

300 m<sup>2</sup> LED vault screen  
NH Collection Eurobuilding  
Madrid, Spain



# ANNUAL REPORT 2015

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

**nh** | HOTEL GROUP





## **ANNUAL REPORT 2015**

### **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 web page <http://www.nhhotelgroup.com> where detailed information on the different sections of the Annual Report 2015 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 2015, and the consolidated statement of comprehensive results, 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 Group 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.

*Opinion*

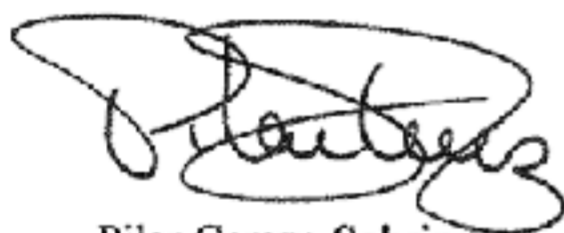
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of NH Hotel Group, S.A. and subsidiaries as at 31 December 2015, and their consolidated results and their consolidated cash flows for 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 2015 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 2015. 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

25 February 2016

# CONSOLIDATED MANAGEMENT REPORT

For the financial year ending 31 December 2015

## EVOLUTION OF BUSINESS AND GROUP'S SITUATION

In 2015, world economic activity grew at a steady pace (3.1%), slightly slower than the previous year (3.3%). Compared to the year before, growth was slightly higher in developed economies, but slower in emerging markets, due mainly to falling prices of raw materials, weaker currencies in emerging markets and the increasing volatility of the financial markets. In line with these trends, when we compare the year-on-year growth rates of the four countries representing most of the Group's sales and results, we find that Germany had slightly higher growth than the year before (1.7% vs. 1.6%), and that growth in Spain (3.1% vs. 1.4%), Italy (0.9% vs. -0.4%) and the Netherlands (2.0% vs. 1.0%) improved significantly.

According to UNWTO, there were 1.184 billion international tourist arrivals in 2015, a 4.4% increase from the year before. This is the sixth year in a row with growth above the average since the 2009 economic crisis. The UNWTO forecast for 2016 is for international tourism to increase by 3.5% - 4.5%, and to continue to contribute to the global economic recovery.

By region, Europe (+5%) led growth in absolute and relative terms, thanks in part to the weakness of the euro against the US dollar and other major currencies. There were 609 million arrivals, 29 million more than in 2014. Central and Eastern Europe (+6%) recovered from the fall in arrivals of the previous year. Northern Europe (+6%), Southern Europe and the Mediterranean (+5%) and Western Europe (+4%) also had good results, especially in mature destinations.

International tourist arrivals in the Americas (+5%) grew by 9 million to 191 million, consolidating the excellent results of 2014. The rising dollar stimulated outbound tourism in the USA, particularly benefiting the Caribbean and Central America, which both saw 7% growth. Results in South America and North America (both +4%) were close to the average.

Against this backdrop, the Group's hotel business indicators reflected a positive trend. Thanks to the favourable trend in the hotel business throughout the year and the effect of the group's initiatives within its strategic plan, particularly the repositioning of its brands, 2015 saw a significant increase of +10.4% in prices and +11.0% in revenue per available room (RevPAR). Prices rose well above occupancy over the year and in all business units. The growth in prices (+€8.20: from €78.90 to €87.10) represents 95% of the year's growth in RevPAR.

Considering all of this, and with the addition of Hoteles Royal from 4 March, recurring revenue was €1.395 billion, showing growth of +€130m (+10.3%). Consequently, NH met its targets in 2015, with a recurring EBITDA of €149.5m, and a positive net profit for the Group (€+0.9m) not seen since 2011.

This second year of implementing the Strategic Plan shows the value of the price strategy, obtaining greater growth for the Group in the top cities (+12.4%) compared to direct competitors (+7.0%) where market metrics (STR) exist, with investment in repositioning ending in Spain and Italy and beginning in Benelux and Germany in the second half of the year.

Given the trends of 2015, the vision of the Strategic Plan has been updated, enabling us to expect EBITDA of around €250m for 2017-2018 and to reduce leverage levels to 3.0-3.5x.

One of the most notable milestones of these two 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 look and feel for each brand.

Meanwhile, the Group has improved the customer experience thanks to implementing a solid operational vision, including the new elements making up the hotels' basic product range (a 30 million euro investment), known as Brilliant Basics, which are already in place in the vast majority of the establishments and which we believe are contributing to a better experience and higher average score.

Also, thanks to its relaunch, the NH Rewards loyalty programme now has over 5.0 million members, 25% of whom joined in 2015.

The trend in quality indicators confirms the improvement in user ratings for the Group's hotels throughout 2015, particularly in the hotels where the first refurbishment work has been done.

In the Meetings and Events segment, NH has strengthened its leadership with the introduction of a new technological initiative which is unique in the hotel business. 3D holographic projection technology and telepresence and interactive collaboration systems have been permanently installed in some of the Group's hotels to ensure high-performance, high-impact meetings and events.

As part of its asset repositioning plan, NH Hotel Group planned to invest 237 million euros from 2014 to 2016 to renovate or remodel its mid-range hotels with the greatest potential for improvement. 73% of the investment was allocated to repositioning hotels for conversion to the NH Collection brand. From the start of the plan up to December 2015, 36 hotels have been comprehensively renovated. The average increase in RevPAR in 2015 compared to the same period in 2013 (renovations in 2014) was +24.5%. The hotels in this sample are: NH Collection Eurobuilding, NH Collection Abascal, NH Alonso Martínez, NH Collection Aránzazu, NH Madrid Atocha, NH Pamplona Iruña, NH Canciller Ayala Victoria, NH Berlin Mitte, NH München Messe, NH München-Dornach, NH Danube City, NH Collection Palazzo Barocci and NH Firenze.

The merger of Hoteles Royal in March 2015 has added 19 hotels in Colombia, Chile and Ecuador, and a contract to open a hotel in Panama. This



portfolio of hotels fits in very well with the strategy and is moving the Group's plans forward on that continent.

As well as the 19 additions from Hoteles Royal, another 6 hotels in Madrid, Oporto, Brussels, Milan, Trento and Taormina opened in 2015.

Meanwhile, in 2015 NH Hotel Group signed 16 hotels with 2,660 bedrooms. All the signings were rental and management contracts, many of them in the top brand segment and in primary cities (London, Amsterdam, Rome, and Marseilles). 2015 also saw a Joint Venture with the HNA Group in China with management contracts.

Finally, the optimisation of management and organisation, especially technological systems, is making satisfactory progress.

In January 2015 the NH Bogotá Parque 93 hotel was sold as part of capital restructuring in the region after the acquisition of Hoteles Royal.

During 2015, the NH Hotel Group received the following awards at the global level:

- FEDECOM Award: best company of the year
- FECECA Award (Federation of Official Spanish Chambers of Commerce in America): award for its commitment to the development of Latin America.
- Business Traveller Awards Germany 2015: Third in the category of best hotel chain for business stays in Germany.
- European Hospitality Awards 2015: The NH Collection Eurobuilding hotel in Madrid won an award as one of Europe's most influential and iconic hotels in the use of technology.
- European Hotel Design Awards 2015: The NH Collection Eurobuilding hotel in Madrid won the award for the best interior design for holding events.
- Madrid Excellent Award: NH Collection Eurobuilding for the best hotel in the Community of Madrid.
- 100 Best Ideas of Actualidad Económica: An award for the NH Collection Eurobuilding in Madrid for one of the best Living Lab concepts.
- Zoover Awards: best hotel chain in the Netherlands.
- Esprix Awards: The NH Rotterdam won the award for best product launch
- Accent Award: best recruitment campaign of 2015 in Benelux.

## THE ENVIRONMENT

For the NH Hotel Group, sustainability drives innovation, to surprise our guests while improving water and energy efficiency.

In 2015 we continued to implement the sustainability initiative that forms part of the group's five-year strategic plan (5YPlan). This initiative gives continuity to the efficiency achievements of recent years. Thus, compared to 2008, energy consumption has been reduced by 27%, water consumption by 31% and our carbon footprint by 70%. 89% of our hotels consume environmentally friendly energy, and 47% have external certification of sustainable management.

NH Hotel 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. NH Hotel Group was the first global hotel chain to obtain the prestigious ISO 50001 certification, which allows the Group to go even further in its bid for energy efficiency improvements.

NH Hotel Group reports its climate change commitment and strategy to the Carbon Disclosure Project (CDP). The CDP's A99-rating places NH Hotels Group among the leading Companies in the hotel industry for its strategy to combat climate change. NH Hotels Group forms part of FTSE4 Good, an index on the London Stock Exchange which recognises the socially responsible behaviour of companies worldwide.

NH Hotel Group was awarded the Gold Medal for Sustainability by the Global Business Travel Association (GBTA), and is the first international hotel chain to receive this prize. NH Hotels Group's environmental actions have received numerous awards, including the European Business Award for the Environment, granted by the European Commission in 2014.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT (€ millions)

The Management Accounts shown below reflect the evolution of the Group's activity based on hotel management criteria, so the groupings may not coincide with the accounting criteria applied in the Group's consolidated annual accounts.

It includes results for Hoteles Royal from March 2015.

### NH HOTELS, S.A. INCOME STATEMENT AT 31 DECEMBER 2015

	2015		2014		2015/2014
	M EUR.	%	M EUR.	%	VAR. %
Recurring income	1.395.5	99.0%	1.265.1	97.7%	10.3%
Non-recurring income	14.3	1.0%	29.8	2.3%	(52.0%)
<b>TOTAL INCOME</b>	<b>1.409.8</b>	<b>100.0%</b>	<b>1.294.9</b>	<b>100.0%</b>	<b>8.9%</b>
Staff costs	(496.4)	(35.2%)	(460.0)	(35.5%)	7.9%
Direct management costs	(457.0)	(32.4%)	(413.2)	(31.9%)	10.6%
Non-recurring costs	(27.8)	(2.0%)	(24.4)	(1.9%)	13.8%
<b>OPERATING PROFIT</b>	<b>428.6</b>	<b>30.4%</b>	<b>397.2</b>	<b>30.7%</b>	<b>7.9%</b>
Leases and property tax	(292.6)	(20.8%)	(281.7)	(21.8%)	3.9%
Non-recurring leases and property tax	(4.4)	(0.3%)	(2.4)	(0.2%)	N/A
<b>Recurring EBITDA</b>	<b>149.5</b>	<b>10.6%</b>	<b>110.1</b>	<b>8.5%</b>	<b>35.8%</b>
<b>Non Recurring EBITDA</b>	<b>(17.9)</b>	<b>(1.3%)</b>	<b>3.0</b>	<b>0.2%</b>	<b>(704.7%)</b>
Reversal of provision for onerous contracts and other	10.0	0.7%	16.1	1.2%	(38.0%)
<b>Recurring EBITDA after onerous</b>	<b>159.5</b>	<b>11.3%</b>	<b>126.2</b>	<b>9.7%</b>	<b>26.4%</b>
Provision for impaired assets	31.6	2.2%	5.2	0.4%	507.1%
Depreciation	(94.8)	(6.7%)	(89.1)	(6.9%)	6.4%
Non-recurring depreciation	(21.2)	(1.5%)	(12.3)	(0.9%)	72.5%
<b>EBIT</b>	<b>57.2</b>	<b>4.1%</b>	<b>32.9</b>	<b>2.5%</b>	<b>73.7%</b>
Financial expenses	(46.6)	(3.3%)	(49.9)	(3.9%)	(6.6%)
Non-recurring finance costs	(3.5)	(0.2%)	(1.0)	N/A	258.8%
Change in fair value of financial instruments	4.7	0.3%	0.0	0.0%	-
Results of entities accounted for using the equity method	(1.1)	(0.1%)	(2.0)	(0.2%)	(46.8%)
Non-recurring results of entities accounted for using the equity method	0.0	0.0%	(1.6)	N/A	(100.0%)
Profit (loss) for the year from discontinued operations net of tax	5.6	0.4%	33.8	2.6%	(83.4%)
<b>EBT</b>	<b>16.4</b>	<b>1.2%</b>	<b>12.2</b>	<b>0.9%</b>	<b>33.9%</b>
Corporation Tax	(13.1)	(0.9%)	(22.7)	(1.8%)	(42.4%)
<b>PROFIT before minority interests</b>	<b>3.3</b>	<b>0.2%</b>	<b>(10.4)</b>	<b>(0.8%)</b>	<b>131.9%</b>
Minority interests	(2.4)	(0.2%)	0.9	0.1%	(371.6%)
<b>NET PROFIT</b>	<b>0.9</b>	<b>0.1%</b>	<b>(9.6)</b>	<b>(0.7%)</b>	<b>109.8%</b>

In 2015, NH Hotel Group obtained recurring annual revenues of €1,395.5 million, up by 10.3% on the previous year, representing an increase of +€130.4 million.

Staff costs were €496.4 million, in line with Group's increased activity, higher salaries due to collective bargaining, and the merger of Hoteles Royal.

Direct management costs were €457.0 million. We can highlight greater efforts in marketing and systems over the year, higher repair and maintenance costs in connection with the hotel repositioning plan, an increase in fees due to the change in segmentation towards more profitable indirect sales channels, and the acquisition of Hoteles Royal.

In 2015 the group carried out actions in 24 rental contracts, including the cancellation of two contracts with negative contributions. The renegotiation of leasehold contracts enabled the offset of increases from negotiations in previous years, CPI revisions and variable components. Over the 12 months, leasehold payments increased by +3.9%.

Taking all of this into account, recurring EBITDA in 2015 was €149.5 million, an increase of +€39.4 million on the previous year (+35.8%).

Non-recurring EBITDA in 2015 mainly consisted of capital gains from asset sales, compensation relating to outsourcing processes, fiscal and financial consulting, and linearization from renegotiating leasehold contracts.

Among other factors, operational improvement has allowed to release €31,5 millions provisions for impaired assets from previous years.

Depreciation, both recurring (€94.8 million) and non-recurring (€21.2 million), increased due to higher CAPEX spending on repositioning hotels and the accelerated depreciation relating to those investments and to hotels with impairment.

In 2015 the Group's net interest expenses were €46.6 million, a reduction of -6.6% compared to the previous year. This was largely due to the downward trend of the Euribor, the reference interest rate for most of the Group's variable interest rate debt, and the reduction of margins before the summer (long-term syndicated borrowing and a German mortgage).

The change in Corporate Tax is explained by the positive tax rate change in Italy compared to 2014 where there was a negative impact from the tax rate in Spain.

The Group's Net Profit for 2015 is +€0.9 million. This is the first positive net profit since 2011.

## Evolution per Business Unit

- In Spain the RevPAR grew by +17.3% with price increases of +10.7% representing 62% of RevPAR growth. Occupancy was up by +5.9% thanks to good behaviour in both primary and secondary cities. LFL&R revenues grew by +11.0% (+€32.2m), lower than RevPAR growth, explained by the loss of -€2.9m of restaurant income due to outsourcing catering in 6 hotels.
- Meanwhile, RevPAR increased by +20.0% in Italy, with a price increase of +17.0%. A highlight was the behaviour of Milan thanks to the Expo, with an increase of +41.1%, where we have 12 hotels and 2,222 bedrooms. The increase in Rome was +5.4%. The change in the usual business customer profile in Milan, who consume more than visitors to the Expo, meant that revenues grew by +15.6%.
- Benelux reached +8.0% growth in RevPAR over the year, mainly due to +6.5% higher prices. The change in segmentation implemented from the start of 2015 has made it possible to improve results. A highlight is Amsterdam (+11.2%). The change in segmentation towards more profitable rates but with lower restaurant consumption meant that LFL&R revenues +2.3% (+€6.5m) did not grow at the same pace as the increase in RevPAR.
- Central Europe: The cumulative increase in RevPAR over 12 months was 1.3%, with a price increase of +6.0% and occupancy down by -4.4%, due to lower attendance at trade fairs, the change in segmentation, which could not be offset, and poorer brand positioning due to a later start on brand and product repositioning. LFL&R income was down -0.1% (-€0.5m) due to lower restaurant income, the change in segmentation and the lost income from hotels being renovated.
- Latin America: without taking the contribution of Hoteles Royal into account, RevPAR at a real exchange rate grew over the year by +11.3%, with a price increase of +15.9%, and occupancy was down by -4.0%, mainly due to the problem of inflation in Argentina. Over the year, LFL&R revenues at the real exchange rate grew by +9.7% (+€7.2m).

## 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 Group'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 and structure and economic environment variables.

The size of NH Hotel Group and its excellent penetration and brand recognition provide the Group with access to many 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 characterised by economic cycles, and is therefore exposed to fluctuating prices, which the Group has always managed to offset with occupancy.

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 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 Hoteles.

Regarding liquidity risks, NH Hotel Group has a suitable debt maturity calendar, which is set out in Note 15 of the Consolidated Annual Report for 2015. The Group is constantly evaluating the possibility of refinancing part or all of the existing financial debt.

Maintaining the operational sources of cash flow 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' short-term 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 2015 comprised 350,271,788 fully subscribed and paid up bearer shares with a par value of 2 euros 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 Group and the notices given to the Spanish Securities Market Commission before the end of every financial year, the most significant shareholdings at 31 December 2015 and 2014 were as follows:

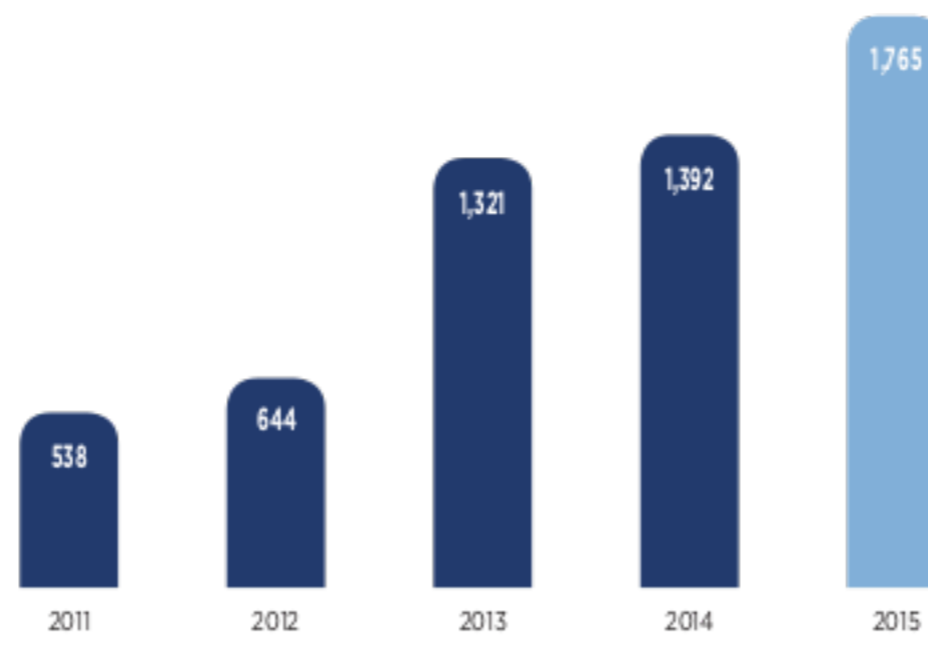
	2015	2014
HNA Group Co Limited	29.50%	29.50%
Grupo Inversor Hesperia, S.A.	9.10%	9.10%
Banco Santander, S.A.	-	8.57%
Intesa Sanpaolo, S.p.A	-	7.64%
Oceanwood Capital Management LLP	7.58%	-
Henderson Global Investors LTD	4.19%	-
Schroder PLC	2.95%	-
Taube Hodson Stonex Partners LLP	2.64%	3.89%
Blackrock Inc.	2.30%	2.31%
Fidelity International Limited	0.96%	0.96%
Invesco LTD	0.66%	-
UBS Group AG	0.22%	2.01%
Treasury Share	2.57%	2.67%
Shares owned by NH employees	0.05%	0.07%

In January 2015, Intesa San Paolo through UBS Limited transferred 100% of its shares in NH Hotel Group, S.A. to a Group of accredited investors, and therefore at the date of drafting these Annual Accounts Intesa San Paolo is no longer a Group shareholder.

The average share price of NH Hotel Group, S.A. in 2015 was 5 euros per share (4.28 euros in 2014). The lowest share price of 3.73 euros per share (3.06 euros in October 2014) was recorded in January and the highest share price of 5.97 euros per share (5.26 euros in March 2014). The market capitalisation of the group at the close of 2015 stood at 1,765.37 million (1,392.33 million at the close of 2014).

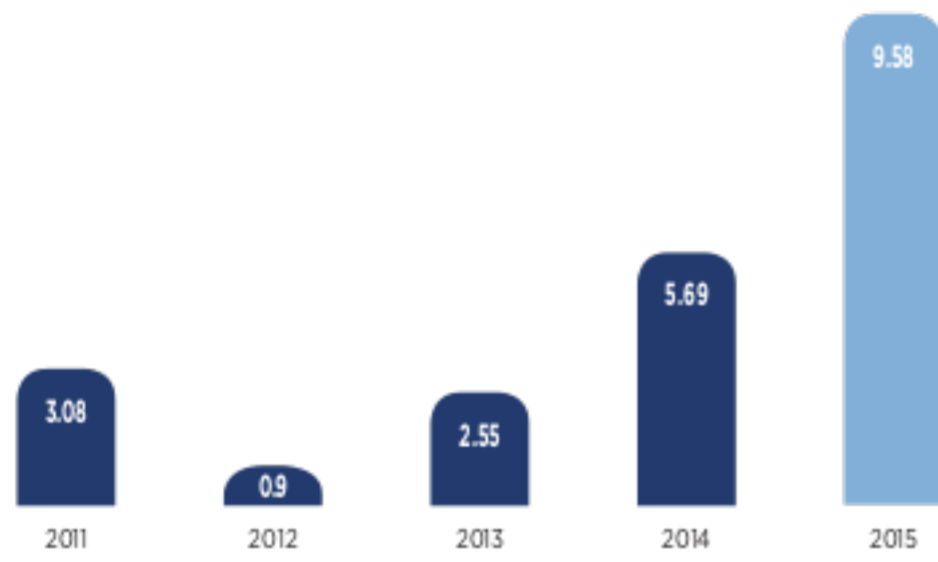
At year-end, NH Hotel Group held 9,000,000 treasury shares representing 2.57% of its share capital at a total cost of EUR 37,589 thousand. On 4 November 2013, the Spanish National Securities Market Commission (CNMV) was notified of the loan of 9,000,000 of shares to the three financial institutions involved in the placement of the bonds convertible or exchangeable for shares of NH Hotel Group, S.A. amounting to EUR 250 million. The purpose of this loan was to allow said financial entities to offer the shares to subscribers to the bonds requesting them.

