ANNUAL REPORT 2017

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

NH | HOTEL GROUP

nhow Berlin
Berlin, Germany

NH Collection Gran Hotel Calderón
Barcelona, Spain

ANNUAL REPORT 2017

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

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

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

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of NH Hotel Group, S.A. (the Parent) and its subsidiaries (the Group), which comprise the abrogated consolidated balance sheet as at 31 December 2017, and the consolidated comprehensive profit and loss statement, consolidated statement of changes in shareholders equity, consolidated cash flow statement and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2017, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment test on assets associated with the hotel activity

Description

As indicated in Note 1 to the consolidated financial statements, at 31 December 2017 the Group was carrying on its activity through 380 hotel establishments (owned, leased and under management) in 31 countries. All the assets associated with the hotel activity include goodwill, property, plant and equipment and intangible assets whose carrying amounts at 31 December 2017 amount to EUR 1,846 million.

At the end of each reporting period, management performs an impairment test in order to determine the recoverable amount of the aforementioned assets. In order to calculate the recoverable amount of each cash-generating unit ("CGU"), Group management generally considers the calculation of the value in use of each of these units based on the estimate of future cash flows and applying growth rates and a discount rate adjusted for each country in which the Group operates.

The valuation of the hotel assets is a key audit matter, since it requires the use of estimates with a significant degree of uncertainty. Specifically, the valuation method generally applied to hotel assets is the discounted cash flow method, which requires estimates to be made, inter alia, of the future room rental revenue of each CGU (projected as the percentage of occupancy, the average rate per room and the total number of rooms available per year).

- The rest of the revenue projected as the average ratio of the room rental revenue to that revenue.
- Staff costs and other direct expenses associated with each CGU.
- The internal rate of return or opportunity cost used when discounting.
- The residual value of the assets at the end of the projection period.

Procedures applied in the audit

We obtained the impairment test performed by management and, with the involvement of our internal experts, our audit procedures included, among others:

- The review of the design and implementation of the relevant controls that mitigate the risks associated with the process to assess the potential impairment of the assets associated with the hotel activity, as well as tests to verify that the aforementioned controls operate effectively;
- The comparison of the consistency of the methodology used in 2017 with that of the previous year;
- The clerical review of the calculations;
- Based on a sample of assets, taken on a selective basis, the assessment of the reasonableness of the main assumptions applied in relation to room rental revenue, as well as the future investments and the comparison with objective data and the countries in which the Group operates;
- The analysis of the reasonableness of the discount rate used and review of the sensitivity analyses;
- A retrospective review, based on a sample of predictions with the objective of identifying bias in management's assumptions and the assessment of the historical achievement of the Group's budgets.

We also assessed whether the disclosures made by the Group in relation to these matters, which are included in Notes 4.4, 6, 7 and 8 to the accompanying consolidated financial statements for 2017, contain the information required by the applicable accounting legislation.

Recoverability of deferred tax assets

Description	Procedures applied in the audit
The consolidated statement of financial position as at 31 December 2017 includes deferred tax assets amounting to EUR 138 million, of which EUR 97 million relate to tax assets (mainly tax loss and tax credit carryforwards) of the Spanish tax group. At the end of the year the Group prepares financial models to assess the recoverability of the tax losses recognised, taking into consideration new legislative developments and the most recently approved business plans. We identified this matter as key in our audit, since the preparation of these models requires a significant level of judgement, largely in connection with the projections of business performance, which affect the estimate of the recoverability of the tax assets.	Our audit procedures included, among others, the review of the design and implementation of the relevant controls, as well as tests to verify that those controls operate effectively, the review of the aforementioned financial models, including the analysis of the consistency of the actual results obtained by the various divisions with the results projected in the previous year's models, the obtainment of evidence of the approval of the budgeted results included in the current year's models and the tax legislation applicable where the deferred tax assets are recognised, as well as the reasonableness of the projections for future years. We also involved our internal experts from the tax area in the analysis of the reasonableness of the tax assumptions on the basis of the applicable legislation. We also verified and concluded that Note 18 to the accompanying consolidated financial statements contains the disclosures required by the accounting regulations in relation to the Group's deferred taxes.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2017, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the consolidated directors' report is defined in the audit regulations in force, which establish two distinct levels of review:

a) A specific level that applies to the consolidated non-financial information statement, as well as to certain information included in the Annual Corporate Governance Report (ACGR), as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the consolidated directors' report and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the consolidated directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of the consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have checked that the specific information described in section a) above has been provided in the corporate responsibility report for 2017 to which a reference is included in the consolidated directors' report, and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors and Audit Committee of the Parent for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with EU-IFRSs and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, 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.

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit committee is responsible for overseeing the process involved in the preparation and presentation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix I to this auditor's report. This description, which comes later in this report, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 27 February 2018.

Engagement Period

The Annual General Meeting held on 29 June 2017 appointed us as auditors for a period of one year from the year ended 31 December 2016.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of one year and have been auditing the consolidated financial statements uninterruptedly since the year ended 31 December 1993, taking into account the content of Article 17.8 of Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities.

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

Pilar Cerezo Sobrino
Registered in ROAC under no. 16502

28 February 2018

Appendix I to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.

- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's audit committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the Parent's audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter.

ABRIDGED CONSOLIDATED BALANCE SHEETS

At 31 December 2017 and 31 December 2016 (Thousands of euros)

ASSETS

	Note	31/12/2017	31/12/2016
NON-CURRENT ASSETS:			
Goodwill	6	111,684	117,736
Intangible assets	7	151,083	126,453
Property, plant and equipment	8	1,583,164	1,701,428
Investments accounted for using the equity method	9	9,419	10,646
Non-current financial investments-	10	75,895	91,056
Loans and accounts receivable not available for trading		65,154	78,385
Other non-current financial investments		10,741	12,671
Deferred tax assets	18	137,996	152,389
Other non-current assets		16,448	18,939
Total non-current assets		**2,085,689**	**2,218,647**

	Note	31/12/2017	31/12/2016
CURRENT ASSETS:			
Non-current assets classified as held for sale	11	109,166	46,685
Inventories		9,809	9,870
Trade receivables	12	132,582	146,197
Non-trade receivables-		42,786	54,510
Tax receivables	18	23,743	29,231
Other non-trade debtors		19,043	25,279
Short-term financial investments		-	1,918
Cash and cash equivalents	13	80,249	136,733
Other current assets		11,423	12,677
Total current assets		**386,015**	**408,590**
TOTAL ASSETS		**2,471,704**	**2,627,237**

NET ASSETS AND LIABILITIES

	Note	31/12/2017	31/12/2016
EQUITY:			
Share capital	14	700,544	700,544
Reserves of the parent company	14	526,243	412,827
Reserves of fully consolidated companies		38,877	137,512
Reserves of companies consolidated using the equity method		(23,087)	(23,206)
Other equity instruments		27,230	27,230
Exchange differences		(157,542)	(133,765)
Treasury shares and shareholdings	14	(39,250)	(39,983)
Consolidated profit for the period		35,489	30,750
Equity attributable to shareholders of the Parent Company		**1,108,504**	**1,111,909**
Non-controlling interests	14	43,472	43,967
Total equity		**1,151,976**	**1,155,876**

	Note	31/12/2017	31/12/2016
NON-CURRENT LIABILITIES			
Debt instruments and other marketable securities	15	387,715	763,637
Debts with credit institutions	15	71,246	72,720
Other financial liabilities		12,481	1,435
Other non-current liabilities	16	38,976	34,037
Provisions for contingencies and charges	17	50,413	52,900
Deferred tax liabilities	18	167,433	174,987
Total non-current liabilities		**728,264**	**1,099,716**

	Note	31/12/2017	31/12/2016
CURRENT LIABILITIES:			
Liabilities associated with non-current assets classified as held for sale	11	2,377	2,661
Debt instruments and other marketable securities	15	246,195	2,233
Debts with credit institutions	15	11,724	23,226
Other financial liabilities		11,618	1,076
Trade and other payables	19	222,951	229,769
Tax payables	18	45,860	44,938
Provisions for contingencies and charges	17	8,971	11,462
Other current liabilities	21	41,768	56,280
Total current liabilities		**591,464**	**371,645**
TOTAL LIABILITIES AND EQUITY		**2,471,704**	**2,627,237**

Notes 1 to 30 set forth in the Consolidated Annual Report and Annexes I/II are an integral part of the Consolidated Balance Sheet at 31 December 2017.
The Consolidated Balance Sheet at 31 December 2016 is presented solely for the purposes of comparison.

CONSOLIDATED COMPREHENSIVE PROFIT AND LOSS STATEMENTS

For the years 2017 and 2016 (Thousands of euros)

	Note	2017	2016
Revenues	24.1	1,546,086	1,447,903
Other operating income	24.1	11,101	7,687
Net gains on disposal of non-current assets	7, 8 and 24.1	30,148	41,526
Procurements		(75,712)	(66,857)
Staff costs	24.3	(427,140)	(415,889)
Depreciation and amortisation charges	7 and 8	(123,085)	(114,170)
Net Profits/(Losses) from asset impairment	6, 7 and 8	9,005	(2,686)
Other operating expenses		(815,011)	(791,011)
Variation in the provision for onerous contracts	17	4,216	4,163
Other operating expenses	24.4	(819,227)	(795,174)
Gains on financial assets and liabilities and other		(1,927)	9,856
Profit (loss) from companies accounted for using the equity method	9	(349)	119
Finance income	24.2	2,995	3,310
Change in fair value of financial instruments	24.2	(7)	435
Financial expenses	24.6	(76,747)	(72,304)
Net exchange differences (Income/(Expense))		(6,360)	(3,561)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**72,997**	**44,357**
Income tax	18	(33,512)	(7,935)
PROFIT / LOSS FOR THE FINANCIAL YEAR - CONTINUING		**39,485**	**36,422**
Profit (loss) for the year from discontinued operations net of tax	11	(278)	(2,274)
PROFIT / LOSS FOR THE FINANCIAL YEAR		**39,207**	**34,148**
Currency translation difference		(26,494)	(3,203)
Income and expenses recognised directly in equity		**(26,494)**	**(3,203)**
TOTAL COMPREHENSIVE PROFIT / (LOSS)		**12,713**	**30,945**
Profits for the year attributable to:			
Parent Company Shareholders		35,489	30,749
Non-controlling interests		3,718	3,399
Comprehensive loss attributable to:			
Parent Company Shareholders		11,712	27,332
Non-controlling interests	14.4	1,001	3,614
PROFIT PER SHARE IN EUROS (BASIC)	**5**	**0.104**	**0.090**

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 2017. The Consolidated Comprehensive Profit and Loss Statement for 2016 is presented solely for the purposes of comparison.

STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

For 2017 and 2016 (Thousands of euros)

	Share Capital	Reserves of the parent company			Reserves in Companies Consolidated by		Currency translation differences	Equity Instruments	Treasury shares and sharehol-dings	Results at-tributable to Parent Company	Total	Non-controlling Interests	Total Equity
		Share Premium	Legal reserves	Other reserves	Full conso-lidation	The equity method							
Balances at 31 December 2015	**700,544**	**634,659**	**43,121**	**(177,808)**	**48,480**	**(21,135)**	**(130,347)**	**27,230**	**(37,561)**	**938**	**1,088,121**	**37,963**	**1,126,084**
Adjustments after the end of the year	-	-	-	-	-	-	-	-	-	-	-	-	-
Initial balance adjusted at 1 January 2016	**700,544**	**634,659**	**43,121**	**(177,808)**	**48,480**	**(21,135)**	**(130,347)**	**27,230**	**(37,561)**	**938**	**1,088,121**	**37,963**	**1,126,084**
Net profit (loss) for 2016	-	-	-	-	-	-	-	-	-	30,750	30,750	3,399	34,149
Exchange differences	-	-	-	-	-	-	(3,418)	-	-	-	(3,418)	215	(3,203)
Recognised income and expenses for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(3,418)**	**-**	**-**	**30,750**	**27,332**	**3,614**	**30,946**
Distribution of Profit (Loss) 2015-													
- To Reserves	-	-	-	(89,072)	90,673	(663)	-	-	-	(938)	-	-	-
Changes in treasury shares	-	-	-	-	-	-	-	-	(2,422)	-	(2,422)	-	(2,422)
Remuneration Scheme in shares	-	-	-	1,927	-	-	-	-	-	-	1,927	-	1,927
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination	-	-	-	-	1,483	(1,483)	-	-	-	-	-	2,589	2,589
Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	(1,056)	(1,056)
Other transactions with shareholders or owners	-	-	-	-	(782)	-	-	-	-	-	(782)	782	-
Other movements	-	-	-	-	(2,342)	75	-	-	-	-	(2,267)	75	(2,192)
Balances at 31 December 2016	**700,544**	**634,659**	**43,121**	**(264,953)**	**137,512**	**(23,206)**	**(133,765)**	**27,230**	**(39,983)**	**30,750**	**1,111,909**	**43,967**	**1,155,876**
Adjustments after the end of the year	-	-	-	-	-	-	-	-	-	-	-	-	-
Initial balance adjusted 01 January 2017	**700,544**	**634,659**	**43,121**	**(264,953)**	**137,512**	**(23,206)**	**(133,765)**	**27,230**	**(39,983)**	**30,750**	**1,111,909**	**43,967**	**1,155,876**
Net profit (loss) for 2017	-	-	-	-	-	-	-	-	-	35,489	35,489	3,718	39,207
Exchange differences	-	-	-	-	-	-	(23,777)	-	-	-	(23,777)	(2,717)	(26,494)
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
Recognised income and expenses for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(23,777)**	**-**	**-**	**35,489**	**11,712**	**1,001**	**12,713**
Distribution of Profit (Loss) 2016-													
- To Reserves	-	-	12,896	116,068	(98,333)	119	-	-	-	(30,750)	-	-	-
- To Dividends	-	-	-	(17,056)	-	-	-	-	-	-	(17,056)	-	(17,056)
Treasury shares and shareholdings	-	-	-	-	-	-	-	-	-	-	-	-	-
Remuneration Scheme in shares (Note 27 an 14.3)	-	-	-	1,508	-	-	-	-	733	-	2,241	-	2,241
Distribution of dividends (Note 14.4)	-	-	-	-	-	-	-	-	-	-	-	(1,496)	(1,496)
Other movements	-	-	-	-	(302)	-	-	-	-	-	(302)	-	(302)
Balance at 31 December 2017	**700,544**	**634,659**	**56,017**	**(164,433)**	**38,877**	**(23,087)**	**(157,542)**	**27,230**	**(39,250)**	**35,489**	**1,108,504**	**43,472**	**1,151,976**

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 2017.
The statement of changes in consolidated assets for the year 2016 is only presented for comparative purposes.

CONSOLIDATED CASH FLOW STATEMENTS

Produced in the periods 2017 and 2016 (Thousands of euros)

	Note	31.12.2017	31.12.2016
1. OPERATING ACTIVITIES			
Consolidated profit (loss) before tax:		**72,997**	**44,358**
Adjustments:			
Depreciation of tangible and amortisation of intangible assets (+)	7 and 8	123,085	114,171
Impairment (profits) / losses (net) (+/-)	6, 7 and 8	(9,005)	2,685
Allocations for provisions (net) (+/-)	17	(4,216)	(4,163)
Gains/Losses on the sale of tangible and intangible assets (+/-)	7, 8 and 24.1	(30,148)	(41,526)
Gains/Losses on investments valued using the equity method (+/-)	9	349	(119)
Financial income (-)	24.2	(2,995)	(3,310)
Financial expenses and variation in fair value of financial instruments (+)	24.6	76,754	71,869
Net exchange differences (Income/(Expense))		6,360	3,561
Profit (loss) on disposal of financial investments	25.5	1,927	(9,856)
Other non-monetary items (+/-)		10,036	19,692
Adjusted profit (loss)		**245,144**	**197,362**
Net variation in assets / liabilities:			
(Increase)/Decrease in inventories		61	(290)
(Increase)/Decrease in trade debtors and other accounts receivable		10,405	28,622
(Increase)/Decrease in other current assets		6,072	13,960
Increase/(Decrease) in trade payables		(3,088)	(24,586)
Increase/(Decrease) in other current liabilities		(196)	(23,478)
Increase/(Decrease) in provisions for contingencies and expenses		(7,196)	(7,710)
(Increase)/Decrease in non-current assets		748	291
Increase/(Decrease) in non-current liabilities		(412)	5,784
Income tax paid		(21,903)	(13,381)
Total net cash flow from operating activities (I)		**229,635**	**176,574**
2. INVESTMENT ACTIVITIES			
Finance income		**1,345**	**2,013**
Investments (-):			-
Group companies, joint ventures and associates		(22,269)	(5,597)
Tangible and intangible assets and investments in property		(81,750)	(139,392)
		(104,019)	**(144,989)**
Disinvestment (+):			
Group companies, joint ventures and associates		62	-
Tangible and intangible assets and investments in property		60,301	88,590
Non-current financial investments		-	30,723
		60,363	**119,313**
Total net cash flow from investment activities (II)		**(42,311)**	**(23,663)**
3. FINANCING ACTIVITIES			
Dividends paid out (-)	14.1 and 14.4	(18,552)	(1,056)
Interest paid on debts (-)		(67,781)	(53,926)
Interest paid on means of payment		(16,317)	(14,472)
Interest paid on funding and other interest		(51,464)	(39,454)
Variations in (+/-):			
Equity instruments			
- Treasury shares		-	(2,422)
Debt instruments:			
- Bonds and other tradable securities (+)	15	-	285,000
- Bonds and other tradable securities (-)	15	(135,000)	-
- Loans from credit institutions (+)		-	28,217
- Loans from credit institutions (-)	15	(21,772)	(349,874)
- Other financial liabilities (+/-)		(681)	(372)
Total net cash flow from financing activities (III)		**(243,786)**	**(94,433)**
4. GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)		(56,462)	58,478
5. Effect of exchange rate variations on cash and cash equivalents (IV)		-	591
6. Effect of variations in the scope of consolidation (V)		(22)	(35)
7. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III-IV+VI)		(56,484)	59,034
8. Cash and cash equivalents at the start of the financial year		**136,733**	**77,699**
9. Cash and cash equivalents at the end of the financial year (7+8)		**80,249**	**136,733**

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 2017.
The statement of changes in consolidated assets for the year 2016 is only presented for comparative purposes.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

NH Hotel Group, S.A. and Subsidiaries Report on the Consolidated Financial Statements for 2017

1.- ACTIVITY AND COMPOSITION OF THE PARENT COMPANY

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

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

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

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

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

The Group entered into an agreement with Grupo Inversor Hesperia, S.A. (hereinafter "Hesperia") in 2009 to merge their respective hotel management businesses. As a result, the Group now manages certain hotels owned or operated by Hesperia. On 7 March 2017 a new framework agreement to manage 28 hotels in Spain was signed between NH Hotel Group, S.A. (and its subsidiaries NH Hoteles España, S.A. and Hoteles Hesperia, S.A.) and Grupo Inversor Hesperia, S.A. ("GIHSA") and certain subsidiaries over a 9-year period. This contract replaces and extends the previous one, signed in 2009 (see Note 7.2).

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 2017, the Group was operating hotels in 31 countries, with 380 hotels and 58,926 rooms, of which around 74% are located in Spain, Germany, Italy and the Benelux countries.

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

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

2.1. Basis of Presentation of the Consolidated Financial Statements

The consolidated financial statements for 2017 were drawn up by the directors of NH Hotel Group, S.A. at the Board meeting held on 28 February 2018, 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 Act 62/2003, of 30 December, on Tax, Administrative, Labour and Social Security Measures as well as in the applicable standards and circulars of the National Securities Market Commission and the remaining Spanish accounting standards which may be applicable, and as such give a true and fair presentation the Group's equity and financial position at 31 December 2017 and of the results of its operations, changes in equity and consolidated cash flows for the year then ended.

The consolidated financial statements for 2017 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 2016 were approved by the shareholders at the Annual General Meeting held on 29 June 2017 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 2017 may differ from those used by some of its component companies, the necessary adjustments and reclassifications have been made to standardise them and adapt them to the IFRS adopted by the European Union.

2.1.1 Standards and interpretations effective in this period

In 2017 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 01 January 2017.

New standards, amendments and interpretations		Obligatory application in the years beginning on or after:
Amendments and/or interpretations		
Amendment to IAS 7 disclosure initiative (published in January 2016)	Introduces additional disclosure requirements in order to improve information provided to users.	01 January 2017
Amendment to IAS 12: Deferred tax: recovery of underlying assets (published in January 2016)	Clarification of the principles set up in relation to the recognition of deferred tax assets for unrealised losses.	

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

B) New regulations, amendments and interpretations which will be obligatory in the years following the year commencing 01 January 2017

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

New standards, amendments and interpretations		**Obligatory application in the years beginning on or after:**
Approved for use in the European Union		
IFRS 15 - Revenue from Contracts with Customers	New standard on revenue recognition, replacing IAS 18, IFRIC 15, IFRIC 18 and SIC-31.	
IFRS 9 Financial Instruments	It replaces the requirements for classification, valuation, recognition and derecognition of financial assets and liabilities in accounts, hedge accounting and impairment of IAS 39.	01 January 2018
Amendment to IFRS 4 Insurance contracts	It allows entities under the scope of IFRS 4 the option of applying IFRS 9 ("overlay approach") or their temporary exemption.	
Improvements to IFRS 2014-2016 cycle	Minor amendments to a series of standards.	
IFRS 16 Leases	Replaces IAS 17 and associated interpretations. The main change hinges on a single accounting model for lessees who will include all leases (with some exceptions) on the balance sheet with a similar impact to that of the current financial leases (the asset will depreciate due to the right of use and a financial expense for the cost of amortising the liability).	01 January 2019
Awaiting approval for use in the European Union as of the date of publication of this document		
Amendment to IFRS 2 Classification and measurement of share-based payment transactions	Narrow-scope amendments clarifying specific matters such as the effects of vesting and non-vesting conditions in cash-settled share-based payments, the classification of share-based payments where there are net settlement clauses and some aspects of the modifications to terms of a share-based payment.	
Amendment to IAS 40 Reclassification of real estate investments	The amendment clarifies that the reclassification of an investment from or to real estate investment is only permitted when there is evidence of a change in its use.	01 January 2018
IFRIC 22 Foreign currency transactions and advances	This interpretation establishes the "transaction date" for the purpose of determining the exchange rate applicable in transactions with foreign currency advances.	
IFRIC 23 Uncertainty over income tax treatments	This interpretation clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over acceptability by the tax authorities of a certain income tax treatment used by the entity.	
Amendment to IFRS 9 Characteristics of early cancellation with negative offset	It allows for the valuation of some financial instruments with early payment characteristics at amortised cost allowing the payment of an amount less than the unpaid amounts of principal and interest.	
Amendment to IAS 28 Long-term interest in associates and joint ventures	Clarifies that IFRS 9 must be applied to long-term interests in an associate or joint venture if the equity method is not applied.	01 January 2019
Amendment to IAS 19 Amendment, reduction or liquidation of a plan	In accordance with the proposed amendments, when there is a change in a defined benefit plan (due to an amendment, reduction or liquidation), the entity will use updated assumptions to determine the costs of the services and net interest for the period after the change to the plan.	
IFRS 17 Insurance contracts	Replaces IFRS 4 and reflects the principles of registration, valuation, presentation and breakdown of insurance contracts with the objective that the entity provides relevant and reliable information which allows users of the information to determine the effect which contracts have on the financial statements.	01 January 2021
Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Clarification on the result of these operations if dealing with businesses or assets.	No date set

**(1) The approval status of the standards by the European Union can be consulted on the EFRAG website.*

C) Analysis of IFRS 9 first application

IFRS 9 will replace IAS 39 as of the year beginning on 1 January 2018 and affects both financial instruments for assets and liabilities, covering three large blocks: classification and measurement, impairment and hedge accounting. There are very relevant differences with the current standard of recognition and measurement of financial instruments, the most significant being:

- Investments in financial assets whose contractual cash flows consist exclusively of principal and interest payments and, if the management model of such assets is to hold them to obtain the contractual flows will, in general, be valued at amortised cost. For the same assets, when the business model is to obtain the contractual flows and the sale of the assets, they will be measured at fair value with changes in other comprehensive profit and loss. All other financial assets which do not consist exclusively in of principal and interest payments and where the management model is their sale will be measured at fair value with changes in profit and loss. However, the Group may irrevocably choose to present the subsequent changes in the fair value of certain investments in equity instruments under "Other comprehensive income" (equity) and, in this case, generally only the dividends will be subsequently recognised in profit and loss.

- In regard to the valuation of financial liabilities optionally designated in fair value with changes in profit and loss, the amount of the change in the fair value of the financial liability which is attributable to changes in the credit risk itself must be presented in the "Other comprehensive profit and loss" (equity), unless this creates or increases an accounting asymmetry in profit and loss, and it will not be subsequently reclassified to the profit and loss account.

- In relation to the impairment of financial assets, IFRS 9 requires the application of a model based on the expected loss, compared to the IAS 39 model structured on the loss incurred. Under this model, the Group will account for the expected loss, as well as the changes in this at each presentation date to reflect the changes in credit risk from the date of initial recognition. In other words, it is no longer necessary for an impairment event to occur before recognising a credit loss.

The Group's intention is to apply IFRS 9 without restating the comparatives, i.e., the difference between the previous book values and the new values at the date of initial application of the standard will be recognised as an adjustment in reserves (equity) From an analysis of the Group's financial assets and liabilities at 31 December 2017, the Group's management has evaluated the effect of IFRS 9 on the annual accounts, as set out below:

Classification and valuation

As a result of the preliminary analysis, there are no significant changes in the classification and measurement of financial assets based on the Group's current model. The application of IFRS 9 will only have an impact on the presentation of other non-current financial investments (see Note 10).

The Group has renegotiated its financial liabilities (bonds and obligations) which, according to the provisions of IAS 39, were considered non-material and consequently did not require derecognition of financial liabilities. The treatment provided for by IFRS 9 requires recalculating the amortised cost book value of such financial liabilities on the renegotiation date and recognising a gain or loss for the change in the results of the period or at the time of applying the new standard. The estimated impact at 1 January 2018 is an 8.5 million euro decrease in the book value of financial liabilities, increasing the amount of opening reserves at that date.

All other financial assets and financial liabilities will continue to be measured on the same basis currently adopted by IAS 39.

Impairment

Financial assets measured at amortised cost, fair value through changes in other comprehensive results, accounts receivable from leases, assets from contracts with customers or a loan commitment and a financial guarantee contract will be subject to the provisions of IFRS 9 regarding impairment.

The new standard replaces the "incurred loss" models established in IAS 39 by the "expected loss" model. This model requires the registration of the financial assets on the date of initial recognition, as well as the amounts pending collection from customers of the expected loss resulting from a "default" during the next 12 months or throughout the life of the contract.

The Group has provisions on its trade debtors. As a result of the evaluation by the Group, it has been confirmed that it is not necessary to make significant adjustments to the provision of insolvencies recorded on the balance sheet.

D) Analysis of IFRS 15 first application

IFRS 15 is the new comprehensive standard for recognition of income with customers, and replaces standards and interpretations currently in force: IAS 18 on Revenue from ordinary activities, IAS 11 on Construction Contracts, IFRIC 13 on customer loyalty programmes, IFRIC 15 on agreements for the construction of real estate, IFRIC 18 on Transfers of assets from customers and SIC 31 of Revenue – Barter transactions involving advertising services.

The new revenue model applies to all contracts with customers except those falling within the scope of other IFRS, such as leases, insurance contracts and financial instruments.

The central recognition model is structured around the following five steps.

- Identify the contract with the customer.
- Identify the separate obligations of the contract.
- Determining the price of the transaction.
- Distribute the transaction price between the identified obligations.
- Account for the income when it fulfils the obligations.

Due to the Group's activity, as well as the relationships with its customers, the Parent Company's Directors consider that no significant changes derive from its application in relation to the current record of the Group's operations.

E) Preliminary analysis of IFRS 16.

The directors are assessing the potential impact of the future application of these regulations, and in particular, the application of IFRS 16 on Leases will entail a very significant change in the Group's consolidated financial statements, with an increase in assets due to the recognition of the right to use the leased asset, an increase in liabilities due to the corresponding future payment commitments and the impact of the consolidated profit and loss statements. In this regard, the scope of the transition to the application of the standard -early implementation is not intended- and the need for the adaptation of financial and accounting reporting systems are being assessed.

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

2.2. Information on 2016

As required by IAS 1, the information on 2016 contained in this consolidated annual report is presented for solely comparative purposes with the information on 2017 and consequently does not in itself constitute the Group's consolidated financial statements for 2016.

2.3. Currency of presentation

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

2.4. Responsibility for the information, estimates made and sources of uncertainty

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

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

- Losses arising from asset impairment.
- The hypotheses used in the actuarial calculation of liabilities for pensions and other undertakings made to the workforce;
- 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.
- The recoverability of the capitalized tax carryforward losses.

In spite of the fact that these estimates were carried out using the best information available at 31 December 2017 on events analysed, it is possible that events may take place in the future which compel their amendment (upwards or downwards) in years to come. This will be done in accordance with the provisions of IAS 8, prospectively recognising the effects of the change in estimate on the consolidated profit and loss statement.

2.5. Consolidation principles applied

2.5.1 Subsidiaries (See Appendix I)

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

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

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

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

2.5.2 Associates (See Appendix II)

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

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

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

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

2.5.3 Foreign currency translation

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

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

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

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

2.5.4 Changes in the scope of consolidation

The most significant changes in the scope of consolidation during 2017 and 2016 that affect the comparison between financial years were the following:

a.1 Changes in the scope of consolidation in 2017

a.1.1 Additions to the consolidation scope

On 17 November 2017, the Group acquired 100% of the share capital of Wilan Ander S.L. and Wilan Huel, S.L., as well as the assignment of the credit which the seller had with these companies. These companies own the properties operated by NH Hoteles España, such as the hotels NH Ciudad de Santander and NH Luz de Huelva, until the date of takeover under the lease.

Said acquisition was carried out in accordance with that stipulated in IFRS 3 Business Combinations. The effect of the acquisition on the consolidated financial position statement due to their fair values at 31 December 2017 was as follows:

	Thousands of euros		
	WILAN HUEL, S.L.	WILAN ANDER S.L.	TOTAL
Property, plant and equipment (Note 8)	4,888	6,809	11,697
Other non-current assets	37	52	89
Current assets	7	69	76
Debts with credit institutions	(3,676)	(5,135)	(8,811)
Other non-current liabilities	(37)	(52)	(89)
Current liabilities	(65)	(4)	(69)
Fair value of the acquired entity's net assets	**1,154**	**1,739**	**2,893**
Loans granted prior to taking control	(875)	(1,117)	(1,992)
Net Consideration	(881)	(1,123)	(2,004)
Goodwill	**(602)**	**(501)**	**(1,103)**

The Group had granted subordinated loans amounting to 1,117 thousand euros to Wilan Ander, S.L. and 875 thousand euros to Wilan Huel, S.L. which the Group capitalised in the respective subsidiaries; the difference of 1,103 thousand euros corresponds to the Goodwill arising from the operation (see Note 6) and has been recorded against results.

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

	Thousands of euros		
	BOOK VALUE OF THE ASSETS ACQUIRED	IMPAIRMENT REALISED	FAIR VALUE OF THE ASSETS ACQUIRED
Property, plant and equipment (Note 8)	11,776	(79)	11,697
Other non-current assets	69	20	89
Current assets	76	-	76
Debts with credit institutions	(8,811)	-	(8,811)
Other non-current liabilities	(89)	-	(89)
Current liabilities	(68)	-	(68)

a.1.2 Disposals to the consolidated scope

On 19 April 2017 the Group sold 400,000 registered shares making up the share capital of the commercial company Hesperia Enterprises de Venezuela, S.A. for 70,000 US dollars. The net result of the transaction was a consolidated profit of 3 thousand euros. An expenditure of 5,785 thousand euros was also recorded owing to the conversion differences associated with the aforementioned shareholding, which is entered in the net exchange differences item of the abridged consolidated comprehensive results.

a.2 Changes in the scope of consolidation in 2016

a.2.1 Additions to the consolidation scope

On 27 December 2016, the Group acquired 47% of the share capital of Palacio de la Merced, S.A., for an amount of 2,069 thousand euros, of which 621 thousand euros are outstanding.

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

Said acquisition was carried out in accordance with that stipulated in IFRS 3 Business Combinations. The effect of the acquisition of the aforementioned participating interest on the consolidated balance sheet at 31 December 2016 was as follows:

	Thousands of euros
Property, plant and equipment	16,813
Intangible Assets	2
Other non-current assets	2
Current assets	453
Long-term bank borrowings	(4.372)
Short-term bank borrowings	(566)
Deferred tax liabilities	(698)
Other non-current liabilities	(1,301)
Current liabilities	(1,094)
Non-controlling interests	(2,589)
Fair value of the acquired entity's net assets	**6,650**
Cost of the previous shareholding	(1,718)
Net Consideration	(2,069)
Profit of the transaction	**2,863**

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

	Thousands of euros		
	BOOK VALUE OF THE ASSETS ACQUIRED	REVALUATION CARRIED OUT	FAIR VALUE OF THE ASSETS ACQUIRED
Property, plant and equipment	14,021	2,792	16,813
Intangible Assets	2	-	2
Other non-current assets	2	-	2
Current assets	453	-	453
Long-term bank borrowings	(4,372)	-	(4,372)
Short-term bank borrowings	(566)	-	(566)
Deferred tax liabilities	-	(698)	(698)
Other non-current liabilities	(1,301)	-	(1,301)
Current liabilities	(1,094)	-	(1,094)
Non-controlling interests	-	(2,589)	(2,589)

The effect of the acquisition of the additional ownership interest in the Company supposed a positive result of 2,863 thousand euros recorded in the "Gains on financial assets and liabilities and other" item in the consolidated comprehensive profit and loss statements.

On 28 December 2016, the Group acquired 50% of the inactive company Capredo Investments GmbH for 3,190 thousand euros, of which 3,150 thousand euros is still outstanding at 2017 year-end (see Note 16), and now holds 100% of the share capital of this Company. In this regard, the Company owns a plot of land located in the Dominican Republic that does not have the consideration of business in accordance with IFRS 3. Following the acquisition, the Group acquired control of the company whose previous cost amounted to 6,764 thousand euros. The net assets associated with Capredo Investments GmbH are recorded as "Non-current assets classified as held for sale and discontinued operations" (see Note 11).

