% of whom joined in 2016, and 25% of the total are active.

As part of its asset repositioning plan, NH Hotel Group invested almost €200 million from 2014 to 2016 to renovate or remodel its mid-range hotels with the greatest potential for improvement.

Furthermore, another 6 hotels began operating in Madrid, Rome, Guadalajara, Leon, Punta Cana and Bariloche in 2016, with 379 hotels operating with 58,472 rooms as of 31 December 2016.

In addition, in 2016 NH Hotel Group signed 16 hotels with 2,114 bedrooms. All the signings were rental and management contracts, many of them in the top brand segment and in primary cities (Milan, Mexico City, Toulouse, Marseilles and Antwerp).

In this year gross borrowing decreased from €886.9 million in December 2015 to €861.8 million in December 2016. At 31 December 2016, cash and cash equivalents amounted to €136.7 million (€77.7 million at 31 December 2015). Additionally, this liquidity was complemented by credit lines at the end of the year amounting to €308.9 million, of which €250 million corresponded to a long-term syndicated credit line, compared to €30.8 million at 31 December 2015.

In September 2016, the Group formalised a guaranteed senior bond issue amounting to €285 million maturing in 2023, simplifying the capital structure and allocating the use of the proceeds obtained from this issue to repayment of bank debt with maturity mainly in the period 2016-2018. In addition, financial flexibility was improved by increasing liquidity through the subscription of a €250 million syndicated credit line, with a duration of 3 years and 2 additional years, the latter 2 years subject to the refinancing of the bond issued by the Company in 2013 with maturity in 2019.

This transformation of the Group has recently been reflected in the improvement of the corporate credit ratings assigned by the main rating agencies. In both cases, Standard & Poor's and Fitch upgraded the rating to "B" with a stable outlook, considering that the Group will continue its operations with its positive evolution while continuing to improve its liquidity. In turn, Moody's assigned a B2 corporate rating, thanks to the Group's favourable performance, improved liquidity and its focus on less capital intensive formulas.

Finally, the average number of people employed by the group has increased from 13,859 in 2015 to 13,986 in 2016. At 31 December 2016, the breakdown of the personnel, by gender and professional category, was 51% women and 49% men: The average age of the Group's workforce was approximately 38.9 and average seniority in the Group was 9.0 years.

THE ENVIRONMENT

For the NH Hotel Group, sustainability drives innovation, seeking to surprise our guests as well as achieving water and energy efficiency.

In 2016, the implementation of the sustainability initiative continued. This initiative gives continuity to the environmental achievements of recent years. Thus, compared to 2008, per Average Daily Room energy consumption has been reduced by 30%, water consumption by 29% and our carbon footprint by 72%. 79% of the hotels consume green energy.

NH Hotel Group is certified by internationally recognised standards such as ISO 50001, which certifies the efficiency of the hotel network's energy management on an international scale, and ISO 14001, which certifies environmental management. A total of 129 hotels have achieved their own external certification for their sustainable management.

NH Hotel Group has reported its climate change commitment and strategy to the Carbon Disclosure Project (CDP) since 2010. The valuation of CDP in 2016 places NH Hotels Group among the companies in the hotel sector that are taking new measures to effectively reduce emissions, which indicates an advanced environmental management.

NH Hotel Group forms part of FTSE4 Good, an index on the London Stock Exchange which recognises the socially responsible behaviour of companies worldwide.

OVERVIEW OF NH RISK POLICY

NH's operations are mainly focused on the hotel industry and particularly on urban hotels, which are characterised by a relatively high level of operating leverage that may require high levels of investment in fixed assets, especially real estate. These have a long economic cycle, which makes it necessary to finance investments mainly through financial borrowing. The Group's policy has always been to maintain financial orthodoxy by ensuring that solvency ratios always remain high.

The management of the risks to which NH Hotel Group is exposed in the course of its operations is one of the basic pillars of its actions. Risk management is aimed at preserving the value of assets and consequently the investment of the Company's shareholders. Minimising risks and optimising management of such risks by analysing the corresponding risk maps are among the objectives of the Group's Management.

Financial risk management is centralised at the Corporate Finance Division. The necessary procedures have been set to monitor exposure to interest and exchange rate variations and credit and liquidity risks on the basis of the Group's financial position, structure and economic environment variables.

The size of NH Hotel Group and its excellent penetration and brand recognition in its main markets provide the Group with access to more expansion opportunities, although these are selected more on the basis of rate of return and less on the need for investment, always attempting to minimise the risk inherent in the industry in which the Group operates. The industry is sensitivity to economic cycles.

The Group's credit risk can mainly be attributed to commercial debts. The amounts are shown net of any provisions for insolvencies and the risk is low since the customer portfolio is spread among a large number of agencies and companies.

Concerning interest rate risks, the Group is exposed to fluctuations in the interest rates of its financial assets and liabilities, which may have an adverse effect on its results and cash flows. In order to mitigate this risk, the Group has established policies and has refinanced its debt at fixed interest rates through the issuance of convertible bonds and guaranteed convertible senior notes.

The Group has subsidiaries in several countries with operating currencies other than the euro, the Group's currency of reference. The operating results and financial position of these subsidiaries (mainly located in Mexico, Colombia, Chile and Argentina) are recognised in their corresponding currencies and converted later at the applicable exchange rate for their inclusion in the financial statements of NH Hotel Group. With the aim of mitigating as far as possible these risks, the Group tries in some cases to incur debt in the same currency as the investment was made in.

With respect to regulatory risk, the Group is exposed to compliance risks, arising from possible regulatory changes, interpretation of legislation, regulations and contracts, and non-compliance with internal and external regulations. Tax and environmental risks are included under this heading. It also includes Reputational Risks, arising from the company's behaviour which negatively affect fulfilment of the expectations of one or more of its stakeholders (shareholders, customers, suppliers, employees, the environment and society in general).

As regards liquidity risk, during 2016 NH Hotel Group obtained a long-term syndicated credit line for €250 million to improve liquidity, and has an adequate debt maturity schedule, which is detailed in Note 15 of the consolidated annual report for 2016. The Group is constantly evaluating the possibility of refinancing part or all of the existing financial debt.

Maintaining the operational sources of cash flow generation depends on adapting the NH Hotel Group business model to the evolution of the hotel business, and also on the sale of non-strategic assets. These variables depend on the overall economic cycle and on the markets' conditions related to the supply and demand situation. The Group's business units have the capacity to generate regular and significant cash flow from their operations. Likewise, the Group regularly makes cash and bank forecasts, which allow it to assess its liquidity needs and fulfil the payment obligations it has undertaken without the need to obtain funds under onerous terms and conditions.

SHARES AND SHAREHOLDERS

NH Hotel Group, S.A. share capital at the end of 2016 comprised 350,271,788 fully subscribed and paid up bearer shares with a par value of € 2 each. All these shares carry identical voting and economic rights and are traded on the Continuous Market of the Spanish Stock Exchanges.

According to the latest notifications received by the Company and the notices given to the National Securities Market Commission before the end of every financial year, the most significant shareholdings at 31 December 2016 and 2015 were as follows:

	2016	2015
HNA CO LTD	29.50%*	29.50%
Oceanwood Capital Management LLP	11.97%	7.58%
Hesperia Group	9.27%**	9.23%
Henderson Global Investors LTD	4.19%***	4.19%

** Although at 31/12/2016 the shareholding of HNA CO LTD amounted to 29.50%, on 27/02/2017 this company reported that its shareholding fell to 29.34%.*
*** The shareholding of Hesperia Group consists of the direct shareholding held by Grupo Inversor Hesperia, S.A. (9.10%) and Eurofondo (0.17%).*
**** Although at 31/12/2016 the shareholding of Henderson Global Investors Ltd amounted to 4.19%, on 31/01/2017 this company reported that its shareholding had fallen to 2.98%.*

The average share price of NH Hotel Group, S.A. in 2016 was 4.04 euros per share (5.00 euros in 2015). The lowest share price of 3.17 euros per share (3.73 euros in January 2015) was recorded in February and the highest share price of 4.95 euros per share in January (5.97 euros in March 2015). The market capitalisation of the Group at the close of 2016 stood at €1,346.8 million (€1,765.37 million at the close of 2015).

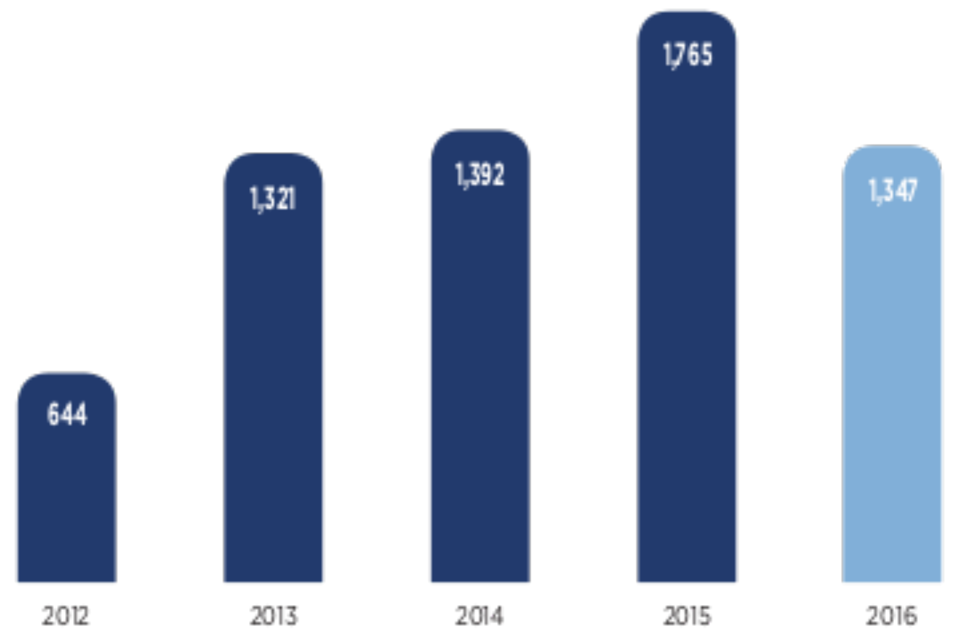
At the end of the year, NH Hotel Group, S.A. had 9,600,000 treasury shares in its balance sheet, broken down as follows:

- Security Loan for a Convertible Bond: On 4 November 2013, the Spanish National Securities Market Commission (CNMV) was notified of the loan of 9,000,000 of shares to the three financial institutions involved in the placement of the convertible bonds or exchangeable for shares of NH Hoteles, S.A. amounting to EUR 250 million. The purpose of this loan was to allow said financial entities to offer the shares to bond subscribers by request (Note 15).

  As at 31 December 2016, of these 9,000,000 shares, 6,930,886 shares had been returned which are held by NH Hotel Group S.A. However, they remain available to the financial institutions should they be requested.

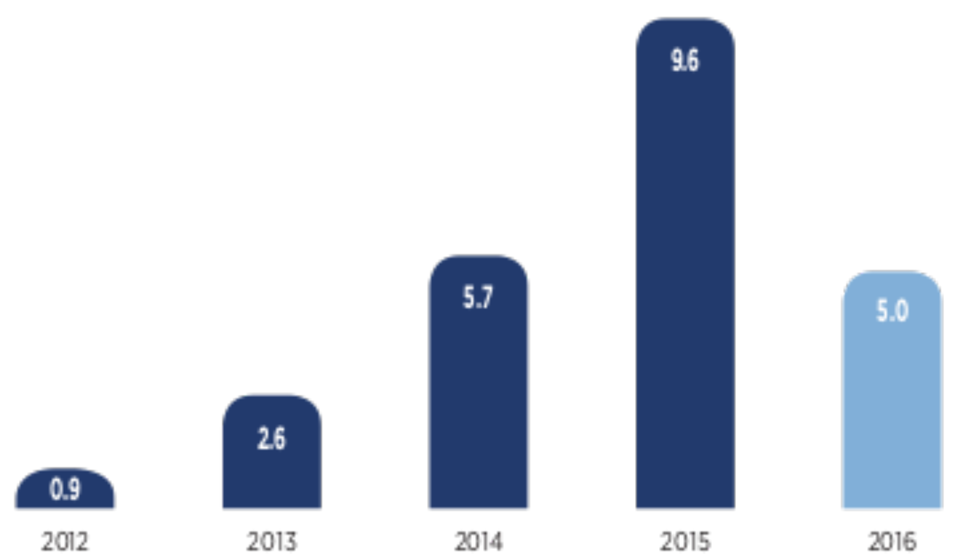
- In August, the Parent Company purchased 600,000 treasury shares.

CAPITALISATION AT THE END OF EACH YEAR
(Millions of euros)

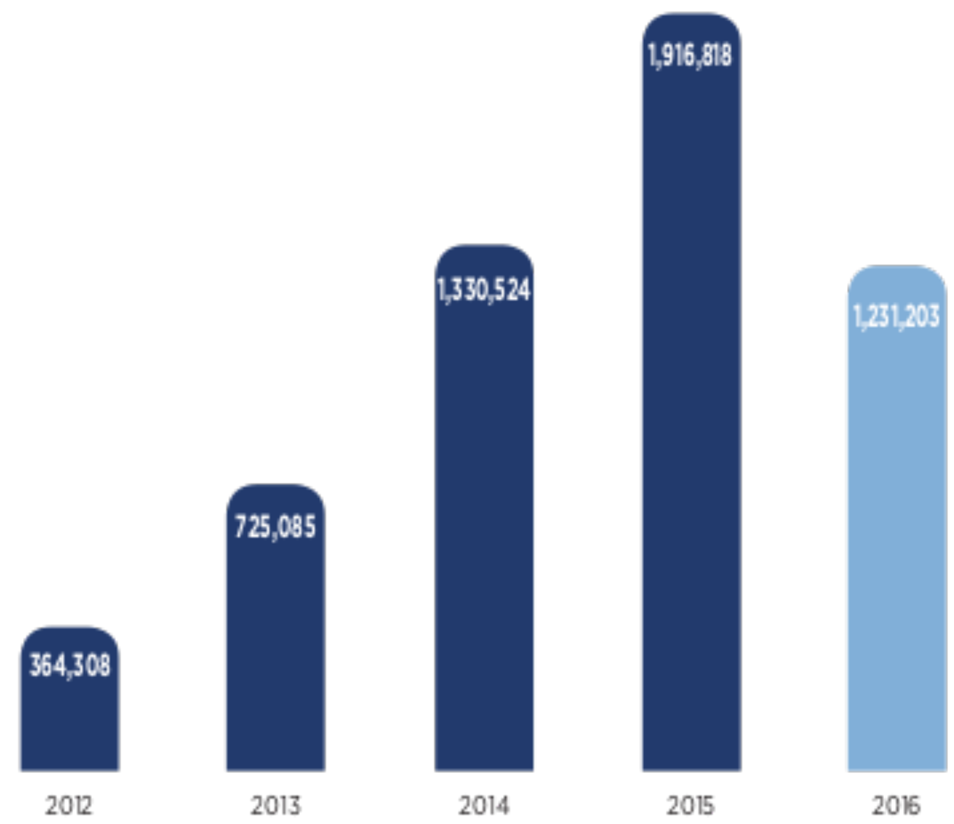


A total of 316,419,296 shares in NH Hotel Group, S.A. were traded on the Continuous Market over the course of 2016 (490,705,420 shares in 2015), which accounted for 0.90 times (1.40 times in 2015) the total number of shares into which the Company's share capital is divided. Average daily share trading on the Continuous Market amounted to 1,231,203 securities (1,916,818 in 2015).

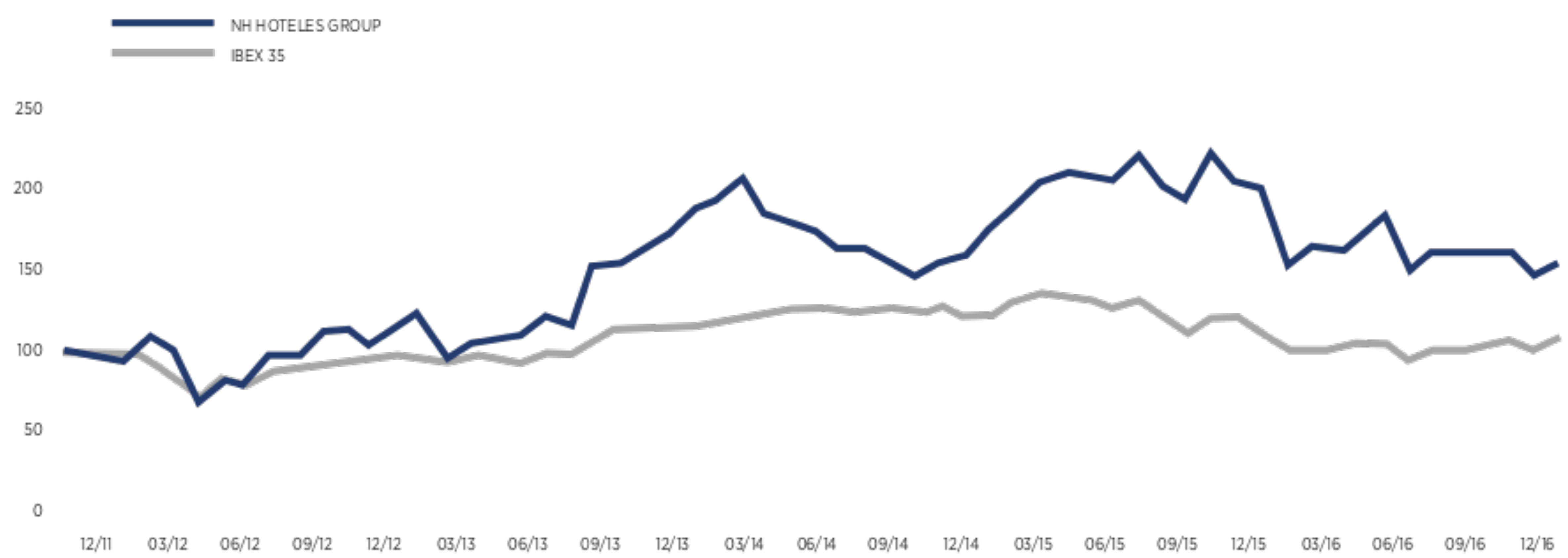
AVERAGE DAILY TRADING 2012-2016
(Millions of euros)



AVERAGE DAILY TRADING 2012-2016
(In shares)



EVOLUTION NH HOTEL GROUP vs IBEX 35
1 JANUARY 2012-31 DECEMBER 2016



FUTURE OUTLOOK

The results of the UNWTO Confidence Index show strong confidence in 2017, with expectations almost equal to those obtained in 2016. Therefore, growth is expected to remain at a similar pace. Based on current trends and with this general outlook, UNWTO forecasts between 3% and 4% growth in international tourist arrivals worldwide in 2017. By region, tourism in Europe is expected to grow by between +2.0% and +3.0% and in the Americas by between +4.0% and +5.0%.

On the other hand, GDP growth in Europe is expected to be +2.0% (Data and estimates provided by the E.C. "European Economic Forecast – Autumn 2016" November 2016).

In this economic environment, the Group expects to benefit from the increase in sales associated with GDP growth expectations in 2017, together with the positive impact of the repositioning investments made in 2016 and supported by the implementation of price management tools which will allow The Group to continue to optimise this strategy.

EVENTS AFTER THE REPORTING PERIOD

On 9 February 2017, the Group disposed of an asset for a price of €23 million, generating a capital gain of €9.2 million before tax.