### MARKET CAPITALIZATION 2011-2015 (Millions of euros)

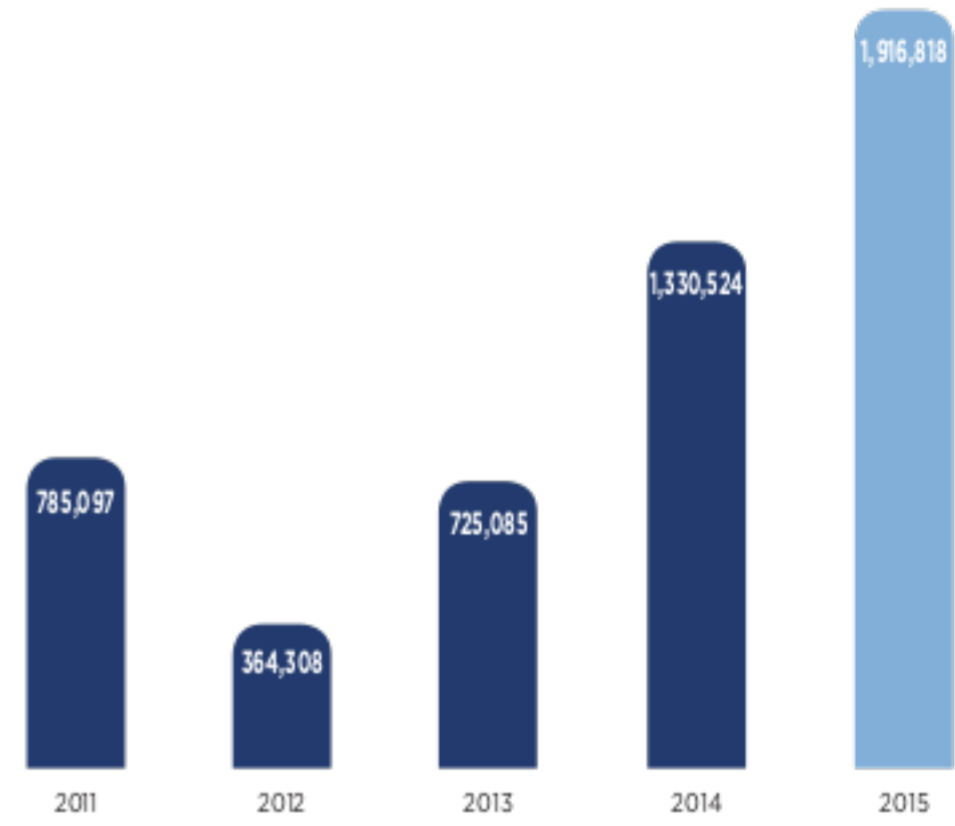


A total of 490,705,420 shares in NH Hotel Group, S.A. were traded on the Continuous Market over the course of 2015 (339,283,674 shares in 2014), which accounted for 1.40 times (1.03 times in 2014) the total number of shares into which the Group's share capital is divided. Average daily share trading on the Continuous Market amounted to 1,916,818 securities (1,330,524 in 2014).

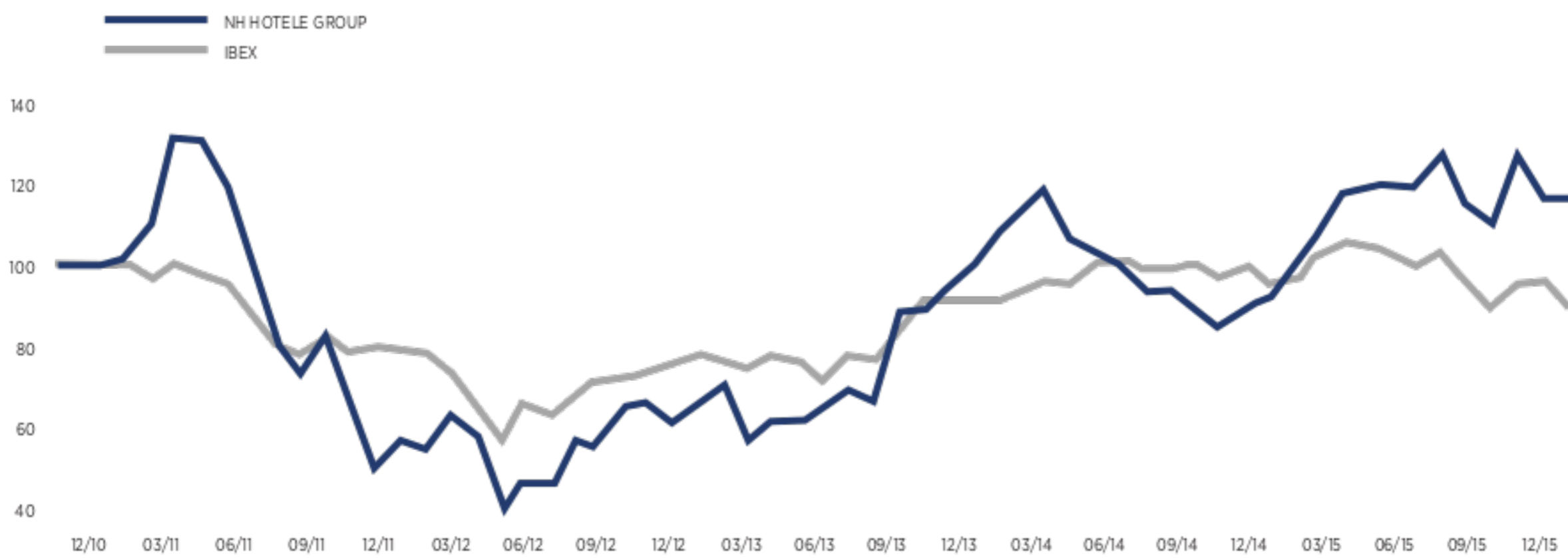
### DAILY AVERAGE TRADING 2011-2015 (Millions of euros)



### DAILY AVERAGE TRADING 2011-2015 (In shares euros)



### EVOLUTION NH HOTEL GROUP - IBEX 1st JANUARY 2011- 31st DECEMBER 2015



## **FUTURE OUTLOOK**

The results of the UNWTO Confidence Index continue to be very positive for 2016, although slightly lower than the previous two years. Based on current trends and with this general outlook, UNWTO forecasts 4% growth in international tourist arrivals worldwide in 2016.

By region, growth is expected to be strongest in Asia and the Pacific (+4.0% to +5.0%) and the Americas (+4.0% to +5.0%), followed by Europe (+3.5% to +4.5%). The forecast for Africa (+2.0% to 5.0%) and the Middle East (+2.0% to +5.0%) is positive, although with greater uncertainty and volatility.

## **EVENTS AFTER THE REPORTING PERIOD**

After the year end closing there has not been any relevant issue with significant impact on the financial and equity position of the Group.

# ANNUAL CORPORATE GOVERNANCE REPORT

Listed Public Limited Companies

Identification details of the issuer

End date of 12-month period of reference

C.I.F.: A28027944

Company Name: NH Hotel Group, S.A.

## 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 shares 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
GRUPO INVERSOR HESPERIA, S.A.	31,870,384	0	9.10%
HNA GROUP CO LIMITED	0	103,329,925	29.50%
OCEANWOOD CAPITAL MANAGEMENT LLP	0	26,549,890	7.58%
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	BARENDINA, S.A.	20,949,890
OCEANWOOD CAPITAL MANAGEMENT LLP	OCEANWOOD INVESTMENTS LTD	5,600,000
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
INTESA SANPAOLO, S.P.A.	23/01/2015	Fell below 3% of share capital
BANCO SANTANDER, S.A.	20/05/2015	Fell below 3% of share capital
OCEANWOOD CAPITAL MANAGEMENT LLP	28/05/2015	Exceeded 5% of share capital
HENDERSON GLOBAL INVESTORS LIMITED	15/06/2015	Exceeded 3% 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 FEDERICO GONZÁLEZ TEJERA	100	0	0.00%
MR FRANCISCO ROMÁN RIECHMANN	100	0	0.00%
MR CARLOS GONZÁLEZ FERNÁNDEZ	25,050	11,400	0.01%
MR JOSE ANTONIO CASTRO SOUSA	1,000	32,345,188	9.23%
MR FRANCISCO JAVIER ILLA RUIZ	1	0	0.00%
MR JOSE MARÍA LÓPEZ ELOLA	21,000	0	0.01%
MR XIANYI MU	1	0	0.00%
MR CHARLES MOBUS	250	0	0.00%
MR HAIBO BAI	1	0	0.00%
MR LING ZHANG	1	0	0.00%

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 CARLOS GONZÁLEZ FERNÁNDEZ	NOBELIUM PONTI,S.L.	11,400
MR JOSE ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A	31,870,384
MR JOSE ANTONIO CASTRO SOUSA	EUROFONDO, S.A.	474,804
<b>% of total voting rights held by the Board of Directors</b>		<b>9.25%</b>

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:

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights	Number of equivalent shares	% of total voting rights
MR FEDERICO GONZÁLEZ TEJERA	0	0	1.635.195	0,00%

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:

As a result of the sale of the 7.60% share that Intesa Snapolo S.p.A. held in HN Hotel Group, S.A., which was completed and reported on 23 January 2015, the Contribution Agreement between the two companies dated 15 April 2014 was dissolved.

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**

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

At year end:

<b>Number of direct shares</b>	<b>Number of indirect shares (*)</b>	<b>% of total share capital</b>
9,000,000	0	2.57%

(\*) Through:

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

**Explain the significant changes**

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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	49.63%

A.10 Indicate whether there is any restriction on the transmissibility 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-overs 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 Spanish 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 Decree-Law 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 Companies 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:

Date of general meeting	% present in person	% by proxy	Attendance detail		Total
			% remote voting		
			Electronic voting	Other	
26/06/2014	20,38%	53,33%	0,20%	0,00%	73,94%
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%

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, S.A. website, [www.nh-hotels.es](http://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:

<b>Maximum number of Directors</b>	<b>20</b>
<b>Minimum number of Directors</b>	<b>5</b>

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

<b>Name or company name of Director</b>	<b>Representative</b>	<b>Director category</b>	<b>Position on the Board</b>	<b>Date of first appointment</b>	<b>Date of last appointment</b>	<b>Election procedure</b>
MR CHARLES MOBUS		Proprietary	PROPRIETARY	26/04/2013	25/06/2013	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSE ANTONIO CASTRO SOUSA		Proprietary	DEPUTY CHAIRMAN	24/05/2012	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR FEDERICO GONZÁLEZ TEJERA		Executive	EXECUTIVE DIRECTOR	23/11/2012	25/06/2013	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR LING ZHANG		Proprietary	DEPUTY CHAIRMAN	18/12/2014	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR ALFREDO FERNÁNDEZ AGRAS		Proprietary	DEPUTY	19/06/2015	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR FRANCISCO JAVIER ILLA RUIZ		Proprietary	DIRECTOR	27/10/2009	25/06/2013	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR XIANYI MU		Proprietary	DIRECTOR	17/04/2013	25/06/2013	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR HAIBO BAI		Proprietary	DIRECTOR	27/02/2014	26/06/2014	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR CARLOS GONZÁLEZ FERNÁNDEZ		Independent	DIRECTOR	29/06/2011	26/06/2014	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSE MARÍA LÓPEZ ELOLA		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
<b>Total number of Directors</b>						<b>12</b>

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 RODRIGO ECHENIQUE GORDILLO	Other External	21/09/2015
MR LIVIO GIOVANNI MARIA TORIO	Proprietary	27/01/2015

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

#### EXECUTIVE DIRECTORS

Name or company name of Director	Position in the company's organisational chart
MR FEDERICO GONZÁLEZ TEJERA	Executive Director
<b>Total number of executive Directors</b>	<b>1</b>
<b>% of the Board as a whole</b>	<b>8.33%</b>

#### EXTERNAL PROPRIETARY DIRECTORS

Name or company name of Director	Name or company name of the major shareholder represented or who proposed the appointment
MR JOSE ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A.
MR FRANCISCO JAVIER ILLA RUIZ	GRUPO INVERSOR HESPERIA, S.A.
MR XIANYI MU	HNA GROUP CO LIMITED
MR CHARLES MOBUS	HNA GROUP CO LIMITED
MR HAIBO BAI	HNA GROUP CO LIMITED
MR LING ZHANG	HNA GROUP CO LIMITED
MR ALFREDO FERNÁNDEZ AGRAS	OCEANWOOD CAPITAL MANAGEMENT LLP
<b>Total number of proprietary Directors</b>	<b>7</b>
<b>% of the Board as a whole</b>	<b>58.33%</b>

## INDEPENDENT EXTERNAL DIRECTORS

Name or company name of Director	Profile
MR FRANCISCO ROMÁN 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.
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 is Director of Corporación Financiera Alba, S.A. and Sotogrande, S.A."
MR JOSE MARÍA LÓPEZ ELOLA	Graduate in economics from the Complutense University of Madrid. For the last 35 years, he has been Director general of various credit and banking institutions, such as Bancaya Hipotecaria, S.A., Citibank España, S.A., 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. and Celo, S.A.
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 was named a partner of 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
<b>Total number of independent Directors</b>	<b>4</b>
<b>% of total Board</b>	<b>33.33%</b>

Indicate if any Director classified as independent receives any payments or benefits from the company or its group other than remuneration for the post of Director, or maintains, or has maintained, a business relationship with the company or any company in the group in the last year, whether in his own name or as a major 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:

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			
	2015	2014	2013	2012	2015	2014	2013	2012
<b>Female Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	1	1	1	0.00%	10.00%	11.00%	11.00%
<b>Independent</b>	1	0	1	1	25.00%	0.00%	33.00%	25.00%
<b>Other External Female Executives</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	1	1	2	2	8.33%	7.14%	13.00%	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.

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**Explanation of the measures**

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Among its responsibilities, the Appointments, Remuneration and Corporate Governance Committee must report on appointment proposals and departures of Directors and senior management from the company and its subsidiaries. It is expressly stated that in the case of vacancies arising on the Board of Directors, 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.

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 are included who meet the required professional profile 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.

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.

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**Explanation of the conclusions**

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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. To promote this belief, it ensures equality of opportunities and fair treatment in managing people at all levels, maximising the contribution of value from those elements that differentiate people (gender, culture, age, ability, etc.), promoting the participation and development of women in the organisation, especially in positions of leadership, and, in particular, on the Board of Directors. The company is working with expert consulting firms that are intensifying the recruitment of female Directors. This company's goal is to be able to cover the vacancy on the board with a new female Director, therefore enabling us to increase the female presence on the Board to two female Directors. In this sense, the policy for selecting Directors will promote the objective that by 2020 the number of female Directors will be at least 30% of the total number of members of the Board of 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 LIVIO GIOVANNI MARIA TORIO	Sale of the entire holding in NH Hotel Group, S.A. of the shareholder Intesa Sanpaolo SPA, which the Director represented.
MR RODRIGO ECHENIQUE GORDILLO	Inability to continue presiding the company, given the new responsibilities assumed outside of the group, and given the solid evolution of NH Hotel Group, S.A.'s business.

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

Name or company name of Director	Brief description:
MR FEDERICO GONZÁLEZ TEJERA	All the powers that correspond to the Board of Directors, except those that cannot be delegated by law or the company's articles of association.

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.	DIRECTOR	NO
MR CHARLES MOBUS	BEIJING NH GRAND CHINA HOTEL MANAGEMENT CO.LTD.	CHAIRMAN	YES
MR FEDERICO GONZÁLEZ TEJERA	BEIJING NH GRAND CHINA HOTEL MANAGEMENT CO.LTD.	DIRECTOR	NO
MR HAIBO BAI	BEIJING NH GRAND CHINA HOTEL MANAGEMENT CO.LTD.	DIRECTOR	NO
MR XIANYI MU	BEIJING NH GRAND CHINA HOTEL MANAGEMENT CO.LTD.	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 CARLOS GONZÁLEZ FERNÁNDEZ	SOTOGRADE, S.A.	DIRECTOR
MR CARLOS GONZÁLEZ FERNÁNDEZ	CORPORACIÓN FINANCIERA ALBA, S.A.	DIRECTOR
MR JOSE MARÍA LÓPEZ ELOLA	CADOGAN, S.A.	DIRECTOR
MR ALFREDO FERNÁNDEZ AGRAS	MERLIN PROPERTIES SOCIMI, 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)	2,203
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:

Name or company name	Position
MR CARLOS ULECIA PALACIOS	GENERAL SECRETARY
MR RAMÓN ARAGONÉS MARÍN	GENERAL MANAGER, OPERATIONS
MR IÑIGO CAPELL ARRIETA	GENERAL MANAGER OF RESOURCES
MR JESUS IGNACIO ARANGUREN GONZÁLEZ-TARRÍO	GENERAL MANAGER OF ASSETS AND REVENUE
MR ISIDORO MARTÍNEZ DE LA ESCALERA	GENERAL MANAGER, MARKETING
MS BEATRIZ PUENTE FERRERAS	CHIEF FINANCIAL OFFICER
<b>Total remuneration of senior management (€ thousands)</b>	<b>3,515</b>

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:

Name or company name of Director	Company name of major shareholder	Position
MR FRANCISCO JAVIER ILLA RUIZ	GRUPO INVERSOR HESPERIA, S.A	JOINT DIRECTOR
MR XIANYI MU	TANGLA SPAIN, S.L.	CHAIRMAN
MR CHARLES MOBUS	TANGLA SPAIN, S.L.	DIRECTOR
MR HAIBO BAI	TANGLA SPAIN, S.L.	DIRECTOR
MR LING ZHANG	HNA GROUP CO LIMITED	DIRECTOR

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 JOSE 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

The Board of Directors, in its meeting on 29 April 2015, decided to approve the modification of certain articles of the Regulations of the Board of Directors, with the aim of including the latest innovations regarding corporate governance introduced by Law 31/2014, of 3 December, modifying the Corporate Enterprises Act to improve corporate governance, as well as some of the recommendations included in the new Code of Good Governance of Listed Companies, approved by an Agreement of the Board of the Spanish National Securities Market Commission on 18 February 2015.

Furthermore, on 27 July 2015, the Board decided to modify articles 24 and 26 of the Regulations of the Board of Directors in order to include the possibility for other Directors who have expressed an interest and have been authorised by the Board of Directors to attend and participate in both the Executive Committee and the Appointments and Remunerations Committee, with the right to speak but not vote.

Finally, on 29 October 2015, the Board of Directors once again approved a modification to said Regulations in order to perform the necessary changes resulting from the Board's approval of the co-chairmanship of the company, which resulted in the appointment of a Chairman of the Board and a Chairman of the Executive Committee, and furthermore proposing the alternation of said Chairmen in chairing the General Shareholders' Meeting on a rotating basis. Additionally, the Regulations of the Board of Directors were modified to include the latest changes established in Law 22/2015, of 20 July, on Accounts Auditing, as well as some additional new provisions set out in the aforementioned Code of Good Governance of Listed Companies (mainly, the change in the denomination of the Appointments and Remunerations Committee to the Appointments, Remunerations and Corporate Governance 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.

#### **Selection procedures for members of the Board.**

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:

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#### **Description of changes**

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Given the assessment performed by the Board of Directors, certain areas that could be improved have been detected. These aspects are mainly linked to the Board's contribution to strategic planning and to improving certain operational aspects of the Executive Committee. For each one of these fields, action plans have been established that will be implemented throughout this financial year, with almost all of the plans focused on the first semester of 2016.

Description of changes:

1. Periodically inform Directors of the perception of relevant third parties and, in particular, that of investors.
  2. Review the structure and content of the Committees' reports to the Board.
  3. Review the role of the Board with regard to internal control.
  4. Reinforce the contribution of the Board to strategic reflection and planning.
  5. Operational and financial supervision of the company and reinforcing procedures in this field.
  6. Review the information provided before meetings of the Board and the Committees.
  7. Review the amount of time information is sent in advance of meetings.
  8. Develop orientation, informational and training activities for Directors.
  9. Review the content of presentations to the Board and Committees.
  10. Review the methodology of the Executive Committee 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 assessment process has been carried out by the NH Hotel Group Board of Directors with the assistance of a firm (one of the so-called "big four") specialising in the matter, in order to respond to Recommendation number 36 of the Code of Good Governance of Listed Companies of the Spanish National Securities Market Commission. This process has assessed:

- The operation of the company's governance bodies
- Information
- Functions of the Board of Directors
- Responsibilities in terms of reports to third parties
- Strategic planning
- Operational and financial supervision
- Methodology of Board and Committee meetings:
- Planning meetings
- Presentations
- Communication and participation in meetings

C.1.20 ter 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.

Not significant 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.

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**Description of the differences**

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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).

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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

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**Matters for which there is a casting vote**

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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.

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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 he/she 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 he/she 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	17
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
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State the number of meetings held by the different Board Committees over the year:

Committee	No. of Meetings
EXECUTIVE COMMITTEE	3
AUDIT AND CONTROL COMMITTEE	7
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	11

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:

<b>Number of meetings attended by all the Directors</b>	<b>17</b>
<b>Attendances as a percentage of total votes during the year</b>	<b>100.00%</b>

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)	844	159	1003
Amount for work other than audit work / Total amount invoiced by the audit firm (%)	61.65	9.96	33.82

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
<b>Number of consecutive years</b>	14	14
<b>Number of years audited by the current audit firm / Number of years that the company has been audited (%)</b>	46,00%	46,00%

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 his/her 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 included in the Regulations of the Board during financial year 2015 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 Spanish Capital Companies Act:

YES

Name of the Director	Criminal Proceedings	Remarks
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 Enterprises Act.	Pending legal ruling.
MR JOSE 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 Enterprises 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 Enterprises 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 Code of Good Governance 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, 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.L.) 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	4
Type of beneficiary:	Description of Agreement:
Board Member and certain members of Senior Management and one employee.	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
Is the General Shareholders' Meeting notified of the clauses?	YES	NO
		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

First Name	Position	Category
MR JOSE ANTONIO CASTRO SOUSA	CHAIRMAN DEPUTY	Proprietary
MR CHARLES MOBUS	CHAIRMAN	Proprietary
MR FEDERICO GONZÁLEZ TEJERA	MEMBER	Executive
MR XIANYI MU	MEMBER	Proprietary
MR FRANCISCO JAVIER ILLA RUIZ	MEMBER	Proprietary
MR ALFREDO FERNÁNDEZ AGRAS	MEMBER	Proprietary
% of Executive Directors		17.00%
% of Proprietary Directors		83.00%
% of Independent Directors		0.00%
% of other external Directors		0,00%

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, those other Directors who have expressed an interest and have been authorised by the Board of Directors may attend and participate in Executive Committee meetings, with the right to speak but not vote, until they no longer hold their position. Said Directors without a vote will receive the same information and meeting announcements as the other voting Directors on the Executive Committee at the same time.