The effect of the acquisition has had no effect on the consolidated comprehensive profit and loss statement.

a.2.2 Disposals

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

2.5.5 Intra-group eliminations

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

2.5.6 Valuation uniformity

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

3.- PROPOSED DISTRIBUTION OF PROFITS

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

	2017
To legal reserve	2,817
To distribution of dividends	25,355
Total	**28,172**

Additionally, the distribution of dividends in the amount of 8,731 thousand euros with a charge to voluntary reserves is proposed, with the total estimated dividends to distribute at approximately 34,086 thousand euros. Both amounts are derived from a maximum amount to be distributed: gross 0.10 euros per share for all outstanding shares) The final amount in euros to be distributed will be updated according to the number of outstanding shares at the date of the dividend's approval by the General Shareholders' Meeting.

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 Property, plant and equipment

Property, plant and equipment 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.

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

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

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

4.2 Consolidation goodwill

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

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

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

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

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

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

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

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

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

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

4.3 Intangible assets

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

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

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

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

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

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

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

ii) “Agreement premiums” reflect the amounts paid as a condition to obtain certain agreements. They are amortised on a straight-line basis depending on the term of the contract. This item includes premiums related to lease contracts as well as the framework agreement with Grupo Inversor Hesperia, S.A. for the management of 28 hotels (see note 7.2).

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

4.4 Impairment in the value of tangible and intangible assets excluding goodwill

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

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

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

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

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

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

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

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

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

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

These factors are reflected in the cash flows through the following working hypotheses used to obtain the projections:

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

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

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

Where:

Ke: Cost of Equity
Kd: Cost of Financial Debt
E: Own Funds
D: Financial Debt
T: Tax Rate

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

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

• Risk-free rate: using the average long-term interest rates of a 10-year bond over the last 12 months for each country, in the local currency.
• Market risk premium: defined as 6.7% (6% in 2016), based on market reports.
• Beta or systematic risk: using outside sources of information, this information is gathered from independent databases and concerns the ratio between the risk of companies and overall market risk. The re-leveraged beta coefficient has been estimated on the basis of 64% de-leveraged betas (70% in 2016), the debt structure of comparable companies (Debt / (Debt + Equity) of 31% (32% in 2016) and the corresponding tax rate in each country.
• Market value of debt, amounting to 8% (5% in 2016).
• Premium by size: based on recent expert reports.

The discount rates after tax used by the Group for these purposes range in Europe from 5.6% to 9.8% (5.8% and 8.2% in 2016), and in Latin America from 9.6% to 13.6% (9.8% and 13.4% in 2016), depending on the different risks associated with each specific asset. In this regard, just as the cash flows resulting from the impairment tests were also calculated after tax. On the other hand, the book value with which the value in use is compared does not include any deferred tax liability that could be associated with the assets.

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

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

	Discount rate before taxes:			
	Germany	Netherlands	Italy	Spain
2017	6.88%	7.46%	9.44%	8.77%
2016	7.87%	8.17%	9.35%	9.00%

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

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

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

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

	2017	2016	2017	2016	2017	2016	2017	2016
	Germany		Netherlands		Italy		Spain	
Post-tax WACC	5.55%	6.16%	6.00%	6.43%	7.30%	7.04%	7.14%	7.14%
Growth rate	2.47%	1.98%	1.60%	1.27%	1.40%	1.00%	1.56%	1.56%
Average ADR	78,7 €	64.8 €	116.8 €	202.0 €	130.4 €	114.7 €	87.1 €	81.5 €
Occupancy rate	66.3%	66.8%	69.8%	68.8%	70.7%	68.8%	70.9%	67.7%

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

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

4.5 Lease rentals

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

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

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

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

4.5.1 Operating leases

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

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

4.5.2 Finance leases

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

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

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

4.6 Financial Instruments

4.6.1 Financial assets

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

- Tradeable 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 which are not considered hedges.

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

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

Tradeable 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 commercial creditors and other accounts receivable in particular, the criterion used by the Group to calculate the corresponding valuation corrections, if any, generally consists of provisioning for any balances more than 180 days overdue.

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

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

4.6.2 Cash and cash equivalents

"Cash and Cash Equivalents" in the consolidated balance sheet includes cash, demand deposits and other short-term, highly liquid investments that can be realised in cash quickly.

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, while those with a maturity date of less than twelve months are included in current liabilities.

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

BANK LOANS

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

COMMERCIAL CREDITORS AND OTHER ACCOUNTS PAYABLE

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

DERIVATIVES AND HEDGE ACCOUNTING

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

- Concerning fair value hedges, the differences produced in both the hedging elements as well as in the hedged elements (regarding the kind of risk hedged) are directly recognised in the consolidated comprehensive profit and loss statement.

- For cash flow hedges, valuation differences in the effective part of the hedge elements are temporarily recognised in the equity item "Equity valuation adjustments" and not recognised as results until the losses or gains of the hedged element are recognised in profit or loss or until the hedged element matures. The ineffective part of the hedge is directly entered into the consolidated comprehensive profit and loss statement.

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

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

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

VALUATION TECHNIQUES AND ASSUMPTIONS APPLYING TO THE MEASUREMENT OF FAIR VALUE

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

- The fair value of financial assets and liabilities under standard terms and conditions which are traded in active liquid markets are based on market prices.

- The fair value of other financial assets and liabilities (excluding derivatives) is determined in accordance with generally accepted valuation models on the basis of cash flow discounting using the price of observable market transactions and contributor listings of similar instruments.

- In order to determine the fair value of interest rate derivatives, cash flow discounting is used based on the implicit flow determined by the interest rate curve according to market conditions. In order to determine the fair value of options, the Group uses the Black-Scholes valuation model and its variants, using for this purpose market volatilities for the strike and maturity prices of said options.

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

- Level 1: includes any instruments indexed to listed prices (without adjustment) of identical assets or liabilities in active markets.

- Level 2: includes any instruments indexed to other observable inputs (which are not the listed prices included under Level 1) for assets or liabilities, be it directly (i.e., prices) or indirectly (i.e., derived from prices).

- Level 3: includes any instruments indexed to valuation techniques, which include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

In 2015, the Group contracted several exchange rate insurances, of which, in December 2016, the remaining nominal amount of USD 11,000 thousand matured, having been renegotiated until 1 March 2017 at an exchange rate of 1.2938.

The change in fair value as of 31 December 2017 of these hedges has had a positive effect concerning the 2017 consolidated comprehensive profit and loss statement of 7 thousand euros (435 thousand euros in 2016). At 31 December 2017, the Group had no exchange rate insurance contracted.

These derivative instruments have not been treated as hedging instruments.

4.6.4 Equity instruments

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

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

4.7 Non-current assets and associated liabilities held for sale and discontinued operations

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

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

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

4.8 Shareholdings in associated companies

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

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

4.9 Foreign currency transactions and balances

The Group's functional currency is the euro. Consequently, any transactions in currencies other than the euro are considered as "foreign currency" operations 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 Corporation tax

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

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

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

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

4.14 Obligations to employees

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

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

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

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

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

4.15 Onerous contracts

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

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

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

4.16 Share-based Remuneration Schemes

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

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

On each subsequent closing date, the Group reviews the estimates regarding the number of options expected to be exercisable, adjusting the equity figure if necessary.

4.17 Treasury shares

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

4.18 Provisions

The Group follows the policy of provisioning for the estimated amounts in order to face responsibilities 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.

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

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

4.19 Severance pay

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 12,632 thousand euros for this item in 2017 (13,432 thousand euros in 2016).

The consolidated balance sheet at 31 December 2017 includes, pursuant to IFRS (IAS 37), a provision of 6,429 thousand euros for this item (6,387 thousand euros at 31 December 2016).

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 statement prepared using the indirect method:

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

- Operating 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 outstanding shares during the period, excluding the average number of treasury shares held during the same period.

In accordance with this:

	31/12/2017	31/12/2016
Net profit for the year (thousands of euros)	35,489	30,750
Weighted average number of shares in circulation (in thousands)	340,805	341,042
Basic earnings per share in euros	**0.104**	**0.090**

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

	31/12/2017	31/12/2016
Net profit for the year (thousands of euros)	35,489	30,750
Weighted average number of shares with dilutive effect (in thousands)	391,628	391,865
uted earnings per share in euros	**0.091**	**0.078**

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):

	2017	2016
NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH	79,181	80,485
Hoteles Royal, S.A.	28,629	32,719
Others	3,874	4,532
Total	**111,684**	**117,736**

The movements in this heading of the consolidated balance sheet in 2017 and 2016 were as follows (in thousands of euros):

Company	Goodwill 31.12.16	Additions	Exchange differences	Impairment	Goodwill 31.12.17
NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH	80,485	-	-	(1,304)	79,181
Hoteles Royal, S.A.	32,719	-	(4,090)	-	28,629
Others	4,532	1,103	(658)	(1,103)	3,874
Total	**117,736**	**1,103**	**(4,748)**	**(2,407)**	**111,684**

Company	Goodwill 31.12.15	Exchange differences	Impairment	Goodwill 31.12.16
NH Hoteles Deutschland GmbH and NH Hoteles Austria, GmbH (Note 4.4)	85,180	-	(4,695)	80,485
Hoteles Royal, S.A.	29,651	3,068	-	32,719
Others	3,962	570	-	4,532
Total	**118,793**	**3,638**	**(4,695)**	**117,736**

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

	Thousands of euros	
	2017	**2016**
Grupo Royal CGUs	28,629	32,719
CGU 6	15,113	15,113
CGU 21	9,929	9,929
CGU 22	7,711	7,711
CGU 12	7,042	7,042
CGU 5	6,107	6,107
CGU 13	5,624	5,625
CGU 2	5,027	5,027
CGUs with goodwill allocated individually < €4 M	26,502	28,463
	111,684	**117,736**

At 31 December 2017, Goodwill was subject to an impairment test which showed 2,407 thousand euros of impairment.

The basic assumptions used in the impairment test of the CGUs mentioned above are detailed below:

- After tax discount rate: 5.55% and 6.93% (6.16% and 6.49% respectively in 2016) for CGUs subject to the same risks (German and Austrian market); and for Grupo Royal CGUs, rates of 12.40% (Colombian and Ecuadorian markets) and 9.61% (Chilean market) (13.14% and 9.84% respectively in 2016).
- Terminal value growth rate (g): 2.47% and 2.25% for Germany and Austria and 3% for Grupo Royal CGUs.

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

NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH

	Average values		
	Impairment test	**Scenario 1**	**Scenario 2**
Discount rate (after tax)	5.55% - 6.93%	6.55% - 7.93%	4.55% - 5.93%
Growth rate	2.47% - 2.25%	1.47% - 1.25%	3.47% - 3.25%
Occupancy rate	76.45%	75.68%	77.29%
ADR (euros)	114.0	112.9	115.2

Hoteles Royal, S.A.

	Average values		
	Impairment test	**Scenario 1**	**Scenario 2**
scount rate (after tax)	9.61% - 12.40%	10.61% - 13.40%	8.61% - 11.40%
Growth rate	3%	2%	4%
Occupancy rate	61.64%	59.03%	60.23%
ADR (thousands of COPs)	335.7	326	332.6

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

In the case of scenario 2, an impairment of 876 thousand euros had been recorded in 2017 in addition to that recorded at 31 December 2017 with respect to the goodwill of NH Hotels Deutschland, Gmbh and NH Hoteles Austria, GmbH, and no impairment in regard to the goodwill of Hoteles Royal, S.A.

On the other hand, scenario 1 is a negative scenario where the discount rate is raised 1 b.p. above the rate used in the test and a growth rate lower by 1 b.p., i.e. with minimum growth, and falls in occupancy and ADR of 3% which would lead to an additional impairment to that registered in 2017 for an amount of 3 million euros with respect to the goodwill of NH Hotels Deutschland, Gmbh and NH Hoteles Austria, GmbH and it would not imply any impairment in the goodwill of Group Royal CGU.

7.- INTANGIBLE ASSETS

The breakdown and movements under this heading during 2017 and 2016 were as follows (in thousands of euros):

	Balance at 31.12.15	Change in consolidation scope	Exchange differences	Inclusions/ Allowances	Retirements	Transfers to other items	Balance at 31.12.16	Exchange differences	Inclusions/ Allowances	Retirements	Transfers to other items	Balance at 31.12.2017
COST												
Hotel operating rights	65,560	-	3,078	4,835	(131)	-	73,342	(4,098)	282	(304)	-	69,222
Agreement premiums	68,571	-	-	-	(1,256)	-	67,315	-	39,996	(12,413)	-	94,898
Concessions, patents and trademarks	37,649	-	555	305	(2)	65	38,572	(748)	315	(82)	(52)	38,005
Software applications	116,496	7	(10)	15,100	(3,631)	10	127,972	(16)	9,871	(75,354)	1,855	64,328
	288,276	**7**	**3,623**	**20,240**	**(5,020)**	**75**	**307,201**	**(4,862)**	**50,464**	**(88,153)**	**1,803**	**266,453**
CUMULATIVE DEPRECIATION												
Hotel operating rights	(22,056)	-	(154)	(2,973)	138	(80)	(25,125)	(633)	(2.635)	-	20	(28,373)
Agreement premiums	(15,181)	-	-	(2,014)	871	(4,725)	(21,049)	-	(5,401)	4,831	(874)	(22,493)
Concessions, patents and trademarks	(34,232)	-	(49)	(841)	2	13,689	(21,431)	(148)	(1,236)	82	1.059	(21,674)
ftware applications	(75,388)	(5)	236	(11,091)	2.271	(8,962)	(92,939)	21	(12,536)	75,040	78	(30,336)
	(146,857)	**(5)**	**33**	**(16,919)**	**3,282**	**(78)**	**(160,544)**	**(760)**	**(21,808)**	**79,953**	**283**	**(102,876)**
Impairment	(22.137)	-	1	(2.303)	1,495	2,740	(20,204)	2	(228)	7,692	244	(12,494)
NET BOOK VALUE	**119.282**						**126,453**					**151,083**

7.1 Hotel operating rights

The additions were not significant in 2017. The increase in hotel rights in 2016 came from the investment made in improvements under the management contract of the hotel NH Collection Grand Hotel Krasnapolsky. This investment was allocated to the consolidated comprehensive profit and loss statement over 12.5 years according to the average useful life of the assets making it up, during which period it is estimated that the investment made will be recovered.

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 Agreement premiums

As stated in Note 1, on 7 March 2017 a new framework agreement to manage 28 hotels in Spain was signed between NH Hotel Group, S.A., NH Hoteles España, S.A., and Hoteles Hesperia, S.A. and Grupo Inversor Hesperia, S.A. ("GIHSA") and certain subsidiaries over a 9-year period. The aforementioned framework agreement is legally embodied in 28 new management contracts for the aforementioned 28 hotels, all located in Spain, for a period of 9 years. Due to the early cancellation of the previous management contracts, GHISA made a payment of 6,000 thousand euros in compensation to Hoteles Hesperia, S.A., the owner of the management contracts which were cancelled. This amount has been recorded under "Other Operating Income" in the consolidated comprehensive profit and loss statement summarised herein.

The signing of new management contract represents a cost of 38,560 thousand euros for NH Hotel Group, S.A. which will be paid in three instalments. The first payment was made in the first half of 2017 for an amount of 17,000 thousand euros, with two payments still pending, of 10,000 thousand euros to be paid on 30 April 2018 and 11,560 thousand euros to be paid on 30 April 2019 recorded respectively under short and long term "other financial liabilities" in the accompanying Group consolidated balance sheet. The debt pending payment accrues 4% interest.

7.3 Software applications

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

The derecognitions are mainly represented by withdrawals of software applications which were fully amortised at year-end.

In 2016, there were reductions in software applications amounting to 1,372 thousand euros, which have been recorded under the heading "Net result on disposal of non-current assets" in the 2016 consolidated comprehensive profit and loss statement.

During the year some items have been retired, replaced or disposed, generating positive net capital gains for them amounting to 30,148 thousand euros (see Note 8).

Also during 2017, impairment provisions of 228 thousand euros and reversals of 1,627 thousand euros were recognised under "Net Profits/(Losses) from asset impairment" of the consolidated comprehensive profit and loss statement.

8.- PROPERTY, PLANT AND EQUIPMENT

The breakdown and movements under this heading during 2017 and 2016 were as follows (in thousands of euros):

	Balance at 31.12.15	Change in consolidation scope	Exchange differences	Additions	Retire-ments	Transfers	Balance at 31.12.16	Changes in scope of consolidation (see Note 2.5.4)	Exchange differences	Additions	Retirements	Transfers to other items	Balance at 31.12.2017
COST													
Land and buildings	1,701,564	17,210	(2..215)	22,699	(49,831)	6,429	1,695,856	5,007	(17,063)	4,575	(17,993)	(68,825)	1,601,557
Plant and machinery	785,887	7,421	(1,492)	48,046	(52,083)	7,490	795,269	7,028	(7,659)	24,290	(25,632)	(1,994)	791,302
Other plant, fixtures and furniture	469,748	1,966	(898)	30,914	(46,559)	2,816	457,987	-	(3,968)	21,558	(35,214)	317	440,680
Other fixed assets	735	-	-	612	(548)	(5)	794	(47)	(87)	20	(215)	(994)	(529)
Property, plant and equipment in progress	38,240	-	(334)	16,335	(11,760)	(16,768)	25,713	(162)	(866)	12,904	(2,293)	(7,844)	27,452
	2,996,174	**26,597**	**(4,939)**	**118,606**	**(160,781)**	**(38)**	**2,975,619**	**11,826**	**(29,643)**	**63,347**	**(81,347)**	**(79,340)**	**2,860,462**
ACCUMUATED AMORTISATION													
Buildings	(315,879)	(2,942)	1,311	(24,399)	15,897	(740)	(326,752)	-	5,059	(31,542)	4,604	5,789	(342,842)
Plant and machinery	(520,757)	(5,034)	565	(41,845)	35,342	(1,006)	(532,735)	(338)	4,691	(40,629)	21,334	2,345	(545,332)
Other plant, fixtures and furniture	(366,278)	(1,808)	308	(26,258)	43,596	(304)	(350,744)	-	3,228	(29,015)	32,281	2,123	(342,127)
Other fixed assets	(666)	-	-	(55)	314	(27)	(434)	47	91	(91)	485	(88)	10
	(1,203,580)	**(9,784)**	**2,184**	**(92,557)**	**95,149**	**(2,077)**	**(1,210,665)**	**(291)**	**13,069**	**(101,277)**	**58,704**	**10,169**	**(1,230,291)**
Impairment	(68,428)	-	7	(13,221)	18,283	(167)	(63,526)	-	34	(2,730)	18,998	217	(47,007)
NET BOOK VALUE	**1,724,166**						**1,701,428**						**1,583,164**

The net additions for the year in the column "Changes in the scope of consolidation" come from the purchase of the companies WILAN ANDER, S.L. and WILAN HUEL, S.L. (see Note 2.5.4) and the exit of the company Hesperia Enterprises de Venezuela, S.A.

In 2016, the net additions in the year in the column "Changes in the scope of consolidation" come from the purchase of 47% of the company Palacio de la Merced, S.A. (see Note 2.5.4).

The main additions and reductions in 2017 are due to the repositioning plan carried out by the Group, with refurbishments in all Business Units. The main refurbishments have been carried out in hotels such as NH Les Corts, NH Constanza, NH Calderón (Spain), NH Cavalieri, NH President, NH Milano Touring (Italy) NH Hamburg Norge, NH Berlin Mitte, NH Duesseldorf City, NH Duesseldorf City Nord (Germany), NH Collection Eindhoven, NH Jan Tabak, NH Amsterdam Noord (Benelux) and NH Mexico City (Latin America).

Transfers to other items correspond mainly to the NH Barbizon Palace hotel classified as a non-current asset held for sale during 2017 (see Note 14) amounting to 66,621 thousand euros.

At 31 December 2017, there were property, plant and equipment elements with a net book value of 275 million euros (344 million euros in 2016) to guarantee several mortgage loans (see Note 15).

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

	2017	2016
Spain	10,834	14,415
Italy	32,182	46,463
Germany	2,392	1,675
Benelux	997	-
Others	602	973
Total impairment	**47,007**	**63,526**

Impairment amounting to 2,730 thousand euros has been recognised for certain assets due to the worsening of future expectations of cash flows for different reasons, including the opening of competitors' hotels or the loss of an important customer (13,221 thousand euros in 2016), and 12,743 thousand euros registered under "Net Profits/(Losses) from asset impairment" of the 2017 consolidated comprehensive profit and loss statement have been reversed.

During the year, some tangible and intangible assets, have been retired, replaced or disposed of to third parties outside the Group, generating positive net capital gains for them amounting to 30,148 thousand euros, recorded under "Gain/(loss) on the disposal of non-current assets" in the consolidated comprehensive profit and loss statement for 2017.

The Group has taken out insurance policies to cover any possible risks to which the different elements of its property, plant and equipment 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.

At 31 December 2017, firm purchase undertakings amounted to 51.5 million euros. These investments will be made between 2018 and 2020 (46.4 million euros in 2016).

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

Million euros	2017 Recoverable amount
CGU A	76
CGU B	39.3
CGU C	34.3
CGU D	24.9
CGU E	24.1
CGU F	15.8
CGU G	13.1
CGU H	10
CGU I	10
CGU J	9.3
Top Ten	**256.8**
Spain	83
Italy	54.5
Benelux	21.1
Germany	19.8
Other Countries	(5.1)
ther CGUs	**173.3**
Total	**430.1**

9.- INVESTMENTS VALUED USING THE EQUITY METHOD

The movements under this heading of the consolidated balance sheet during 2017 and 2016 were as follows (in thousands of euros):

Company	Net Balance at 31.12.16	Profit (Loss) 2017	Exchange difference	Net Balance at 31.12.17
Inmobiliaria 3 Poniente, S.A. de C.V.	1,936	55	(131)	1,860
Mil Novecientos Doce, S.A. de C.V.	1,789	154	(163)	1,780
Consorcio Grupo Hotelero T2, S.A. de C.V.	973	245	(102)	1,116
Hotelera del Mar, S.A.	1,467	-	(309)	1,158
Borokay Beach, S.L.	1,408	(43)	-	1,365
Beijing NH Grand China Hotel Management Co, Ltd.	3,060	(751)	(173)	2,136
Hotel & Congress Technology, S.L.	13	(9)	-	4
Total	**10,646**	**(349)**	**(878)**	**9,419**

Company	Net Balance at 31.12.15	Additions	Other movements	Profit (Loss) 2016	Exchange difference	Changes in Scope of Consolidation (Note 2.5.4)	Net Balance at 31.12.16
Varallo Comercial, S.A.	7,186	-	-	-	2,246	(9,432)	-
Inmobiliaria 3 Poniente, S.A. de C.V.	1,968	-	-	295	(327)	-	1,936
Palacio de la Merced, S.A.	1,542	-	-	176	-	(1,718)	-
Mil Novecientos Doce, S.A. de C.V.	1,935	-	-	149	(295)	-	1,789
Consorcio Grupo Hotelero T2, S.A. de C.V.	837	-	-	280	(144)	-	973
Hotelera del Mar, S.A.	1,717	-	-	(37)	(213)	-	1,467
Borokay Beach, S.L.	1,420	-	-	(12)	-	-	1,408
Beijing NH Grand China Hotel Management Co, Ltd.	-	4,149	(412)	(672)	(5)	-	3,060
Hotel & Congress Technology, S.L.	73	-	-	(60)	-	-	13
Total	**16,678**	**4,149**	**(412)**	**119**	**1,262**	**(11,150)**	**10,646**

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

10.- NON-CURRENT FINANCIAL INVESTMENTS

10.1 Loans and accounts receivable not available for trading

The breakdown of this item at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	**2016**
Subordinated loans to companies owning hotels operated by the Group through leases	30,689	43,085
Other collection rights	16,395	16,395
Lease advance payments	3,155	3,122
Loans to associates (Note 25)	-	244
Long-term deposits and sureties	12,939	13,984
Others	1,976	1,555
Total	**65,154**	**78,385**

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 (2.93 million euros in 2017 and 2.31 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.

The “Lease advance payments” item consists of advance payments made to the owners of certain hotels operated under a lease arrangement for the purchase of decoration and furniture; these are discounted from future rental payments.

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

10.2 Other non-current financial investments

This heading of the consolidated balance sheet comprised, at 31 December 2017 and 2016, the following equity interests, valued at cost:

	Thousands of euros	
	2017	**2016**
Varallo Comercial, S.A. (Note 2.5.4)	9,343	9,343
NH Panamá	3,767	3,767
Other investments	677	679
Provisions	(3,046)	(1,118)
Total	**10,741**	**12,671**

In the year 2017, a provision of 1,928 thousand euros was allocated, corresponding to the shareholding of NH Panama based on an appraisal by an independent expert.

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

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

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

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

Specifically, Sotocaribe, S.L and Capredo Investments GmbH are classified as discontinued operations; these companies represented the entirety of the Group’s property activity.

In addition, in 2017 the Group transferred the property in which the NH Barbizon Palace hotel is located to non-current assets held for sale, which was disposed of outside the Group on 30 January 2018 (see Note 8 and 28).

Sotocaribe, S.L. was consolidated by the equity method, while Capredo Investments, GmbH was changed to the global method following the acquisition of the remaining 50% of the company by the Group Company on 28 December 2016.

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 2017 and 2016 is shown below (in thousands of euros):

	31.12.2016	Net Variation	Transfers (see Note 7)	31.12.2017
Property, plant and equipment	12,113	(3,174)	66,621	75,560
Financial assets	34,556	(1,000)	-	33,556
Investments accounted for using the equity method	34,556	(1,000)	-	33,556
Cash	2	-	-	2
Other current assets	14	34	-	48
Non-current assets classified as held for sale	**46,685**	**(4,140)**	**66,621**	**109,166**
Other non-current liabilities	615	-	-	615
Trade payables	376	-	-	376
Other current liabilities	1,670	(284)	-	1.386
Liabilities associated with assets classified as held for sale	**2,661**	**(284)**	**-**	**2,377**

	31.12.2015	Net Variation	Change in consolidation scope	31.12.2016
Property, plant and equipment	-	-	12,113	12,113
Financial assets	45,034	(3,714)	(6,764)	34,556
Investments accounted for using the equity method	45,034	(3,714)	(6,764)	34,556
Cash	-	-	2	2
Other current assets	-	-	14	14
Non-current assets classified as held for sale	**45,034**	**(3,714)**	**5,365**	**46,685**
Other non-current liabilities	-	-	615	615
Trade payables	-	-	376	376
Other current liabilities	-	-	1,670	1,670
Liabilities associated with assets classified as held for sale	**-**	**-**	**2,661**	**2,661**

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

Consolidated comprehensive profit and loss statements

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

	Capredo Investments, GmbH	Sotocaribe, S.L.	Total
2017			
Profit (loss) before tax	(92)	(186)	(278)
Profit (loss) for the year from discontinued operations net of tax	(92)	(186)	(278)
2016			
Profit (loss) before tax	(159)	(2,115)	(2,274)
Profit (loss) for the year from discontinued operations net of tax	(159)	(2,115)	(2,274)

Consolidated cash flow statements

The consolidated cash flow statements for the fully consolidated companies in 2017 and 2016 are detailed below (in thousands of euros):

2017	Capredo Investments, GmbH
Total net cash flow from operating activities I	-
Total net cash flow from investment activities II	-
Total net cash flow from financing activities III	-
GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)	-
Effect of variations in the scope of consolidation (IV)	-
Cash and cash equivalents at the start of the financial year	2
Cash and cash equivalents at the end of the financial year	2

2016	Capredo Investments, GmbH
Total net cash flow from operating activities I	-
Total net cash flow from investment activities II	-
Total net cash flow from financing activities III	-
GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)	-
Effect of variations in the scope of consolidation (IV)	2
Cash and cash equivalents at the start of the financial year	-
Cash and cash equivalents at the end of the financial year	2

12.- TRADE RECEIVABLES

This item reflects different accounts receivable from the Group's operations. The breakdown at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Trade receivables for services provided	14,738	159,885
Provision for bad debts	(9,156)	(13,688)
Total	**132,582**	**146,197**

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 2017 and 2016 were as follows:

	Thousands of euros	
	2017	**2016**
Balance at 1 January	13,688	12,254
Changes in scope	-	58
Exchange differences	(209)	(7)
Additions	1,982	2,830
Applications	(6,305)	(1,447)
Balance at 31 December	**9,156**	**13,688**

The analysis of the ageing of financial assets in arrears but not considered impaired at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	**2016**
Less than 30 days	19,928	18,380
From 31 to 60 days	8,728	11,488
More than 60 days	21,813	32,122
Total	**50,469**	**61,990**

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 2017 and 2016 was a variable Euribor-indexed rate. These assets are recognised at their fair value.

There are no restrictions on cash withdrawals, except for 1,716 thousand euros reserved in accordance with a firm commitment with the co-owners of Hoteles Royal (1,275 thousand euros in 2016) for future investments in the hotels and 2,440 thousand euros reserved in accordance with a commitment acquired with the owner of a hotel in Italy to undertake repositioning investments (2,448 thousand euros in 2016).

As at 31 December 2017, there were no restrictions on the receipt of dividends distributed by the companies in which the Parent Company holds a direct or indirect minority shareholding.

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

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

14.-EQUITY

14.1 Subscribed share capital

NH Hotel Group, S.A. share capital at the end of 2017 comprised 350,271,788 fully subscribed and paid up bearer shares with a par value of €2 each. All these shares carry identical voting and economic rights and are traded on the Continuous Market of the Spanish Stock Exchanges.

According to the latest notifications received by the Parent Company and the notices given to the National Securities Market Commission before the end of every financial year, the shareholders with shareholdings above 3% at 31 December 2017 and 2016 were as follows:

	2017	2016
HNA Group Co Limited	29.35%*	29.50%
Oceanwood Capital Management LLP	12.06%	11.97%
Hesperia Group	9.27%**	9.27%

** Although in the CNMV Records it is recorded that the shareholding of Grupo HNA in NH is 29.50% at 31 December 2017, Grupo HNA reported a decrease to 29.35% in its shareholding in NH to the CNMV on 27 February 2017. In addition, on 3 November 2017, Grupo HNA notified the CNMV of the signing of a sales contract and repurchase agreement through which it would transfer NH shares representing approximately 1.14% of the share capital. Depending on whether the sale has been formalised and the terms and conditions of it, Grupo HNA's shareholding in NH could reach 28.20% of the share capital. Finally, on 19 January 2018, it notified the CNMV of the engagement to review its shareholding in NH, including identify potential buyers of its shareholding.*

*** The shareholding of Grupo Hesperia consists of the direct shareholding held by Grupo Inversor Hesperia, S.A. (9.10%) and Eurofondo (0.17%).*

At year-end 2017 and 2016, the members of the Board of Directors were the holders or proxies of shareholdings representing approximately 21.38% and 21.28% of the share capital, respectively.

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

During recent years, the evolution of the business has allowed to reduce the ratio of accounting financial leverage from 0.63x to 0.55x. The ratios of accounting financial leverage at 31 December 2017 and 2016 are the following:

	Thousands of euros	
	2017	**2016**
Bonds and other marketable securities (Note 15)	633,910	765,870
Bank borrowings and other financial liabilities (Note 15)	82,970	95,946
Gross accounting debt	**716,880**	**861,816**
Cash and cash equivalents (Note 13)	80,249	136,733
Liquid assets	**80,249**	**136,733**
Total net accounting debt	**636,631**	**725,083**
Total Equity	1,151,976	1,155,876
Accounting financial leverage	**0.55x**	**0,63x**

On 29 June 2017, the General Shareholders' Meeting approved the distribution of a dividend at 5 cents per outstanding share, charged to 2016 profits. The total amount of dividends paid in 2017 amounted to 17 million euros.

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.

At 31 December 2017 and 2016, the parent company's legal reserve was not fully constituted.

ii) Share premium

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

14.3 Treasury shares and shareholdings

At the end of the year, NH Hotel Group, S.A. had 9,416,368 treasury shares on its balance sheet, whose main composition and movements are broken down as follows:

- Securities loan linked to the convertible bonds issue dated 8 November 2013. On 4 November 2013, the Spanish National Securities Market Commission (CNMV) was notified of the loan of 9,000,000 of own shares to the three financial institutions involved in the placement of the convertible bonds or bonds exchangeable for shares of NH Hotel Group 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 convertible debentures requesting them.

  At 31 December 2017, the financial entities have returned 7,615,527 of those 9,000,000 shares, which are thus now held by NH Hotel Group S.A., but which according to the terms of securities lending, continue to be available to the financial entities, who can borrow them at any time, until the convertible bonds are cancelled or amortised (see Note 15).

- In August 2016, the Company purchased 600,000 treasury shares.

- In 2017 the first cycle of the long-term incentive plan corresponding to the year ended 31 December 2016 was settled. This plan was settled in March, April and July with the delivery of 183,632 shares valued at 733 thousand euros on the settlement dates.

14.4 Non-controlling interests

The movements in this item in 2017 and 2016 are summarised below:

	Thousands of euros	
	2017	**2016**
Opening balance	**43,967**	**37,963**
Comprehensive profit (loss) attributable to external stakeholders	1,001	3,614
Changes in percentage shareholdings and purchase/sales	-	2,589
Dividends paid to non-controlling interests	(1,496)	(1,056)
Other movements	-	857
Closing balance	**43,472**	**43,967**

The 2017 "Dividends paid to non-controlling interests" item mainly reflects the dividends paid out in 2017 to the following companies: NH Marín, S.A., for 475 thousand euros, NH Las Palmas, S.A. for 265 thousand euros and various companies in Latin America for 756 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 2017 and 2016 were as follows:

	Thousands of euros			
	2017		**2016**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Convertible bonds	-	244,606	238,724	-
Guaranteed senior bonds maturing in 2019	-	-	250,000	-
Guaranteed senior bonds maturing in 2023	400,000	-	285,000	-
Borrowing costs	-	5,125	-	6,248
Arrangement expenses	(12,285)	(3,536)	(10,087)	(4,015)
Debt instruments and other marketable securities	**387,715**	**246,195**	**763,637**	**2,233**
Mortgages	32,945	7,496	33,078	4,325
Unsecured loans	867	2,238	2,158	9,072
Subordinated loans	40,000	-	40,000	-
Credit lines	-	2,008	-	9,944
Arrangement expenses	(2,566)	(917)	(2,516)	(1,015)
Borrowing costs	-	899	-	900
Debts with credit institutions	**71,246**	**11,724**	**72,720**	**23,226**
Total	**458,961**	**257.919**	**836,357**	**25,459**

The current fair value of the convertible bonds, bearing in mind that the reference interest rate would be the one applied to the bonds issued during 2017, would mean such bonds amounting to 242 million euros (224 million euros in 2016). With regard to financial liabilities tied to a variable interest rate, because of their variable configuration, their fair value does not differ from their book value.

