

NH Hotel Group, S.A

Consolidated Financial Statements
for the year ended 31 December
2018 and Directors' Report,
together with Independent
Auditor's Report

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.

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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 consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

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 2018, 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.

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 2018, the Group was carrying on its activity through 350 hotel establishments (owned, leased and under management) in 28 countries. All the assets associated with the hotel activity include goodwill, property, plant and equipment and intangible assets whose carrying amounts at 31 December 2018 amount to EUR 1,858 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 used for the hotel assets is the "discounted cash flow method", which requires estimates, among others, of:

- The future room rental revenue of each CGU (projected as the product of the occupancy rate, the average room rate and the total rooms available per year).
- The other revenue projected as the average ratio of the room rental revenue to the other 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 assistance 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 2018 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, by comparing them 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 2018, contain the information required by the applicable accounting regulations.

Recoverability of deferred tax assets

Description

The consolidated statement of financial position as at 31 December 2018 includes deferred tax assets amounting to EUR 139 million, of which EUR 85 million relate to tax credit assets (mainly tax losses and deductions) 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.

Procedures applied in the audit

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 2018, 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 information contained in the consolidated directors' report is defined in the audit regulations in force, which establish two distinct levels thereof:

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, or, as the case may be, that the consolidated directors' report contains the corresponding reference to the separate report on non-financial information as provided for in the applicable legislation 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 this section 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 non-financial information described in section a) above is presented in the separate "consolidated non-financial information statement for 2018" report to which a reference is included in the consolidated directors' report, that the information in the ACGR, discussed in the aforementioned section, is included in the consolidated director's report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2018 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 is included below, 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 25 February 2019.

Engagement Period

The General Meeting held on 21 June 2018 appointed us as the Group's auditors for a period of one year from 31 December 2017, i.e. for 2018.

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.

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



Pilar Cerezo Sobrino
Registered in ROAC under no. 16502

25 February 2019

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.

NH Hotel Group, S.A. and Subsidiaries



2018

CONSOLIDATED BALANCE SHEETS	6
CONSOLIDATED COMPREHENSIVE PROFIT AND LOSS STATEMENTS	7
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	8
CONSOLIDATED CASH FLOW STATEMENTS	9
1.- ACTIVITY AND COMPOSITION OF THE PARENT COMPANY	10
2.- BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATION PRINCIPLES	11
2.1 BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS	11
2.1.1 STANDARDS AND INTERPRETATIONS EFFECTIVE IN THIS PERIOD	11
2.2 COMPARISON OF INFORMATION	16
2.3 CURRENCY OF PRESENTATION	17
2.4 RESPONSIBILITY FOR THE INFORMATION, ESTIMATES MADE AND SOURCES OF UNCERTAINTY	17
2.5 CONSOLIDATION PRINCIPLES APPLIED	17
3.- PROPOSED DISTRIBUTION OF PROFITS	20
4. VALUATION STANDARDS	21
4.1 TANGIBLE FIXED ASSETS	21
4.2 CONSOLIDATION GOODWILL	21
4.3 INTANGIBLE ASSETS	22
4.4 IMPAIRMENT IN THE VALUE OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL	23
4.5 LEASE RENTALS	25
4.6 FINANCIAL INSTRUMENTS	26
4.6.1 FINANCIAL ASSETS	26
4.6.2. CASH AND CASH EQUIVALENTS	27
4.6.3 FINANCIAL LIABILITIES	27
4.6.4. EQUITY INSTRUMENTS	29
4.7 NON-CURRENT ASSETS AND ASSOCIATED LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS	29
4.8 SHAREHOLDINGS IN ASSOCIATED COMPANIES	29
4.9 FOREIGN CURRENCY TRANSACTIONS AND BALANCES	30
4.10 CLASSIFICATION OF FINANCIAL ASSETS AND DEBTS INTO CURRENT AND NON-CURRENT	30
4.11 INCOME AND EXPENSES	30
4.12 OFFICIAL SUBSIDIES	30
4.13 CORPORATION TAX	30
4.14 OBLIGATIONS TO EMPLOYEES	31
4.15 ONEROUS CONTRACTS	31
4.16 SHARE-BASED REMUNERATION SCHEMES	31
4.17 TREASURY SHARES	32
4.18 PROVISIONS	32
4.19 SEVERANCE PAY	32
4.20 BUSINESS COMBINATIONS	32
4.21 ENVIRONMENTAL POLICY	33
4.22 CONSOLIDATED CASH FLOW STATEMENTS	33
4.23 TREATMENT OF COMPANIES IN HYPERINFLATIONARY ECONOMIES	33
5. EARNINGS PER SHARE	34
6.- GOODWILL	34
7.- INTANGIBLE ASSETS	37

8.-	PROPERTY, PLANT & EQUIPMENT.....	39
9.-	INVESTMENTS VALUED USING THE EQUITY METHOD	41
10.	NON-CURRENT FINANCIAL INVESTMENTS.....	42
11.-	NON-CURRENT ASSETS HELD FOR SALE, LIABILITIES LINKED TO NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS.....	43
12.-	TRADE RECEIVABLES	46
13.-	CASH AND CASH EQUIVALENTS	47
14.	EQUITY	47
	14.1 SUBSCRIBED SHARE CAPITAL	47
	14.2 PARENT COMPANY RESERVES	49
	14.3 TREASURY SHARES.....	49
	14.4 MINORITY INTERESTS	50
15.	DEBT IN RESPECT OF BOND ISSUES AND BANK BORROWINGS	51
16 -	OTHER NON-CURRENT LIABILITIES	56
17.-	PROVISIONS FOR RISKS AND CHARGES.....	57
18.-	TAX NOTE	59
19.-	COMMERCIAL CREDITORS AND OTHER ACCOUNTS PAYABLE	64
20.-	INFORMATION ON DEFERRED PAYMENTS TO SUPPLIERS. THIRD ADDITIONAL PROVISION. "DUTY TO REPORT" OF ACT 11/2013 OF 26 JULY	65
21 -	OTHER NON-CURRENT LIABILITIES	65
22.-	THIRD-PARTY GUARANTEES AND CLAIMS IN PROGRESS	65
23.-	LONG-TERM INCENTIVE PLAN.....	68
24.-	INCOME AND EXPENSES	69
	24.1 INCOME.....	69
	24.2 FINANCIAL INCOME AND CHANGES IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS.....	70
	24.3 PERSONNEL EXPENSES	70
	24.4 OTHER OPERATING EXPENSES	71
	24.5 OPERATING LEASES	73
	24.6 FINANCE COSTS.....	74
	24.7 RESULTS FROM EXPOSURE TO HYPERINFLATION	74
25.-	RELATED PARTY TRANSACTIONS	74
26.-	INFORMATION BY SEGMENTS.....	76
	26.1 INFORMATION ON MAIN SEGMENTS	76
	26.2 INFORMATION ON SECONDARY SEGMENTS	77
27.	REMUNERATION AND OTHER STATEMENTS MADE BY THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT	78
	27.1 REMUNERATION OF THE BOARD OF DIRECTORS	78
	27.2 REMUNERATION OF SENIOR MANAGEMENT.....	79
	27.3 INFORMATION ON CONFLICTS OF INTEREST ON THE PART OF DIRECTORS.....	79
28.-	EVENTS AFTER THE REPORTING PERIOD.....	80
29.-	INFORMATION ON ENVIRONMENTAL POLICY.....	80
30.	EXPOSURE TO RISK.....	80
31.	TRANSLATION.....	83

APPENDIX I: SUBSIDIARIES.....	84
APPENDIX II: ASSOCIATES.....	89
EVOLUTION OF BUSINESS AND GROUP'S SITUATION.....	90
EVENTS AFTER THE REPORTING PERIOD	101

NH HOTEL GROUP, S.A. AND SUBSIDIARIES

Consolidated Financial Statements for 2018 drawn up in accordance with the International Financial Reporting Standards adopted by the European Union.

NH HOTEL GROUP, S.A. AND SUBSIDIARIES
ABRIDGED CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2018 AND 31 DECEMBER 2017
(Thousands of euros)

ASSETS	Note	31/12/2018	31/12/2017	TOTAL LIABILITY AND EQUITY	Note	31/12/2018	31/12/2017
NON- CURRENT ASSETS:				EQUITY:			
Goodwill	6	109,432	111,684	Share capital	14	784,361	700,544
Intangible assets	7	110,569	151,083	Reserves of the parent company	14	681,068	526,243
Property, plant and equipment	8	1,637,718	1,583,164	Reserves of fully consolidated companies		(44,723)	38,877
Investments accounted for using the equity method	9	8,971	9,419	Reserves of companies consolidated using the equity method		(23,436)	(23,087)
Non-current financial investments-	10	54,126	75,895	Other equity instruments		-	27,230
<i>Loans and accounts receivable not available for trading</i>		42,598	65,154	Exchange differences		(60,854)	(157,542)
<i>Other non-current financial investments</i>		11,528	10,741	Treasury shares and shareholdings	14	(2,530)	(39,250)
Deferred tax assets	18	138,724	137,996	Consolidated profit for the period		117,785	35,489
Other non-current assets		13,427	16,448	Equity attributable to the shareholders of the Parent Company		1,451,671	1,108,504
Total non-current assets		2,072,967	2,085,689	Non-controlling interests	14	52,351	43,472
				Total equity		1,504,022	1,151,976
				NON-CURRENT LIABILITIES			
				Debt instruments and other marketable securities	15	342,485	387,715
				Debts with credit institutions	15	71,473	71,246
				Other financial liabilities	7.1	1,762	12,481
				Other non-current liabilities	16	47,296	38,976
				Provisions for contingencies and charges	17	51,178	50,413
				Deferred tax liabilities	18	177,478	167,433
				Total non-current liabilities		691,672	728,264
CURRENT ASSETS:				CURRENT LIABILITIES:			
Non-current assets classified as held for sale	11	55,974	109,166	Liabilities associated with non-current assets classified as held for sale	11	2,456	2,377
Inventories		10,435	9,809	Debt instruments and other marketable securities	15	73	246,195
Trade receivables	12	106,601	132,582	Debts with credit institutions	15	4,881	11,724
Non-trade receivables-		38,195	42,786	Other financial liabilities		710	11,618
<i>Tax receivables</i>	18	19,451	23,743	Trade and other payables	19	252,704	222,951
<i>Other non-trade debtors</i>		18,744	19,043	Tax payables	18	59,453	45,860
Accounts receivable from related entities		978	-	Provisions for contingencies and charges	17	2,713	8,971
Cash and cash equivalents	13	265,869	80,249	Other current liabilities	21	44,444	41,768
Other current assets		12,109	11,423	Total current liabilities		367,434	591,464
Total current assets		490,161	386,015	TOTAL LIABILITY AND EQUITY		2,563,128	2,471,704
TOTAL ASSETS		2,563,128	2,471,704				

Notes 1 to 31 set forth in the Consolidated Annual Report and Annexes I/III are an integral part of the Consolidated Balance Sheet at 31 December 2018.
The Consolidated Balance Sheet at 31 December 2017 is presented solely for the purposes of comparison.