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**

As of 31/12/2015, the Executive Committee comprises six members:  
 Chairman: Mr José Antonio Castro Sousa (Proprietary)  
 Deputy Chairman: Mr Charles Mobus (Proprietary)  
 Members: Mr Federico González Tejera (Executive)  
 Mr Alfredo Fernández Agras (Proprietary)  
 Mr Xianyi Mu (Proprietary)  
 Mr Francisco Javier Illa Ruiz (Proprietary)

**AUDIT AND CONTROL COMMITTEE**

First Name	Position	Type
MS KORO USARRAGA UNSAIN	CHAIRMAN	Independent
MR CARLOS GONZÁLEZ FERNÁNDEZ	MEMBER	Independent
MR FRANCISCO ROMÁN RIECHMANN	MEMBER	Independent
MR FRANCISCO JAVIER ILLA RUIZ	MEMBER	Proprietary
MR XIANYI MU	MEMBER	Proprietary
% of Proprietary Directors		40.00%
% of Independent Directors		60.00%
% de otros externos		0,00%

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 Committee shall be formed by between three and six Directors designated by the Board, composed of external Directors, the majority of whom, at least, must be independent Directors, and one of whom must be designated by taking into consideration his/her knowledge and experience in accounting, auditing, or both.

The Chairman 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.

Area of competence:

1. Report to the General Shareholders' Meeting 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. periodic public financial information
  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 and oversee a mechanism that allows employees confidentially and, if deemed appropriate, 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 his/her 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.

Without prejudice to the detailed breakdown included in this Committee's Annual Report, said Committee has held six meetings, in which it has mainly dealt with the following matters: Analysis and assessment of the Financial Statements and Annual Report from 2014, reviewing information on issues that may put the auditors' independence at risk. Issuing a Report on the independence of said auditors, reviewing the financial information published periodically in 2015, approving the fees for an External Auditor for 2015, supervising the Internal Auditing strategic plan, as well as monitoring the Internal Audit Plan, approving a new NH Hotel Group Code of Conduct, supervising work performed by the Compliance Committee, following up on the most significant projects performed by internal auditing, supervising and monitoring the updates to the Group's Risk Map, supervising SCIIF, IAGC and the tax policy.

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	0

## APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE

First Name	Position	Category
MR FRANCISCO ROMÁN RIECHMANN	CHAIRMAN	Independent
MR JOSE MARÍA LÓPEZ ELOLA	MEMBER	Independent
MS KORO USARRAGA UNSAIN	MEMBER	Independent
MR ALFREDO FERNÁNDEZ AGRAS	MEMBER	Proprietary
MR FRANCISCO JAVIER ILLA RUIZ	MEMBER	Proprietary
MR XIANYI MU	MEMBER	Proprietary
% of Proprietary Directors		50.00%
% of Independent Directors		50.00%
% of other external		0.00%

Explain the functions of this committee, describe its organisational and working procedures and rules and summarise its most important activities during the financial year.

This Committee shall be comprised of a minimum of three and maximum of six Directors. They shall be exclusively non-executive Directors appointed by the Board, two of whom, at least, must be Independent Directors. The Chairman of the Committee shall be chosen by the Independent Directors that comprise it.

Area of competence:

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 that are directly dependent upon the Board, the Executive Committees or Chief Executives, as well as individual remuneration and other contractual conditions for executive Directors, ensuring their compliance.
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 this 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.

This 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, those other Directors who have expressed an interest and have been authorised by the Board of Directors may attend and participate in this Committee's meetings, with the right to speak but not vote, until they no longer hold their position. Said Directors without a vote will receive the same information and meeting announcements as the other voting Directors on the Appointments, Remuneration and Corporate Governance Committee at the same time.

During financial year 2015, the Appointments, Remuneration and Corporate Governance Committee held 11 meetings, dealing with the following matters:

- Evaluation and proposal of appointments of Independent Directors with the aim of passing along said proposal to the Board of Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting.
- 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 by the General Shareholders' Meeting.
- Study the suitability of the regulations and of the Recommendations of the Code of Good Governance and prepare policies for selecting Directors, ensuring that a representation goal is established for the least represented sex on the Board of Directors and creating guidelines for achieving said goal.
- Review the Corporate Social Responsibility Policy.
- Evaluate the Board and Action Plans to correct any deficiencies detected.
- Provide notification of proposals for appointing or removing senior management and the basic conditions of their contracts.
- Notification of the appointment of the Board's Chairman and Deputy Chairmen, examining and organising the succession of the Chairman of the Board of Directors.
- Propose to the Board of Directors the remuneration policy for the Directors and general managers or for those who perform functions of upper management, as well as the individual remuneration and other contractual conditions for the Chief Executive.

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							
	2015		2014		2013		2012	
	Number	%	Number	%	Number	%	Number	%
<b>EXECUTIVE COMMITTEE</b>		0.00%	0	0.00%	0	0.00%	0	0.00%
<b>AUDIT AND CONTROL COMMITTEE</b>		20.00%	0	0.00%	0	0.00%	0	0.00%
<b>APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE</b>	1	16.70%	0	0.00%	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](http://www.nh-hotels.es)), in the section "Information for Shareholders" - "Corporate Governance". Said website also includes all information regarding the composition of each Committee.

In financial year 2015, regulations have been modified several times, both in the Articles of Association (approved at the General Shareholders' Meeting on 29 June 2015, as well as at the Extraordinary General Meeting on 11 December 2015), and in the Regulations of the Board (via Board decisions dated 29 April, 27 July and 29 October 2015). The modifications were justified due to the passage of Law 31/2014, of 3 December, amending the Corporate Enterprises Act to improve corporate governance, as well as the new Code of Good Governance of Listed Companies, approved by an Agreement of the Board of the Spanish National Securities Market Commission dated 18 February 2015. Furthermore, the latest innovations set out in Law 22/2015, of 20 July, on Account Auditing, have been included in the Regulations of the Board and the Articles of Association.

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	Name or company name of the company or group company	Nature of the relationship	Type of transaction	Amount (€ thousands)
GRUPO INVERSOR HESPERIA, S.A.	HOTELES HESPERIA, S.L.	Contractual	Management contracts	2,009

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)	Short description of the transaction
SOTOCARIBE, S.L.	4,820	LOAN
CONSORCIO GRUPO HOTELERO T2	672	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 the Director to:

- a) Not exercise his powers for purposes other than those for which they have been conceded.
- b) Keep the information, data, reports or background that he/she has had access to in the performance of his/her duty confidential, even when he/she has 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 he/she or an associate has a direct or indirect conflict of interests. Those agreements or decisions that affect his/her position as a Director shall be excluded from the above requirement to abstain, such as his/her selection or removal for positions in the administration body or others of similar significance.
- d) Perform his/her 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 his/her 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) Carry out activities on my 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 me 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 associated 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 he/she is 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:

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**Listed Subsidiary Company**

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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;

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**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:

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**Mechanisms for resolving possible conflicts of interest**

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## 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 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.

For these purposes, it is worth note that NH Hotel Group's Board of Directors, in the 2015 financial year, approved its Corporate Tax Strategy, a regulatory framework falling within the Group's Corporate Governance System and which has the fundamental aim of setting the values, principles and rules that must govern the Group's activities in tax matters, whether for the people who are a part of it or those who are associated with it.

This Strategy includes a specific procedure for tax management and control and supervision of the Group's internal information and tax control systems.

### 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.

Furthermore, NH has the following committees:

**Revenue Committee:** In charge of monitoring revenue and defining such action plans as needed to achieve objectives.

**Assets Committee:** Reviews space optimisation in the hotels, rent renegotiations and the exit plan. **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.

**Comité de Inversiones:** Encargado del seguimiento y control de los riesgos relacionados con los proyectos de reforma y reposicionamiento en hoteles.

#### **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 and overseeing the action plans agreed with each risk manager and their association with strategic objectives.

### 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 risks are included under this heading.
- c) Business Risks generated by inadequate management of procedures and resources, whether human, material or technological. This category encompasses difficulty in adapting to changes in customer demand and needs.
- 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) 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).
- f) External Risks, arising from natural disasters, political instability or terrorist attacks.
- g) 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 Hotel Group, S.A. has a risk tolerance level which mainly depends on NH Hotels' financial and equity capacity when it comes to taking on materialisation of certain risks.

For tax matters, the Group acts in line with that set out in its Corporate Tax Strategy.

### 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 Hotel 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 the Risk takes into account the cost/benefit analysis between the impact of the Risk and the actions to be taken to manage it, the appetite and tolerance for Risk and the strategic goals of the NH Hotel Group.

The NH Hotel 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 supervises implementation of response plans to manage the main risks. 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 is working, as part of its Corporate Tax Strategy, on designing a Tax Risk Management and Control Procedure with a view to providing a response and overseeing any tax risk that may exist, whether in Spain or in the other countries where it 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.

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 approval 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 Board of Directors of NH Hotel Group. 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 NH Group's 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, 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.

In 2014, NH Hotel Group drove 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 Code Complaints Channel.

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 2015 with on-line training about the Code of Conduct, with the aim of raising awareness amongst all employees. During 2015 a total of 67.82% of employees at NH Hotel Group, S.A.'s adhered to the Code of Conduct, which was updated on 29 June 2015.

Any modification of the Code of Conduct must be previously approved by the Board of Directors, and employees and any other people affected must be notified.

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 aforesaid section stresses that "the individuals responsible must transmit truthful, complete and comprehensible financial reports. In no case will they knowingly provide incorrect, imprecise or inaccurate information. To this end, individuals responsible will 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 SVP 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 on the NH Hotels intranet (codeofconduct@nh-hotels.com), through which they are forwarded to the SVP of the Internal Audit Department. In addition, they may be sent by post for the attention of the SVP of NH Hoteles, S.A., Internal Audit Department at Santa Engracia 120, 28003 Madrid, Spain.

The SVP of the Internal Audit Department is responsible for analysing the information presented and requesting the corresponding evidence and reports. All significant complaints are presented to the Compliance Committee and the Audit and Control Committee.

- 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:

Workshops for a total of 20 employees belonging to the retained function in Holland, Belgium and Germany on the aims and features of the Financial Information Control System and the risk and control matrix. The aim is to inform about the most significant aspects in relation to the Financial Information generation process, specifically: the Group's operating processes that make up the Control System, bodies responsible for maintaining the defined controls within each process, reporting improvements or changes, understanding the established supervision system, etc., and confirming that each body responsible for controls understands both the controls and the type of evidence they need to provide.

Training sessions with Corporate employees on the control of UDAs (User Developed Applications). The aim is to inform the owners of any Excel files which are important for Financial Information regarding the policy applicable to such UDAs and the procedure for their custody and control.

Training sessions on this subject for the people involved in the SCIIF of the Internal Audit Department. 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.

## 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 Chief Executive Officer or Managing Director 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 of

### **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
  - Integrity
  - Exactness
  - Cut-off
  - Classification
- Accounts' balance:
  - Existence
  - Rights and obligations
  - Integrity
  - Valuation and allocation
- Presentation and breakdown:
  - Occurrence and rights and obligations
  - Integrity
  - 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 and supervised by the Audit and Control Committee as part of its duties.

- 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 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. A risk matrix has been established 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.

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:

- o Loyalty programme
- o Purchasing and Suppliers
- o Sales and Customers
- o Cash
- o Financing
- o Fixed assets
- o Inter-company
- o Tax
- o Human Resources
- o Provisions and contingencies
- o Accounting close, consolidation and financial reporting process
- o Shared Services Centre
- o Business support technological processes

The total business cycles include 22 processes and 62 sub-processes. In order to achieve financial reporting reliability and completeness targets, a total of 416 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, in 2015, the model was extended to the business units in Holland, Belgium and Germany.

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**

associated risks. This model (based on COSO and COBIT) includes a matrix of general IT system controls (GITC) (115 controls), 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 the 2014 financial year, a draft Information Security Master Plan was addressed, which defined the strategy to be followed in this area by the company, defining an exhaustive plan for projects intended to be implemented within the framework of a Technical Security Office during the next three years.

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 handover period of transferring the administrative function to the SSC, the settling-in period, the provision of the service, 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 reviewing the previously defined processes and procedures regularly, ensuring the control tasks they include work and are correctly applied.

The Financial Department is responsible for defining and applying accounting criteria, checking that they are updated and approved. To that end, the NH Group currently has a common Accounting Plan, and, in 2015, drew up 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.

The NH Group has a common 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 SCIIF 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.

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 auditor's 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.

The 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 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.

Audit and Control Committee proceedings are documented in the minutes of its meetings.

### 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 consisting of 9 auditors 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 auditing 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 and three years for non-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 2015

The Group's SCIIF model covers the business units in Spain, Holland, Belgium and Germany, which consist of 251 hotels and 13 business cycles of major importance in the presentation of financial reports.

A total of 416 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 2015, 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 2015 analysed a total of 350 controls for the geographic area of Spain, Holland, Belgium and Germany and controls at Corporate level, which involved reaching 84% 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 by the CEO and occasionally by the SVP 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 2015, 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's 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

This Company understands that this Recommendation is not applicable for Ordinary General Meetings held during financial year 2015, and can only come into effect after the Ordinary General Meeting to be held in 2016, which is when the Chairman will provide information on the most relevant aspects of corporate governance undertaken in 2015, as well as compliance or non-compliance with the recommendations included in the Code of Good Governance of Listed Companies, approved by an Agreement of the Board of the CNMV on 18 February 2015.

Notwithstanding the aforementioned, the Chairman of the Board has informed during the Shareholders meeting of 2015 about the main changes in corporate governance that have happened since the Shareholders meeting of 2014 and that have motivated some amendments to the By Laws and the internal Regulations.

At the 2016 Ordinary General Meeting, the Chairman will give an account of the recommendations that are made in this field, if applicable.

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 them 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.

Partially complies

This Company has not published all the Reports cited in this Recommendation (like the Report on Auditor Independence or the Report of the Audit Committee on related-party transactions)

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.

These 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

There are shareholders that have reduced its share participation, without having reduced its proprietary Directors 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

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.

Explain

Independent Directors are not currently represented 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) Ensuring the independence of the unit that performs internal audits; proposing the selecting, appointment, re-election and removal of the manager of internal audits; proposing a budget for this service; approving the guidelines and work plans, ensuring that its activity is mainly focused on the company's relevant risks; receiving periodic information on its activities; and verifying that senior management keeps the conclusions and recommendations from its reports in mind.
- 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 led 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 is currently comprised of six members, of whom three are proprietary Directors and three are independent. Therefore, we are in compliance with the provisions of article 529n 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.

Explain

Variable remuneration is not deferred, as it is considered that the variable remuneration of a Chief Executive is not relevant enough to propose this measure.

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.

Partially complies

The Company's Chief Executive already has a long-term variable remuneration system that is linked to the company's performance and referenced to the value of its shares. This Company has not thought it necessary for annual variable remuneration to also be linked to the company's shares.

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.

Partially complies

With regard to multi-year variable remuneration, there is a one year holding period for the Chief Executive for the total of performance shares and the total of the cycle.

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.

Explain

The Company has not approved the application of "claw back" style clauses.

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.

Partially complies

There are no verification mechanisms for compliance with previously established performance criteria.

## H - OTHER USEFUL 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

The information contained in table A.3 sets out exclusively the number of voting rights held directly by private individuals and legal entities that have the status of members of the Board of Directors. This number does not include the voting rights held by legal entities that have requested and assigned proprietary Directors.

The 1.635.195 rights over shares owned by Mr. Federico González Tejera are related to the 896.070 rights over shares granted as a consequence of the "Restricted Shares Plan", as well as 355.787 and 383.338 "performance shares" granted during 2014 and 2015 respectively. All these assignments are duly described in the Annual Remuneration Report that has been approved by the Board simultaneously to this Annual Governance Report.

### SECTION A.5

All relations of a commercial, contractual or corporate nature made 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 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 2015. Without prejudice to the above, it is hereby recorded that as a result of Mr Rodrigo Echenique Gordillo's departure, formalised on 21 September 2015, at the date this report was written there is a vacancy, which we intend to cover as soon as possible.

Keeping the above in mind, all percentages recorded in this report with regard to the relations between different types of Directors are being calculated based on 12 Directors.

### SECTION 1.11

Even though the company called BEIJING NH GRQAND CHINA HOTEL MANAGEMENT LTD. Has not the consideration of group company, according to article 42 of the Commercial Code, it has been considered appropriate to including this company, as 4 Directors of the listed company are members of the Board of the Chinese company.

### SECTION C.1.16

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 2015.

### 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.2.1.

Regardless of the composition of the Appointments, Remunerations and Corporate Governance Committee, it is hereby stated that after the Board of Directors' decision dated 27 July 2015, an additional modification to the Regulations of the Board has been approved in order to include the possibility for other Directors who have expressed an interest and have been authorised by the Board of Directors to attend and participate in the Appointments, Remunerations and Corporate Governance Committee, with the right to speak but not vote, until they no longer hold their position. Said Directors without a vote will receive the same information and meeting announcements as the other voting Directors on the Appointments, Remuneration and Corporate Governance Committee at the same time. In compliance with this provision, Mr Charles Mobus is a non-voting member of this Committee.

With regard to the composition of the Audit and Control Committee, we would like to underline that all members have been designated taking into account their experience in accountant and audit. Unfortunately the technical platform provided, only permits to elect one of these members.

In addition, Mr. Koro Usarraga has been elected Chairman of the referred Committee during July 2015. That is the reason why the reference to "0" years as Chairman of the Commission has been introduced. Before that date, Mr. Carlos González was Chariman of the Commission, who had a wide experience in accountant and audit.

**APARTADO D.2.**

It should be mentioned that with regard to the management contract signed between Hoteles Hesperia, S.L. and the shareholder Grupo Inversor Hesperia, S.A., the total volumen of transactions during fiscal year 2015 has come up to 6.244 (thousand) Euros. The sum as of 31th december 2015 that results out of the mentioned agreement is the one reflected in the present Report and accrued of 2.009 (thousand) Euros.

**SECTION D.3**

While a related-party transaction did occur between one of the Directors and the Company, it was not significant, either in quantity or relevance and has been identified and described in the Annual Report of the Audit and Control Committee, in the section for Related-Part Transactions carried out during 2015. Said Report will be published on the Company's website with sufficient time before the Ordinary General Shareholders' Meeting.

This annual corporate governance report has been approved by all of the members of the Board of Directors of the company, in his session of 25th February 2016 and by virtue of the communication dated 22th March 2016.

# CONSOLIDATED BALANCE SHEETS

At 31 December 2015 and 31 December 2014 (Thousands of euros)

## ASSETS

	Note	31/12/2015	31/12/2014
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment	8	1,724,166	1,606,360
Goodwill	6	118,793	93,923
Intangible assets	7	119,282	78,842
Investments accounted for using the equity method	9	16,678	17,816
Non-current financial investments-	10	160,776	165,564
Loans and accounts receivable not available for trading		154,071	158,859
Other non-current financial investments		6,705	6,705
Deferred tax assets	18	165,797	157,858
Other non-current assets		16,282	11,085
<b>Total non-current assets</b>		<b>2,321,774</b>	<b>2,131,448</b>

	Note	31/12/2015	31/12/2014
<b>CURRENT ASSETS:</b>			
Non-current assets classified as held for sale	11	45,034	95,193
Inventories		9,508	8,226
Trade receivables	12	169,269	136,012
Non-trade receivables-		73,115	69,789
Tax receivables	18	45,973	35,123
Other non-trade debtors		27,142	34,666
Short-term financial investments		2,190	2,787
Cash and cash equivalents	13	77,699	200,103
Other current assets		12,298	17,441
<b>Total current assets</b>		<b>389,113</b>	<b>529,551</b>
<b>TOTAL ASSETS</b>		<b>2,710,887</b>	<b>2,660,999</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

	Note	31/12/2015	31/12/2014
<b>EQUITY:</b>			
Share capital	14	700,544	700,544
Reserves of the parent	14	499,972	624,570
Reserves of fully consolidated companies		48,480	(68,636)
Reserves of companies consolidated using the equity method		(21,135)	(19,794)
Other equity instruments		27,230	27,230
Exchange differences		(130,347)	(102,659)
Treasury shares	14	(37,561)	(38,805)
Consolidated Profit/(Loss) for the financial year		938	(9,983)
<b>Equity attributable to the shareholders of the Parent Company</b>		<b>1,088,121</b>	<b>1,112,467</b>
Non-controlling interests	14	37,963	24,201
<b>Total equity</b>		<b>1,126,084</b>	<b>1,136,668</b>

	Note	31/12/2015	31/12/2014
<b>NON-CURRENT LIABILITIES</b>			
Debt instruments and other marketable securities	15	471,871	463,982
Bank borrowings	15	336,165	268,944
Obligations under finance leases		2,377	2,782
Other non-current liabilities	16	99,180	88,484
Provisions for contingencies and charges	17	48,700	56,930
Deferred tax liabilities	18	196,711	179,730
<b>Total non-current liabilities</b>		<b>1,155,004</b>	<b>1,060,852</b>

	Note	31/12/2015	31/12/2014
<b>CURRENT LIABILITIES:</b>			
Liabilities associated with non-current assets classified as held for sale	11	-	56,075
Debt instruments and other marketable securities	15	3,613	3,517
Bank borrowings	15	75,272	70,911
Obligations under finance leases		1,267	1,056
Trade and other payables	19	251,043	231,427
Tax payables	18	50,835	40,094
Provisions for contingencies and charges	17	5,330	14,835
Other current liabilities	21	42,439	45,564
<b>Total current liabilities</b>		<b>429,799</b>	<b>463,479</b>

<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>2,710,887</b>	<b>2,660,999</b>
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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 2015. The Consolidated Balance Sheet at 31 December 2014 is presented solely for the purposes of comparison.