The effect of debt movement on the Group's cash flows as reflected in the cash flow statement is affected by non-cash movements generated by exchange rate differences as the group has debts in currencies other than the euro.

Convertible bonds

On 31 October 2013, the Parent Company placed convertible bonds among institutional investors, for a total of 250,000 thousand euros, with the following characteristics:

Amount of the issue	€250,000,000
Nominal value of the bond	€100,000
Maturity	5 years
Rank of debt	Unguaranteed senior
Issue price	100%
Coupon	4%
Exchange price	4.919 euros
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 9,000,000 million treasury shares. This loan bears interest at 0.5% and was drawn to the extent of 1,384,473 shares at 31 December 2017 (see Note 14.3).

As the maturity of the convertible bonds will occur on 31 October 2018, the Group has reclassified all debt associated with the "Bonds and other convertible securities" item of current liabilities at 31 December 2017. This has meant that the variation between current assets and current liabilities for 2017 is negative at 205,449 thousand euros. In this regard and based on the assumption that this instrument is not redeemed the directors of the Parent Company consider there being no doubt as to the Group being able to meet the payment of the debt at maturity both due to the expectation of generating positive cash flows during the year and the fact that, as indicated in the section "guaranteed syndicated credit line" of this Note, the Group has a credit line of 250 million euros and a final maturity on 29 September 2021 which, at 31 December 2017, is available in full.

Secured senior bonds maturing in 2019

On 30 October 2013 the Parent Company placed guaranteed senior bonds, 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%. At 31 December 2017, these bonds are fully cancelled through early amortisation or refinancing (see section "Refinancing 2017").

Secured senior bonds maturing in 2023

On 23 September 2016 the Parent Company placed guaranteed senior bonds, which mature in 2023, at the nominal value of 285,000 thousand euros. The nominal yearly interest rate for said issuance of notes is 3.75%. On 4 April 2017, the parent company issued an extension of guaranteed senior bonds maturing in 2023 for a nominal amount of 115,000 thousand euros with an implicit cost until maturity of 3.17%. The outstanding nominal amount at 31 December 2017 is 400,000 thousand euros (see section "Refinancing 2017").

Refinancing 2017

As indicated in the section "Guaranteed senior notes maturing in 2019", at the beginning of the year the Group owed 250,000 thousand of bonds to their holders which have been fully refinanced or amortised in full throughout 2017

In this regard, in April 2017, the parent company issued an extension of guaranteed senior notes maturing in 2023 for a nominal amount of 115,000 thousand euros with an implicit cost until maturity of 3.17%. This extension led to the conversion of 121,505 thousand euros in guaranteed senior notes maturing in 2019 with an annual nominal interest of 6.875%, after having the aforementioned 121,505 thousand euros acquired by the Deutsche Bank branch in London On this date, the parent company reached the following milestones corresponding to the accrued and unpaid coupon and premium for the repurchase offer:

- Conversion of the nominal amount of 121,505 thousand euros of guaranteed senior note maturing in 2019 into a new one of 115,000 thousand euros with the same conditions as the guaranteed senior notes maturing in 2023.
- Payment of unpaid accrued interest and other interest: 3,225 thousand euros
- Payment of the amount of the repurchase premium: 9,599 thousand euros

In relation to the conversion of the notes, the Directors of the Company consider that all the qualitative and quantitative criteria have been met (mainly, that the current value of the cash flows discounted under the new terms, including any commission paid net of any commission received, and discounting using the original effective interest rate, differs by less than 10% from the discounted present value of the cash flows which still remained of the syndicated notes maturing in 2019), for their accounting recognition, in accordance to their interpretation of the standard, that the new notes maturing in 2023 and amount of 115 million euros, do not differ significantly from those cancelled for the amount of 121.5 million euros maturing in 2019. Therefore, the new notes maturing in 2023 are reduced by the arrangement expenses pending of the redeemed obligations maturing in 2023, as well as the new arrangement expenses incurred which could be registered as such.

In May 2017, the parent company voluntarily amortised, by paying the applicable premium, 28,495 thousand euros of the guaranteed senior notes maturing in 2019 with an annual nominal interest rate of 6.875%. The payments made for the repurchase were broken down as follows:

- Nominal paid in advance: 28,495 thousand euros
- Unpaid accrued interest and other interest: 920 thousand euros
- Amount of the repurchase premium: 2,068 thousand euros

Finally, in November 2017, the Parent Company voluntarily amortised, by paying the applicable premium to the remaining 100,000 thousand euros of the guaranteed senior notes maturing in 2019 with an annual nominal interest rate of 6.875%. The payments made for the repurchase are broken down as follows:

- Nominal paid in advance: 100,000 thousand euros
- Unpaid accrued interest and other interest: 286 thousand euros
- Amount of the repurchase premium: 3,438 thousand euros

As a result of the aforementioned three amortisations, the guaranteed senior notes maturing in 2019 have been fully refinanced or cancelled early in full.

Secured credit line

On 22 September 2016, the Parent Company and NH Finance, S.A. entered into a revolving business credit with credit institutions amounting to 250,000 thousand euros ("syndicated credit line") with a maturity of three years, extendable to five years at the time of the refinancing of the guaranteed senior notes maturing in 2019. As a consequence of the refinancing and early payments of the guaranteed senior notes maturing in 2019 which took place in 2017, the maturity date of said financing has been extended to 29 September 2021. At 31 December 2017, this financing was not available in full.

Obligations required in the senior note indentures maturing in 2023 and in the syndicated credit line

The senior notes maturing in 2023 and the syndicated credit line require the fulfilment of a series of obligations and limitations of essentially homogeneous content as regards the assumption of additional borrowing or provision of guarantees in favour of third parties, the granting of real guarantees on assets, the sale of assets, investments that are permitted, restricted payments (including the distribution of dividends to shareholders), transactions between related parties, corporate transactions and disclosure obligations. These obligations are detailed in the issue prospectus for the aforementioned notes, as well as in the credit agreement of the syndicated credit line. In addition, the syndicated credit line requires compliance with financial ratios; in particular (i) an interest coverage ratio of ≥ 2.00x, (ii) a debt coverage ratio of ≤ 5.50x and (iii) a Loan to Value ("LTV") ratio of ≤ 55% up to the maturity or refinancing date of the guaranteed senior notes maturing in 2019, a fact which occurred during 2017. On the date of expiry or refinancing of these debentures, the loan-to-value ratio must be ≤ 70%, and after that date, the applicable loan-to-value ratio will depend on the indebtedness of NH at the time, as indicated below:

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

As a result of the early voluntary amortisation of all guaranteed senior notes maturing in 2019, the LTV at 31 December 2017 is generally ≤70%. Subsequently, it will be reviewed according to the ratio of net indebtedness.

At 31 December 2017 these ratios were completely adhered to.

Package of guaranteed senior notes maturing in 2023 and syndicated credit line

The guaranteed senior notes maturing in 2023 and syndicated credit line (undrawn at 31 December 2017) share the following guarantees: (i) pledge of shares: 100% of the share capital of (A) Diegem, (B) Immo Hotel BCC NV, (C) Immo Hotel Belfort NV, (D) Immo Hotel Brugge NV, (E) Immo Hotel Diegem NV, (F) Immo Hotel Gent NV, (G) Immo Hotel GP NV, (H) Immo Hotel Mechelen NV, (I) Immo Hotel Stephanie NV, (J) Onroerend Goed Beheer Maatschappij Van Alphenstraat Zandvoort, B.V. and (K) NH Italia, S.p.A. (ii) first-tier mortgage guarantee on the following hotels located in the Netherlands: NH Conference Centre Koningshof, owned by Koningshof, B.V.; NH Conference Centre LeeuweNHorst, owned by LeeuweNHorst Congres Center, B.V.; NH Schiphol Airport, owned by Onroerend Goed Beheer Maatschappij Kruisweg Hoofddorp, B.V.; NH Zoetermeer, owned by Onroerend Goed Beheer Maatschappij Danny Kayelaan Zoetermeer, B.V.; NH Conference Centre SparreNHorst, owned by SparreNHorst, B.V.; NH Best, owned by Onroerend Goed Beheer Maatschappij Maas Best, B.V.; NH Capelle, owned by Onroerend Goed Beheer Maatschappij Capelle aan den IJssel, B.V.; NH Geldrop, owned by Onroerend Goed Beheer Maatschappij Bogardeind Geldrop, B.V.; NH Marquette, owned by Onroerend Goed Beheer Maatschappij Marquette Heemskerk, B.V.; and NH Naarden, owned by Onroerend Goed Beheer Maatschappij IJsselmeerweg Naarden, B.V. and the joint guarantee on first demand of the main operating companies in the group wholly owned by the Parent Company.

Limitation on the distribution of Dividends

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

In the case of the senior notes maturing in 2023, the distribution of dividends is generally permitted provided that (a) the interest coverage ratio is > 2.0x and (b) the sum of restricted payments (including dividends and repayment of subordinated debt) made since 8 November 2013 is less than the sum of, amongst other items, (I) 50% of NH's consolidated net income (even though in the calculation of net income, 100% of consolidated net losses must be deducted) from 1 July 2013 to the date of the last quarterly accounts available (this is what is known as the CNI Builder) and, (ii) 100% of the net contributions to NH's capital from 8 November 2013.

Additionally, as an alternative and without having to be in compliance with the previous condition:

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

Finally, and also alternatively and without having to be concurrent with the previous ones, the notes maturing in 2023 establish a franchise to be able to make restricted payments (including dividends) without needing to comply with any specific requirement, for a total aggregate amount of 25,000,000 euros as of November 2013.

In the case of the syndicated credit line, the distribution of a percentage of the NH Group's consolidated net profit from the previous year is allowed, provided that there has been no breach of the financing agreement and the Net Financial Debt (through the Dividend payment) / EBITDA Ratio is less than 4.0x.

The maximum percentage of the consolidated net profit to be distributed will depend on the Net Financial Debt Ratio (through the payment of the Dividend) / EBITDA according to the following breakdown:

- Net Financial Debt / EBITDA ≤ 4.0x: Percentage of consolidated net profit: 75%
- Net Financial Debt / EBITDA ≤ 3.5x: Percentage of consolidated net profit: 100%
- Net Financial Debt / EBITDA ≤ 3.0x: Percentage of consolidated net profit: unlimited

Mortgage loans

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

	Mortgaged asset	Fixed rate	Variable interest	Total	Net book value of the mortgaged asset
Spain	NH Lagasca	-	4,480	4,480	17,229
	Wilan Ander	5,048	-	5,048	6,546
	Wilan Huel	3,617	-	3,617	4,965
	NH Palacio de la Merced	-	4,372	4,372	16,498
Total Spain		**8,665**	**8,852**	**17,517**	**45,238**
Mexico	NH Querétaro	-	1,026	1,026	4,075
	NH Santa Fe	-	388	388	6.397
Total Mexico		**-**	**1,414**	**1,414**	**10,472**
Netherlands	NH Groningen	-	198	198	6,571
Total Netherlands		**-**	**198**	**198**	**6,571**
Italy	NH Villa San Mauro	-	1,677	1,677	-
Total Italy		**-**	**1,677**	**1,677**	**-**
Chile	NH Antofagasta and NH Plaza de Santiago	19,635	-	19,635	23,946
Total Chile		**19,635**	**-**	**19,635**	**23,946**
Total		28,300	12,141	40.,441	86,227

The mortgage loans of Wilan Ander and Wilan Huel of 5,048 thousand euros and 3,617 thousand euros respectively, have been consolidated using the global integration method since October 2017, the month in which the Parent Company, through its subsidiary NH Hoteles España, S.A., acquired 100% of these companies (see Note 2.5.4).

Assets granted as mortgage security against the syndicated credit line of 250,000 thousand euros (undrawn at 31 December 2017) and guaranteed senior notes in the joint amount of 400,000 thousand euros, maturing in 2023, can be broken down as follows (in thousands of euros):

	Mortgaged asset	Net book value of the mortgaged asset
	NH Conference Centre Leeuwenhorst	52,357
	NH Conference Centre Koningshof	37,919
	NH Schiphol Airport	41,453
	NH Conference Centre Sparrenhorst	16,724
	NH Zoetermeer	7,676
	NH Naarden	11,038
	NH Capelle	6,368
	NH Geldrop	7,311
	NH Best	4,891
	NH Marquette	3,350
Total		**189,087**
Net value of assets assigned as mortgage collateral		189,087
Value of guaranteed debt		**400,000**
Fixed interest		400,000
Variable interest (amount of the syndicated credit line undrawn)		250,000

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

Subordinated loan

A loan amounting to 40,000 thousand euros fully drawn at 31 December 2017 and with a single maturity and repayment in 2037 is included in this item. The interest rate of this loan is the 3-month Euribor plus a differential.

Credit lines

At 31 December 2017, the balances under this item include the amount drawn down from credit facilities. The joint limit of these loan agreements and credit facilities at 31 December 2017 amounted to 68,353 thousand euros, of which 2,008 thousand euros had been drawn down at that date. Additionally, at 31 December 2017, the Parent Company had a guaranteed syndicated long-term credit line amounting to 250,000 thousand euros.

Detail of current and non-current payables

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

				Maturity						
Instrument	**Limit**	**Available**	**Disposed**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Remainder**
Mortgage loans	40,441	-	40,441	-	7,496	2,756	2,605	2,554	2,141	22,889
Fixed rate	28,300	-	28,300	-	1,054	1,353	1,379	1,504	1,530	21,480
Variable interest	12,141	-	12,141	-	6,442	1,404	1,226	1,050	611	1,409
Subordinated loans	40,000	-	40,000	-	-	-	-	-	-	40,000
Variable interest	40,000	-	40,000	-	-	-	-	-	-	40,000
Convertible bonds	250,000	-	250,000	-	250,000	-	-	-	-	-
Fixed rate	250,000	-	250,000	-	250,000	-	-	-	-	-
Guaranteed senior notes mat. in 2023	400,000	-	400,000	-	-	-	-	-	-	400,000
Fixed rate	400,000	-	400,000	-	-	-	-	-	-	400,000
Unsecured loans	3,106	-	3,105	-	2,238	600	267	-	-	-
Variable interest	3,106	-	3,105	-	2,238	600	267	-	-	-
Secured credit line	250,000	250,000	-	-	-	-	-	-	-	-
Variable interest	250,000	250,000	-	-	-	-	-	-	-	-
Credit lines	68,353	66,345	2,008	-	2,008	-	-	-	-	-
Variable interest	68,353	66,345	2,008	-	2,008	-	-	-	-	-
SUBTOTAL	**1,051,899**	**316,345**	**735,554**	**-**	**261,742**	**3,356**	**2,872**	**2,554**	**2,141**	**462,889**
Arrangement expenses	(19,304)	-	(19,304)	-	(4,453)	(3,064)	(3,243)	(3,197)	(2,765)	(2,582)
Implicit derivative convertible bonds	(5,394)	-	(5,394)		(5,394)	-	-	-	-	-
Borrowing costs	6,024	-	6,024		6,024	-	-	-	-	-
Borrowing at 31/12/2017	**1,033,225**	**316,345**	**716,880**	**-**	**257,919**	**292**	**(371)**	**(643)**	**(624)**	**460,307**
Borrowing at 31/12/2016	**1,181,208**	**308,908**	**861,816**	**25,459**	**241,379**	**249,645**	**1,321**	**858**	**1,344**	**341,811**

16.- OTHER NON-CURRENT LIABILITIES

The breakdown of the "Other non-current liabilities" item in the accompanying consolidated balance sheets, at 31 December 2017 and 2016, is as follows:

	Thousands of euros	
	2017	**2016**
At amortised cost:		
Linearisation of revenue	15,965	16,122
Capital subsidies	17,754	10,285
Acquisition of Capredo Investment GmbH (Note 2.5.4)	3,150	3,150
Loans from shareholders	-	550
Other liabilities	2,107	3,930
	38,976	**34,037**

At 31 December 2017, "Capital subsidies" basically included subsidies received for hotel renovations, both from public entities and landlords, broken down by country as follows:

	Thousands of euros	
	2017	**2016**
Germany	9,709	6,866
Netherlands	3,461	-
Spain	1,843	1,832
Italy	1,064	-
Portugal	1,005	1,124
Others	672	463
	17,754	**10,285**

At 31 December 2017, the Directors of the Parent Company considered that all the requirements stipulated for such subsidies had been fulfilled and therefore deemed them as non-reimbursable.

17.- PROVISIONS FOR RISKS AND CHARGES

The breakdown of "Provisions for risks and charges" at 31 December 2017 and 2016, together with the main movements recognised in those years were as follows:

	Thousands of euros				
	Balance at 31.12.16	**Additions**	**Applications/ Reversals**	**Transfers and other changes**	**Balance at 31.12.17**
Provisions for contingencies and extraordinary costs:					
Onerous contracts	14,794	3,186	(2,813)	(2,954)	12,213
Provision for pensions and similar obligations	16,685	1,009	(1,449)	-	16,245
Other claims	21,421	4,776	(4,242)	-	21,955
	52,900	**8,971**	**(8,504)**	**(2,954)**	**50,413**
Provisions for contingencies and current expenses:					
Onerous contracts	4,275	-	(4,716)	2,954	2,513
Other provisions	7,187	393	(1,122)	-	6,458
	11,462	**393**	**(5,838)**	**2,954**	**8,971**
Total	**64,362**	**9,364**	**(14,342)**	**-**	**59,384**

	Thousands of euros				
	Balance at 31.12.15	Additions	Applications/ Reversals	Transfers	Balance at 31.12.16
Provisions for contingencies and extraordinary costs:					
Onerous contracts	16,547	6,390	(4,121)	(4,022)	14,794
Provision for pensions and similar obligations	14,202	3,502	(1,451)	432	16,685
Other claims (Note 22)	17,951	8,070	(3,756)	(844)	21,421
	48,700	17,962	(9,328)	(4,434)	52,900
Provisions for contingencies and current expenses:					
Onerous contracts	4,793	-	(4,995)	4,477	4,275
Other provision	537	8,349	(1,699)	-	7,187
	5,330	8,349	(6,694)	4,477	11,462
Total	**54,030**	**26,311**	**(16,022)**	**43**	**64,362**

Onerous contracts

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

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

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

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

The reconciliation between the amount recorded in the income statement and the changes in the provision for onerous contracts for the years ended 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Reversal of provision for realised losses	(3,903)	(4,995)
Reversal	(2,377)	(4,121)
Allowances	2,064	4,953
Variation in the provision for onerous contracts	**(4,216)**	**(4,163)**
Application due to exit of one of the CGUs	(813)	-
Allowance for financial effect provision update	1,122	1,379
Exchange rate effect	(436)	58
Total effect	**(127)**	**1,437**
Net effect on the income statement	**(4,343)**	**(2,726)**

Provision for pensions and similar obligations

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

At the end of 2017, the liabilities entered against this item were of 16,245 thousand euros (16,685 thousand euros at 31 December 2016).

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

	2017		2016	
	Netherlands	**Italy**	**Netherlands**	**Italy**
Discount rates	1.80%	0.20%	1.80%	0.13%
Expected annual rate of salary rise	2.50%	1.90%	2.50%	1.25%
Expected return from assets allocated to the plan	1.80%	2.02%	1.80%	2.02%

Other claims

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

18.- TAX NOTE

Tax consolidation scheme

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

NH Hotel Group, S.A. and another 15 companies with tax domicile in Spain in which it held a direct or indirect stake of at least 75% during the 2017 tax period are subject to the tax consolidation scheme governed by Chapter VI, Title VII of Act 27/2014 on Corporate Income Tax.

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

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

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

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

In 2017, Spanish companies pay taxes at the general tax rate of 25% irrespective of whether they apply the consolidated or separate taxation schemes. The foreign companies are subject to the prevailing tax rate in the countries where they are domiciled. In addition, taxes are recognised in some countries at the estimated minimum profit on a complementary basis to Corporation Tax.

The prevailing corporation tax rates applicable to Group companies in the different jurisdictions where the Group has significant operations are as follows:

Country	Nominal Rate
Argentina [1]	35.0%
Colombia [1]	34.0%
Chile	25.5%
Belgium	33.9%
Panama	25.0%
Brazil	34.0%
Mexico	30.0%
Uruguay	25.0%
Dominican Rep.	27.0%
Germany	30.0%

Country	Nominal Rate
Romania	16.0%
Poland	19.0%
Switzerland	8.5%
Czech Republic	19.0%
Luxembourg	19.0%
Italy	24.0%
Holland	25.0%
France	33.3%
Portugal	21.0%

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

Financial years subject to tax inspection

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

Taxes	Pending Periods
Corporation	2014, 2015 and 2016
VAT	2014, 2015, 2016 and 2017
IRPF (personal income tax)	2014, 2015, 2016 and 2017
Non-resident Income Tax	2014, 2015, 2016 and 2017

During 2017, in Spain there were no open tax inspections in progress in relation to the taxes included in the previous table.

In Germany, an inspection procedure has been opened which is reviewing the amount of negative tax bases still to be offset by the companies in Germany.

Another inspection procedure has been opened in France by the French authorities who are checking the overall tax position of the subsidiary in that country.

Finally, an inspection procedure has been opened in Colombia focused on the deductions of certain Corporation Tax expenses.

The Group's Directors do not expect any significant contingencies to arise from the conclusions of the inspections.

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

Balances with Public Administrations

The composition of the debit balances with Public Administrations at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Deferred tax assets		
Tax credits	96,689	108,515
Tax assets due to asset impairment	32,095	31,744
Tax withholdings of workforce	2,686	2,581
Other prepaid taxes	6,526	9,549
Total	**137,996**	**152,389**

	Thousands of euros	
	2017	**2016**
Short-term taxes receivable		
Corporate tax	9,179	9,303
Value Added Tax	6,521	12,538
Other tax receivables	8,043	7,390
Total	**23,743**	**29,231**

The movements of the "Deferred tax assets" item in 2017 and 2016 were as follows:

	Thousands of euros	
	2017	**2016**
Opening balance	**152,389**	**165,797**
Asset impairment	351	757
Generation of assets due to tax losses	4,039	12,305
Settlements of assets due to tax losses	(10,512)	(16,760)
Activation of deductions	-	865
Settlement of deductions	(5,353)	(2,346)
Others	(2,919)	(8,229)
Total	**137,996**	**152,389**

The recognition of assets for tax losses is mainly due to the activation of tax losses in Germany and Latin America amounting to 1,841 and 1,691 thousand euros respectively, as a result of the positive results expected in future years.

The cancellation of assets is mainly due to the application of tax losses to offset the positive tax bases generated in 2017, mainly in Spain, Belgium, Italy and Germany, amounting to 3,608, 789, 3,114 and 3,002 thousand euros, respectively. Additionally, the application of deductions in Spain has been made in the amount of 5,353 thousand euros as a result of their use to offset the positive share resulting in 2017.

At 31 December 2017, the Group had assets resulting from tax losses and activated deductions amounting to 96,689 thousand euros (108,515 thousand euros in 2016). At 31 December 2017, the tax credit recovery plan that supports the recognition of these tax credits had been updated. Given that the results of the tax credit recovery plan are satisfactory, the Parent Company's Directors have decided to maintain the tax credits recognised in the consolidated balance sheet.

At 31 December 2017, the Group had tax loss carryforwards worth 605,591 thousand euros (566,518 thousand euros at 31 December 2016) and deductions amounting to 28,030 thousand euros (29,637 thousand euros in 2016) that had not been entered in the accompanying consolidated balance sheet because the Directors considered they did not meet accounting standard requirements. These assets are grouped as follows (base amount):

	Thousands of euros	
	2017	2016
Finance costs and negative tax bases		
Non-deductible financial expenses in Spain	260,852	233,095
Non-deductible financial expenses in Italy	-	6,424
Non-deductible financial expenses in Germany	3,397	5,366
Negative tax bases generated by the Spanish entities before consolidation	103,572	106,325
Negative tax bases generated in Austria	33,827	24,449
Negative tax bases generated in Latin America	239	4,175
Negative tax bases generated in Luxembourg	43,068	53,231
Negative tax bases generated in Italy	-	1,797
Negative tax bases generated in Germany	142,787	141,656
Negative tax bases generated in Holland	3,445	-
Negative tax bases USA	9,781	-
Negative tax bases France	4,426	-
Negative tax bases generated in South Africa	197	-
Total	**605,591**	**566,518**
Deductions		
Deductions generated in Spain	28,030	29,637
Total	**28,030**	**29,637**
Total	**633,621**	**596,155**

Finance costs, are not considered deductible in the Spanish Corporation Tax when exceeding 30% of the operating revenue of the tax group calculated in accordance with Article 16 of Act 27/2014 of 27 December, on Corporation Tax, amount to 260,852 thousand euros in 2017 (223,095 thousand euros in 2016). There is no deadline for offsetting non-deductible finance costs. In respect of German Corporation Tax, the tax regulations of this country are similar to those of Spain in terms of the limitation of deductibility of the financial charge which, accordingly there is no deadline for offsetting non-deductible finance costs.

The changes in non-recorded credits in 2017 were mainly due to the fact that in Spain no finance costs were deducted owing to the application of the aforementioned regulations, and losses and deductions were offset against the profit generated in the year. In Italy losses were fully offset and finance costs generated were deducted, and in Germany finance costs were deducted and losses which had passed the tax credit recovery test were recognised.

The composition of the credit balances with Public Administrations at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Deferred tax liabilities		
Revaluation of assets and other valuation differences	167,433	174,987
Total	**167,433**	**174,987**

	Thousands of euros	
	2017	2016
Short-term taxes payable		
Corporate tax	9,021	12,454
Value Added Tax	1,298	3,042
Personal Income Tax	8,769	6,687
Tax on Income from Capital	1,315	2,100
Social Security	6,833	7,045
Others	18,624	13,610
Total	**45,860**	**44,938**

The movements in deferred tax liabilities during 2017 and 2016 are as follows:

	Thousands of euros	
	2017	2016
Opening balance	**174,987**	**196,711**
Additions of liabilities due to the entry into the consolidation	-	698
Others	(7,554)	(22,422)
Closing balance	**167,433**	**174,987**

The reduction in deferred tax liabilities is mainly due to the reversal of impairment on 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	91,284	20,657	111,941	35,329
Benelux	1,138	195	1,333	1,205
Italy (1)	205	9,688	9,893	107,894
Germany	1,841	2,783	4,419	526
Others	2,221	7,984	10,410	22,479
TOTAL	**96,689**	**41,307**	**137,996**	**167,433**

(1) The business area of Italy includes companies resident in Belgium, Germany, Holland and the USA.

Reconciliation of the accounting result to the tax result

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

	Thousands of euros														
	2017													2016	
	Spain	Italy (1)	Germany	Nether-lands (2)	Latin America (3)	Luxembourg	Romania	Switzerland	Czech R.	Poland	Portugal	Others	TOTAL	Spanish Companies	Other Companies
Profit / (Loss) for the financial year - continuing	**4,514**	**23,880**	**-1,124**	**36,074**	**9,339**	**5,883**	**241**	**-2,625**	**-315**	**-13**	**913**	**-330**	**76,436**	**(14,054)**	**58,412**
Profit (loss) for the year from discontinued operations	(2,022)	-	-	(235)	(1,302)	-	-	-	-	-	-	(159)	(3,718)	(2,274)	
Consolidated statements of comprehensive profit and loss before taxes	2,492	23,880	(1,124)	35,839	8,037	5,883	241	(2,625)	(315)	(13)	913	(490)	72,718	(16,328)	58,412
Adjustments to consolidated comprehensive profit and loss:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounting consolidation adjustments	2,022	-	1,304	235	1,302	-	-	-	-	-	-	159	5,022	2,889	4,695
Due to permanent differences	48,183	(5,330)	6,943	(1,333)	8,814	(5,684)	(99)	3,036	315	(50)	(913)	425	54,307	2,934	(14,822)
Due to temporary differences	2,125	(7,518)	(4,448)	436	3,982	-	-	-	-	-	-	15	(5,408)	12,546	11,497
Tax base (Taxable profit or loss)	54,822	11,033	2,675	35,177	22,135	199	142	412	-	(63)	-	110	126,642	2,041	59,780
Current taxes to be refunded / (to pay)	1,353	(69)	(618)	(3,283)	3,212	-	-	-	-	1	12	(451)	157	818	3,938
Total current tax income / (expense)	(13,705)	(2,727)	(802)	(8,934)	(6,656)	(38)	(23)	(35)	-	12	-	(240)	(33,148)	(535)	(16,372)
Total deferred tax income / (expense)	2,050	(1,603)	301	(398)	1,256	-	-	-	-	-	-	4	1,610	3,427	9,408
Total other income / (expense)	86	(1,932)	(112)	580	(138)	-	-	8	-	-	-	(465)	(1,973)	(205)	(3,661)
Total Corporation Tax income / (expense)	**(11,569)**	**(6,262)**	**(613)**	**(8,752)**	**(5,538)**	**(38)**	**(23)**	**(27)**	**-**	**12**	**-**	**(701)**	**(33,511)**	**2,687**	**(10,625)**

(1) The business area of Italy includes companies resident in Belgium, Germany, Holland and the USA.
(2) The Netherlands business area includes Belgium and France.
(3) 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.

Deductions generated by the consolidated tax group of the Parent Company

At 31 December 2017, the Tax Group held the following tax credits carryforward (thousand euros):

Year Origin	Deduction pending application	Amount
2004 to 2011	Deduction to encourage certain activities (not activated)	28,030
2009 to 2015	Deduction to avoid double taxation (activated)	3,528
2013 to 2014	Others (activated)	729
		32,287

19.- COMMERCIAL CREDITORS AND OTHER ACCOUNTS PAYABLE

The breakdown of this item in the consolidated balance sheet at 31 December 2017 and 2016 is as follows (Thousands of euros):

	Thousands of euros	
	2017	**2016**
Trade and other payables	194,779	205,357
Advance payments from customers	28,172	24,412
	222,951	**229,769**

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.

	2017	2016
	Days	**Days**
Average period for payment to suppliers	**54**	**79**
Ratio of paid transactions	57	81
Ratio of transactions pending payment	24	38
	Amount (thousands of euros)	**Amount (thousands of euros)**
Total payments made	293,037	322,308
Total payments pending	31,329	18,785

The above information on payments to suppliers of Spanish companies refer to those which by their nature are trade creditors due to debts with suppliers of goods and services. The table includes, therefore, the "Commercial Creditors and Other Accounts Payable" item in current liabilities of the attached consolidated balance sheet at 31 December 2017 and 2016.

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 2017 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 2017 and 2016, this item is broken down as follows:

	Thousands of euros	
	2017	2016
Outstanding remuneration	37,216	32,526
Acquisition of Hoteles Royal, S.A.	-	21,523
Linearisation of revenue	2,095	742
Liabilities from contract termination	-	470
Other creditors	2,457	1,019
	41,768	56,280

The "Acquisition of Hoteles Royal, S.A." item included the liability corresponding to the pending part of the consideration for the acquisition in March 2015 which became effective in March 2017.

22.- THIRD-PARTY GUARANTEES AND CLAIMS IN PROGRESS

At 31 December 2017, NH had a total of 36,776 thousand euros in economic or financial bank guarantees issued by various banks (30,062 thousand euros in 2016).

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

Of the remainder, 22,426 thousand euros guarantee leasing contract obligations and others related to the Group's usual operations in various countries, and 2,200 thousand euros guarantee tax and other obligations in relation to public bodies in Italy.

At 31 December 2017, 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 a company with a minority shareholding in a Grupo NH company which at 31 December 2017 had an outstanding principal of 18,915 thousand euros (equivalent to 22,685 thousand US dollars) and final maturity on 22 January 2020.

- On 10 March 2006, the partnership agreement of the company which owns a hotel in the United Kingdom was signed, of which a Grupo NH company is a shareholder, under which, if the company were to receive a purchase offer for 100% of its shares at market price, the Grupo NH company could be required to transfer the shares. However, the Grupo NH company will have preferential acquisition rights over the shares. At year-end, this Grupo NH company has granted its partner a purchase option of up to 5% of the share capital.

- A Group company in which NH has an ownership interest granted to the other shareholders a call option on shares owned by NH in that company, in a sufficient number so that those shareholders, adding the shares to those which now belong to them, could acquire shares representing, in total, up to a maximum of 50% of the share capital.

  Within the framework of the sale of a hotel, NH as a seller agreed to undertake the extension of the aforementioned hotel, and agreed with the buyer a put option in favour of the buyer, NH being obliged to accept the exercise of that option provided that certain conditions are met and for a price agreed between both parties.

- Under the agreements reached between Grupo NH and HNA Group regarding the joint venture, a right of "Tag-along" is recognised, in the sense that if one of the partners receives a takeover bid by a third party for 100% of the shares in the company, the other partner has the option to exercise their right of first refusal or may communicate its irrevocable offer to sell the shares it holds in the aforementioned joint venture, and under the conditions of sale supplied by the third party; if the third party does not accept the offer of the other partner to sell the rest of the shares in the company, the other partner is not allowed to sell its shares to the third party.

- Within the framework of new development projects in the normal course of business, in which Grupo NH subsidiaries act as lessees or operators, the Group's parent company gives personal guarantees in favour of third parties to secure its contractual obligations, often issue spromissory notes in payment of said obligations and agrees penalty clauses in case of breach of contract.

- Likewise, 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).

Claims in progress

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

- NH Group has appeared in the insolvency proceedings of Viajes Marsans, S.A. and Tiempo Libre, S.A., from the unsettled estate of Mr Gonzalo Pascual Arias and Mr Gerardo Díaz Ferrán, and in the voluntary insolvency proceedings against Ms María Ángeles de la Riva Zorrilla, in order to claim outstanding amounts. The Group also appears in the voluntary bankruptcy proceedings of Transhotel and Orizonia as well as in other proceedings both nationally and internationally, and provisions the credit balances in the consolidation annual accounts for the amounts considered unrecoverable.

- The owner of four properties 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 of First Instance dismissed in its entirety the claim brought by the owner. However, the owner has filed an appeal, the subsidiary has submitted its allegations and the proceedings are ongoing in the aforementioned court pending a decision.