NH HOTEL GROUP, S.A. AND SUBSIDIARIES

CONSOLIDATED COMPREHENSIVE PROFIT AND LOSS STATEMENT FOR THE YEARS 2018 AND 2017
(Thousands of euros)

	Note	2018	2017
Revenues	24.1	1,613,388	1,546,086
Other operating income	24.1	6,132	11,101
Net gains on disposal of non-current assets	7, 8 and 24.1	85,982	30,148
Procurements		(74,810)	(75,712)
Staff costs	24.3	(422,671)	(427,140)
Depreciation and amortisation charges	7 and 8	(116,301)	(123,085)
Net Profits/(Losses) from asset impairment	6, 7 and 8	(304)	9,005
Other operating expenses		(852,924)	(815,011)
<i>Variation in the provision for onerous contracts</i>	17	4,342	4,216
<i>Other operating expenses</i>	24.4	(857,266)	(819,227)
Gains on financial assets and liabilities and other		(373)	(1,927)
Profit (Loss) from entities valued through the equity method	9	(499)	(349)
Financial income	24.2	6,039	2,995
Change in fair value of financial instruments	24.2	-	(7)
Financial expenses	24.6	(59,997)	(76,747)
Results from exposure to hyperinflation (IAS 29)	24.7	25,674	-
Net exchange differences (Income/(Expense))		1,053	(6,360)
PROFITS BEFORE TAX FROM CONTINUING OPERATIONS		210,389	72,997
Income tax	18	(85,314)	(33,512)
PROFIT FOR THE PERIOD FROM CONTINUING ACTIVITIES		125,075	39,485
<i>Profit (loss) for the year from discontinued operations net of tax</i>	11	(568)	(278)
PROFIT FOR THE PERIOD		124,507	39,207
Exchange differences		(2,187)	(26,494)
Income and expenses recognised directly in equity		(2,187)	(26,494)
TOTAL COMPREHENSIVE PROFIT		122,320	12,713
Profits from the period attributable to:			
<i>Parent Company Shareholders</i>		117,785	35,489
<i>Non-controlling interests</i>		6,722	3,718
<i>Non-controlling interests in discontinued operations</i>		-	-
Comprehensive Profit attributable to:			
<i>Parent Company Shareholders</i>		117,611	11,712
<i>Non-controlling interests</i>	14.4	4,709	1,001
Profit per share in euros (basic)	5	0.318	0.104

Notes 1 to 31 set forth in the Consolidated Annual Report and Annexes I/II form an integral part of the consolidated comprehensive profit and loss statement for 2018.

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

NHHOTEL GROUP, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR 2018 AND 2017

(Thousands of euros)

	Share capital	Reserves of the parent company			Reserves in companies consolidated by		Currency translation difference	Effect on equity attributable to the shareholders of the Parent Company	Treasury shares and shareholdings	Consolidated profit for the period	Equity attributable to the shareholders of the Parent Company	Non-controlling interests	Total Shareholders' Equity
		Share premium	Legal reserve	Other reserves	Full consolidation	the equity method							
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 at 1 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)
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)
Remuneration Scheme in shares	-	-	-	1,508	-	-	-	-	733	-	2,241	-	2,241
Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	(1,496)	(1,496)
Other movements	-	-	-	-	(302)	-	-	-	-	-	(302)	-	(302)
Balances 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
Application adjustment of IFRS 9 (Note 2.2)	-	-	-	8,571	-	-	-	-	-	-	8,571	-	8,571
Application adjustment of IAS29 (Note 2.2)	-	-	-	-	(50,724)	-	96,862	-	-	-	46,138	7,093	53,231
Initial balance adjusted 01 January 2018	700,544	634,659	56,017	(155,862)	(11,847)	(23,087)	(60,680)	27,230	(39,250)	35,489	1,163,213	50,565	1,213,778
Net profit (loss) for 2018	-	-	-	-	-	-	-	-	-	117,785	117,785	6,722	124,507
Exchange differences	-	-	-	-	-	-	(174)	-	-	-	(174)	(2,013)	(2,187)
Recognised income and expenses for the period	-	-	-	-	-	-	(174)	-	-	117,785	117,611	4,709	122,320
Capital increase	-	-	-	-	-	-	-	-	-	-	-	500	500
Distribution of Profit (Loss) 2017-													
- To Reserves	-	-	2,817	25,355	7,666	(349)	-	-	-	(35,489)	-	-	-
To Dividends (Note 14.1)	-	-	-	(39,158)	-	-	-	-	-	-	(39,158)	(729)	(39,887)
Remuneration Scheme in shares (Note 27 an 14.3)	-	-	-	1,185	-	-	-	-	1,029	-	2,214	-	2,214
Application adjustment of IAS 29	-	-	-	-	(43,199)	-	-	-	-	-	(43,199)	(548)	(43,747)
Acquisition of non-controlling interests (Note 2.5.4)	-	-	-	-	646	-	-	-	-	-	646	(2,146)	(1,500)
Convertible debentures (Note 14.1)	83,817	122,331	-	33,691	-	-	-	(27,230)	35,691	-	248,300	-	248,300
Other movements	-	-	-	33	2,011	-	-	-	-	-	2,044	-	2,044
Balance at 31 December 2018	784,361	756,990	58,834	(134,756)	(44,723)	(23,436)	(60,854)	-	(2,530)	117,785	1,451,671	52,351	1,504,022

Notes 1 to 31 described in the consolidated Record and Appendices VII form an integral part of the statement of changes in consolidated assets for the year 2018.
The statement of changes in consolidated assets for the year 2017 is presented for comparison only.

NH HOTEL GROUP, S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR 2018 AND 2017

(Thousands of euros)

	Note	31.12.2018	31.12.2017
1. OPERATING ACTIVITIES			
Consolidated profit (loss) before tax and discontinued operations		210,389	72,997
Adjustments:			
Depreciation of tangible and amortisation of intangible assets (+)	6, 7 and 8	116,301	123,085
(Profits)/Losses for impairment (net) (+/-)		304	(9,005)
Allocations for provisions (net) (+/-)	17	(4,342)	(4,216)
Gains/Losses on the sale of tangible and intangible assets (+/-)	7, 8 and 11	(85,982)	(30,148)
Gains/Losses on investments valued using the equity method (+/-)	9	499	349
Financial income (-)	24.2	(6,039)	(2,995)
Financial expenses and variation in fair value of financial instruments (+)	24.6	59,997	76,754
Results from exposure to hyperinflation (IAS 29)		(25,674)	-
Net exchange differences (Income/(Expense))		(1,053)	6,360
Profit (loss) on disposal of financial investments		373	1,927
Other non-monetary items (+/-)	24.7	25,031	10,036
Adjusted profit (loss)		289,804	245,144
Net variation in assets / liabilities:			
(Increase)/Decrease in inventories		(626)	61
(Increase)/Decrease in trade debtors and other accounts receivable		28,387	10,405
(Increase)/Decrease in other current assets		(10,760)	6,072
Increase/(Decrease) in trade payables		10,480	(3,088)
Increase/(Decrease) in other current liabilities		2,948	(196)
Increase/(Decrease) in provisions for contingencies and expenses		3,330	(7,196)
(Increase)/Decrease in non-current assets		(403)	748
Increase/(Decrease) in non-current liabilities		(9,437)	(412)
Income tax paid		(61,561)	(21,903)
Total net cash flow from operating activities (I)		252,163	229,635
2. INVESTMENT ACTIVITIES			
Financial income		527	1,345
Investments (-):			
Group companies, joint ventures and associates		(1,000)	(22,269)
Tangible and intangible assets and investments in property	7 and 8	(133,677)	(81,750)
Non-current financial investments		(671)	-
		(135,348)	(104,019)
Disinvestment (+):			
Group companies, joint ventures and associates	2	85	62
Tangible and intangible assets and investments in property		48,291	60,301
Non-current assets classified as held for sale	11	154,137	-
		202,513	60,363
Total net cash flow from investment activities (II)		67,692	(42,311)
3. FINANCING ACTIVITIES			
Dividends paid out (-)	10.c	(39,767)	(18,552)
Interest paid on debts (-)		(44,717)	(67,781)
Interest paid by means of payment		(17,379)	(16,317)
Interest paid by financing and other		(27,338)	(51,464)
Variations in (+/-):			
Equity instruments			
Debt instruments:			
- Bonds and other tradeable securities (+)	8.b	(44,894)	(135,000)
- Loans from credit institutions (+)		6,323	-
- Loans from credit institutions (-)	8.b	(11,147)	(21,772)
- Other financial liabilities (+/-)		(262)	(681)
Total net cash flow from financing activities (III)		(134,464)	(243,786)
4. GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)		185,391	(56,462)
5. Effect of exchange rate variations on cash and cash equivalents (IV)		325	-
6. Effect of variations in the scope of consolidation (V)	2	(96)	(22)
7. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III-IV+V)		185,620	(56,484)
8. Cash and cash equivalents at the start of the financial year		80,249	136,733
9. Cash and cash equivalents at end of year		265,869	80,249

Notes 1 to 31 set forth in the Consolidated Annual Report and Annexes I/II form an integral part of the Consolidated Cash Flow Statement for 2018. The consolidated cash flow statement for 2017 is presented for the purposes of comparison.

NH HOTEL GROUP, S.A. AND SUBSIDIARIES REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2018

1.- ACTIVITY AND COMPOSITION OF THE PARENT COMPANY

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

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

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

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

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

The 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 2018, the Group was operating hotels in 28 countries, with 350 hotels and 54,374 rooms, of which around 69% 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 2018 were drawn up by the directors of NH Hotel Group, S.A. at the Board meeting held on 25 February 2019, in accordance with the regulatory reporting framework applicable to the Group, as established in the Code of Commerce and all other Spanish corporate law, and in the International Financial Reporting Standards ("IFRS") adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and in Law 62/2003, of 30 December, the Tax, Administrative, Labour and Social Security Measures Act 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 2018 and of the results of its operations, changes in equity and consolidated cash flows for the year then ended.

The consolidated financial statements for 2018 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 2017 were approved by the shareholders at the Annual General Meeting held on 21 June 2018 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 2018 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 2018 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:

(1) New obligatory regulations, amendments and interpretations for the year commencing 01 January 2018.

New standards, amendments and interpretations		Obligatory application in the years beginning on or after:
New standards		
IFRS 15 Revenue from Contracts with Customers (published in May 2014) and its clarifications (published in April 2016).	New standard on revenue recognition (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31)	1 January 2018
IFRS 9 Financial Instruments (published in July 2014).	It replaces the requirements for classification, valuation, recognition and derecognition of financial assets and liabilities in accounts, hedge accounting and impairment of IAS 39.	

Amendments and/or interpretations		
IFRS 15 improvements published in April 2016	They revolve around the identification of obligations in terms of performance, principal versus agent, licensing and its accrual at a point in time or over time, as well as some clarification of the transitional rules.	1 January 2018
Amendment to IFRS 4 Insurance contracts (published in September 2016)	It allows entities under the scope of IFRS 4 the option of applying IFRS 9 ("overlay approach") or their temporary exemption.	
Amendment to IFRS 2 Classification and measurement of share-based payment transactions (published in June 2016)	Narrow-scope amendments clarifying specific matters such as the effects of vesting and non-vesting conditions in cash-settled share-based payments, the classification of share-based payments where there are net settlement clauses and some aspects of the modifications to terms of a share-based payment.	
Amendment to IAS 40 Reclassification of real estate investments (published in December 2016)	The amendment clarifies that the reclassification of an investment from or to real estate investment is only permitted when there is evidence of a change in its use.	
IFRS 22 Transactions and advances in foreign currency (published in December 2016)	This interpretation establishes the "transaction date" for the purpose of determining the exchange rate applicable in transactions with foreign currency advances.	
Improvements to IFRS 2014-2016 Cycle (published in December 2016)	Minor amendments to a number of standards (different effective dates, including 1 January 2017).	

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.

Specifically, on 1 January 2018, IFRS 15 came into force, which 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 on 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.