# CONSOLIDATED COMPREHENSIVE PROFIT AND LOSS STATEMENTS

For the years 2015 and 2014 (Thousands of euros)

	Note	2015	2014
Revenues	24.1	1,376,634	1,246,954
Other operating income	24.1	1,207	3,299
Net gains on disposal of non-current assets	5, 6 and 24.1	(843)	(1,005)
Procurements		(67,589)	(67,321)
Staff costs	24.3	(398,148)	(373,793)
Depreciation and amortisation charges	7 and 8	(106,159)	(98,516)
Net impairment losses	6, 7 and 8	30,859	12,810
Other operating expenses		(768,075)	(705,296)
Variation in the provision for onerous contracts	17	19,014	14,721
Other operating expenses	24.4	(787,089)	(720,017)
Profit (loss) on disposal of financial investments		4,828	17,278
Profit (loss) from companies accounted for using the equity method	10	(663)	(1,341)
Finance income	24.2	5,154	7,368
Change in fair value of financial instruments	24.2	4,695	2,016
Finance costs	24.6	(73,715)	(68,829)
Net exchange differences (Income/(Expense))		2,135	38
<b>PROFITS / (LOSSES) BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>10,320</b>	<b>(26,338)</b>
Income tax	18	(13,082)	(15,611)
<b>PROFIT / LOSS FOR THE FINANCIAL YEAR - CONTINUING</b>		<b>(2,762)</b>	<b>(41,949)</b>
Profit (loss) for the year from discontinued operations net of tax	11	6,068	31,509
<b>PROFIT / LOSS FOR THE FINANCIAL YEAR</b>		<b>3,306</b>	<b>(10,440)</b>
Exchange differences		(31,439)	1,330
Arising from the measurement of financial instruments		-	(4,321)
<b>Income and expenses recognised directly in equity</b>		<b>(31,439)</b>	<b>(2,991)</b>
<b>TOTAL COMPREHENSIVE LOSS</b>		<b>(28,133)</b>	<b>(13,431)</b>
Profit / Loss for the year attributable to:			
Parent Company Shareholders		938	(9,983)
Non-controlling interests		2,368	(190)
Non-controlling interests in discontinued operations		-	(267)
Comprehensive loss attributable to:			
Parent Company Shareholders		(26,750)	(12,873)
Non-controlling interests	14.4	(1,383)	(558)
<b>PROFIT / (LOSS) PER SHARE IN EUROS (BASIC AND DILUTED)</b>	<b>5</b>	<b>0.003</b>	<b>(0.03)</b>

Notes 1 to 30 in the Consolidated Annual Report and Annexes I/II form an integral part of the Consolidated Comprehensive Profit and Loss Statement for 2015. The Consolidated Comprehensive Profit and Loss Statement for 2014 is presented solely for the purposes of comparison.



# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For 2015 and 2014 (Thousands of euros)

	Share Capital	Parent Company's Reserves			Reserves in Companies Consolidated by		Currency translation differences	Equity Instruments	Treasury shares	Profit(Loss) attributable to the Company	Total	Non-controlling Interests	Total Equity
		Share Premium	Legal reserve	Other reserves	Full consolidation	The equity method							
<b>Balances at 31 December 2013</b>	<b>616,544</b>	<b>521,259</b>	<b>43,121</b>	<b>93,420</b>	<b>(106,071)</b>	<b>(11,699)</b>	<b>(103,657)</b>	<b>27,230</b>	<b>(38,115)</b>	<b>(39,818)</b>	<b>1,002,214</b>	<b>153,001</b>	<b>1,155,215</b>
Adjustments after the end of the year	-	-	-	-	(510)	-	-	-	-	(1,821)	(2,331)	587	(1,744)
Initial balance adjusted 1 January 2014	616,544	521,259	43,121	93,420	(106,581)	(11,699)	(103,657)	27,230	(38,115)	(41,639)	999,883	153,588	1,153,471
Net profit (loss) for 2013	-	-	-	-	-	-	-	-	-	(9,550)	(9,550)	(890)	(10,440)
Exchange differences	-	-	-	-	-	-	998	-	-	-	998	332	1,330
Cash flow hedges	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	(4,321)	-	-	-	-	-	(4,321)	-	(4,321)
<b>Recognised income and expenses for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,321)</b>	<b>-</b>	<b>998</b>	<b>-</b>	<b>-</b>	<b>(9,550)</b>	<b>(12,873)</b>	<b>(558)</b>	<b>(13,431)</b>
Capital increase	84,000	113,400	-	(75,289)	-	-	-	-	-	-	122,111	(123,055)	(944)
Distribution of Profit (Loss) 2013-													
- To Reserves	-	-	-	(71,647)	38,103	(8,095)	-	-	-	41,639	-	-	-
Changes in treasury shares	-	-	-	-	-	-	-	-	(690)	-	(690)	-	(690)
Remuneration Scheme in shares	-	-	-	1,167	-	-	-	-	-	-	1,167	-	1,167
Distribution of dividends	-	-	-	-	325	-	-	-	-	-	325	(765)	(440)
Convertible bonds	-	-	-	-	-	-	-	-	-	-	-	(4,626)	(4,626)
Other movements	-	-	-	(861)	3,838	-	-	-	-	-	2,977	(816)	2,161
<b>Balances at 31 December 2014</b>	<b>700,544</b>	<b>634,659</b>	<b>43,121</b>	<b>(53,210)</b>	<b>(68,636)</b>	<b>(19,794)</b>	<b>(102,659)</b>	<b>27,230</b>	<b>(38,805)</b>	<b>(9,550)</b>	<b>1,112,900</b>	<b>23,768</b>	<b>1,136,668</b>
Events after the reporting period	-	-	-	-	-	-	-	-	-	(433)	(433)	433	-
Initial balance adjusted 01 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
Exchange differences	-	-	-	-	-	-	(27,688)	-	-	-	(27,688)	(3,751)	(31,439)
<b>Recognised income and expenses for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(27,688)</b>	<b>-</b>	<b>-</b>	<b>938</b>	<b>(26,750)</b>	<b>(1,383)</b>	<b>(28,133)</b>
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
<b>Balances at 31 December 2015</b>	<b>700,544</b>	<b>634,659</b>	<b>43,121</b>	<b>(177,808)</b>	<b>48,480</b>	<b>(21,135)</b>	<b>(130,347)</b>	<b>27,230</b>	<b>(37,561)</b>	<b>938</b>	<b>1,088,121</b>	<b>37,963</b>	<b>1,126,084</b>

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 2015. The statement of changes in consolidated assets for the year 2014 is only presented for comparative purposes.

# CONSOLIDATED CASH FLOW STATEMENTS

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

	Note	31/12/2015	31/12/2014
<b>1. OPERATING ACTIVITIES</b>			
<b>Consolidated profit (loss) before tax:</b>		<b>10,320</b>	<b>(26,338)</b>
<b>Adjustments:</b>			
Depreciation of tangible and amortisation of intangible assets (+)	7 and 8	106,159	98,516
Impairment losses (net) (+/-)	6, 7 and 8	(30,859)	(12,810)
Allocations for provisions (net) (+/-)	17	(19,014)	(14,721)
Gains/Losses on the sale of tangible and intangible assets (+/-)		843	1,005
Gains/Losses on investments valued using the equity method (+/-)	10	663	1,341
Financial income (-)	24.2	(5,154)	(7,368)
Financial expenses and variation in fair value of financial instruments (+)	24.2 and 24.6	69,020	66,813
Net exchange differences (Income/(Expense))		(2,135)	(38)
Profit (loss) on disposal of financial investments		(4,828)	(17,278)
Other non-monetary items (+/-)		1,141	4,108
<b>Adjusted profit (loss)</b>		<b>126,156</b>	<b>93,230</b>
<b>Net variation in assets / liabilities:</b>			
(Increase)/Decrease in inventories		(801)	361
(Increase)/Decrease in trade debtors and other accounts receivable		(17,937)	(41,500)
(Increase)/Decrease in other current assets		6,353	(8,897)
Increase/(Decrease) in trade payables		10,352	3,674
Increase/(Decrease) in other current liabilities		(17,809)	(3,847)
Increase/(Decrease) in provisions for contingencies and expenses		(470)	(7,158)
Increase/(Decrease) in other non-current assets and liabilities		(5,839)	-
Income tax paid		(9,707)	(3,750)
<b>Total net cash flow from operating activities (I)</b>		<b>90,298</b>	<b>32,113</b>
<b>2. INVESTMENT ACTIVITIES</b>			
Finance income		4,806	7,289
Investments (-):			
Group companies, joint ventures and associates		(273)	-
Tangible and intangible assets and investments in property		(176,083)	(109,892)
Non-current assets classified as held for sale		-	(4,256)
Non-current financial investments		(77,725)	(370)
		<b>(254,081)</b>	<b>(114,518)</b>
Disinvestment (+):			
Group companies, joint ventures and associates		19,643	58,278
Tangible and intangible assets and investments in property		12,804	6,449
Non-current financial investments		-	4,247
		<b>32,447</b>	<b>68,974</b>
<b>Total net cash flow from investment activities (II)</b>		<b>(216,828)</b>	<b>(38,255)</b>
<b>3. FINANCING ACTIVITIES</b>			
Dividends paid out (-)		-	-
Interest paid on debts (-)		(56,750)	(59,952)
Variations in (+/-):			
- Treasury shares		1,244	(692)
Debt instruments:			
- Loans from credit institutions (+)		177,111	10,000
- Loans from credit institutions (-)		(125,617)	(37,227)
- Finance leases		(275)	-
- Other financial liabilities (+/-)		(2,509)	(15,911)
<b>Total net cash flow from financing activities (III)</b>		<b>(6,796)</b>	<b>(103,782)</b>
<b>4. GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)</b>		<b>(133,326)</b>	<b>(109,924)</b>
<b>5. Effect of exchange rate variations on cash and cash equivalents (IV)</b>		<b>3,064</b>	<b>(254)</b>
<b>6. Effect of variations in the scope of consolidation (V)</b>		<b>7,858</b>	<b>176,412</b>
<b>7. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III-IV+VI)</b>		<b>(122,404)</b>	<b>66,234</b>
<b>8. Cash and cash equivalents at the start of the financial year</b>		<b>200,103</b>	<b>133,869</b>
<b>9. Cash and cash equivalents at the end of the financial year (7+8)</b>		<b>77,699</b>	<b>200,103</b>

# 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 2015*

## 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 1881 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, (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.

In October 1999, a public take-over bid for 100% of the capital of Sotogrande, S.A. was launched, which has allowed the Company to hold a permanent controlling interest exceeding 75%.

In the year 2000, an expansion strategy was launched in order to create a strong global brand in the urban hotel sector.

This strategy has led to acquisitions in recent years for the Group in diverse European and Latin American markets. In the year 2015 it completed the acquisition of the Colombian hotel chain Hoteles Royal (see Note 2.5.4).

Furthermore, the Group entered into an agreement with Grupo Inversor Hesperia, S.A. (hereinafter "Hesperia") in 2009 to merge their respective hotel management businesses, subsequently managing 49 hotels formerly owned or operated by Hesperia. The Group currently manages 32 hotels belonging to Grupo Inversor Hesperia.

In 2015 the Group expanded its presence in Latin America with the acquisition of the Hoteles Royal hotel group, which operates a portfolio of twenty hotels: fifteen in Colombia, four in Chile and one in Ecuador. 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 as a variable lease, though the latter has ceased operations in the 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 2015, the Group was operating hotels in 33 countries, with 378 hotels and 58,655 rooms, of which around 73% are located in Spain, Germany, Italy and the Benelux countries.

The General Shareholders' Meeting of 29 June 2014 agreed to change the company's name from "NH Hoteles, S.A." to "NH Hotel Group, S.A."

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 Financial Statements

The consolidated financial statements for 2015 were drawn up by the Directors of NH Hotel Group, S.A. at the Board meeting held on 25 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 presentation the Group's equity and financial position at 31 December 2015 and of the results of its operations, changes in equity and consolidated cash flows for the year then ended.

The consolidated financial statements for 2015 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 2014 were approved by the shareholders at the Annual General Meeting held on 29 June 2015 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 2015 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 2015 new accounting standards came into force and were therefore taken into account when preparing the accompanying 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 2015.

New standards, amendments and interpretations		Obligatory application in the years beginning on or after:
Approved for use in the European Union		
IFRIC 21 Levies (published in May 2013)	Interpretation on when to recognise a liability to pay a levy.	17 June 2014 <sup>(1)</sup>
Improvement to IFRS 2011 -2013 Cycle (published in December 2013)	Minor amendments to a series of standards.	01 January 2015 <sup>(2)</sup>

<sup>(1)</sup> The European Union endorsed IFRIC 21 (EU Gazette, 14 June 2014), amending the original commencement date set out by the IASB (1 January 2014) to 17 June 2014.

<sup>(2)</sup> The IASB commencement date for these regulations was from 1 July 2014.

B) New obligatory regulations, amendments and interpretations in years subsequent to the calendar year which commenced on 1 January 2015 (applicable from 2015 onwards)

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		
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.	01 February 2015 <sup>(1)</sup>
Improvements to IFRS 2010-2012 Cycle (published in December 2013)	Minor amendments to a number of standards.	
Amendment 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.	
Amendments to IFRS 11 Accounting for acquisitions of shares in joint ventures (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.	01 January 2016
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: Disclosures initiative (December 2014)	Various clarifications regarding the itemisations (materiality, aggregation, order of the notes, etc.).	
Not yet approved for use in the European Union at the date of this communication (2)		
New standards		
IFRS 15 - Revenue from Contracts with Customers (published in May 2014)	New income recognition standard (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31).	01 January 2018
IFRS 9 Financial Instruments (last phase published in July 2014)	It replaces the requirements for classification, valuation, recognition and derecognition of financial assets and liabilities in accounts, hedge accounting and impairment of IAS 39.	
IFRS 16 Leases (published in January 2016)	New standard on leases that replaces IAS 17. Lessees will include all leases on the balance sheet as if they were financial purchases.	01 January 2019
Amendments and/or interpretations		
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities (December 2014)	Clarifications on the exception for consolidation of investment companies.	01 January 2016
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
Amendment to IAS 12 Recognition of deferred asset taxes for unrealised losses (published in January 19, 2016)	It refers to the DTA of available items for the sale of debt with fair value less than the cost.	01 January 2017
Amendment to IAS 7 Initiative of itemisations (published in January 29, 2016)	Reconciliation of changes in liabilities in the balance sheet with flows from financing activities.	01 January 2017

<sup>(1)</sup> The IASB commencement date for these regulations was from 1 July 2014.

<sup>(2)</sup> It is recommended to update the approval status of the standards by the European Union through the EFRAG website

The Directors have assessed the potential future impacts of these standards, and consider that their entry into force will not have a significant impact on the consolidated annual accounts, except for those entering into force after 2016, whose impact is being analysed.

## 2.2. Information on 2014

As required by IAS 1, the information from 2014 contained in this consolidated annual report is presented solely for comparison with the information from 2015, and consequently does not in itself constitute the Group's consolidated annual accounts for 2014.

## 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 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 the 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.

These estimates were made on the basis of the best available information on the facts analysed. Nonetheless, it is possible that future events may take place that make it necessary to modify them, which would be done in accordance with IAS 8.

## 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.

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.

### 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.
- Income statement items were translated to euros at the average exchange rate for the year.

Any difference resulting from the application 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 2015 and 2014 that affect the comparison between financial years were the following:

### a.1 Changes in the scope of consolidation in 2015

#### a.1.1 Disposals

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

Part of balance of the outstanding amount, amounting to 0.4 million euros, was to guarantee working capital in the transaction, and it has been settled in on 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 euros, whose payment will take effect in March 2016. These amounts have been 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 euros from this transaction.

The effect of the exit from the scope of that company in the consolidated financial position statement at 31 December 2015 is as follows:

	Thousands of euros
Property, plant and equipment	16,430
Working capital	1,956
<b>Net assets disposed of</b>	<b>18,386</b>
Net Consideration received	23,094
<b>Consolidated benefit (Income)</b>	<b>(4,708)</b>

There is also a negative effect of 620 thousands 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. The net remuneration received was one euro. The result of the transaction is as follows:

	Thousands of euros
Non-Current Assets	45,630
Long-term liabilities	(56,930)
Inter-company losses	3,406
<b>Net assets disposed of</b>	<b>(7,894)</b>
Net Consideration	1
Transaction costs	647
<b>Profit of the transaction</b>	<b>(7,246)</b>
Result until sale	(1,911)
<b>Total Profit (Loss) (Note 11)</b>	<b>(9,157)</b>

#### a.1.2 Additions to the consolidation scope

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

Company	Consolidation method	Effective date of acquisition
Hoteles Royal, S.A. and dependent companies (see Appendix I)	Full consolidation	04/03/2015
Beijing NH Grand China Hotel Management Co, Ltd	Equity method	09/09/2015
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 euros, with 77.1 million euros paid and 17.7 million euros pending payment (updated at year-end it amounted to 19.2 million euros, payable in March 2017), recorded under the "Other noncurrent liabilities" heading (see Note 16).

The effect of the business combination on the consolidated statement of financial position at 31 December 2015 is as follows:

	Thousands of euros
Property, plant and equipment (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)
<b>Net assets acquired</b>	<b>58,394</b>
Net Consideration	(94,824)
<b>First consolidation difference (Note 6)</b>	<b>(36,430)</b>

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 increased to 20,000 thousand US dollars 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 the end of December the Group contributed 300 thousand US dollars.

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 25% 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 Changes in the scope of consolidation in 2014

### a.2.1 Disposals

On 14 November 2014, the Parent Company's stake in Sotogrande, S.A., representing 96.997% of its share capital, was sold for 224,947 thousand euros. The net amount received after deducting municipal taxes, transaction costs, net debt and financial effects was 181,110 thousand euros, of which 129,312 thousand euros corresponded to shares in Sotogrande, S.A. and 51,798 thousand euros to the liquidation of the inter-company account which the Parent Company maintained with Sotogrande, S.A.

This transaction involved the transfer of the entire property business segment of Sotogrande, S.A., based in Cádiz (Spain). The transaction excluded ownership of shares in the international assets (Capredo Investments GmbH, Sotocaribe, S.L., and Donnafugata Resort, S.r.l., see note 11), and the rights to receivables arising from the claim against the insurance agency which provided the ten-year policy covering building work in a housing development by Sotogrande (see Note 10.1) and the deferred payment of the sale of 15 business premises in another property development.

Before the sale, Sotogrande, S.A. acquired 504,089 and 46,865 shares in Residencial Marlin, S.L. and Los Alcornos de Sotogrande, S.L., respectively, representing 50% of the share capital of both companies, for a total of 16,650 thousand euros. Thus, the Group acquired control of both companies, which it later sold in the context of the sale of its shares in Sotogrande, S.A.

At the same time as the transfer of shares in Sotogrande, S.A., the stakes in the excluded international assets listed above were transferred to NH at market prices, maintaining their value for accounting purposes according to the consolidated financial statements of NH Hotel Group, S.A. and Subsidiaries. A period of five years was established for transferring the stake in Sotocaribe, S.L. through reciprocal sales and purchase options, to be exercised within the indicated period. The strike price of the option, 58,250 thousand euros, is equivalent to the part of the price of the stake in Sotogrande, S.A. which the purchaser left deferred, with both items to be offset when the option is exercised (see Notes 11 and 15).

The overall effect of the transaction on the consolidated financial statements of NH Hotel Group S.A. and Subsidiaries is as follows:

	Thousands of euros
Non-Current Assets	77,321
Inventories	67,439
Long-term liabilities	(11,415)
Working capital	(4,137)
<b>Net assets disposed of</b>	<b>129,208</b>
<b>Net Consideration</b>	<b>(129,312)</b>
Non-controlling interests (Note 14.4)	(4,626)
<b>Profit before tax</b>	<b>(4,730)</b>
Transaction costs	3,804
Tax effect (Note 18)	20,440
Consolidation adjustment	(64,626)
<b>Profit of the transaction</b>	<b>(45,112)</b>
Profit from Sotogrande until sale (Note 11)	6,961
<b>Total Profit (Loss) (Note 11)</b>	<b>(38,151)</b>

The consolidation adjustments mainly correspond to the adjustment made to the reserves of Sotogrande, S.A. in 2006 due to the acquisition of 18.66% of its share capital after a takeover bid.

On 11 June 2014, the Group sold the Amsterdam Centre Hotel through its Dutch subsidiary Marquette Beheer BV and the sale of shares of its subsidiary Onroerend Goed Beheer Maatschappij Stadhouderskade Amsterdam BV. The net amount of the sale totalled 45 million euros, giving rise to a capital gain of 4 million euros.

The effect of the disposal of the aforementioned company on the consolidated balance sheet at 31 December 2014 was as follows:

	Thousands of euros
Property, plant and equipment	43,176
Working capital	(2,176)
<b>Net assets disposed of</b>	<b>41,000</b>
<b>Net Consideration</b>	<b>(44,986)</b>
<b>Consolidated profit</b>	<b>(3,986)</b>

On 12 August 2014 the Group sold its 25% stake in the share capital of the company Harrington Hall Hotel Ltd., owner of the Harrington Hall hotel in London, for 13,292 thousand euros. The company was accounted for using the equity method, and at the date of the transaction the value of the stake was zero, so that the net result of the transaction was a consolidated gain of 13,292 thousand euros, plus a positive effect of 370 thousand euros of the currency translation associated with the stake, recognised under net exchange differences in the consolidated statement of comprehensive income.

#### a.2.2 Additions to the consolidation scope

On 26 June 2014, the Group acquired 44.5% of the Group company NH Italia, S.p.A. through a 113,400 thousand euros increase in the share capital of NH Hotel Group, S.A., with the issue of 42,000,000 new ordinary shares with a par value of 2.00 euros each and an issue premium of 2.70 euros per share. The capital increase was fully paid up by Intesa Sanpaolo, S.p.A. through the contribution of 445,000 shares representing 44.5% of the share capital of NH Italia, S.p.A.

The effect of the aforementioned acquisition on the consolidated balance sheet at 31 December 2014 was as follows:

	Thousands of euros
Share Capital Increase and Issue Premium	197,400
Non-controlling interests (Note 14.4)	123,055
Arrangement expenses	(944)
<b>Effect on equity attributable to the shareholders of the Parent Company</b>	<b>75,289</b>

The difference between equity attributable to shareholders of the Parent Company and the derecognised non-controlling interests corresponds to the costs associated with the transaction.



### 3.- DISTRIBUTION OF PROFITS

The Directors of the parent company will propose to the Annual General Meeting to apply the losses to the account "Negative results from previous years", for offset in future years. In accordance with Article 273.4 of the Consolidated Text of the Corporate Enterprises Act, the Directors will propose to allocate 418 thousand euros as an unavailable reserve, as provided by such article, at the Ordinary General Shareholders' Meeting and charge it to freely available reserves, because the Parent Company has not generated any profits this year.