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

- A claim has been filed against a Grupo NH company in Germany due to the termination of a lease agreement and claiming specific amounts, including damages.

- A claim has been filed against a Grupo NH company in Italy due to the early termination of a lease agreement; the ruling was unfavourable to the company's interests in the court of first instance and is currently being appealed.

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

- On the occasion of the agreements reached in 2014 for the sale of the shares held by NH Hotel Group, S.A in the company Sotogrande, S.A., Grupo NH agreed to subrogate to the position of Sotogrande, S.A. for certain claims 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 company may be subject to a claim for amounts derived from an eventual administrative claim.

- It filed an arbitration claim requesting the validity of the declaration of resolution to sell practised at fifteen premises in San Roque, the decision on which was in favour of the Company's interests. To the contrary, it filed for annulment of the award, which has been dismissed. Currently, the debtor company has entered bankruptcy having requested the right to separate the premises of the business premises from the whole from the company which is currently in process.

- A Grupo NH shareholder has requested that certain resolutions adopted at the General Shareholders' Meeting be annulled; this has been dismissed in the first instance and is being appealed.

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

- Based on the specific tax liability undertaken by NH on the sale of a certain asset, the purchasers notified NH of the demand to pay a certain tax levied on the transfer. NH's tax advisors consider that there are sufficient defence arguments, and therefore no provision has been set up in this regard.

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, S.A. 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 has a total duration of five years, divided into three three-year cycles:

- The first cycle began on 1/1/2014 with delivery of shares in 2017 (settled)
- The second cycle began on 1/1/2015 with delivery of shares in 2018 (in force)
- The third cycle began on 1/1/2016 with delivery of shares in 2019 (in force)

The first cycle of the Plan (1/1/2014 - 31/12/2016), was settled during the first quarter of 2017 with an achievement of 47.71%. Said compliance was approved by the Board of Directors, and the number of shares to be delivered to each beneficiary resulted from multiplying the number of shares promised by the degree of compliance with the objectives (47.71%). The maximum amount approved by the General Shareholders' Meeting for the two current cycles of this plan amounts to 10,720 thousand euros.

The 2017 General Shareholders' Meeting approved the launch of a new Long-Term Incentive Plan. The new plan has a duration of five years, divided into three three-year cycles:

- The first cycle began on 1/1/2017 with delivery of shares in 2020 (in force)
- The second cycle began on 1/1/2018 with delivery of shares in 2021 (awaiting approval)
- The third cycle will begin on 1/1/2019 with delivery of shares in 2022 (awaiting approval)

This second plan will have a very similar structure to the first; delivery of ordinary shares of NH Hotel Group, S.A. to the beneficiaries calculated as a percentage of fixed salary, according to their level of responsibility.

The number of shares to be delivered shall be subject to the degree of fulfilment of the following four objectives:

- o TSR (total shareholder return) at the end of each of the plan cycles, comparing the performance of NH Hotel Group, S.A. shares with the STOXX® Europe 600 Travel & Leisure share index
- o Revaluation of the Share
- o Recurring Net Profit
- o Recurring EBITDA

The beneficiaries must remain in the Group on each of the plan settlement dates, notwithstanding the exceptions deemed appropriate, as well as achieving the minimum thresholds for each of the objectives.

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 2017, all the cycles had been approved by the Board of Directors.

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

The maximum amount approved by the General Shareholders' Meeting for the three cycles of the second Plan is 16,200,000 euros.

The effect of this item on the consolidated comprehensive profit and loss statement for 2017 was 2,809 thousand euros (1,701 thousand euros in 2016).

24.- INCOME AND EXPENSES

24.1 Income

The breakdown of these headings in the consolidated comprehensive profit and loss statement for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Hotel occupancy	1,094,430	1,014,173
Catering	320,431	312,561
Meeting rooms and others	80,772	75,066
Rentals and other services	50,453	46,103
Revenues	**1,546,086**	**1,447,903**
Operating subsidies	36	1
Other operating income	11,065	7,686
Other operating income	11,101	7,687
Net gain (loss) on disposal of assets	**30,148**	**41,526**

"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 2017 and 2016 was as follows:

	Thousands of euros	
	2017	2016
Spain	399,600	361,747
Germany	309,318	307,668
Benelux	319,475	276,102
Italy	275,534	266,412
Rest of Europe	99,250	99,086
Latin America	142,909	136,888
	1,546,086	**1,447,903**

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	
	2017	2016
Dividend income	34	884
Income from marketable securities	210	142
Interest income	1,819	1,738
Other financial income	932	546
	2,995	**3,310**

The breakdown of the amount of changes in the fair value of financial instruments is as follows:

	Thousands of euros	
	2017	2016
Foreign exchange derivative financial instruments (Note 4.6.3)	(7)	435
Total change in fair value of financial instruments	**(7)**	**435**

24.3 Staff expenses

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

	Thousands of euros	
	2017	2016
Wages, salaries and similar	316,421	307,123
Social security contributions	76,454	75,202
Indemnifications	12,632	13,432
Contributions to pension plans and similar	9,029	8,581
Other social expenses	12,604	11,551
Total	**427,140**	**415,889**

The average number of people employed by the Parent Company and the companies consolidated through full consolidation in 2017 and 2016 broken down by professional categories was as follows:

	2017	2016
Group's general management	8	7
Managers and heads of department	1,390	1,489
Technical staff	940	965
Sales representatives	750	794
Administrative staff	254	224
Rest of workforce	7,805	7,599
	11,147	**11,078**

The breakdown of the workforce at 31 December 2017 and 2016, by gender and professional category, is as follows:

	31-12-2017		31-12-2016	
	Males	Females	Males	Females
Group's general management	6	2	6	1
Managers and heads of department	781	599	867	621
Technical staff	510	400	534	430
Sales representatives	193	524	245	540
Administrative staff	93	153	102	131
Rest of workforce	4,141	3,680	3,897	3,653
	5,724	**5,358**	**5,651**	**5,376**

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 2017 and 2016, broken down by professional categories, is as follows:

	2017	2016
Managers and heads of department	5	5
Technical staff	8	14
Sales representatives	3	-
Administrative staff	3	5
Rest of workforce	70	91
	89	**115**

The average age of the Group's workforce is approximately 38 and average seniority in the Group is 8.5 years.

24.4 Other operating expenses

The detail of "Other Operating Expenses" of the consolidated statement of comprehensive income for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Lease rentals	301,720	287,951
External services	517,507	507,223
Total	**819,227**	**795,174**

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

	Thousands of euros	
	2017	2016
Outsourcing of services	111,945	111,261
Commissions and bonuses for customers	83,592	80,445
Supplies	47,080	45,542
Maintenance and cleaning	42,536	40,913
Laundry and related costs	37,376	36,141
Costs associated with information technologies	31,526	32,396
Marketing and merchandising	24,615	26,154
Other external services	138,837	134,371
Total	**517,507**	**507,223**

In 2017, the Group experienced a higher level of activity in its hotel business, which led to an increase in some operational expenses directly related to the level of activity, such as the outsourcing of certain services, maintenance and cleaning of the hotels and laundry service, among others. Also, the increase recorded in revenue per available room explains the increase in associated agency commission expenses. However, savings were achieved in other items such as marketing and merchandising, among others.

During 2017 and 2016, 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	
	2017	2016
Auditing services	481	478
Other verification services	258	426
Total auditing and related services	739	904
Tax consulting services	195	598
Other services	471	202
Total other services	666	800
Total professional services	**1,405**	**1,704**

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

	Thousands of euros	
	2017	2016
Auditing services	1,147	1,149
Other verification services	19	24
Total auditing and related services	1,166	1,173
Tax consulting services	56	115
Other services	-	6
Total other services	56	121
Total	**1,222**	**1,294**

During 2017, 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 83 thousand euros (130 thousand euros in 2016). The fees accrued in 2017 by these firms for tax advice services were 125 thousand euros (221 thousand euros in 2016) and for other services, 443 thousand euros (372 thousand euros in 2016).

24.5 Operating Leases

At 31 December 2017 and 2016, the Group had made undertakings concerning future minimal rental payments by virtue of non-cancellable operating lease agreements, which expire as set out in the table below.

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

	Present value	
Thousands of euros	2017	2016
Less than one year	261,801	259,112
Between two and five years	876,540	867,428
More than five years	1,211,109	1,151,056
Total	**2,349,450**	**2,277,596**

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

The breakdown by business unit of the current value of the rental instalments at 31 December 2017 is as follows (thousands of euros):

	Less than one year	Between two and five years	More than five years	Total
Spain*	77,667	236,935	211,494	526,096
Germany and Central Europe	95,184	320,977	490,948	907,109
Italy	39,868	146,395	129,982	316,245
Benelux	46,659	166,699	374,756	588,114
Latin America	2,423	5,534	3,929	11,886
Total	**261,801**	**876,540**	**1,211,109**	**2,349,450**

**Spain includes Portugal and France.*

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

	Less than one year	Between two and five years	More than five years	Total
Spain	68,901	207,625	140,106	416,632
Germany and Central Europe	99,513	326,638	390,595	816,746
Italy	40,286	138,94	135,279	314,505
Benelux	46,217	185,801	480,494	712,512
Latin America	4,195	8,424	4,582	17,201
Total	**259,112**	**867,428**	**1,151,056**	**2,277,596**

24.6 Finance costs

The detailed balance of this chapter of the consolidated statement of comprehensive income for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Expenses for interest	44,220	45,892
Financial expenses for means of payment	16,317	14,472
Financial effect relating to restatement of provisions and other financial liabilities	1,381	2,775
Amortisation of debt arrangement expenses	13,402	7,833
Other financial expenses	1,427	1,332
Total financial expenses	**76,747**	**72,304**

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

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

The increase in arrangement expenses in 2017 compared to 2016 is mainly due to the expenses incurred in the issuance of the 2023 maturity bond and the premiums paid for the repurchase and voluntary early cancellation of the 250 million euros bond maturing in 2019 which took place in the months of April and November 2017 (see Note 15).

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 2017 are stated below, distinguishing between major shareholders, members of the Board of Directors and Directors of the Parent Company and other related parties. The conditions of the related party transactions are equivalent to those of transactions carried out under market conditions:

	Thousands of euros			
	31/12/2017			
Income and Expenses	Significant shareholders	Directors and Executives	Associates or companies of the Group	Total
Expenses:				
Financial expenses	655	-	-	655
R&D transfers and licence agreements	-	-	13	13
Lease rentals	664	-	-	664
	1,319	**-**	**13**	**1,332**
Income:				
Management or cooperation agreements	8,969	-	2,114	11,083
Other income (Note 7.2)	6,000	-	-	6,000
	14,969	**-**	**2,114**	**17,083**

Income and Expenses	Thousands of euros			
	31/12/2016			
	Major shareholders	Directors and Executives	Associates or companies of the Group	Total
Expenses:				
R&D transfers and licence agreements	-	-	277	277
	-	-	277	277
Income:				
Financial income	-	-	22	22
Management or cooperation agreements	7,454	-	3,237	10,691
	7,454	-	3,259	10,713

The heading "Management or cooperation agreements" includes the amounts that have accrued in the form of management fees payable to Grupo NH during the period of 2017 by virtue of the hotel management agreement signed with Grupo Inversor Hesperia, S.A.

The line "Other income" includes compensation received by the Group from Grupo Inversor Hesperia, S.A., for the cancellation of the management contract between the two companies, which was replaced by a new contract on 7 March 2017 (see Note 7).

The line "Finance costs" includes the interest accrued for the outstanding debt to Grupo Inversor Hesperia, S.A. derived from the new management contract (see Note 7).

Other financing agreements:

	Thousands of euros	
	2017	2016
Accounts receivable from associated companies	1,016	840
Loans to associates		
Consorcio Grupo Hotelero T2, S.A. de C.V. (Note 10.1)	-	244
Sotocaribe, S.L.	7,382	5,955
Total	**8,398**	**7,039**

Management contracts

By virtue of the contractual relationship entered into with Grupo Inversor Hesperia, S.A. at 31 December 2017, 2.26 million euros had not yet been received for various reasons (1.88 million euros at 31 December 2016), of which 0.07 million euros was due on said date (0.21 million euros at 31 December 2016).

At the same time, through the new contract between Hoteles Hesperia, S.A. and Grupo Inversor Hesperia, S.A., on 7 March 2017, the Group agreed to pay 38,560 thousand euros, with 21,560 thousand euros still pending at 31 December 2017 (see Note 7).

26.- INFORMATION BY SEGMENTS

26.1 Information on main segments

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

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

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

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

c) They have different financial information.

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

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

	Thousands of euros													
	Hotel Business													
	31/12/17							31/12/16						
	Total	**Spain**	**Benelux**	**Italy**	**Germany**	**Latin America**	**Rest of Europe and others**	**Total**	**Spain**	**Benelux**	**Italy**	**Germany**	**Latin America**	**Rest of Europe and others**
OTHER INFORMATION														
Additions of fixed assets	113,811	63,826	13,071	8,649	21,529	6,624	112	138,846	44,674	45,811	24,190	15,220	8,752	199
Depreciation	(123,085)	(39,812)	(20,234)	(33,536)	(18,495)	(8,498)	(2,510)	(114,170)	(36,511)	(19,047)	(24,894)	(23,018)	(8,007)	(2,693)
Net profit (loss) for asset deterioration	10,108	3,319	(783)	9,471	(2,020)	-	121	(2,686)	(952)	665	(3,367)	925	-	43
BALANCE SHEET														
ASSETS														
Assets by segments	2,353,119	681,765	577,523	454,217	290,223	348,494	897	2,569,906	738,717	646,954	486,445	303,010	387,198	7,582
Shareholdings in associated companies	9,419	1,366	-	-	-	5,913	2,140	10,646	1,407	-	-	-	6,165	3,074
Non-current assets classified as held for sale	66,621	-	66,621	-	-	-	-	-	-	-	-	-	-	-
Total consolidated assets	2,429,159	683,131	644,144	454,217	290,223	354,407	3,037	2,580,552	740,124	646,954	486,445	303,010	393,363	10,656
LIABILITIES														
Liabilities and equity by segments	2,429,159	683,131	644,144	454,217	290,223	354,407	3,037	2,580,552	740,124	646,954	486,445	303,010	393,363	10,656
Total Consolidated Liabilities and Equity	**2,429,159**	**683,131**	**644,144**	**454,217**	**290,223**	**354,407**	**3,037**	**2,580,552**	**740,124**	**646,954**	**486,445**	**303,010**	**393,363**	**10,656**

	Miles de Euros													
	Real estate													
	31/12/17							31/12/16						
	Total	**Spain**	**Benelux**	**Italy**	**Germany**	**Latin America**	**Rest of Europe and others**	**Total**	**Spain**	**Benelux**	**Italy**	**Germany**	**Latin America**	**Rest of Europe and others**
OTHER INFORMATION														
Additions of fixed assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss) for asset deterioration	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BALANCE SHEET														
ASSETS														
Assets by segments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shareholdings in associated companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-current assets classified as held for sale	42,545	-	-	-	-	33,556	8,989	46,685	-	-	-	-	34,556	12,129
Total consolidated assets	42,545	-	-	-	-	33,556	8,989	46,685	-	-	-	-	34,556	12,129
LIABILITIES														
Liabilities and equity by segments	42,545	-	-	-	-	33,556	8,989	46,685	-	-	-	-	34,556	12,129
Total Consolidated Liabilities and Equity	**42,545**	**-**	**-**	**-**	**-**	**33,556**	**8,989**	**46,685**	**-**	**-**	**-**	**-**	**34,556**	**12,129**

	Thousands of euros													
	Total													
	31/12/17							31/12/16						
	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others
OTHER INFORMATION														
Additions of fixed assets	113,811	63,826	13,071	8,649	21,529	6,624	112	138,846	44,674	45,811	24,190	15,220	8,752	199
Depreciation	(123,085)	(39,812)	(20,234)	(33,536)	(18,495)	(8,498)	(2,510)	(114,170)	(36,511)	(19,047)	(24,894)	(23,018)	(8,007)	(2,693)
Net profit (loss) for asset deterioration	10,108	3,319	(783)	9,471	(2,020)	-	121	(2,686)	(952)	665	(3,367)	925	-	43
BALANCE SHEET														
ASSETS														
Assets by segments	2,353,119	681,765	577,523	454,217	290,223	348,494	897	2,569,906	738,717	646,954	486,445	303,010	387,198	7,582
Shareholdings in associated companies	9,419	1,366	-	-	-	5,913	2,140	10,646	1,407	-	-	-	6,165	3,074
Non-current assets classified as held for sale	109,166	-	66,621	-	-	33,556	8,989	46,685	-	-	-	-	34,556	12,129
Total consolidated assets	2,471,704	683,131	644,144	454,217	290,223	387,963	12,026	2,627,237	740,124	646,954	486,445	303,010	427,919	22,785
LIABILITIES														
Liabilities and equity by segments	2,471,704	683,131	644,144	454,217	290,223	387,963	12,026	2,627,237	740,124	646,954	486,445	303,010	427,919	22,785
Total Consolidated Liabilities and Equity	**2,471,704**	**683,131**	**644,144**	**454,217**	**290,223**	**387,963**	**12,026**	**2,627,237**	**740,124**	**646,954**	**486,445**	**303,010**	**427,919**	**22,785**

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 (2017)						
Significant information from the Profit and loss Statement by Geographic Area	**Spain**	**Benelux**	**Italy**	**Germany**	**Latin America**	**Rest of Europe**	**Total**
Revenues	399,600	319,475	275,534	309,318	142,909	99,250	1,546,086
Depreciation	(39,812)	(20,234)	(33,536)	(18,495)	(8,498)	(2,510)	(123,085)
Financial income	971	374	335	647	591	77	2,995
Financial expenses	(63,931)	3,911	(3,367)	(6,225)	(5,476)	(1,659)	(76,747)
Profit (Loss) from entities valued through the equity method	(42)	-	-	-	454	(761)	(349)
Variation in the provision for onerous contracts	4,496	-	-	439	-	(719)	4,216
Income tax	(13,216)	(10,453)	(4,780)	(331)	(4,676)	(56)	(33,512)
Profit (loss) for the year from discontinued operations net of tax	-	-	-	-	(186)	(92)	(278)

	Thousands of euros (2016)						
Significant information from the Profit and loss Statement by Geographic Area	**Spain**	**Benelux**	**Italy**	**Germany**	**Latin America**	**Rest of Europe**	**Total**
Revenues	361,747	276,102	266,412	307,668	136,888	99,086	1,447,903
Depreciation	(36,511)	(19,047)	(24,894)	(23,018)	(8,007)	(2,693)	(114,170)
Financial income	1,100	595	72	919	551	73	3,310
Financial expenses	(55,448)	1,044	(4,810)	(6,365)	(5,036)	(1,689)	(72,304)
Profit (Loss) from entities valued through the equity method	208	-	-	-	687	(776)	119
Variation in the provision for onerous contracts	4,862	-	840	477	-	(2,016)	4,163
Income tax	490	(6,433)	1,478	1,649	(4,906)	(213)	(7,935)
Profit (loss) for the year from discontinued operations net of tax	-	-	-	-	(2,115)	(159)	(2,274)

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

The Management Bodies of the Parent Company have the following composition at 31 December 2017:

- Board of Directors: 10 members in 2017 (11 in 2016),
- Executive Committee: 5 members in 2017 (4 in 2016),
- Audit and Control Committee: 3 members in 2017 (5 in 2016), and
- Appointments and Remuneration Committee: 4 members in 2017 (6 in 2016).

The amount accrued during 2016 and 2017 by the members of the Parent Company's Board of Directors in relation to the remuneration of the CEO, bylaw stipulated directors' fees and subsistence allowances and other items, is as follows:

27.1 Remuneration of the Board of Directors

	Thousands of euros	
Remuneration item	**2017**	**2016**
Fixed remuneration	490	451
Variable remuneration	344	-
Parent Company: subsistence allowances	178	274
Parent Company: Directors' fees	1,017	509
Options on shares and other financial instruments	191	-
Indemnifications/others	86	10
Life insurance premiums	26	4
Total	**2,332**	**1,248**

The Board of Directors had 10 members at 31 December 2017, of which one is a woman and nine are men (in 2016, there were 11 members: two women and nine men).

In relation to the chapter "Share transactions and/or other financial instruments", the objective longterm remuneration earned has been taken into account. The remuneration in kind (leasings and medical insurance) and the shares delivered in 2017 due to the settlement of the incentive long-term plan as indicated in the section "Others" are included

27.2 Remuneration of senior management

The remuneration of members of the Management Committee at 31 December 2017 and 2016, excluding these who simultaneously hold office as members of the Board of Directors (whose remuneration has been set out above), is detailed below:

	Thousands of euros	
	2017	**2016**
Pecuniary remuneration	2,678	2,617
Remuneration in kind	556	161
Others	642	890
Total	**3,876**	**3,668**

There were seven members of Senior Management at 31 December 2017 (six members at 31 December 2017) excluding the CEO.

The fix remuneration and the variable remuneration accrued in 2017 and paid in 2018 are included within the remuneration of Senior Management.

Included in remuneration in kind is the vehicle, insurance and settlement of the long-term incentive charged in shares in 2017 that was accrued in 2016.

Section "Others" takes into consideration the long-term objective retribution accrued in 2017

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

27.3 Information on conflicts of interest on the part of Directors

At year-end 2017, the members of the Board of Directors of NH Hotel Group, S.A. have indicated that they are not in any situation of conflict, direct or indirect, that they or persons related to them, as defined in the related Act, may have with the interests of the Company, except the directors related to GIHSA, who have reported:

- On 19 April 2017, with prior information and deliberation in previous sessions of the Audit and Control Committee of 27 February 2017, and of the Board of Directors on 28 February 2017, NH Hotel Group, S.A. and Grupo Inversor Hesperia, S.A., signed a Framework Agreement for the management by NH of 28 hotels in the hotels portfolio owned by Grupo Inversor Hesperia, S.A. The terms and conditions of the Agreement was unanimously approved by NH's Board of Directors following a favourable report from its Audit and Control Committee.

During the aforementioned meetings, the Directors related to GIHSA were absent and abstained from taking decisions.

28.- EVENTS AFTER THE REPORTING PERIOD

As stated in Note 11 of the accompanying report, on 28 December 2017, an agreement was reached with the German asset manager Deka Immobilien for the sale and subsequent rental of the property in which the NH Collection Barbizon Palace Amsterdam is located. The operation agreed at the end of January 2018, has involved the sale of the building for 155.5 million euros (584.5 thousand euros/room), which will bring about an estimated capital gain of 55 million euros in 2018 and net cash of 122.4 million euros. The variable income lease of the property will allow the Group to keep operating the hotel for an initial period of 20 years, with the option of exercising two extensions of 20 years each.

29.- INFORMATION ON ENVIRONMENTAL POLICY

For the NH Hotel Group, sustainability drives innovation, seeking to surprise our guests as well as achieving efficiencies in the use of water and energy. In our responsible commitment to the planet, we work to minimise our impact on climate change, increase the efficiency of resources and develop more sustainable products. All this minimises our environmental footprint with responsible consumption of natural resources.

In 2017, the implementation of the sustainability initiative continued. This initiative gives continuity to the environmental achievements of recent years. Thus, compared to 2008, per Average Daily Room energy consumption has been reduced by 28%, water consumption by 29% and our carbon footprint by 74%. NH Hotel Group is committed to renewable energy, which reduces its carbon footprint. Certified green energy consumption is available in 78% of hotels in Spain, Italy, Germany, Holland, Belgium and Luxembourg.

The Group is certified by internationally recognised standards such as ISO 50001, which certifies the efficiency of the hotel network's energy management on an international scale, and ISO 14001, related to environmental management. A total of 132 hotels have achieved their own external certification for their sustainable management.

NH Hotel Group has reported its climate change commitment and strategy to the Carbon Disclosure Project (CDP) since 2010. In 2017, the Company obtained a B Management rating, which places NH Hotel Group among the leading companies adopting measures to efficiently reduce emissions, which is indicative of advanced environmental management.

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

30.- EXPOSURE TO RISK

The Group financial risk management is centralised at the Corporate Finance Division. This Division has put the necessary measures in place to control exposure to changes in interest and exchange rates on the basis of the Group's structure 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 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 bonds. At 31 December 2017, approximately 92% of the gross borrowings was tied to fixed interest rates.

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

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

In the event that the increase in interest rates were 0.25%, the financial expense would increase by 143 thousand euros.

In the event that the increase in interest rates were 0.5%, the financial expense would increase by 286 thousand euros.

In the event that the increase in interest rates were 1%, the financial expense would increase by 573 thousand euros.

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

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

Exchange rate risk

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

- Investments in foreign countries (essentially Mexico, Argentina, Colombia, Chile, Ecuador, the Dominican Republic, Brazil, 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, Brazil, the United States and the United Kingdom).

In this respect, the detail of the effect on the currency translation difference of the main currencies in 2017 was as follows:

	Thousands of euros	
	Currency translation difference	Changes with respect to 2016
US dollar	2,725	(1,756)
Argentine peso	(96,861)	(6,167)
Mexican peso	(20,764)	(3,795)
Colombian peso	(15,921)	(8,246)

The changes in the currency translation difference of the above currencies was mainly due to the movements in exchange rates between 31 December 2017 and 31 December 2016:

Year-end euro reference exchange rate	31/12/2017	31/12/2016	Change
US dollar	0.833820	0.948680	(12.11%)
Argentine peso	0.044240	0.059910	(26.16%)
Mexican peso	0.042260	0.045930	(7.99%)
Colombian peso	0.000280	0.000320	(12.50%)

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

Below is a detail of the movements in the average exchange rate between 2017 and 2016 of the aforementioned currencies:

Year-end average euro reference exchange rate	2017	2016	Change
US dollar	0.885190	0.903420	(2.02%)
Argentine peso	0.053280	0.061180	(12.91%)
Mexican peso	0.046890	0.048390	(3.10%)
Colombian peso	0.000300	0.000300	-

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

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

	Thousands of euros		
	Revenues	Equity	Net Profit (Loss)
US dollar	(591)	(837)	331
Argentine peso	(1,917)	(903)	(139)
Mexican peso	(1,745)	(2,193)	(211)
Colombian peso	(1,846)	(2,337)	80

The Group has no investments in countries with hyperinflationary currencies.

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 2017 is based on the following points:

- The group had cash and cash equivalents amounting to 80,249 thousand euros at 31 December 2017 (see Note 13).

- Available in undrawn credit lines amounting to 316,345 thousand euros at 31 December 2017, of which 250,000 thousand euros represent credit lines not drawn down in the medium term (Note 15).

The Group's business units have the capacity to generate cash flow from their operations.

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

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

31.- TRANSLATION

Translation of 2017 Consolidated Financial Statements and Consolidated Management Report originally issued in Spanish and prepared in accordance with IFRS's as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.

APPENDIX I: SUBSIDIARIES

The data on the Parent company's subsidiaries at 31 December 2017 are presented below:

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

All companies end the year on 31/12/2017

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

All companies end the year on 31/12/2017

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
Leeuwenhorst Congres Center B.V.	Noordwijkerhout	Hotel Business	100%	100%
Liberation Exploitatie B.V.	Sprang Capelle	Hotel Business	100%	100%
Marquette Beheer B.V.	Hilversum	Real estate	100%	100%
Museum Quarter B.V.	Hilversum	Hotel Business	100%	100%
Nacional Hispana de Hoteles, S.A.	Mexico City	Hotel Business	100%	100%
Aguamarina S.A.	Dominican Republic	Corporate services	100%	100%
NH Atardecer Caribeño, S.A.	Madrid	Corporate services	100%	100%
NH Belgium, cvba	Diegem	Holding company	100%	100%
NH Caribbean Management B.V.	Hilversum	Management	100%	100%
NH Central Europe Management GmbH	Berlin	Hotel Business	100%	100%
NH Central Europe GmbH & Co. KG	Berlin	Hotel Business	100%	100%
NH Central Reservation Office, S.A.	Madrid	Call Centre	100%	100%
NH FINANCE, S.A.	Luxembourg	Financial company	100%	100%
NH Financing Services S.a r.l.	Luxembourg	Financial company	100%	100%
NH Hotel Ciutat de Reus, S.A.	Barcelona	Hotel Business	90%	90%
NH Europa, S.A.	Barcelona	Hotel Business	100%	100%
NH Hotelbetriebs. u. Dienstleistungs, GmbH	Berlin	Hotel Business	100%	100%
NH Hotelbetriebs-u Entwicklungs, GmbH	Berlin	Hotel Business	100%	100%
NH Hoteles Austria GmbH	Vienna	Hotel Business	100%	100%
NH Hoteles Deutschland, GmbH	Berlin	Hotel Business	100%	100%
NH Hoteles España, S.A.	Barcelona	Hotel Business	100%	100%
NH Hoteles France S.A.S.U.	France	Hotel Business	100%	100%
NH Hoteles Switzerland GmbH	Fribourg	Hotel Business	100%	100%
NH Hotels Czequia, s.r.o.	Prague	Hotel Business	100%	100%
NH Hotels Polska, Sp. Zo.o.	Poland	Hotel Business	100%	100%
NH Hotels USA Inc.	Houston	Hotel Business	100%	100%
NH Hungary Hotel Management, Ltd.	Budapest	Hotel Business	100%	100%
NH Lagasca, S.A.	Madrid	Hotel Business	75%	75%
NH Las Palmas, S.A.	Gran Canaria	Hotel Business	75%	75%
NH Logroño, S.A.	Logroño	Hotel Business	76%	76%
NH Marin, S.A.	Barcelona	Hotel Business	50%	50%
NH Private Equity, B.V.	Luxembourg	Hotel Business	100%	100%
NH Hotel Rallye Portugal, Lda.	Portugal	Hotel Business	100%	100%
NH The Netherlands B.V. (formerly GTI B.V.)	Hilversum	Holding company	100%	100%
Nhow Rotterdam, B.V.	The Hague	Hotel Business	100%	100%
Hotel Exploitatiemaatschappij Diegem N.V	Diegem	Hotel Business	100%	100%
Noorderweb, B.V.	Hilversum	Hotel	100%	100%
Nuevos Espacios Hoteleros, S.A.	Madrid	Hotel Business	100%	100%
Objekt Leipzig Messe, GmbH & Co.	Munich	Real estate	94%	100%

All companies end the year on 31/12/2017

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
Olofskapel Monumenten B.V.	Amsterdam	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Atlanta Rotterdam, B.V.	Rotterdam	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Bogardeind Geldrop, B.V.	Geldrop	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Capelle aan den Ijssel, B.V.	Capelle a/d Ijssel	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Danny Kayelaan Zoetermeer, B.V.	Zoetermeer	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Ijsselmeerweg Naarden, B.V.	Naarden	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Kruisweg Hoofddorp, B.V.	Hoofddorp	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Maas Best, B.V.	Best	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Marquette Heemskerk, B.V.	Heemskerk	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Prins Hendrikkade Amsterdam, B.V.	Amsterdam	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Van Alphenstraat Zandvoort, B.V.	Zandvoort	Real estate	100%	100%
Operadora Nacional Hispana, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Palatium Amstelodamum N.V.	Amsterdam	Hotel Business	100%	100%
Polis Corporation, S.A.	Buenos Aires	Hotel Business	100%	100%
Restaurant D'Vijff Vlieghen B.V.	Amsterdam	Catering	100%	100%
Servicios Chartwell de Nuevo Laredo, S.A. de C.V.	Nuevo Laredo	Hotel Business	100%	100%
Servicios Corporativos Chartwell Monterrey, S.A. de C.V.	Monterrey	Hotel Business	100%	100%
Servicios Corporativos Hoteleros, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Servicios Corporativos Krystal Zona Rosa, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Servicios de Operación Turística, S.A. de C.V.	Guadalajara	Hotel Business	100%	100%
Servicios Hoteleros Tlalnepantla, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Nhow Amsterdam, B.V.	Utrecht	Without activity	100%	100%
Toralo, S.A.	Montevideo	Hotel Business	100%	100%
VSOP VIII B.V.	Groningen	Hotel Business	50%	50%
Coperama Spain, S.L.	Madrid	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 Pacífico 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	97%	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%

All companies end the year on 31/12/2017

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
Inversiones SHCI	Bogota	Real estate	97%	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 7A Ltda	Bogota	Hotel Business	97%	100%
Sociedad Hotelera Cien Internacional S.A.	Bogota	Hotel Business	62%	64%
Sociedad Hotelera Cotopaxi S.A.	Quito	Hotel Business	54%	55%
Sociedad Operadora Nh Royal Panama S.A.	Panama City	Hotel Business	97,47%	100%
NH Italia, S.p.A.	Milan	Hotel Business	100%	100%
Immo Hotel Bcc N.V.	Diegem	Real estate	100%	100%
Immo Hotel Belfort N.V.	Diegem	Real estate	100%	100%
Immo Hotel Brugge N.V.	Diegem	Real estate	100%	100%
Immo Hotel Diegem N.V.	Diegem	Real estate	100%	100%
Immo Hotel Gent N.V.	Diegem	Real estate	100%	100%
Immo Hotel Gp N.V.	Diegem	Real estate	100%	100%
Immo Hotel Stephanie N.V.	Diegem	Real estate	100%	100%
Immo Hotel Mechelen N.V.	Diegem	Real estate	100%	100%
NH Management Black Sea Srl	Bucharest	Hotel Business	100%	100%
NH Brasil Abrasil Administraçao De Hoteis E Participadas Ltda.	Villa Olímpica	Hotel Business	100%	100%
Capredo Investments, GmbH	Switzerland	Holding company	100%	100%
Palacio de la Merced, S.A.	Burgos	Hotel Business	72%	100%
Latinoamericana Curitiba Administracao De Hoteis Ltda	Curitiba	Hotel Business	100%	100%
Coperama Italia S.R.L.	Milan	Procurement network	100%	100%
Coperama Central Europe Gmbh	Berlin	Procurement network	100%	100%
Iberinterbrokers, S.L.	Barcelona	Provision of services	75%	100%
Coperama Colombia S.A.S.	Bogota	Procurement network	100%	100%
Wilan Ander, S.L. (*)	Madrid	Hotel Business	100%	100%
Wilan Huel, S.L. (*)	Madrid	Hotel Business	100%	100%

All companies end the year on 31/12/2017
(*) Additions to the scope 2017

APPENDIX II: ASSOCIATES

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

All companies end the year on 31/12/2017

CONSOLIDATED MANAGEMENT REPORT

For the financial year ending 31 December 2017

EVOLUTION OF BUSINESS AND GROUP'S SITUATION

NH Hotel Group is an international hotel operator and one of the leading urban hotel companies worldwide in terms of number of rooms. The Group operates nearly 380 hotels and 60,000 rooms in 31 countries, and has a significant presence in Europe.