(2) New regulations, amendments and interpretations which will be obligatory in the years following the year commencing 01 January 2019

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		
New Standards:		
IFRS 16 Leases (published in January 2016)	Replaces IAS 17 and associated interpretations. The main change hinges on the fact that the new standard proposes a single accounting model for lessees who will include all leases (with some exceptions) on the balance sheet with a similar impact to that of the current financial leases (the asset will depreciate due to the right of use and a financial expense for the cost of amortising the liability).	1 January 2019
Amendments and/or interpretations		
Amendment to IFRS 9 Characteristics of early cancellation with negative offset (published in October 2017).	This amendment 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.	1 January 2019
IFRIC 23 Uncertainty over tax treatment (published in June 2017)	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.	
Awaiting approval for use in the European Union as of the date of publication of this document (1)		
New Standards:		
IFRS 17 Insurance contracts (published in May 2017)	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.	1 January 2021 ⁽²⁾

Amendments and/or interpretations		
Amendment to IAS 28 Long-term interest in associates and joint ventures (published in October 2017)	Clarifies that IFRS 9 must be applied to long-term interests in an associate or joint venture if the equity method is not applied.	1 January 2019
Amendment IAS 19 - Accounting for a change, reduction or settlement of a defined benefit plan (published in February 2018)	Addresses the accounting for a change, reduction, or settlement of a defined benefit plan that occurs in the fiscal year.	
Amendments to IAS 1 and IAS 8 Definition of "materiality" (published in October 2018)	Develops recommendations to improve disclosure requirements to help stakeholders improve the usefulness of the information disclosed to the primary users of the financial statements.	1 January 2020
Improvements to IFRS 3 - Definition of Business (published in October 2018)	Clarifications to the definition of business.	
Improvements to IFRS 2015-2017 Cycle (published in December 2017)	Minor amendments to a number of standards.	1 January 2019

- (1) The approval status of the standards by the European Union can be consulted on the EFRAG website.
(2) The date of first-time application of this standard is being reviewed by the IASB and may be postponed to 1 January 2022.

(3) Analysis of IFRS 16 first application

IFRS 16 will replace IAS 17, IFRIC 4, SIC-15 and SIC-17 IFRS 16 and establishes the principles for the recognition, measurement, presentation and disaggregation of leases and requires lessees to account for all leases under a balance sheet recognition model similar to the accounting for finance leases under IAS 17. IFRS 16 came into force on 1 January 2019 and the Group decided not to apply it early.

The standard provides that at the inception of the lease, the lessee must record a liability equal to the present value of the lease payments. Such a liability includes fixed lease payments and those that are substantially fixed, as well as variable lease payments that depend on an index or interest rate. An asset that represents the right to use the underlying asset during the lease term (the right of use) is recognised. Lessees are required to record separately the interest expense of the lease liability from the amortisation expense of the right of use.

Lessees are also required to recalculate the lease liability in certain circumstances (for example, a change in the term of the lease or a change in lease payments due to a change in the index or rate used to determine those payments). The lessee shall recognise the difference from the recalculation of the liability as an adjustment to the value of the right of use.

The lessor's accounting under IFRS 16 is substantially the same as under IAS 17. The lessor shall continue to classify leases using the same criteria as under IAS 17 and distinguish between operating and finance leases.

Transition to IFRS 16

The Group shall apply the standard to all contracts that were identified as leases in accordance with IAS 17 and IFRIC 4, except for the exceptions recognised by the standard. These exceptions are as follows: leases of low-value assets (e.g. computers) and short-term leases (leases for periods of less than 12 months). Also, the Group analysed the subleases signed at the transition date and, due to their amount and the applicable market conditions, were not considered relevant for the application of the standard.

The Group decided to apply the modified retrospective method as the transition method to IFRS 16, calculating the asset at the commencement date of each identified contract and the liability at the transition date, using for the calculation of both the incremental interest rate at the transition date and recognising the difference between the two items as an adjustment to the opening balance of the consolidated reserves.

In order to determine the term of the lease contracts, the Group has taken as non-cancellable the initial term of each contract, taking the possible unilateral extensions at the option of the Group only in those cases in which it has been reasonably considered certain that they will be exercised, and only the cancellation options whose exercise has been reasonably considered certain have been taken into account.

The incremental interest rate is the interest rate that the lessee would incur at the commencement of the lease if it borrowed, over a period of time, with similar guarantees and in a similar economic environment. The interest was calculated as a combination of the following elements:

- CDS curve of the economic environment.
- Euribor Swap Rate Curve.
- Synthetic NH CDS curve.

These elements were combined to obtain an interest rate curve for each contract based on its geoeconomic specificities and from which, the calculation process consists of bringing each of the discounted flows to the present value at the interest rate corresponding to each maturity within said curve and calculating which single equivalent rate would be used to discount said flows.

The impact of IFRS 16 on the Group's financial statements is significant due to the maturity of the contract portfolio.

Aforesaid estimated impact at 1 January 2019 will result in an increase in assets for usage rights of approximately 1.7 billion euros, an increase in liabilities for operating leases of approximately 2.1 billion euros and a decrease in reserves of 0.4 billion euros. The Group is finalising the analysis of the first impacts of IFRS 16, and it is not estimated that the finalisation of the same will result in an absolute difference of more than 10% with respect to the aforementioned indicated impacts.

The calculation of these impacts has been performed as if IFRS 16 had been applied from the inception of each contract or from the date of initial consolidation of the lessee of the contract. The calculation was made by discounting the lease flows by recalculating the asset and liability for each material modification to the lease and using an incremental interest rate calculated for each of the contracts at the transition date without taking into account the tax effect.

In order to reconcile operating lease commitments in accordance with IAS 17 (see Note 24.5) with operating lease liabilities in accordance with IFRS 16, it would be necessary to add to operating lease commitments according to IAS 17 (approximately 2 billion euros) the impact of applying different discount rates (approximately 0.3 billion euros) and subtract the impact of contracts signed but not in force at the transition date (approximately -0.2 billion euros), thereby achieving an operating lease liability of approximately 2.1 billion euros.

The Group estimates that the net profit before tax will decrease by approximately 5 million euros, taking into account the portfolio at the transition date, without considering additions, deletions or amendments to contracts that might occur after that date.

2.2 Comparison of information

As required by IAS 1, the information on 2017 contained in this consolidated annual report is presented for solely comparative purposes with the information on 2018 and consequently does not in itself constitute the Group's consolidated financial statements for 2017.

During 2018, the economic crisis in Argentina worsened considerably, and this situation has led to a substantial increase in the rate of inflation, which in the last three years has surpassed 100%. These events led Argentina to be considered a hyperinflationary economy from 2018 onwards, in accordance with accounting standards. As a result, the Group applied IAS 29 "Financial Information in Hyperinflationary Economies" to the Group's business in Argentina, making the necessary accounting corrections as of 1 January 2018, in accordance with accounting standards.

In accordance with IAS 29, the financial statements of an entity whose functional currency is that of a hyperinflationary economy must be expressed in the unit of measurement current at the end of the reporting period, based on the purchasing power of the closing month.

Given Argentina's consideration as a hyperinflationary country, the financial statements are adjusted for inflation (see Note 4.23), the most significant impact being the restatement of non-current assets and liabilities from the date of acquisition, last revaluation or first application of IFRS by the inflation index. The difference between the pre-tax result and the net result corresponds to the recognition of deferred tax (see Note 18) for the adjustments for inflation of net assets that, according to current tax legislation in Argentina, are not tax deductible.

The effect of the application of IAS 29 at 1 January 2018 led to an increase of 46 million euros in consolidated reserves and an increase in the value of minority interests of 7 million euros, recorded mainly under "Property, Plant and Equipment" (an increase of 71 million euros in net book value upon first application, see Note 8) and under deferred tax liabilities (an increase of 18 million euros in the value of liabilities at the time of first application, see Note 18).

After this first application, the impact of the application of IAS 29 during 2018 has had a negative net effect on the reserves of consolidated companies amounting to 43 million euros. This is composed of the effect of the devaluation of the currency that compensates for the increase in equity because of the restatement of non-monetary items due to hyperinflation. On the other hand, "Property, plant and equipment" increased by 1.8 million euros (see Note 8), and the deferred tax liability increased by 1.2 million euros (see Note 18) with respect to the first application at 1 January 2018. Also, the net effect in the profit and loss account of the application of IAS 29 is recorded as income of 25,674 thousand euros, under the heading "Results from exposure to hyperinflation" (IAS 29) in the 2018 consolidated comprehensive profit and loss statement.

Additionally, the Group has decided to classify the historical translation differences associated with the devaluation of the currency in Argentina to consolidated reserves. This has had a negative effect on the consolidated reserves of 96,862 thousand euros and, therefore, the total effect of hyperinflation at the time of first-time application amounted to lower reserves in fully consolidated companies amounting to 50,724 thousand euros.

In addition, IFRS 9 on financial instruments entered into force on 1 January 2018. The Group has decided to apply the standard 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 (1 January 2018), were recognised as an adjustment in reserves (equity).

During 2016, the Group 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 impact calculated at 1 January 2018 was a decrease of 8.6 million euros in the book value of financial liabilities, which increased the amount of opening reserves at that

date. In relation to the other requirements for the application of IFRS 9, the Parent's directors considered that there were no significant impacts to be recorded by the Group as a result of their application.

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 capitalised tax credits.

In spite of the fact that these estimates were carried out using the best information available at 31 December 2018 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 was translated at the average exchange rate for the year, except for the companies in Argentina whose economy was declared hyperinflationary in 2018 and therefore, in accordance with IAS 29, their consolidated comprehensive profit and loss statement was translated at the end-of-period exchange rate (see Note 4.23).

Any difference resulting from the application these criteria have been included in the "Translation differences" item under the "Equity" heading (except for those arising from the translation of hyperinflationary economies).

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 2018 and 2017 that affect the comparison between financial years were the following:

a.1 Changes in the scope of consolidation in 2018

a.1.1 Additions to the consolidation scope

On 5 July 2018, the Group acquired 16,693 shares with a par value of 60.1 euros/share of Grupo Palacio de la Merced, S.A. for 1,000 thousand euros. The Group already had control of this company with an ownership interest

of 72%; after the acquisition, the ownership interest amounts to 88%. The effect of the acquisition has been to reduce the value of minority interests by 1,568 thousand euros and to improve consolidated reserves by 568 thousand euros (see Note 14.4).

In the first half of 2018, the Group acquired 23.53% of NH Logroño, S.A. for 500 thousand euros, and now owns 100% of this company; the effect on minority interests has led to a reduction of 578 thousand euros as a minority interest (see Note 14.4) and higher consolidated reserves of 78 thousand euros.

a.1.2 Disposals

During the first six months of 2018, the Group liquidated Hotel&Congress Technology, S.L. and Hoteleira Brasil LTDA, in which it held 50% and 100% of equity, respectively. The net result of these liquidations produced a consolidated negative result of 40 and 45 thousand euros respectively.

In addition, in May 2018, the company belonging to the consolidated group Fast Good Islas Canarias, S.L. was liquidated. This liquidation had no impact on consolidated profit for the year.

a.2 Changes in the scope of consolidation in 2017

a.2.1 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 owned the properties operated by NH Hoteles España, such as the hotels NH Ciudad de Santander and NH Luz de Huelva, until the date of taking control 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 was recorded against results.

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

	Thousands of euros		
	Book value of the assets acquired	Impairment realised	Fair value of the assets acquired
Property, plant and equipment	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.2.2 Disposals

On 19 April 2017 the Group sold 400,000 registered shares making up the equity 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.

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

	2018
To legal reserve	16,019
To distribution of dividends	58,737
To voluntary reserves	85,436
Total	160,192

In addition, the Parent's directors will propose offsetting prior years' losses on the Parent's balance sheet at 31 December 2018, amounting to 255,869 thousand euros, against voluntary reserves.

4. VALUATION STANDARDS

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

4.1 Tangible fixed assets

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

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

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

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 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 agreement. This line item reflects premiums from rental contracts. At the end of 2017, this heading included the premium for the framework agreement signed with Grupo Inversor Hesperia, S.A. for the management of 28 hotels, which ended in 2018 (see Note 7.1).
- 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 Royal Group) the operating result is obtained at the end of the year without taking into account non-recurring results (if any) or financial results.

Once the operating result is obtained for each CGU, the impairment test is performed for those 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:

$$WACC=K_e \cdot E/(E+D) + K_d \cdot (1-T) \cdot D/(E+D)$$

Where:

K_e : Cost of Equity

K_d : Cost of Debt

E: Equity Amount

D: Debt Amount

T: Tax Rate

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

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 6.6% (6.7% in 2017), based on market reports.
- Beta or systematic risk: Used as 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 83% de-leveraged betas (64% in 2017), the debt structure of comparable companies (Debt / (Debt + Equity) of 26% (31% in 2017) and the corresponding tax rate in each country.
- Market value of debt, amounting to 4.11% (5% in 2017).
- Premium by size: based on recent expert reports.