ANNUAL CORPORATE GOVERNANCE REPORT

For listed public limited companies
Identification details of the issuer
End date of 12-month period of reference: 31/12/2016
Tax id code (CIF): A28027944
Company name: NH Hotel Group, S.A.
Registered office: Santa Engracia, 120 - 7ª planta, Madrid.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

A - OWNERSHIP STRUCTURE

A.1 Fill in the following table regarding the share capital of the Company:

Date of last modification	Share capital (€)	Number of Shares	Number of voting rights
26/06/2014	700,543,576.00	350,271,788	350,271,788

Indicate whether there are different share classes with different associated rights:

NO

A.2 List the direct and indirect significant shareholders in your company at the end of the year, excluding directors:

Name or business name of the shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
HNA GROUP CO LIMITED	0	103,329,925	29.50%
OCEANWOOD CAPITAL MANAGEMENT LLP	0	41,922,801	11.97%
GRUPO INVERSOR HESPERIA, S.A	31,870,384	0	9.10%
HENDERSON GLOBAL INVESTORS LIMITED	0	14,686,895	4.19%

Name or trade name of the indirect shareholder	Via: Name or company name of the direct holder of the shareholding	Number of voting rights
HNA GROUP CO LIMITED	TANGLA SPAIN, S.L.	103,329,925
OCEANWOOD CAPITAL MANAGEMENT LLP	OCEANWOOD OPPORTUNITIES MASTER FUND	32,260,283
OCEANWOOD CAPITAL MANAGEMENT LLP	OCEANWOOD INVESTMENTS LTD	9.662.518
HENDERSON GLOBAL INVESTORS LIMITED	HENDERSON GLOBAL INVESTORS LIMITED	686,532
HENDERSON GLOBAL INVESTORS LIMITED	HENDERSON EUROPEAN FOCUS FUND	14,000,363

Indicate the most significant movements in the shareholding structure of the company during the year:

Name or business name of the shareholder	Date of transaction	Description of transaction
OCEANWOOD CAPITAL MANAGEMENT LLP	24/05/2016	Exceeded 10% of share capital

A.3 Complete the following tables with information on the members of the company's Board of Directors that hold voting rights on shares in the company:

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR ALFREDO FERNÁNDEZ AGRAS	100,000	0	0.03%
MR JOSÉ ANTONIO CASTRO SOUSA	1,000	32,475,188	9.27%
MR CARLOS GONZÁLEZ FERNÁNDEZ	25,050	11,400	0.01%
MS MARIA GRECNA	4,000	0	0.00%
MR FRANCISCO JAVIER ILLA RUIZ	1	0	0.00%
MR FRANCISCO ROMAN RIECHMANN	100	0	0.00%
MS KORO USARRAGA UNSAIN	2,900	0	0.00%

APARECE EN LA VERSIÓN EN ESPAÑOL, POR ESO SE HA MANTENIDO EN ESTA. CONFIRMAR. GRACIAS

Name or trade name of the indirect shareholder	Via: Name or company name of the direct holder of the shareholding	Number of voting rights
MR JOSÉ ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A	31,870,384
MR JOSÉ ANTONIO CASTRO SOUSA	EUROFONDO, S.A.	604,804
MR CARLOS GONZÁLEZ FERNÁNDEZ	NOBELIUM PONTI,S.L.	11,400

% of total voting rights held by the Board of Directors:	9.31%

Fill in the following tables with information on the members of the Company's Board of Directors who hold rights over shares in the Company:

A.4 Indicate, where applicable, the family, commercial, contractual or corporate relationships existing between major shareholders, insofar as they are known by the Company, unless they have little relevance or arise from normal trading activities:

A.5 Indicate, where applicable, the commercial, contractual or corporate relationships existing between major shareholders, and the company and/or its group, unless they have little relevance or arise from normal trading activities:

A.6 Indicate whether the company has been informed of shareholders' agreements which affect it, as established in Articles 530 and 531 of the Capital Companies Act. If applicable, describe them briefly and list the shareholders bound by the agreement:

NO

Indicate if the company is aware of the existence of concerted actions among its shareholders. If so, give a brief description:

NO

In the event of any modification or termination of these pacts, agreements or agreed actions during the year, please specify it:

The company is not aware of the existence of concerted actions among its shareholders.

A.7 Indicate whether any individual person or legal entity exercises, or could exercise, control over the Company in accordance with Article 4 of the Stock Market Act. If so, give details here:

NO

Remarks

A.8 Fill in the following tables regarding the Company's treasury stock

At year end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
7,530,886	0	2.15%

(*) Through:

Describe any significant changes, according with Royal Decree 1362/2007, that occurred during the year:

Explain the significant changes

A.9 Describe the conditions and the term of the current mandate of the Board of Directors to issue, repurchase or transmit treasury stock, as conferred by the General Shareholders' Meeting.

The General Shareholders' Meeting held on 25 June 2013 authorised the Board of Directors of the Company to repurchase treasury stock under the terms indicated below:

a) The acquisition can be made by any title accepted as a right, once or more times, provided that the acquired shares, added to those the Company already owns, do not exceed 10% of the Company's share capital, together with those owned by other companies in the group, if applicable.

b) The acquisition, including the shares which the Company, or a person acting in their own name but on behalf of the Company, may have acquired beforehand and have in its portfolio, can be made as long as this does not lead to net equity being below the amount of share capital plus the reserves made unavailable by law or the Company's articles of association. For these purposes, net assets shall be considered to be the amount identified as such in accordance with the criteria for preparing annual accounts, less the profits directly attributable to it, and plus the uncalled share capital, as well as the amount of the principal and the share premium that are registered in the accounts as liabilities.

c) The shares must be fully paid up.

d) The authorisation will be valid for 5 years from the day this agreement comes into force.

e) The minimum purchase price will be 95% and the maximum price will be 105% of the listed market value at the close of Spain's continuous market the day before the transaction, and the purchase transactions will adhere to security market regulations and customs.

The shares acquired due to the authorisation can be disposed of or amortised, or used in the payment systems set out in Article 146.a) 3 of the Capital Companies Act, and in particular may be wholly or partly allocated to the beneficiaries of the Payment Plan or Plans for Company executives and employees.

A.9 bis Estimated floating capital:

	%
Estimated floating capital	44.18

A.10 Indicate whether there is any restriction on the transferability of securities and/or any restriction on voting rights. In particular, report the existence of any type of restriction which could hinder control of the company being taken through acquiring its shares on the market.

NO

A.11 State whether the General Shareholders' Meeting has agreed to adopt neutralisation measures against take-over bids, pursuant to Law 6/2007.

NO

If so, explain the approved measures and the terms under which the restrictions would be lifted:

A.12 State whether the company has issued securities which are not traded on a regulated EU market.

NO

If applicable, indicate the different types of shares, and the rights and obligations each type of share confers.

B - GENERAL SHAREHOLDERS' MEETING

B.1 Indicate whether differences exist between the minimum quorum established in the Capital Companies Act (LSC) and the quorum of the General Shareholder's Meeting. If so, explain these differences.

NO

B.2 Indicate, and if applicable, specify any differences from the system established in the Capital Companies Act (LSC) for adopting company agreements:

NO

Describe how it differs from the LSC.

B.3 Indicate the regulations applicable to modification of the company articles of association. In particular, note the majorities required for changes to the articles of association and, if any, the regulations governing the protection of shareholders' rights when making changes to the articles of association.

Title VIII, covering Articles 285 - 345, of Royal Legislative Decree 1/2010 of 2 July, approving the Revised Text of the Capital Companies Act (hereunder, LSC), and Articles 158 - 164 of Royal Decree 1784/1996, of 19 July, approving the Regulation of the Mercantile Register (hereunder, RRM), establish the legal system applicable to the modification of articles of association. The text of the articles of association of NH Hotel Group faithfully reflects these legal regulations, with no higher quorum or majority required than is set out therein.

B.4 Indicate details of attendance at the general shareholders' meetings held during the year to which this report refers, and for the previous year:

	Attendance detail				
			% remote voting		
Date of general meeting	% present in person	% by proxy	Electronic vote	Other	Total
26/06/2014	20.38%	53.33%	0.22%	0.00%	73.93%
29/06/2015	0.20%	70.18%	0.00%	2.09%	72.47%
11/12/2015	9.25%	64.29%	0.00%	0.63%	74.17%
21/06/2016	0.09%	82.10%	0.00%	3.60%	85.79%

B.5 State whether there are any statutory restrictions that establish the minimum number of shares required to attend the General Shareholder's Meeting:

NO

B.6 Paragraph repealed.

B.7 Indicate the address and access on the Company website to information on corporate governance and other information on general shareholders' meetings which must be available to shareholders on the Company website.

All information of relevance to shareholders, including information on corporate governance and other information on general shareholders' meetings is available at all times on the NH Hotel Group website, www.nh-hotels.es, in the section ´Information for shareholders´.

C - COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors established in the company's articles of association:

Maximum number of Directors	**20**
Minimum number of Directors	**5**

C.1.2 Complete the following table with the members of the Board:

Name or company name of Director	Representative	Director category	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
MR ALFREDO FERNÁNDEZ AGRAS		Proprietary	CHAIRMAN	19/06/2015	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSÉ ANTONIO CASTRO SOUSA		Proprietary	DEPUTY CHAIRMAN	24/05/2012	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR		Other External	DIRECTOR	21/06/2016	21/06/2016	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR CARLOS GONZÁLEZ FERNÁNDEZ		Independent	DIRECTOR	29/06/2011	26/06/2014	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MS MARIA GRECNA		Other External	DIRECTOR	21/06/2016	21/06/2016	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR FRANCISCO JAVIER ILLA RUIZ		Proprietary	DIRECTOR	27/10/2009	21/06/2016	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR PAUL JOHNSON		Other External	DIRECTOR	21/06/2016	21/06/2016	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR FERNANDO LACADENA AZPEITIA		Other External	DIRECTOR	21/06/2016	21/06/2016	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSÉ MARÍA LÓPEZ-ELOLA GONZÁLEZ		Independent	DIRECTOR	25/04/2012	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR FRANCISCO ROMÁN RIECHMANN		Independent	DIRECTOR	04/07/2014	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MS KORO USARRAGA UNSAIN		Independent	DIRECTOR	19/06/2015	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING

Total number of directors	**11**

Indicate whether any directors have left the Board of Directors during the period being reported:

Name or company name of Director	Director category at time of departure	Date of leaving
MR HAIBO BAI	Proprietary	21/06/2016
MR CHARLES MOBUS	Proprietary	21/06/2016
MR XIANYI MU	Proprietary	21/06/2016
MR LING ZHANG	Proprietary	21/06/2016
MR FEDERICO GONZÁLEZ TEJERA	Executive	21/06/2016

C.1.3 Fill in the following tables about the Board members and their corresponding categories:

Executive directors

External proprietary directors

Name or company name of Director	Name or company name of the major shareholder represented or who proposed the appointment
MR ALFREDO FERNÁNDEZ AGRAS	OCEANWOOD CAPITAL MANAGEMENT LLP
MR JOSÉ ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A.
MR FRANCISCO JAVIER ILLA RUIZ	GRUPO INVERSOR HESPERIA, S.A.

Total number of proprietary directors	**3**
% of the Board as a whole	**27.27%**

Independent external directors

Name or company name of Director	Profile
MR CARLOS GONZÁLEZ FERNÁNDEZ	Graduate in economics from the University of Bilbao and chartered accountant. For 35 years he worked for Arthur Andersen, which in 2003 merged with Deloitte, being appointed chairman, first of Arthur Andersen in 2000 and subsequently of the firm that resulted from the merger - Deloitte - from 2003 to 2009. Currently, he serves as a Director and Chair of the Audit and Control Committee, both at Corporación Financiera Alba, S.A., and Sotogrande, S.A. He is also an adviser to the Board of Directors at Cosentino, S.A.
MR JOSÉ MARÍA LÓPEZ-ELOLA GONZÁLEZ	Graduate in economics from the Complutense University of Madrid. For the last 35 years, he has been the General Manager of various credit and banking institutions, such as Banco Zaragozano, S.A. and Barclays, S.A. He is currently a member of the Board of Directors of companies including Festina Lotus, S.A., Celo, S.A. and Cementos Occidentales, S.A.
MR FRANCISCO ROMAN RIECHMANN	Graduate in Telecommunications Engineering. He began his career at Sainco, and in 1983 joined a subsidiary of the computer multinational Hewlett Packard, where he was appointed Sales Director. In 1992 he became the Director in Spain of Pacific Telesis, later known as AirTouch Internacional, one of the founding companies of Airtel Móvil S.A. Managing Director of Microsoft Ibérica from 1998, in July 2002 he joined Vodafone as General Operations Manager, where he was appointed Managing Director in February 2003 and Chairman-CEO in January 2008.
MS KORO USARRAGA UNSAIN	With a bachelor's degree and MBA from ESADE Barcelona, she joined the former Arthur Andersen (now Deloitte) in its Auditing division in 1981, where she spent 20 years of her professional career. In 1993 she became a partner at Arthur Andersen. In 2001 she assumed responsibility for the General Corporate Division of Occidental Hotels and in 2003 she decided to accept a position as the General Manager of a real estate group based in Barcelona, Renta Corporación. From 2005 to the present she has been a shareholder and Director of 2005 KP Inversiones, S.L., a company dedicated to direct investment in businesses and a management consultant

Total number of independent directors	**4**
% of total Board	**36.36%**

Indicate whether any director classified as independent receives any money or benefit from the company or its group as a payment other than for his or her role as director, or maintains or has maintained, in the past year, a business relationship with the company or with any company in the group, whether in his own name or as a significant shareholder, director or senior manager of an entity maintaining or which has maintained such a relationship.

NO

If so, include a reasoned statement by the Board as to the reasons why it considers that this director can perform his duties as an independent director.

Other external directors

Identify the other external directors and state the reasons why they cannot be considered proprietary or independent directors, and their relationship with the company, its directors or shareholders:

Name or company name of Director	Company, director or shareholder with whom they are associated	Reasons
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	OCEANWOOD OPPORTUNITIES MASTER FUND	Oceanwood Opportunities Master Fund requested a supplement to the call of the Ordinary General Shareholders' Meeting scheduled for 21 June 2016, by including, amongst others, the appointment of Mr. José María Cantero Montes-Jovellar as a Director under the category "Other External", as approved at said Meeting with a sufficient majority. Therefore, the appointment of Mr. Cantero was not proposed by the Appointments, Remuneration and Corporate Governance Committee.
MS MARIA GRECNA	OCEANWOOD OPPORTUNITIES MASTER FUND	Oceanwood Opportunities Master Fund requested a supplement to the call of the Ordinary General Shareholders' Meeting scheduled for 21 June 2016, by including, amongst others, the appointment of Ms. Maria Grecna as a Director under the category "Other External", as approved at said Meeting with a sufficient majority. Therefore, the appointment of Ms. Grecna was not proposed by the Appointments, Remuneration and Corporate Governance Committee.
MR PAUL JOHNSON	OCEANWOOD OPPORTUNITIES MASTER FUND	Oceanwood Opportunities Master Fund requested a supplement to the call of the Ordinary General Shareholders' Meeting scheduled for 21 June 2016, by including, amongst others, the appointment of Mr. Paul Johnson as a Director under the category "Other External", as approved at said Meeting with a sufficient majority. Therefore, the appointment of Mr. Johnson was not proposed by the Appointments, Remuneration and Corporate Governance Committee.
MR FERNANDO LACADENA AZPEITIA	OCEANWOOD OPPORTUNITIES MASTER FUND	Oceanwood Opportunities Master Fund requested a supplement to the call of the Ordinary General Shareholders' Meeting scheduled for 21 June 2016, by including, amongst others, the appointment of Mr. Fernando Lacadena Azpeitia as a Director under the category "Other External", as approved at said Meeting with a sufficient majority. Therefore, the appointment of Mr. Lacadena was not proposed by the Appointments, Remuneration and Corporate Governance Committee.

Total number of other external directors	**4**
% of total Board	**36.36%**

Indicate the changes that, as applicable, have occurred to the category of each director during the period:

C.1.4 Fill in the table below with the information relating to the number of female directors in the last 4 financial years, and their type:

	Number of female directors				% of total directors of each type			
	2016	**2015**	**2014**	**2013**	**2016**	**2015**	**2014**	**2013**
Female Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	1	1	0.00%	0.00%	10.00%	11.00%
Independent	1	1	0	1	25.00%	25.00%	0.00%	33.00%
Other External Female	1	0	0	0	25.00%	0.00%	0.00%	0.00%
Total	2	1	1	2	18.18%	8.33%	7.14%	13.00%

C.1.5 Explain the methods adopted, if any, to seek to include a number of women in the Board of Directors which would permit a balanced presence of women and men.

Explanation of the measures

The Board of Directors' rules define the establishment of a target concerning the less represented gender on the Board of Directors and the guidelines on how to fulfil said target as one of the objectives of the Appointments, Remuneration and Corporate Governance Committee. This target was legally established as 30% women members of the Board of Directors by 2020.

In order to fulfil the aforementioned goal, the Appointments, Remuneration and Corporate Governance Committee shall ensure that the selection procedure does not suffer from any implicit bias that may hamper the selection of female directors and that women that fulfil the professional profile sought are included among the potential candidates.

The policy for selecting directors seeks to prevent discrimination, with meritocracy as the criterion guiding the selection process to identify the best candidates for the Company. However, and notwithstanding the foregoing, each time that there is a vacancy on the Board of Directors, and the corresponding selection process begins, at least one woman must be considered as a candidate until the 30% target is met.

Last year, Ms. Maria Grecna was appointed as Other External Director during the Shareholders' Meeting held on 21 June 2016.

C.1.6 Explain the measures agreed, if any, by the Appointments Committee to ensure that the selection process is not implicitly biased against selecting female Directors, and so that the company deliberately seeks to include women who meet the desired professional profile among potential candidates:

Explanation of the measures

During the process of selecting Directors, in compliance with the principles set forth in the Board Regulations, the Appointments, Remuneration and Corporate Governance Committee has ensured women who meet the required professional profile are included in the list of candidates, and has endeavoured to ensure there are no biases inherent in the selection procedure that hinder the selection of female directors.

As mentioned previously, the policy for selecting directors expressly provides for the prevention of discrimination in the candidate selection process and, guided by company interest, meritocracy shall serve as the main selection criterion, with the process seeking to identify the most qualified candidates. However, each time that there is a vacancy on the Board of Directors, and the corresponding selection process begins, at least one woman must be considered as a candidate, notwithstanding the principles of merit and capacity, until the aforementioned 30% target for 2020 is met.

If, despite the measures adopted, if any, there are few or no female Directors, explain the reasons:

Explanation of the reasons

See above.

C.1.6 bis Explain the conclusions of the appointments committee regarding the verification of compliance with the policy on director selection. In particular, explain how this policy promotes the objective that by 2020 the number of female directors is at least 30% of the total number of members of the board of directors.

Explanation of the conclusions

Last year, the Appointments, Remuneration and Corporate Governance Committee considered the regulatory fitness and the Recommendations in the Good Governance Code in terms of the policy for selecting directors.

NH Hotel Group firmly believes that diversity in all its facets and at all levels of its professional team is an essential factor for ensuring the Company's competitiveness and a key element in its corporate governance strategy, promoting the participation and development of women in the organisation, especially in positions of leadership, and, in particular, on the Board of Directors. To this end, last year the Board of Directors appointed a new Female Director in the category of "Other External Director", thus increasing the percentage of female directors on the Board of Directors from 8% in 2015 to 18% in 2016.

In 2016, the Company has continued to work with expert consulting firms that have intensified the recruitment of female directors.

C.1.7 Explain how major shareholders are represented on the Board.

As set out in Article 9 of the Board Regulations, the Board will ensure that the majority group of external Directors includes, on one hand, those proposed by the holders of significant stable holdings in the company capital (proprietary Directors) and, on the other, professionals of recognised prestige who are not associated with the executive team nor with major shareholders (independent Directors).

Proprietary Directors are those that represent or have a shareholding in the Company that is greater than or equal to what is legally considered significant, or that may have been appointed due to their status as shareholders even though their shareholding does not reach the legally established amount.

For the purposes of this definition, it shall be assumed that a director represents a shareholder when:

a) He/she was appointed by virtue of the right to representation.
b) He/she is a director, senior manager, employee or regular service provider of this shareholder, or of companies belonging to its group.
c) The company documentation states that the shareholder accepts that the director has been appointed by it or represents it.
d) He/she is the spouse, or connected by a similar relationship, or related up to the second degree of kinship to a major shareholder.