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

In 2017, world economic activity grew at a pace of +3.5% (Data and estimates provided by the E.C. "European Economic Forecast – Autumn 2017" November 2017), greater than the previous year (+3.0%). More specifically in the Eurozone, the provisional growth rate for 2017 was 2.2% (+1.7% in 2016). Global growth has led to a positive cycle of trade and investment. Likewise, European economies continue to grow, although the recovery has not ended, which suggests there is room for further growth. In line with the above data, when comparing the growth rates of the four countries that bring together the largest proportion of revenues and results of the Group, it is observed that in Holland (+3.2% in 2017 vs +1.7% 2016), Germany (+2.2% in 2017 vs +1.9% in 2016), and Italy (+1.5% in 2017 vs +0.7% in 2016) growth increased compared with the previous year, while in Spain (+3.1% in 2017 vs +3.2% in 2016) growth was similar to the previous year.

According to the World Tourism Organization ("UNWTO") in 2017, international tourist arrivals globally reached 1,322 million, representing an increase of + 7.0% over the previous year, a rate much higher than the sustained and constant trend of 4% or more which had been recorded since 2010 and represents the best result in seven years. More specifically, the arrival of international tourists to Europe reached 671 million in 2017, recording remarkable growth of 8% after a comparatively weaker 2016 which was headed by destinations in the Mediterranean. The growth was driven by the extraordinary results of Southern and Mediterranean Europe (+13%). Western Europe (+7%), Northern Europe and Central and Eastern Europe (both +5%) also posted solid growth. In this European context, Spain has established itself as the second tourist power in the world only behind France but ahead of the United States, and managed to break its record with 82 million foreign tourists due to an increase of 9% in the number of international arrivals.

In this context, in 2017, as a result of the favourable trend in the hotel business throughout the year and the effect of the initiatives it carried out, particularly the repositioning of its brands and hotels, the Group recorded a significant increase in price per room ("ADR", average daily rate).

During 2017, the value of the price strategy continues to be enhanced, greater Group growth being obtained in the top cities compared to direct competitors, where there are market measures in place. The evolution of RevPar in our top destinations was superior to that of our competitors.

As part of its asset repositioning plan, NH Hotel Group invested almost 200 million euros from 2014 to 2017 to fully renovate or remodel its mid-range hotels with the greatest potential for improvement. With the aim of continuing to improve the quality and strengthen the NH Collection brand, the repositioning investment phase in Germany which began in the previous year was completed during 2017, after the investment made in Benelux in 2016 and in Spain and Italy in 2015.

Additionally, new repositioning opportunities have been selectively identified for 2018 and 2019, where the Group will additionally have contributions from the owners of hotels that are leased by the Group.

Among the main milestones reached over the last years of transformation, the appearance of a new NH Hotel Group value proposition stands out based on the improvement of the quality, experience and the new brand architecture with the NH Collection, NH Hotel, nhow and Hesperia brands. In this vein, the Group improved the customer experience thanks to implementing a solid operational vision, including the new elements making up the hotels' basic product range, known as Brilliant Basics, which are already in place in all of the establishments and which are contributing to a better experience and higher average quality score of the customers.

The trend in quality indicators confirms the improvement in user ratings for the Group's hotels throughout 2017. At Group level, 35% of the portfolio is positioned in the top 10 of the city's TripAdvisor (45% for NH Collection hotels) (34% and 45% respectively in 2016) and 55% of the hotels are in the top 30 (63% for NH Collection hotels) (52% y 62% respectively in 2016), which demonstrates the highest levels of quality perceived by customers.

Also, the NH Rewards loyalty programme now has over 8.4 million members (6.8 millon members in 2016), 18% of whom joined in 2017, and 23% of the total are active.

Meanwhile, in 2017, another 6 hotels began operating in Marseilles, Eindhoven, Curitiba, Puebla, San Luis de Potosí and Shijiazhuang with a total of 799 rooms, giving 380 hotels operating with 58,926 rooms at 31 December 2017.

In addition, in 2017 the Group signed 7 hotels with 1,762 rooms. All the signings were under lease and management contracts, many of them in the top brand segment and in primary cities (Frankfurt, Valencia, Lima, Brussels).

As a result, revenue in 2017 amounted to 1,546.1 million euros, representing growth of +6.8% (+98.1 million euros), well above the increase in operating costs. As a result of the operational improvement, the profit for the year attributable to the Parent Company stood at 35.5 million euros compared to 30.8 million euros in 2016.

In this year gross indebtedness decreased from 861.8 million euros in December 2016 to 716.9 million euros in December 2017. At 31 December 2017, cash and cash equivalents amounted to 80.2 million euros (136.7 million euros at 31 December 2016). Additionally, this liquidity was complemented by credit lines at the end of the year amounting to 316.3 million euros, of which 250 million euros corresponded to a long-term syndicated credit line, compared to 308.9 million euros at 31 December 2016.

As indicated in the Note 13 of the annual accounts, the Company has refinanced or early redeemed the debt corresponding to senior secured obligations due in 2019.

Likewise, as a consequence of these operations, the syndicated credit line signed in 2016 for a limit of 250 million euros will continue to be available in full, and its maturity will automatically extend to 2021.

This value optimisation of the Company has recently been reflected in the improvement of the corporate credit outlooks assigned by the main rating agencies. Fitch improved the corporate rating outlook from “B with a stable outlook” to “B with a positive outlook” based on greater liquidity and operational improvement. In turn, Moody’s improved the corporate rating outlook from “B2 with a stable outlook” to “B2 with a positive outlook”, due to the operational improvement, the hotel repositioning plan which has allowed NH to increase its revenues and profitability, its cost saving plan and the significant improvement of its liquidity position. Additionally, Standard & Poors improved its opinion on the Group’s business profile, mainly due to its successful repositioning plan which has resulted in improved sales and profitability.

On 28 September 2017, the Group presented its strategic plan for 2018-2019 to the investment community. After a phase marked by a strong investment in repositioning and improvement of the experience, NH Hotel Group is in a favourable position to face future growth in the coming years. The Company defined its priorities until 2019, focused on revenue management through a dynamic pricing strategy, a continued focus on efficiency and debt reduction, whilst, at the same time, taking advantage of its current strengths for new repositioning opportunities and organic expansion as a means of additional growth.

The results of the plan will be reflected in the significant improvement in the Company’s cash generation and in the reduction of its financial indebtedness.

At the General Shareholders’ Meeting in June 2017, shareholders approved the payment of an interim dividend from 2016 results amounting to 17 million euros, representing five cents per outstanding share (gross). Additionally, the Group has established a shareholder remuneration policy in line with its debt reduction plans, defining a medium-term shareholder remuneration close to 50% of the recurring net profit. In the short term, it foresees a dividend proposal of ten cents per share in 2018 and fifteen cents in 2019.

Finally, the Company has a diverse workforce of 22,789 employees made up with 134 different nationalities, of which 11.4% work in countries other than their home country. The percentage of employees between 25 and 40 years old reached 49.6%, while that of those under 25 stood at 14.8% and those over 40 at 35.7%. Further detail on this matter is to be found in the Corporate Social Responsibility report available on the corporate website of NH Group (https://www.nh-hoteles.es/corporate/es) in the shareholders and investors section within financial information section, included in the annual reports segment.

THE ENVIRONMENT

For the NH Hotel Group, sustainability drives innovation, seeking to surprise our guests as well as achieving efficiencies in the use of water and energy. In our responsible commitment to the planet, we work to minimise our impact on climate change, increase the efficiency of resources and develop more sustainable products. All this minimises our environmental footprint with responsible consumption of natural resources.

In 2017, the implementation of the sustainability initiative continued. This initiative gives continuity to the environmental achievements of recent years. Thus, compared to 2008, per Average Daily Room energy consumption has been reduced by 28%, water consumption by 29% and our carbon footprint by 74%. NH Hotel Group is committed to renewable energy, which reduces its carbon footprint. Certified green energy consumption is available in 78% of hotels in Spain, Italy, Germany, Holland, Belgium and Luxembourg.

The Group is certified by internationally recognised standards such as ISO 50001, which certifies the efficiency of the hotel network’s energy management on an international scale, and ISO 14001, related to environmental management. A total of 132 hotels have achieved their own external certification for their sustainable management.

NH Hotel Group has reported its climate change commitment and strategy to the Carbon Disclosure Project (CDP) since 2010. In 2017, the Company obtained a B Management rating, which places NH Hotel Group among the leading companies adopting measures to efficiently reduce emissions, which is indicative of advanced environmental management.

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

Further detail on this matter is to be found in the Corporate Social Responsibility report available on the corporate website of NH Group (https://www.nh-hoteles.es/corporate/es) in the shareholders and investors section within financial information section, included in the annual reports segment.

RISK MANAGEMENT MODEL

Since November 2015, the NH Hotel Group has had a risk policy approved by the Board of Directors. The aim of this corporate policy is to define the basic principles and the general framework of action to identify and control risks of any nature which may affect NH. This policy applies to all companies over which the NH Hotel Group has effective control.

NH Hotel Group'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 the NH Hotel Group 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.

The Company's Risk Map is updated annually and, after validation by the Audit and Control Committee, approved by the Board of Directors. The 2017 Risk Map was approved by the Board at its meeting on 25 October 2017.

In general, the risks to which the Group is exposed can be classified into the following categories:

a) Financial Risks, such as fluctuation of interest rates, exchange rates, inflation, liquidity, non-compliance with financing undertakings, restrictions on financing and credit management.
b) Compliance Risks, arising from possible regulatory changes, interpretation of legislation, regulations and contracts, and non-compliance with internal and external regulations. Tax and environmental risks are included under this heading. It also covers Reputational Risks, arising from the company's behaviour which negatively affects fulfilment of the expectations of one or more of its stakeholders (shareholders, customers, suppliers, employees, the environment and society in general).
c) Business Risks generated by inadequate management of procedures and resources, whether human, material or technological. This category encompasses difficulty in adapting to changes in customer demand, including those caused by
d) External Risks, arising from natural disasters, political instability or terrorist attacks.
e) Systems Risks, produced by attacks or faults in infrastructures, communication 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.
f) Strategic Risks, produced by difficulty accessing markets and difficulties in asset disinvestment.

Finally, in May 2017, the creation of an Executive Committee on Risks was approved to support the periodic monitoring of risks (monitoring of action plans and key indicators), support initiatives and activities related to the implementation of action plans, as well as creating a culture of risks in the company. This Committee met twice during the year.

Further detail on this matter is to be found in the Corporate Social Responsibility report available on the corporate website of NH Group (https://www.nh-hoteles.es/corporate/es) in the shareholders and investors section within financial information section, included in the annual reports segment.

SHARES AND SHAREHOLDERS

NH Hotel Group, S.A. share capital at the end of 2017 comprised 350,271,788 fully subscribed and paid up bearer shares with a par value of €2 each. All these shares carry identical voting and economic rights and are traded on the Spanish Stock Exchange Market.

According to the latest notifications received by the Company and the notices given to the National Securities Market Commission before the end of every financial year, the most significant shareholdings at 31 December 2017 and 2016 were as follows:

	2017	2016
HNA CO LTD	29.34%*	29.50%
Oceanwood Capital Management LLP	12.06%	11.97%
Grupo Hesperia	9.27%**	9.27%**
		*

Notwithstanding this list of shareholders, the following changes communicated to the CNMV by said shareholders are reported:

** Although in the CNMV Records it is recorded that the shareholding of Grupo HNA in NH is 29.50% at 31 December 2017, Grupo HNA reported a decrease to 29.34% in its shareholding in NH to the CNMV on 27 February 2017. In addition, on 3 November 2017, Grupo HNA notified the CNMV of the signing of a sales contract and repurchase agreement through which it would transfer NH shares representing approximately 1.14% of the capital. Depending on whether the sale has been formalised and the terms and conditions of it, Grupo HNA's shareholding in NH could reach 28.20% of the share capital. Finally, on 19 January 2018, it notified the CNMV of the engagement to review its shareholding in the Group, including identify potential buyers of its shareholding.*

*** The shareholding of Grupo Hesperia consists of the direct shareholding held by Grupo Inversor Hesperia, S.A. (9.10%) and Eurofondo (0.17%).*

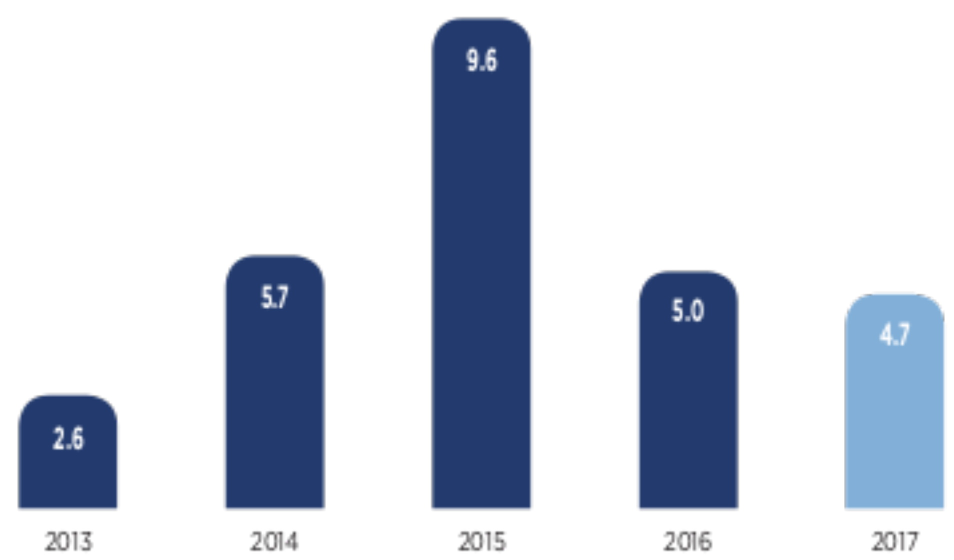
The average share price of NH Hotel Group, S.A. in 2017 was 5.05 euros per share (4.04 euros in 2016). The lowest share price of 3.84 euros per share was recorded in January (3.17 euros in February 2016) and the highest share price of 6.26 euros per share in December (4.95 euros in January 2016). The market capitalisation of the Group at the close of 2017 stood at 2,101.63 million euros (1,346.80 million euros at the close of 2016).

At 31 December 2017, the Group had 9,416,368 own shares of which 9,000,000 correspond to the loan of shares for the issue of the convertible bond in November 2013. Of these 9 million shares, at 31 December 2017, 7,615,527 have been returned, and are now controlled by NH, although they remain available to the financial entities. Additionally, in August 2016, the Company purchased 600,000 own shares and in 2017, delivered 183,632 shares to employees under the Incentive Plan.

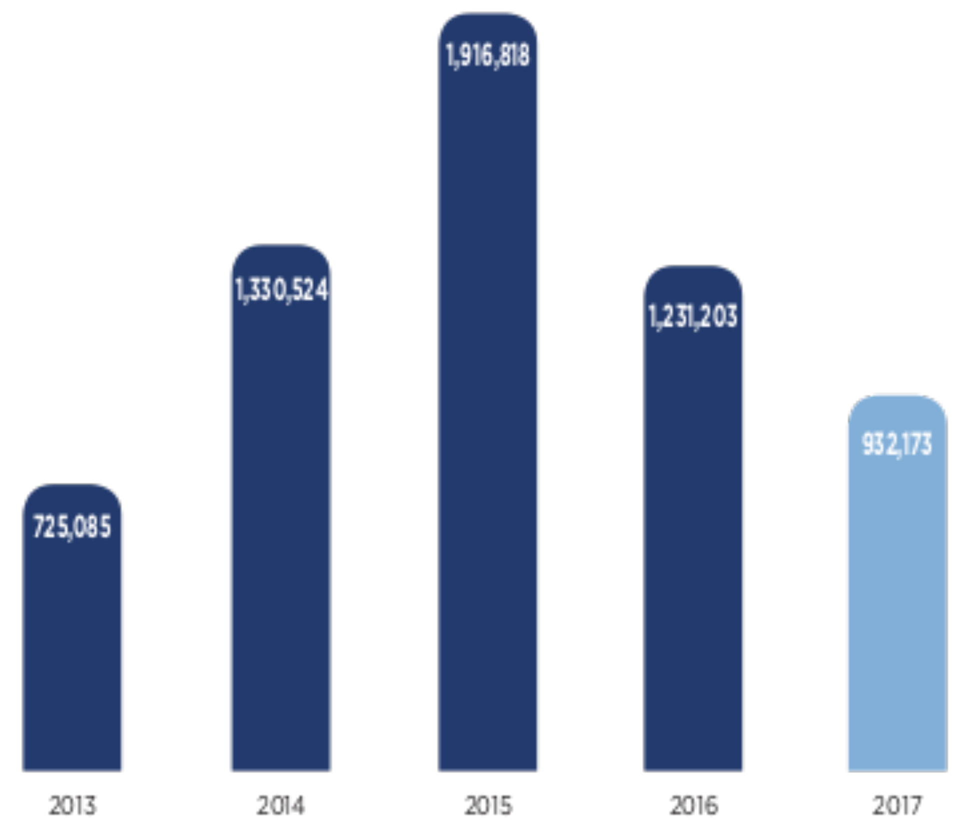
CAPITALISATION AT THE END OF EACH YEAR
(Millions of euros)

A total of 237,704,360 shares in NH Hotel Group, S.A. were traded on the Continuous Market over the course of 2016 (316,419,296 shares in 2016), which accounted for 0.68 times (0.90 times in 2016) the total number of shares into which the Company's share capital is divided. Average daily share trading on the Continuous Market amounted to 932,173 securities (1,231,203 in 2016).

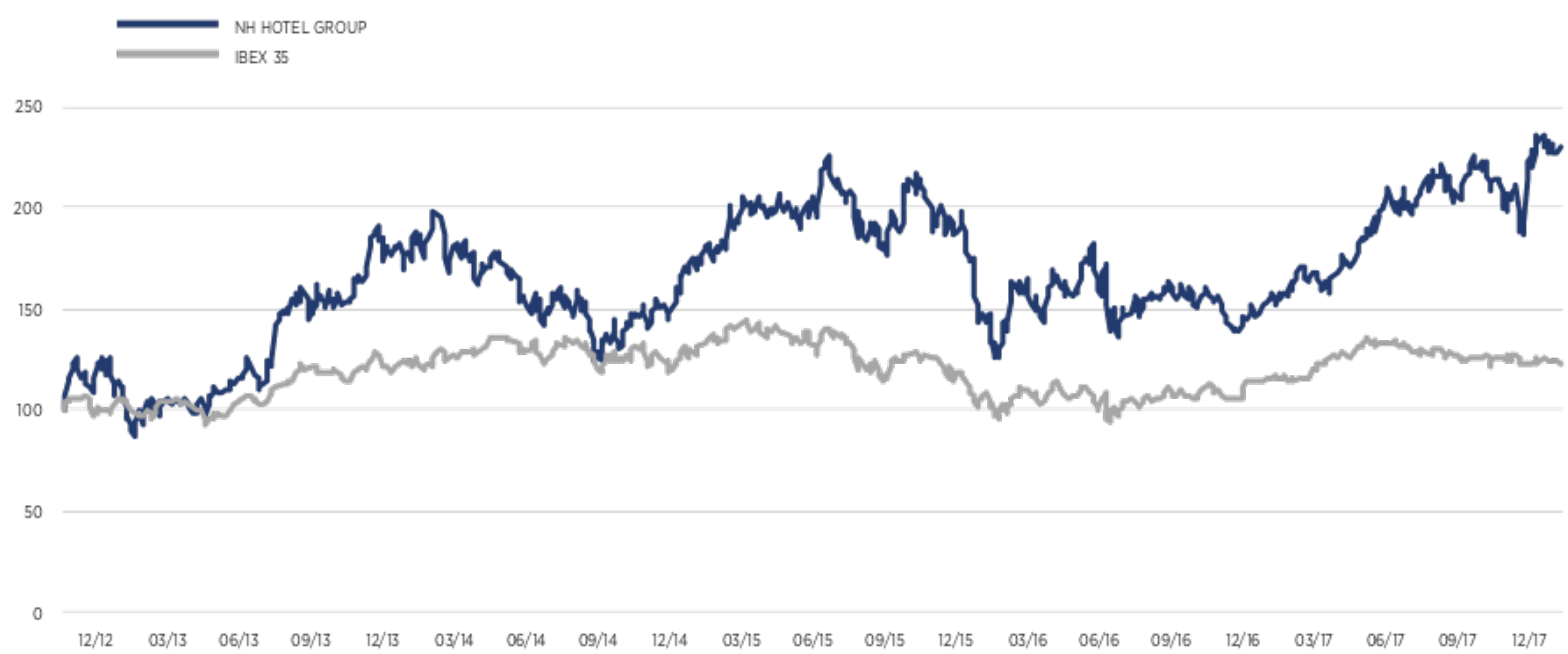
AVERAGE DAILY TRADING 2013-2017
(Millions of euros)



AVERAGE DAILY TRADING 2013-2017
(Securities)



EVOLUTION NH HOTEL GROUP vs IBEX 35
1 JANUARY 2013-31 DECEMBER 2017



FUTURE OUTLOOK

Forecasts indicate that the growth will continue in 2018, although at a more sustainable pace after eight years of constant expansion after the economic and financial crisis of 2009. Based on current trends, economic outlooks and the forecast of the UNWTO Panel of Experts, the Organisation expects global international tourist arrivals to grow at a rate of between 4% and 5% in 2018. By region, growth in the arrival of tourists to Europe and the Americas is expected to be between 3.5% and 4.5%.

On the other hand, GDP growth in Europe is expected to be +2.1% in 2018 (Data and estimates provided by the E.C. "European Economic Forecast – Autumn 2017" November 2017).

In this economic environment, the Group expects to benefit from the increase in sales associated with GDP growth expectations in 2018, together with the positive impact of the repositioning investments made in the last two years and supported by the implementation of price management tools which will allow us to continue to optimise this strategy.

EVENTS AFTER THE REPORTING PERIOD

On 28 December 2017, an agreement was announced with the German asset manager Deka Immobilien for the sale and leaseback of the property in which the NH Collection Barbizon Palace Amsterdam is located. The operation closed at the end of January 2018, involving the sale of the building for 155.5 million euros (584.5 thousand euros/room), which will bring about an estimated capital gain of 55 million euros in 2018 and net cash of 122.4 million euros. The variable income lease of the property will allow the Group to keep operating the hotel for an initial period of 20 years, with the option of exercising 2 extensions of 20 years each.

In relation to the unsolicited sign of interest received from Grupo Barceló in November 2017, the Company's Board of Directors unanimously rejected the operation proposed on 10 January 2018.

The Board noted that its decision was made to defend both the social interest of the Company and the interests of all shareholders. It insisted that the unanimous rejection of this offer does not condition nor impede the analysis of other future strategic opportunities which will be assessed based on the real value they are able to generate to NH Hotel Group's shareholders as a whole, within the framework of the consolidation trends prevailing in the sector.

In taking its decision, the Board assessed the fact that the contemplated structure (merger) would not allow shareholder value to be created above that of that project independently by NH. In its analysis, the Board did not consider the intrinsic value assigned to NH by Grupo Barceló's offer appropriate, nor its scope, nor the exchange ratio offered by it.

Based on this analysis, the Board unanimously considered that the terms of the offer were inadequate and did not reflect the real value of NH in any way, but especially for the following reasons:

- The exchange ratio did not reflect the relative valuation of both companies (even less with a consolidation adjusted to the relevant hotel business of Grupo Barceló). It also did not offer a real control premium on the market valuation of NH, nor did it consider the potential for revaluation of NH independently (greater in any case to the relative value of 7.08 euros per share suggested in said offer).
- Grupo Barceló's offer did not reflect the potential for growth in NH's results, nor the value of its urban assets owned in Europe (as shown by the recent sale of the Barbizon hotel in Amsterdam), nor the opportunity to generate profits with its balanced mix of contracts in management and leases, nor the optimisation of its operational and financial structure.
- The Board assessed very negatively that Grupo Barceló's offer lacked liquidity for NH shareholders.

Likewise, and regardless of its decision in this matter, the Board also ratified the full confidence in the current NH Strategic Plan with solid growth in revenues and significant operational improvement, together with the value of its hotel assets and the potential to benefit from the reduction of its indebtedness, which will allow for expansion opportunities and, in the future, participate in the consolidation trend of the hotel sector.

ANNUAL CORPORATE GOVERNANCE REPORT

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

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

A - OWNERSHIP STRUCTURE

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

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

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

NO

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

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

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.	102,787,996
OCEANWOOD CAPITAL MANAGEMENT LLP	OCEANWOOD OPPORTUNITIES MASTER FUND	32,195,671
OCEANWOOD CAPITAL MANAGEMENT LLP	OCEANWOOD EUROPEAN FINANCIAL SELECT OPPORTUNITIES MASTER FUND	5,629,251
OCEANWOOD CAPITAL MANAGEMENT LLP	OCEANWOOD INVESTMENTS II DESIGNATED ACTIVITY COMPANY	2,283,927
OCEANWOOD CAPITAL MANAGEMENT LLP	CROWN/OCEANWOOD SEGREGATED PORTFOLIO	2,126,294

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

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 JOSE ANTONIO CASTRO SOUSA	1,000	32,475,188	9.27%
MR ALFREDO FERNÁNDEZ AGRAS	150,000	0	0.04%
MR RAMÓN ARAGONÉS MARÍN	17,709	0	0.01%
MS MARIA GRECNA	12,000	0	0.00%
MR PAUL JOHNSON	9,116	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 JOSE ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A	31,870,384
MR JOSE ANTONIO CASTRO SOUSA	EUROFONDO, S.A.	604,804

% of total voting rights held by the Board of Directors:	9.32%

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
DON RAMÓN ARAGONÉS MARÍN	140.649	0	140.649	0,04%

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

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

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

NO

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

NO

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

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

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

NO

Remarks

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

At year end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
8.031.895	0	2,29%

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

Explain the significant changes

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

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

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

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

c) The shares must be fully paid up.

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

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

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

A.9 bis Estimated floating capital:

	%
Estimated floating capital	49.33

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

NO

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

NO

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

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

NO

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

B - GENERAL SHAREHOLDERS' MEETING

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

NO

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

NO

Describe how it differs from the LSC.

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

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

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

	Attendance detail				
			% remote voting		
Date of general meeting	% present in person	% by proxy	Electronic vote	Other	Total
29/06/2015	0.20%	70.18%	0.00%	2.09%	72.47%
11/12/2015	9.25%	64.29%	0.00%	0.63%	74.17%
21/06/2016	0.09%	82.10%	0.00%	3.60%	85.79%
29/06/2017	39.02%	42.57%	0.00%	0.00%	81.59%

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

NO

B.6 Paragraph repealed.

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

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

C - COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

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

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

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

Name or company name of Director	Representative	Director category	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
MR ALFREDO FERNÁNDEZ AGRAS		Proprietary	CHAIRMAN	19/06/2015	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSE ANTONIO CASTRO SOUSA		Proprietary	DEPUTY CHAIRMAN	24/05/2012	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR RAMÓN ARAGONÉS MARÍN		Executive	Chief Executive Officer	29/06/2017	29/06/2017	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSÉ MARÍA CANTERO MONTES- JOVELLAR		Independent	DIRECTOR	21/06/2016	25/07/2017	CO-OPTED
MS MARIA GRECNA		Independent	DIRECTOR	21/06/2016	25/07/2017	CO-OPTED
GRUPO INVERSOR HESPERIA, S.A	MR JORDI FERRER GRAUPERA	Proprietary	DIRECTOR	28/02/2017	29/06/2017	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR PAUL JOHNSON		Independent	DIRECTOR	21/06/2016	25/07/2017	CO-OPTED
MR FERNANDO LACADENA AZPEITIA		Independent	DIRECTOR	21/06/2016	25/07/2017	CO-OPTED
MR JOSE MARÍA LÓPEZ-ELOLA GONZÁLEZ		Independent	DIRECTOR	24/04/2012	29/06/2015	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSÉ MARÍA SAGARDOY LLONIS		Independent	DIRECTOR	22/03/2017	29/06/2017	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING

Total number of directors	**10**

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 FRANCISCO JAVIER ILLA RUIZ	Proprietary	07/02/2017
MR CARLOS GONZÁLEZ FERNÁNDEZ	Independent	26/06/2017
MR FRANCISCO ROMAN RIECHMANN	Independent	29/06/2017
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	Other External	25/07/2017
MS MARIA GRECNA	Other External	25/07/2017
MR PAUL JOHNSON	Other External	25/07/2017
MR FERNANDO LACADENA AZPEITIA	Other External	25/07/2017
MS KORO USARRAGA UNSAIN	Independent	20/10/2017

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

Executive directors

External proprietary directors

Name or company name of Director	Name or company name of the major shareholder represented or who proposed the appointment
MR RAMÓN ARAGONÉS MARÍN	Chief Executive Officer

Total number of proprietary directors	**1**
% of the Board as a whole	**10.00%**

External directors

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

Total number of independent directors	**3**
% of total Board	**30.00%**

INDEPENDENT EXTERNAL DIRECTORS

Name or company name of Director:	Profile
MR JOSE MARÍA LÓPEZ-ELOLA GONZÁLEZ	Graduate in economics from the Complutense University of Madrid. For the last 35 years, he has been the General Manager of various credit and banking institutions, such as Banco Zaragozano, S.A. and Barclays, S.A. He is currently a member of the Board of Directors of companies including Festina Lotus, S.A., Celo, S.A. and Cementos Occidentales, S.A.
MS DOÑA MARIA GRECNA	Economics degree from the Economics School of the University of Prague (Czech Republic) and a Masters in Finance from the London Business School. She has run Earlwood Rental Properties, which she co-founded, since 2013. Earlwood is a company focused on the acquisition, renovation and management of homes with a portfolio of over 100 homes in the centre of Madrid and Barcelona and for properties in construction and holiday homes in the Balearic Islands. Between 2005 and 2013 she worked for Värde Partners (a global alternative investment advisor), first as CEO of Värde Partners Europe (London) between 2005 and 2011 and later as CEO of Värde Partners Iberia (Madrid) between 2011 and 2013. She previously held positions in Société Générale (Prague) from 2002 to 2003, Crédit Suisse First Boston (London and Prague), from 2000 to 2002, and Citigroup (Prague), from 1995 to 2000.
MR JOSÉ MARÍA SAGARDOY LLONIS	Degree in Economics and Business Administration from ICADE (E-2) and IESE Business School, University of Navarra. BBVA programme for executives He began his professional career in Arthur Anderson A.L.T., in the financial sector and has since held senior positions in various banking entities such as Deutsche Bank, BBVA (Director of Global Syndicated Loans) and Banco Popular (Wholesale Banking Director and Risk Director). He is currently the Head of Origination and CFO of Copernicus Servicing, S.L. He has been a Board Member of companies such as Fomento de Construcciones y Contratas (2008-2009), Societé Fonciere Lyonnaise, representing Colonial (2008-2011), Globalia Corporación Empresarial (2007-2012), Inmobiliaria Colonial (2008 – 2013) and in Targobank, S.A., representing Banco Popular Español, S.A. (2013-2016).
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	He holds a degree in Law and Economics and Business Administration and Management from the Universidad Pontificia Comillas (ICADE E-3) and a diploma from the Business Management Programme (PADE) of IESE Business School. He was a founding partner of Results Mazimizer (consultancy for the execution and implementation of marketing, sales and communications projects) and Enubes (digital marketing company) and has been the Managing Partner since September 2015. Between July 2008 and August 2015 he held various senior positions in Mutua Madrileña, first as Sales and Marketing Director until May 2011 and subsequently as Deputy General Manager, whilst also being a Director at SegurCaixa Adeslas (from July 2011) and a Director at Mutuactivos Inversiones (from July 2013). Between August 2003 and June 2008 Mr José María Cantero de Montes-Jovellar was Marketing and Customers Director (sales and value enhancement management of the Residential Business Unit) of Amena/Orange in Spain. Previously, between July 1994 and July 2003 he worked for Procter & Gamble España in various positions within the marketing department: Assistant Brand Manager, Brand Manager, and his final position as Business Team Leader Textiles Care division for Spain and Portugal.
MR PAUL JOHNSON	Founding director and Chief Executive Officer of the hotel chain Kew Green Hotels Ltd under whose l eadership went from start-up to having 50 hotels. The group was acquired by the Chinese-owned HK CTS, a hotel chain, in August 2015. After ensuring a successful integration with HK CTS, Paul left the company in May 2016 to develop other interests. Paul is highly experienced in the leisure industry having held senior positions in sales and marketing for the Welcome Break Group, Budget Rent a Car, Radisson Edwardian Hotels and Hilton International. Paul was shortlisted for Ernst and Young Entrepreneur of the year in 2007 and 2009 and, in 2006, was a member of the Sunday Times Fasttrack Awards Management Team of the Year. Paul is currently Head of Roupell Advisory Ltd., a global hotel consultancy.
MR FERNANDO LACADENA AZPEITIA	Degree in Economics and Business Administration and a Law Degree from ICADE (Specialty E-3) in Madrid. Executive with more than 35 years' experience in financing and very oriented towards management. Lately, specialised in the financial area in large listed multinational corporations, with significant experience in the negotiation and structuring of financing operations, relationships with capital markets and investment operations (M&A). Since December 2014, he has been the CEO of Testa Inmuebles en Renta SOCIMI, S.A., a leading property leasing management company in the third sector, having directed the operation to float the company with Merlin Properties taking a stake in its share capital; an operation valued at approximately €2 billion. He is the chairman of ASPRIMA, the association of companies with leased assets in Spain. Prior to that, for seven years he was the CFO at Grupo Sacyr Vallehermoso, managing financing with banks and the relationship with analysts and investors and participating directly in the investment processes and the partnership strategy to develop new businesses in both local markets and internationally. Previously he worked for 13 years in similar positions in Grupo ACS – Dragados, after having started in Arthur Andersen where he spent the first 10 years of his professional career.