The after-tax discount rates used by the Group for these purposes range in Europe from 6.2% to 9.0% (5.6% and 9.8% in 2017) and in Latin America from 10.6% to 18.4% (9.6% and 13.6% in 2017) without taking into account Argentina, whose after-tax discount rate has been calculated taking into account its hyperinflationary economic

situation (see Note 4.23) and varies between 36.5% in 2019 and 16% in 2023, depending on inflation estimation set. In this regard, the cash flows resulting from the impairment tests were also calculated after tax. In addition, the book value to which the value-in-use is compared does not include any deferred tax liabilities which 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
2018	7.81%	8.22%	11.01%	10.24%
2017	6.88%	7.46%	9.44%	8.77%

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:

	2018	2017	2018	2017	2018	2017	2018	2017
	Germany		Netherlands		Italy		Spain	
Post-tax WACC	6.22%	5.55%	6.93%	6.00%	8.42%	7.30%	8.15%	7.14%
Growth rate	2.56%	2.47%	2.14%	1.60%	1.71%	1.40%	1.90%	1.56%
Average ADR	80.9	78.7	73.9	116.8	110.9	130.4	88.9	87.1
Occupancy rate	70.1%	66.3%	61.8%	69.8%	72.8%	70.7%	72.7%	70.9%

"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:

- Financial assets at fair value through profit or loss are those assets acquired by the companies with the objective of obtaining the contractual flows and selling them; or those assets that do not consist exclusively of the payment of the principal and interest and the management model is the sale of the same, in general terms, practically all of the variation in the fair value of the Group's financial assets are recorded with a charge to the consolidated statement of changes in equity. Interest income, exchange rate differences and impairment losses are recognised in the income statement and other gains or losses are recognised in "Other comprehensive profit and loss" in equity. Any cumulative gain or loss recognised in equity is reclassified to profit or loss at the time of derecognition.

- Financial assets at amortised cost: 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. In this case, the Group records any changes in value with a charge to the consolidated comprehensive profit and loss statement.

Transaction costs at the time of acquisition are recognised as an increase in acquisition cost or as an expense, depending on whether the financial asset being transacted is considered at fair value through profit or loss.

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.

Interest accrued on financial assets at amortised cost is recognised in the consolidated comprehensive profit and loss statement on the basis of the 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 based on expected loss.

As regards valuation corrections made to trade and other accounts receivable in particular, the criterion used by the Group to calculate the corresponding valuation corrections, if any, generally consists of provisioning according to the expected loss based on the credit risk of the customer portfolio.

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

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

4.6.2. Cash and cash equivalents

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

4.6.3 Financial liabilities

Issues of bonds and other securities

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

In the case of renegotiations, if they were considered non-substantial and consequently did not require the de-recognition of the financial liabilities, the carrying amount of the amortised cost of those financial liabilities at the date of renegotiation is recalculated and a gain or loss due to changes in profit or loss is recognised.

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.

In the case of renegotiations, if they were considered non-substantial and consequently did not require the de-recognition of the financial liabilities, the carrying amount of the amortised cost of those financial liabilities at the date of renegotiation is recalculated and a gain or loss due to changes in profit or loss is recognised.

Trade and other payables

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

Derivatives and hedge accounting

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

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

For cash flow hedges, valuation differences in the effective part of the hedge elements are temporarily recognised in the equity item "Equity valuation adjustments" and their adjustment is recognised as a lower or higher cost in the initial recognition of the item.

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).

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 reasonable amount of the investments in companies whose sole asset consists of property inventories, appraisals were

obtained from the same independent valuer that appraised the Group's inventories. In the case of the other companies, discounted cash flow valuations were performed internally, similar to those described in Note 4.4.

4.9 Foreign currency transactions and balances

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

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

4.10 Classification of financial assets and debts into current and non-current

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

4.11 Income and expenses

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

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

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

4.12 Official subsidies

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

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

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

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

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

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

4.14 Obligations to employees

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

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

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

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

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

4.15 Onerous contracts

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

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

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

4.16 Share-based Remuneration Schemes

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

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

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

4.17 Treasury shares

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

4.18 Provisions

The Group follows the policy of provisioning for the estimated amounts arising from ongoing litigation, indemnities or obligations, as well as for any sureties or guarantees granted by Group companies which could involve the Group in a payment obligation (either legal or implicit), provided 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 re-estimated 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 5,751 thousand euros for this item in 2018 (12,632 thousand euros in 2017).

The consolidated balance sheet at 31 December 2018 includes, pursuant to IFRS (IAS 37), a provision of 1,058 thousand euros for this item (6,429 thousand euros at 31 December 2017).

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 the consolidated comprehensive profit and loss statements for the year in which they are incurred, irrespective of the moment when the cash or financial flows deriving from them arise.

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

4.22 Consolidated cash flow statements

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

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operational activities: the typical activities of the entities forming the consolidated group, along with other activities that cannot be classified as investing or financing activities.
- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

4.23 Treatment of companies in hyperinflationary economies

In 2018, Argentina was declared a hyperinflationary economy due, among other causes, to the fact that the accumulated inflation rate of its economy exceeded 100% over a continuous period of three years.

As a result, the Group has applied IAS 29 to the financial statements of Argentine companies with retroactive effect from 1 January 2018. The application of this standard entails the following exceptions to what is stated above in the rest of the valuation standards:

- Restatement of non-monetary assets and liabilities net of deferred taxes, depending on the case, from their acquisition date, date of first application of IFRS or date of last revaluation. The counterpart of this restatement has been reserves or the result from exposure to changes in the purchasing power of the year's currency depending on the period in which it is generated.
- Equity effects: equity has been restated in the same way as the other non-monetary items; additionally, the Group has decided to classify the historical translation differences associated with the devaluation of the currency in Argentina to consolidated reserves.
- The restatement of the monthly results of Argentine companies in accordance with the accumulated inflation for the year since it was generated will be adjusted against the consolidated comprehensive income derived from exposure to changes in the purchasing power of the currency.
- Application of the closing exchange rate instead of the average exchange rate for the year to the consolidated statement of comprehensive income, in the case of Argentine companies. For this purpose,

all amounts need to be restated using the variation experienced by the general price index from the date on which expenses and income were recorded in the consolidated comprehensive profit and loss statement.

5. EARNINGS PER SHARE

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

In accordance with this:

	31/12/2018	31/12/2017
Net profit for the year (thousands of euros)	117,785	35,489
Weighted average number of shares in circulation (in thousands)	369,873	340,805
Basic earnings per share in euros	0.318	0.104

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):

	2018	2017
NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH	77,933	79,181
Hoteles Royal, S.A.	27,607	28,629
Others	3,892	3,874
	109,432	111,684

The movements in this heading of the consolidated balance sheet in 2018 and 2017 were as follows (in thousands of euros):

Company	Goodwill 31/12/2017	Exchange differences	Impairment	Goodwill 31/12/2018
NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH	79,181	-	(1,248)	77,933
Hoteles Royal, S.A.	28,629	(1,022)	-	27,607
Others	3,874	18	-	3,892
Total	111,684	(1,004)	(1,248)	109,432

Company	Goodwill 31/12/2016	Additions	Exchange differences	Impairment	Goodwill 31/12/2017
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

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

	Thousands of euros	
	2018	2017
Grupo Royal CGUs	27,607	28,629
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	5,624
CGU 2	5,023	5,027
CGUs with goodwill allocated individually < €4 M	25,276	26,502
	109,432	111,684

At 31 December 2018, Goodwill was subject to an impairment test which showed 1,248 thousand euros of impairment.

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

- After - tax discount rate: 6.22% and 7.86% (5.55% and 6.93% respectively in 2017) for CGUs subject to the same risks (German and Austrian market); and for Grupo Royal CGUs, rates of 14.64% (Colombian and Ecuadorian markets) and 10.56% (Chilean market) (12.40% and 9.61% respectively in 2017).
- Terminal value growth rate (g): 2.01% and 2.56% (2.67% and 2.25% in 2017) for Germany and Austria and 1.22% and 3.04% (3% in 2017) for Grupo Royal CGUs.

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

NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH			
	Average values		
	Impairment test	Scenario 1	Scenario 2
Discount rate (after tax)	6.22% - 7.86%	7.22% - 8.86%	5.22% - 6.86%
Growth rate	2.56% - 2.01%	1.56% - 1.01%	3.56% - 3.01%
Occupancy rate	76.71%	75.95%	77.48%
ADR (euros)	115.43	114.28	116.59

Hoteles Royal, S.A.			
	Average values		
	Impairment test	Scenario 1	Scenario 2
Discount rate (after tax)	10.56% - 14.64%	11.56% - 15.64%	9.56% - 13.64%
Growth rate	1.22% - 3.04%	0.22% - 2.04%	2.22% - 4.04%
Occupancy rate	68.69%	68.00%	69.37%
ADR (thousands of COPs)	288.09	285.21	290.97

"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.

Scenario 1 is a negative one 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 1% which would lead to an additional impairment to that registered in 2018 for an amount of 3 million euros with respect to the goodwill of NH Hotels Deutschland, Gmbh and NH Hoteles Austria, Gmbh, and 17.2 million euros with respect to the goodwill of Hoteles Royal, S.A.

In the case of scenario 2, an impairment had been recorded for 99 thousand euros less than that recorded at 31 December 2018 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. was registered.

7.- INTANGIBLE ASSETS

The breakdown and movements under this heading during 2018 and 2017 were as follows (in thousands of euros):

	Balance at 31/12/2016	Exchange differences	Inclusions/Allowances	Retirements	Transfers to other items	Balance at 31/12/2017	Exchange differences	Inclusions/Allowances	Retirements	Transfers to other items	Application of IAS 29	Balance at 31/12/2018
COST												
Hotel operating rights	73,342	(4,098)	282	(304)	-	69,222	(1,024)	973	(259)	-	-	68,912
Rental agreement premiums	67,315	-	39,996	(12,413)	-	94,898	-	-	(38,612)	(9,283)	-	47,003
Concessions, patents and trademarks	38,572	(748)	315	(82)	(52)	38,005	(187)	172	(68)	7	18	37,947
Software applications	127,972	(16)	9,871	(75,354)	1,855	64,328	13	12,385	(922)	669	99	76,572
	307,201	(4,862)	50,464	(88,153)	1,803	266,453	(1,198)	13,530	(39,861)	(8,607)	117	230,434
ACCUMUATED AMORTISATION												
Hotel operating rights	(25,125)	(633)	(2,635)	-	20	(28,373)	883	(3,401)	250	-	-	(30,641)
Rental agreement premiums	(21,049)	-	(5,401)	4,831	(874)	(22,493)	-	(5,193)	8,248	7,051	-	(12,387)
Concessions, patents and trademarks	(21,431)	(148)	(1,236)	82	1,059	(21,674)	347	(1,433)	54	-	(16)	(22,722)
Software applications	(92,939)	21	(12,536)	75,040	78	(30,336)	3	(13,900)	830	(48)	(99)	(43,550)
	(160,544)	(760)	(21,808)	79,953	283	(102,876)	1,233	(23,927)	9,382	7,003	(115)	(109,300)
Impairment	(20,204)	2	(228)	7,692	244	(12,494)	(7)	(1,079)	712	2,303	-	(10,565)
NET BOOK VALUE	126,453					151,083						110,569

7.1 Rental agreement premiums

As a result of the change of control of the NH Group (see Note 14.1) on 30th November 2018, the effective termination of all the management contracts defined in the framework contract entered into in 2017 with Grupo Inversor Hesperia, S.A. ("GIHSA") was formalised, the latter being a former shareholder of the NH Group, for the management of 28 hotels for a period of nine years, which until then had been managed by the NH Group as this contract included an early termination clause in the event of a change of control of the NH Group.