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed at the request of shareholders whose holdings are below 3% of share capital:

Indicate whether formal requests for representation on the Board from shareholders whose shareholding is equal to or greater than other shareholders at whose request proprietary directors have been appointed, have not been acted upon. Explain the reasons why they have not been acted on, as applicable:

NO

C.1.9 Indicate whether any director has left their position prior to the completion of their mandate; whether the director has explained their reasons to the Board, and by what means; and, in the event that the written communication was sent to the whole of the Board, explain the reasons given:

Name of the director	Reason for departure
MR FEDERICO GONZÁLEZ TEJERA	Although the General Shareholders' Meeting of 21 June 2016 renewed the position of Mr. Federico González Tejera as Executive Director, at the following Board of Directors meeting, the two-third majority required under Article 249.2 of the Capital Companies Act was not met, thus he ceased to hold his executive position. Pursuant to Article 37.2 of the company's articles of association, which stipulates that "Directors must relinquish their office to the Board of Directors and present a formal resignation when they cease to hold the executive positions that were the motive for their appointment as Director", in compliance with said precept, Mr. González Tejera was required to submit and present a formal resignation, as it was then done.
MR CHARLES MOBUS	Mr. Charles Mobus departed upon the agreement of the General Shareholders' Meeting of 21 June 2016 by a sufficient majority.
MR HAIBO BAI	Mr. Haibo Bai departed upon the agreement of the General Shareholders' Meeting of 21 June 2016 by a sufficient majority.
MR XIANYI MU	Mr. Xianyi Mu departed upon the agreement of the General Shareholders' Meeting of 21 June 2016 by a sufficient majority.
MR LING ZHANG	Mr. Ling Zhang departed upon the agreement of the General Shareholders' Meeting of 21 June 2016 by a sufficient majority.

C.1.10 Indicate, if applicable, the powers delegated to the Executive Director(s):

C.1.11 Identify, if applicable, the members of the Board that hold administrative or management positions in other companies that form part of the group of the listed company:

Name or company name of Director	Company name of group company	Position	Do they have executive duties?
MR FRANCISCO JAVIER ILLA RUIZ	COPERAMA HOLDING, S.L.	CHAIRMAN AND DIRECTOR	NO
MR FRANCISCO JAVIER ILLA RUIZ	COPERAMA SPAIN, S.L.	CHAIRMAN AND DIRECTOR	NO

C.1.12 State, if applicable, the directors of your company that are members of the Board of Directors of other entities listed on official stock exchanges, other than companies in your group, which the company has been notified of:

Name or company name of Director	Company name of group company	Position
MR ALFREDO FERNÁNDEZ AGRAS	MERLIN PROPERTIES SOCIMI, S.A.	DIRECTOR
MR CARLOS GONZÁLEZ FERNÁNDEZ	SOTOGRANDE, S.A.	DIRECTOR
MR CARLOS GONZÁLEZ FERNÁNDEZ	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR
MR JOSÉ MARÍA LÓPEZ-ELOLA GONZÁLEZ	CADOGAN 37 SICAV, S.A.	DIRECTOR
MS KORO USARRAGA UNSAIN	CAIXABANK., S.A.	DIRECTOR

C.1.13 State, and if applicable explain, if the company has rules on the number of boards that its directors may belong to:

YES

Explanation of the rules

Article 29 of the Regulations of the Board expressly establishes that directors must dedicate the necessary time and effort to performing their duties, and must notify the Appointments and Remuneration Committee of any circumstances that may interfere with the required dedication. Similarly, directors may not belong to more than 10 boards of directors, excluding the Board of NH Hotel Group, S.A. and the boards of holding companies and family companies, without the express authorisation of the Appointments and Remuneration Committee based on the individual circumstances in each case.

C.1.14 Paragraph repealed.

C.1.15 State the overall remuneration of the Board of Directors:

Remuneration of the Board of Directors (€ thousands)	1,248
Amount of pension rights accumulated by the current Directors (€ thousands)	0
Amount of pension rights accumulated by the ex-Directors (€ thousands)	0

C.1.16 Identify members of senior management who are not also Executive Directors, and indicate their total remuneration for the year:

Nombre o denominación social	Cargo/s
MR RAMÓN ARAGONÉS MARÍN	GENERAL MANAGER, OPERATIONS
MR JESUS IGNACIO ARANGUREN GONZÁLEZ-TARRÍO	GENERAL MANAGER, ASSETS AND REVENUE
MR ISIDORO MARTÍNEZ DE LA ESCALERA	GENERAL MANAGER, MARKETING
MR RUFINO PÉREZ FERNANDEZ	GENERAL MANAGER, RESOURCES
MS BEATRIZ PUENTE FERRERAS	CHIEF FINANCIAL OFFICER
MR CARLOS ULECIA PALACIOS	GENERAL SECRETARY
MR FERNANDO VIVES SOLER	GENERAL MANAGER, SALES

Total remuneration of senior management (€ thousands)	**3,668**

C.1.17 State, if applicable, the identity of Board members who are also members of the Board of Directors of companies of significant shareholders and/or entities in their group:

Provide details, if applicable, of the relevant relationships other than those included in the previous heading, of the members of the Board of Directors with major shareholders and/or in entities of their Group:

Name or business name of the associated Director	Name or business name of the related major shareholder	Description of relationship
MR JOSÉ ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A	NATURAL PERSON REPRESENTING THE JOINT AND SEVERAL ADMINISTRATOR EUROFONDO, S.A.

C.1.18 State whether there has been any change to the regulations of the Board during the year:

YES

Description of changes
At its meeting of 21 June 2016 and at the proposal of the Chairman of the Board of Directors and the Chairman of the Appointments, Remuneration and Corporate Governance Committee, pursuant to the provision of Article 3 of the Board of Directors' rules, the BoD approved the amendment of Articles 24, 25 and 26 of the Rules, with a view to adapting its content to best corporate governance practices. In this regard, the authority to attend and participate in the meetings of the Executive Committee and the Appointments, Remuneration and Corporate Governance Committee, with the right to speak but not to vote, was removed from those Directors who, having expressed an interest in doing so, were authorised by the Board of Directors to do so, including, where applicable, the option of the non-member Directors attending meetings on a one-off basis at the invitation of the Chairman of each Committee.

C.1.19 State the procedures for selecting, appointing, re-electing, appraising and removing directors. Name the competent bodies, the procedures to be followed and the criteria used in each procedure.

The directors are appointed by the General Shareholders' Meeting, or provisionally by the Board of Directors in accordance with the provisions contained in the Capital Companies Act and the company's articles of association.

Proposals for appointments or the re-election of members of the Board of Directors is the responsibility of the Appointments, Remuneration and Corporate Governance Committee in the case of independent directors and is the responsibility of the Board itself for all other cases. Proposals should always be accompanied by a report from the Board assessing the proposed candidate's competence, experience and merits, which will be attached to the minutes of the General Shareholders' Meeting or that of the Board.

Proposals for appointing or re-electing any non-independent Director must also be preceded by a report from the Appointments, Remuneration and Corporate Governance Committee.

The Board of Directors must ensure that the selection process for its members favours diversity in terms of gender, experience and knowledge and does not suffer from implicit biases that may lead to any type of discrimination and, particularly, that it facilitates the selection of female directors.

In terms of appointing external directors, the Board of Directors and the Appointments, Remuneration and Corporate Governance Committee have a duty to ensure, within the scope of their respective competencies, that the election of candidates falls on people with a solid reputation, proven skills and experience, and who are prepared to dedicate a sufficient part of their time to the Company, taking the utmost care in choosing people who may be selected to be independent directors.

The Board of Directors will propose or designate people who meet the requirements set out in article 9.3.2 of the Regulation of the Board of Directors to cover the position of independent directors.

In any event, those subject to any incapacity, disqualification, prohibition or conflict of interests set forth in current legislation may not be proposed for appointment as Board members.

All those directly or indirectly holding interests of any type or that have an employment, professional or mercantile relationship, or relations of any other type with competitor companies, shall be considered as incompatible for the position of director, except when the Board of Directors, with a favourable vote of at least 70% of its members, agrees to set aside this condition. The above is without prejudice to any other waiver that, in compliance with current legislation, the General Shareholders' Meeting had to provide.

C.1.20 Explain how far the annual assessment of the board has led to important changes in its internal organisation, and on the procedures applicable to its activities:

Description of changes
The self-assessment undertaken each year by the Board of Directors has served to identify opportunities for improvement in 2017. The resulting areas of improvement are fundamentally linked to the planning of Committees and the improvement of specific operational aspects of the Executive Committee. Below are the specific action plans for each opportunity for improvement. The plans will be implemented in 2017. 1. Seek methods that allow the Board of Directors to discuss and reflect on issues concerning strategy and the long term. 2. Systematically introduce information on the perception of investors in the agenda. 3. Reinforce the contribution of the Board of Directors in the guidance and supervision of risks. 4. Reflect on the composition of the Executive Committee. 5. Develop guidance and training actions for the Board of Directors and, specifically, for new directors. 6. Review the content of the reports produced by the Board of Director's committees and, in particular, the Executive Committee. 7. Reinforce the annual planning of meetings and their agenda. 8. Expand the duration of the Appointments, Remuneration and Corporate Governance Committee's meetings.

C.1.20 bis Describe the assessment process and the areas that have been assessed by the Board of Directors aided, as appropriate, by an external consultant, with respect to the diversity of its composition and duties, the functioning and composition of its committees, performance of the Chairman of the Board of Directors and the Chief Executive of the company and the performance and contribution of each director.

The Board of Directors at NH Hotel Group has collaborated with KPMG, an independent, specialist firm, to respond to Recommendation 36 of the Code of Good Governance of Listed Companies of the Spanish National Securities Market Commission.

The survey addressed the following topics:

A) Methodology of Board of Director and Committee meetings
- Board of Directors
- Executive Committee
- Audit Committee
- Appointments, Remuneration and Corporate Governance Committee

B) Corporate Governance
- Functioning
- Information
- Roles of the Board
- Information to Third Parties

C) Strategic Planning

D) Operational and Financial Supervision
- Time
- Procedures
- Audit Committee Information
- Risk Identification and Supervision

C.1.20 b Break down, as appropriate, the business relationship that the consultant or any company within its group maintains with the company or any company in its group.

Insignificant business relationships that consist of sporadic consulting on very specific issues, which arise occasionally from the matters dealt with by the Appointments, Remuneration and Corporate Governance Committee.

C.1.21 Indicate cases in which Directors are compelled to resign.

Directors shall step down when the period for which they were appointed comes to an end or when agreed by the General Shareholders' Meeting based on the powers legally attributed to it.

Article 14.2 of the Regulations of the Board of Directors also stipulates that Directors shall place their office at the disposal of the Board of Directors and tender their resignation in any of the following circumstances:

a) When they are removed from the executive offices with which their appointment as a Director was associated or where the reasons for which they have been appointed are no longer valid. Such a circumstance shall be understood to apply to Proprietary Directors when the entity or business group they represent ceases to hold a significant shareholding in the Company's share capital or when, in the case of independent Directors, they become an executive of the Company or of any of its subsidiaries.

b) Where they are subject to any incapacity, disqualification, prohibition or conflict of interests established in current legal provisions.

c) Where they are seriously reprimanded by the Appointments, Remuneration and Corporate Governance Committee for failing to comply with any of their obligations as Directors.

d) When their continued presence on the Board may affect the good standing or reputation that the Company enjoys in the market, or put its interests at risk in any other way. In this case, the Director must immediately inform the Board of the facts or procedural difficulties that affect said reputation or risk.

C.1.22 Paragraph repealed.

C.1.23 Are reinforced majorities other than those applicable by law required for any type of decision?:

YES

If so, describe the differences.

Description of the differences
For the appointment of Directors with direct or indirect interests of any type in, or an employment, professional, commercial or any other relationship with competitor companies, a vote in favour by 70% of the Board members is required (Article 11.3 of the Board regulations).

C.1.24 Explain if there are any specific requirements, other than those relating to Directors, to be appointed Chairman of the Board of Directors.

NO

C.1.25 Indicate whether the Chairman has the casting vote:

YES

Matters for which there is a casting vote
Resolutions will be passed by absolute majority of the votes of the directors attending the meeting. In the event of a tie, the Chairman, or the Vice-chairman substituting them, shall have the casting vote.

C.1.26 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

NO

C.1.27 State whether the Articles of Association or the Board Regulations establish a limited mandate for Independent Directors, other than as provided for in the legal regulations:

NO

C.1.28 Indicate whether the Articles of Association or the Regulations of the Board of Directors establish specific rules for delegating votes to the Board of Directors, how this should be done, and in particular, the maximum number of delegations any Director may have, and whether there is any limit as to the director category to which votes may be delegated, other than the limitations imposed by law. If so, give a brief summary of these rules.

Article 13 of the Regulations of the Board establishes the rules for delegating votes, stipulating that "All shareholders entitled to attend may be represented at the Shareholders' Meeting by another party, even if that party is not a shareholder. The representation must be conferred under the terms and with the scope established by law, in writing and for each specific meeting [...] The documents in which such delegations or proxies for the General Meeting appear shall reflect voting instructions. If no such express voting instructions appear, it shall be construed that the proxy holder shall vote in favour of the proposals put forward by the Board of Directors for resolutions on the items included in the agenda. If no voting instructions have been given because the General Shareholders' Meeting will be voting on matters that, at the time the delegation was granted, were not included on the agenda and were therefore unknown, the representative may vote in the way they consider most benefits the interests of the Company. The same shall apply when the corresponding proposal or proposals put to the vote have not been drafted by the Board of Directors. Should the proxy or delegation document fail to indicate the specific person to whom the shareholder wishes to grant proxy, it shall be construed to have been granted to the Chairman of the Meeting or to the person they may designate [...] Representation will always be revocable. If the represented party attends the Meeting in person, the representation shall be deemed to be revoked."

As a result, any person (whether a shareholder or not) may be designated as a proxy, and if a specific person is not identified as a proxy, it shall be understood to have been granted to the Chairman of the meeting or to the person they may designate, without establishing a maximum number of delegations that any director may have.

C.1.29 Indicate the number of meetings that the Board of Directors has held over the year. Also indicate, as applicable, the number of times that the Board has met without its Chairman attending. The calculation of attendance includes representations made with specific instructions.

Number of Board meetings	19
Number of Board meetings not attended by the Chairman	0

If the Chairman is an executive director, indicate the number of meetings held with no attendance or representation of any executive director and under the chairmanship of the coordinating director.

Number of meetings	0

State the number of meetings held by the different Board Committees over the year:

Committe	No. of Meetings
EXECUTIVE COMMITTEE	13
AUDIT AND CONTROL COMMITTEE	8
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	0
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	10

C.1.30 State the number of meetings that the Board of Directors has held during the year with the attendance of all of its members. The calculation of non-attendance includes representations made with specific instructions:

Number of meetings attended by all the directors	**18**
Attendances as a percentage of total votes during the year	**94.74%**

C.1.31 State whether the individual and consolidated financial statements that are presented to the Board to be approved are certified in advance:

NO

Identify, as applicable, the person(s) that has/have certified the Company's individual and consolidated financial statements to be drafted by the Board:

C.1.32 Explain, if applicable, the mechanisms established by the Board of Directors to prevent the individual and consolidated annual accounts it draws up from being submitted to the General Meeting of Shareholders with qualifications in the auditors' report.

Article 41.2 of the Regulations of the Board establishes that the Board of Directors shall ensure the financial statements are drawn up definitively so that there is no need for auditor qualifications. Nevertheless, when the Board considers that its criteria should remain unchanged, it shall publicly explain the content and scope of the discrepancies.

C.1.33 Is the Secretary of the Board a Director?

NO

If the secretary is not a director, complete the following table:

Name or company name of secretary	Representative
MR PEDRO FERRERAS DÍEZ	

C.1.34 Paragraph repealed.

C.1.35 State the mechanisms established by the Company, if any, to preserve the independence of external auditors, financial analysts, investment banks and rating agencies.

The Board of Directors has established a stable and professional relationship with the Company's external accounts auditor through the Audit and Control Committee, strictly respecting its independence. In this sense, Article 25. b) of the Regulations of the Board of Directors expressly establishes that one of its responsibilities is to pass along to the Board of Directors proposals for selecting, appointing, re-electing and substituting external auditors, as well as conditions for their contracting and regularly collecting information from them on the audit plan and its execution, in addition to preserving its independence in exercising its functions. Furthermore, the Audit and Control Committee is responsible for establishing suitable relationships with auditors or audit firms in order to receive information regarding any issues that may jeopardise their independence, so that these can be examined by the committee, and any other matters related with the process of conducting financial audits, as well as any other communications stipulated in the financial auditing legislation and audit regulations. In any event, it must receive written confirmation on an annual basis from the auditors or auditing firms of their independence from the Company or entities related to it either directly or indirectly, as well as information on any additional service of any kind provided to such entities and the corresponding fees received by the aforementioned auditors or by persons related to them in accordance with the provisions set forth in legislation regarding auditing.

Likewise, every year, prior to issuing the audit report, the Audit and Control Committee must also issue a report in which it gives its opinion on the independence of the auditors or auditing firms. This report must always contain an assessment of the additional services referenced in the above paragraph, considered individually and together, that are separate from the legal audit and with regard to their independence and to audit regulations.

C.1.36 State whether the Company has changed its external auditor during the year. If so, please identify the incoming and outgoing auditors:

NO

In the event that there were disagreements with the outgoing auditor, explain the content of the disputes:

C.1.37 State whether the audit firm carries out other work for the company and/or its group other than audit work and if so, state the total fees paid for such work and the percentage this represents of the fees billed to the company and/or its business group:

YES

	Company	Group	Total
Amount for work other than auditing (€ thousands)	1.070	366	1.436
Amount for work other than audit work / Total amount invoiced by the audit firm (%)	80,33%	20,88%	46,55%

C.1.38 State whether the audit report of the financial statements for the previous year included qualifications or reservations. If so, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of these qualifications or reservations.

NO

C.1.39 State the number of consecutive years in which the current audit firm has audited the annual accounts of the Company and/or its group. Also, indicate how many years the current audit firm has been auditing the accounts as a percentage of the total number of years over which the annual accounts have been audited.

	Company	Group
Number of consecutive years	15	15
Number of years audited by the current audit firm / Number of years that the company has been audited (%)	49,28%	49,28%

C.1.40 Indicate and, if applicable, provide details of whether there is a procedure whereby directors can receive external advice

YES

Details of the procedure
Article 28 of the Regulations of the Board of Directors expressly states that directors may request the use of legal, accounting or financial advisers, or other experts, paid for by the Company, to help them in the discharge of their duties. Such help must relate to specifically defined and complex problems that arise in the course of their work. The decision to employ such services must be communicated to the Chairman of the Company and implemented through the Secretary of the Board, unless the Board of Directors considers that such services are not necessary or appropriate.

C.1.41 Indicate and, if applicable, provide details of whether there is a procedure whereby Directors can have the information necessary to prepare for meetings of the management bodies with sufficient time:

YES

Details of the procedure

According to article 21 of the Regulations of the Board, the announcement of the meeting, which will be published at least three days before the date of the meeting, will include a preview of the likely agenda for the meeting and will be accompanied by the necessary written information that is available.

Furthermore, article 27 of the aforementioned Regulations indicates that Directors must diligently inform themselves of the Company's progress, and to that end, collect any necessary or pertinent information in order to correctly perform their duty. To this end, the Board has been assigned the broadest possible powers to gain information about any aspect of the Company; to examine its books, registers and documents and any other information concerning its operations. Said right to information is also extended to the various subsidiary companies that are included in the consolidated group, insofar as it is necessary for the Director to correctly perform their functions as referred to in article 6 of said Regulations.

With the aim of not disturbing the Company's normal management, the exercise of the right to information will be channelled through the Chairman or Secretary of the Board of Directors, who will respond to requests from Directors by directly providing him/her the information or putting them in touch with the appropriate people in the suitable level of the organisation.

With the aim of being assisted in the exercise of their functions, the Directors may obtain the necessary consulting from the Company to perform their functions. In special circumstances, they may even request that the Company hire legal, accounting or financial consultants or other experts. Such help must relate to specifically defined and complex problems that arise in the course of their work. The decision to employ such services must be communicated to the Chairman of the Company and implemented through the Secretary of the Board, unless the Board of Directors considers that such services are not necessary or appropriate.

C.1.42 State and, if applicable, provide details on whether the company has established rules that require directors to report and, as applicable, resign in those cases where the company's credibility and reputation may be harmed.

YES

Explain the rules

One of the changes recently included in 2015 the Regulations of the Board has been the introduction of a mechanism that obliges the Directors to provide immediate notification of all legal proceedings in which they may be negatively affected.

In this way, article 14.2.d) of the Regulations of the Board of Directors of NH Hotel Group, S.A., modified on 29 April 2015, expressly establishes that Directors shall place their office at the disposal of the Board of Directors and tender their resignation when their continued presence on the Board may affect the good standing or reputation that the Company enjoys in the market, or put its interests at risk in any other way. In this case, the Director must immediately inform the Board of the facts or procedural difficulties that affect said reputation or risk.

It also establishes that in all events, those subject to any incapacity, disqualification, prohibition or conflict of interests set forth in current legislation may not be proposed for appointment as Board members.