Número total de Consejeros Independientes	**6**
% sobre el total del Consejo	**60,00%**

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:

Name or company name of Director	Date of change	Previous category	Current category
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	25/07/2017	Other External	Independent
MS MARIA GRECNA	25/07/2017	Other External	Independent
MR PAUL JOHNSON	25/07/2017	Other External	Independent
MR FERNANDO LACADENA AZPEITIA	25/07/2017	Other External	Independent

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			
	2017	2016	2015	2014	2013	2016	2015	2014
Female Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	1	0.00%	0.00%	0.00%	10.00%
Independent	1	1	1	0	16.67%	25.00%	25.00%	0.00%
Other External Female Executives	0	1	0	0	0.00%	25.00%	0.00%	0.00%
Total:	1	2	1	1	10.00%	18.18%	8.33%	7.14%

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

Explanation of the measures

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

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

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

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.

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

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

Explanation of the reasons

See above section.

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

Explanation of the conclusions

In 2017, the Appointments, Remuneration and Corporate Governance Committee considered the regulatory fitness and the Recommendations in the Good Governance Code in terms of the policy for selecting directors.

NH Hotel Group firmly believes that diversity in all its facets and at all levels of its professional team is an essential factor for ensuring the Company's competitiveness and a key element in its corporate governance strategy, promoting the participation and development of women in the organisation, especially in positions of leadership, and, in particular, on the Board of Directors.

In the candidate selection process and, guided by company interest, meritocracy shall serve as the main selection criterion, with the process seeking to identify the most qualified candidates. Consequently, each time that there is a vacancy on the Board of Directors, and the corresponding selection process begins, at least one woman must be considered as a candidate, notwithstanding the principles of merit and capacity, until the aforementioned 30% target for 2020 is met. This company's goal is to cover any Board vacancy with a new female director, therefore enabling us to increase the female presence on the Board.

In 2017, the Company has continued to work with expert consulting firms that have intensified the recruitment of female directors.

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

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

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

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

a) He/she was appointed by virtue of the right to representation.

b) He/she is a director, senior manager, employee or regular service provider of this shareholder, or of companies belonging to its group.

c) The company documentation states that the shareholder accepts that the director has been appointed by it or represents it.

d) He/she is the spouse, or connected by a similar relationship, or related up to the second degree of kinship to a major shareholder.

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

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

NO

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

Name of the director:	Reason for departure:
MR FRANCISCO JAVIER ILLA RUIZ	Mr Francisco Javier Illa Ruiz's position as Director was terminated on 7 February 2017 due to his death.
MR CARLOS GONZÁLEZ FERNÁNDEZ	At the end of his term as Board Member on 26 June 2017, the Board of Directors did not seek the reappointment of Carlos González Fernández at the General Shareholders' Meeting held on 29 June 2017.
MR FRANCISCO ROMAN RIECHMANN	Mr Francisco Román Riechmann tendered his resignation as Board Member on 29 June 2017 due to personal reasons.
MS MARIA GRECNA	Ms María Grecna tendered her resignation as Board Member on 25 July 2017. On this date she was appointed as a new co-opted director by the Board of Directors as an independent director at the behest of the Appointments and Remuneration and Corporate Governance Committee
MR PAUL JOHNSON	Mr Paul Johnson tendered his resignation as Board Member on 25 July 2017. On this date he was appointed as a new co-opted director by the Board of Directors as an independent director at the behest of the Appointments and Remuneration and Corporate Governance Committee
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	Mr José María Cantero Montes-Jovellar tendered his resignation as Board Member on 25 July 2017. On this date he was appointed as a new co-opted director by the Board of Directors as an independent director at the behest of the Appointments and Remuneration and Corporate Governance Committee
MR FERNANDO LACADENA AZPEITIA	Mr Fernando Lacadena Azpeitia tendered his resignation as Board Member on 25 July 2017. On this date he was appointed as a new co-opted director by the Board of Directors as an independent director at the behest of the Appointments and Remuneration and Corporate Governance Committee
MS KORO USARRAGA UNSAIN	Ms Koro Usarraga Unsain resigned from her position of Director on 20 October 2017 for professional reasons.

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

Name or company name of Director:	Brief description:
MR RAMÓN ARAGONÉS MARÍN	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 RAMÓN ARAGONÉS MARÍN	NH Lagasca, S.A.	Director	NO
MR RAMÓN ARAGONÉS MARÍN	JV BEIJING GRAND CHINA HOTEL MANAGEMENT (CHINA)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	NH HOTELES DEUTSCHLAND GMBH	Joint and Several Director	YES
MR RAMÓN ARAGONÉS MARÍN	NH HOTELBETRIEBS – UND ENTWICKLUNGS GMBH	Joint and Several Director	YES
MR RAMÓN ARAGONÉS MARÍN	NH HOTELBETRIEBS – UND DIENSTLEISTUNGS GMBH	Joint and Several Director	YES
MR RAMÓN ARAGONÉS MARÍN	NH CENTRAL EUROPE MGMT GMBH	Joint and Several Director	YES
MR RAMÓN ARAGONÉS MARÍN	JOLLY HOTEL DEUTSCHLAND GMBH	Joint and Several Director	YES
MR RAMÓN ARAGONÉS MARÍN	HOTELES ROYAL, S.A. (COLOMBIA)	Deputy Director	NO
MR RAMÓN ARAGONÉS MARÍN	NACIONAL HISPANA HOTELES, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	OPERADORA NACIONAL HISPANA, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	FRANQUICIAS LODGE, S.A. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CORPORATIVOS HOTELEROS (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	HOTELERA DE LA PARRA (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CORPORATIVOS KRYSTAL ROSA (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	CHARTWELL INMOBILIARIA DE COATZACOALCOS, S.A. DE C.V (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CORPORATIVOS CHARTWELL MONTERREY, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	CHARTWELL DE MÉXICO, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	CHARTWELL DE NUEVO LAREDO, S.A. DE C.V (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	GRUPO HOTELERO MONTERREY, S.A. DE C.V (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CHARTWELL NUEVO LAREDO, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	DESARROLLO INMOBILIARIO SANTA FE MEXICO, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	GRUPO HOTELERO QUERETARO, S.A. DE C.V. (MEXICO)	Director	NO
MR RAMÓN ARAGONÉS MARÍN	HISPANA SANTA FE, S.A. DE C.V. (MEXICO)	Director	NO

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

Name or company name of Director	Company name of group company	Position
MR ALFREDO FERNÁNDEZ AGRAS	MERLIN PROPERTIES SOCIMI, S.A.	DIRECTOR
MR JOSE MARÍA LÓPEZ-ELOLA GONZÁLEZ	CADOGAN 37 SICAV, 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:

SI

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)	2.332
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 FERNANDO CÓRDOVA MORENO	GENERAL MANAGER, PEOPLE
MS LAIA LAHOZ MALPARTIDA	GENERAL MANAGER, ASSETS AND REVENUE
MR ISIDORO MARTINEZ DE LA ESCALERA	GENERAL MANAGER, MARKETING
MR RUFINO PÉREZ FERNANDEZ	GENERAL MANAGER, OPERATIONS
MS BEATRIZ PUENTE FERRERAS	CHIEF FINANCIAL OFFICER
MR CARLOS ULECIA PALACIOS	GENERAL SECRETARY
MR FERNANDO VIVES SOLER	GENERAL MANAGER, SALES

Total remuneration of senior management (€ thousands)	**3.876**

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
GRUPO INVERSOR HESPERIA, S.A	GRUPO INVERSOR HESPERIA, S.A	JOINT AND SEVERAL 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 JOSÉ ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A	NATURAL PERSON REPRESENTING THE JOINT AND SEVERAL ADMINISTRATOR EUROFONDO, S.A.

C.1.18 State whether there has been any change to the regulations of the Board during the year:

SI

Description of changes
At its meeting of 29 June 2017 and at the proposal of the Chairman of the Board of Directors and the Chairman of the Appointments, Remuneration and Corporate Governance Committee, pursuant to the provision of Article 3 of the Board of Directors' rules, the Board of Directors approved the amendment of Articles 36.1 and 36.4 of the Rules, so that the executive directors who receive remuneration for the functions they perform under their working or business contract with the Company do not receive any additional remuneration as a Director.

C.1.19 State the procedures for selecting, appointing, re-electing, appraising and removing directors. Name the competent bodies, the procedures to be followed and the criteria used in each procedure.

The directors are appointed by the General Shareholders' Meeting, or provisionally by the Board of Directors in accordance with the provisions contained in the Capital Companies Act and the company's articles of association.

Proposals for appointments or the re-election of members of the Board of Directors is the responsibility of the Appointments, Remuneration and Corporate Governance Committee in the case of independent directors and is the responsibility of the Board itself for all other cases. Proposals should always be accompanied by a report from the Board assessing the proposed candidate's competence, experience and merits, which will be attached to the minutes of the General Shareholders' Meeting or that of the Board.

Proposals for appointing or re-electing any non-independent Director must also be preceded by a report from the Appointments, Remuneration and Corporate Governance Committee.

The Board of Directors must ensure that the selection process for its members favours diversity in terms of gender, experience and knowledge and does not suffer from implicit biases that may lead to any type of discrimination and, particularly, that it facilitates the selection of female directors.

In terms of appointing external directors, the Board of Directors and the Appointments, Remuneration and Corporate Governance Committee have a duty to ensure, within the scope of their respective competencies, that the election of candidates falls on people with a solid reputation, proven skills and experience, and who are prepared to dedicate a sufficient part of their time to the Company, taking the utmost care in choosing people who may be selected to be independent directors.

The Board of Directors will propose or designate people who meet the requirements set out in article 9.3.2 of the Regulation of the Board of Directors to cover the position of independent directors.

In any event, those subject to any incapacity, disqualification, prohibition or conflict of interests set forth in current legislation may not be proposed for appointment as Board members.

All those directly or indirectly holding interests of any type or that have an employment, professional or mercantile relationship, or relations of any other type with competitor companies, shall be considered as incompatible for the position of director, except when the Board of Directors, with a favourable vote of at least 70% of its members, agrees to set aside this condition. The above is without prejudice to any other waiver that, in compliance with current legislation, the General Shareholders' Meeting had to provide.

C.1.20 Explain how far the annual assessment of the board has led to important changes in its internal organisation, and on the procedures applicable to its activities:

Description of changes
The self-assessment carried out annually by the Board of Directors through completion of the corresponding questionnaire has enabled the thoughts of board members to be carried through to a series of action plans. Below are the specific action plans for each opportunity for improvement which the Board of Directors intends to implement in 2018. 1. Strengthen the presence of the board in long-term issues and strategy. 2. Enhance reporting to the board on the perception of significant third parties and, in particular, customers and investors. 3. Revise the period of time between information supplied to the directors and the meetings. 4. Assess the competencies and capabilities of the Board of Directors and analysis possible areas to strengthen. 5. Agree and revise the training plan for the Board of Directors and, in particular, for new directors. 6. Extend the duration of the Audit 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 Board of Directors at NH Hotel Group has collaborated with KPMG, an independent, specialist firm, to respond to Recommendation 36 of the Code of Good Governance of Listed Companies of the Spanish National Securities Market Commission.

The survey addressed the following topics:

A) Methodology of Board of Director and Committee meetings
- Board of Directors
- Executive Committee
- Audit Committee
- Appointments, Remuneration and Corporate Governance Committee

B) Corporate Governance
- Functioning
- Information
- Roles of the Board
- Information to Third Parties

C) Strategic Planning

D) Operational and Financial Supervision
- Time
- Procedures
- Audit Committee Information
- Risk Identification and Supervision

C.1.20 b Break down, as appropriate, the business relationship that the consultant or any company within its group maintains with the company or any company in its group.

Not significant, very specific and concrete business relationships.

C.1.21 Indicate cases in which Directors are compelled to resign.

Directors shall step down when the period for which they were appointed comes to an end or when agreed by the General Shareholders' Meeting based on the powers legally attributed to it.

Article 14.2 of the Regulations of the Board of Directors also stipulates that Directors shall place their office at the disposal of the Board of Directors and tender their resignation in any of the following circumstances:

a) When they are removed from the executive offices with which their appointment as a Director was associated or where the reasons for which they have been appointed are no longer valid. Such a circumstance shall be understood to apply to Proprietary Directors when the entity or business group they represent ceases to hold a significant shareholding in the Company's share capital or when, in the case of independent Directors, they become an executive of the Company or of any of its subsidiaries.

b) Where they are subject to any incapacity, disqualification, prohibition or conflict of interests established in current legal provisions.

c) Where they are seriously reprimanded by the Appointments, Remuneration and Corporate Governance Committee for failing to comply with any of their obligations as Directors.

d) When their continued presence on the Board may affect the good standing or reputation that the Company enjoys in the market, or put its interests at risk in any other way. In this case, the Director must immediately inform the Board of the facts or procedural difficulties that affect said reputation or risk.

C.1.22 Paragraph repealed.

C.1.23 Are reinforced majorities other than those applicable by law required for any type of decision?:

YES

If so, describe the differences.

Description of the differences
For the appointment of Directors with direct or indirect interests of any type in, or an employment, professional, commercial or any other relationship with competitor companies, a vote in favour by 70% of the Board members is required (Article 11.3 of the Board regulations).

C.1.24 Explain if there are any specific requirements, other than those relating to Directors, to be appointed Chairman of the Board of Directors.

NO

C.1.25 Indicate whether the Chairman has the casting vote:

YES

Matters for which there is a casting vote
Resolutions will be passed by absolute majority of the votes of the directors attending the meeting. In the event of a tie, the Chairman, or the Vice-chairman substituting them, shall have the casting vote.

C.1.26 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

NO

C.1.27 State whether the articles of association or the Board Regulations establish a limited mandate for Independent Directors, other than as provided for in the legal regulations:

NO

C.1.28 Indicate whether the Articles of Association or the Regulations of the Board of Directors establish specific rules for delegating votes to the Board of Directors, how this should be done, and in particular, the maximum number of delegations any Director may have, and whether there is any limit as to the director category to which votes may be delegated, other than the limitations imposed by law. If so, give a brief summary of these rules.

Article 40 of the Articles of Association sets the rules around delegating votes, stating that "Directors shall personally attend Board meetings and, when they are unable to do so in exceptional circumstances, shall ensure that the proxy granted to another member of the Board shall include the relevant instructions insofar as possible."

Similarly, Article 22 of the Board Regulations in implementing said article adds that "Non-executive directors can only delegate their vote to another non-executive director."

The Board of Directors has not governed the maximum number of times a Director may delegate their vote.

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	11
Number of Board meetings not attended by the Chairman	0

If the Chairman is an executive director, indicate the number of meetings held with no attendance or representation of any executive director and under the chairmanship of the coordinating director.

Number of meetings	0

State the number of meetings held by the different Board Committees over the year:

Committe	No. of Meetings
EXECUTIVE COMMITTEE	18
AUDIT AND CONTROL COMMITTEE	10
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	9

C.1.30 State the number of meetings that the Board of Directors has held during the year with the attendance of all of its members. The calculation of non-attendance includes representations made with specific instructions:

Number of meetings attended by all the directors	**8**
Attendances as a percentage of total votes during the year	**97.29%**

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. By way of an example, the Audit and Control Committee holds regular meetings with the external auditor without the executive team being present. 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)	901	98	999
Amount for work other than audit work / Total amount invoiced by the audit firm (%)	76.03%	6,8%	38,03%

C.1.38 State whether the audit report of the financial statements for the previous year included qualifications or reservations. If so, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of these qualifications or reservations.

NO

C.1.39 State the number of consecutive years in which the current audit firm has audited the annual accounts of the Company and/or its group. Also, indicate how many years the current audit firm has been auditing the accounts as a percentage of the total number of years over which the annual accounts have been audited.

	Company	**Group**
Number of consecutive years	25	25
Number of years audited by the current audit firm / Number of years that the company has been audited (%)	80,65%	80,65%

C.1.40 Indicate and, if applicable, provide details of whether there is a procedure whereby directors can receive external advice:

YES

Details of the procedure
Article 28 of the Regulations of the Board of Directors expressly states that directors may request the use of legal, accounting or financial advisers, or other experts, paid for by the Company, to help them in the discharge of their duties. Such help must relate to specifically defined and complex problems that arise in the course of their work. The decision to employ such services must be communicated to the Chairman of the Company and implemented through the Secretary of the Board, unless the Board of Directors considers that such services are not necessary or appropriate.

C.1.41 Indicate and, if applicable, provide details of whether there is a procedure whereby Directors can have the information necessary to prepare for meetings of the management bodies with sufficient time:

YES

Details of the procedure

According to article 21 of the Regulations of the Board, the announcement of the meeting, which will be published at least three days before the date of the meeting, will include a preview of the likely agenda for the meeting and will be accompanied by the necessary written information that is available.

Furthermore, article 27 of the aforementioned Regulations indicates that Directors must diligently inform themselves of the Company's progress, and to that end, collect any necessary or pertinent information in order to correctly perform their duty. To this end, the Board has been assigned the broadest possible powers to gain information about any aspect of the Company; to examine its books, registers and documents and any other information concerning its operations. Said right to information is also extended to the various subsidiary companies that are included in the consolidated group, insofar as it is necessary for the Director to correctly perform their functions as referred to in article 6 of said Regulations.

With the aim of not disturbing the Company's normal management, the exercise of the right to information will be channelled through the Chairman or Secretary of the Board of Directors, who will respond to requests from Directors by directly providing him/her the information or putting them in touch with the appropriate people in the suitable level of the organisation. With the aim of being assisted in the exercise of their functions, the Directors may obtain the necessary consulting from the Company to perform their functions. In special circumstances, they may even request that the Company hire legal, accounting or financial consultants or other experts. Such help must relate to specifically defined and complex problems that arise in the course of their work. The decision to employ such services must be communicated to the Chairman of the Company and implemented through the Secretary of the Board, unless the Board of Directors considers that such services are not necessary or appropriate.

C.1.42 State and, if applicable, provide details on whether the company has established rules that require directors to report and, as applicable, resign in those cases where the company's credibility and reputation may be harmed.

YES

Explain the rules

The Regulations of the Board includes a mechanism to oblige the Directors to provide immediate notification of all legal proceedings in which they may be adversely affected.

In this way, article 14.2.d) of the Regulations of the Board of Directors of NH Hotel Group, S.A., 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 JOSÉ ANTONIO CASTRO SOUSA	Order dated 15 January 2015 to proceed to trial in the Proceedings abbreviated 91/2013 heard by Examining Magistrates' Court no. 4 of L'Hospitalet de Llobregat for alleged crimes referred to in article 213 of the Corporate Enterprises Act.	On 22 February 2018 the A.P. of Barcelona has issued a judgement of total acquittal.

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:
The Board analysed the case at its meeting on 11 November 2015 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 giving rise to a change in control of NH Hotel Group, S.A. In addition, NH Hotel Group, S.A. issued convertible bonds on 8 November 2013, as well as guaranteed senior bonds dated 23 September 2016 and 4 April 2017, which include certain consequences in the event of a change in control of the Issuer, such as the possibility of NH Hotel Group, S.A. being required to repurchase the senior bonds or adjust the conversion price for convertible bonds.

In addition, there are hotel management contracts signed by Group subsidiaries in which Grupo Inversor Hesperia, S.A. (Gihsa) can exercise, in accordance with the terms of a Framework Agreement signed by the Company, the power to resolve all such contracts in the event of a change of control of NH Hotel Group, S.A. If such power is exercised, Gihsa must pay the Company, as a precondition for the resolution by change of control to take effect, amounts as specified in the Agreement Framework in compensation for the effects derived from the resolution of hotel management contracts.

Finally, the change of control following a public takeover bid could have different effects on other leasing and hotel management agreements signed by the Company.

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	1
Type of beneficiary	**Description of Agreement**
A member of Senior Management.	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. This amount will be equal to one times the fixed annual salary and the last bonus received, except in the case of disciplinary dismissal.

Indicate whether these contracts must be communicated to, and/or approved by the governing bodies of the company or its group:

	Board of Directors	General Shareholders' Meeting
Body that authorises the clauses	YES	NO

	YES	NO
Is the General Shareholders' Meeting notified of the clauses?		X

C.2 Committees of the Board of Directors

C.2.1 List all the committees of the Board of Directors, their members and the proportion of Executive, Proprietary, Independent and other external Directors thereon:

EXECUTIVE COMMITTEE

Name	Position	Category
MR JOSE ANTONIO CASTRO SOUSA	CHAIRMAN	Proprietary
MR ALFREDO FERNÁNDEZ AGRAS	DEPUTY CHAIRMAN	Proprietary
GRUPO INVERSOR HESPERIA, S.A	MEMBER	Proprietary
MR RAMÓN ARAGONÉS MARÍN	MEMBER	Executive
MR PAUL JOHNSON	MEMBER	Independent

% of Executive Directors	20.00%
% of Proprietary Directors	60.00%
% of Independent Directors	20.00%
% 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; and
6. Group structure

The Executive Committee will meet as many times as it is convened by its Chairman, and its Secretary and Deputy Secretary will be those who perform the identical positions on the Board of Directors. The Executive Committee shall be validly convened when half plus one of its members with a right to vote are present or represented at the meeting.

Resolutions shall be passed by a majority of the directors at the meeting with the right to vote (in person or by proxy), with the Chairman holding the casting vote in the event of a tie.

Furthermore, non-member Directors may attend Executive Committee meetings on a one-off basis, when invited by the Chairman of the Committee.

The Executive Committee shall notify the Board of Directors of the matters discussed and the decisions made at its meetings.

State whether the composition of the delegate or executive committee reflects the participation on the Board of different categories of directors:

NO

If not, explain the composition of the Delegate or Executive Committee
The Executive Committee is composed of one Executive Director, three Proprietary Directors and one Independent Director. Although the Secretary and Deputy Secretary of the Executive Committee serve in the same positions on the Board of Directors, the composition of the Executive Committee is not the same as the Board in terms of the different categories of Directors.

AUDIT AND CONTROL COMMITTEE

Nombre	Cargo	Tipología
MR FERNANDO LACADENA AZPEITIA	CHAIRMAN	Independent
MS MARIA GRECNA	MEMBER	Independent
MR JOSÉ MARÍA SAGARDOY LLONIS	MEMBER	Independent

% of Proprietary Directors	0.00%
% of Independent Directors	100.00%
% 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 Audit and Control Committee shall comprise a minimum of three and a maximum of six directors, appointed by the Board of Directors. All members sitting on said Committee shall be External Directors, the majority of whom, at least, must be independent directors, and one of whom must be designated by taking into consideration their knowledge and experience in accounting, auditing, or both.

The Chairman of the Audit Committee must be appointed from among its independent members. The Chairman must also be replaced every four years; previous chairmen may be re-elected one year after their previous mandate has ended.

The Audit Committee will have at least the following responsibilities:

1. Report to the General Meeting of Shareholders on any matters broached within the sphere of its competence.

2. Supervise the effectiveness of the company's internal control, internal auditing, where applicable, and risk-management (including tax risk) systems, as well as discussing with auditors or audit companies any significant weaknesses in the internal control system identified during audits.

3. Oversee the process of drawing up and submitting regulated financial reporting.

4. Pass along to the Board of Directors proposals for selecting, appointing, re-electing and substituting external auditors, as well as conditions for their contracting and regularly collecting information from them on the audit plan and its execution, in addition to preserving its independence in exercising its functions.

5. Establish suitable relationships with auditors or audit firms in order to receive information regarding any issues that may jeopardise their independence, so that these can be examined by the committee, and any other matters related with the process of conducting financial audits, as well as any other communications stipulated in the financial auditing legislation and audit regulations. In any event, it must receive written confirmation on an annual basis from the auditors or auditing firms of their independence from the Company or entities related to it either directly or indirectly, as well as information on any additional service of any kind provided to such entities and the corresponding fees received by the aforementioned auditors or by persons related to them in accordance with the provisions set forth in legislation regarding auditing.

6. Issue, once a year and prior to the release of the auditor's report on the financial statements, a report expressing an opinion on the independence of the auditors or audit firms. This report must always contain an assessment of the additional services referenced in the above paragraph, considered individually and together, that are separate from the legal audit and with regard to their independence and to audit regulations.

7. Provide previous information for the Board of Directors on all matters established by law, the articles of association and in the Regulation of the Board, and, in particular on:

a. The financial information which the company must periodically publish;

b. The creation or acquisition of any equity investments in special purpose vehicles and companies registered in tax havens; and

c. Related party operations.

8. Safeguard the independence and effectiveness of the internal audit area; propose the selection, appointment, re-election and removal of the manager of the internal audit service; propose the budget for this service; receive periodic information about its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

9. Set up and oversee a mechanism that allows employees confidentially and anonymously to report any breaches of the Code of Conduct.

10. Supervise compliance and internal codes of conduct, as well as the rules of corporate governance.

The Audit and Control Committee will meet at least once every quarter and as many times as may be necessary, after being called by the Chairperson on their own initiative or upon the request of two of the Committee or the Board of Directors.
The Audit and Control Committee may require any of the Company's employees or managers, including the Company's Accounts Auditor, to attend its meetings.

Through its Chairman, the Audit and Control Committee will give the board an account of its activities and work done, either at the meetings scheduled for the purpose or at the very next meeting when the Chairman of the Audit and Control Committee deems it necessary. The minutes of its meetings will be available to any member of the board that requests them.

Non-member Directors may attend Audit and Control Committee meetings on a one-off basis, when invited by the Chairman of the Committee.

Identify the director appointed as member of the audit committee taking into account their knowledge and experience of accountancy, auditing, or both, and report on how many years the chairman of this committee has held the post.

Name of the experienced director	MR FERNANDO LACADENA AZPEITIA
No of years chairman in post	0

APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE

Name	Position	Category
MR JOSÉ MARÍA SAGARDOY LLONIS	CHAIRMAN	Independent
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	MEMBER	Independent
GRUPO INVERSOR HESPERIA, S.A	MEMBER	Proprietary
MR JOSE MARÍA LÓPEZ-ELOLA GONZÁLEZ	MEMBER	Independent

% of Proprietary Directors	25.00%
% of Independent Directors	75.00%
% 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 Appointments, Remuneration and Corporate Governance Committee shall comprise a minimum of three and maximum of six Directors and shall be exclusively non-executive directors appointed by the Board of Directors, two of whom, at least, must be Independent Directors. The Chairman of the Committee shall be chosen by the Independent Directors that comprise it.

The Appointments, Remuneration and Corporate Governance Committee will have at least the following responsibilities:

1. Evaluate the skills, knowledge and experience necessary on the Board of Directors. For these purposes, it shall define the abilities and functions required by candidates to cover each vacancy, and assess the time and dedication required to correctly carry out their functions.

2. Establish a representation goal for the less represented sex on the Board of Directors and create guidelines for how to achieve said goal.

3. Pass along to the Board of Directors proposals for appointments of Independent Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for the re-election or removal of said Directors by the General Shareholders' Meeting.

4. Inform the Board of proposals for appointments of remaining Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for their re-election or removal by the General Shareholders' Meeting.

5. Provide notification of proposals for appointing or removing senior management and the basic conditions of their contracts.

6. Examine or organise the Chairman of the Board's and the chief executive's succession and, if appropriate, bring proposals before the Board so that such successions are effected in an orderly fashion.

7. Propose to the Board of Directors the remuneration policy for the Directors and general managers or for those who perform functions of upper management 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 Appointments, Remuneration and Corporate Governance Committee during its first meeting, and in all events the corresponding documentation shall be made available to the Board so that it can take these actions into consideration when performing its duties.

The Appointments, Remuneration and Corporate Governance Committee shall meet as often as considered necessary by its Chairman, or when requested by two of its members or the Board of Directors.

Furthermore, non-member Directors may attend Appointments, Remuneration and Corporate Governance Committee meetings on a one-off basis, when invited by the Chairman of the Committee.

C.2.2 Fill in the table below with the information relating to the number of female directors on Board of Directors' committees in the last four financial years:

	Number of female directors							
	2017		2016		2015		2014	
	Number	%	Number	%	Number	%	Number	%
EXECUTIVE COMMITTEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
AUDIT AND CONTROL COMMITTEE	1	33.00%	1	20.00%	1	20.00%	0	0.00%
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	0	0.00%	1	16.70%	1	20.00%	0	0.00%

C.2.3 Paragraph repealed.

C.2.4 Paragraph repealed.

C.2.5 Indicate, as applicable, the existence of regulations governing the committees attached to the Board, where they are available for consultation and any amendments that have been made to them during the year. Also state whether an annual report on the activities of each committee has been voluntarily drafted.

The Company Articles of Association (Articles 45 - 48), and the Regulations of the Board of Directors (Articles 23 - 26) comprehensively cover all regulations relating to the Board's Committees. The aforementioned internal regulations of the Company are available on the company website (www.nh-hotels.es), in the section "Information for Shareholders" - "Corporate Governance". Said website also includes all information regarding the composition of each Committee.

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; and
3. Operations with a quantity that does not exceed 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 Related Parties to the Secretary of the Board of Directors, who will send it to the Audit and Control Committee periodically for its review and, if necessary, to be passed along to the Board, provided that it does not fall within the pre-established criteria of cases that do not have to be submitted to the Board; and ii) the obligation of maintaining a registry of said transactions.

D.2 List transactions which are significant for their amount or relevant due to their subject, between the company or entities in its group, and significant shareholders of the company:

Name or business name of the major shareholder	Name or company name of the company or group company	Nature of the relationship	Type of transaction	Amount (thousands of euros)
GRUPO INVERSOR HESPERIA, S.A.	HOTELES HESPERIA, S.L.	Contractual	Management contracts	2.191
HNA GROUP CO LIMITED	HOTEL EXPLOITATIEMAATSCHAPPIJ DIEGEM N.V	Contractual	Operating lease contracts	664

D.3 List transactions which are significant for their amount or relevant due to their subject, between the company or entities in its group, and the managers or directors of the company::

D.4 Report on the significant transactions carried out by the company with other entities belonging to the same group, provided they are not eliminated in the process of drafting the consolidated financial statements and do not form part of the Company's normal business in relation to its purpose and conditions

In all cases, any in-group transaction with entities established in countries or territories considered tax havens will be reported:

Business name of the entity in its group:	Amount (€ thousands)	Brief description of the transaction
SOTOCARIBE, S.L.	7,382	LOAN

D.5 State the amount of the transactions carried out with other related parties.

D.6 Describe the mechanisms established to detect, determine and resolve possible conflicts of interest between the Company and/or its Group, and their directors, managers or major shareholders.

Article 32 of the Regulations of the Board establishes the duty of loyalty and the duty to prevent situations of conflict of interest that the Directors must comply with. Thus, the aforementioned article states that Directors must perform their duties with the loyalty of a faithful representative, operating under good faith and in the Company's best interest. In particular, the duty of loyalty obliges Directors to:

a) Not exercise their powers for purposes other than those for which they have been conceded.

b) Keep the information, data, reports or background that they have had access to in the performance of their duty confidential, even when they have left the position, except for cases where allowed or required by the law.

c) Abstain from participating in the deliberation and voting for agreements and decisions in which they or an associate have a direct or indirect conflict of interests. Those agreements or decisions that affect their position as a Director shall be excluded from the above requirement to abstain, such as their selection or removal for positions in the administration body or others of similar significance.

d)Perform their duties under the principle of personal responsibility with freedom of criteria or judgement and independence with regard to instructions from and connections to third parties.

e) Adopt the necessary measures for avoiding situations in which his/her interests may enter into conflict with the company's interests and with his/her responsibilities to the company.

In particular, avoiding the situations of conflict of interest referred to in the above letter e), obliges the Director to abstain from:

i) Carrying out transactions with the Company, except where they were ordinary transactions carried out under standard conditions for clients and of little importance, with these being understood to be those whose information is not necessary to express the true image of the equity, financial situation and profit and loss of the company.
ii) Using the Company name or their position as director to unduly influence the completion of private transactions.
iii) Making use of company assets, including confidential Company information, for private purposes.
iv) Exploiting the Company's business opportunities.
v) Receiving benefits or remuneration from third parties other than the Company and its Group of associate companies while carrying out my duties, except where these were mere acts of courtesy.
vi) Carrying out activities on their own account, or for third parties, which would entail either actual or potential effective competition with the Company or which, in any other way, would place them in permanent conflict with the Company's interests.

The above provisions shall also be applicable in the case that the beneficiary of the prohibited acts or activities is an associate of the Director, in accordance with the definition provided in article 231 LSC.

The Company may waive the prohibitions set out in this article, as established in article 230 LSC.

In any event, directors must notify the Board of Directors of any direct or indirect situation of conflict of interest that they or their associates may have with the Company.

Situations of conflict of interest involving Directors will be subject to inclusion in the Annual Report.

For the purposes of the provisions of this Regulation, associates are defined as those persons referred to in Article 231 of the Revised Text of the LSC.

Additionally, on 26 March 2014 the Board of Directors approved a Procedure on Conflicts of Interest and Related Party Transactions, available on the Company's website, which includes the approval of such transactions in greater detail. In this way, the aforementioned Procedure implements the provisions of the Regulations of the Board of Directors and the Internal Code of Conduct on the Securities Market of the NH Hotel Group, S.A., and aims to detail the rules to be followed when the Company's interests or those of any of its Group's companies directly or indirectly clash with a Director's personal interests. Said Procedure establishes in detail everything relative to i) the obligation of communicating possible situations of conflict of interest to the Secretary of the Board, who will send them to the Audit and Control Committee periodically; ii) the obligation of the affected Director to abstain from attending and intervening in the phases of deliberation and voting regarding those matters in which they are involved in a conflict of interest, both in meetings of the Board of Directors as well as before any other company body, committee or board that participates in the corresponding transaction or decision, and iii) the obligation of keeping a registry of said transactions.

D.7 Is more than one company in the Group listed in Spain?

NO

Identify the affiliate companies listed in Spain:

Listed Subsidiary Company

Indicate whether the respective areas of activity and the corresponding business relations between them have been publicly defined in detail, as well as the areas and relations of the listed subsidiary company with the other companies in the Group;

State any possible business relationships between the parent company and the listed subsidiary, and between the latter and other group companies.

State the mechanisms created for resolving any conflicts of interest between the listed subsidiary and the other companies in the Group:

Mechanisms for resolving possible conflicts of interest

E - RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the company´s Risk Management System, including tax risks.

The NH Hotel Group (hereinafter Grupo NH) risk management system is applicable to all the companies over which NH has effective control.

NH's risk management system aims to identify events that may negatively affect achievement of the objectives of the company's strategic plan, providing the maximum level of assurance to shareholders and stakeholders and protecting the group's revenue and reputation.