As a result of this termination, the Group has de-recognised the net book value of the activated management contracts amounting to 30.4 million euros. In the same way, a revenue of 33 million euros has been recorded corresponding to the "Net Price Refund Amount" defined in the framework contract, which includes the receipt of an advance indemnity revenue amounting to 20 million euros, the settlement of the pending payment by NH related to the premiums for contracts amounting to 11,560 thousand euros, which was recognised under "Other Financial Liabilities" in the consolidated balance sheet at 31 December 2017, and the sale of the Hesperia brand, the net book value of which amounted to 45 thousand euros, for an amount of 1.4 million euros. The net effect of 2.6 million euros of revenue arising from the early cancellation of the contract entered into with GIHSA, before its tax impact, is recognised under "Net result on disposal of assets" of the 2018 consolidated comprehensive profit and loss statement.

7.2 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 substantially amortised at year-end.

During 2018, impairment provisions of 1,079 thousand euros and reversals of 712 thousand euros were recognised under "Net Profits/(Losses) from asset impairment" of the consolidated comprehensive profit and loss statement.

8.- PROPERTY, PLANT & EQUIPMENT

The breakdown and movements under this heading during 2018 and 2017 were as follows (in thousands of euros):

	Balance at 31/12/2016	Change in consolidation boundary	Exchange differences	Additions	Retirements	Transfers	Balance at 31/12/2017	Exchange differences	Additions	Retirements	Transfers to other items	Application of IAS 29 (See Note 4.23)*	Balance at 31/12/2018
COST													
Land and buildings	1,695,856	5,007	(17,063)	4,575	(17,993)	(68,825)	1,601,557	(30,164)	26,089	(25,210)	(4,820)	73,794	1,641,246
Plant and machinery	795,269	7,028	(7,659)	24,290	(25,632)	(1,994)	791,302	(2,289)	38,333	(77,742)	10,623	33,220	793,447
Other plant, fixtures and furniture	457,987	-	(3,968)	21,558	(35,214)	317	440,680	(1,148)	25,969	(32,606)	2,484	9,770	445,149
Other fixed assets	794	(47)	(87)	20	(215)	(994)	(529)	(21)	-	-	(3)	51	(502)
Property, plant and equipment in progress	25,713	(162)	(866)	12,904	(2,293)	(7,844)	27,452	679	46,625	(3,167)	(21,526)	493	50,556
	2,975,619	11,826	(29,643)	63,347	(81,347)	(79,340)	2,860,462	(32,943)	137,016	(138,725)	(13,242)	117,328	2,929,896
ACCUMUATED AMORTISATION													
Buildings	(326,752)	-	5,059	(31,542)	4,604	5,789	(342,842)	1,516	(24,412)	19,051	689	(14,609)	(360,607)
Plant and machinery	(532,735)	(338)	4,691	(40,629)	21,334	2,345	(545,332)	1,271	(39,091)	67,098	(923)	(21,165)	(538,142)
Other plant, fixtures and furniture	(350,744)	-	3,228	(29,015)	32,281	2,123	(342,127)	1,579	(28,790)	30,500	215	(8,936)	(347,559)
Other fixed assets	(434)	47	91	(91)	485	(88)	10	22	(81)	-	-	(123)	(172)
	(1,210,665)	(291)	13,069	(101,277)	58,704	10,169	(1,230,291)	4,388	(92,374)	116,649	(19)	(44,833)	(1,246,480)
Impairment	(63,526)	-	34	(2,730)	18,998	217	(47,007)	(2)	(10,034)	11,345	-	-	(45,698)
NET BOOK VALUE	1,701,428						1,583,164						1,637,718

*Includes the net impact of the application of the criteria of hyperinflationary economies (Argentina).

The main additions and reductions in 2018 are due to the repositioning plan carried out by the Group, with refurbishments in all Business Units. In Spain, the works at the NH Málaga and the new openings at the NH Collection Gran Vía are noteworthy; in France the new openings at the NH Collection Marseille, in Italy the refurbishment of the NH Porta Nuova and the new openings at the NH Venezia Rio Novo. In Central Europe, the NH Berlin Alexanderplatz and NH Erlangen works in Benelux, the NH Conference Centre Koningshof and NH Conference Centre Lewuwenhorst works as well as the acquisition of the NH Luxembourg, in Mexico, the NH Collection Mexico City refurbishment, and in the United States, the beginning of NH New York Jolly Madison Towers hotel refurbishment; in which, there have been de-recognition of assets arising from the start of these works.

In 2017, 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.

The column "Application of IAS 29" includes the cumulative impact of the restatement of property, plant and equipment from the date of first application of IFRS or the date of last revaluation, with the changes in 2018 being as follows:

	IMPACT IAS 29 (millions of euros)		
	First application	Movements	Ending balance
Net Book Value	71	2	73

Transfers to other items relate mainly to the second building of the NH Malaga classified as a non-current asset held for sale in 2018 amounting to 12,562 thousands of euros (see Note 11).

At 31 December 2018, there were tangible fixed asset elements with a net book value of 237 million euros (275 million euros in 2017) to guarantee several mortgage loans (see Note 15).

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

	2018	2017
Spain	8,246	10,834
Italy	26,898	32,182
Germany	952	2,392
Benelux	9,376	997
Others	226	602
Total impairment	45,698	47,007

In 2018, impairment amounting to 10,034 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 (2,730 thousand euros in 2017), and 11,345 thousand euros registered under "Net Profits/(Losses) from asset impairment" of the 2018 consolidated comprehensive profit and loss statement have been reversed.

During the year, various tangible and intangible assets were de-recognised, replaced or disposed of to third parties outside the Group, the net effect being a loss of 1,333 thousand euros, recognised under "Gain/(loss) on the disposal of non-current assets" in the 2018 consolidated comprehensive profit and loss statement. In addition, "Gain/(loss) on the disposal of non-current assets" includes the gain recognised on the sale of the NH Collection Barbizon Palace classified as available for sale in 2018 (see Note 11).

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

At 31 December 2018, firm purchase undertakings amounted to 66.7 million euros. These investments will be made between 2019 and 2020 (51.5 million euros in 2017).

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

Million of euros	2018
	Recoverable amount
CGU A	35.70
CGU B	24.1
CGU C	20.3
CGU D	18.4
CGU E	12.8
CGU F	11.5
CGU G	11.2
CGU H	10.9
CGU I	9.4
CGU J	9.3
Top Ten	163.6
Spain	57.8
Italy	53
Benelux	10.7
Germany	(0.2)
Other Countries	2.2
Other CGUs	123.5
Total	287.1

9.- INVESTMENTS VALUED USING THE EQUITY METHOD

The movements under this heading of the consolidated balance sheet during 2018 and 2017 were as follows (in thousands of euros):

Company	Net Balance at 31/12/2017	Profit (Loss) 2018	Currency translation difference	Changes in the scope of consolidation and additions	Net Balance at 31/12/2018
Inmobiliaria 3 Poniente, S.A. de C.V.	1,860	(206)	159	-	1,813
Mil Novecientos Doce, S.A. de C.V.	1,780	170	92	-	2,042
Consortio Grupo Hotelero T2, S.A. de C.V.	1,116	185	60	-	1,361
Hotelera del Mar, S.A.	1,158	(200)	(238)	-	720
Borokay Beach, S.L.	1,365	(364)	-	-	1,001
Beijing NH Grand China Hotel Management Co, Ltd	2,136	(84)	(18)	-	2,034
Hotel & Congress Technology, S.L.	4	-	-	(4)	-
Total	9,419	(499)	55	(4)	8,971

Company	Net Balance at 31/12/2016	Profit (Loss) 2017	Currency translation difference	Net Balance at 31/12/2017
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

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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Subordinated loans to companies owning hotels operated by the Group through leases	21,487	30,689
Other collection rights	3,039	16,395
Lease advance payments	3,005	3,155
Long-term deposits and sureties	13,165	12,939
Others	1,902	1,976
Total	42,598	65,154

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, 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 (2.13 million euros in 2018 and 2.93 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.

At 2017 year-end, the "Other collection rights" line item reflected 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. At the end of 2018, the amount of this claim was collected without any economic losses by the Group.

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

10.2 Other non-current financial investments

This heading of the consolidated balance sheet comprised, at 31 December 2018 and 2017, the following equity interests, valued at cost:

	Thousands of euros	
	2018	2017
Varallo Comercial, S.A.	9,343	9,343
NH Panamá	3,767	3,767
Other investments	1,464	677
Provisions	(3,046)	(3,046)
Total	11,528	10,741

The "Provisions" line item includes the provision recorded in 2017 amounting to 1,928 thousand euros, corresponding to the shareholding of NH Panama based on an appraisal by an independent expert.

These non-current financial investments are recorded at fair 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 classified the property in which the NH Collection Barbizon Palace hotel is located as non-current assets held for sale. This was sold in January 2018, resulting in a net asset de-recognition of 66,633 thousand euros and a positive pre-tax result of 87,315 thousand euros recorded under "Net result on disposal of assets" in the consolidated comprehensive profit and loss statement.

Also, at 2018 year-end, the land and property in which the NH Málaga II hotel is located, the sale of which is expected to take place at the beginning of 2019, was recognised as available for sale.

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 2018 and 2017 is shown below (in thousands of euros):

	31.12.2017	Net Variation	Transfers (see Note 8)	31.12.2018
Property, plant and equipment	75,560	(65,528)	12,562	22,594
Financial assets	33,556	(234)	-	33,322
<i>Investments accounted for using the equity method</i>	33,556	(234)	-	33,322
Cash	2	7	-	9
Other current assets	48	1	-	49
Non-current assets classified as held for sale	109,166	(65,754)	12,562	55,974
Other non-current liabilities	615	(87)	-	528
Trade payables	376	(13)	-	363
Other current liabilities	1,386	179	-	1,565
Liabilities associated with assets classified as held for sale	2,377	79	-	2,456

	31.12.2016	Net Variation	Transfers	31.12.2017
Property, plant and equipment	12,113	(3,174)	66,621	75,560
Financial assets	34,556	(1,000)	-	33,556
<i>Investments accounted for using the equity method</i>	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

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
2018			
Profit (loss) before tax	(46)	(522)	(568)
Profit (loss) for the year from discontinued operations net of tax	(46)	(522)	(568)
2017			
Profit (loss) before tax	(92)	(186)	(278)
Profit (loss) for the year from discontinued operations net of tax	(92)	(186)	(278)

Consolidated cash flow statements

The consolidated cash flow statements for the fully consolidated companies in 2018 and 2017 are detailed below (in thousands of euros):

	Capredo Investments, GmbH
2018	
Total net cash flow from operating activities I	5
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 end of year	7

	Capredo Investments, GmbH
2017	
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 end of year	2

12.- TRADE RECEIVABLES

This item reflects different accounts receivable from the Group's operations. The breakdown at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Trade receivables for services provided	113,143	141,738
Provision for bad debts	(6,542)	(9,156)
Total	106,601	132,582

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 2018 and 2017 were as follows:

	Thousands of euros	
	2018	2017
Balance at 1 January	9,156	13,688
Changes in scope		
Exchange differences	(226)	(219)
Additions	7,495	1,982
Applications/Reversals	(9,883)	(6,305)
Balance at 31 December	6,542	9,156

The analysis of the ageing of financial assets in arrears but not considered impaired at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Less than 30 days	22,616	19,928
From 31 to 60 days	12,720	8,728
More than 60 days	20,756	21,813
Total	56,092	50,469

In this regard, the provisions recorded take into account all the expected losses on the balances of trade receivables on the balance sheet.

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 2018 and 2017 was a variable Euribor-indexed rate. These assets are recognised at their fair value.

There are no restrictions on the availability of cash, except for 2,207 thousand euros reserved in accordance with a firm commitment with the co-owners of Hoteles Royal (1,716 thousand euros in 2017) for future investments in the hotels.

As at 31 December 2018, 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, except for the legally established restrictions regarding the distribution of dividends.

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

On 5 June and 13 June 2018 deeds were registered for the conversion of convertible bonds (see Note 15) and capital increase in which a total of 41,908,455 new ordinary shares were issued, each with a nominal value of 2 euros, in the context of the conversion of bonds convertible to NH Hotel Group, S.A. shares, which were issued on 31 October 2013.