C.1.43 State whether any member of the Board of Directors has notified the Company that they have been prosecuted or issued with a summons for oral proceedings in relation to the offences indicated in Article 213 of the Capital Companies Act:

YES

Name of the director	Criminal Proceedings:	Remarks
MR JOSÉ ANTONIO CASTRO SOUSA	Order dated 15 January 2015 to proceed to trial in the Proceedings abbreviated 91/2013 heard by Examining Magistrates' Court no. 4 of L'Hospitalet de Llobregat for alleged crimes referred to in article 213 of the Corporate Companies Act.	Pending legal ruling.
MR FRANCISCO JAVIER ILLA RUIZ	Order dated 15 January 2015 to proceed to trial in the Proceedings abbreviated 91/2013 heard by Examining Magistrates' Court no. 4 of L'Hospitalet de Llobregat for alleged crimes referred to in article 213 of the Corporate Companies Act.	Pending legal ruling.

State whether the Board of Directors has studied the case. If so, give a reasoned explanation of the decision as to whether or not the Director should continue in his or her post, or if applicable, describe the actions taken by the Board of Directors up to the date of this report, or those it intends to take.

YES

Decision made/action taken:	Reasoned explanation:
On 11 November 2015 the Board analysed the case, without adopting any decision in that regard, under the constitutional principle of presumption of innocence and considering that their continued presence on the Board does not affect the Company's standing or reputation, nor does it put its interests at risk in any way.	The Board, at its meeting on 11 November 2015 analysed the case and was informed of the legal framework to be considered (art. 24.2 of the Spanish Constitution, articles 213 and 223 of the Corporate Companies Act, articles 37.2 d) of the Articles of Association and 14.2.d) of the Regulations of the Board of Directors, as well as recommendation 22 of the Good Governance Code of Listed Companies), and unanimously decided to acknowledge the information offered by the Directors, without adopting a decision in that regard, under the constitutional principle of presumption of innocence and considering that their continued presence on the Board does not affect the Company's standing or reputation, nor does it put its interests at risk in any way.

C.1.44 List the significant agreements signed by the company and that come into force, are modified or are terminated in the case of a change in control of the company resulting from a take-over bid, and their effects.

The NH Hotel Group has signed several financing contracts that contain a clause establishing their early maturity in the event of circumstances that give rise to a change in control of the company NH Hotel Group, S.A.

Additionally, NH Hotel Group, S.A. has issued guaranteed senior bonds, as well as convertible bonds on 08 November 2013, in addition to the guaranteed senior bond issue on 23 September 2016, which contain certain consequences in the case of a change of control in the Issuer, such as the possibility that NH Hotel Group, S.A. may be required to repurchase the senior bonds or adjust the conversion price for convertible bonds.

There are also hotel management contracts signed by Group subsidiaries in which the owner (or leasing company) of the hotels may exercise the power to dissolve said contracts in the case of a change of control of NH Hotel Group S.A. If they exercise this power, the hotel owner must pay the management company a sum that varies depending on when the compensation resulting from the dissolution of the contract is provided. Therefore, for example, it is established in management contracts between Hoteles Hesperia, S.A. (which is 99% owned by NH Hoteles España, S.A.) and the respective owners of the hotels in question that in the event of a change of control at NH Hotel Group, S.A., the owner may opt to terminate the management contract, but would have to pay Hoteles Hesperia, S.A., an amount related to the Average Annual Earnings, as defined in the contracts.

C.1.45 Identify, in aggregate form, and indicate in detail the agreements between the company and its directors, managers or employees providing compensation, guarantee or protection in the event of their resignation or wrongful dismissal, or upon conclusion of the contractual relationship due to a take-over bid or other transactions.

Number of beneficiaries	3
Type of beneficiary	**Description of Agreement**
Certain members of Senior Management and other employees.	In order to encourage loyalty and permanence in the Company, compensation has been provided for which may be more than the amount resulting from applying legal regulations, in the event of unilateral termination by the Company. These amounts range from one year's fixed salary to two years' total salary, i.e., fixed plus variable pay received over the last two years.

Indicate whether these contracts must be communicated to, and/or approved by the governing bodies of the company or its group:

	Board of Directors	General Shareholders' Meeting
Body that authorises the clauses	YES	NO

	YES	NO
Is the General Shareholders' Meeting notified of the clauses?		X

C.2 Committees of the Board of Directors

C.2.1 List all the committees of the Board of Directors, their members and the proportion of Executive, Proprietary, Independent and other external Directors thereon:

EXECUTIVE COMMITTEE

Name	Position	Category
MR JOSÉ ANTONIO CASTRO SOUSA	CHAIRMAN	Proprietary
MR ALFREDO FERNÁNDEZ AGRAS	DEPUTY CHAIRMAN	Proprietary
MR CARLOS GONZÁLEZ FERNÁNDEZ	MEMBER	Independent
MR FRANCISCO JAVIER ILLA RUIZ	MEMBER	Proprietary
MR PAUL JOHNSON	MEMBER	Other External

% of Proprietary Directors	60.00%
% of Independent Directors	20.00%
% of other external directors	20.00%

Explain the functions of this committee, describe its organisational and working procedures and rules and summarise its most important activities during the financial year.

The Executive Committee shall comprise at least three but no more than nine directors, appointed by the Board of Directors.

In terms of the qualitative composition of the Executive Committee, the Board shall ensure that the different types of director represented will be similar to that of the main Board and its secretary will be the secretary of the Board. The Chairman of the Executive Committee shall be chosen by the body itself from the Directors that comprise it. The Chairman of the Executive Committee may be a director other than the Chairman of the Board of Directors.

The Chairman of the Executive Committee shall alternate turns presiding the General Shareholders' Meeting with the Chairman of the Board of Directors.

In all events, the valid appointment or re-election of members of the Executive Committee shall require the favourable vote of at least two thirds of the members of the Board of Directors.

Given its delegated powers, the Executive Committee will resolve all those issues not reserved for the exclusive competency of the plenary Board of Directors by law or the Articles of Association, reporting to the Board.

The Executive Committee will provide prior examination of those issues submitted to the plenary Board of Directors which have not been previously examined or proposed by the Appointments, Remuneration and Corporate Governance Committee or the Audit and Control Committee

The Executive Committee has the mission of providing perspective and a broad vision both to the Board of Directors and the executive team, providing their experience in the preparation of relevant materials, training and guidance on matters that are key to the Company's future, thereby facilitating the Board of Directors' decision-making process in the matters of their competence.

The Executive Committee may apply said function to matters such as:

1. Investments and financing
2. Strategy for acquisitions and identifying possible objectives
3. Business model
4. Cost structure
5. Long-term vision in asset management
6. Group structure

The Executive Committee will meet as many times as it is convened by its Chairman, and its Secretary and Deputy Secretary will be those who perform the identical positions on the Board of Directors. The Executive Committee shall be validly convened when half plus one of its members with a right to vote are present or represented at the meeting.

Resolutions shall be passed by a majority of the directors at the meeting with the right to vote (in person or by proxy), with the Chairman holding the casting vote in the event of a tie.

Furthermore, non-member Directors may attend Executive Committee meetings on a one-off basis, when invited by the Chairman of the Committee.

The Executive Committee shall notify the Board of the matters discussed and the decisions made at its meetings.

State whether the composition of the delegate or executive committee reflects the participation on the Board of different categories of directors:

NO

If not, explain the composition of the Delegate or Executive Committee
The Executive Committee is made up of three Proprietary Directors, one Independent Director and one Director classed as "Other External". Although the Secretary and Deputy Secretary of the Executive Committee serve in the same positions on the Board of Directors, the composition of the Executive Committee is not the same as the Board in terms of the different categories of Directors.

AUDIT AND CONTROL COMMITTEE

Nombre	Cargo	Tipología
MS KORO USARRAGA UNSAIN	CHAIRMAN	Independent
MR CARLOS GONZÁLEZ FERNÁNDEZ	MEMBER	Independent
MR FRANCISCO JAVIER ILLA RUIZ	MEMBER	Propietary
MR FERNANDO LACADENA AZPEITIA	MEMBER	Other External
MR FRANCISCO ROMÁN RIECHMANN	MEMBER	Independent

% of Proprietary Directors	20.00%
% of Independent Directors	60.00%
% of other external directors	20.00%

Explain the functions of this committee, describe its organisational and working procedures and rules and summarise its most important activities during the financial year.

The Audit and Control Committee shall comprise a minimum of three and a maximum of six directors, appointed by the Board of Directors. All members sitting on said Committee shall be External Directors, the majority of whom, at least, must be independent directors, and one of whom must be designated by taking into consideration their knowledge and experience in accounting, auditing, or both.

The Chairman of the Audit Committee must be appointed from among its independent members. The Chairman must also be replaced every four years; previous chairmen may be re-elected one year after their previous mandate has ended.

The Audit Committee will have at least the following responsibilities:

1. Report to the General Meeting of Shareholders on any matters broached within the sphere of its competence.

2. Supervise the effectiveness of the company's internal control, internal auditing, where applicable, and risk-management (including tax risk) systems, as well as discussing with auditors or audit companies any significant weaknesses in the internal control system identified during audits.

3. Oversee the process of drawing up and submitting regulated financial reporting.

4. Pass along to the Board of Directors proposals for selecting, appointing, re-electing and substituting external auditors, as well as conditions for their contracting and regularly collecting information from them on the audit plan and its execution, in addition to preserving its independence in exercising its functions.

5. Establish suitable relationships with auditors or audit firms in order to receive information regarding any issues that may jeopardise their independence, so that these can be examined by the committee, and any other matters related with the process of conducting financial audits, as well as any other communications stipulated in the financial auditing legislation and audit regulations. In any event, it must receive written confirmation on an annual basis from the auditors or auditing firms of their independence from the Company or entities related to it either directly or indirectly, as well as information on any additional service of any kind provided to such entities and the corresponding fees received by the aforementioned auditors or by persons related to them in accordance with the provisions set forth in legislation regarding auditing.

6. Issue, once a year and prior to the release of the auditor's report on the financial statements, a report expressing an opinion on the independence of the auditors or audit firms. This report must always contain an assessment of the additional services referenced in the above paragraph, considered individually and together, that are separate from the legal audit and with regard to their independence and to audit regulations.

7. Provide previous information for the Board of Directors on all matters established by law, the articles of association and in the Regulation of the Board, and, in particular on:
    1. the financial reports that the company must periodically publish;
    2. the creation or acquisition of any equity investments in special purpose vehicles and companies registered in tax havens; and
    3. related party operations.

8. Safeguard the independence and effectiveness of the internal audit area; propose the selection, appointment, re-election and removal of the manager of the internal audit service; propose the budget for this service; receive periodic information about its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

9. Set up and oversee a mechanism that allows employees confidentially and anonymously to report any breaches of the Code of Conduct

10. Supervise compliance and internal codes of conduct, as well as the rules of corporate governance.

The Audit and Control Committee will meet at least once every quarter and as many times as may be necessary, after being called by the Chairperson on their own initiative or upon the request of two of the Committee or the Board of Directors.

The Audit and Control Committee may require any of the Company's employees or managers, including the Company's Accounts Auditor, to attend its meetings.

Through its Chairman, the Audit and Control Committee will give the board an account of its activities and work done, either at the meetings scheduled for the purpose or at the very next meeting when the Chairman of the Audit and Control Committee deems it necessary. The minutes of its meetings will be available to any member of the board that requests them.

Non-member Directors may attend Audit and Control Committee meetings on a one-off basis, when invited by the Chairman of the Committee.

Identify the director appointed as member of the audit committee taking into account their knowledge and experience of accountancy, auditing, or both, and report on how many years the chairman of this committee has held the post.

Name of the experienced director	MS KORO USARRAGA UNSAIN
No of years chairman in post	1

APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE

Name	Position	Category
MR FRANCISCO ROMÁN RIECHMANN	CHAIRMAN	Proprietary
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	MEMBER	Other External
MR ALFREDO FERNÁNDEZ AGRAS	MEMBER	Proprietary
MR FRANCISCO JAVIER ILLA RUIZ	MEMBER	Proprietary
MR JOSÉ MARÍA LÓPEZ-ELOLA GONZÁLEZ	MEMBER	Independent
MS KORO USARRAGA UNSAIN	MEMBER	Independent

% of Proprietary Directors	33.33%
% of Independent Directors	50.00%
% of other external directors	16.67%

Explain the functions of this committee, describe its organisational and working procedures and rules and summarise its most important activities during the financial year.

The Appointments, Remuneration and Corporate Governance Committee shall comprise a minimum of three and maximum of six Directors and shall be exclusively non-executive directors appointed by the Board of Directors, two of whom, at least, must be Independent Directors. The Chairman of the Committee shall be chosen by the Independent Directors that comprise it.

The Appointments, Remuneration and Corporate Governance Committee will have at least the following responsibilities:

1. Evaluate the skills, knowledge and experience necessary on the Board of Directors. For these purposes, it shall define the abilities and functions required by candidates to cover each vacancy, and assess the time and dedication required to correctly carry out their functions.

2. Establish a representation goal for the less represented sex on the Board of Directors and create guidelines for how to achieve said goal.

3. Pass along to the Board of Directors proposals for appointments of Independent Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for the re-election or removal of said Directors by the General Shareholders' Meeting.

4. Inform the Board of proposals for appointments of remaining Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for their re-election or removal by the General Shareholders' Meeting.

5. Provide notification of proposals for appointing or removing senior management and the basic conditions of their contracts

6. Examine or organise the Chairman of the Board's and the chief executive's succession and, if appropriate, bring proposals before the Board so that such successions are effected in an orderly fashion.

7. Propose to the Board of Directors the remuneration policy for the directors and general managers or for those who perform functions of upper management directly reporting to the Board, Executive Committee or Chief Executives, as well as the individual remuneration and other contractual conditions for the Chief Executives, ensuring compliance therewith.

8. Supervise and monitor compliance with corporate governance rules and with the corporate social responsibility policy and plan, proposing any necessary Reports to the Board.

9. Periodically evaluate the suitability of the corporate governance system, with the aim of ensuring that it fulfils its mission of promoting the company's interests.

The Board of Directors shall be informed of all the tasks carried out by the Appointments, Remuneration and Corporate Governance Committee during its first meeting, and in all events the corresponding documentation shall be made available to the Board so that it can take these actions into consideration when performing its duties.

The Appointments, Remuneration and Corporate Governance Committee shall meet as often as considered necessary by its Chairman, or when requested by two of its members or the Board of Directors.

Furthermore, non-member Directors may attend Appointments, Remuneration and Corporate Governance Committee meetings on a one-off basis, when invited by the Chairman of the Committee.

C.2.2 Fill in the table below with the information relating to the number of female directors on Board of Directors' committees in the last four financial years:

	Number of female directors							
	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
EXECUTIVE COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
AUDIT AND CONTROL COMMITTEE	1	20.00%	1	20.00%	0	0.00%	1	0.00%
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	1	16.70%	1	20.00%	0	0.00%	1	33.33%

C.2.3 Paragraph repealed.

C.2.4 Paragraph repealed.

C.2.5 Indicate, as applicable, the existence of regulations governing the committees attached to the Board, where they are available for consultation and any amendments that have been made to them during the year. Also state whether an annual report on the activities of each committee has been voluntarily drafted.

The Company Articles of Association (Articles 45 - 48), and the Regulations of the Board of Directors (Articles 23 - 26) comprehensively cover all regulations relating to the Board's Committees. The aforementioned internal regulations of the Company are available on the company website (www.nh-hotels.es), in the section "Information for Shareholders" - "Corporate Governance". Said website also includes all information regarding the composition of each Committee.

On 21 June 2016, at the proposal of the Chairman of the Board and the Chairman of the Appointments, Remuneration and Corporate Governance Committee, pursuant to the provision of Article 3 of the Board of Directors' rules, the Board of Directors approved the amendment of Articles 24 and 26 of the Rules, with a view to adapting its content to best corporate governance practices. In this regard, the authority to attend and participate at the meetings of the Executive Committee and the Appointments, Remuneration and Corporate Governance Committee, with the right to speak but not to vote, was removed from those Directors who, having expressed an interest in doing so, were authorised by the Board of Directors to do so, including, where applicable, the option of the non-member Directors attending meetings on a one-off basis at the invitation of the Chairman of each Committee.

The Audit and Control Committee and the Appointments, Remuneration and Corporate Governance Committee annually issue a report on the activities they have carried out during the financial year.

C.2.6 Paragraph repealed.

D - RELATED AND IN-GROUP TRANSACTIONS

D.1 Explain the procedure, if any, to approve transactions with related parties and parties within the group.

Procedure for reporting approval of related party transactions
Articles 33.1.c) of the Articles of Association and 5.5 c) of the Board Regulations assign the Board of Directors the duty of approving related party transactions, understood to be transactions between the Company and Directors, significant shareholders or bodies represented on the Board, or people associated with them, as defined in the LSC. This approval will follow a Report by the Audit and Control Committee (Article 48.4 of the articles of association and 25 b) of the Board Regulations). Authorisation of the Board shall not be required however, for related party transactions that simultaneously meet the following three conditions: 1. That are carried out under agreements with standardised conditions and are applied in a general way to numerous clients; 2. That are carried out at generally established rates or prices, set by the supplier of the good or service; 3. For an amount not exceeding 1% of the company's annual revenues. Additionally, on 26 March 2014 the Board of Directors approved a Procedure on Conflicts of Interest and Related Party Transactions, available on the Company's website, which includes the approval of such transactions in greater detail. In this way, the aforementioned Procedure implements the provisions of the Regulations of the Board of Directors and the Internal Code of Conduct on the Securities Market of the NH Hotel Group, S.A., and aims to detail the rules to be followed in those transactions the Group performs with Directors, with people subject to rules of conflict of interest, or with major shareholders. Said Procedure establishes in detail everything relative to i) the written communication that must be submitted by shareholders or Directors regarding transactions to be performed by them or their respective associates to the Secretary of the Board of Directors, who will send it to the Audit and Control Committee periodically for its review and, if necessary, to be passed along to the Board, provided that it does not fall within the pre-established criteria of cases that do not have to be submitted to the Board; and ii) the obligation of maintaining a registry of said transactions.

D.2 List transactions which are significant for their amount or relevant due to their subject, between the company or entities in its group, and significant shareholders of the company:

Name or business name of the major shareholder	Name or company name of the company or group company	Nature of the relationship	Type of transaction	Amount (thousand of euros)
GRUPO INVERSOR HESPERIA, S.A	HOTELES HESPERIA, S.L.	Contractual	Management contracts	815

D.3 List transactions which are significant for their amount or relevant due to their subject, between the company or entities in its group, and the managers or directors of the company:

D.4 Report on the significant transactions carried out by the company with other entities belonging to the same group, provided they are not eliminated in the process of drafting the consolidated financial statements and do not form part of the Company's normal business in relation to its purpose and conditions.

In all cases, any in-group transaction with entities established in countries or territories considered tax havens will be reported:

Business name of the entity in its group:	Amount (€ thousands)	Brief description of the transaction
SOTOCARIBE, S.L.	5,955	LOAN
CONSORCIO GRUPO HOTELERO T2	244	LOAN

D.5 State the amount of the transactions carried out with other related parties.

D.6 Describe the mechanisms established to detect, determine and resolve possible conflicts of interest between the Company and/or its Group, and their directors, managers or major shareholders.

Article 32 of the Regulations of the Board establishes the duty of loyalty and the duty to prevent situations of conflict of interest that the Directors must comply with. Thus, the aforementioned article states that Directors must perform their duties with the loyalty of a faithful representative, operating under good faith and in the Company's best interest. In particular, the duty of loyalty obliges Directors to:

a) Not exercise their powers for purposes other than those for which they have been conceded.

b) Keep the information, data, reports or background that they have had access to in the performance of their duty confidential, even when they have left the position, except for cases where allowed or required by the law.

c) Abstain from participating in the deliberation and voting for agreements and decisions in which they or an associate have a direct or indirect conflict of interests. Those agreements or decisions that affect their position as a Director shall be excluded from the above requirement to abstain, such as their selection or removal for positions in the administration body or others of similar significance.

d) Perform their duties under the principle of personal responsibility with freedom of criteria or judgement and independence with regard to instructions from and connections to third parties.

e) Adopt the necessary measures for avoiding situations in which his/her interests may enter into conflict with the company's interests and with his/her responsibilities to the company.