### 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 euros. 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.

The Group depreciates its property, plant and equipment 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 elements amortize according to their estimated useful life, or according to the remaining term of the lease agreement if this is lower than their estimated useful life.

#### 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 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.

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.

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 either as the value in use or the net sale price that would be obtained for the assets assigned to the cash-generating unit, whichever is higher. The value in use is calculated on the basis of estimated 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.

## 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.

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 have been 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) "Software applications" include various computer programs acquired by the different consolidated companies. These programs are measured at acquisition cost and amortised at a rate of between 20%-25% per year on a straight-line basis.

## 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 either the net sale value or the value in use, whichever is higher. The value in use is calculated on the basis of estimated future cash flows discounted at an after tax discount rate that reflects the current market valuation with respect to the cost of money and the specific risks associated with the asset.

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

In general, future estimates have been drawn up for a five-year period, plus a residual value, except in cases of leased hotels in what is considered the duration of the contract, plus a residual value.

The discount rates used by the Group for these purposes range from 6.2% to 14%, depending on the different risks associated with each specific asset.

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.

## 4.5 Lease rentals

The Group generally classifies all leases as operating leases. Only those leases which substantially transfer to the lessee the risks and rewards deriving from ownership and under the terms of which the lessee holds an acquisition option on the asset at the end of the agreement under conditions that could be clearly deemed as more advantageous than market conditions are classified as finance leases.

### 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 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 through finance leasing agreements is recognised in the consolidated balance sheet according to the nature of the asset described in the agreement.

The financial expenses are distributed over the period of the lease in accordance with a financial criterion.

### 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 accounting 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 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.

#### 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; 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. 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).

During 2014 the Group contracted some exchange rate insurances, of which, at the end of 2015, one is still active for an amount of 16,000 thousand US dollars. During January 2016 part of the nominal value has been bought amounting to 5,000 thousand US dollars at the agreed exchange rate of 1.27964. The remaining nominal of 11,000 thousand US dollars expires at 15 March of 2016 with an exchange rate of 1.2813.

The change in fair value as of 31 December 2015 of these hedges has had a positive effect concerning the 2015 consolidated comprehensive profit and loss statement of 4,530 thousand euros (2,787 thousand euros in 2014).

These derivatives have not been registered as hedging products.

### 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 measured at the lower of carrying amount and fair value less selling expenses.

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. 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 Directors of the Group, 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 pre-tax discount rates used reflect the current market value of money, as well as the specific risks associated with these agreements. More specifically, a rate of between 6.2% and 14% has been used.

#### 4.16 Share-based Remuneration Schemes

These schemes 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.

#### 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 the amount can be reliably estimated.

#### 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 4,688 thousand euros for this item in 2015 (9,043 thousand euros in 2014).

The consolidated financial statement of 31 December 2015 includes, pursuant to IFRS regulations (IAS 37), a provision in this regard amounting to 1,002 thousand euros (4,721 thousand euros 31 December 2014).

#### 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, 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 statements 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:

	31/12/2015	31/12/2014
Net Profit/(Loss) for the year (thousands of euros)	938	(9,983)
Weighted average number of shares in circulation (in thousands)	341,229	319,284
<b>Basic Earnings per share in euros</b>	<b>0.003</b>	<b>(0.03)</b>

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 options on shares, warrants and convertible debt.

	31/12/2015	31/12/2014
Net Profit/(Loss) for the year (thousands of euros)	938	(9,983)
Weighted average number of shares with dilutive effect (in thousands)	392,052	370,107
<b>Diluted Earnings per share in euros</b>	<b>0.002</b>	<b>(0.03)</b>

## 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 (thousands of euros):

	2015	2014
NH Hoteles Deutschland, GmbH and NH Hoteles Austria GmbH	85,180	89,945
Hoteles Royal, S.A.	29,651	-
Others	3,962	3,978
<b>Total</b>	<b>118,793</b>	<b>93,923</b>

The movements in this heading of the consolidated balance sheet in 2015 and 2014 were as follows (in thousands of euros):

Company	Goodwill 31.12.13	Currency translation differences	Impairment	Goodwill 31.12.14
NH Hoteles Deutschland, GmbH and NH Hoteles Austria GmbH	94,710	-	(4,765)	89,945
Others	2,511	1,467	-	3,978
<b>Total</b>	<b>97,221</b>	<b>1,467</b>	<b>(4,765)</b>	<b>93,923</b>

Company	Goodwill 31.12.14	Additions	Currency translation differences	Impairment	Goodwill 31.12.15
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
<b>Total</b>	<b>93,923</b>	<b>36,430</b>	<b>(6,795)</b>	<b>(4,765)</b>	<b>118,793</b>

The acquisition of Hoteles Royal, S.A. gives a first consolidation negative difference of 36.4 million euros. This difference constitutes goodwill of Royal Hotel, S.A. and it emerges as the difference between the purchase price of 94.8 million euros, and the value of net assets acquired, amounting to 58.4 million euros, and has been recorded according to the report "Purchase Price Allocation" drawn up by an independent third party.

In addition, the valuation of the net assets acquired has been carried at fair value, in compliance with IFRS 3 "Business Combinations" and IFRS 13 "Fair Value Measurement". To do this, the Group has based its findings 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 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.

At 31 December 2015 the goodwill generated with the acquisition of Grupo Royal has not been subjected to an impairment test because it is valued according to a transaction with independent third parties at a market value and backing up the "Purchase price allocation" with a report of an independent third party.

The recoverable value of the operating rights of Grupo Royal hotels has been assigned to each cash-generating units using projections on results, investments and working capital according to the term of the contracts.

Recoverable goodwill values of the rest have been allocated to each cash-generating unit, mainly rental agreements, by using projections on results, investments and working capital, according to the terms of the contract.

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

	Thousands of euros
CGU's Grupo Royal	29,651
CGU 6	15,934
CGU 21	10,392
CGU 22	7,977
CGU 12	7,400
CGU 5	6,456
CGU 13	5,916
CGU 2	5,276
CGUs with goodwill allocated individually < €4 M	29,791
	<b>118,793</b>

The basic assumptions used to estimate future cash flows of the CGUs, except for the Grupo Royal aforementioned, are detailed below:

- Discount rate: 6.45% and 6.81%, since these are CGUs subject to the same risk (German and Austrian market).
- Terminal value growth rate (g): 2%

The allocation of the impairment of the financial year, amounting to 4,765 thousand euros, took place as a result of the failure to consider perpetual income in the case of cash-generating units whose leases do not ensure renewal. Thus the projections are for the term of these contracts.



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:

Scenario 1:

- An increase of 100 basis points in the discount rate.
- Use of a perpetuity growth rate of 0%.

Scenario 2:

- A 1% reduction in the occupancy level.
- A 1% reduction in the average daily rate (ADR).

These sensitivity analysis do not reveal the existence of any impairment in either scenario.

## 7.- INTANGIBLE ASSETS

The breakdown and movements under this heading during 2015 and 2014 were as follows (in thousands of euros):

	Balance at 31/12/2013	Currency translation differences	Inclusions/ Allowances	Retirements	Transfers (Note 8)	Balance at 31/12/2014	Change in scope of consolidation (see Note 2.5.4)	Currency translation differences	Inclusions/ Allowances	Retirements	Transfers	Balance at 31/12/2015
<b>COST</b>												
Hotel operating rights	30,548	-	99	-	(38)	30,610	36,660	(6,826)	99	(150)	-	60,393
Rental agreement premiums	68,430	(4)	-	(757)	-	67,669	-	-	627	-	-	68,296
Concessions, patents and trademarks	34,662	-	87	(503)	(1,646)	32,600	6,635	(1,110)	106	(129)	-	38,102
Software applications	69,873	(7)	21,592	(4,106)	(383)	86,969	-	(13)	18,481	(243)	-	105,194
	<b>203,514</b>	<b>(11)</b>	<b>21,778</b>	<b>(5,366)</b>	<b>(2,067)</b>	<b>217,848</b>	<b>43,295</b>	<b>(7,949)</b>	<b>19,313</b>	<b>(522)</b>	<b>-</b>	<b>271,985</b>
<b>CUMULATIVE DEPRECIATION</b>												
Hotel operating rights	(17,686)	-	(1,221)	(10)	3	(18,914)	-	134	(2,340)	149	13,903	(7,068)
Rental agreement premiums	(14,019)	4	(924)	260	6,034	(8,645)	-	113	(2,012)	-	(728)	(11,272)
Concessions, patents and trademarks	(10,215)	-	(556)	483	(5,440)	(15,728)	-	36	(794)	28	-	(16,458)
Software applications	(65,996)	7	(8,033)	788	(41)	(73,275)	-	105	(9,646)	223	(13,175)	(95,768)
	<b>(107,916)</b>	<b>11</b>	<b>(10,734)</b>	<b>1,521</b>	<b>556</b>	<b>(116,562)</b>	<b>-</b>	<b>388</b>	<b>(14,792)</b>	<b>400</b>	<b>-</b>	<b>(130,566)</b>
Impairment	(22,982)	-	(464)	141	861	(22,444)	-	-	-	307	-	(22,137)
<b>NET BOOK VALUE</b>	<b>72,616</b>					<b>78,842</b>						<b>119,282</b>

### 7.1 Hotel operating rights

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 euros 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 30.2 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

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 2015 were in Spain, as a result of the investments made to develop the new website and implement front office systems of the hotels.

## 8.- PROPERTY, PLANT & EQUIPMENT

The breakdown and movements under this heading during 2015 and 2014 were as follows (in thousands of euros):

	Balance at 31/12/2013	Change in scope of consolidation	Currency translation differences	Additions	Retirements	Transfers	Balance at 31/12/2014	Change in scope of consolidation (see Note 2.5.4)	Currency translation differences	Additions	Retirements	Transfers	Balance at 31/12/2015
<b>COST</b>													
Land and buildings	1,819,639	(50,333)	(3,749)	14,206	(2,913)	(118,175)	1,658,675	49,415	(20,215)	23,817	(11,755)	1,627	1,701,564
Plant and machinery	763,540	(4,116)	776	38,136	(24,707)	(15,221)	758,408	383	(1,818)	62,925	(35,630)	1,619	785,887
Other fixtures, tools and furniture	484,786	(214)	595	41,156	(28,742)	(27,061)	470,520	3,657	2,069	48,187	(56,270)	1,585	469,748
Other fixed assets	1,258	-	3	268	(44)	(1,143)	342	363	(75)	189	(96)	12	735
Assets under construction	31,672	-	(129)	11,618	(133)	(25,016)	18,012	699	(1,242)	25,805	(191)	(4,843)	38,240
	<b>3,100,895</b>	<b>(54,663)</b>	<b>(2,504)</b>	<b>105,384</b>	<b>(56,539)</b>	<b>(186,616)</b>	<b>2,905,957</b>	<b>54,517</b>	<b>(21,281)</b>	<b>160,923</b>	<b>(103,942)</b>	<b>-</b>	<b>2,996,174</b>
<b>CUMULATIVE DEPRECIATION</b>													
Buildings	(306,330)	7,668	(3,146)	(22,354)	848	24,362	(298,952)	(3,852)	1,938	(21,744)	6,731	-	(315,879)
Plant and machinery	(509,015)	3,623	1,162	(39,342)	19,806	12,755	(511,011)	39	909	(40,427)	29,733	-	(520,757)
Other fixtures, tools and furniture	(398,896)	196	101	(25,960)	23,293	15,588	(385,678)	(2,841)	(2,900)	(29,054)	54,195	-	(366,278)
Other fixed assets	(1,014)	-	(3)	(126)	42	761	(340)	(370)	58	(142)	128	-	(666)
	<b>(1,215,255)</b>	<b>11,487</b>	<b>(1,886)</b>	<b>(87,782)</b>	<b>43,989</b>	<b>53,466</b>	<b>(1,195,981)</b>	<b>(7,024)</b>	<b>5</b>	<b>(91,367)</b>	<b>90,787</b>	<b>-</b>	<b>(1,203,580)</b>
Impairment	(170,660)	-	(13)	(7,939)	25,978	49,019	(103,616)	-	(130)	(14,418)	49,735	-	(68,428)
<b>NET BOOK VALUE</b>	<b>1,714,980</b>						<b>1,606,360</b>						<b>1,724,166</b>

Net additions to the year in the column "Changes in the scope of consolidation" comes 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 2015 are due to the repositioning plan carried out by the Group, with refurbishments in all Business Units. The main refurbishments were carried out in hotels such as NH Collection Eurobuilding, NH Collection Abascal, NH Alonso Martínez, NH Collection Aránzazu, NH Turcosa, NH Collection Gran Hotel and Sanvy (Spain), NH Berlin Mitte, NH München Messe, NH München-Dornach and NH Danube City (Germany), NH Collection Palazzo Barocci and NH Firenze (Italy), Doelen and City Centre (Benelux) and Mexico City (Latin America).

At 31 December 2015, there were tangible fixed asset elements with a net book value of 697 million euros (686 million euros in 2014) to guarantee several mortgage loans (see Note 15).

At 31 December 2015 the breakdown of impairment by country is as follows:

	Provision	Additions
Spain	21,440	7,699
Italy	42,756	5,634
Germany	2,614	899
Others	1,618	186
<b>Impairment 31/12/2015</b>	<b>68,428</b>	<b>14,418</b>

Additionally it has taken of assets amortizations for the works realized in the hotels by repositioning for amount of 9,415 thousand euros, which have registered in the epigraph " Net gains on disposal of assets" of the Condensed consolidated comprehensive profit and loss statement for the year

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 23.54 million euros at 31 December 2015. These investments will be made between 2016 and 2019.

## 9.- INVESTMENTS VALUED USING THE EQUITY METHOD

The movements under this heading of the consolidated balance sheet during 2015 and 2014 were as follows:

Company	Net balance at 31/12/2013	Retirements	Transfers	Profit (Loss) 2014	Currency translation differences	Net balance at 31/12/2014
Sotocaribe, S.L.	41,941	-	(41,941)	-	-	-
Capredo Investments GmbH	6,348	-	(6,348)	-	-	-
Varallo Comercial, S.A.	9,693	-	-	(1,717)	(564)	7,412
Inmobiliaria 3 Poniente, S.A. de C.V.	1,542	-	-	218	419	2,179
Palacio de la Merced, S.A.	1,396	-	-	52	-	1,448
Mil Novecientos Doce, S.A. de C.V.	1,787	-	-	87	208	2,082
Consortio Grupo Hotelero T2, S.A. de C.V.	374	-	-	121	382	877
Hotelera del Mar, S.A.	214	-	-	-	2,170	2,384
Fonfirl, S.L.	20	(20)	-	-	-	-
Residencial Marlin, S.L.	19,328	-	(19,328)	-	-	-
Borokay Beach, S.L.	1,536	-	-	(102)	-	1,434
Los Alcornos de Sotogrande, S.L.	-	-	-	-	-	-
Losan Investment Ltd.	-	-	-	-	-	-
Harrington Hall Ltd.	-	-	-	-	-	-
<b>Total</b>	<b>84,179</b>	<b>(20)</b>	<b>(67,617)</b>	<b>(1,341)</b>	<b>2,615</b>	<b>17,816</b>

Company	Net balance at 31/12/2014	Additions	Profit (Loss) 2015	Currency 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
Consortio 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
Losan Investment Ltd.	-	-	-	-	-
<b>Total</b>	<b>17,816</b>	<b>271</b>	<b>(663)</b>	<b>(746)</b>	<b>16,678</b>

On 9 September 2015, the Joint Venture with the shareholding group HNA Hospitality Group Co, Ltd. was formalised, creating Beijing NH Grand China Hotel Management Co, Ltd in which the Group is a 49% shareholder.

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 25% 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.

NH Hotel Group's policy on interests in associates consists in the Group ceasing to recognise losses in these companies if the associate's consolidated losses attributable to the Group are equivalent to or exceed the cost of its interest in them, provided there are no additional contingencies or guarantees connected with already incurred losses. This is the situation of the stake in Losan Investment, Ltd.

On 12 August 2014 the NH Group sold its shares in Harrington Hall, Ltd. for 13,292 thousand euros, generating a net gain of 13,292 thousand euros registered in line "Profit (loss) on disposal of financial investments" and a result of 370 thousand euros for the exchange rates associated of the participation(see Note 2.5.4).

The most significant financial information related to the main ownership interests in joint ventures is detailed in Appendix II to this consolidated annual report.

## 10.- NON-CURRENT FINANCIAL INVESTMENTS

### 10.1 Loans and accounts receivable not available for trading

The breakdown of this item at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Subordinated loans to companies owning hotels operated by the Group through leases (*)	41,879	46,740
Accounts receivable in respect of put option for Sotocaribe (Note 2.5.4)	58,250	58,250
Other collection rights	16,395	16,395
Other loans	18,212	17,230
Lease advance payments	3,279	3,535
Loans to associates (Note 24)	672	-
Long-term deposits and sureties	13,396	12,789
Others	1,988	3,920
<b>Total</b>	<b>154,071</b>	<b>158,859</b>

\*These loans accrue an average rate of interest of 3% to 4.89%

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 (2.40 million euros in 2015 and 2.36 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.

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" includes 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%.

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.

### 10.2 Other non-current financial investments

This heading of the consolidated balance sheet comprised, at 31 December 2015 and 2014, the following equity interests, valued at cost:

	Thousands of euros	
	2015	2014
NH Panamá	3,767	3,767
Other investments	3,200	4,525
Other provisions	(262)	(1,587)
<b>Total</b>	<b>6,705</b>	<b>6,705</b>

These companies were not consolidated at 31 December 2015, since they were inactive or insignificant on said date.

## 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 the year 2014, the Group reclassified as discontinued operations Sotogrande, S.A., Donnafugata Resort, S.R.L., Resco Sotogrande, S.L., Sotocaribe, S.L., Los Alcornos de Sotogrande S.L., Residencial Marlin, S.L. and Capredo Investments, GmbH, the last four accounted for using the equity method. These companies represented NH Hotel Group's entire property business and include the operation of businesses associated with the hospitality and leisure sectors, including two golf courses and three hotels.

Furthermore, in 2014, the sale was formalised of the Parent Company's stake in Sotogrande, S.A., representing 96.997% of its share capital (see Note 2.5.4).

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 discontinued operations like Sotocaribe, S.L. and Capredo Investments, GmbH, consolidated through shareholding, were classified.

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 2015 and 2014 is shown below:

	31/12/2013	Transfers	Net Variation	Changes in scope of consolidation (see Note 2)	31/12/2014
Property, plant and equipment	-	82,891	(3,440)	(40,668)	38,783
Intangible assets	-	1,920	(68)	(1,837)	15
Investment property	-	957	(61)	(896)	-
Financial assets	-	73,941	(1,259)	(25,694)	46,988
Investments accounted for using the equity method	-	67,617	(1,251)	(19,410)	46,956
Other non-current financial investments	-	6,324	(8)	(6,284)	32
Deferred tax assets	-	8,268	251	(8,226)	293
Inventories	-	71,034	(2,926)	(67,439)	669
Accounts receivable for sales and services and trade receivables	-	12,473	(3,070)	(7,654)	1,749
Tax receivables	-	9,030	(7,687)	(808)	535
Other current financial assets	-	93	68	(161)	-
Cash	-	5,150	2,740	(1,868)	6,022
Other current assets	-	212	57	(130)	139
<b>Non-current assets classified as held for sale</b>	<b>-</b>	<b>265,969</b>	<b>(15,395)</b>	<b>(155,381)</b>	<b>95,193</b>
Bank borrowings (non-current)	-	6,494	(2,672)	(3,822)	-
Obligations under finance lease	-	132	(29)	(103)	-
Other non-current liabilities	-	18,538	(720)	(2,037)	15,781
Capital subsidies	-	18,086	(737)	(1,568)	15,781
Other liabilities	-	452	17	(469)	-
Provisions for contingencies and charges	-	1,411	53	(995)	469
Deferred tax liabilities	-	9,461	(4,717)	(4,458)	286
Bank borrowings (current)	-	41,985	(7,129)	(6,644)	28,212
Trade payables	-	11,704	(2,971)	(5,091)	3,642
Tax receivables	-	804	575	(1,073)	306
Other current liabilities	-	7,031	2,298	(1,950)	7,379
<b>Liabilities associated with assets classified as held for sale</b>	<b>-</b>	<b>97,560</b>	<b>(15,312)</b>	<b>(26,173)</b>	<b>56,075</b>

	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)	-
<b>Non-current assets classified as held for sale</b>	<b>95,193</b>	<b>(4,529)</b>	<b>(45,630)</b>	<b>45,034</b>
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)	-
<b>Liabilities associated with assets classified as held for sale</b>	<b>56,075</b>	<b>855</b>	<b>(56,930)</b>	<b>-</b>

### 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:

	Sotogrande, S.A.	Capredo Investments, GmbH	Sotocaribe, S.L.	Donnafugata Resort, S.R.L.	Total
<b>2015</b>					
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)
Income tax	-	-	-	-	-
Profit (loss) for the year from discontinued operations net of tax	-	(101)	(1,077)	(1,911)	(3,089)
Results of the sale of Donnafugata Resort S.r.l, S.A. (see Note 2)	-	-	-	9,157	9,157
Profit attributed to non-controlling interests	-	-	-	-	-
<b>2014</b>					
Net turnover and other operating income	22,015	-	-	8,022	30,037
Operating expenses	(14,031)	-	-	(10,382)	(24,413)
Operating profit (loss)	7,984	-	-	(2,360)	5,624
Profit (loss) before tax	(8,117)	(444)	(1,836)	(4,120)	(14,517)
Income tax	1,156	-	-	(242)	914
Profit (loss) for the year from discontinued operations net of tax	(6,961)	(444)	(1,836)	(4,362)	(13,603)
Profit (loss) from the sale of Sotogrande, S.A (see Note 2)	45,112	-	-	-	45,112
Profit attributed to non-controlling interests	-	-	-	267	267

## Consolidated cash flow statements

The consolidated cash flow statements for Donnafugata Resort, S.R.L and Sotogrande, S.A. for 2014 and 2015 are detailed below:

<b>2015</b>	<b>Donnafugata Resort, S.R.L.</b>	
Operating activities:		
Profit (loss) before tax		(2,005)
Adjustments		846
Net variation in assets and liabilities		(4,862)
<b>Total net cash flow from operating activities I</b>		<b>(6,021)</b>
Finance income		208
Disinvestment		-
Non-current financial investments		-
<b>Total net cash flow from investment activities II</b>		<b>208</b>
Financing activities		-
Interest paid on debts		(208)
Variation in:		-
Bank borrowings		-
<b>Total net cash flow from financing activities III</b>		<b>(208)</b>
<b>GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)</b>		<b>(6,021)</b>
Cash and cash equivalents at the start of the financial year		6,022
Cash and cash equivalents at end of year		1
<b>2014</b>	<b>Sotogrande, S.A.    Donnafugata Resort, S.R.L.</b>	
Operating activities:		
Profit (loss) before tax	36,995	(4,120)
Adjustments	(42,701)	2,081
Net variation in assets and liabilities	7,295	4,210
<b>Total net cash flow from operating activities I</b>	<b>1,589</b>	<b>2,171</b>
Finance income	-	495
Disinvestment	-	-
Non-current financial investments	176,412	-
<b>Total net cash flow from investment activities II</b>	<b>176,412</b>	<b>495</b>
Financing activities	-	-
Interest paid on debts	(429)	(900)
Variation in:	-	-
Bank borrowings	(2,054)	-
<b>Total net cash flow from financing activities III</b>	<b>(2,483)</b>	<b>(900)</b>
<b>GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)</b>	<b>175,518</b>	<b>1,766</b>
Cash and cash equivalents at the start of the financial year	894	4,256
Cash and cash equivalents at end of year	176,412	6,022

## 12.- TRADE RECEIVABLES

This item reflects different accounts receivable from the Group's operations. The breakdown at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Trade receivables for services provided	181,523	149,054
Provision for bad debts	(12,254)	(13,042)
<b>Total</b>	<b>169,269</b>	<b>136,012</b>

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 availed.