Due to this bond conversion and capital increase, the share capital of NH Hotel Group, S.A. came to 784,360,486 euros, divided into 392,180,243 ordinary shares of the same category and series, each with a face value of 2 euros and fully subscribed and paid up. 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 2018 and 2017 are as follows:

	2018	2017
Minor International Public Company Limited*	94.13%	-
HNA Group Co Limited	-	29.35%
Oceanwood Capital Management LLP	-	2.06%
Hesperia Group	-	9.27%

*Ultimate shareholder through its subsidiary MHG Continental Holding (Singapore) Pte. Ltd.

Changes in the shareholder structure and control of the Group:

Between the months of May and September 2018, various purchase and sale contracts were entered into by Minor International Public Company Limited ("MINT"), as buyer, and the HNA Group and with funds managed by Oceanwood, all of which as sellers. As a result of these transactions, MINT acquired all the sellers' interests in NH Hotel Group, S.A. In addition to these transactions, MINT acquired several non-significant shareholdings, as a result of which on 30 September 2018 MINT owned 179,772,214 shares in NH Hotel Group, S.A., representing 45.84% of its share capital.

In parallel, on 11th June 2018, MHG International Holding (Singapore) Pte. Ltd. (a company wholly owned by MINT) made a takeover bid ("OPA") for 100% of the shares that formed part of the share capital of NH Hotel Group, S.A., which, once approved by the Spanish regulatory body, the "CNMV" (Spain's National Securities Market Commission), and the acceptance period was opened, was accepted, among others, by the hitherto shareholder Grupo Hesperia.

As a consequence of the takeover bid, the result of which was notified by the CNMV through a significant event on 26th October 2018, and of the purchase and sale transactions described above, (i) the funds managed by Oceanwood, the HNA Group and the Hesperia Group lost their status as significant shareholders of NH Hotel Group, S.A.; and (ii) MINT acquired, through its wholly-owned subsidiary MHG Continental Holding (Singapore) Pte. Ltd., shares representing 94.13% of the share capital of NH Hotel Group, S.A.

The three proprietary directors representing the majority shareholder "Minor International PCL" do not hold a personal interest in the parent company. By virtue of the foregoing, at 2018 year-end, the different members of the Board of Directors owned or represented (by virtue of their status as proprietary) 94.16% of the share capital of NH Hotel Group, S.A. At 31st December 2017, this percentage was 21.38%.

The main aims of the Group's capital management are to ensure short-term and long-term financial stability 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 0.55x to 0.10x. The ratios of accounting financial leverage at 31 December 2018 and 2017 are the following:

	Thousands of euros	
	2018	2017
Bonds and other marketable securities (Note 15)	342,558	633,910
Bank borrowings and other financial liabilities (Note 15)	76,354	82,970
Gross accounting debt	418,912	716,880
Cash and cash equivalents (Note 13)	265,869	80,249
Liquid assets	265,869	80,249
Total net accounting debt	153,043	636,631
Total Equity	1,504,022	1,151,976
Accounting financial leverage	0.10x	0.55x

On 21 June 2018, the General Shareholders' Meeting approved the distribution of a dividend at 10 cents gross per outstanding share, charged to 2017 profits and also to reserves. The total amount of dividends paid in 2018 amounted to 39 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 2018 and 2017, 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

At the end of the year, NH Hotel Group, S.A. had 600,000 treasury shares on its balance sheet, compared with 9,416,368 treasury shares at 31 December 2017. The reduction in treasury shares over the period can be explained by the following movements:

- In June 2018, the Group delivered 8,569,262 own shares to bond-holders for the early conversion of convertible bonds worth 250 million euros. These include 1,384,473 shares held by one of the entities participating in the loan of 9,000,000 shares associated with the issue, which has been definitively settled.

- In in first half of 2018, the second cycle of the long-term incentive plan was settled (see Note 23). This second cycle was settled by the delivery of 247,106 shares valued at 1,029 thousand euros.

14.4 Minority interests

The movements in this item in 2018 and 2017 are summarised below:

	Thousands of euros	
	2018	2017
Opening balance	43,472	43,967
Application of IAS 29	6,545	-
Comprehensive profit (loss) attributable to non-controlling interests	4,709	1,001
Percentage changes in purchases/sales (Note 2.5.4)	(2,146)	-
Dividends paid to non-controlling interests	(729)	(1,496)
Other movements	500	-
Closing balance	52,351	43,472

The initial application of IAS 29 in Argentina gave rise to an increase in the value of minority interests of 7,093 thousand euros at 1 January 2018 and an effect of 548 thousand euros with a decrease in the value of minority interests in 2018.

The 2018 "Dividends paid to non-controlling interests" item reflects the dividends paid out in 2018 to the following companies: NH Marín, S.A. amounting to 300 thousand euros and various companies in Latin America amounting to 429 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 2018 and 2017 were as follows:

	Thousands of euros			
	2018		2017	
	Long-term	Short-term	Long-term	Short-term
Convertible bonds	-	-	-	250,000
Guaranteed senior bonds maturing in 2023	356,850	-	400,000	-
Borrowing costs	-	3,308	-	5,125
Arrangement expenses	(8,792)	(2,120)	(12,285)	(8,930)
Effect of renegotiation of debt IFRS 9	(5,573)	(1,115)	-	-
Debt instruments and other marketable securities	342,485	73	387,715	246,195
Mortgages	28,950	2,736	32,945	7,496
Unsecured loans	5,759	2,271	867	2,238
Subordinated loans	40,000	-	40,000	-
Credit lines	-	8	-	2,008
Arrangement expenses	(1,835)	(769)	(2,566)	(917)
Effect of renegotiation of debt IFRS 9	(1,401)	(148)	-	-
Borrowing costs	-	783	-	899
Debts with credit institutions	71,473	4,881	71,246	11,724
Total	413,958	4,954	458,961	257,919

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
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 2018 the Group announced the early conversion, at the bondholders' choice, of the convertible bonds whose execution period ended on 11 June 2018. The result of the early conversion was the delivery of 248.3 million euros of the total nominal amount of 250 million euros to the bondholders who requested the early conversion. This delivery was made by the Group through the delivery of 8.6 million treasury shares and 41.9 million newly issued shares (see Note 14). Meanwhile, bond-holders who did not request early conversion received 1.7 million euros face value plus the corresponding accrued interest.

Due to this conversion, the loan of 9,000,000 shares associated with the issue was permanently cancelled, and the 1,384,473 shares held by one of the entities participating in the loan of securities were returned; these shares were used for the early conversion of the bond (see Note 14).

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 2018 is 356,850 thousand euros (see the heading "Depreciation and Amortisation 2018").

"Depreciation and Amortisation 2018"

As a result of the change of control (see Note 14) and as established in the voluntary repurchase and early redemption offer for the issue of senior secured bonds maturing in 2023 (the "Bonds") due to the change of control, requests were received for the repurchase and redemption of bonds for a nominal amount of 3,150 thousand euros.

The bond repurchase offer was settled on 12 November 2018, the date on which the Company paid an aggregate amount of 3,195 thousand euros to the bondholders, who accepted the offer as a whole:

- Nominal paid in advance: 3,150 thousand euros
- Unpaid accrued interest: 13.5 thousand euros
- Amount of the repurchase premium: 31.5 thousand euros

On 14 December 2018, the Company carried out the partial voluntary early redemption, for a nominal amount of 40,000 thousand euros (representing 10% of its original total amount), of the issue of senior secured bonds maturing in 2023 (the "Bonds"), by means of a linear pro rata reduction of the nominal value of all the bonds in circulation. The Bonds were redeemed early through the payment of approximately 103.760% of the nominal value of the Bonds being redeemed, including:

- Nominal paid in advance: 40,000 thousand euros
- Unpaid accrued interest: 304.2 thousand euros
- Amount of the repurchase premium: 1,200 thousand euros

The Company paid the partial redemptions from available cash.

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 was extended to 29 September 2021. At 31 December 2018, this financing was not available.

Obligations required in the guaranteed 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 $\geq 2.00x$, (ii) a debt coverage ratio of $\leq 5.50x$, and (iii) a Loan to Value ("LTV") ratio which, as a result of the redemption of the 2019 senior secured obligations due in 2017, depends on the level of NH's net indebtedness at any given time as indicated below:

- Net debt-to-income ratio $> 4.00x$: LTV ratio = 70%
- Net debt-to-income ratios $\leq 4.00x$: LTV ratio = 85%
- Net debt-to-income ratio $\leq 3.50x$: LTV ratio = 100%

As a result of the early redemption of the convertible bonds and of the Group's reduced net debt-to-income ratio, the maximum LTV permitted at 31 December 2018 is 100%.

At 31 December 2018 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 2018) share the following guarantees: (i) pledge of shares: 100% of the share capital of (A) Diegem, (B) Immo Hotel BCC NV, (C) Immo Hotel Brugge NV, (D) Immo Hotel Diegem NV, (E) Immo Hotel GP NV, (F) Immo Hotel Mechelen NV, (G) Immo Hotel Stephanie NV, (H) Onroerend Goed Beheer Maatschappij Van Alphenstraat Zandvoort, B.V. and (I) 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.; 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.

Additionally, there are assets granted as mortgage security against the syndicated credit line of 250,000 thousand euros (undrawn at 31 December 2018) and guaranteed senior notes in the joint amount of 356,850 thousand euros, maturing in 2023, can be broken down as follows (in thousands of euros):

	Mortgaged asset	Net value value mortgaged asset
	NH Conference Centre Leeuwenhorst	53,984
	NH Conference Centre Koningshof	41,504
	NH Schiphol Airport	44,919
	NH Conference Centre Sparrenhorst	9,424
	NH Zoetermeer	7,563
	NH Naarden	10,969
	NH Capelle	6,299
	NH Geldrop	7,083
	NH Best	3,641
Total		185,386
Net value of assets assigned as mortgage collateral		185,386
Value of guaranteed debt		356,850
Fixed interest		356,850
Variable interest (amount of the syndicated credit line undrawn)		250,000

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 Debt Ratio. Net Financial (through the payment of the Dividend) / EBITDA according to the following breakdown:

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

Mortgages

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	Wilan Ander	4,609	-	4,609	6,107
	Wilan Huel	3,301	-	3,301	4,873
	NH Palacio de la Merced	-	3,797	3,797	16,194
Total Spain		7,910	3,797	11,707	27,174
Mexico	NH Querétaro	-	644	644	4,233
Italy	NH Villa San Mauro	-	1,286	1,286	71
Chile	NH Plaza de Santiago	18,049	-	18,049	19,794
Total		25,959	5,727	31,686	51,272

Subordinated loan

A loan amounting to 40,000 thousand euros fully drawn at 31 December 2018 and with a single maturity and repayment in 2037, are included in this item. The interest rate of these loans is the 3-month Euribor plus a differential.

Credit lines

At 31 December 2018, 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 2018 amounted to 62,200 thousand euros, of which 8 thousand euros had been drawn down at that date. Additionally, at 31 December 2018, the Parent Company had an undrawn guaranteed syndicated credit line amounting to 250,000 thousand euros, maturing on 29 September 2021 (see caption "Secured credit line").