The model set up to manage risks is based on the ERM (Enterprise Risk Management) methodology and includes a set of methodologies, procedures and support tools which enable NH to:

1. Identify the most significant risks that could affect achievement of strategic objectives.
2. Analyse, measure and assess such risks depending on their probability of occurrence along with their impact, which is assessed from a financial and reputational point of view.
3. Prioritise such risks.
4. Identify measures to mitigate such risks based on the group's risk appetite. This is firmed up by defining risk managers and setting up action plans agreed by the Management Committee.
5. Monitor mitigation measures set up for the main risks.
6. Periodically update risks and their assessment.

Such methodologies and procedures are also used in relation to tax risk management.

NH Group has a Corporate Tax Strategy that forms part of the Group's Corporate Governance System, the objective of which is to establish the values, principles and rules that must govern the Group's activities in terms of tax, with a Tax Risk Management and Control Procedure.

E.2 Identify the company bodies responsible for creating and implementing the Risk Management System, including tax risks.

Board of Directors
The entity's Board of Directors is responsible for overseeing the risk management system, in line with the provisions of Article 5 of the Regulation of the Board of Directors, including tax risks.

Audit and Control Committee
As regulated by paragraph 3 of article 25 b) of the Regulation of the company's Board of Directors, the Audit and Control Committee supports the Board of Directors in supervising the effectiveness of the Company's internal control, internal audit, if appropriate, and the risk management systems, including tax risks, in addition to discussing significant weaknesses in the internal control system detected during audit with the auditors of accounts or audit firms.

Management Committee
The Management Committee meets weekly and is made up of the Chief Officers or heads of general management for each area. The Management Committee's duties include, amongst others, risk management and control based on the risk appetite. Tax risk control falls to the Finance department.

Furthermore, NH has the following committees:

Revenue Committee: In charge of monitoring revenue and defining such action plans as needed to achieve objectives based on the forecast of future demand.

Assets Committee: Reviews the optimisation of hotel spaces, rent renegotiations and the exit plan from NH's portfolio.

Expansion Committee: In charge of scrutinising investment opportunities and managing risks associated with investment portfolio management.

Investment Committee: In charge of monitoring and controlling risks related to hotel refurbishment and re-branding projects.

Experience and Innovation Committee: In charge of monitoring the implementation of experience improvement initiatives, their results and proposing new projects.

Pricing Committee: In charge of monitoring the implementation of pricing and revenue management strategy, its results and proposing improvements.

Results Committee: Response for monitoring the income statement, detecting deviances and implementing measures to resolve them.

Operating Model Committee: In charge of monitoring the implementation of the new operating model, in addition to ensuring efficiency in terms of inherent costs.

Transformation Committee: In charge of monitoring the implementation of the Group's transformation plan, which encompasses organisational changes to processes and systems. In charge of new projects that require systems developments.

Joint Venture China Project Committee: In charge of monitoring the JV in China and the development of the actions required from NH Hotel Group to ensure it is successful.

Finance Department
The Finance Department is the department responsible for establishing the design, implementation and comprehensive monitoring of the Group's internal Financial Reporting control system. The Corporate Tax Department forms part of the Finance Department and is responsible for designing, implementing and monitoring the Group's Tax Risk Management.

Strategy Department
The Strategy Department is in charge of overseeing all strategic initiatives using Key Performance Indicators (KPIs).

Risk and Compliance Function
The Risk and Compliance function, which is part of the Internal Audit department, is in charge of drawing up the Corporate Risk Map, monitoring the KRI results monthly as well as the implementation status of the action plans agreed with each risk manager and their association with strategic objectives.

The risk map was updated during 2017 and approved by the Board of Directors at their meeting on 25 October 2017. In addition, action plans were defined to mitigate the main risks, as well as KRIs to carry out periodic monitoring on them, setting suitable tolerance levels for this.

E.3 State the main risks, including tax risks, which may affect business goal achievement.

a) Financial Risks, such as fluctuation of interest rates, exchange rates, inflation, liquidity, non-compliance with financing undertakings, restrictions on financing and credit management.

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

c) Business Risks generated by inadequate management of procedures and resources, whether human, material or technological. This category includes the difficulty of adapting to changes in customer demands and requirements, including those resulting from External Risks caused by natural disasters, political instability or terrorist attacks.

d) Systems Risks, produced by attacks or faults in infrastructures, communications networks and applications that may affect security (physical and logical) and the integrity, availability or reliability of operational and financial information. This heading also includes business interruption risk.

e) Strategic Risks, produced by difficulty accessing markets and difficulties in asset disinvestment.

E.4 State whether the entity has a risk tolerance level, including for tax risk.

NH Group has defined 42 KRIs for its 5 main risks that have been measured on a monthly basis since June 2016. Tolerance levels have been defined Grupo NH has defined 69 KRIs for its 15 main risks which have been measured periodically since June 2017. Tolerance levels have been defined for each of the main KRIs. When the KRI indicates a specific level of tolerance, the Risk Owner is asked to define mitigation measures to bring the level of risk back to the desired tolerance level.

For tax matters, the Group acts in line with its Corporate Tax Strategy and the Tax Risk Management and Control Procedure. On 11 November 2015, the Group approved its adherence to the Good Tax Practices Code which was approved on 20 July 2010 in the plenary session of the Large Companies Forum.

E.5 State which risks, including tax risks, have had an impact over the year.

In relation to risks which have materialised and had a negative effect on the company in 2017, the fact that a significant exposure to geopolitical risks exists must be noted. In this, the unstable situation in Catalonia had a negative impact on the company. Additionally, albeit to a lesser extent, the terrorist attack in Barcelona and the strong earthquake in Mexico also affect company operations.

Additionally, the Company's group has subsidiaries in several countries with operating currencies other than the euro, the group's reference currency. Fluctuations in the exchange rate of some of these subsidiaries (mainly Mexico, Colombia, Chile and Argentina) negatively affected investments and/or operations carried out by group companies in these subsidiaries.

With the exception of those previously mentioned, no other risk materialised which had a negative impact. In any event, the Company's risk management system has managed to identify, analyse and adequately deal with those risks which threaten compliance of the Organisation's objectives.

E.6 Explain the response and supervision plans for the entity's main risks, including tax risks.

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

The NH Group follows an extensive coverage policy by taking out insurance policies for the risks to which it is exposed. It also has a policy of continuously reviewing this coverage.

The Strategy Department oversees the achievement of strategic goals by continuously monitoring strategic initiatives and detection of new risks.

The Internal Audit Department, in the exercise of its Risk and Compliance function, supervises implementation of response plans to manage the main risks.

In each of the Risk Committee's meetings since its creation in May 2017, it has monitored the evolution of the KRIs as well and the degree of implementation of the risk map's action plans. The Risks Map is updated annually.

Finally, since November 2017, the company has had a tool to automate the identification and assessment of risks. This tool will contribute to significantly reducing the time involved in the planning and assessment of risks and controls and will be the only point of information at a global level for risk management.

The Audit and Control Committee regularly carries out the following supervisory and control functions, as specified in Article 25 b) of the Regulation of the Board of Directors:

The Tax Department oversees the Group's tax risk management. The Group has approved a Tax Risk Management and Control Procedure in order to identify and, as far as possible, mitigate any tax risk that may arise in Spain or in the countries in which the Group operates.

F - INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS (SCIIF)

Describe the mechanisms making up the risk control and management systems in relation to the process of issuing financial reports (SCIIF) on your company.

F.1 The company's control environment

Report, indicating the main characteristics of at least:

F.1.1 What bodies and/or areas are responsible for: (i) the existence and maintenance of an appropriate and effective financial reporting system; (ii) its implementation; (iii) its supervision.

Amongst others, the Board of Directors has the powers to determine the risk management and control policy as well as the internal information and control systems as stated in section 3 of article 5 of its governing rules. Likewise, the Board of Directors is responsible for an suitable and effective Internal Control System regarding the Group's Financial Information which aims to provide the Group with a reasonable assurance as to the reliability of the financial information produced and published on the financial markets.

The Group's Finance Management is responsible for the design, implementation and proper working of the SCIIF. During 2017, the transition of the SCIIF definition and custody functions from Internal Audit to the Internal Control Department, within Finance Management, were finalised to comply with the three lines of defence of the COSO framework.

The Audit and Control Committee is responsible for monitoring the effectiveness of internal control in accordance with section b) of article 25 of the Board of Directors' governing rules. This responsibility is in turn delegated to the Internal Audit Department.

F.1.2 If the following elements exist, particularly in relation to the financial report generation process:

• Departments and/or mechanisms responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining areas of responsibility and authority, with a suitable distribution of tasks and functions; and (iii) the existence of sufficient procedures for these to be properly disseminated within the entity.

Defining and reviewing the organisational structure of the Group is the responsibility of the Management Committee.

Significant changes to the organisation chart, i.e., those affecting Senior Management, are approved by the Board of Directors, after being proposed by the Appointments and Remuneration Committee. The organisation chart is available to all employees on both the Group's intranet and its website.

Both the hierarchical and functional lines of responsibility are duly communicated to all Group employees. The internal communication channels are used for this, amongst which we highlight the intranet, executive meetings and information boards 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.

Within Finance Management, the Internal Control 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, whose last review was approved in June 2015. Responsibility for approving the Code of Conduct rests with the NH Group's Board of Directors. This document affects all NH Group employees, and applies not only to employees, managers and members of the Board of Directors, but also, in certain cases, to other stakeholders, such as customers, suppliers, competitors, shareholders and the communities in which NH runs its hotels.

The Code of Conduct summarises the professional conduct expected of all employees at centres operating under NH Group's brands (hereinafter, NH Group employees), who are committed to acting with integrity, honesty, respect and professionalism in the performance of their work. The NH Group is committed to complying with the laws and regulations in the countries and jurisdictions in which it operates. These include laws and regulations on health and safety, discrimination, taxation, data privacy, competition, anti-corruption, prevention of money laundering and commitment to the environment. The key areas covered by the Code are:

- Commitment to people.
- Commitment to customers.
- Commitment from suppliers.
- Commitment to competitors.
- Commitment to shareholders.
- Commitment to communities and society.
- Commitment to the Group's assets, knowledge and resources.
- Obligations regarding fraudulent or unethical practices.
- Commitment to the stock market.

Since 2014, NH Group has driven the creation of the Compliance function, the scope of which applies to the following key areas:

- Internal Code of Conduct: Sets out minimum standards to be respected in relation to the purchase and sale of securities and privileged and confidential information and its processing.

- Conflict of Interests Procedure: Establishes the rules to be followed in situations where there is a conflict of interests between the Company, or any of the companies making up the Group, and the direct or indirect personal interests of the Directors or persons subject to the conflict of interests rules.

- Code of Conduct: Intends to establish the main values and rules which should govern the conduct and actions of each of the employees and executives of the Group, as well as the members of the governing bodies of the companies that form part of the Group.

- Criminal Risk Prevention Model: Describes the crime prevention and management principles in place at NH Group and defines the structure and operation of the control and monitoring bodies set up within the Company, systematising existing controls for the purpose of preventing and mitigating the risk of crimes being committed in the Company's various areas.

Compliance Committee
NH Hotel Group set up the Compliance Committee in 2014, comprising members of the Management Committee and Senior Management. It has the power to oversee compliance with the Group's Internal Code of Conduct, Conflict of Interests Procedure, Code of Conduct and Criminal Risk Prevention Model.

The Compliance Committee submits a detailed report to the Board's Audit and Control Committee regarding the activities carried out and has the power to impose disciplinary sanctions on employees in matters within its scope of responsibility.

Compliance Office
The Compliance Office is in charge of distributing and overseeing compliance with the Code of Conduct and drawing up the Criminal Risk Prevention Model. The Compliance Office reports directly to the Compliance Committee and is also responsible for managing the confidential Code Complaints Channel and Code of Conduct queries.

The Criminal Risk Prevention Model has been implemented in Spain (Business Unit and Corporate) and Italy, where training was imparted on this topic during 2017.

At the end of 2017 a process to rationalise the Criminal Risk Prevention Matrix in Spain began which aims to provide the company with a more efficient model whilst during the year the Compliance Office has been working on implementing the Criminal Risk Prevention Model in the seven most important countries where Grupo NH operates. This will be completed throughout 2018 with the launch of specific training for each country.

Likewise, Grupo NH has begun the roll-out of an IT tool (SAP GRC) which will help audit and manage the Criminal Risk Prevention Model and allow management of the SCIIF, the risks map and the tax information report.

The Code of Conduct is available for employees on the company intranet, in the app for employees 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 Grupo NH's employees.

At 31 December 2017, use of the Code of Conduct through the online course is at 75.63%. This percentage excludes Hoteles Royal which was carried out in 2016 through the physical signing of the document and reached 98.71% adherence.

The Code of Conduct contains the following points specifically relating to financial reports and the recording of transactions:

The Group has is committed to reporting transparency, construed as the undertaking to release reliable information to the financial markets, as well as to any other kind of markets. Hence, the company's internal and external financial and economic reporting shall faithfully reflect its economic, financial and equity position in accordance with generally accepted accounting standards.

The Manipulation of Information section stresses that "the individuals responsible must transmit truthful, complete and comprehensible financial reports. Under no circumstances may they knowingly provide incorrect, inexact or inaccurate information. Therefore, individuals responsible shall refrain from:

- Keeping a record of transactions in non-accounting media not recorded in official books.
- Keeping accounts which, referring to the same activity and financial year, hide or fake the company's true situation.
- Recording expenses, income, assets or liabilities which are non-existent or not in line with reality.
- Noting businesses, acts, transactions or, in general, financial transactions in the compulsory books, or making a note of them with figures other than the true ones.
- Making entries in accounting books, incorrectly indicating their purpose.
- Using false documents.
- Deliberately destroying documents before the end of the legally-required time limit for retaining them.

- Reporting channel for informing the Audit Committee of financial and accounting irregularities, as well as any breaches of the Code of Conduct and irregular activities in the organisation, noting if this is confidential.

Aprocedure has been established for lodging complaints about breaches of the principles enshrined in the Code of Conduct, and this enables employees to provide confidential information about any non-compliance with the principles set out in the Code of Conduct. This procedure ensures transparency, confidentiality and respect throughout all its stages. As mentioned previously, it is managed by the Compliance Office.

The procedure for reporting and dealing with possible non-compliance and reports relating to the Code of Conduct is administered by the Senior Vice President of the Group's Internal Audit Department, who acts independently and ensures the channel's confidentiality, giving an account of the most significant incidents over the course the year to the Group's Audit and Control Committee.

Complaints should preferably be lodged electronically using a channel expressly set up for the purpose and available to all stakeholders (codeofconduct@nh-hotels.com), through which they are forwarded to the Internal Audit Department. In addition, they may be sent by post for the attention of the Senior Vice President of NH Hotel Group, S.A. Internal Audit Department at Santa Engracia 120, 28003 Madrid, Spain.

The Senior Vice President of the Internal Audit Department is responsible for analysing the information presented and requesting the corresponding evidence and reports. All complaints received are submitted to the Compliance Committee and the Audit and Control Committee, upholding the principle of confidentiality guaranteed in the Code of Conduct.

- Regular training and refresher courses on, at least, accounting standards, audits, internal control and risk management for staff involved in preparing and reviewing financial reports and evaluating the reporting system.

Regarding the evolution of the SCIIF, through Internal Control the Finance Department has given the following training sessions in 2017.

Internal training of five employees of the Finance Department with an introductory framework on Internal Control and the SCIIF with the aim of their acquiring the fundamental knowledge to carry out the review of the financial information controls self-assessment made by first line of defence users and reported to Internal Control.

Internal training of six employees of the Finance Department's second line of defence for the management and control of risks through the SAP GRC internal control reporting tool.

Training sessions aimed at first line of defence employees- 14 from the retained function of the European business units and nine from Corporate- with the aim of training in reporting the assessment of the design and self-assessment of SCIIF controls to Internal Control through the SAP GRC internal control reporting tool.

Additionally, the Finance Department attends training courses or conferences on updated accounting standards, consolidation standards and the specific financial reporting applicable to the sector, which are considered especially relevant to its work. We highlight attendance at training sessions during 2017 on IFRS 16, leases; IFRS 9, financial instruments; and IFRS 15, revenue from contracts with customers; Royal Decree-law 18/2017 of 24 November on non-financial information to be disclosed in the consolidated annual accounts and management report; and on the new audit report.

In turn, and to guarantee an adequate reporting of risks identified in the Group, throughout 2017 the Corporate Internal Audit Department has given training sessions to train 26 users involved in risk management in an appropriate management of the Risk Management module of the SAP GRC internal control tool.

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, which assumes the risk function, annually leads the updating of the Corporate Risk Map approved by the Board of Directors.
- The Chief Officers or acting managers of each area, including the Executive Managing Directors and other professionals directly involved in the risk management process within their area of responsibility.

The types of risk identified in the Internal Control System on Financial Information are classified as follows:

Technological risks
Technological risks relate to the management of information systems to ensure the completeness, availability and reliability of financial information and avoid exposure of the company's significant assets to potential loss, damage or misuse.

These risks relate to the following areas:
- Access security
- Availability
- Completeness
- Supervision

Accounting Risks
These are the risks related to the incorrect accounting record of the transactions and breach of the applicable accounting principles (the International Financial Reporting Standards in the case NH Hotel Group's consolidated accounts) whereby the consolidated financial statements do not express, in all significant aspects, the true image of the consolidated equity, financial situation, profit and loss and cash flows, with them being able to change or influence the reasonable judgement of a person.

In order to provide reasonable assurance regarding the reliability of the financial information disseminated to the market, the Internal Control area of NH Hotel Group's Finance Department follows a permanent review and risks identification process which it documents in two interrelated matrices; the risk and control of the financial information matrix and the scope of the SCIIF matrix.

The risk and control of the financial information matrix contains the risks and sub-risks categories in each process and sub-process having a potential impact on the financial information as well as the associated SCIIF controls to mitigate the impact of these risks.

The scope of the SCIIF matrix identifies those headings of the consolidated balance sheet and income statement with a significant associated risk and a potential material impact on the published financial information. Materiality is established according to quantitative criteria, based on the latest consolidated annual accounts, and on qualitative criteria such as the volume and unit amount of transactions, the automation of processes and the integration of systems, the accounting complexity, the degree of estimation and application of judgements and assessments, and the level of criticality based on experience.

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

Police 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
- Tax contingencies

Outsourcing risks
Outsourcing risks arise as a result of the process of transferring part of the administration service to a third party, and are categorised as follows:

- Service Level Agreements.
- Availability
- Personnel Management
- Knowledge Management
- Legal

The risk identification and assessment process is carried out by the Internal Audit Department in collaboration with the Strategy Department and supervised by the Audit and Control Committee as part of its duties.

The risk identification process is documented in the Corporate Risk Manual.

• Whether the process covers all financial reporting assertions (existence and occurrence; completeness; evaluation; presentation, disclosure and comparability; and rights and obligations), whether it is updated and how often.

In order to ensure the reliability of Financial Reporting, when identifying risks and controls, the accounting errors that may arise from the following objectives for financial information are always considered:

- Completeness: balances or transactions that should be recorded but are not.
- Transaction cut-off: those booked in a period other than when they were accrued.
- Accuracy: transactions recorded with errors (amounts, conditions).
- Occurrence/Existence: registered transactions which have not 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.
- Understandability: lack of quality of financial information which makes it difficult to understand for a person with reasonable economics and business knowledge.

With the transition of the SCIIF definition and custody functions to the Internal Control area of the Finance Department, during 2017 a review of the associated risks and controls was carried out, considering the fulfilment of the aforementioned financial information objectives for this.

- 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 involves the reporting of the sub-consolidated income statement and balance sheet reported by each Business Unit, in accordance with their consolidation perimeter, to the Corporate Finance Department.

Each year, the Corporate Consolidation Department confirms the consolidation perimeters with the finance directors of the business units.

Additionally, throughout the year, the business units report on variations which arise in their consolidation perimeter to the Finance Department which, in turn, coordinate the modification of these in all the Group's financial reporting and consolidation systems.

On the other hand, the tax department of the Corporate Finance Department is responsible for maintaining the Group's organisational chart and periodically reporting the updated version to a distribution list of people within the Finance Department to control changes in 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.

There is a financial information review and authorisation procedure in the NH Hotel Group which is set out below:

- Internal reporting of financial information:

Each month, the Group's Finance Management send the Group's most significant information management to the Executive Committee and Board of Directors for their review which contains the income statement and the main economic indicators. Prior to reporting to these governing bodies, the information undergoes a review process by the finance directors at a business unit level and by Finance Management at a corporate level.

- Reporting of information to stock markets:

The consolidated accounts and the half-yearly consolidated financial reports are prepared based on the information reports of the business units and, once reviewed by their respective directors, the consolidation process is undertaken by Corporate Consolidation and the information required to prepare the consolidated accounts is provided both by the Finance Department and other Corporate departments always with the review of the corresponding people responsible for it. Once the consolidated financial statements have been received, they are reviews by the Group's Finance Management and by the Audit and Control Committee before being prepared and approved by the Board of Directors (section b) of article 33 of the Parent's Articles of Association and sections 3. d) and 5. b) of Article 5 of the Board of Directors' Governing rules). Once prepared, they are published through the National Securities Market Commission.

Additionally, each quarter, the Group publishes financial information to the stock markets. Finance Management is responsible for the process of issuing such information while the Board of Directors, in accordance with section 3 of article 40 of its Governing rules, is responsible for ensuring the preparation is carried out in line with the principles, criteria and professional practices with which the Annual Accounts are produced and enjoy the same reliability. To this end, said information is reviewed by the Audit and Control Committee which, when it deems it appropriate, requires the presence of both external and internal auditors.

Likewise, the Board of Directors may request analysis of specific issues, as well as the details of particular financial transactions which, because of their importance, require greater analysis.

The Corporate Organisation Department is responsible for documenting and updating the year-end process which is published on the corporate intranet. This process includes the SCIIF controls implemented to mitigate those risks identified at year-end among which are those risks related to the different review levels of the financial information generated.

On the other hand, NH has an internal financial reporting control system (SCIIF) based on the COSO model (Committee of Sponsoring Organisations of the Treadway Commission) to achieve the following objectives:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding assets

NH Hotel Group's SCIIF model is documented in a matrix of financial risks and controls which includes the following business cycles, which are relevant to the preparation of the financial information prepared and published by the Group:

- Accounting close, consolidation and financial reporting process
- Purchasing and suppliers
- Sales and customers
- Cash
- Financing
- Fixed assets
- Inter-company
- Tax
- Human resources
- Provisions and contingencies
- Loyalty programme
- Shared services centre
- Business support technological processes

The structure of the financial risk and controls matrix includes the following information:

- Organisational unit: the organisational level to which the controls are implemented and determines the scope of the assessed entities.
- Process and sub-process: set of activities related to a specific function within the operation of an organisational unit. They include those with a potential significant impact on the financial information prepared by the Group.
- Risk: 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: definition of 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.
- Classification of the controls: key or not, preventive or detective, and manual or automatic; this last one depending on whether they can be monitored using data from automated tools.
- Ownership of the controls: they belong to the first line of defence in accordance with the COSO model. They are those who execute the controls and those responsible for their self-assessment and the assessment of their design.
- Those responsible for the controls: within the first line of defence they are the supervisors of the correct execution and reporting of the controls for each activity before their reporting to Internal Control, the model's second line of defence.
- Frequency: how often the controls are executed.

Within the risks identified in the business cycles defined in the SCIIF matrix are the risks of fraud and the controls associated with its mitigation. Likewise, the matrix includes controls specific to the review of relevant judgements, estimates, valuations and projections whose execution mitigates the risk of reporting unreliable financial information.

Additionally, the Group has a documented procedure which collates the policies to follow in the valuation of those assets of the consolidated balance sheet which involve the making of judgements, estimates, valuations and/or projections with a material impact on the consolidated financial statements.

Internal Control, within the Corporate Finance Department and the second line of defence in compliance with the COSO model, is charged with managing and updating the risks and SCIIF controls matrix as well as the periodic review of the self-assessment of the controls made by the owners of those controls, within the first line of defence, to ensure their effectiveness and to mitigate associated risks.

The Corporate Internal Audit Department, as the third line of defence, annually audits the Group's internal control model to afford the Audit Committee and Board of Directors reasonable security as to its effectiveness and, as a result, the reliability of the financial information generated and published on the stock market.

Additionally, section F of the Annual Corporate Governance Report published by the NH Hotel Group is subject to an external audit by a recognised firm to guarantee the truthfulness of its content.

The Group is currently in the final phase of implementing the SAP GRC tool Process Control module to manage the SCIIF which will end at the beginning of 2018. From the end of January 2018, the tool will enter use and allow integrations of the SCIIF reporting into a single repository and improve efficiency in monitoring changes to the risks and controls matrix and communication between users involved in SCIIF reporting, as well as the monitoring of action plans to correct weaknesses found in the model. Likewise, its implementation will suppose a greater degree of involvement in SCIIF reporting of all users of the first line of the model and of the Group as a whole, including an internal certification model twice per year.

F.3.2 Internal control policies and procedures for the information systems (including secure access, change monitoring and management, operational continuity and separation of functions) which support the company's processes relating to the preparation and publication of financial reports.

Internal control of IT systems
There is an internal control model for the Group's information systems which covers the different IT processes and is based on their associated risks. This model (based on COSO and COBIT) includes a matrix of 130 general IT system controls (GITC) and policies and procedures relating to the security the IT systems need.
The internal control model covers the systems that contribute to the preparation of the Group's consolidated financial statements and thus assures the completeness, availability, validity and quality of the information provided to the markets.

The GITC matrix is aligned with the control models created by the NH Group for other business cycles, which are structured into the following processes:

Access to programmes and data.
There are policies and procedures that set up controls over:

- Restricted access to the systems, avoiding unauthorised access or changes to programmes that could affect the completeness, integrity and reliability of financial reports.
- Correct separation of functions, in order to guarantee secure access to the accounts information systems.
- Security in the facilities housing the systems, ensuring that only authorised personnel have access to them.

Operations.
There are policies and procedures that set up controls over:

- The availability of the information, ensuring that financial data are complete, valid and accurate.
- Good management of incidents, enabling quick resolutions and minimising their impact.
- That operations are monitored, ensuring that they are executed completely and on time. Any incidents are resolved, enabling jobs to be restarted and run correctly.

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 2017, various initiatives linked to the Information Security Master Plan continued to be implemented, including those relating to the organisation of security, change management and physical security.

F.3.3 Internal control policies and procedures to supervise the management of outsourced activities and those aspects of evaluation, calculation or appraisal entrusted to independent experts, which may materially affect the financial accounts.

The function has been outsourced to a third party in the companies included in the scope of the SCIIF.

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 18 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 Grupo NH 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.

Through Corporate Consolidation, NH Hotel Group's Finance Management is responsible for defining, updating and correctly applying the accounting policies as well as responding to questions and queries which arise in their interpretation.
In this same sense, it is charged with communicating any change which occurs in accounting matters to the heads of the business and corporate units and which affects them in the reporting of financial information.

The Group has an accounting policies manual and a consolidation manual -both published on the intranet- in accordance with the International Financial Reporting Standards (IFRS), which are those which govern the NH Hotel Group. Likewise, the Group shares a single accounting plan applicable in all the business units in which it operates.

The Organisation Department is responsible for unifying, analysing and publishing the rules and procedures applicable in the Group, among which are the operational, administrative (including accounting), quality and regulatory procedures.

The Internal Audit Department is responsible for periodic review of the processes, policies and procedures defined in the Group.

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.

As discussed in section F.4.1, the consolidated financial information which NH Hotel Group publishes on the stock market is in accordance with IFRS. In this sense, the information reported from the Group's business units follows international regulations.

Likewise, there is a single accounts plan applied by all the companies which are included in the consolidated group.
Grupo NH has a common consolidation tool for all companies. This tool centralises all the information corresponding to the accounting of the companies which make up the financial consolidation of the NH Hotel Group into a single system. The input of financial information from the ERP to the consolidation system is automatic for those companies already migrated to the common ERP implemented in most Group companies, or manually for those companies with a different ERP. In this sense, preventive controls have been defined in the consolidation tool itself which ensure data is input correctly. From January 2018, the input of financial information from the ERP to the consolidation system will be automatic for all Group companies as the companies recently incorporated into the NH Hotel Group consolidation perimeter will be included.

Finance directors of the business units report the financial information to the corporate office monthly using two unique standard reporting packets designed by the Corporate Finance Department for reporting of the financial management information and the consolidated balance sheet.
The dumping of information from the accounts and the accounting headings to the reporting is the same for both models, having previously been approved by the Corporate Finance Department. Any change in criteria for the dumping and presentation of information to be reported is communicated from the corporate office to the finance directors of the business units.

In turn, the Corporate Finance Department uses the same reporting models to prepare the management reports and annual accounts published on the stock market.

All this ensures that the information reported between business units is comparable and homogeneous to be included in the Group's consolidated financial reporting.

At an internal control level, the Group has designed a single reporting model for the monthly sending of SCIIF controls self-assessment to its owners. Likewise, the Internal Control area pursues the homogenisation of the processes in all the Group's business units so that the risk and control matrix is the same for all the organisational units. In turn, whenever Internal Control modifies the design of the controls, it is communicated to the owners of the processes and controls so they are informed and report according to the latest version of the SCIIF risks and controls matrix.

F.5 Supervision of the system

Report, indicating the main characteristics of at least:

F.5.1 The supervision of the SCIIF by the Audit Committee and whether the company has an internal auditing area whose competency includes supporting the committee in supervising the internal control system, including the SCIIF. It will also report the scope of the evaluation of the ICFR during the year and the procedure by which the body in charge of the evaluation will report its results, if the company has an action plan which details possible corrective measures, and if its impact on financial reporting has been considered.

Supervisory activities of the Audit Committee

The Audit and Control Committee is the advisory body to which the Board of Directors has delegated its powers to update and supervise the SCIIF. As part of this function and to fulfil the tasks delegated by the Board, the Committee receives and reviews the financial reports which the NH Group issues to the markets and regulatory bodies, particularly the consolidated annual financial statements accompanied by the Audit Report. The Committee supervises the preparation process and the completeness of the financial reports of the Company and its subsidiaries, and checks that the legal requirements applicable to the NH Group are complied with, the consolidation perimeter is appropriate and that generally accepted accounting standards are applied correctly.

The Audit and Control Committee receives an annual report from the Internal Audit SVP on its assessment of the effectiveness of the SCIIF model, the weaknesses detected during internal audits, and the plans or actions already in place to remedy any detected weaknesses.
During 2017, the Internal Control Function, reporting to the Financial Department assumed full responsibility for the SCIIF, in addition to its maintenance and extension to the different companies which form part of Grupo NH.

Currently, Grupo NH has a computer tool implemented which helps automate the SCIIF assessment and certification process, which will begin to be used during 2018 for the assessment and monthly monitoring of the SCIIF.

The Audit and Control Committee supports and supervises the work of the Internal Audit department in its assessment of the SCIIF. The Committee proposes the selection, appointment and replacement of the body or person responsible for Internal Audit services, validates and approves the strategy, the Internal Audit plan and objectives for the year, and is responsible for evaluating the performance of the Internal Audit Department Manager annually.

The Internal Audit plan for assessing the SCIIF is submitted to the Audit and Control Committee for approval before being put into practice, in order to include all the considerations of the Committee.

The level of implementation of the relevant recommendations arising from the SCIIF is reviewed by the Audit and Control Committee at least once a year.
The Audit and Control Committee procedures are documented in the presentations made by said Committee and subsequently included in the corresponding signed minutes.

Internal Audit Function

Internal audits are carried out by the Group's Internal Audit Department, which reports functionally to the Audit and Control Committee and administratively to the General Secretariat. 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 which were updated in 2017 and 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 2017

The Group's SCIIF model covers the business units in Northern Europe (Benelux and Central Europe), Southern Europe (Spain, France, Portugal and Italy) and Latin America (Mexico and Argentina, partially implemented), which consist of 280 hotels and 13 business cycles of major importance in the presentation of financial reports.

A total of 455 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.

Grupo NH has defined a monthly calendar 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.

During 2017, the Internal Control Department supervised the self-assessment process and evidence deposited in a file shared by the Shared Services Centre, Administration and the Internal Control Department.

The assessment process in 2017 analysed a total of 345 controls for the geographic area of Spain, the Netherlands, Belgium, Germany, Austria, Italy, Mexico, Argentina and controls at Corporate level, which involved reaching 76% 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. Jointly with the Internal Control Department, 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 Management Committee.

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 2017, drawn up by the Company's Management, to the external auditor for review. This report is attached as an Annex.

G - DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the Company's degree of compliance with the recommendations of the Code of Good Governance for listed companies.

If any recommendation is not followed or is only followed in part, a detailed explanation of the reasons must be included so that shareholders, investors and the market in general have enough information to assess the company' methods. Generalised explanations will not be acceptable.

1. The articles of association of listed companies should not limit the maximum number of votes that a single shareholder may cast, nor contain other restrictions that stand in the way of a company take-over through the acquisition of its shares in the market.

   Complies

2. When a parent company and a subsidiary company are both stock market listed, both must provide detailed disclosure on:

   a) Their respective areas of activity and possible business relations between them, as well as between the listed subsidiary and the other companies in the group;
   b) The mechanisms in place for resolving potential conflicts of interest that may arise.

   Not applicable

3. That during the ordinary general meeting, in addition to circulating the annual corporate governance report in writing, the chairman of the board of directors verbally informs the shareholders, in sufficient detail, of the most important aspects of the company´s corporate governance and, in particular:

   a) About changes that have occurred since the last ordinary general meeting.
   b) About specific reasons why the company does not follow any of the recommendations in the Corporate Governance Code and, if any, alternative rules applicable in this area.

   Complies

4. That the company defines and promotes a policy of communication and contact with shareholders, institutional investors and voting advisers which fully respects regulations against market abuse and gives similar treatment to shareholders who are in the same position.

   And that the company publishes the policy on its web site, including information relating to the way in which it is put into practice and identifying the contact persons or those responsible for carrying it out.

   Complies

5. That the board of directors does not bring a proposal to the general meeting for delegation of powers to issue shares or convertible securities which exclude preferential subscription rights for more than 20% of the company's capital at the time of delegation.

   And that when the board of directors approves any issue of shares or convertible securities excluding preferential subscription rights, the company immediately publishes reports on its web site about this exclusion as referred to under company law.

   Complies

6. That listed companies drawing up the reports listed below, whether on a compulsory or voluntary basis, publish then on their web site sufficiently in advance of the ordinary general meeting being held, even if their circulation is not mandatory:

   a) Report on the independence of the auditor.
   b) Reports on the work of the audit and appointments and remuneration committees.
   c) Audit committee report on related-party transactions.
   d) Report on the corporate social responsibility policy.