Movements in the provision for bad debts during the years ending 31 December 2015 and 2014 were as follows:

	Thousands of euros	
	2015	2014
Balance at 1 January	13,042	15,649
Changes in scope	73	(4,271)
Exchange differences	(88)	(19)
Additions	2,605	2,852
Applications	(3,378)	(1,169)
<b>Balance at 31 December</b>	<b>12,254</b>	<b>13,042</b>

The analysis of the ageing of financial assets in arrears but not considered impaired at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Less than 30 days	21,786	27,828
From 31 to 60 days	11,034	15,726
More than 60 days	41,881	28,721
<b>Total</b>	<b>74,701</b>	<b>72,275</b>

## 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 2015 and 2014 was a variable Euribor-indexed rate. These assets are recognised at their fair value.

There are no restrictions on how cash may be used, except for an amount of 1,575 thousand euros reserved, according to a commitment with Hoteles Royal co-proprietors, for future hotel capex investments.

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 2015 comprised 350,271,788 fully subscribed and paid up bearer shares with a par value of 2 euros 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 most significant shareholdings at 31 December 2015 and 2014 were as follows:

	2015	2014
HNA Group Co Limited	29.50%	29.50%
Grupo Inversor Hesperia, S.A.	9.24%	9.24%
Banco Santander, S.A.	-	8.57%
Intesa Sanpaolo, S.p.A	-	7.64%
Oceanwood Capital Management LLP	7.58%	-
Henderson Global Investors LTD	4.19%	-
Schroder PLC	2.95%	-
Taube Hodson Stonex Partners LLP	2.64%	3.89%
Blackrock Inc.	2.30%	2.31%
Fidelity International Limited	0.96%	0.96%
Invesco LTD	0.66%	-
UBS Group AG	0.22%	2.01%
Treasury shares	2.57%	2.67%
Shares owned by NH employees	0.05%	0.07%

At year-end 2015 and 2014, members of the Board of Directors were the holders or stable proxies of shareholdings representing approximately 46.34% and 46.43% 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 while maintaining the level of 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 Group's strategy has varied by changing the ratio of accounting financial leverage from 0.53x to 0.72x. The ratios of accounting financial leverage at 31 December 2015 and 2014 are the following:

	Thousands of euros	
	2015	2014
Bonds and other marketable securities (Note 15)	475,484	467,499
Bank borrowings and other financial liabilities (Note 15)	411,437	339,855
<b>Gross accounting debt</b>	<b>886,921</b>	<b>807,354</b>
Cash and cash equivalents (Note 13)	77,699	200,103
<b>Liquid assets</b>	<b>77,699</b>	<b>200,103</b>
<b>Total net accounting debt</b>	<b>809,222</b>	<b>607,251</b>
Total Equity	1,126,084	1,136,668
<b>Accounting financial leverage</b>	<b>0.72</b>	<b>0.53</b>

### 14.2 Parent Company Reserves

#### i) Legal reserve

In accordance with the Consolidated Text of the Corporate Enterprises 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

At year-end, NH Hotel Group, S.A. held 9,000,000 treasury shares representing 2.57% of its share capital at a total cost of 37,561 thousand euros. 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 bonds convertible or exchangeable for shares of NH Hoteles, S.A. amounting to 250 million euros. The purpose of this loan was to allow said financial entities to offer the shares to subscribers to the bonds requesting them (Note 15).

### 14.4 Non-controlling interests

The movements in this heading in 2015 and 2014 are summarised below:

	Thousands of euros	
	2015	2014
Opening balance	24,201	153,588
Capital increases/reductions (Note 2.5.4)	-	(123,055)
Comprehensive profit (loss) attributable to non-controlling interests	(1,383)	(125)
Changes in percentage shareholdings and purchase/sales	16,461	(4,626)
Dividends paid to non-controlling interests	(1,374)	(765)
Other movements	58	(816)
Closing balance	37,963	24,201

The "Changes in percentage shareholdings and purchase/sales" item mainly includes the entry in the consolidation scope of the hotel management group Hoteles Royal.

The "Dividends paid to non-controlling interests" item basically reflects the dividends paid out in 2015 to the following companies: NH Marín, S.A., for 331 thousand euros, Hoteles Royal, S.A. for 346 thousand euros and Latinoamericana de Gestión Hotelera, S.A. for 697 thousand euros.

## 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 2015 and 2014 were as follows:

	Thousands of euros			
	2015		2014	
	Long term	Short term	Long term	Short term
Convertible bonds	233,251	-	228,156	-
Guaranteed senior notes	250,000	-	250,000	-
Borrowing costs	-	3,613	-	3,517
Arrangement expenses	(11,380)	-	(14,175)	-
<b>Debt instruments and other marketable securities</b>	<b>471,871</b>	<b>3,613</b>	<b>463,981</b>	<b>3,517</b>
Syndicated loans	221,600	21,200	111,633	19,700
Mortgages	32,262	13,183	86,415	18,807
Equity loans	11,736	3,596	-	-
Subordinated loans	75,000	-	75,000	-
Credit lines	-	36,861	-	32,617
Arrangement expenses	(4,433)	(1,060)	(4,104)	(1,365)
Borrowing costs	-	1,492	-	1,152
<b>Bank borrowings</b>	<b>336,165</b>	<b>75,272</b>	<b>268,944</b>	<b>70,911</b>
<b>Total</b>	<b>808,036</b>	<b>78,885</b>	<b>732,925</b>	<b>74,428</b>

### 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
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 27,230 thousand euros.

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 million treasury shares. This loan bears interest at 0.5% and was drawn to the extent of 3.1 million shares at 31 December 2015 (see Note 14.3)

### Guaranteed senior notes

On 30 October 2013 the Parent Company placed guaranteed senior notes, which mature in 2019, at the nominal value of 250,000 thousand euros. The nominal yearly interest rate for said issuance of notes is 6.875%.

This line of financing requires adherence to a series of financial ratios that, to 31 December 2015, have been fully met.

### Syndicated loans

In November 2013, NH FINANCE, S.A. and a group of financial entities signed a syndicated loan worth 200,000 thousand euros with a final maturity date at four years, in November 2017. This syndicated loan comprises two tranches:

- Tranche A: via a commercial loan for 133,333 thousand euros; the balance pending amortisation at 31 December 2015 was 104,833 thousand euros.
- Tranche B: via a revolving commercial credit for 66,667 thousand euros; the balance pending amortisation at 31 December 2015 was 66,667 thousand euros.

On 10 July 2015, NH FINANCE, S.A. and the financial entities formalised the renewal of the syndicated under the following terms: (i) the margin is reduced from 4% (linked to a grid depending on the net financial debt/EBITDA ratio) to + 2.5% (no grid), (ii) the final expiry date is extended by twelve months until October 2018, and (iii) the interim annual repayments of Tranche A are reduced from 19,000 thousand euros to 9,500 thousand euros with the rest of Tranche A being delayed until 2018. In 2018, the year of its final expiry, both Tranche B, without interim payments, and the rest of Tranche A will be repaid.

The guaranteed senior notes and the syndicated loan share first tier mortgage guarantees on NH Group hotels in Spain (NH Eurobuilding) and the Netherlands (NH Barbizon Palace, NH Conference Centre Leeuwenhorst, NH Conference Centre Koningshof, NH Schiphol Airport, NH Conference Centre Sparrenhorst, NH Zoetermeer, NH Naarden, NH Capelle, NH Geldrop, NH Best and NH Marquette), pledging 100% of the shares in H.E.M. Diegem, B.V. and Onroerend Goed Beheer Maatschappij Van Alphenstraat Zandvoort, B.V., and pledging 60% of the shares in the company NH Italia, and the joint and several guarantee payable on demand of the Group's main operating companies that are wholly owned by the Parent Company.

On 13 February 2015 NH Hotel Group, S.A. signed a mortgage for 40,000 thousand euros with four Spanish financial institutions to refinance the mortgage debt in Italy consolidated under the "IMI loan" (INTESA Bank Group) and reduce the financial expense from a fixed rate of 4.25% to 2.75% and extending the term by two years with expiry being November 2017 instead of 2015. Furthermore, the guarantees of five Italian assets are replaced with a hotel in the Netherlands (NH Carlton). The annual amount of partial repayments increased to 8,000 thousand euros until its expiry in 2017, when it will be fully repaid. The outstanding balance of amortisation at 31 December 2015 amounted to 32,000 thousand euros.

On 26 June 2015 NH Hotel Group, S.A. signed a mortgage for 36,000 thousand euros with three Spanish financial institutions to refinance the mortgage debt in Germany and reduce the financial expense from a fixed rate of 5% to 2.50% and extending final expiry from June 2016 to October 2018. The guarantees continue to be the five German hotels. The annual amount of repayments increased to 3,000 thousand euros until its expiry in 2018, when it will be fully repaid. The outstanding balance of amortisation at 31 December 2015 amounted to 33,000 thousand euros.

As regards this financing, the commitment remains to adhere to a series of financial ratios, measured twice yearly; at 31 December 2015, these have been met in full.

The senior secured obligations and the previously described syndicated loans contain clauses limiting the distribution of dividends.

In the context of the restructuring of the financial debt of Donnafugata, in December 2014 NH Europa, S.A. assumed a debt of 7,000 thousand euros. The outstanding balance of amortisation at 31 December 2015 amounted to 6,300 thousand euros.

## Equity loans

On 2015 NH Hotel Group, S.A was authorized by financial entities participating in the syndicated loans described above and in the syndicated loan granted to the Group Company NH FINANCE, S.A., amounting to 200,000 thousand euros, to formalize an additional debt through an equity loan in order to improve the financial liquidity of the Group. The outstanding amount of the equity loans at 31 December 2015 amounted to 15,332 thousand euros.

## Mortgages loans

The detail of the mortgage loans and credit lines is as follows (in thousands of euros):

Mortgaged asset		Fixed rate	Variable Interest	Total	Net value value mortgaged asset
Spain	NH Lagasca	-	6,400	6,400	17,128
	NH Príncipe de La Paz	-	1,997	1,997	7,035
<b>Total Spain</b>		-	<b>8,397</b>	<b>8,397</b>	<b>24,163</b>
Mexico	NH Querétaro	-	2,035	2,035	5,397
	NH Santa Fe	-	2,020	2,020	8,348
<b>Total Mexico</b>		-	<b>4,055</b>	<b>4,055</b>	<b>13,745</b>
The Netherlands	NH Groningen	-	1,548	1,548	6,096
	NH Rotterdam	-	1,856	1,856	13,795
<b>Total The Netherlands</b>		-	<b>3,404</b>	<b>3,404</b>	<b>19,891</b>
Italy	NH Milanofiori and convention centre	-	4,050	4,050	53,044
	NH Bellini	-	278	278	8,368
	NH Genova	-	1,798	1,798	24,178
	NH Villa San Mauro	-	2,580	2,580	4,043
<b>Total Italy</b>		-	<b>8,706</b>	<b>8,706</b>	<b>89,633</b>
Chile	NH Antofagasta and NH Iquique	8,385	-	8,385	15,874
	NH Collection Plaza de Santiago	7,607	-	7,607	16,653
<b>Total Chile</b>		<b>15,992</b>	-	<b>15,992</b>	<b>32,527</b>
Switzerland	NH Fribourg	4,892	-	4,892	11,700
<b>Total Switzerland</b>		<b>4,892</b>	-	<b>4,892</b>	<b>11,700</b>
<b>Total</b>		<b>20,884</b>	<b>24,562</b>	<b>45,445</b>	<b>191,660</b>

The mortgage loans in Chile for a total of 15,992 thousand euros corresponds to Hoteles Royal, S.A. (see Note 2.5.4). The decrease in mortgage loan and credit balances at 31 December 2015 compared with the figure reported at 31 December 2014 (116,685 thousand euros) is largely due to refinancing through syndicated loans made in 2015.

Assets granted as mortgage security against the syndicated loan of 200,000 thousand euros and guaranteed senior notes of 250,000 thousand euros, can be broken down as follows (Thousands of euros):

	Mortgaged asset	Net value value mortgaged asset
Total Spain	NH Eurobuilding	118,666
	NH Barbizon Palace	57,618
	NH Conference Centre Leeuwenhorst	46,514
	NH Conference Centre Koningshof	31,332
	NH Schiphol Airport	37,081
	NH Conference Centre Sparrenhorst	16,500
The Netherlands	NH Zoetermeer	6,878
	NH Naarden	10,735
	NH Capelle	5,978
	NH Geldrop	6,930
	NH Best	4,627
	NH Marquette	3,941
<b>Total The Netherlands</b>		<b>228,134</b>
Net value of assets assigned as mortgage collateral		346,800
<b>Value of guaranteed debt</b>		<b>421,500</b>
Fixed interest		250,000
Variable interest (amount used plus amount available)		171,500

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

Details of the asset granted as mortgage security against the syndicated loan of 40,000 thousand euros are as follows (in thousands of euros):

	Mortgaged asset	Net value value mortgaged asset
Total Netherlands	NH Carlton	71,833
Net value of assets assigned as mortgage collateral		71,833
<b>Value of guaranteed debt</b>		<b>32,000</b>
Fixed interest		-
Variable interest (amount used plus amount available)		32,000

Details of the assets granted as mortgage security against the syndicated loan of 36,000 thousand euros are as follows (in thousands of euros):

	Mortgaged asset	Net value value mortgaged asset
	NH Aukamm Wiesbaden	8,745
	NH Bingen	10,461
	NH Mannheim Viernheim	4,184
	NH Frankfurt Rhein Main	34,402
	NH Leipzig Messe	29,084
<b>Total Germany</b>		<b>86,876</b>
Net value of assets assigned as mortgage collateral		86,876
<b>Value of guaranteed debt</b>		<b>33,000</b>
Fixed interest		-
Variable interest (amount used plus amount available)		33,000

#### Subordinated loans

Two loans for a combined amount of 75,000 thousand euros fully drawn at 31 December 2015 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

In 2015 NH Hotel Group, S.A. and NH Finance, S.A. obtained authorisation from credit institutions participating in the syndicated loan described above to formalise additional debt to improve the liquidity of the Group.

At 31 December 2015, the balances under this item include the amount drawn down from several loan agreements and credit facilities. The joint limit of loan agreements and credit facilities as at 31 December 2015 amounts to 69,550 thousand euros. This amount includes a mortgage-backed line of credit for 6,000 thousand euros. At 31/12/2015, the available amount corresponding to these credit lines amounted to 30,833 thousand euros.

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

Instrument	Limit	Available	Disposed	Maturity						
				2015	2016	2017	2018	2019	2020	Remainder
Mortgages	43,590	-	43,590	-	11,328	12,509	6,684	1,884	1,450	9,735
Fixed rate	20,884	-	20,884	-	1,321	8,284	642	663	687	9,287
Variable interest	22,706	-	22,706	-	10,007	4,225	6,042	1,221	763	448
Subordinated loans	75,000	-	75,000	-	-	-	-	-	-	75,000
Variable interest	75,000	-	75,000	-	-	-	-	-	-	75,000
Syndicated loans	242,800	-	242,800	-	21,200	37,200	180,200	700	700	2,800
Tranche A (floating rate)	104,833	-	104,833	-	9,500	9,500	85,833	-	-	-
Tranche B (floating rate)	66,667	-	66,667	-	-	-	66,667	-	-	-
Syndicated NH Europa (floating rate)	6,300	-	6,300	-	700	700	700	700	700	2,800
Syndicated refi. Germany (floating rate)	33,000	-	33,000	-	3,000	3,000	27,000	-	-	-
Syndicated refi. Italy (floating rate)	32,000	-	32,000	-	8,000	24,000	-	-	-	-
Mortgage credit line	6,000	4,144	1,855	-	1,855	-	-	-	-	-
Variable interest	6,000	4,144	1,855	-	1,855	-	-	-	-	-
Convertible bonds	233,251	-	233,251	-	-	-	233,251	-	-	-
Fixed rate	233,251	-	233,251	-	-	-	233,251	-	-	-
Guaranteed senior notes	250,000	-	250,000	-	-	-	-	250,000	-	-
Fixed rate	250,000	-	250,000	-	-	-	-	250,000	-	-
Equity loans	15,332	-	15,332	-	3,596	7,539	2,168	1,763	266	-
Variable interest	15,332	-	15,332	-	3,596	7,539	2,168	1,763	266	-
<b>SUBTOTAL</b>	<b>865,973</b>	<b>4,144</b>	<b>861,828</b>	<b>-</b>	<b>37,979</b>	<b>57,248</b>	<b>422,303</b>	<b>254,347</b>	<b>2,416</b>	<b>87,535</b>
Credit lines	63,550	26,689	36,861	-	36,861	-	-	-	-	-
Variable interest	63,550	26,689	36,861	-	36,861	-	-	-	-	-
Arrangement expenses	-	-	(16,873)	-	(1,060)	(868)	(8,693)	(5,995)	(39)	(218)
Borrowing costs	-	-	5,105	-	5,105	-	-	-	-	-
<b>Borrowing situation at 31/12/2015</b>	<b>929,523</b>	<b>30,833</b>	<b>886,921</b>	<b>-</b>	<b>78,885</b>	<b>56,380</b>	<b>413,610</b>	<b>248,352</b>	<b>2,377</b>	<b>87,317</b>
<b>Borrowing situation at 31/12/2014</b>	<b>887,928</b>	<b>65,600</b>	<b>807,354</b>	<b>74,428</b>	<b>67,469</b>	<b>110,186</b>	<b>229,480</b>	<b>242,626</b>	<b>1,645</b>	<b>81,520</b>

Details of the asset granted as mortgage security against the guaranteed line of credit of 6,000 thousand euros are as follows (thousands of euros):

Mortgaged asset		Net value value mortgaged asset
Total The Netherlands	NH Atlanta Rotterdam	13,795
Net value of assets assigned as mortgage collateral		13,795
Value of guaranteed debt		6,000
Fixed interest		-
Variable interest (amount used plus amount available)		6,000

## 16.- OTHER NON-CURRENT LIABILITIES

The breakdown of the "Other non-current liabilities" item in the accompanying consolidated balance sheets, at 31 December 2015 and 2014, is as follows:

	Thousands of euros	
	2015	2014
<b>At fair value:</b>		
Put option for Donnafugata Resort, S.r.l.	-	10,670
<b>At amortised cost:</b>		
Purchase option on Sotocaribe, S.L. (see note 2.5.4)	58,250	58,250
Linearisation of revenue	14,946	15,895
Issue of promissory notes	-	1,810
Acquisition of Hoteles Royal, S.A.	19,238	-
Loans from shareholders	550	533
Other liabilities	6,196	1,326
	<b>99,180</b>	<b>88,484</b>

On 26 October 2012 the arbitration tribunal ratified the valuation of Donnafugata Resort, S.r.l. made by an independent valuer in response to the communication made by the non-controlling interests of said company in 2010 of their intention to exercise the put option (at 31 December 2012 they represented 8.81% of the share capital). As a result of this decision, the Parent recognised the put option of the non-controlling interests in accordance with said valuation, which amounted to 9,900 thousand euros. In December 2014, an arbitration ruling set the costs and financial expenses payable by the Group at 770 thousand euros. The change in the fair value of this option was recognised under the heading "Change in fair value of financial instruments" in the accompanying comprehensive consolidated profit and loss statement for 2014. On 22 October 2015, a reverse factoring solution was issued to settle the liability that eventually amounted to 10,335 thousand euros, 165 thousand euros was reverted to the heading "Change in fair value of financial instruments" in the comprehensive consolidated profit and loss statement for 2015 and the remaining amount covered the reverse factoring expenses, and all liabilities had been reclassified under "Other current liabilities" (see note 21).

With the acquisition of Hoteles Royal, S.A., the amount of 77.1 million euros is paid, while 17.7 million euros (19.2 million euros with the updated exchange date) remains pending, payable in two years (see Note 2.5.4).

## 17.- PROVISIONS FOR RISKS AND CHARGES

The breakdown of "Provisions for risks and charges" at 31 December 2015 and 2014, together with the main movements recognised in those years were as follows:

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

	Thousands of euros				Balance at 31/12/2014
	Balance at 31/12/2013	Additions	Applications/ Reductions	Transfers	
<b>Provisions for contingencies and extraordinary costs:</b>					
Onerous contracts	27,241	14,809	(4,950)	(10,114)	26,986
Provisions for pensions and similar obligations	17,951	209	(4,131)	(232)	13,797
Other claims	21,543	3,390	(7,607)	(1,179)	16,147
	66,735	18,408	(16,688)	(11,525)	56,930
<b>Provisions for contingencies and current expenses:</b>					
Onerous contracts	21,406	-	(21,406)	10,114	10,114
Restructuring provisions	4,864	4,740	(4,883)	-	4,721
	26,270	4,740	(26,289)	10,114	14,835
<b>Total</b>	<b>93,005</b>	<b>23,148</b>	<b>(42,977)</b>	<b>(1,411)</b>	<b>71,765</b>

### Onerous contracts

The Group has classified a number of hotel lease agreements, to which it is committed between 2015 and 2041 and on which the Group makes a loss, as onerous. Cancellation of these agreements could force the Group to make full payment of rent for the outstanding years of the lease or compensation, where applicable.