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):

Instrument	Limit	Available	Disposed	Maturity						
				2018	2019	2020	2021	2022	2023	Remainder
Mortgages	31,686	-	31,686	-	2,736	2,575	2,507	2,094	6,045	15,729
Fixed rate	25,959	-	25,959	-	1,313	1,339	1,458	1,484	5,425	14,940
Variable interest	5,727	-	5,727	-	1,423	1,236	1,050	611	620	787
Subordinated loans	40,000	-	40,000	-	-	-	-	-	-	40,000
Variable interest	40,000	-	40,000	-	-	-	-	-	-	40,000
Guaranteed senior notes mat. in 2023	356,850	-	356,850	-	-	-	-	-	356,850	-
Fixed rate	356,850	-	356,850	-	-	-	-	-	356,850	-
Unsecured loans	46,197	38,167	8,030	-	2,271	258	-	-	5,501	-
Variable interest	46,197	38,167	8,030	-	2,271	258	-	-	5,501	-
Secured credit line	250,000	250,000	-	-	-	-	-	-	-	-
Variable interest	250,000	250,000	-	-	-	-	-	-	-	-
Credit lines	62,200	62,192	8	-	8	-	-	-	-	-
Variable interest	62,200	62,192	8	-	8	-	-	-	-	-
SUBTOTAL	786,933	350,359	436,574	-	5,015	2,833	2,507	2,094	368,396	55,729
Arrangement expenses	(13,516)	-	(13,516)	-	(2,889)	(2,941)	(2,890)	(2,454)	(1,957)	(385)
Effect of renegotiation of debt IFRS 9	(8,237)	-	(8,237)	-	(1,263)	(1,396)	(1,545)	(1,714)	(1,436)	(883)
Borrowing costs	4,091	-	4,091	-	4,091	-	-	-	-	-
Borrowing at 31/12/2018	769,271	350,359	418,912	-	4,954	(1,504)	(1,928)	(2,074)	365,003	54,461
Borrowing at 31/12/2017	1,033,225	316,345	716,880	257,919	292	(371)	(643)	(624)	403,897	56,410

16 - OTHER NN-CURRENT LIABILITIES

The breakdown of the “Other non-current liabilities” item in the accompanying consolidated balance sheets, at 31 December 2018 and 2017, is as follows:

	Thousands of euros	
	2018	2017
At amortised cost:		
Linearisation of revenue	16,925	15,965
Capital subsidies	24,319	17,754
Acquisition of Capredo Investment GmbH	3,150	3,150
Other liabilities	2,902	2,107
	47,296	38,976

At 31 December 2018 and 2017, the line item “Capital subsidies” basically included subsidies received for hotel renovations, broken down by country as follows:

	Thousands of euros	
	2018	2017
Germany	12,587	9,709
Netherlands	3,305	3,461
Belgium	2,379	656
Italy	2,241	1,064
Spain	1,755	1,843
Portugal	887	1,005
Others	1,165	16
	24,319	17,754

At 31 December 2018, 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 2018 and 2017, together with the main movements recognised in those years were as follows:

	Thousands of euros				
	Balance at 31/12/2017	Additions	Applications/Reversals	Transfers and other changes	Balance at 31/12/2018
Provisions for contingencies and extraordinary costs:					
Onerous contracts	12,213	1,449	(6,785)	(1,564)	5,313
Provision for pensions and similar obligations	16,245	1,255	(760)	-	16,740
Other claims	21,955	9,444	(8,048)	5,774	29,125
	50,413	12,148	(15,593)	4,210	51,178
Provisions for contingencies and current expenses:					
Onerous contracts	2,513	-	(2,423)	1,564	1,654
Other provisions	6,458	716	(341)	(5,774)	1,059
	8,971	716	(2,764)	(4,210)	2,713
Total	59,384	12,864	(18,356)	-	53,891

	Thousands of euros				
	Balance at 31/12/2016	Additions	Applications/Reversals	Transfers	Balance at 31/12/2017
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 (Note 22)	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

Onerous contracts

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

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

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

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

The reconciliation between the amount recorded in the income statement and the changes in the provision for onerous contracts for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Reversal of provision for realised losses	(2,326)	(3,903)
Reversal	(2,855)	(2,377)
Allowances	839	2,064
Variation in the provision for onerous contracts	(4,342)	(4,216)
Application due to exit of the CGUs	(4,036)	(813)
Allowance for financial effect provision update	610	1,122
Exchange rate effect	9	(436)
Total effect	(3,417)	(127)
Net effect	(7,759)	(4,343)

Provision for pensions and similar obligations

The “Provisions for pensions and similar obligations” account mainly 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).

In addition, within this line, there are included various retirement and / or permanence prizes that are contemplated in the Collective Labour Agreements which is applicable in Spain.

At the end of 2018, the liabilities entered against this item were of 16,740 thousand euros (16,245 thousand euros at 31 December 2017).

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

	2018		2017	
	Netherlands	Italy	Netherlands	Italy
Discount rates	1.90%	0.20%	1.80%	0.20%
Expected annual rate of salary rise	2.50%	1.70%	2.50%	1.90%
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 17 companies with tax domicile in Spain in which it held a direct or indirect stake of at least 75% during the 2018 tax period are subject to the tax consolidation scheme governed by Title VII, Chapter VI of Law 27/2014 on Corporate Income Tax.

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

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

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

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

In 2018, 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	Country	Nominal Rate
Argentina (1)	30.0%	Romania	16.0%
Colombia (1)	33.0%	Poland	19.0%
Chile	27.0%	Switzerland	8.5%
Belgium	29.6%	Czech Republic	19.0%
Panama	25.0%	Luxembourg	18.0%
Brazil	34.0%	Italy	24.0%
Mexico	30.0%	Netherlands	25.0%
Uruguay	25.0%	France	33.3%
Dominican Rep.	27.0%	Portugal	21.0%
Germany	30.0%		

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

Financial years subject to tax inspection

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

Tax	Tax loss carryforwards
Corporation	2015 to 2017
VAT	2015 to 2018
IRPF (personal income tax)	2015 to 2018
Non-resident Income Tax	2015 to 2018

During 2018, 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 Austria by the Austrian 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Deferred tax assets		
Tax credits	92,185	96,689
Tax assets due to asset impairment	34,824	32,095
Tax withholdings of workforce	2,995	2,686
Other prepaid taxes	8,720	6,526
Total	138,724	137,996

	Thousands of euros	
	2018	2017
Short- term taxes receivable		
Income tax	10,496	9,179
Value Added Tax	6,503	6,521
Other tax receivables	2,452	8,043
Total	19,451	23,743

The movements of the “Deferred tax assets” item in 2018 and 2017 were as follows:

	Thousands of euros	
	2018	2017
Opening balance	137,996	152,389
Asset impairment	2,729	351
Generation of assets due to tax losses	3,615	4,039
Settlements of assets due to tax losses	(4,509)	(10,512)
Settlement of deductions	(3,611)	(5,353)
Others	2,504	(2,919)
Total	138,724	137,996

The recognition of assets is mainly due to the activation of tax losses in Germany and the Benelux amounting to 2,253 and 1,155 thousand euros respectively, as a result of the positive results expected in future years.

The cancellation of assets is mainly due to the cancellation of tax losses to offset the positive tax bases generated in 2018, in Spain, Belgium and Germany, amounting to 2,456, 173 and 1,841 thousand euros, respectively. Additionally, the cancellation of deductions in Spain has been made in the amount of 3,611 thousand euros as a result of their use to offset the positive share resulting in 2018.

At 31 December 2018, the Group had assets resulting from tax losses and deductions amounting to 92,185 thousand euros (96,689 thousand euros in 2017). At 31 December 2018, 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 2018, the Group had tax loss carryforwards worth 593,041 thousand euros (605,591 thousand euros at 31 December 2017) and deductions amounting to 27,020 thousand euros (28,030 thousand euros in 2017) 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	
	2018	2017
Finance costs and negative tax bases		
Non-deductible financial expenses in Spain	256,170	260,852
Non-deductible financial expenses in Germany	-	3,397
Negative tax bases generated by the Spanish entities before their inclusion in the Spanish consolidation group	99,722	103,572
Spanish consolidation group tax loss carryforwards	5,112	-
Negative tax bases generated in Austria	33,169	33,827
Negative tax bases generated in Latin America	967	239
Negative tax bases generated in Luxembourg	50,546	43,068
Negative tax bases generated in Germany	127,494	142,787
Negative tax bases generated in Hungary	2,019	-
Negative tax bases generated in the Netherlands	-	3,445
Negative tax bases generated in Belgium	2,688	-
Negative tax bases USA	9,781	9,781
Negative tax bases France	5,176	4,426
Negative tax bases generated in South Africa	197	197
Total	593,041	605,591
Deductions		
Deductions generated in Spain	27,020	28,030
Total	27,020	28,030
Total	620,061	633,621

The accumulated amount of financial expenses, which are not considered deductible in the Spanish corporate income tax when exceeding 30% of the operating revenue of the tax group calculated in accordance with Article 16 of Law 27/2014 of 27 December, on Corporate Income Tax, amount to 256,170 thousand euros in 2018 (260,852 thousand euros in 2017). There is no deadline for offsetting non-deductible finance costs.

The changes in non-recorded credits in 2018 were mainly due to the fact that in Spain finance costs not deducted in prior periods were deducted owing to the application of the aforementioned regulations, and losses and deductions were offset against the profit generated in the year. 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Deferred tax liabilities		
Revaluation of assets and other valuation differences	177,478	167,433
Total	177,478	167,433

	Thousands of euros	
	2018	2017
Short- term taxes payable		
Income tax	19,980	9,021
Value Added Tax	689	1,298
Personal Income Tax	7,746	8,769
Tax on Income from Capital	1,190	1,315
Social Security	7,409	6,833
Others	22,439	18,624
Total	59,453	45,860

The movements in deferred tax liabilities during 2018 and 2017 are as follows:

	Thousands of euros	
	2018	2017
Opening balance	167,433	174,987
IAS 29 Hyperinflationary economies (Notes 2.2 and 4.23)	19,231	-
Others	(9,186)	(7,554)
Closing balance	177,478	167,433

The reduction in deferred tax liabilities is mainly due to the reversal of impairment on revalued assets. In addition, a deferred tax liability associated with the conversion of Argentina into a hyperinflationary economy has been recorded, giving rise to the recognition of a deferred tax liability amounting to 19,231 thousand euros (see Notes 2.2. and 4.23).

The detail, by country and item, of these deferred taxes is as follows:

	Thousands of euros			
	Tax credits	Prepaid Taxes	Total Assets	Liabilities
Spain	85,218	21,117	106,335	30,181
Benelux	2,081	2,925	5,006	13,565
Italy	-	6,718	6,718	91,275
Germany	2,253	2,598	4,851	1,690
Others	2,633	13,181	15,814	40,767
TOTAL	92,185	46,539	138,724	177,478

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:

	2018															2017	
	Thousands of euros															Thousands	
	Spain	France	Italy	USA	Germany	Netherlands (2)	Latin America (3)	Luxembourg	Romania	Switzerland	Czech R.	Poland	Portugal	Others	TOTAL	Spanish Companies	Other Companies
Consolidated comprehensive profit and loss statements before taxes	12,350	(1,061)	39,984	(14,012)	3,789	124,933	39,608	9,233	76	(5,862)	27	(6)	1,272	(508)	209,820	2,492	70,226
Adjustments to consolidated comprehensive profit and loss:																	
Accounting consolidation adjustments	2,004	-	-	-	1,243	272	4,447	-	-	-	-	-	-	-	7,965	2,022	3,000
Due to permanent differences	13,362	1,061	10,603	14,480	11,448	45,505	(17,443)	(8,909)	75	5,862	(27)	6	1,054	508	77,586	48,183	6,124
Due to temporary differences	23,877	-	(2,396)	161	(11,167)	5,152	3,154	-	-	-	-	-	-	-	18,781	2,125	(7,533)
Tax base (Taxable profit or loss)	51,592	-	48,190	629	5,313	175,862	29,766	324	151	-	-	-	2,326	-	314,152	54,822	71,820
Current taxes to be refunded / (to pay)	42	383	(11,492)	(51)	(583)	398	2,385	-	-	-	-	-	(95)	(471)	(9,484)	1,353	(1,196)
Total current tax income / (expense)	(12,914)	-	(11,566)	(132)	(1,594)	(44,330)	(8,953)	(62)	(24)	-	-	-	(488)	-	(80,062)	(13,705)	(19,443)
Total deferred tax income / (expense)	5,969	-	(820)	34	(1,097)	1,883	(4,049)	-	-	-	-	-	-	-	1,920	2,050	(440)
Total other income / (expense)	(4,501)	-	(2,485)	-	-	(78)	35	-	-	(27)	-	-	-	(116)	(7,171)	86	(2,059)
Total Corporation Tax income / (expense)	(11,445)	-	(14,870)	(98)	(2,691)	(42,524)	(12,967)	(62)	(24)	(27)	-	-	(488)	(116)	(85,313)	(11,569)	(21,942)

(1) The Netherlands business area includes Belgium.