In particular, avoiding the situations of conflict of interest referred to in the above letter e), obliges the Director to abstain from:

i) Carrying out transactions with the Company, except where they were ordinary transactions carried out under standard conditions for clients and of little importance, with these being understood to be those whose information is not necessary to express the true image of the equity, financial situation and profit and loss of the company.
ii) Using the Company name or their position as director to unduly influence the completion of private transactions.
iii) Making use of company assets, including confidential Company information, for private purposes.
iv) Exploiting the Company's business opportunities.
v) Receiving benefits or remuneration from third parties other than the Company and its Group of associate companies while carrying out my duties, except where these were mere acts of courtesy.
vi) Carrying out activities on their own account, or for third parties, which would entail either actual or potential effective competition with the Company or which, in any other way, would place them in permanent conflict with the Company's interests.

The above provisions shall also be applicable in the case that the beneficiary of the prohibited acts or activities is an associate of the Director, in accordance with the definition provided in article 231 LSC.

The Company may waive the prohibitions set out in this article, as established in article 230 LSC.

In any event, directors must notify the Board of Directors of any direct or indirect situation of conflict of interest that they or their associates may have with the Company.

Situations of conflict of interest involving Directors will be subject to inclusion in the Annual Report.

For the purposes of the provisions of this Regulation, associates are defined as those persons referred to in Article 231 of the Revised Text of the LSC.

Additionally, on 26 March 2014 the Board of Directors approved a Procedure on Conflicts of Interest and Related Party Transactions, available on the Company's website, which includes the approval of such transactions in greater detail. In this way, the aforementioned Procedure implements the provisions of the Regulations of the Board of Directors and the Internal Code of Conduct on the Securities Market of the NH Hotel Group, S.A., and aims to detail the rules to be followed when the Company's interests or those of any of its Group's companies directly or indirectly clash with a Director's personal interests. Said Procedure establishes in detail everything relative to i) the obligation of communicating possible situations of conflict of interest to the Secretary of the Board, who will send them to the Audit and Control Committee periodically; ii) the obligation of the affected Director to abstain from attending and intervening in the phases of deliberation and voting regarding those matters in which they are involved in a conflict of interest, both in meetings of the Board of Directors as well as before any other company body, committee or board that participates in the corresponding transaction or decision, and iii) the obligation of keeping a registry of said transactions.

D.7 Is more than one company in the Group listed in Spain?

NO

Identify the affiliate companies listed in Spain:

Listed Subsidiary Company

Indicate whether the respective areas of activity and the corresponding business relations between them have been publicly defined in detail, as well as the areas and relations of the listed subsidiary company with the other companies in the Group;

State any possible business relationships between the parent company and the listed subsidiary, and between the latter and other group companies.

State the mechanisms created for resolving any conflicts of interest between the listed subsidiary and the other companies in the Group:

Mechanisms for resolving possible conflicts of interest

E - RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the company´s Risk Management System, including tax risks.

The NH Hotel Group (hereinafter NH Group) risk management system is applicable to all the companies over which NH has effective control.

NH's risk management system aims to identify events that may negatively affect achievement of the objectives of the company's strategic plan, providing the maximum level of assurance to shareholders and stakeholders and protecting the group's revenue and reputation.

The model set up to manage risks is based on the ERM (Enterprise Risk Management) methodology and includes a set of methodologies, procedures and support tools which enable NH to:

1. Identify the most significant risks that could affect achievement of strategic objectives

2. Analyse, measure and assess such risks depending on their probability of occurrence along with their impact, which is assessed from a financial and reputational point of view

3. Prioritise such risks

4. Identify measures to mitigate such risks based on the group's risk appetite. This is firmed up by defining risk managers and setting up action plans agreed by the Management Committee.

5. Monitor mitigation measures set up for the main risks

6. Periodically update risks and their assessment

Such methodologies and procedures are also used in relation to tax risk management.

NH Group has a Corporate Tax Strategy that forms part of the Group's Corporate Governance System, the objective of which is to establish the values, principles and rules that must govern the Group's activities in terms of tax, with a Tax Risk Management and Control Procedure.

E.2 Identify the company bodies responsible for creating and implementing the Risk Management System, including tax risks.

Board of Directors
The entity's Board of Directors is responsible for overseeing the risk management system, in line with the provisions of Article 5 of the Regulation of the Board of Directors, including tax risks.

Audit and Control Committee
As regulated by paragraph 3 of article 25 b) of the Regulation of the company's Board of Directors, the Audit and Control Committee supports the Board of Directors in supervising the effectiveness of the Company's internal control, internal audit, if appropriate, and the risk management systems, including tax risks, in addition to discussing significant weaknesses in the internal control system detected during audit with the auditors of accounts or audit firms.

Management Committee
The Management Committee meets weekly and is made up of the Chief Officers or heads of general management for each area. The Management Committee's duties include, amongst others, risk management and control based on the risk appetite. Tax risk control falls to the Finance department.

Since June 2016, the Management Committee has received the results of Key Risk Indicators (KRIs) for the main risks on a monthly basis, and then makes decisions on action plans to be implemented to mitigate risks.

Furthermore, NH has the following committees:

Revenue Committee:
In charge of monitoring revenue and defining such action plans as needed to achieve objectives based on the forecast of future demand.

Assets Committee:
Reviews the optimisation of hotel spaces, rent renegotiations and the exit plan from NH's portfolio.

Expansion Committee:
In charge of scrutinising investment opportunities and managing risks associated with investment portfolio management.

Investment Committee:
In charge of monitoring and controlling risks related to hotel refurbishment and re-branding projects.

Experience and Innovation Committee:
In charge of monitoring the implementation of experience improvement initiatives, their results and proposing new projects.

Pricing Committee:
In charge of monitoring the implementation of pricing and revenue management strategy, its results and proposing improvements.

Results Committee: Response for monitoring the income statement, detecting deviances and implementing measures to resolve them.

Operating Model Committee: In charge of monitoring the implementation of the new operating model, in addition to ensuring efficiency in terms of inherent costs.

Transformation Committee:
In charge of monitoring the implementation of the Group's transformation plan, which encompasses organisational changes to processes and systems. In charge of new projects that require systems developments.

Joint Venture China Project Committee: In charge of monitoring the JV in China and the development of the actions required from NH Hotel Group to ensure it is successful.

Finance Department
The Finance Department is the department responsible for establishing the design, implementation and comprehensive monitoring of the Group's internal Financial Reporting control system. The Corporate Tax Department forms part of the Finance Department and is responsible for designing, implementing and monitoring the Group's Tax Risk Management.

Strategy Department
The Strategy Department is in charge of overseeing all strategic initiatives using Key Performance Indicators (KPIs).

Risk and Compliance Function
The Risk and Compliance function, which is part of the Internal Audit department, is in charge of drawing up the Corporate Risk Map, presenting the results of risk indicators on a monthly basis and overseeing the action plans agreed with each risk manager and their association with strategic objectives.

In 2016, the risk map and action plans to mitigate the main risks have been updated and the KRIs for main risks defined, setting tolerance levels for each risk. Said KRIs are measured on a monthly basis and reported to the Management Committee in order to assess action plans implemented and propose additional action plans, where necessary. Currently, work is ongoing to implement a tool that offers support and automates the risk identification and assessment process.

E.3 State the main risks, including tax risks, which may affect business goal achievement.

a) Financial Risks, such as fluctuation of interest rates, exchange rates, inflation, liquidity, non-compliance with financing undertakings, restrictions on financing and credit management.

b) Compliance Risks, arising from possible regulatory changes, interpretation of legislation, regulations and contracts, and non-compliance with internal and external regulations. Tax and environmental risks are included under this heading. It also covers Reputational Risks, arising from the company's behaviour which negatively affects fulfilment of the expectations of one or more of its stakeholders (shareholders, customers, suppliers, employees, the environment and society in general).

c) Business Risks generated by inadequate management of procedures and resources, whether human, material or technological. This category includes the difficulty of adapting to changes in customer demands and requirements, including those resulting from External Risks caused by natural disasters, political instability or terrorist attacks.

d) Systems Risks, produced by attacks or faults in infrastructures, communications networks and applications that may affect security (physical and logical) and the integrity, availability or reliability of operational and financial information. This heading also includes business interruption risk.

e) Strategic Risks, produced by difficulty accessing markets and difficulties in asset disinvestment.

E.4 State whether the entity has a risk tolerance level, including for tax risk.

NH Group has defined 42 KRIs for its 5 main risks that have been measured on a monthly basis since June 2016. Tolerance levels have been defined for each of the KRIs. When the KRI indicates a specific level of tolerance, the Risk owner is asked to define a mitigation measure to bring the level of risk to the desired level of control.

For tax matters, the Group acts in line with its Corporate Tax Strategy and the Tax Risk Management and Control Procedure.

On 11 November 2015 the Group has approved its adherence to the Code of Good Tax Practices that has been approved on the 20th July 2010 by the large Business Forum (“Foro de Grandes Empresas”).

E.5 State which risks, including tax risks, have had an impact over the year.

The materialisation of risks is inherent to the activity carried out by the group. NH Group provides detailed information about its risks in its annual accounts, specifically in its management report. The risks that materialised during the financial year have not had a significant impact on NH Hotel Group’s Financial Statements.

E.6 Explain the response and supervision plans for the entity’s main risks, including tax risks.

The design of the response to Risk takes into account the cost/benefit analysis between the impact of Risk and the actions to be taken to manage it, the appetite and tolerance for Risk and the strategic goals of the NH Group.

The NH Group follows an extensive coverage policy by taking out insurance policies for the risks to which it is exposed. It also has a policy of continuously reviewing this coverage.

The Strategy Department oversees the achievement of strategic goals by continuously monitoring strategic initiatives and detection of new risks.

The Internal Audit Department, in the exercise of its Risk and Compliance function, supervises implementation of response plans to manage the main risks.

The Management Committee supervises KRIs on a monthly basis. A follow-up is performed on the risk map action plans twice a year. The Risks Map is updated each year.

The Audit and Control Committee regularly carries out the following supervisory and control functions, as specified in Article 25 b) of the Regulation of the Board of Directors.

The Tax Department oversees the Group’s tax risk management. The Group has approved a Tax Risk Management and Control Procedure in order to identify and, as far as possible, mitigate any tax risk that may arise in Spain or in the countries in which the Group operates.

F - INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS (SCIIF)

Describe the mechanisms making up the risk control and management systems in relation to the process of issuing financial reports (SCIIF) on your company.

F.1 The company’s control environment

Report, indicating the main characteristics of at least:

F.1.1 What bodies and/or areas are responsible for: (i) the existence and maintenance of an appropriate and effective financial reporting system; (ii) its implementation; (iii) its supervision.

The Financial Department is responsible for the design, implementation and overall monitoring of the Group's Internal Financial Reporting Control System. This means maintaining the necessary control structure and ensuring it functions effectively and continuously over time. The purpose of the internal control system is to provide the company with reasonable guarantees that the financial reports generated are reliable.

Since January 2016, the Finance Department has had a new function: internal control, within the Consolidation Department. A process began at the end of 2016 to transfer the definition and ownership of this System from Internal Auditing to this function. This process will end in 2017.

The company's Board of Directors is a supervision and control body and this responsibility is included in Article 5 of the Board Regulations. In order to carry out the oversight function described above, the Board of Directors turns to the Audit and Control Committee, which is obliged, through its internal auditing function, to supervise the process of drawing up and submitting regulatory financial information, as described in Article 25 of the Regulations of the Board of Directors.

F.1.2 If the following elements exist, particularly in relation to the financial report generation process:

• Departments and/or mechanisms responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining areas of responsibility and authority, with a suitable distribution of tasks and functions; and (iii) the existence of sufficient procedures for these to be properly disseminated within the entity

Defining and reviewing the organisational structure of the Group is the responsibility of the Management Committee.

Significant changes to the organisation chart, i.e., those affecting senior management, are approved by the Board of Directors, after being proposed by the Appointments and Remuneration Committee. The organisation chart is available to all employees on the Group's intranet.

The lines of both hierarchical and operational responsibility are duly communicated to all the Group's employees, using internal Group communication channels, particularly the intranet, management meetings and the notice boards in place in each hotel.

In order to fulfil the objectives and responsibilities relating to maintenance and supervision of the Financial Reporting Control process, specific functions have been defined which apply to those responsible for each process involved with Financial Reporting, in order to ensure compliance with the implemented controls, analyse how well they function, and report any changes or incidents that may occur.

On an ascending scale of responsibility, this structure includes the supervisors of each process in the area of control, the directors of each business unit and the directors of each corporate area directly concerned with the processes related to the internal Financial Reporting Control System.

The Finance Department is entrusted with receiving information from the different individuals responsible for the process and is also responsible for ensuring correct operation of the Internal Control System

• Code of conduct, the approval body, the degree of dissemination and instruction, included principles and values (indicating if there are specific mentions of the transactions register and the generation of financial reports), the body in charge of analysing breaches and proposing corrective actions and penalties.

The NH Group has had a Code of Conduct since 2006, which was last revised in 2015. Responsibility for approving the Code of Conduct rests with the NH Group's Board of Directors. This document affects all NH Group employees, and applies not only to employees, managers and members of the Board of Directors, but also, in certain cases, to other stakeholders, such as customers, suppliers, competitors, shareholders and the communities in which NH runs its hotels.

The Code of Conduct summarises the professional conduct expected of all employees at centres operating under NH Group's brands (hereinafter, NG Group employees), who are committed to acting with integrity, honesty, respect and professionalism in the performance of their work. The NH Group is committed to complying with the laws and regulations in the countries and jurisdictions in which it operates. These include laws and regulations on health and safety, discrimination, taxation, data privacy, competition, anti-corruption, prevention of money laundering and commitment to the environment. The key areas covered by the Code are:

- Commitment to people
- Commitment to customers
- Commitment from suppliers
- Commitment to competitors
- Commitment to shareholders
- Commitment to communities and society
- Commitment to the Group's assets, knowledge and resources
- Obligations regarding fraudulent or unethical practices
- Commitment to the stock market

Since 2014, NH Group has driven the creation of the Compliance function, the scope of which applies to the following key areas:

- Internal Code of Conduct: Sets out minimum standards to be respected in relation to the purchase and sale of securities and privileged and confidential information and its processing.

- Conflict of Interests Procedure: Establishes the rules to be followed in situations where there is a conflict of interests between the Company, or any of the companies making up the Group, and the direct or indirect personal interests of the directors or persons subject to the conflict of interests rules.

- Code of Conduct: Intends to establish the main values and rules which should govern the conduct and actions of each of the employees and executives of the Group, as well as the members of the governing bodies of the companies that form part of the Group.

- Criminal Risk Prevention Model: Describes the crime prevention and management principles in place at NH Group and defines the structure and operation of the control and monitoring bodies set up within the Company, systematising existing controls for the purpose of preventing and mitigating the risk of crimes being committed in the Company's various areas.

Compliance Committee
NH Hotel Group set up the Compliance Committee in 2014, comprising members of the Management Committee and Senior Management. It has the power to oversee compliance with the Group's Internal Code of Conduct, Conflict of Interests Procedure, Code of Conduct and Criminal Risk Prevention Model.

The Compliance Committee submits a detailed report to the Board's Audit and Control Committee regarding the activities carried out and has the power to impose disciplinary sanctions on employees in matters within its scope of responsibility.

Compliance Office
The Compliance Office is in charge of distributing and overseeing compliance with the Code of Conduct and drawing up the Criminal Risk Prevention Model. The Compliance Office reports directly to the Compliance Committee and is also responsible for managing the confidential Code Complaints Channel and Code of Conduct queries.

The Criminal Risk Prevention Model has been implemented in Spain (Business Unit and Corporate) and Italy, where training was imparted on this topic during 2016. The percentage of those undertaking training is 66.67% in Spain (Central Services employees, Hotel Directors and Heads of Department) and 99% in Italy.

In 2016, an external review of the Criminal Risk Prevention Manual and Matrix in Spain was carried out. In 2016, the Compliance Office started to implement the Criminal Risk Prevention Model in the countries in which NH Group operations are most significant. This process will be completed in the coming year.

Furthermore, NH Group has started to roll out an IT tool that will help to manage and audit the Criminal Risk Prevention Model.

The Code of Conduct is available for employees on the company intranet, and for third parties on the Group's website. Through the Human Resources departments of each business unit, the Group has put in place a procedure for requesting all employees to adhere to the code, with training on the Code of Conduct being imparted to NH Group's employees. Its implementation and distribution continued during 2016 with on-line training about the Code of Conduct, with the aim of raising awareness amongst all employees. Furthermore, in 2016, it was launched in the Business Unit in Germany, meaning that by year-end, it had been rolled out to the entire Group.

On 31 December 2016, total adhesion to the Code of Conduct updated on 29 June 2015 and offered in digital format came to 66.74%. This figure does not include adhesion in Germany, where the training course was launched in December.

The Code of Conduct contains the following points specifically relating to financial reports and the recording of transactions:

The Group has is committed to reporting transparency, construed as the undertaking to release reliable information to the financial markets, as well as to any other kind of markets. Hence, the company's internal and external financial and economic reporting shall faithfully reflect its economic, financial and equity position in accordance with generally accepted accounting standards.

The Manipulation of Information section stresses that "the individuals responsible must transmit truthful, complete and comprehensible financial reports. Under no circumstances may they knowingly provide incorrect, inexact or inaccurate information. Therefore, individuals responsible shall refrain from:

- Keeping a record of transactions in non-accounting media not recorded in official books;
- Keeping accounts which, referring to the same activity and financial year, hide or fake the company's true situation.
- Recording expenses, income, assets or liabilities which are non-existent or not in line with reality;
- Noting businesses, acts, transactions or, in general, financial transactions in the compulsory books, or making a note of them with figures other than the true ones;
- Making entries in accounting books, incorrectly indicating their purpose;
- Using false documents;
- Deliberately destroying documents before the end of the legally-required time limit for retaining them."

- Reporting channel for informing the Audit Committee of financial and accounting irregularities, as well as any breaches of the Code of Conduct and irregular activities in the organisation, noting if this is confidential.

A procedure has been established for lodging complaints about breaches of the principles enshrined in the Code of Conduct, and this enables employees to provide confidential information about any non-compliance with the principles set out in the Code of Conduct. This procedure ensures transparency, confidentiality and respect throughout all its stages. As mentioned previously, it is managed by the Compliance Office.

The procedure for reporting and dealing with possible non-compliance and reports relating to the Code of Conduct is administered by the Senior Vice President of the Group's Internal Audit Department, who acts independently and ensures the channel's confidentiality, giving an account of the most significant incidents over the course the year to the Group's Audit and Control Committee.

Complaints should preferably be lodged electronically using a channel expressly set up for the purpose and available to all stakeholders (codeofconduct@nh-hotels.com), through which they are forwarded to the Internal Audit Department. In addition, they may be sent by post for the attention of the Senior Vice President of NH Hotel Group, S.A. Internal Audit Department at Santa Engracia 120, 28003 Madrid, Spain.

The Senior Vice President of the Internal Audit Department is responsible for analysing the information presented and requesting the corresponding evidence and reports. All relevant complaints are submitted to the Compliance Committee and the Audit and Control Committee, upholding the principle of confidentiality guaranteed in the Code of Conduct.

- Regular training and refresher courses on, at least, accounting standards, audits, internal control and risk management for staff involved in preparing and reviewing financial reports and evaluating the reporting system.

Through the Internal Audit Department, the following training activities in relation to the Financial Reporting and Control system have been carried out:

Workshop for a total of 15 employees belonging to the retained function in the Netherlands on the controls implemented and the evidence required for their documentation. The objective is to provide training on the most relevant aspects of the financial information generation process, resolve queries about the current model and increase the quality of evidence provided in self-assessments undertaken.

Work sessions on the financial information report model and its integration in the RGC tool for the Internal Control, Internal Auditing and Tax departments.

Workshop at the Business Unit in Spain for 15 individuals and 5 SCIIF managers at the Shared Services Centre on possible improvements to the Internal Control System concerning financial information.

A total of 24 hours of internal training has been imparted.

Alongside this, the Financial Department occasionally attends training courses or conferences on updated accounting standards, consolidation standards and the specific financial reporting applicable to the sector, which are considered especially relevant to its work. We would like to highlight the organisation of training sessions in 2017 concerning the new IFRS 16 on leasing.

F.2 Financial reporting risk assessment

Report at least:

F.2.1 Which are the main characteristics of the risk identification process, including error and fraud, regarding:

- Whether the process exists and is documented.

The goal of the process of assessing financial risks is to establish and maintain an effective process for identifying, analysing and managing the risks relevant to the preparation of Financial Statements.