Resources for the year include an amount of 2,609 thousand euros relating to the updating of the provision for onerous contracts (see Note 24.6) and a negative exchange rate effect amounting to 25.6 thousand euros. Applications for the year include 9,967 thousand euros in automatic reversion due to the evolution of the maturity of the contracts and 9,046 thousand euros that correspond to the lower provisions required by the improved performance of the hotels with onerous contracts.

### 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), 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 2015, the liabilities entered against this item were of 14,202 thousand euros (13,797 thousand euros at 31 December 2014).

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

	2015		2014	
	The Netherlands	Italy	The Netherlands	Italy
Discount rates	2.70%	0.15%	2.10%	0.18%
Expected annual rate of salary rise	2.50%	1.90%	2.50%	1.90%
Expected return from assets allocated to the plan	2.70%	2.18%	2.10%	2.50%

### Restructuring provision

The restructuring provision corresponds to the restructuring plan approved by the Group in connection with the reorganisation of the Group in previous years. At the end of 2015, the Group's provisions amounted to 1,002 thousand euros.



## 18.- TAX NOTE

### Balances with Public Administrations

The composition of the debit balances with Public Administrations at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
<b>Deferred tax assets</b>		
Tax credits	114,452	105,449
Tax assets due to asset impairment	30,987	35,353
Tax withholdings of workforce	2,185	1,703
Other prepaid taxes	18,173	15,353
<b>Total</b>	<b>165,797</b>	<b>157,858</b>

	Thousands of euros	
	2015	2014
<b>Short-term taxes receivable</b>		
Income tax	11,296	11,068
Value Added Tax	26,789	18,405
Other tax receivables	7,888	5,650
<b>Total</b>	<b>45,973</b>	<b>35,123</b>

The movements of the "Deferred tax assets" item in 2015 and 2014 were as follows:

	Thousands of euros	
	2015	2014
<b>Opening balance</b>	<b>157,858</b>	<b>198,782</b>
Settlements due to reversal of impairments	(4,366)	(3,382)
Additions of assets due to the entry into the consolidation	8,518	(28,708)
Asset disposals due to tax rate changes	(1,104)	(21,861)
Settlements of assets due to tax losses	(11,370)	-
Activation of deductions	11,267	-
Tax loss carry-forward for the year	9,107	12,056
Others	(4,113)	971
<b>Total</b>	<b>165,797</b>	<b>157,858</b>

El reconocimiento de activos se debe a la activación de las pérdidas fiscales del ejercicio y a la entrada en el grupo de consolidación contable de Recognition of assets due to the activation of tax losses for the year and the entry of Hoteles Royal into the accounting of the consolidation group (see Note 2.5.4.)

The settlement of assets resulting from a change in rates is due to the reduction of the tax rate on Italian companies (IRES) from 27.5% to 24%, to take effect in the year 2017. As a result of this change, the Group has adjusted its deferred tax assets and liabilities and its tax loss assets, using the type of rate which is likely to be applicable in the period when it estimates the asset will be realised or the liability will be settled.

At 31 December 2015, the Group updated the tax credit recovery plan based on the Group's business plan for five years and estimating an increase in the tax base of 2% per year from 2021. In this tax credit recovery plan, asset sale transactions that may result in taxable income have not been taken into account.

In accordance with the results of the recovery plan, the tax credits will be fully offset in 2023. The analysis of sensitivity to a reduction in the tax base used in said recovery plan yields the following results:

Annual Tax Base Variation	(10.0%)	(20.0%)	(30.0%)
Year of Recovery	2024	2025	2027

Given that the results of the tax credit recovery plan are satisfactory, the Directors of the Parent Company have decided to activate the tax losses recorded during the year by the Spanish tax group.

At 31 December 2015 the Group had tax credits worth 607,525 thousand euros (636,963 thousand euros at 31 December 2014) that had not been entered in the accompanying consolidated profit and loss statement because the Directors considered they did not to meet accounting standard requirements. These assets are grouped as follows:

	Thousands of euros	
	2015	2014
<b>Finance costs and negative tax bases</b>		
Non-deductible financial expenses in Spain	180,467	130,840
Non-deductible financial expenses in Italy	17,243	28,519
Non-deductible financial expenses in Germany	12,900	12,900
Tax losses generated by the Spanish entities before tax consolidation	108,750	108,750
Tax losses generated in Austria	23,400	23,400
Tax losses generated in Latin America	2,765	2,765
Tax losses generated in Luxembourg	53,231	70,250
Tax losses generated in Spain	-	31,213
Tax losses generated in Italy	13,801	22,091
Tax losses generated in Germany	164,900	164,900
<b>Total</b>	<b>577,457</b>	<b>595,628</b>
<b>Deductions</b>		
Deductions generated in Spain	30,068	41,335
<b>Total</b>	<b>30,068</b>	<b>41,335</b>
<b>Total</b>	<b>607,525</b>	<b>636,963</b>

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 49,627 thousand euros in 2015 (36,645 thousand euros in 2014). 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 variation of unregistered credits results from, in Italy, offsetting losses and deducting finance costs during the year 2015, and, in Spain, registering negative taxable bases and deductions to avoid the double taxation that passed the tax credit recovery test.

The composition of the credit balances with Public Administrations at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
<b>Deferred tax liabilities</b>		
Revaluation of assets and other valuation differences	196,711	179,730
<b>Total</b>	<b>196,711</b>	<b>179,730</b>

	Thousands of euros	
	2015	2014
<b>Short term taxes payable</b>		
Income tax	15,545	15,412
Value Added Tax	8,509	1,763
Personal Income Tax	7,010	8,321
Tax on Income from Capital	217	90
Social Security	7,568	8,196
Others	11,986	6,312
<b>Total</b>	<b>50,835</b>	<b>40,094</b>

The movements in deferred tax liabilities during 2015 are as follows:

	Thousands of euros	
	2015	2014
<b>Opening balance</b>	<b>179,730</b>	<b>201,225</b>
Derecognition of liabilities due to change in tax rate	(10,309)	(6,510)
Addition of liabilities due to entry into scope (Note 2.5.4)	26,077	(9,461)
Others	1,213	(5,524)
<b>Closing balance</b>	<b>196,711</b>	<b>179,730</b>

The settlement is mainly to the adaptation of tax liabilities related to Italian companies (IRES) associated with accounting revaluations at the expected effective tax rate (see deferred tax assets movement).

The net increase in deferred tax liabilities is mainly due to the combined effect of the entry in the consolidation scope of the Grupo Royal 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	109,202	22,932	132,134	50,286
Italy	3,303	11,837	15,140	114,040
Germany	-	2,146	2,146	494
Others	1,880	14,496	16,377	31,891
<b>TOTAL</b>	<b>114,385</b>	<b>51,411</b>	<b>165,797</b>	<b>196,711</b>

### Corporate Income Tax expense

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 the companies with tax domicile in Spain in which it held a direct or indirect stake of at least 75% during the 2015 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.

During 2015, Hotel & Congress Technology, S.L. (previously Hotel & Travel Business, S.L.) were excluded from the Spanish tax consolidation group.

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

In 2015, Spanish companies pay taxes at the general tax rate of 28% irrespective of whether they apply the consolidated or separate taxation schemes. Following the approval of tax reform in Spain, the tax rates applicable to resident entities will be 28% in 2015 and 25% in 2016 and the following years. However, tax credits of Spanish tax group activated in the balance sheet are valued at 25%. 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	Country	Nominal Rate
Argentina <sup>(1)</sup>	35.0%	Romania	16.0%
Colombia <sup>(1)</sup>	34.0%	Poland	19.0%
Chile	22.5%	Switzerland	7.8%
Panama	25.0%	Dominican Rep.	19.0%
Brazil	34.0%	Luxembourg	29.2%
Mexico	30.0%	Italy	31.7%
Uruguay	25.0%	The Netherlands	25.0%
Dominican Republic	28.0%	France	33.3%
Germany	30.0%	Portugal	31.5%

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

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

	Thousands of euros														
	2015												2014		
	Spain	Italy	Germany	The Netherlands (1)	Latin America (2)	Luxembourg	Romania	Switzerland	Czech R.	Poland	Portugal	Others	TOTAL	Spanish Companies	Other Companies
<b>Consolidated comprehensive profit and loss statements before taxes</b>	<b>(65,136)</b>	<b>45,527</b>	<b>(4,433)</b>	<b>21,182</b>	<b>23,824</b>	<b>1,762</b>	<b>454</b>	<b>(6,715)</b>	<b>284</b>	<b>63</b>	<b>20</b>	<b>(444)</b>	<b>16,388</b>	<b>(75,876)</b>	<b>49,538</b>
Adjustments to consolidated comprehensive profit and loss:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounting consolidation adjustments	(14,378)	-	4,765	-	-	-	-	-	-	-	-	-	(9,613)	(25,339)	9,445
Due to permanent differences	45,163	(12,766)	4,403	7,862	2,327	(1,575)	10	-	-	-	(16)	-	45,408	35,823	(20,560)
Due to temporary differences	(16,116)	(16,245)	(3,016)	1,276	572	-	-	34	-	-	-	-	(33,495)	17,225	(4,163)
<b>Tax base (Taxable profit or loss)</b>	<b>(50,467)</b>	<b>16,516</b>	<b>1,720</b>	<b>30,321</b>	<b>26,723</b>	<b>186</b>	<b>464</b>	<b>(6,681)</b>	<b>284</b>	<b>64</b>	<b>4</b>	<b>(444)</b>	<b>18,690</b>	<b>(48,167)</b>	<b>34,256</b>
Current taxes to be refunded / (to pay)	1,004	512	13	2,060	7,705	-	-	-	-	-	1	-	11,295	(1,088)	5,431
Total current tax income / (expense)	11,455	(7,607)	(516)	(7,580)	(7,830)	(54)	(74)	(58)	-	(12)	(1)	(41)	(12,318)	11,275	(14,544)
Total deferred tax income / (expense)	(4,029)	(5,523)	(905)	319	167	-	-	3	-	-	-	-	(9,968)	3,914	(904)
Total income / (expense) due to tax rate changes	-	9,204	-	-	-	-	-	-	-	-	-	-	9,204	(14,562)	(789)
<b>Total Corporation Tax income / (expense)</b>	<b>7,426</b>	<b>(3,926)</b>	<b>(1,421)</b>	<b>(7,261)</b>	<b>(7,663)</b>	<b>(54)</b>	<b>(74)</b>	<b>(55)</b>	<b>-</b>	<b>(12)</b>	<b>(1)</b>	<b>(41)</b>	<b>(13,082)</b>	<b>626</b>	<b>(16,237)</b>

(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.

### 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
VAT	2014 and 2015
IRPF (personal income tax)	2014 and 2015
Non-resident Income Tax	2014 and 2015

During 2015, NH Hotel Group, S.A., as head of Consolidation Groups of Corporate Tax and VAT, NH Hoteles España, S.A. and NH Europa S.L., were inspected by the Spanish tax authorities in relation to Corporate Income Tax (years 2010-2013), Value Added Tax, Personal Income Tax and Non-resident Income Tax (years 2011-2013).

In the last quarter of 2015, agreements were signed in compliance with all taxes and years mentioned above, as well as an agreement regarding the area of transfer pricing for Corporate Income Tax purposes. None of these yielded fines. The total of the regularization, including payment and interest, amounted to a cash outflow of 363 thousand euros.

The Directors believe that the adaptation of the Parent Company with the criteria set by the Administration for inspection generated liabilities for the parent company amounting to 794 thousand euros, which has been provisioned for in the year's profits and losses.

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

#### Deductions generated by the consolidated tax group of the Parent Company

At 31 December 2015, the Tax Group held the following tax credit carry-forward (Thousands of euros):

Year Origin	Deduction pending application	Amount
2002 to 2010	Investment in export activity	29,047
2008 to 2014	Tax deduction to avoid double taxation	11,267
2002 to 2014	Other	1,021
		<b>41,335</b>

Of this amount, 11 million euros have been capitalized during 2015.

Similarly, the consolidated tax group of the Parent Company took advantage in prior years of the "Deferral of extraordinary profits for reinvestment" scheme. The essential characteristics of such reinvestment are as follows (Thousands of euros):

Year of origin	Revenue Qualifying for deferral	Amount offset			
		Previous years	Year 2015	Amount Outstanding	Last year of deferral
1999	75,145	51,439	682	23,024	2049

This income was reinvested in the acquisition of buildings.

#### Negative tax bases

At 31 December 2015, the Consolidated Tax Group headed by NH Hotel Group, S.A. has the following tax loss carry-forwards:

Financial year	Amount
2007	8,835
2008	17,711
2009	85,995
2010	18,606
2011	26,294
2012	131,708
2013	11,907
2014	51,208
2015	39,478
<b>Total</b>	<b>391,742</b>

All the negative tax bases generated by the Consolidated Tax Group are recorded in the consolidated profit and loss statement, related to Spain are 98 million euros and 5 million euros to the rest of countries.

## 19.- COMMERCIAL CREDITORS AND OTHER ACCOUNTS PAYABLE

The breakdown of this item in the consolidated balance sheet at 31 December 2015 and 2014 is as follows (Thousands of euros):

	Thousands of euros	
	2015	2014
Trade and other payables	227,128	206,288
Advance payments from customers	23,915	25,139
	251,043	231,427

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. "DUTY TO REPORT" OF ACT 11/2013 OF 26 JULY

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.

Through this resolution the immediate predecessor in the matter is repealed, the Resolution of 29 December 2010, of the Institute of Accounting and Auditing, on the information to be incorporated in the record of annual financial statements relating to deferred payments to suppliers in commercial transactions, which had its origin in the previous wording of the third additional provision of Law 15/2010 of 5 July.

The sole additional provision states that in the first annual financial statements that are formulated using this Resolution, it is not obligatory to present comparative figures in order to facilitate the implementation of the new requirements as it is predicted that commercial companies may need to adapt their computer systems.

	2015
	Days
<b>Average period for payment to suppliers</b>	<b>70</b>
Ratio of paid transactions	68
Ratio of transactions pending payment	85
	<b>Amount (thousands of euros)</b>
Total payments made	263,703
Total payments pending	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 "Trade creditors" item in current liabilities of the attached consolidated balance sheet at 31 December 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 2015 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 2015 and 2014, this item is broken down as follows:

	Thousands of euros	
	2015	2014
Outstanding remuneration	27,928	30,555
Compensation for termination of Hotel NH Buhlerhöhe lease	-	3,915
Linearisation of revenue	1,371	3,159
Liabilities from contract termination	667	-
Put option for Donnafugata Resort, S.r.l. (Note 16)	10,335	-
Other creditors	2,138	7,935
<b>Total</b>	<b>42,439</b>	<b>45,564</b>

## 22.- THIRD-PARTY GUARANTEES AND CONTINGENT ASSETS AND LIABILITIES

Financial institutions had granted surety to the Group for an amount totalling 21.01 million euros (22.05 million euros at 31 December 2014) which, in general terms, guarantee the fulfilment of certain obligations taken on by the consolidated companies in the performance of their activities.

At 31 December 2015, 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

- A Group company currently acts as co-guarantor for a syndicated loan granted by two banks to the associate Sotocaribe, S.L. which at 31 December 2015 had an outstanding principal of 21,755 thousand euros (23,685 in thousand US dollars as per as 31 December 2015) and final maturity on 23 December 2016.
- 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 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).

### Contingent assets and liabilities

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 euros 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 has fully rejected the lawsuit filed by the owner, notwithstanding that the owner still has time to appeal the court decision.
- The owner of a hotel has filed a suit against a Group company, demanding compliance with certain contractual obligations. After rejecting the appeal judgement, it was appealed to the Supreme Court in October 2015. No negative or significant material consequences are expected.

- The NH Group has filed an arbitration claim requesting the validity of the declaration of resolution to sell practised at 15 locations in San Roque.
- 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.
- 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.

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 S.A.'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 with start on 1/1/2014 with delivery of shares on 1/1/2017.
- The second cycle with start on 1/1/2015 with delivery of shares on 1/1/2018.
- The third cycle with start on 1/1/2016 with delivery of shares on 1/1/2019.

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 2015, the first and second cycles had been approved.

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 profit and loss statement for 2015 was 1,415 thousand euros (746 thousand euros in 2014).

Furthermore, Shareholders at the Annual General Meeting held on 25 June 2013 approved the grant of a total of 896,070 shares of the Parent to the CEO. The Group valued these shares at the closing market price on the date of assuming the commitment to the beneficiary. The effect of this item on the profit and loss statement for 2015 was 452 thousand euros (452 thousand euros in 2014).



## 24.- INCOME AND EXPENSES

### 24.1 Income

The breakdown of these headings in the consolidated comprehensive profit and loss statements for 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Hotel occupancy	954,081	847,717
Catering	310,391	297,218
Meeting rooms and others	69,639	62,541
Rentals and other services	42,523	39,478
<b>Revenues</b>	<b>1,376,634</b>	<b>1,246,954</b>
Operating subsidies	11	6
Other operating income	1,196	3,293
<b>Other operating income</b>	<b>1,207</b>	<b>3,299</b>
<b>Net gain (loss) on disposal of assets</b>	<b>(843)</b>	<b>(1,005)</b>

"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 2015 and 2014 was as follows:

	Thousands of euros	
	2015	2014
Spain	325,515	295,292
Germany	288,288	288,253
Benelux	263,749	256,580
Italy	266,965	227,078
Rest of Europe	93,536	92,636
Latin America	138,581	87,115
<b>Total</b>	<b>1,376,634</b>	<b>1,246,954</b>

### 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	
	2015	2014
Dividend income	1,130	935
Income from marketable securities	525	396
Interest income	3,092	2,521
Other financial income	407	3,516
<b>Total</b>	<b>5,154</b>	<b>7,368</b>

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

	Thousands of euros	
	2015	2014
Interest rate exchange rate (Note 4.6.3)	(4,530)	(2,786)
Put option for Donnafugata Resort, S.r.l.	(165)	770
<b>Total change in fair value of financial instruments</b>	<b>(4,695)</b>	<b>(2,016)</b>

## 24.3 Personnel expenses

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

	Thousands of euros	
	2015	2014
Wages, salaries and similar	299,033	282,173
Social security contributions	74,341	69,764
Indemnifications	4,688	9,043
Contributions to pension plans and similar	8,645	3,460
Other social expenses	11,441	9,353
<b>Total</b>	<b>398,148</b>	<b>373,793</b>

The average number of people employed by the Parent Company and the companies consolidated through full consolidation in 2015 and 2014 broken down by professional categories was as follows:

	2015	2014
Group's general management	7	6
Managers and heads of department	1,117	1,077
Technical staff	926	771
Sales representatives	414	444
Administrative staff	178	154
Rest of workforce	11,217	10,257
<b>Total</b>	<b>13,859</b>	<b>12,709</b>

The breakdown of the personnel at 31 December 2015 and 2014, by gender and professional category, is as follows:

	31-12-2015		31-12-2014	
	Males	Females	Males	Females
Group's general management	6	1	6	-
Managers and heads of department	683	419	648	390
Technical staff	503	412	419	331
Sales representatives	104	299	89	283
Administrative staff	65	105	44	92
Rest of workforce	5,017	5,633	4,548	5,185
<b>Total</b>	<b>6,378</b>	<b>6,869</b>	<b>5,754</b>	<b>6,281</b>

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 2015, broken down by professional categories, is as follows:

	2015	2014
Managers and heads of department	4	4
Technical staff	4	4
Rest of workforce	20	20
<b>Total</b>	<b>28</b>	<b>28</b>

The average age of the Group's workforce was approximately 37.3 and average seniority in the Group was 8.3 years..

## 24.4 Other operating expenses

The detail of "Other Operating Expenses" of the consolidated statement of comprehensive income for 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Lease rentals	282,597	272,156
External services	503,244	452,078
Additions to contingency and expense provisions	1,248	(4,217)
<b>Total</b>	<b>787,089</b>	<b>720,017</b>

During 2015 and 2014, 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	
	2015	2014
Auditing services	472	464
Other verification services	263	241
<b>Total auditing and related services</b>	<b>735</b>	<b>705</b>
Tax consulting services	471	246
Other services	398	666
<b>Total other services</b>	<b>869</b>	<b>912</b>
<b>Total professional services</b>	<b>1,604</b>	<b>1,617</b>

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

	Thousands of euros	
	2015	2014
Auditing services	1,208	890
Other verification services	20	35
<b>Total auditing and related services</b>	<b>1,228</b>	<b>925</b>
Tax consulting services	131	133
Other services	3	42
<b>Total other services</b>	<b>134</b>	<b>175</b>
<b>Total</b>	<b>1,362</b>	<b>1,100</b>

During 2015, other auditing firms apart from Deloitte, S.L. or entities associated with this company by control, shared ownership or management, have provided account auditing services to the companies making up the Group, for fees totalling 130 thousand euros (57 thousand euros in 2014). The fees accrued in 2015 by these firms for tax advice services were 221 thousand euros (232 thousand euros in 2014) and for other services, 372 thousand euros (399 thousand euros in 2014).

## 24.5 Operating Leases

At 31 December 2015 and 2014, 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 discount rate in keeping with the Group's weighted average cost of capital and includes the commitments which the Group estimates will have to be met in the future to guarantee a minimum return from hotels operated under a management agreement.