   Complies

7. That the company transmits general shareholders' meetings live on its web site.

   Complies

8. That the audit committee ensures that the Board of Directors makes every effort to present financial statements to the General Shareholders' Meeting that are free from limitations or qualifications in the audit report and, in exceptional circumstances where they may exist, both the Chairman of the Audit Committee and the auditors shall provide the shareholders with a clear explanation of the content and scope of such limitations or qualifications.

   Complies

9. That the company permanently publishes the requirements and procedures that it will accept to prove ownership of shares, the right to attend the general shareholders' meeting and the exercise or delegation of the right to vote.

   And that such requirements and procedures facilitate the shareholders' attendance and the exercise of their right to vote and that they are applied in a non-discriminatory manner.

   Complies

10. That where any legitimate shareholder has, prior to the general shareholders' meeting being held, exercised the right to supplement the agenda or submit new proposals for resolution, the company:

    a) Immediately circulates such supplementary points and new proposals for resolution.
    b) Publicises the attendance card form or vote delegation or remote voting form with the amendments needed so that the new points on the agenda and alternative proposals for resolution may be voted on under the same terms as those proposed by the board of directors.
    c) Puts all such points or alternative proposals to the vote and applies the same voting rules as those for the points made by the board of directors including, in particular, the assumptions or deductions on the outcome of the vote.
    d) Report, after the general shareholders' meeting, the breakdown of the vote on such supplementary points or alternative proposals.

    Not applicable

11. That, in the event that the company foresees payment of fees for attendance at the general shareholders' meeting, it sets up a general policy on such fees beforehand and that said policy is stable.

    Not applicable

12. That the board of directors performs its duties with a unity of purpose and independence of judgement, gives the same treatment to all shareholders who are in the same position and is guided by company interest, understood to be the achievement of a profitable business that is sustainable in the long term, that promotes its continuity and the maximisation of the company's financial value.

    And that in pursuing company interests, apart from respecting the laws and regulations and behaviour based on good faith, ethics and respect for commonly accepted uses and good practice, it seeks to reconcile company interest with, as appropriate, the legitimate interests of its employees, suppliers, customers and other interest groups who may be affected, along with the impact of the company's activities on the community as a whole and the environment.

    Complies

13. That, in the interests of effectiveness and participation, the board of directors should comprise no fewer than five and no more than 15 members.

    Complies

14. That the board of directors approves a policy for selecting directors that:

    a) Is specific and verifiable.
    b) Ensures that proposals for appointment or re-election are based on prior analysis of the board of directors' needs.
    c) Encourages diversity of knowledge, experience and gender.

    That the result of prior analysis of the board of directors' needs is included in an explanatory report from the appointments committee which is published when calling the general shareholders' meeting to which it is submitted for ratification, appointment or re-election of each director.

    And that the policy for selecting directors promotes the objective that by 2020 the number of female directors is at least 30% of the total number of members of the board of directors.

    The appointments committee will verify compliance with the policy for selecting directors annually and will report on it in the annual corporate governance report.

    Complies

15. External proprietary directors and independent directors should comprise a significant majority of the Board of Directors, and the number of executive directors be kept to a minimum, taking into account the complexity of the corporate group and the percentage shareholdings of the executive directors in the company.

    Complies

16. That the ratio of proprietary directors to the total number of non-executive directors should not be greater than the existing ratio between the capital of the company represented by such directors and the remaining capital.

    This criteria may be flexible:

    a) In companies with high capitalisation where shareholdings that are legally considered to be significant are scarce.
    b) In companies in which there are numerous shareholders represented on the board of directors and these shareholders have no links between them.

    Complies

17. That independent directors represent at least half of all the directors.

    Nevertheless, where the company does not have high capitalisation or where, even if it does, it has one shareholder, or several acting jointly, who control more than 30% of the company capital, the number of independent directors represents, at least, one-third of all the directors.

    Complies

18. That companies publish and update the following information about their directors on their web site:

    a) Professional profile and biography.
    b) Other boards of directors to which they belong, whether or not they are listed companies, along with information about their other remunerated activities, whatever they may be.
    c) Indication of the director's category stating, in the case of proprietary directors, the shareholder that they represent or with whom they have ties.
    d) Date of their first appointment as a director in the company as well as the date of subsequent re-appointments.
    e) Shares and share options held by the director.

    Complies

19. That the annual corporate governance report, after verification by the appointments committee, explains the reasons why proprietary directors have been appointed on behalf of shareholders with shareholdings of less than 3% in the company capital and the reasons for ignoring, if applicable, formal requests for presence on the Board from shareholders with shareholdings equal to or greater than others who have successfully proposed proprietary directors.

    Not applicable

20. That proprietary directors present their resignation when the shareholder they represent transfers its entire shareholding. And the number of proprietary directors is also reduced when the shareholders in question reduce their holdings to a level that requires fewer such directors.

    Explain

    The Company's General Shareholders' Meeting used its votes to set the representation of the proprietary shareholder on the Board of Directors. As a result, there is (i) a proprietary shareholder with a holding of around 29% (HNA Group) without representation on the Board, (ii) another proprietary shareholder with a holding of around 12% (Oceanwood) which, with one director would be under-represented on the Board, and (iii) a third proprietary shareholder with a holding of around 9% (Grupo Hesperia Inversor) which, with two directors would be over-represented. With regard to this last shareholder, in 2014 they reduced their shareholding in NH but retained two representatives on NH's Board of Directors as it was considered that the in-depth knowledge both representatives had of the hotel industry was an asset worth preserving for the benefit of all shareholders. And so it was approved by the General Shareholders' Meeting on 29 June 2017 and by the proxy advisors which covered said Meeting who recommended voting in favour of the appointment's approval..

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

Out of a total of 11 meetings of the Board of Directors, it was not possible to nominate a proxy with instructions in 3 for reasons of urgency. In any case, the percentage of attendance over total votes during the year was 97.29%.

28. When directors or the secretary raise concerns about a proposal or, in the case of directors, about the performance of the company, and such concerns are not resolved by the board of directors, these concerns are recorded in the minutes at the request of the director raising them.

Complies

29. The company sets up appropriate channels so that directors may obtain the advice needed to perform their duties, including, if the circumstances deem fit, external advice payable by the company.

Complies

30. Independently of the knowledge demanded from the directors to carry out their duties, the companies also offer directors with the opportunity to participate in knowledge refresher programmes where the circumstances so require.

Complies

31. The agenda at meetings clearly shows the points regarding which the board of directors must make a decision or adopt a resolution so that the directors can study them or gather the information needed for their adoption beforehand.

Where, exceptionally, on the grounds of urgency, the chairman wishes to submit decisions or resolutions for the board of directors' approval which do not appear on the agenda, prior, express consent will be required from the majority of directors present, and this will be duly recorded in the minutes.

Complies

32. Directors are periodically informed about changes in shareholdings and the opinion that significant shareholders, investors and ratings agencies have about the company and its group.

Complies

33. The chairman, being responsible for the effective functioning of the board of directors, in addition to carrying out the duties that are legally and statutorily attributed thereto, prepares and submits a programme of dates and matters to be addressed to the board of directors; organises and coordinates the periodic assessment of the board and, if necessary, the company's chief executive; ensures that sufficient time is given to the discussion of strategic matters, and agrees and reviews knowledge refresher programmes for each director where the circumstances so require.

Complies

34. Where there is a coordinating director, the articles of association or board of directors' regulations offer him/her the following powers, in addition to the powers provided by the law: chair the board of directors in the absence of the chairman and vice-chairmen, if any; speak up for non-executive directors concerns; maintain contact with investors and shareholders to establish their points of view for the purposes of forming an opinion on their concerns, particularly in relation to the company's corporate governance; and coordinate the chairman's succession plan.

Not applicable

35. That the secretary of the board of directors takes particular care so that, in their actions and decisions, the board of directors are aware of the recommendations on good governance contained in this Code of Good Governance applicable to the company.

Complies

36. Once a year the board of directors, in plenary, assesses and adopts, as necessary, an action plan correcting shortcomings detected in relation to:

a) The quality and efficiency of the board of director's work.
b) The operation and composition of its committees.
c) The diversity of the composition and powers of the board of directors.
d) The performance of the chairman of the board of directors and the chief executive of the company.
e) The performance and contribution of each director, paying particular attention to those responsible for the various committees of the board.

Assessment of the various committees will be based on the report that they submit to the board of directors and, with respect to the board, the report submitted by the appointments committee.

Every three years, the board of directors will be aided in carrying out the assessment by an external consultant whose independence will be verified by the appointments committee.

The business relationship of the consultant, or any company in its group, with the company, or any company in its group, must be broken down in the annual corporate governance report.

The process and the areas assessed will be subject to description in the annual corporate governance report.

Complies

37. When there is an executive committee, the participation structure of the different director categories is similar to that of the main Board and its secretary is the Secretary of the Board.

Partially complies

The Company's Executive Committee does not have a similar director category structure as the Board of Directors itself as, in the Executive Committee there is a greater weight of proprietary directors than on the Board of Directors. This is the result of an informed and free decision by the Board of Directors which, logically, has been approved by qualified majorities considering that the make up of its Executive Committee is adequate to carry out its duties.

The Secretary and Deputy Secretary of the Board serve in the same positions on the Executive Committee.

38. The board of directors is always aware of the issues discussed and the decisions adopted by the executive committee and each member of the board of directors receives a copy of the minutes of the executive committee's meetings.

Complies

39. Members of the audit committee, particularly its chairman, are appointed on the basis of their knowledge and experience in accountancy, auditing or risk management and the majority of its members are independent directors.

Complies

40.Under supervision of the audit committee, there is a unit that carries out the internal audit function, tasked with ensuring the proper functioning of the information and internal control systems and that functionally comes under the non-executive chairman of the board or of the audit committee.

Complies

41. The manager of the unit responsible for internal audit submits his/her annual work plan to the audit committee, directly reports corresponding incidents and submits an activity report to the committee at the end of every year.

Complies

42.In addition to those provided for by the law, the audit committee is responsible for the following functions:

1. In relation to internal control and information systems:

a) Supervising the preparation and safeguarding the integrity of the financial reporting relating to the company and, if applicable, to the group, reviewing compliance with regulations, the adequate delimitation of the consolidated group and the proper application of accounting standards.
b) Safeguarding the independence and effectiveness of the unit responsible for internal auditing; proposing the selection, appointment, re-election and removal of the manager of the internal audit service; proposing the budget for this service; approving its focus and work plans, ensuring that its activity is mainly focussed on relevant risks for the company; receiving periodic information about its activities; and verifying that senior management takes into account the conclusions and recommendations of its reports.
c) Establishing and supervising a mechanism that allows employees to report confidentially and, if possible and considered appropriate, anonymously, any potentially significant irregularities, particularly financial and accounting, they discover within the Company.

2. In relation to the external auditor:

a) In the case of the resignation of the external auditor, examining the circumstances that may have lead to this.
b) Ensuring that the external auditor's remuneration for their work does not compromise their quality or independence.
c) Monitoring that the company notifies the Spanish Stock Market Commission (CNMV) of the change of auditor as a significant event and accompanies it with a statement about the existence of disagreements with the outgoing auditor and the content of such disagreements, if they exist.
d) Ensuring that the external auditor has an annual meeting with the board of directors in plenary to report on the work carried out and on the evolution of the accounting position and risks to the company.
e) Ensuring that the company and the external auditor follow prevailing regulations on the provision of services other than audit services, the limits on the concentration of business with the auditor and, in general, any other regulations on the independence of the auditors;

Complies

43.The Audit Committee may summon any employee or director of the company, and may require the appearance of the same without the presence of any other director.

Complies

44.The audit committee is informed about structural and corporate amendment transactions that the company plans to carry out for analysis and prior reporting to the board of directors about their financial terms and their accounting impact and, in particular, as appropriate, on the proposed swap ratio.

Complies

45.The risk management and control policy identifies at least the following:

a) The different types of risk, either financial or non-financial, (operational, technological, legal, social, environmental, reputational, amongst others) to which the company is exposed, including contingent liabilities and other off-balance sheet risks amongst financial and economic risks.
b) The level of risk that the company considers acceptable.
c) The measures planned to mitigate the impact of identified risks should they materialise.
d) The internal control and information systems that will be used to control and manage the aforementioned risks, including contingent liabilities or off-balance sheet risks.

Complies

46.Under the direct supervision of the audit committee or, as appropriate, a specialist committee of the board of directors, there is an internal risk control and management system run by an internal unit or department at the company which is expressly given the following functions:

a) Ensure the proper functioning of the risk control and management systems and, in particular, that all significant risks that may affect the company are adequately identified, managed and quantified.
b) Actively take part in drawing up risk strategy and in important decisions on its management.
c) Ensure that risk control and management systems suitably mitigate risks within the framework of the policy defined by the board of directors.

Complies

47. The members of the appointments and remuneration committee (or the appointments committee and remuneration committee, if they are separate) are appointed endeavouring to ensure that they have suitable knowledge, skills and experience for the functions that they are called to perform and that the majority of such members are independent directors.

Complies

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.

Partially complies

The Company's executive directors' short-term variable remuneration has ten per cent linked to the professional performance of the CEO, i.e. his performance assessment. The eight competences measured in this performance assessment are non-financial and are linked to predetermined and measurable performance criteria, as is recommended.

In relation to long-term variable remuneration, although it does not include non-financial criteria as a measure of achievement, it does include a "clawback" clause with an application period of two years from the end of each cycle and for which the payback of the award may be demanded in the following cases:

i. Restatement of the Company's financial statements wherever not due to the modification of applicable accounting standards or interpretations.
ii. The Executive Director being sanctioned for serious breach of the code of conduct and other internal regulations which may be applicable.
iii. When the settlement and payment of the award was wholly or partially produced on the basis of information whose falsehood or serious inaccuracy is manifestly demonstrated a posteriori.

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.

Partially complies

There is no deferral scheme in the Company's current annual variable remuneration system for any of its participants. With long-term variable remuneration, its very nature allows the Company's performance to be seen in the medium and long term (3 years), in addition to ex post control instruments which would be activated when circumstances arise which make it evident that the payment was made on an erroneous premise.

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.

Complies

61. A significant percentage of the executive directors' variable remuneration is linked to the handover of shares or financial instruments referenced to their value.

Complies

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.

Explain

Both the 2014-2019 and 2017-2022 "Performance Shares" Plans establish the obligation to retain the shares delivered to the Executive Director for at least one year. In addition, the Executive Director will be obliged to hold an amount in shares equivalent to at least one year of fixed remuneration throughout their entire tenure. To determine compliance with this obligation, it considers the share price on the day they were delivered.

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.

Complies

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.

Explain

Regarding the outgoing Executive Body, the possible compensation which could correspond to it is pending judicial review, with the court having set 20 November 2018 for the pre-trial hearing. When any news arises, this information will be transferred quickly and included into the new annual reports which may be necessary. Notwithstanding the foregoing, and in accordance with criteria of accounting prudence, the Company's Annual Accounts have had the maximum amounts which, if applicable, could be derived from the eventual compensation to Mr Federico González Tejera fully provided for.

In no event will Ramón Aragonés Marín, the Executive Director appointed in 2017, be entitled to receive any compensation derived from the termination of his position and ending of such commercial relationship. However, the possible indemnities derived from an ending of the employment relationship will continue in effect during his term as Executive Director, recognising that period as time employed. Once ended, as appropriate, the business relationship will take over the labour relationship which was in effect between company and employee until the taking on of the new position in all its effects, except in serious and culpable breach and thus declared jurisdictionally.

H - OTHER RELEVANT INFORMATION

1. If there are any aspects relating to the corporate governance of the Company or the Group's entities which have not been covered in the other sections of this report, but which are necessary to include in order to gather complete and detailed information on the structure and practices of the governance of the entity or the Group, please note them briefly.

2. You may include any other information, clarification or detail in this section, related to the previous sections of the report, which may be relevant but not repetitive.

   Specifically, please indicate whether the company is subject to legislation other than that of Spain in relation to corporate governance and, if applicable, include the information that must be provided and that is different to the information required by this report.

3. The company may also indicate whether it has voluntarily committed to other codes of ethics or best practices, whether international, in the sector or in another context. If so, identify the code in question and the date of adhesion.

SECTION A.2.

Although in the CNMV Records it is recorded that the shareholding of Grupo HNA in NH is 29.50% at 31 December 2017, Grupo HNA reported a decrease to 29.34% in its shareholding in NH to the CNMV on 27 February 2017.

In addition, on 3 November 2017, Grupo HNA notified the CNMV of the signing of a sales contract and repurchase agreement through which it would transfer NH shares representing approximately 1.14% of the share capital.

Depending on whether the sale has been formalised and the terms and conditions of it, Grupo HNA's shareholding in NH could reach 28.20% of the share capital. Finally, on 19 January 2018, it notified the CNMV of the engagement to review its shareholding in NH, including identify potential buyers of its shareholding.

Although the directors are expressly excluded in section A.2, to show the shareholding in NH Hotel Group, S.A. clearly, the shareholding of Grupo Inversor Hesperia, S.A. is included in that section as it is also a director of the Company. The shareholding of Grupo Hesperia consists of the direct shareholding held by Grupo Inversor Hesperia, S.A. (9.10%) and Eurofondo (0.17%).

SECTION A.5

All relations of a commercial, contractual or corporate nature between significant shareholders and the Company and/or its group have been described in the section on Related Party Transactions (insofar as the significant shareholders are also Company directors). These relations have not been included in section A.5 since these transactions are considered to arise from the ordinary course of the Company's business.

SECTION A.8

At 31 December 2017, final ownership of NH Hotel Group, S.A. own shares came to 8,031,895 shares.

During 2017, the Company did not acquire own shares. The other operations correspond to refunds of shares undertaken as part of the loan agreement for 9,000,000 shares in NH Hotel Group, S.A. entered into as part of the issue of the bonds convertible or exchangeable for shares of NH Hotel Group in November 2013 between the Company and the three financial institutions involved in the placement of the bonds. The outstanding balance of the share lending initiative at 31 December 2017 came to 1,384,473 shares. By virtue of the foregoing, the final ownership of NH Hotel Group, S.A. own shares at 31 December 2017 came to 8,031,895 shares, which are attached to the same number of rights to vote.

SECTION C.1.12

Given that the IAGC workforce only allows inclusion of positions which the Directors had on the Board of Directors of other listed companies, it is hereby informed that Mr Fernando Lacadena Azpeitia is the Financial Director at Merlin Properties Socimi, S.A.

SECTIONS C.1.17

Mr Jordi Ferrer Graupera, the individual representative of Grupo Inversor Hesperia, S.A., a significant shareholder in the Company, holds the position of joint and several director of Grupo Inversor Hesperia, S.A..

SECTION C.1.33

The Board also has a Deputy Secretary, Mr Carlos Ulecia Palacios, who holds the post of General Secretary of the Company.

SECTION C.1.43

HNA, via its company Tangla, S.L., brought criminal proceedings against Mr José Antonio Castro Sousa based on the agreements adopted at the General Shareholders' Meeting of 21 June 2016 at which Mr Castro served as the Chairman of the Meeting. The Instructing Judge of said criminal action dismissed and filed the proceedings on 21 September 2017. This order to dismiss and file has been appealed by HNA, and is pending resolution.

SECTION C.2.1.

Notwithstanding the detailed composition of the Board of Directors, the Company has a co-chairmanship system which specifies the appointment of a Chairman of the Board (Mr Alfredo Fernández Agras) and a Chairman of the Executive Committee (Mr José Antonio Castro Sousa).

In relation to the reference made to the Audit and Control Committee and the identification of the "member of the audit committee who has been appointed taking their knowledge and experience in accounting, auditing or both into account", the IAGC form only allows the appointment of one of the members (as required by article 529m of the LSC, which requires that "one of them be appointed taking their knowledge into account" in these matters), clarification is wanted that all members of the Audit and Control Committee have extensive experience and knowledge in accounting and auditing, which is why they have been appointed to be part of the Committee in question.

SECTION D.2.
On 19 April 2017, NH and the shareholder Grupo Inversor Hesperia, S.A. signed a framework contract for hotel management for a total net amount of 31,000 (thousand) euros, of which 11,000 (thousand) euros was paid in 2017 (published through Relevant Event with record number 250817 dated 19 April 2017). Said agreement has brought about a new strategic and transformational framework for the Company when signing new hotel management contracts for a term of 9 years.

It is hereby recorded that concerning the management agreement entered into between Hoteles Hesperia, S.A. and the major shareholder Grupo Inversor Hesperia, S.A., the total transaction volume in 2017 came to 8,969 (thousand) euros. The balance at 31 December 2017 resulting from said management agreement is contained in this report and comes to 2,191 (thousand) euros.

SECTION D.3.
See note D.2. where the shareholder Grupo Inversor Hesperia, S.A. which carries out significant operations with the Company is a Director of the Company at the same time.

SECTION G.3.
Although the General Shareholders' Meeting complied with the provisions of this Recommendation, it was the Chairman of the Appointments, Remuneration and Corporate Governance Committee (and not the Chairman of the Board) who provided this information.

This annual corporate governance report has been approved by the company's Board of Directors in its session on

28/02/2018

Indicate whether any directors voted against or abstained in relation to the approval of this report.

NO

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

Corresponding to the 2017 financial year

1. Introduction

The Audit and Control Committee of NH Hotel Group, S.A. ("NH") issues this report on the operation and performance of its tasks during the year 2017 (hereinafter, the "Report").

The purpose of the Report is to report on the activity performed by this Committee to the Board of Directors in accordance with Recommendation 6 of the code of good governance of listed companies, approved by Agreement of the CNMV (National Stock Market Commission) Board of 18 February 2015.

The composition, powers and operation of the Appointments, Remuneration and Corporate Governance Committee are regulated in articles 48 of the Articles of Association and 25 of the Board Regulations.

2. Composition of the Audit and Control Committee

On 31 December 2017 the Audit and Control Committee was made up of 3 members, as well as by its non-member Secretary.

The composition of the Audit and Control Committee as at 31 December 2017 is the following:

Chairperson:
Mr Fernando Lacadena Azpeitia (Independent)

Members:
Ms Maria Grecna (Independent)
Mr José María Sagardoy Llonis (Independent)

Secretary:
Mr Carlos Ulecia Palacios

During the year 2017 there have been changes in the composition of this Committee, caused by the cessations: (i) of the Chairperson Ms Koro Usarraga Unsain on 25 July 2017 as Chairperson and Member of this Committee; (ii) of Mr Francisco Javier Illa Ruiz on 7 February 2017 as a result of his death; (iii) of Mr Carlos González Fernández as a member of this Committee on 26 of June 2017; and (iv) of Mr Francisco Román Reichmann as a member of this Committee on 29 June 2017.

The provisions are fulfilled in the regulations as regards the Audit and Control Committee being made up of a minimum of three and a maximum of six Directors appointed by the Board of Directors and that all of the members of the Committee must be External Directors, the majority of whom, at least, are Independent Directors, having to appoint, at least one of them, taking into account their knowledge and experience in accounting, auditing or in both.

The Chairperson of the Audit and Control Committee will be appointed from among the independent Directors that are part of it and must be replaced every four years, and can be re-elected once after a period of one year from their cessation.

3. Competences

The primary role of the Audit and Control Committee is to support the Board of Directors in its monitoring and control functions, constituting their most important manifestation, that of ensuring the effectiveness of the internal control of the Company and overseeing the process for the preparation and presentation of the financial information.

The Audit and Control Committee has, at least, the following powers:

1. Reporting to the General Meeting on the issues raised within the framework of its competence.

2. Overseeing the effectiveness of the internal control of the Company, the internal audit, if applicable, and the systems for the management of risks, including the tax risks, as well as discussing with the accounts auditors or audit firms the significant weaknesses of the internal control system in the performance of the audit.

3. Oversee the process for the preparation and presentation of the financial information.

4. Bring to the Board of Directors proposals for the selection, appointment, reappointment and replacement of the external auditor, as well as the conditions of their contract and regularly gather from them information on the audit plan and its implementation, as well as to preserve their independence in the exercise of their functions.

5. Establish the appropriate relations with account auditors or audit firms to receive information on those issues that may jeopardize their independence, for consideration by the Audit and Control Committee, and any others related to the process performed for the audit of accounts, as well as those other communications provided for in the accounts audit legislation and in the audit rules. In any case, they must receive annually from the accounts auditors or audit firms written confirmation of their independence from the entity or entities related to it directly or indirectly, as well as the information about the additional services of any kind provided and the corresponding fees received from these entities by those auditors or companies, or by persons or entities related to them in accordance with the provisions in the accounts audit legislation.

6. Annually issue, before issuing the accounts audit report, a report expressing an opinion on the independence of the account auditors or audit firms. This report must in any event contain the assessment of the provision of the additional services referred to the previous letter, considered individually and as a whole, other than statutory audit and in relation to the independence or with the regulatory audit standards.

7. Report in advance to the Board of Directors on all the matters provided for in the Act, the Articles of Association and in the Board Regulations and in particular, on:

   a. the financial information that the company must periodically publish,
   b. the creation or acquisition of shares in special purpose entities or domiciled in countries or territories that are considered tax havens and
   c. the operations with related parties.

8. Ensure the independence and effectiveness of the internal audit function; propose the selection, appointment, reappointment and cessation of the head of the internal audit service; propose the budget of that service; receive regular information on its activities; and check that the senior management takes into account the conclusions and recommendations of its reports.

9. Establish and monitor a mechanism that allows the employees to report, confidentially and anonymously, the breaches of the Code of Conduct

10. Oversee the compliance and the internal codes of conduct, as well as the rules of corporate governance.

4. Operation

The Audit and Control Committee shall meet at least once a quarter and whenever deemed appropriate, following call by its Chair, on its own decision or on request from two of its members or from the Board of Directors.

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

Through its Chair, the Audit and Control Committee will report to the Board on its activity and the work done at the corresponding meetings, or at the next one when the Chair of the Audit and Control Committee deems it necessary. The Minutes of their meetings will be available to any member of the Board on request.

The Audit and Control Committee has held 10 meetings during the year 2017. In addition, the members of the Audit and Control Committee have held meetings during the year 2017 without the attendance of any NH executive.

In addition, the meetings of the Audit and Control Committee may occasionally be attended by Directors who are not members of the Committee or NH managers, upon invitation from its Chair.

5. Relations with external auditors

The parent Company of the NH Group has been audited since the year 1986 by companies of recognized prestige. The period 1986-1992 was covered by Peat Marwick, 1993-2001 by Arthur Andersen. Since the year 2002, the audit has been made by Deloitte.

Deloitte is the main auditor and, as such, issues the audit opinion on the Consolidated Annual Accounts.

This audit firm has checked the accounts of the companies integrated in the geographical areas of Spain (except Burgos and Tenerife), Benelux, Italy, France, Luxembourg, Germany, Austria, Switzerland, Mexico and MERCOSUR (except Brazil), representing 99.88% of the consolidated assets and 99% of the net turnover.

During the years 2017 and 2016, the fees related to the accounts audit services and other services provided by the auditor of the consolidated annual accounts of the Group, Deloitte, S.L., as well as the fees for services invoiced by the entities related to it by control, common ownership or management were the following:

	Thousands of euros	
	2017	2016
For audit services	481	478
Other verification services	258	426
Total audit and related services	**739**	**904**
Tax advice services	195	598
Other services	471	202
Total other services	**666**	**800**
Total professional services	**1,405**	**1,704**

In addition, entities linked to the international network of Deloitte have invoiced the Group for the following services:

	Thousands of euros	
	2017	2016
For audit services	1,147	1,149
Other verification services	19	24
Total audit and related services	**1,166**	**1,173**
Tax advice services	56	115
Other services	-	6
Total other services	**56**	**121**
Total	**1,222**	**1,294**

During the year 2017, other audit firms apart from Deloitte, S.L. or entities related to this company for control, common ownership or management, have provided accounts audit services to the companies that make up the Group whose fees have amounted to 83 thousand euros (130 thousand euros in 2016). Furthermore, the fees incurred in the year 2017 for these firms relating to tax advice services were 125 thousand euros (221 thousand euros in 2016) and other services of 443 thousand euros (372 thousand euros in 2016).

6. Content and results of the work of the Audit Committee for the year 2017

The Audit Committee has held 10 meetings during the year 2017 in which it dealt with the following matters:

a) Analysis and evaluation, along with the external auditors, of the Financial Statements and the Report for the year 2017 checking that its audit opinion has been issued in conditions of absolute independence.

b) Review of the information on those issues that may jeopardize the independence of the accounts auditors. Issuance of the Report on the independence of the accounts auditors.

c) Revision of the periodic public financial information from 2017 after its analysis and approval by the Board of Directors so that it is reliable, transparent and prepared through the application of standard accounting principles and criteria.

d) Approval of the fees of the External Auditor for the 2017 Audit

e) Oversight of the Internal Audit strategic plan.

f) Monitoring of the Internal Audit Plan for the year 2017 with consideration of its conclusions and implementation, if applicable, of the necessary corrective measures.

g) Supervision of the work carried out by the Compliance Committee.

h) Follow-up of the more significant projects carried out by the Internal Audit team.

i) Oversight of the Group's Updated Risks Map and its monitoring.

j) Monitoring of the risks relating to the Internal Control System of the Financial Information (ICFR).

k) Review of the Annual Corporate Governance Report, prior to its referral to the Board of Directors for its study and approval, with special emphasis on the analysis of the register of directors and managers (belonging to other bodies of Administration, procedural vicissitudes, related operations, etc.).

l) Analysis of (i) the tax organization of the Company, (ii) determination of the tax policy, and (iii) of certain corporate restructuring operations.

m) Review and approval of the updating of the Internal Audit Statutes document.

n) Review and validation for the approval by the Board of the new Anti-Corruption Policy of NH Hotel Group, S.A. and its companies.

7. Analysis of the transactions with related parties

During the year 2017, the Audit and Control Committee has analysed the following operations with related parties:

- Agreement between NH and Grupo Inversor Hesperia, S.A. on the new framework contract for the management by NH of 28 hotels in the hotels portfolio of Grupo Inversor Hesperia, S.A. The Committee considers that, with the technical support that it has had, the operation as a whole protects the corporate interest, and its terms and conditions have been agreed following the principle of equal treatment, and with market references between independent parties. The analysis and its decision were done in strict compliance with the rules that the Company has established, both in the Articles of Association and the Board Regulations, as well as the Procedure on Operations with Related Parties and Conflict of Interest.

- The terms and conditions of the Agreement have been unanimously approved by the Board of Directors of NH, following favourable report from its Audit and Control Committee.

8. Priorities for the year 2018

Regardless of the customary tasks required by the general regulations and the NH regulations in relation to the financial information to transfer to the market and the supervision of the independence of the external auditors, the Audit and Control Committee has reviewed and approved a work plan for the Internal Audit Department for the year 2018 which envisages the following priorities:

1. Operational and financial audits of the key processes set out within the framework of the Conversion Plan, both at the Central Services level and Operative Centres from all Business Units. Oversight of the adequate implementation and monitoring of controls in areas included in the Strategic Plan.

2. Follow-up to the issues identified in the audits performed in previous years and the implementation of the action plans prepared by the various Departments and Business Units.

3. In the exercise of the Risks management function, (i) update of the Risks Map in the new SAP GRC tool, (ii) monitoring of the Key Risk Indicators (KRIs) and action plans, (iii) approval of the concept of Risk Appetite by the Board of Directors as well as (iv) preparation and division of the Risk Management function as second line of defence in December 2018.

4. Support for corporate technological component projects (PCI-DSS; PDS).

5. In the exercise of the Compliance/ Fraud role, (i) management of the ethical line of NH, (ii) investigation of fraud, (iii) preparation of a Fraud Plan (prevention, detection, investigation) and (iv) preparation of the audit of the crime prevention model in Spain.

In conclusion it should be stressed that for the performance of all the work that has been mentioned, this Committee has had access, whenever considered useful, to all those external professionals (auditors, consultants or experts) or members of the Economic-Finance, Legal and Internal Audit departments as deemed necessary.

In Madrid, 27 February 2018

AUDITORS' REPORT ON THE INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Of NH Hotel Group, S.A. for the fiscal year ended on 31 December 2017.

Deloitte.

Deloitte, S.L.
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Torre Picasso
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Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON THE "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF NH HOTEL GROUP, S.A. FOR THE FISCAL YEAR ENDED ON DECEMBER 31th, 2017

To the Directors of
NH HOTEL GROUP, S.A.:

As requested by the Board of Directors of NH HOTEL GROUP, S.A. ("the Entity") and in accordance with our proposal-letter of January 22th, 2018, we have applied certain procedures to the accompanying "Information relating to the ICFR" of NH HOTEL GROUP, S.A. for the fiscal year ended on December 31th, 2017, which summarises the internal control procedures of the Entity in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the ICFR system included in section F) of the accompanying Annual Corporate Governance Report (ACGR).

It should be noted in this regard, irrespective of the quality of the design and operational effectiveness of the internal control system adopted by the Entity in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of the Entity was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Entity's financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Entity's annual financial reporting for the fiscal year ended on December 31th, 2017 described in the accompanying information on the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the consolidated Spanish audit law, we do not express an audit opinion in the terms provided for in that Law.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Entity in relation to the ICFR system - disclosure information included in the directors' report - and assessment of whether this information addresses all the information required considering the minimum content described in section F, relating to the description of the ICFR system, of the ACGR form, as established in CNMV Circular 7/2015 of December 22nd, 2015, which amends CNMV Circular 5/2013 of June 12th, 2013.

2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of achieving: (i) familiarisation with the preparation process; (ii) obtainment of the information required in order to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtainment of information on whether the aforementioned control procedures have been implemented and are in use at the Entity.

3. Review of the explanatory documents supporting the information detailed in point 1 above, including documents directly made available to those responsible for describing the ICFR systems. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.

4. Comparison of the information detailed in point 1 above with the knowledge on the Entity's ICFR obtained through the procedures applied during the financial statement audit work.

5. Reading of the minutes taken at meetings of the Board of Directors, Audit and Control Committee and other committees of the Entity to evaluate the consistency between the ICFR business transacted and the information detailed in point 1 above.

6. Obtainment of the representation letter in connection with the work performed, signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements of article 540 of Corporate Enterprises Act and by CNMV Circular 7/2015 of December 22nd, 2015, which amends CNMV Circular 5/2013 of June 12th, 2013, published by the Spanish National Securities Market Commission for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.

Pilar Cerezo Sobrino

February 28th, 2018

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