At NH the risk management process consists of three levels of participation:

- The Board of Directors reviews the Audit and Control Committee's supervision of risk management policies, processes, personnel and control systems.
- The Internal Audit Department regularly reviews the corporate risk model.
- The Chief Officers or acting managers of each area, including the Executive Managing Directors and other professionals directly involved in the risk management process within their area of responsibility.

The types of risk are classified as follows:

Technological risks
Technological risks relate to the management of information systems to ensure the completeness, availability and reliability of financial information and avoid exposure of the company's significant assets to potential loss, damage or misuse.

These risks relate to the following areas:
- Access security
- Availability
- Completeness
- Supervision

Accounting Risks
These are risks which affect the reliability of financial information in terms of accounting records and breaches of accounting principles, and refer to the following three categories of assertions:

- Types of transactions:
  - Occurrence
  - Completeness
  - Accuracy
  - Cut-off
  - Classification

- Accounts' balances:
  - Existence
  - Rights and obligations
  - Completeness
  - Valuation and allocation

• Presentation and breakdown:
  - Occurrence and rights and obligations
  - Completeness
  - Classification and clarity
  - Accuracy and valuation

Organisational and resource management risks
These risks include problems in the planning, management and monitoring of financial, material and human resources, and difficulties in interdepartmental communications and decision-making, including possible quality problems and other threats in the course of the Group's activities.

These risks relate to the following areas:

- Budget Control
- Credit Management
- Receivables Management
- Payables Management
- Personnel Management
- Fraud

Data processing risks
These risks include problems in data processing in information systems, mainly in the following areas:

- Human Error
- Completeness of Invoicing
- Completeness of Master Files
- Review

Presentation and process risks
These risks can lead to ineffectiveness and inefficiency within the Group structure when drawing up financial reports in terms of quality, time and costs, and include the following aspects:

- Timeliness of the information
- Compliance with internal standards and policies

Business environment risks
Business environment risks arise due to external factors which can lead to significant changes in the basis underlying internal control of the objectives of financial reporting and the Group's strategies. Business environment risks are related to the following matters:

- Failure to comply with commitments undertaken
- Fiscal contingencies

Outsourcing risks
Outsourcing risks arise as a result of the process of transferring part of the administration service to a third party, and are categorised as follows:

- Service Level Agreements.
- Availability
- Personnel Management
- Knowledge Management
- Legal

The risk identification and assessment process is carried out by the Internal Audit Department in collaboration with the Strategy Department and supervised by the Audit and Control Committee as part of its duties.

The risk identification process is documented in the Corporate Risk Manual.

• Whether the process covers all financial reporting assertions (existence and occurrence; completeness; evaluation; presentation, disclosure and comparability; and rights and obligations), whether it is updated and how often.

  In order to ensure the reliability of Financial Reporting, when identifying risks and controls, the accounting errors that may arise from the following objectives for financial information are always considered:

  • Completeness: balances or transactions that should be recorded but are not.
  • Transaction cut-off: those booked in a period other than when they were accrued.
  • Accuracy: transactions recorded with errors (amounts, conditions).
  • Occurrence/Existence: transactions that have taken place within the period.
  • Valuation/Allocation: record of transactions involving incorrect sums due to inadequate valuation calculations.
  • Presentation/Classification: classification errors in the various entries of the financial statements.
  • The risk identification process is undertaken once per year.

• The existence of a process for identifying the consolidation perimeter, taking aspects such as the possible existence of complex company structures, and instrumental entities or those with a specific purpose into account.

  The Financial Department will consolidate the accounts every month.

  This process starts with the consolidated accounts being received from the various Business Units each month. These are checked and approved to ensure they comply with the established principles of control and significant influence.

  The last phase of this process involves verifying the standardisation adjustments affecting the income statement (monthly) and the balance sheet (quarterly).

Furthermore, in this respect, a distribution list has been set up for people in the Finance Department to whom any change on the Group's company map and the exits from and entries into new centres must be reported to in order to ensure control over changes to the consolidation perimeter.

- Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as these affect the financial accounts.

  In designing the risk management process associated with generating Financial Reports, the following objectives have been focused on:

  • Definition of the Financial Information Control System processes and sub-processes.

  Determination of the relevant risk categories and types for each of the different Internal Financial Information Control System processes defined in the point above.

  Corresponding subcategories have been defined for each of these risk categories.

  • Definition and analysis of controls for each specific risk and establishment of their degree of effectiveness.

  The corresponding risks and controls have been established in a consolidated risk matrix for each of the sub-processes detailed above, in which the most relevant risks for each process are defined, along with the operational controls and their effectiveness in mitigating the risks that affect them.

- Which governing body of the company supervises the process.

  The company's Board of Directors is responsible for supervising the risk assessment process. In order to carry out the aforementioned supervision duties, the Board of Directors turns to the Audit and Control Committee, which performs this duty through the Internal Audit Department.

F.3 Control Activities

Report, indicating the main characteristics, on the availability of at least:

F.3.1 Procedures to review and authorise the financial report and description of the SCIIF, to be published on the securities market, indicating its responsible bodies, and documentation describing the workflows and controls (including those regarding fraud risk) of the different types of transactions which can have a tangible effect on the financial accounts, including the accounting close procedure and the specific review of the relevant judgements, estimations, evaluations and projections.

Every month, the Group's Finance Department submits the management report to the Board of Directors for their consideration. This report includes the most important financial and management information, the Profit and Loss account and the main financial indicators and ratios. The Board of Directors reviews the intermediate financial statements every six months. Furthermore, in 2016, the consolidated financial statements for the first half of the year were reviewed.

The Board of Directors periodically requests an analysis of specific issues, as well as the details of particular financial transactions which, because of their importance, need to be studied in greater depth.

The Chairman of the Audit and Control Committee periodically reviews this financial reporting during its meetings, and when appropriate, requests the attendance of the external and/or internal auditors.

The Financial Statements are drawn up based on a reporting calendar in accordance with legal requirements and are shared among the areas involved in preparing them.

Internal control of financial information:
NH has an Internal Financial Reporting Control System (SCIIF) based on the COSO model (Committee of Sponsoring Organisations of the Treadway Commission). This model has the following objectives:

• Effectiveness and efficiency of operations
• Safeguarding assets
• Reliability of financial reporting
• Compliance with applicable laws and regulations

The SCIIF model includes reviewing the Company's Entity-Level Controls (ELC).

The SCIIF model used by NH Group contains a matrix of financial risks and controls which includes the following business cycles, which are relevant to the preparation of the Group's financial statements:

• Loyalty programme
• Purchasing and Suppliers
• Sales and Customers
• Cash
• Financing
• Fixed assets
• Inter-company
• Tax
• Human Resources
• Provisions and contingencies
• Accounting close, consolidation and financial reporting process
• Shared Services Centre
• Business support technological processes.

The total business cycles include 21 processes and 75 sub-processes. In order to achieve financial reporting reliability and completeness targets, a total of 439 controls have been defined to prevent, detect, mitigate, compensate for or correct their potential impact.

The structure of the financial risk matrix includes the following information:

- Process and Sub-process.
- Risk, being the possible events or actions which could affect the capacity of the company to meet financial reporting objectives and/or implement strategies successfully.
- Description of the control, defining the control activities included in the policies, procedures and practices applied by the Group to ensure it meets its control objectives and the risk is mitigated.
- Evidence, the documentation maintained by those responsible for the control (company personnel), so that the entire model can be regularly supervised and audited.
- Type of Control: If the control is key, or not, preventive or detective, and manual or automatic, depending on whether they can be monitored using data from automated tools.
- Control managers: for each control activity.
- Frequency: depending on its execution.

The SCIIF model was substantially changed during the 2014 financial year due to the Administration function being outsourced from 1 January 2014, adapting the controls to the new defined processes and sub-processes. Therefore, controls were defined to be run by personnel from the Shared Services Centre, the administrative and corporate personnel function retained. Furthermore, during 2015 the model was extended to the Business Units in the Netherlands, Belgium and Germany and in 2016 to Italy, in addition to the processes in Latin America (Mexico and Argentina).

F.3.2 Internal control policies and procedures for the information systems (including secure access, change monitoring and management, operational continuity and separation of functions) which support the company's processes relating to the preparation and publication of financial reports.

Internal control of IT systems
There is an internal control model for the Group's information systems which covers the different IT processes and is based on their associated risks. This model (based on COSO and COBIT) includes a matrix of 107 general IT system controls (GITC) and policies and procedures relating to the security the IT systems need.

The internal control model covers the systems that contribute to the preparation of the Group's consolidated financial statements and thus assures the completeness, availability, validity and quality of the information provided to the markets.

The GITC matrix is aligned with the control models created by the NH Group for other business cycles, which are structured into the following processes:

Access to programmes and data.
There are policies and procedures that set up controls over:

- Restricted access to the systems, avoiding unauthorised access or changes to programmes that could affect the completeness, integrity and reliability of financial reports.
- Correct separation of functions, in order to guarantee secure access to the accounts information systems.
- Security in the facilities housing the systems, ensuring that only authorised personnel have access to them.

Operations.
There are policies and procedures that set up controls over:

- The availability of the information, ensuring that financial data are complete, valid and accurate.
- Good management of incidents, enabling quick resolutions and minimising their impact.
- That operations are monitored, ensuring that they are executed completely and on time. Any incidents are resolved, enabling jobs to be restarted and run correctly.

Since 2011, the Group has had an Information Security area, part of the IT Department, which monitors security in all IT processes, assuring the availability, reliability and completeness of information.

Security Policy
The security policy is the reference framework defining the directives to be followed by all employees, and makes it possible to ensure the security of the IT systems and, therefore, of all the business processes. This policy was revised during the 2015 financial year.

During 2016, various initiatives linked to the Information Security Master Plan continued to be implemented, including those relating to the organisation of security, change management and physical security.

F.3.3 Internal control policies and procedures to supervise the management of outsourced activities and those aspects of evaluation, calculation or appraisal entrusted to independent experts, which may materially affect the financial accounts.

Since 1 January 2014, the Administration function has been outsourced to a third party in the companies included in the scope of the SCIIF. This outsourcing was defined as a process with a significant impact on the preparation of financial reports.

The NH Group has implemented an internal control model for the Shared Services Centre (SSC) aligned with the control models defined for the other business cycles.

Therefore, a matrix has been defined with 6 sub-processes and 28 control activities, including controls relating to the provision of the administrative function service to the SSC, compliance with regulations, the continuity of the service and the governance model in the outsourcing contract.

The service provider has also been asked to obtain an ISAE (International Standard on Assurance Engagements) 3402 report, allowing the NH Group to check whether the control objectives and activities of the service provider have been effective in the corresponding period.

F.4 Information and Communication

Report, indicating the main characteristics, on the availability of at least:

F.4.1 A specific area responsible for defining and updating accounting policies (accounting policies area or department) and resolving queries or conflicts arising from their interpretation, maintaining constant communication with those responsible for operations in the organisation, and an updated manual of accounting policies communicated to the units through which the company operates.

The Financial Department is responsible for issuing and updating accounting policies and the resolution of queries or conflicts arising from their interpretation.

The NH Group's Organisation and Human Resources Department is responsible for standardising, analysing and publishing all the regulations and procedures applicable within the department, particularly those dealing with operating, administrative (including accounting), quality and regulatory matters.

The Internal Audit Department is responsible for the aforementioned processes, policies and procedures on a periodic basis.

The Financial Department is responsible for defining and applying accounting criteria, checking that they are updated and approved.

To that end, NH Group currently has a common Accounting Plan, a Manual of Accounting Policies and a Consolidation Manual, applicable to all the countries in which the Group operates. This body of regulations reflects the International Financial Reporting Standards (IFRS), which are the accounting standards by which the Group is governed. The Group's Financial Department is responsible for interpreting and applying regulations relating to Financial Reporting.

F.4.2 Mechanisms to capture and prepare financial reports with standardised formats, applicable and for use in all units of the company or the Group, supported by the main financial statements and notes, and the information provided on the SCIIF.

NH Group has a common IT consolidation tool for all the companies. This tool centralises all information relating to the accounts of the companies making up the NH Group on a single system. Information is uploaded onto the consolidation system automatically, for the companies that have migrated to SAP, or manually from the accounts management system for the remaining companies. Furthermore, preventive controls have been defined on the tool itself which ensure data is uploaded correctly.

It is important to point out that the NH Group has a single Accounts Plan for the entire Group along with a common monthly reporting model for all the Business Units, which includes the instructions laid down by the Corporate Finance Department for information that must be reported in each one of the month ends, and which is subject to review. There is also a single reporting timetable which is common to all the Business Units.

F.5 Supervision of the system

Report, indicating the main characteristics of at least:

F.5.1 The supervision of the SCIIF by the Audit Committee and whether the company has an internal auditing area whose competency includes supporting the committee in supervising the internal control system, including the SCIIF. It will also report the scope of the evaluation of the ICFR during the year and the procedure by which the body in charge of the evaluation will report its results, if the company has an action plan which details possible corrective measures, and if its impact on financial reporting has been considered.

Supervisory activities of the Audit Committee

The Audit and Control Committee is the advisory body to which the Board of Directors has delegated its powers to update and supervise the SCIIF. As part of this function and to fulfil the tasks delegated by the Board, the Committee receives and reviews the financial reports which the NH Group issues to the markets and regulatory bodies, particularly the consolidated annual financial statements accompanied by the Audit Report. The Committee supervises the preparation process and the completeness of the financial reports of the Company and its subsidiaries, and checks that the legal requirements applicable to the NH Group are complied with, the consolidation perimeter is appropriate and that generally accepted accounting standards are applied correctly.

The Audit and Control Committee receives an annual report from the Internal Audit SVP on its assessment of the effectiveness of the SCIIF model, the weaknesses detected during internal audits, and the plans or actions already in place to remedy any detected weaknesses.

Following a transition plan, the Internal Control Function, reporting to the Financial Department, shall assume full responsibility for the SCIIF, in addition to its maintenance and extension to the different companies that form part of NH Group.

Currently, NH Group is rolling out an IT tool that will help to automate the SCIIF assessment and certification process. The tool is expected to be fully rolled out by the end of 2017.

The Audit and Control Committee supports and supervises the work of the Internal Audit department in its assessment of the SCIIF. The Committee proposes the selection, appointment and replacement of the body or person responsible for Internal Audit services, validates and approves the strategy, the Internal Audit plan and objectives for the year, and is responsible for evaluating the performance of the Internal Audit Department.

The Internal Audit plan for assessing the SCIIF is presented to the Audit and Control Committee for final validation and approval before it is put into practice, in order to include all the considerations of the Committee.

The level of implementation of the recommendations arising from the SCIIF is reviewed by the Audit and Control Committee at least once a year.

The Audit and Control Committee procedures are documented in the presentations made by said Committee and subsequently included in the corresponding signed minutes.

Internal Audit Function
Internal audits are carried out by the Group's Internal Audit Department, which reports functionally to the General Secretary and directly to the Audit and Control Committee. This hierarchical structure is designed to enable the Internal Audit function to remain structurally independent and to encourage direct communication to and from the Audit and Control Committee.

The Internal Audit function, via a team located in both Corporate and the business units, ensures, within reason, the effectiveness of the internal control system, supervising and evaluating the design and effectiveness of the risk management system applied to the company, including specific IT audits.

This function has Internal Audit statutes that have been formally approved by the Audit and Control Committee, and an internal audit manual which sets out the Department's working methods.

In relation to monitoring the SCIIF, the Internal Audit Department is responsible for:

- Independently evaluating the internal control model for financial reporting.
- Testing the assertions of the Board.
- Testing the effectiveness of internal controls in the companies within the scope of application, in a maximum period of one year for key controls.
- Helping to identify weaknesses in controls and reviewing action plans to correct inadequate controls.
- Conducting follow-up checks to see if weaknesses in controls have been properly remedied.
- Coordinating between the Board and the external auditor when clarification is needed on scope and testing plans.

Scope of SCIIF 2016
The Group's SCIIF model covers the business units in Spain, Benelux (the Netherlands and Belgium), Central Europe (Germany and Austria) and Latin America (Mexico and Argentina, partially implemented), which consist of 333 hotels and 13 business cycles of major importance in the presentation of financial reports.

A total of 439 control activities have been defined, divided between financial reporting and IT systems, and classified as key and non-key controls. Those responsible for the controls have been defined at Corporate level, for Business Units and within the Shared Services Centre.

Since October 2014, a monthly calendar has been defined for internal control reporting where, at the end of each month, each responsible body performs a self-assessment of the controls for which it is responsible. This self-assessment leads to a certification process at Administration SVP level.

During 2016, the Internal Audit Department supervised the self-assessment process and evidence deposited in a file shared by the Shared Services Centre, Administration and the Audit Department.

The assessment process in 2016 analysed a total of 366 controls for the geographic area of Spain, the Netherlands, Belgium, Germany, Austria, Italy, Mexico, Argentina and controls at Corporate level, which involved reaching 83% of their total. These controls were evaluated according to the guidelines included in the "SCIIF Evaluation Procedure", summarised below:

- The controls evaluated each month (relating to Administration and the Shared Services Centre) were subjected to two types of review, one based on the supervision of the evaluation by the owners of the controls, and another where the objective was to repeat the tests and checks of the effectiveness of the control.
- For the other controls, evidence was obtained and the necessary tests were run to enable conclusions to be drawn on their effectiveness.
- User-defined files (UDA) have been identified which impact the preparation of financial reports, where the existence has been verified of controls of completeness, availability and security.

The review has detected weaknesses in internal controls and room for improvement in certain processes which do not have a significant impact on the quality of financial reporting, and action plans agreed with the bodies responsible for the controls have been proposed. The Internal Audit Department will check the implementation of these action plans during its regular tests of the SCIIF.

F.5.2 Whether there is a discussion procedure through which the accounts auditor (as established in the NTA), the internal auditing area and other experts can report to senior management and the Audit Committee or company administrators on the significant weaknesses in internal control detected during the process of reviewing the annual accounts, or others for which they are responsible. Likewise, whether there is an action plan to correct or mitigate the weaknesses found.

The Audit Committee meets periodically to review the regular financial reports. It also discusses matters relating to internal controls and/or other current initiatives.

The Financial Department, through the Chief Financial Officer, is responsible for notifying senior management of any important matter relating to the SCIIF and/or financial reporting through the meetings of the Board of Directors, which are attended occasionally by the Senior Vice President of the Internal Audit Department.

All the weaknesses detected by the Internal Audit Department during its work are subject to recommendations and action plans agreed with the audited department. The Internal Audit Department supervises the implementation of the agreed actions and reports their status to the NH Group's various governing bodies (mainly the Audit Committee).

The external auditor notifies the Audit and Control Committee of the conclusions of its audit procedures, and any other matters which may be considered important. The external auditor also has access to the Audit and Control Committee in order to share, comment on or report any aspects they consider necessary or pertinent. The external auditor, without breaching his/her independence, will participate in the dialogue with Management.

F.6 Other relevant information.

None.

F.7 Report by the external auditor.

Report on:

F.7.1 Whether the SCIIF reports sent to the markets have been reviewed by the external auditor, in which case the company must include the corresponding report as an appendix. If not, it must report its reasons.

The Group's Management has decided to submit the information relating to the SCIIF included in this section F of the Annual Corporate Governance Report for 2016, drawn up by the Company's Management, to the external auditor for review. This report is attached as an Annex.

G - DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the Company's degree of compliance with the recommendations of the Code of Good Governance for listed companies.

If any recommendation is not followed or is only followed in part, a detailed explanation of the reasons must be included so that shareholders, investors and the market in general have enough information to assess the company' methods. Generalised explanations will not be acceptable.

1. The articles of association of listed companies should not limit the maximum number of votes that a single shareholder may cast, nor contain other restrictions that stand in the way of a company take-over through the acquisition of its shares in the market.

   Complies

2. When a parent company and a subsidiary company are both stock market listed, both must provide detailed disclosure on:

   a) Their respective areas of activity and possible business relations between them, as well as between the listed subsidiary and the other companies in the group;
   b) The mechanisms in place for resolving potential conflicts of interest that may arise.

   Not applicable

3. That during the ordinary general meeting, in addition to circulating the annual corporate governance report in writing, the chairman of the board of directors verbally informs the shareholders, in sufficient detail, of the most important aspects of the company´s corporate governance and, in particular:

   a) About changes that have occurred since the last ordinary general meeting.
   b) About specific reasons why the company does not follow any of the recommendations in the Corporate Governance Code and, if any, alternative rules applicable in this area.