	Thousands of euros	
	2015	2014
Less than one year	272,870	278,675
Between two and five years	900,908	893,949
More than five years	1,056,344	983,924
<b>Total</b>	<b>2,230,122</b>	<b>2,156,548</b>

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 at 31 December 2015 of the present value of the lease payments is as follows (thousands 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
<b>Total</b>	<b>272,870</b>	<b>900,908</b>	<b>1,056,344</b>	<b>2,230,122</b>

The breakdown by business unit at 31 December 2014 of the present value of the lease payments is as follows (thousands euros):

	Less than one year	Between two and five years	More than five years	Total
Spain	80,742	267,633	208,860	557,235
Germany and Central Europe	109,344	352,090	368,046	829,480
Italy	40,692	113,226	75,307	229,225
Benelux	44,678	155,757	328,617	529,052
Latin America	3,219	5,243	3,094	11,556
<b>Total</b>	<b>278,675</b>	<b>893,949</b>	<b>983,924</b>	<b>2,156,548</b>

## 24.6 Finance costs

The detailed balance of this chapter of the consolidated statement of comprehensive income for 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Expenses for interest	53,927	53,488
Financial expenses for means of payment	11,610	10,354
Financial effect portfolio exit NH Alcalá	4,394	-
Financial effect relating to updating of provisions (Note 17)	2,609	3,456
Other financial expenses	1,175	1,531
<b>Total financial expenses</b>	<b>73,715</b>	<b>68,829</b>

## 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 2015 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:

Income and Expenses	Thousands of euros			
	31/12/2015			
	Major Shareholders	Directors and Senior Management	Associates or companies of the Group	Total
<b>Expenses:</b>				
Finance costs	1,167	-	-	1,167
Management or cooperation agreements	-	-	550	550
R&D transfers and licence agreements	-	-	-	-
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
<b>Income:</b>				
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

Income and Expenses	Thousands of euros			
	31/12/2014			
	Major Shareholders	Directors and Senior Management	Group Persons, Companies or Entities	Total
<b>Expenses:</b>				
Finance costs	8,137	-	-	8,137
Management or cooperation agreements	-	-	-	-
R&D transfers and licence agreements	-	-	-	-
Lease rentals	10,143	-	-	10,143
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	-	-	-	-
	18,280	-	-	18,280
<b>Income:</b>				
Finance income	-	-	-	-
Management or cooperation agreements	5,869	-	-	5,869
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	-	-	-	-
	5,869	-	-	5,869

Financial expenses accrued from financing agreements with credit institutions that are major shareholders of the Parent Company amounted to 1,167 thousand euros in 2015 (8,137 thousand euros in 2014).

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 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	
	2015	2014
Loans to associates		
Consortio Grupo Hotelero T2, S.A. de C.V.	672	-
Sotocaribe, S.L.	4,820	3,445
<b>Total</b>	<b>5,492</b>	<b>3,445</b>

#### Other operations

By virtue of the contractual relationship entered into with Grupo Inversor Hesperia, S.A., at 31 December 2015, 3.81 million euros had not yet been received for various reasons, of which 2.62 million euros were due on said date. At 31 December 2015 the net balance recognised in relation to Grupo Inversor Hesperia, S.A. came to 2 million euros (2.96 million euros at 31 December 2014).

## 26.- INFORMATION BY SEGMENTS

The information by segments is primarily structured around the Group different business lines, and secondarily according to geographical distribution.

#### Main segments - Business

On 14 November 2014, the NH Group sold the main share of its property business and reclassified as "Non-current assets held for sale and discontinued operations" the non-strategic assets involved in a divestment process with firm sale plans (see Note 11).

At 31 December 2015, the NH Group focuses its operations on the hotel business, which constitutes the basis upon which the Group presents the information on its main segment.

The Group does not include its catering operations as a main segment because it cannot be separated from the accommodation activity; both together constitute a single business, the hotel business.

#### Secondary segments - Geographical

The Group's operations are located in Spain, the Benelux, Germany, Italy, the rest of Europe, South America and the rest of the world.

The information by segments set out below is based on the reports drawn up by NH Group and is generated through a computer application which categorises transactions by business lines and geography.

Ordinary revenues of the segment correspond to revenue directly attributable to the segment plus the relevant proportion of the Group's general income that can be distributed to it using fair rules of distribution. The ordinary revenues of each segment do not include interest income and dividends, gains on the disposal of investments or proceeds from debt redemption or extinguishment, or share of results of associates.

The assets and liabilities of the segments are those which are directly connected with the segments' operations.

The information by segments of these operations is presented below.

### 26.1 Information on main segments

This section breaks down information on main segments relating only to the Group's consolidated balance, given the reclassification of property business balances in the comprehensive consolidated income statement under "Profit (Loss) for the Year from Discontinued Operations Net of Tax", applying International Financial Reporting Standard 5 "Non-current Assets held for sale and discontinued operations", detailed in Note 11.

	Thousands of euros					
	Hotel Business		Real estate		Total	
	2015	2014	2015	2014	2015	2014
<b>OTHER INFORMATION</b>						
Additions of fixed assets	180,236	127,162	-	-	180,236	127,162
Depreciation	(106,159)	(98,516)	-	-	(106,159)	(98,516)
Net profit (loss) for asset deterioration	30,859	12,810	-	-	30,859	12,810
<b>BALANCE SHEET</b>						
<b>ASSETS</b>						
Assets by segments	2,694,209	2,643,183	-	-	2,694,209	2,643,183
Shareholdings in associated companies	(28,356)	(29,465)	45,034	47,281	16,678	17,816
<b>Total consolidated assets</b>	<b>2,665,853</b>	<b>2,613,718</b>	<b>45,034</b>	<b>47,281</b>	<b>2,710,887</b>	<b>2,660,999</b>
<b>LIABILITIES</b>						
Liabilities and equity by segments	2,665,853	2,613,718	45,034	47,281	2,710,887	2,660,999
<b>Total Consolidated Liabilities and Shareholders' Equity</b>	<b>2,665,853</b>	<b>2,613,718</b>	<b>45,034</b>	<b>47,281</b>	<b>2,710,887</b>	<b>2,660,999</b>

## 26.2 Information on secondary 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:

	Thousands of euros					
	Revenues		Total Assets		Inclusions of tangible fixed assets and intangible assets	
	31/12/15	31/12/14	31/12/15	31/12/14	31/12/15	31/12/14
Spain	325,515	295,292	783,832	848,466	66,152	66,267
Benelux	263,749	256,580	623,844	600,816	31,806	21,003
Italy	266,965	227,078	534,084	578,681	36,877	17,344
Germany	288,288	288,253	319,005	303,599	27,421	16,592
Latin America	138,581	87,115	410,987	292,974	17,268	5,157
Rest of Europe	93,536	92,636	39,135	36,463	712	799
<b>Total</b>	<b>1,376,634</b>	<b>1,246,954</b>	<b>2,710,887</b>	<b>2,660,999</b>	<b>180,236</b>	<b>127,162</b>

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

The amount accrued in 2015 and 2014 by the members of the Parent's managing bodies, Board of Directors (13 members in 2015 and 2014), Executive Committee (6 members in 2015, 4 members in 2014), Audit and Control Committee (6 members in 2015, 3 members in 2014) and Appointments and Remuneration Committee (7 members in 2015, 3 members in 2014), in relation to the remuneration of the CEO, by law stipulated Directors' fees and attendance fees, is as follows:

### 27.1 Remuneration of the Board of Directors

Remuneration item	Thousands of euros	
	2015	2014
Fixed remuneration	1,100	1,050
Variable remuneration	466	787
Parent Company: allowances	139	129
Parent Company: attendance allowances	493	550
Options on shares and other financial instruments	1,452	952
Indemnifications/other	5	8
Life insurance premiums	76	83
Consolidated companies: allowances	-	5
Consolidated Companies: attendance allowances	-	83
<b>Total</b>	<b>3,731</b>	<b>3,647</b>

The Board of Directors had 12 members at 31 December 2015, of which 1 is a woman and 11 are men (in 2014, there were 12 members: all were men).

In relation to the chapter "Share transactions and/or other financial instruments", share-based remuneration schemes with overlaid cycles are included and both in the case of the CEO and of the members of Senior Management, the objective remuneration earned has been taken into account.

## 27.2 Remuneration of senior management

The remuneration of members of the Management Committee at 31 December 2015 and 2014, 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	
	2015	2014
Pecuniary remuneration	2,830	2,535
Remuneration in kind	620	341
Others	65	61
<b>Total</b>	<b>3,515</b>	<b>2,937</b>

There were seven members of Senior Management at 31 December 2015, excluding the CEO, one more member than the previous year.

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

## 27.3 Information on conflicts of interest on the part of Directors

The Board of Directors has authorised a method of monitoring and evaluation so managers can facilitate the Board itself with information applicable to Article 229 of the Consolidated Capital Companies Act, concerning the obligations of transparency and control.

In accordance with the provisions of that article, at year-end 2015 the members of the Board of Directors of NH Hotel Group, S.A. have indicated 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.

## 28.- EVENTS AFTER THE REPORTING PERIOD

After the year end closing there has not been any relevant issue with significant impact on the financial and equity position of the Group.

## 29.- INFORMATION ON ENVIRONMENTAL POLICY

The NH Group had not allocated any provisions for environmental contingencies and claims at year-end 2015.

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 CDP's A99-rating places NH Hotels Group among the leading companies in the hotel industry for its strategy to combat climate change. NH Hotels 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 and financial position, 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 2015, approximately 59% 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.

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 and the United States).

The NH Group endeavours to align its borrowings with the cash flows in the different currencies.

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	
	Equity	Profit(Loss)
US dollar	(924)	67
Argentine peso	(1,652)	15
Mexican peso	(2,328)	(265)
Colombian peso	(2,404)	30

### 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 2015 is based on the following points:

- The group had cash and cash equivalents amounting to 77,699 thousands euros at 31 December 2015.
- Available undrawn credit facilities amounting to 30,833 thousands euros at 31 December 2015.

The Group's business units have the capacity to generate cash flow from their operations. Cash flow from operations in 2015 amounted to 117,770 thousand euros, calculated as adjusted income collected in the Cash Flow Statement of 126,156 thousand euros plus/minus the following changes in working capital: increase in inventories of 801 thousand euros, increased commercial debits and other accounts receivable of 17,937 thousand euros and increased commercial credits of 10,352 thousand euros.

- 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.

## APPENDIX I: SUBSIDIARIES

The data on the Parent company's subsidiaries at 31 December 2015 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%
Caribe Puerto Morelos, S.A. de C.V.	Mexico DF	Hotel Business	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%
Cofir, S.L.	Madrid	Corporate services	100%	100%
Columbia Palace Hotel, S.A.	Montevideo	Hotel Business	100%	100%
Compañía Servicios Queretaro	Querétaro	Hotel Business	50%	50%
Coperama Servicios a la Hostelería, 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%
NH Establecimientos Complementarios Hoteleros, S.A.	Barcelona	Sports Centres	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%
Exploitiemaatschappij Caransa Hotel, B.V.	Amsterdam	Without activity	100%	100%
Exploitatie Mij. Tropic Hotel B.V.	Hilversum	Hotel Business	100%	100%
Fast Good Islas Canarias, S.A.	Las Palmas de G. C.	Catering	100%	100%
Fast Good Península Ibérica, S.L.	Madrid	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 Financiero de Intermediación y Estudios, S.A.	Madrid	Corporate services	100%	100%
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%
Hanuman Investment, S.L.	Santa Cruz de Tenerife	Hotel Business	38%	50%
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%

All companies end the year on 31/12/2015

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 Spuistraat Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%
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 Ciutat de Mataro, S.A.	Barcelona	Hotel Business	100%	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 Vlieghe 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%
Hotelexploitiemaatschappij 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%
Inversores y Gestores Asociados, S.A.	Madrid	Corporate services	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	Without activity	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%
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%

All companies end the year on 31/12/2015

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
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.L.	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.L.	Madrid	Call Centre	100%	100%
NH Fashion Tapas, S.L.	Madrid	Catering	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.L.	Barcelona	Hotel Business	100%	100%
NH Hoteles France S.A.S.U.	France	Hotel Business	100%	100%
NH Hoteles Participaties, NV	Amsterdam	Holding company	100%	100%
NH Hoteles Switzerland GmbH	Fribourg	Hotel Business	100%	100%
NH Hotels Czequia, s.ro.	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.	Las Palmas de G. C.	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	Barcelona	Hotel Business	100%	100%
NH 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 Exploitiemaatschappij 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%
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%

All companies end the year on 31/12/2015

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
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 Marquette Heemskerk, B.V.	Heemskerk	Inmobiliaria	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%
Parque de la 93, B.V.	Amsterdam	Hotel Business	100%	100%
Polis Corporation, S.A.	Buenos Aires	Hotel Business	100%	100%
NH Resorts Europa, S.L.	Madrid	Hotel Business	100%	100%
Restaurant D'Vijff Vlieghe 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. (*)	Bogota	Holding company	97%	100%
Eurotels Chile S.A. (*)	Chile	Holding company	97%	100%
Hotel Andino Royal S.A.S. (*)	Bogota	Hotel Business	97%	100%
Hotel Hacienda Royal Ltda (*)	Bogota	Hotel Business	97%	100%
Hotel La Boheme Ltda (*)	Bogota	Hotel Business	97%	100%
Hotel Medellin Royal Ltda (*)	Medellin	Hotel Business	97%	100%
Hotel Pacifico Royal Ltda (*)	Cali	Hotel Business	97%	100%
Hotel Parque Royal S.A.S. (*)	Bogota	Hotel Business	97%	100%
Hotel Pavillon Royal Ltda. (*)	Bogota	Hotel Business	97%	100%
Hotelera Norte Sur S.A (*)	Chile	Real estate	66%	100%
Hoteles Royal del Ecuador S.A. Horodelsa (*)	Quito	Hotel Business	54%	55%
HR Quántica SAS (*)	Bogota	Hotel Business	50%	51%
Inmobiliaria Royal S.A (*)	Chile	Real estate	66%	67%
Inversiones SHCI (*)	Bogota	Real estate	62%	100%
Promotora Royal S.A. (*)	Bogota	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 (*)	Bogota	Hotel Business	97%	100%
Soc. Operadora Urban Royal Calle 26 SAS (*)	Bogota	Hotel Business	97%	100%
Soc. Operadora Urban Royal Calle 93 SAS (*)	Bogota	Hotel Business	97%	100%
Sociedad Hotelera Calle 74 Ltda (*)	Bogota	Hotel Business	97%	100%

All companies end the year on 31/12/2015  
(\*) Additions to the scope 2015

<b>Investee company</b>	<b>Registered address of investee company</b>	<b>Main activity of the Investee Company</b>	<b>Parent company's % stake in investee company</b>	<b>% of voting rights controlled by parent company</b>
Sociedad Hotelera Cien Internacional S.A. (*)	Bogota	Hotel Business	62%	64%
Sociedad Hotelera Cotopaxi S.A. (*)	Quito	Hotel Business	54%	55%
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	Bucarest	Hotel Business	100%	100%
NH Brasil ABrasil Administração De Hoteis E Participadas Ltda.	Villa Olímpica	Hotel Business	100%	100%

*All companies end the year on 31/12/2015  
 (\*) Additions to the scope 2015*

## 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%
Capredo Investments GmbH (*)	Switzerland	Holding company	50%	50%
Consortio 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%
Losan Investment Ltd.	London	Hotel Business	30%	30%
Mil Novecientos Doce, S.A. de C.V.	Mexico	Hotel Business	25%	25%
Palacio de la Merced, S.A.	Burgos	Hotel Business	25%	25%
Sotocaribe, S.L.	Madrid	Holding company	36%	36%
Hotelera del Mar, S.A.	Mar de Plata	Hotel Business	20%	20%
Varallo Comercial, S.A.	Dominican Republic	Hotel Business	14%	14%
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 31/12/2015  
 (\*) Additions to the scope 2015

# ANNUAL REPORT OF THE AUDIT AND CONTROL COMMITTEE OF NH HOTEL GROUP, S.A.

*Corresponding to the 2015 financial year*

## 1) Composition, competence and operation of the Audit and Control Committee

La Comisión de Auditoría y Control tiene como función primordial la de servir de apoyo al Consejo de Administración en sus funciones de 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 regulated 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 2015 the above-mentioned regulation has undergone several modifications in order to adapt its contents to various legislative changes. On 29th April 2015, the Board of Directors resolved to modify the Regulations of the Board of Directors, in order to incorporate the latest innovations regarding corporate governance introduced by Act 31/2014, of 3rd December, amending the Companies Act for the improvement of corporate governance, as well as certain Recommendations contained in the Unified Good Governance Code approved by the National Securities Market Commission on 18th February 2015. Subsequently, on 29th October 2015, the Board of Directors resolved once again to modify the aforesaid Regulations with the object, among others, of making the necessary adaptations as a result of entry into force of Account Audit Act 22/2015, of 20th July, which directly affected the composition and scope of competence of the Audit and Control Committee.

The composition, competences and operation of the Audit and Control Committee can basically be summarized as follows:

### **a) Composition.**

De conformidad con lo previsto en los Estatutos Sociales (artículo 48) y el Reglamento del Consejo (artículo 25), La Comisión de Auditoría 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:

- a) Report to the General Meeting on matters raised within its sphere of competence.
- b) 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.
- c) Supervise the process of drawing up and presenting regulatory financial information.
- d) 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.
- e) Establish the pertinent relations with the accounts auditors or audit firms in order to receive information on any matters that may put their independence at risk, so that they can be examined by the Committee, and any other matters related to the audit process, and other communications established in auditing legislation and auditing standards. In any case, it must receive written confirmation each year from the accounts auditors or audit firms of their independence 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.
- f) 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.



g) 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.

### **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, on his/her own decision or in response to the request of two of its members or of the Board of Directors.

The Audit and Control Committee may require the attendance at its meetings of any employee or executive of the company, as well as the Company's Auditor.

Through its Chairman, the Audit and Control Committee will report to the Board on its activity and the work carried out, at the meetings established for this purpose or at the immediately following meeting when the Chairman of the Audit and Control Committee considers it necessary. The minutes of its meetings will be available to any Member of the Board who requests them.

## **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 2015 there have been several changes in the composition of the Audit Committee, caused, on the one hand, by the appointments as new members of Mr Francisco Javier Illa on 27th January 2015, of the Independent Director Mr Francisco Román Riechmann on 26th February 2015, and of Ms Koro Usarraga Unsain on 19th June 2015, with the latter being appointed Chair of the Committee on 27th July, replacing Mr Carlos González Fernández, who had held that post since 2011 and who has had to step down from his post as Chairman due to have completed the maximum legal term established for that purpose.

By virtue of the above, the composition of the Audit and Control Committee at 31st December 2015 is as follows:

Chair:

Ms Koro Usarraga Unsain (Independent)

Members:

Mr Carlos González Fernández (Independent)

Mr Francisco Román Riechmann (Independent)

Mr Xianyi Miu (Shareholder-representative)

Mr Francisco Javier Illa (Shareholder-representative)

Secretary:

Mr Carlos Ulecia Palacios

Thus the provisions of the legislation are fulfilled with regard to the requirement that all the members of the Committee must be External Director, 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 Companies Act, recently amended first by the provisions of Act 31/2014, of 3rd December, amending the Companies Act for the improvement of corporate governance, and subsequently by Account Audit Act 22/2015, of 20th 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 2015 have been audited by five independent firms.

Deloitte is the lead auditor and, as such, issues the audit opinion on the Consolidated Annual accounts. It has performed the verification of the accounts of the companies included in the Business Units of Spain (except Portugal), Italy (except United States), Germany, Holland/Belgium, Austria/Switzerland (except Hungary), Mexico and MERCOSUR which represent 95.9% of the consolidated assets and 98.4% of net turnover.

Deloitte was appointed lead auditor of the Group for the term of one year at the General Shareholders' Meeting of NH Hotel Group, S.A. held on 29th June 2015 and auditor of the different Business Units indicated above at their respective General Shareholders' Meeting. This firm has been the lead auditor of the Group since 2002, although in 2003, 2005, 2007 and 2014 changes took place in the partner responsible for the audit.

During the fiscal years 2015 and 2014, the remunerations perceived for audit services and other services rendered by the Deloitte SL to the consolidated group, as well as remunerations perceived by related companies have been the following:

	Thousand Euros	
	2015	2014
Audit services	472	464
Other verification services	263	241
<b>Total audit and related services</b>	<b>735</b>	<b>705</b>
Tax advise services	471	246
Other services	398	666
<b>Total other services</b>	<b>869</b>	<b>912</b>
<b>Total profesional services</b>	<b>1,604</b>	<b>1,617</b>

In addition, related companies of Deloitte's international alliances have invoiced the group the following services:

	Miles de Euros	
	2015	2014
Audit services	1,208	890
Other verification services	20	35
<b>Total audit and related services</b>	<b>1,228</b>	<b>925</b>
Tax advise services	131	133
Other services	3	42
<b>Total other services</b>	<b>134</b>	<b>175</b>
<b>Total</b>	<b>1,362</b>	<b>1,100</b>

During fiscal year 2015, other companies to Deloitte, S.L. have rendered audit services to NH group companies. The remuneration have amounted to 107 thousand Euros (57 thousand euros in 2014). The remuneration accrued during fiscal year 2015 for said tax advise have amounted to 221 thousand euros (232 thousand euros in 2014) and other services 372 thousand euros (399 thousand euros in 2014).

The Audit Committee has received information on matters that could endanger the auditors' independence and after carefully reviewing such information, has issued a Report expressing its opinion on their independence, as well as on the provision of additional non-audit services.

#### 4) Content and results of the work of the Audit Committee

The Audit Committee held 7 meetings during 2015 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 2014, 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 2015 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 2015 audit.
- e) Supervision of the Internal Audit strategic plan.
- f) Monitoring of the Internal Audit Plan for 2015, examining its conclusions and implementing, as the case may be, the necessary corrective measures.
- g) Approval of the new Code of Conduct of NH Hotel Group.
- h) Supervision of the tasks carried out by the Compliance Committee.
- i) Monitoring of the most significant projects carried out by the Internal Audit team.
- j) Supervision of the Update of the Group's Risk Map and monitoring of the Risk Map.
- k) Supervision of the risks related to the Financial Information Control System.
- l) 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 (charges in other companies, related transactions, legal proceedings).
- m) Analyse of the tax organisation of the company and determination of the tax policy.

## 5) Analysis of related-party operations

During 2015 the Audit and Control Committee has analysed the following operations with related parties:

- Sale of a room in NH Collection EUROBUILDING to one of the Directors.
- Settlement of balances deriving from the management contract signed between NH Hotel Group, S.A. and Grupo Inversor Hesperia, S.A.
- Negotiations in relation to the sale of a Hotel to a business group of which one of the Directors of NH Hotel Group is a member.

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 2016

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 2016 which contemplates the following priorities:

1. Audit of the programme for monitoring the transformation plan the group is carrying out, as well as supervision of the processes established at both corporate and hotel level.
2. Supervision of the activities of the Compliance Office, which include management of the ethical line, the performance of compliance audits and the extension of its activities to the main countries where the group does business.
3. Extension of the Financial Reporting Internal Control System to the business units of Latin America and Italy. Work on the execution and periodic review of the established system (Corporate and business units of Spain and Portugal, Benelux, Central Europe, Italy and Latin America).
4. Supervision of the implementation of the risk management system, including the implementation of an integrated monitoring system.
5. 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.

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, 24th February 2016





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