   Partially complies

   Although the General Shareholders' Meeting complied with the provisions of this Recommendation, it was the Chairman of the Appointments, Remuneration and Corporate Governance Committee (and not the Chairman of the Board) who provided this information.

4. That the company defines and promotes a policy of communication and contact with shareholders, institutional investors and voting advisers which fully respects regulations against market abuse and gives similar treatment to shareholders who are in the same position.

   And that the company publishes the policy on its web site, including information relating to the way in which it is put into practice and identifying the contact persons or those responsible for carrying it out.

   Complies

5. That the board of directors does not bring a proposal to the general meeting for delegation of powers to issue shares or convertible securities which exclude preferential subscription rights for more than 20% of the company's capital at the time of delegation.

   And that when the board of directors approves any issue of shares or convertible securities excluding preferential subscription rights, the company immediately publishes reports on its web site about this exclusion as referred to under company law.

   Complies

6. That listed companies drawing up the reports listed below, whether on a compulsory or voluntary basis, publish then on their web site sufficiently in advance of the ordinary general meeting being held, even if their circulation is not mandatory:

   a) Report on the independence of the auditor.
   b) Reports on the work of the audit and appointments and remuneration committees.
   c) Audit committee report on related-party transactions.
   d) Report on the corporate social responsibility policy.

   Complies

7. That the company transmits general shareholders' meetings live on its web site.

   Complies

8. That the audit committee ensures that the Board of Directors makes every effort to present financial statements to the General Shareholders' Meeting that are free from limitations or qualifications in the audit report and, in exceptional circumstances where they may exist, both the Chairman of the Audit Committee and the auditors shall provide the shareholders with a clear explanation of the content and scope of such limitations or qualifications.

   Complies

9. That the company permanently publishes the requirements and procedures that it will accept to prove ownership of shares, the right to attend the general shareholders' meeting and the exercise or delegation of the right to vote.

   And that such requirements and procedures facilitate the shareholders' attendance and the exercise of their right to vote and that they are applied in a non-discriminatory manner.

   Complies

10. That where any legitimate shareholder has, prior to the general shareholders' meeting being held, exercised the right to supplement the agenda or submit new proposals for resolution, the company:

   a) Immediately circulates such supplementary points and new proposals for resolution.
   b) Publicises the attendance card form or vote delegation or remote voting form with the amendments needed so that the new points on the agenda and alternative proposals for resolution may be voted on under the same terms as those proposed by the board of directors.
   c) Puts all such points or alternative proposals to the vote and applies the same voting rules as those for the points made by the board of directors including, in particular, the assumptions or deductions on the outcome of the vote.
   d) Report, after the general shareholders' meeting, the breakdown of the vote on such supplementary points or alternative proposals.

   Complies

11. That, in the event that the company foresees payment of fees for attendance at the general shareholders' meeting, it sets up a general policy on such fees beforehand and that said policy is stable.

   Not applicable

12. That the board of directors performs its duties with a unity of purpose and independence of judgement, gives the same treatment to all shareholders who are in the same position and is guided by company interest, understood to be the achievement of a profitable business that is sustainable in the long term, that promotes its continuity and the maximisation of the company's financial value.

   And that in pursuing company interests, apart from respecting the laws and regulations and behaviour based on good faith, ethics and respect for commonly accepted uses and good practice, it seeks to reconcile company interest with, as appropriate, the legitimate interests of its employees, suppliers, customers and other interest groups who may be affected, along with the impact of the company's activities on the community as a whole and the environment.

   Complies

13. That, in the interests of effectiveness and participation, the board of directors should comprise no fewer than five and no more than 15 members.

   Complies

14. That the board of directors approves a policy for selecting directors that:

   a) Is specific and verifiable.
   b) Ensures that proposals for appointment or re-election are based on prior analysis of the board of directors' needs.
   c) Encourages diversity of knowledge, experience and gender.

   That the result of prior analysis of the board of directors' needs is included in an explanatory report from the appointments committee which is published when calling the general shareholders' meeting to which it is submitted for ratification, appointment or re-election of each director.

   And that the policy for selecting directors promotes the objective that by 2020 the number of female directors is at least 30% of the total number of members of the board of directors.

   The appointments committee will verify compliance with the policy for selecting directors annually and will report on it in the annual corporate governance report.

   Complies

15. External proprietary directors and independent directors should comprise a significant majority of the Board of Directors, and the number of executive directors be kept to a minimum, taking into account the complexity of the corporate group and the percentage shareholdings of the executive directors in the company.

    Complies

16. That the ratio of proprietary directors to the total number of non-executive directors should not be greater than the existing ratio between the capital of the company represented by such directors and the remaining capital.

This criteria may be flexible:

a) In companies with high capitalisation where shareholdings that are legally considered to be significant are scarce.
b) In companies in which there are numerous shareholders represented on the board of directors and these shareholders have no links between them.

Complies

17. That independent directors represent at least half of all the directors.

    Nevertheless, where the company does not have high capitalisation or where, even if it does, it has one shareholder, or several acting jointly, who control more than 30% of the company capital, the number of independent directors represents, at least, one-third of all the directors.

    Complies

18. That companies publish and update the following information about their directors on their web site:

    a) Professional profile and biography.
    b) Other boards of directors to which they belong, whether or not they are listed companies, along with information about their other remunerated activities, whatever they may be.
    c) Indication of the director's category stating, in the case of proprietary directors, the shareholder that they represent or with whom they have ties.
    d) Date of their first appointment as a director in the company as well as the date of subsequent re-appointments.
    e) Shares and share options held by the director.

    Complies

19. That the annual corporate governance report, after verification by the appointments committee, explains the reasons why proprietary directors have been appointed on behalf of shareholders with shareholdings of less than 3% in the company capital and the reasons for ignoring, if applicable, formal requests for presence on the Board from shareholders with shareholdings equal to or greater than others who have successfully proposed proprietary directors.

    Not applicable

20. That proprietary directors present their resignation when the shareholder they represent transfers its entire shareholding. And the number of proprietary directors is also reduced when the shareholders in question reduce their holdings to a level that requires fewer such directors.

    Explain

    Certain shareholders have reduced their shareholding without the number of Proprietary Directors having been reduced accordingly.

21. The Board of Directors does not propose the removal of any independent director before the statutory period for which the director has been appointed concludes, unless the board of directors has just cause, based on a report by the Appointments Committee. In particular, it will be understood that just cause exists where the director takes up new posts or undertakes new obligations which prevent him/her from dedicating the time needed to perform the duties of the post of director, or failing to carry out the duties inherent to the post or he/she incurs in any of the circumstances which cause him/her to lose his/her independent status, in accordance with the provisions of applicable law.

    The removal of independent directors may also be proposed as a result of mergers, take-overs or other similar corporate actions that change the structure of the company's capital when such changes in the structure of the board of directors obey the criteria of proportionality indicated in Recommendation 16.

    Complies

22. Companies establish rules that require directors to report and, as applicable, resign when circumstances arise that could damage the company's credibility and reputation, and in particular to notify the board of directors of any criminal proceedings in which they are involved, and the subsequent developments of any court action.

    If a director is indicted or sent for trial for any of the offences provided for in company law, the board of directors shall examine the case as soon as possible and, based on the specific circumstances, decide whether the director should continue in their post. The board of directors reports and explains all such occurrences in the annual corporate governance report.

    Complies

ESTE TEMA YA SE ACLARO, HAY UNA DIFERENCIA ENTRE EL ESPAÑOL Y EL INGLÉS EN ESTE APARTADO Y SE NOS INDICO SEGUIR EL MODELO EN ESPAÑOL. CONFIRMAR. GRACIAS

23. All directors clearly express their opposition when they believe that a proposal for a decision presented to the board of directors may not be in the Company's interests. Particularly independent and other directors who are not affected by any potential conflict of interest should oppose decisions that may be detrimental to shareholders not represented on the board of directors.

    When the board of directors adopts significant or repeated decisions about which a director has serious reservations, the director draws the appropriate conclusions and, if they decide to resign, explains the reasons in the letter referred to in the following recommendation.

    This recommendation also applies to the secretary of the board of directors, even though they may not be a director.

    Complies

24. When, due to resignation or for other reasons, a director vacates their post before the end of their term, they explain the reasons in a letter sent to every member of the board of directors. And, notwithstanding the fact that this departure is reported as a significant event, the reason for the departure is reported in the annual corporate governance report.

    Complies

25. That the appointments committee ensures that non-executive directors have sufficient time available to perform their duties properly.

    That the company rules set out the maximum number of company boards that its directors may belong to:

    Complies

26. The board of directors is to meet as frequently as required to efficiently perform its functions, at least eight times a year, following the schedule of dates and matters established at the start of the year, and each director, individually, may propose other items not initially included on the agenda.

    Complies

27. Directors may only be absent when it is essential and the number of absences should be included in the annual corporate governance report. When non-attendance is inevitable, the absent director may nominate a proxy and provide instructions.

    Partially complies

    Certain non-executive directors delegate their representation with instructions, taking into account the geographical distance and other responsibilities that have been taken outside the company.

28. When directors or the secretary raise concerns about a proposal or, in the case of directors, about the performance of the company, and such concerns are not resolved by the board of directors, these concerns are recorded in the minutes at the request of the director raising them.

    Complies

29. The company sets up appropriate channels so that directors may obtain the advice needed to perform their duties, including, if the circumstances deem fit, external advice payable by the company.

    Complies

30. Independently of the knowledge demanded from the directors to carry out their duties, the companies also offer directors with the opportunity to participate in knowledge refresher programmes where the circumstances so require.

    Complies

31. The agenda at meetings clearly shows the points regarding which the board of directors must make a decision or adopt a resolution so that the directors can study them or gather the information needed for their adoption beforehand.

    Where, exceptionally, on the grounds of urgency, the chairman wishes to submit decisions or resolutions for the board of directors' approval which do not appear on the agenda, prior, express consent will be required from the majority of directors present, and this will be duly recorded in the minutes.

    Complies

32. Directors are periodically informed about changes in shareholdings and the opinion that significant shareholders, investors and ratings agencies have about the company and its group..

    Complies

33. The chairman, being responsible for the effective functioning of the board of directors, in addition to carrying out the duties that are legally and statutorily attributed thereto, prepares and submits a programme of dates and matters to be addressed to the board of directors; organises and coordinates the periodic assessment of the board and, if necessary, the company's chief executive; ensures that sufficient time is given to the discussion of strategic matters, and agrees and reviews knowledge refresher programmes for each director where the circumstances so require.

    Complies

34. Where there is a coordinating director, the articles of association or board of directors' regulations offer him/her the following powers, in addition to the powers provided by the law: chair the board of directors in the absence of the chairman and vice-chairmen, if any; speak up for non-executive directors concerns; maintain contact with investors and shareholders to establish their points of view for the purposes of forming an opinion on their concerns, particularly in relation to the company's corporate governance; and coordinate the chairman's succession plan.

    Not applicable

35. That the secretary of the board of directors takes particular care so that, in their actions and decisions, the board of directors are aware of the recommendations on good governance contained in this Code of Good Governance applicable to the company.

    Complies

36. Once a year the board of directors, in plenary, assesses and adopts, as necessary, an action plan correcting shortcomings detected in relation to:

    a) The quality and efficiency of the board of director's work.
    b) The operation and composition of its committees.
    c) The diversity of the composition and powers of the board of directors.
    d) The performance of the chairman of the board of directors and the chief executive of the company.
    e) The performance and contribution of each director, paying particular attention to those responsible for the various committees of the board.

    Assessment of the various committees will be based on the report that they submit to the board of directors and, with respect to the board, the report submitted by the appointments committee.

    Every three years, the board of directors will be aided in carrying out the assessment by an external consultant whose independence will be verified by the appointments committee.

    The business relationship of the consultant, or any company in its group, with the company, or any company in its group, must be broken down in the annual corporate governance report.

    The process and the areas assessed will be subject to description in the annual corporate governance report.

    Complies

37. When there is an executive committee, the participation structure of the different director categories is similar to that of the main Board and its secretary is the Secretary of the Board.

    Partially complies

    The Executive Committee is currently made up of five Directors: three Proprietary Directors, one Independent Director and one Director classed as "Other External". Although the composition of the Executive Committee includes each of the Director categories that feature on the Board (Independent, Proprietary, "Other External"), it does not do so in the same proportion. The Secretary and Deputy Secretary of the Board serve in the same positions on the Executive Committee.

38. The board of directors is always aware of the issues discussed and the decisions adopted by the executive committee and each member of the board of directors receives a copy of the minutes of the executive committee's meetings.

    Complies

39. Members of the audit committee, particularly its chairman, are appointed on the basis of their knowledge and experience in accountancy, auditing or risk management and the majority of its members are independent directors.

    Complies

40. Under supervision of the audit committee, there is a unit that carries out the internal audit function, tasked with ensuring the proper functioning of the information and internal control systems and that functionally comes under the non-executive chairman of the board or of the audit committee.

    Complies

41. The manager of the unit responsible for internal audit submits his/her annual work plan to the audit committee, directly reports corresponding incidents and submits an activity report to the committee at the end of every year.

    Complies

42.In addition to those provided for by the law, the audit committee is responsible for the following functions:

1. In relation to internal control and information systems:

a) Supervising the preparation and safeguarding the integrity of the financial reporting relating to the company and, if applicable, to the group, reviewing compliance with regulations, the adequate delimitation of the consolidated group and the proper application of accounting standards.
b) Safeguarding the independence and effectiveness of the unit responsible for internal auditing; proposing the selection, appointment, re-election and removal of the manager of the internal audit service; proposing the budget for this service; approving its focus and work plans, ensuring that its activity is mainly focussed on relevant risks for the company; receiving periodic information about its activities; and verifying that senior management takes into account the conclusions and recommendations of its reports.
c) Establishing and supervising a mechanism that allows employees to report confidentially and, if possible and considered appropriate, anonymously, any potentially significant irregularities, particularly financial and accounting, they discover within the Company.

2. In relation to the external auditor:

a) In the case of the resignation of the external auditor, examining the circumstances that may have lead to this.
b) Ensuring that the external auditor's remuneration for their work does not compromise their quality or independence.
c) Monitoring that the company notifies the Spanish Stock Market Commission (CNMV) of the change of auditor as a significant event and accompanies it with a statement about the existence of disagreements with the outgoing auditor and the content of such disagreements, if they exist.
d) Ensuring that the external auditor has an annual meeting with the board of directors in plenary to report on the work carried out and on the evolution of the accounting position and risks to the company.
e) Ensuring that the company and the external auditor follow prevailing regulations on the provision of services other than audit services, the limits on the concentration of business with the auditor and, in general, any other regulations on the independence of the auditors;

Complies

43.The Audit Committee may summon any employee or director of the company, and may require the appearance of the same without the presence of any other director.

Complies

44.The audit committee is informed about structural and corporate amendment transactions that the company plans to carry out for analysis and prior reporting to the board of directors about their financial terms and their accounting impact and, in particular, as appropriate, on the proposed swap ratio.

Complies

45.The risk management and control policy identifies at least the following:

a) The different types of risk, either financial or non-financial, (operational, technological, legal, social, environmental, reputational, amongst others) to which the company is exposed, including contingent liabilities and other off-balance sheet risks amongst financial and economic risks.
b) The level of risk that the company considers acceptable.
c) The measures planned to mitigate the impact of identified risks should they materialise.
d) The internal control and information systems that will be used to control and manage the aforementioned risks, including contingent liabilities or off-balance sheet risks.

Complies

46.Under the direct supervision of the audit committee or, as appropriate, a specialist committee of the board of directors, there is an internal risk control and management system run by an internal unit or department at the company which is expressly given the following functions:

a) Ensure the proper functioning of the risk control and management systems and, in particular, that all significant risks that may affect the company are adequately identified, managed and quantified.
b) Actively take part in drawing up risk strategy and in important decisions on its management.
c) Ensure that risk control and management systems suitably mitigate risks within the framework of the policy defined by the board of directors.

Complies

47.The members of the appointments and remuneration committee (or the appointments committee and remuneration committee, if they are separate) are appointed endeavouring to ensure that they have suitable knowledge, skills and experience for the functions that they are called to perform and that the majority of such members are independent directors.

Partially complies

Complies with all the provisions of this Recommendation, except the proposal that the majority of said members be independent directors. The Company's Appointments, Remunerations and Corporate Governance Committee currently comprises 6 members, of whom 2 are Proprietary Directors, 1 Director is classed as "Other External" and 3 are Independent. Therefore, we are in compliance with the provisions of article 529 quindicies LSC which establish that at least two of the members of the Appointments and Remuneration Committee must be independent directors.

48. Companies with high capitalisation have separate appointments and remuneration committees.

Not applicable

49. The appointments committee consults the chairman of the board of directors and the chief executive of the company, particularly regarding issues concerning executive directors.

And that any director can request the appointments committee to take into consideration potential candidates to cover any director vacancies, if, in their opinion, they deem the candidate appropriate.

Complies

50. The remuneration committee carries out its functions independently and, apart from the functions allotted to it by the law, also carries out the following:

a) Propose the basic conditions of contracts for senior management to the board of directors.
b) Monitor compliance with the remuneration policy established by the company.
c) Periodically review the remuneration policy applicable to directors and senior management, including systems of remuneration with shares and their application, in addition to ensuring that individual remuneration is proportionate to that paid to the company's other directors and senior management.
d) Ensure that possible conflicts of interest do not affect the independence of the external advice given to the committee.
e) Verify the information regarding directors' and senior management's remuneration contained in the various corporate documents, including the annual report on directors' remuneration.

Complies

51. The Remuneration Committee consults the chairman and the Chief Executive Director of the company, particularly regarding issues concerning executive directors.

Complies

52. The rules on the composition and functioning of the supervision and control committees are contained in the board of directors' rules and are consistent with those applicable to the committees that are legally mandatory in accordance with the above-mentioned recommendations, including:

a) That they are exclusively made up of non-executive directors, with a majority of independent directors.
b) The chairmen are independent directors.
c) The board of directors appoints the members of these committees taking into account the knowledge, skills and experience of the directors and the tasks of each committee; it discusses their proposals and reports, and during the first plenary session following their meetings, gives account of their activities which responds to the work carried out;
d) The committees have access to external advice when they deem it necessary to perform their duties.
e) Minutes of their meetings are drawn up and made available to all the directors.

Not applicable

53. Supervision of compliance with the corporate governance rules, internal rules of conduct and corporate social responsibility policy is the responsibility of one or distributed amongst several committees of the board of directors which may include the audit, appointment or corporate social responsibility committee, if there is one, or a specialist committee that the board of directors, exercising its powers of self-organisation, decides to create for that purpose, to which the following functions are given, as a minimum:

a) Supervise compliance and internal codes of conduct, as well as the company's rules of corporate governance.
b) Supervise the communications strategy and relationship with shareholders and investors, including small and medium shareholders.
c) Periodically assess the adequacy of the company's corporate governance system, for the purpose that it complies with its mission to promote company interests and takes into account, as appropriate, the legitimate interests of other stakeholders.
d) Review the company's corporate responsibility policy, ensuring that it is directed at creating value.
e) Monitor corporate social responsibility strategy and practices and assess the level of compliance therewith.
f) Supervise and assess relationship processes with the various stakeholders.
g) Assess all matters relating to the company's non-financial risks including operational, technological, legal, social, environmental, political and reputational.
h) Coordinate the process for non-financial and diversity information reporting in accordance with applicable regulations and international reference standards.

Complies

54. The corporate social responsibility policy includes the principles or undertakings that the company assumes voluntarily in its relationships with the various stakeholders and identifies, as a minimum:

a)The aims of the corporate social responsibility policy and the development of support tools.
b) Corporate strategy in relation to sustainability, the environment and social matters.
c) Specific practices in matters related to: shareholders, employees, customers, suppliers, social matters, the environment, diversity, tax responsibility, respect for human rights and the prevention of illegal behaviour.
d) The methods or systems for monitoring the results of the application of specific practices listed under the previous letter, associated risks and their management.
e) Mechanisms for supervising non-financial risk, company ethics and behaviour.
f) Channels for communication, participation and dialogue with stakeholders.
g) Responsible communication practices that avoid the manipulation of information and protect integrity and honour.

Complies

55. The company reports, in a separate document or in the management report, on matters related to corporate social responsibility, using one of the internationally accepted methodologies to do so.

Complies

56. Directors' remuneration is sufficient to attract and retain directors with the desired profile and to remunerate the dedication, qualification and responsibility that the post demands, but not so high as to compromise the independent opinion of non-executive directors.

Complies

57. Variable remuneration linked to company and personal performance is limited to executive directors, in addition to remuneration with shares, options or rights over shares or instruments referenced to share value and long-term savings systems such as pension plans, retirement plans or other social benefits systems.

Giving shares by way of remuneration to non-executive directors may be contemplated when this is conditional on said shares being retained until they cease to be directors. The foregoing will not be applicable to shares that a director needs to dispose of, as appropriate, to pay for the costs related to their acquisition.

Complies

58. In the case of variable remuneration, payment policies incorporate the limits and technical safeguards required to ensure that such remuneration is in line with the professional performance of the beneficiaries and is not solely derived from the general evolution of the markets or the business sector of the company or from other similar circumstances.

In particular, the variable components of remuneration:

a) Are bound to performance criteria that are predefined and measurable and that such criteria consider the risk assumed to obtain a result.
b) Promote the company's sustainability and include non-financial criteria that are appropriate for the creation of long-term value, such as compliance with the company's internal rules and procedures and its policies for risk control and management.
c) Are set up on the basis of a balance between fulfilling objectives in the short-, medium- and long-term that make it possible to reward continuous performance during a period of time that is sufficient to appreciate the contribution to sustainable creation of value, in such a way that the elements for measuring this performance are not solely based around one-off, occasional or extraordinary events.

Complies

59. Payment of a significant part of variable components of remuneration is deferred for a sufficient minimum period of time to verify that the remuneration terms previously set up have been fulfilled.

Not applicable

60. Remuneration linked to the results of the company shall take into consideration any possible qualifications in the auditor's report that might reduce such results.

Not applicable

61. A significant percentage of the executive directors' variable remuneration is linked to the handover of shares or financial instruments referenced to their value.

Not applicable

62. Once the shares or options or rights over shares relating to the remuneration system have been allotted, the directors may not transfer ownership of a number of shares equivalent to twice their annual fixed remuneration, nor may they exercise the options or rights until a period of, at least, three years has passed since their allotment.

The foregoing will not be applicable to shares that a director needs to dispose of, as appropriate, to pay for the costs related to their acquisition.

Not applicable

63. Contractual agreements include a clause that allows the company to claim repayment of the variable components of remuneration where the payment has not been adjusted to the terms for performance or where they were paid in the light of data which is later proven to be inaccurate.

Not applicable

64. Payments for termination of contract do not exceed an amount established as the equivalent of two years total annual remuneration and they are not paid until the company has been able to prove that the director fulfilled the performance criteria set up beforehand.

Not applicable

H - OTHER RELEVANT INFORMATION

1. If there are any aspects relating to the corporate governance of the Company or the Group's entities which have not been covered in the other sections of this report, but which are necessary to include in order to gather complete and detailed information on the structure and practices of the governance of the entity or the Group, please note them briefly.

2. You may include any other information, clarification or detail in this section, related to the previous sections of the report, which may be relevant but not repetitive.

   Specifically, please indicate whether the company is subject to legislation other than that of Spain in relation to corporate governance and, if applicable, include the information that must be provided and that is different to the information required by this report.

3. The company may also indicate whether it has voluntarily committed to other codes of ethics or best practices, whether international, in the sector or in another context. If so, identify the code in question and the date of adhesion.

SECTION A.3
Although at 31 December 2016 the list of shareholders is the one included under paragraph, the Company wants to inform about the following changes duly communicated by the relevant shareholder to CNMV:

- The 31 January 2017 Henderson Global Investors Ltd communicated its decrease up to 2,98%.

- The 27 February 2017 HNA has communicated its decrease from 29.5% to 29.3%.

SECTION A.5
All relations of a commercial, contractual or corporate nature between significant shareholders and the Company and/or its group have been described in the section on Related Party Transactions (insofar as the significant shareholders are also Company directors). These relations have not been included in section A.5 since these transactions are considered to arise from the ordinary course of the Company's business.

SECTION A.8
At 31 December 2016, final ownership of NH Hotel Group, S.A. own shares came to 7,530,886 own shares.

During 2016, the Company acquired 600,000 own shares. The other operations correspond to refunds of shares undertaken as part of the loan agreement for 9,000,000 shares in NH Hotel Group, S.A. entered into as part of the issue of the bonds convertible or exchangeable for shares of NH Hotel Group in November 2013 between the Company and the three financial institutions involved in the placement of the bonds. The outstanding balance of the share lending initiative at 2 December 2016 came to 2,069,114 shares. By virtue of the foregoing, the final ownership of NH Hotel Group, S.A. shares at 31 December 2016 came to 7,530,886 own shares, which are attached to the same number of rights to vote.

SECTION C.1.2
Without prejudice to the composition of the Board of Directors, the Company has made the decision to implement a co-chairmanship, which will be carried out by the appointment of a Chairman of the Board and a Chairman of the Executive Committee.

This section shows the composition of the Board on 31 December 2016. Without prejudice to the above, it is hereby recorded that as a result of Mr. Federico González Tejera's departure on 21 June 2016, the Board, at its meeting on 25 January 2017 decided to appoint Mr. Ramón Aragonés Marín as the company's Chief Executive, having previously served as General Operations Director. At said meeting, the Board agreed to propose the appointment of Mr. Aragonés as an Executive Company Director to the General Shareholders' Meeting, in addition to his formal appointment as Managing Director at the Board Meeting that will take place immediately after the aforementioned General Shareholders' Meeting.

Also, see Section C.1.9.

SECTIONS C.1.2, C.1.11, C.1.17 y C.2.1
On 7th February 2017 Mr. Francisco Javier Illa has ceased in his functions due to decease.

SECTION C.1.12
The Annual Corporate Governance Report only enables the inclusion of charges that the Directors may have as Board members in other listed Companies. Herweith we inform that Mr. Fernando Lacadena Azpeitia is Finance Director in Merlin Properties Socimi, S.A.

SECTION C.1.16
Although this section shows the composition of Senior Management at 31 December 2016, it is hereby recorded that Mr. Ramón Aragonés Marín, General Operations Director, was appointed by the Board of Directors as the Company's Chief Executive on 25 January 2017.

The amount broken down corresponding to the total remuneration paid to members of senior management also includes the amounts paid to members who were considered to be senior management throughout 2016.

SECTION C.1.33
The Board also has a Deputy Secretary, Mr Carlos Ulecia Palacios, who holds the post of General Secretary of the Company.

SECTION C.1.43
HNA, via its company Tangla, S.L., has brought criminal proceedings against Mr. José Antonio Castro Sousa based on the agreements adopted at the General Shareholders' Meeting of 21 June 2016 at which Mr. Castro served as the Chairman of the Meeting. Said criminal proceedings are pending a court resolution.

SECTION C.2.1.
On 25 January 2016, Mr. Román Riechmann submitted his resignation as a member of the Appointments, Remunerations and Corporate Governance Committee.

SECTION D.2.
It is hereby recorded that concerning the management agreement entered into between Hoteles Hesperia, S.L. and Grupo Inversor Hesperia, S.A., the total transaction volume in 2016 came to €7454 (thousand). The balance at 31 December 2016 resulting from said management agreement is contained in this report and comes to €815 (thousand).

This annual corporate governance report has been approved by the company's Board of Directors in its session on

28/02/2017

Indicate whether any directors voted against or abstained in relation to the approval of this report.

NO

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

Corresponding to the 2016 financial year

1) Composition, competence and operation of the Audit and Control Committee

The essential function of the Audit and Control Committee is to serve as support to the Board of Directors in its supervision and control functions, the most important manifestation of these being the duty to ensure the efficiency of the Company's internal control and supervise the process of drawing up and presenting regulatory financial information.

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

During 2016 the above-mentioned regulation has undergone a modification, approved by the Board of Directors on 21 June 2016, whereby the members of the Board of Directors who are not members of the Committee are expressly empowered, at the prior invitation of its Chairman, to attend the meetings of the Audit and Control Committee occasionally.

In accordance with the provisions of the internal regulations of NH Hotel Group, S.A. the composition, competences and operation of the Audit and Control Committee can basically be summarized as follows:

a) Composition.

In accordance with the provisions of the Articles of Association (article 48) and the Regulations of the Board of Directors (article 25), the Audit and Control Committee will be made up of a minimum of three and a maximum of six Directors appointed by the Board of Directors. All the members of this Committee should be External or Non-Executive Directors, at least a majority of whom must be Independent Directors, and one of them will be appointed taking into account his/her knowledge and experience in the field of accounting, auditing or both.

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

b) Competences.

The Audit Committee is assigned at least the following competences:

1. Report to the General Meeting on matters raised within its sphere of competence.

2. Supervise the efficiency of the Company's internal control, internal audit, as the case may be, and the risk management systems, including tax risks, and discuss with the accounts auditors or audit firms any significant weaknesses in the internal control system that may have been detected in the course of the audit.

3. Supervise the process of drawing up and presenting regulatory financial information.

4. Make proposals to the Board of Directors for the selection, appointment, re-election and replacement of the external auditor, as well as the contracting conditions, and obtain information regularly from the external auditor concerning the audit plan and its execution, as well as preserving its independence in exercising its functions.

5. Establish the pertinent relations with the accounts auditors or audit firms in order to receive information on any matters that may put their independence at risk, so that they can be examined by the Committee, and any other matters related to the audit process, and other matters established in auditing legislation and auditing standards. In any case, it must receive written confirmation each year from the accounts auditors or audit firms of their independence of the Company or companies related to it directly or indirectly, and information on the additional services of any kind provided to and the corresponding fees received from such companies by the aforesaid auditors or companies, or by persons or entities related to them in accordance with the provisions of legislation on auditing.

6. Issue each year, prior to the issue of the auditors' report, a report in which an opinion will be expressed on the independence of the accounts auditors or audit firms. This report must, in any case, contain a valuation of the provision of additional services as referred to in the preceding section, individually considered and regarded as a whole, other than statutory audit and in relation to the regime of independence or to auditing legislation.

7. Report, in advance, to the Board of Directors on all the matters established by Law, the Articles of Association and the Board Regulations, in particular, on:

    1. the financial information which the company must publish periodically,
    2. the creation or acquisition of shares in entities with a special purpose or domiciled in countries or territories considered to be tax havens and
    3. operations with related parties.

8. Oversee the independence and efficacy of the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

9. Establish and supervise a mechanism that will allow employees to report, confidentially and anonymously, any breaches of the Code of Conduct.

10. Supervise compliance with internal codes of conduct and corporate governance rules.

c) Operation.

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

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

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

Following the modification of the Board Regulations approved by the Board on 21 June 2016 referred to above, the members of the Board of Directors who are not members of the Committee may, at the prior invitation of its Chairman, attend the meetings of the Audit and Control Committee occasionally.

2) Composition of the Audit Committee

The composition of the Audit and Control Committee respects the regulation imposed by the Articles of Association and the Regulations of the Board of Directors of NH Hotel Group, S.A. which is a faithful reflection of the Recommendations of the Unified Good Governance Code.

During 2016 there has been a change in the composition of the Audit Committee, as a result of the departure from the Board of Directors of Mr Xianyi Miu following the General Shareholders' Meeting of 21 June 2016 and, as a result of this, his departure from his post on the Audit Committee, and the appointment at the same General Meeting of Mr Fernando Lacadena Azpeitia, who has replaced him as a member of the Audit Committee.

By virtue of the above, the composition of the Audit and Control Committee at 31 December 2016 is as follows:

Chair:
Ms Koro Usarraga Unsain (Independent)

Members:
Mr Carlos González Fernández (Independent)
Mr Francisco Javier Illa (Representative)
Mr Fernando Lacadena Azpeitia (Other External)
Mr Francisco Román Riechmann (Independent)

Secretary:
Mr Carlos Ulecia Palacios

On 7 February 2017, Mr Francisco Javier Illa ceased in his functions due to his decease.

Thus the provisions of the legislation are fulfilled with regard to the requirement that all the members of the Committee must be External Directors, at least the majority of whom must be Independent Directors, at least one of whom must be appointed taking into account his or her knowledge and experience in accounting, auditing or both. Furthermore, the Chair of the Audit Committee is an Independent Director, thus also complying with the provisions of the Capital Companies Act, recently amended first by the provisions of Act 31/2014, of 3 December, amending the Capital Companies Act for the improvement of corporate governance, and subsequently by Account Audit Act 22/2015, of 20 July.

3) Relations with External Auditors

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

The Consolidated Annual Accounts for 2016 have been audited by six independent firms.

Deloitte is the main auditor and issues therefore its report for the Consolidated Annual Accounts

The mentioned audit firm has performed the verification of the accounts of the companies included in Spain (except Burgos and Tenerife), as well as for Benelux, Italy, Germany, Austria and Switzerland, Mexico and MERCOSUR (except Brasil), that represent 95,7% of the consolidated assets and 98,4% of the net turnover.

During fiscal year 2016 and 2015, the fees for audit services and other additional services that have been rendered by Deloitte, S.L., as well as the fees for services rendered by other companies controlled by Deloitte are the following:

	Thousands Euros	
	2016	**2015**
For audit services	478	472
Other verification services	412	263
Total audit and related services	**890**	**735**
Tax advice services	598	471
Other services	216	398
Total other services	**814**	**869**
Total professional services	**1,704**	**1,604**

In addition, related entities to Deloitte have invoiced to the Group the following services:

	Thousands Euros	
	2016	**2015**
For audit services	1,171	1,208
Other verification services	89	20
Total audit and related services	**1,260**	**1,228**
Tax advice services	115	131
Other services	6	3
Total other services	**121**	**134**
Total	**1,381**	**1,362**

During fiscal year 2016, other audit firms different from Deloitte.SL or entities binded by its control, common ownership management, have render their audit services to the companies that make up the Group whose fees have amounted to €83 thousand (€130 thousand in 2015). Likewise, fees rendered in 2016 by said companies regarding with tax advice service have amounted to €384 thousand (€221 thousand) and other services have amounted to €461 thousand (€372 thousand).

4) Content and results of the work of the Audit Committee

The Audit Committee held 8 meetings during 2016 at which it dealt with the following matters:

a) Analysis and evaluation, together with the external auditors, of the Financial Statements and Annual Report corresponding to the year 2015, checking that their audit opinion had been issued under conditions of absolute independence.

b) Review of information on matters that could endanger the auditors' independence. Issue of the Report on the auditors' independence.

c) Review of periodic public financial information for 2016 prior to its analysis and approval by the Board of Directors to ensure that it is reliable, transparent and prepared by applying uniform accounting principles and policies.

d) Approval of the External Auditor's fees for the 2016 audit.

e) Supervision of the Internal Audit strategic plan.

f) Monitoring of the Internal Audit Plan for 2016, examining its conclusions and implementing, as the case may be, the necessary corrective measures.

g) Supervision of the tasks carried out by the Compliance Committee.

h) Monitoring of the most significant projects carried out by the Internal Audit team.

i) Supervision of the Update of the Group's Risk Map and monitoring of the Risk Map.

j) Supervision of risks related to the Financial Reporting Control System.

k) Examination of the Annual Corporate Governance Report, prior to sending it to the Board of Directors for its study and approval, with special emphasis on the analysis of the register of situations of directors and executives (posts held on other management bodies, involvement in legal proceedings, related-party operations, etc.).

l) Analysis of the Company's tax organization and determination of the tax policy.

m) Analysis of certain corporate restructuring operations.

n) Inform and submit to the Board of Directors the approval of the new Internal Regulations of Conduct on Securities Markets of NH Hotel Group, S.A. and its group companies.

5) Analysis of related-party operations

During 2016 the Audit and Control Committee has analysed the following operations with related parties:

- Agreement between NH Hotel Group, S.A and Grupo Inversor Hesperia, S.A. on the billing of sales generated for GIHSA Hotels through the website, the "Web Media Expenses". The agreement was signed, following information and deliberation by the Audit Committee and the Board of Directors on 24th and 25th February 2016.

- Non-binding Memorandum of Understanding signed between NH Hotel Group, S.A and Grupo Inversor Hesperia on 5th December 2016, with the aim of establishing a new framework for the management by NH of 28 hotels in the portfolio of hotels owned by the Grupo Inversor Hesperia, S.A. group. The terms and conditions of the MoU have been approved unanimously by the Board of Directors of NH, following a favourable report issued by the Audit and Control Committee

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

6) Priorities for 2017

Independently of the customary tasks required by general regulations and by the regulations of NH in relation to financial information to be reported to the market and the supervision of the external auditors' independence, the Audit Committee has examined and approved a work plan for the internal audit department in 2017 which contemplates the following priorities:

1. Operational and financial audits of the key processes established in the framework of the Transformation Plan, both at Central Services level and as operating centres for all Business Units. Supervision of adequate implementation and monitoring of controls in areas included in the Strategic Plan.

2. Transfer of management of the ICFR model to the Internal Control Department (a function included in Finances) and subsequent audit of it in the Business Units.

3. Follow-up of incidents detected in the audits carried out in previous years and of the execution of the action plans drawn up by the different departments and business units.

4. Support to technological corporate projects.

5. In exercising the risk management function, (i) update of the Risk Map and implementation of an integrated monitoring system (SAP GRC), (ii) monitoring of Key Risk Indicators (KRIs) including the definition of first and second-level KRIs as well as (iii) definition and implementation of Risk Appetite at Group level.

6. In exercising the Compliance function, (i) execution of the activities of the Compliance Office which include (a) management of the ethical line, (b) fraud investigation and (c) the consolidation of Compliance Committees and Offices at Business Unit level, (ii) the expansion of Corporate Defense in seven countries, (iii) supervision of compliance with Act 231 in Italy and (iv) the crime prevention model in Spain.

As the conclusion of this Report, it should be noted that in carrying out all the tasks mentioned in it, the Committee has had access, whenever it has considered it useful, to all the external professionals (auditors, appraisers or consultants) or members of economic and financial management, Legal and Internal Audit, or management control it has considered necessary.

Madrid, 27th February 2017

AUDITORS' REPORT ON THE INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Of NH Hotel Group, S.A. for the fiscal year ended on December 31th , 2016.

Deloitte.

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

AUDITORS' REPORT ON THE "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF NH HOTEL GROUP, S.A. FOR THE FISCAL YEAR ENDED ON DECEMBER 31th, 2016

To the Directors of
NH HOTEL GROUP, S.A.:

As requested by the Board of Directors of NH HOTEL GROUP, S.A. ("the Entity") and in accordance with our proposal-letter of November 22th, 2016, we have applied certain procedures to the accompanying "Information relating to the ICFR" of NH HOTEL GROUP, S.A. for the fiscal year ended on December 31th, 2016, which summarises the internal control procedures of the Entity in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the ICFR system included in section F) of the accompanying Annual Corporate Governance Report (ACGR).

It should be noted in this regard, irrespective of the quality of the design and operational effectiveness of the internal control system adopted by the Entity in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of the Entity was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Entity's financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Entity's annual financial reporting for the fiscal year ended on December 31th, 2016 described in the accompanying information on the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the consolidated Spanish audit law, we do not express an audit opinion in the terms provided for in that Law.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Entity in relation to the ICFR system - disclosure information included in the directors' report - and assessment of whether this information addresses all the information required considering the minimum content described in section F, relating to the description of the ICFR system, of the ACGR form, as established in CNMV Circular 7/2015 of December 22nd, 2015, which amends CNMV Circular 5/2013 of June 12th, 2013.
2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of achieving: (i) familiarisation with the preparation process; (ii) obtainment of the information required in order to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtainment of information on whether the aforementioned control procedures have been implemented and are in use at the Entity.
3. Review of the explanatory documents supporting the information detailed in point 1 above, including documents directly made available to those responsible for describing the ICFR systems. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.
4. Comparison of the information detailed in point 1 above with the knowledge on the Entity's ICFR obtained through the procedures applied during the financial statement audit work.
5. Reading of the minutes taken at meetings of the Board of Directors, Audit and Control Committee and other committees of the Entity to evaluate the consistency between the ICFR business transacted and the information detailed in point 1 above.
6. Obtainment of the representation letter in connection with the work performed, signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements of article 540 of Corporate Enterprises Act and by CNMV Circular 7/2015 of December 22nd, 2015, which amends CNMV Circular 5/2013 of June 12th, 2013, published by the Spanish National Securities Market Commission for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.

Pilar Cerezo Sobrino

February 28th, 2017

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Hesperia RESORTS

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