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

Deductions generated by the consolidated tax group of the Parent Company

At 31 December 2018, the Tax Group held the following tax credits carryforward (thousand euros):

Year of origin	Deduction pending application	Amount
2004 to 2011	Deduction to encourage certain activities	26,240
2014 - 2017	IT Deduction	780
2013 to 2014	Other	647
		27,667

19.- COMMERCIAL CREDITORS AND OTHER ACCOUNTS PAYABLE

The breakdown of this item in the consolidated balance sheet at 31 December 2018 and 2017 is as follows (thousands of euros):

	Thousands of euros	
	2018	2017
Trade and other payables	218,458	194,779
Advance payments from customers	34,246	28,172
	252,704	222,951

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.

	2018	2017
	Days	
Average period for payment to suppliers	62	70
Ratio of paid transactions	63	70
Ratio of transactions pending payment	51	61
	Amount (thousands of euros)	
Total payments made	270,248	297,183
Total payments pending	6,786	12,237

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 2018 and 2017.

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 2018 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 NON-CURRENT LIABILITIES

At 31 December 2018 and 2017, this item is broken down as follows:

	Thousands of euros	
	2018	2017
Outstanding remuneration	37,520	37,216
Linearisation of revenue	1,814	2,095
Other creditors	5,110	2,457
	44,444	41,768

22.-THIRD-PARTY GUARANTEES AND CLAIMS IN PROGRESS

At 31 December 2018, NH had a total of 37,353 thousand euros in economic or financial bank guarantees issued by various banks (36,776 thousand euros in 2017).

Of these, 6,000 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, 23,345 thousand euros guarantee leasing contract obligations and others related to the Group's usual operations in various countries, and 8,008 thousand euros issued in relation to public bodies.

At 31 December 2018, 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 2018 had an outstanding principal of 17,268 thousand euros (equivalent to 19,685 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.
- 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.
- 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 promissory 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 appeared in the insolvency proceedings of Viajes Marsans, S.A. and Tiempo Libre, S.A., from the unsettled estate of Gonzalo Pascual Arias and Gerardo Díaz Ferrán, and in the voluntary insolvency proceedings against María Angeles de la Riva Zorrilla, in order to claim outstanding amounts. The Group also appears in the voluntary bankruptcy proceedings of Transhotel and Orizonia as well as in other proceedings both nationally and internationally, and provisions the accounts receivable 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 compensation 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 same owner has instituted fresh court proceedings alleging a change of control situation in 2018, which is ongoing.

- 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 with the Supreme Court, in relation to which a decision has been handed down that does not favour the interests of the Group, and it is currently at the claim settlement stage.
- A claim has been filed against a Grupo NH company in Germany due to the termination of two lease agreements 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 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, with which an out-of-court settlement has been reached.
 - Defendant in the claim process for contractual breaches by a property developer, with an out-of-court settlement having been reached.
 - The company may be subject to a claim for (i) amounts derived from an eventual administrative claim; (ii) and/or constructive defects.
- 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. The debtor company has entered into insolvency proceedings and the company has requested the right to separate the premises from the estate, and an agreement has been reached with the insolvency administration for the delivery of the aforementioned premises, which is in the execution phase.
- A former Grupo NH shareholder has requested that certain resolutions adopted at the General Shareholders' Meeting be annulled. This claim was dismissed in the first instance and he withdrew it in the appeal phase, leading to the termination of the proceedings.
- A former shareholder of the NH Group, different from the previous one, has requested the annulment of certain resolutions adopted by the Board of Directors, and the proceedings are currently in progress.
- 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.
- As part of the contractual liability assumed by NH in the 2013 hotel purchase contract, the buyers informed the Group of the requirement to pay the Dutch Capital Transfer Tax. At 31 December 2018, the total amount of this tax, including interest, was 11.5 million euros. The buyers filed an appeal

with the Dutch tax authorities, which was recently rejected. An appeal to the Dutch courts is currently being considered. The Group's tax advisers consider that NH has sound defence arguments and, consequently, no provision has been made for this.

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

23.- LONG-TERM INCENTIVE PLAN

On 25 June 2013, the Company's General Shareholders Meeting approved a long-term share-based incentive plan ("the plan") for the NH Hotel Group SA's executives and employees, as follows:

The plan consists of the grant of ordinary shares of NH Hotel Group, S.A. to the beneficiaries calculated as a percentage of the fixed salary, according to their level of responsibility. The number of shares to be granted shall be subject to the degree of fulfilment of the following objectives:

- TSR (total shareholder return) at the end of each of the plan cycles, comparing the performance of NH Hotel Group, SA shares with the following indices:
 - IBEX Medium Cap
 - 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 01/01/2015 with delivery of shares in 2018 (settled)
- 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%. The second cycle was settled in the first half of 2018, with 74.4% being complied with. 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. The maximum amount approved by the General Shareholders' Meeting for the current cycle of this plan is 4,400 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 01/01/2018 with delivery of shares in 2021 (in force)
- The third cycle began on 01/01/2019 with delivery of shares in 2022 (in force)

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:

- 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
- Revaluation of the Share
- Recurring Net Profit
- 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 the date of publication of this report, all the cycles had been approved by the Board of Directors.

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 incentive plans on the consolidated comprehensive profit and loss statement for 2018 was 3,275 thousand euros (2,809 thousand euros in 2017).

24.- INCOME AND EXPENSES

24.1 Income

The breakdown of these headings in the consolidated comprehensive profit and loss statements for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Hotel occupancy	1,149,805	1,094,430
Catering	325,026	320,431
Meeting rooms and others	86,307	80,772
Rentals and other services	52,250	50,453
Revenues	1,613,388	1,546,086
Operating subsidies	36	36
Other operating income	6,096	11,065
Other operating income	6,132	11,101
Net gain (loss) on disposal of assets	85,982	30,148

“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 2018 and 2017 was as follows:

	Thousands of euros	
	2018	2017
Spain	406,332	399,600
Germany	317,542	309,318
Benelux	360,254	319,475
Italy	290,072	275,534
Rest of Europe	111,241	99,250
Latin America	127,947	142,909
	1,613,388	1,546,086

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	
	2018	2017
Dividend income	1,214	34
Income from marketable securities	-	210
Interest income	1,258	1,819
Other financial income	3,567	932
	6,039	2,995

24.3 Personnel expenses

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

	Thousands of euros	
	2018	2017
Wages, salaries and similar	319,458	316,421
Social security contributions	75,141	76,454
Indemnifications	5,751	12,632
Contributions to pension plans and similar	10,118	9,029
Other social expenses	12,203	12,604
	422,671	427,140

The average number of people employed by the Parent Company and the companies consolidated through full consolidation in 2018 and 2017 broken down by professional categories was as follows:

	2018	2017
Group's general management	8	8
Managers and heads of department	1,430	1,386
Technical staff	827	940
Sales representatives	150	750
Administrative staff	27	254
Rest of workforce	8,514	7,276
	10,956	10,614

In calculating the average number of employees, the Group has not taken into account employees whose contracts have a duration of less than two days.

The breakdown of the personnel at 31 December 2018 and 2017, by gender and professional category, is as follows:

	31/12/2018		31/12/2017	
	Males	Females	Males	Females
Group's general management	6	2	6	2
Managers and heads of department	831	611	781	599
Technical staff	435	392	510	400
Sales representatives	30	139	193	524
Administrative staff	4	8	93	153
Rest of workforce	4,118	4,479	4,141	3,680
	5,424	5,631	5,724	5,358

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 2018 and 2017, broken down by professional categories, is as follows:

	2018	2017
Managers and heads of department	4	5
Technical staff	13	8
Sales representatives	1	3
Administrative staff	4	3
Rest of workforce	81	70
	103	89

The average age of the Group's workforce was approximately 39 and average seniority in the Group was 9 years.

24.4 Other operating expenses

The detail of "Other Operating Expenses" of the consolidated statement of comprehensive income for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Lease rentals	319,435	301,720
Outsourcing of services	126,160	111,945
Commissions	85,542	83,592
Supplies	57,793	47,080
Maintenance and cleaning	43,272	42,536
Laundry and related costs	38,034	37,376
Costs associated with information technologies	38,487	31,526
Marketing and merchandising	26,556	24,615
Other external services	121,987	138,837
	857,266	819,227

In 2018, 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.

During 2018 and 2017, 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	
	2018	2017
Auditing services	944	481
Other verification services	223	258
Total auditing and related services	1,167	739
Tax consulting services	260	195
Other services	29	471
Total other services	289	666
Total professional services	1,456	1,405

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

	Thousands of euros	
	2018	2017
Auditing services	1,525	1,147
Other verification services	28	19
Total auditing and related services	1,553	1,166
Tax consulting services	81	56
Other services	-	-
Total other services	81	56
Total	1,634	1,222

During 2018, 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 66 thousand euros (83 thousand euros in 2017). The fees accrued in 2018 by these firms for tax advice services were 209 thousand euros (125 thousand euros in 2017) and for other services, 396 thousand euros (443 thousand euros in 2017).

24.5 Operating Leases

At 31 December 2018 and 2017, 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.

Thousands of euros	Present value	
	2018	2017
Less than one year	238,919	261,801
Between two and five years	775,506	876,540
More than five years	985,220	1,211,109
Total	1,999,645	2,349,450

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 and sometimes this minimum threshold has a limit on payments made which restricts the amount of minimum rents that would be paid.

The breakdown by business unit of the current value of the rental instalments at 31 December 2018 is as follows (thousands of euros):

	Less than one year	Between two and five years	More than five years	Total
Spain*	72,066	194,173	141,767	408,006
Germany and Central Europe	83,374	289,650	410,145	783,169
Italy	41,417	149,823	150,299	341,539
Benelux	38,337	130,599	275,369	444,305
Latin America	3,725	11,261	7,640	22,626
Total	238,919	775,506	985,220	1,999,645

*Spain also includes Portugal and France.

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

24.6 Finance costs

The detailed balance of this chapter of the consolidated statement of comprehensive income for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Expenses for interest	30,860	44,220
Financial expenses for means of payment	17,379	16,317
Financial effect relating to restatement of provisions and other financial liabilities	2,546	1,381
Amortisation of debt arrangement expenses	7,838	13,402
Other financial expenses	1,374	1,427
Total financial expenses	59,997	76,747

The decrease in interest expense in 2018 compared to 2017 is mainly due to the refinancing and repayment of certain bonds during 2017, as well as the early repayments made in 2018. These effects have also led to a reduction in the repayment of debt formalisation expenses.

24.7 Results from exposure to hyperinflation

This heading includes the net effect recognised in the consolidated comprehensive profit and loss statement arising from the application of accounting standards to the financial statements of Argentine subsidiaries from the date of first application at 2018 year-end.

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 2018 are stated below, distinguishing between major shareholders, members of the Board of Directors and Directors of the Parent Company and other parties which were related parties during the year even though they lost its condition of significant shareholder during the year. The conditions of the related-party transactions are equivalent to those of transactions carried out under market conditions:

Income and Expenses	Thousands of euros		
	31/12/2018		
	Significant shareholders	Associates or companies of the Group	Total
Expenses:			
Financial expenses	195	-	195
Lease rentals	1,424	-	1,424
	1,619	-	1,619
Income:			
Financial income	-	109	109
Management or cooperation agreements	8,476	1,987	10,463
Other operating expenses	978	-	978
Other income (Note 7.1)	2,607	-	2,607
	12,061	2,096	14,157

Income and Expenses	Thousands of euros			
	31/12/2017			
	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 7.1)	6,000	-	-	6,000
	14,969	-	2,114	17,083

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 2018 by virtue of the hotel management agreement entered into with Grupo Inversor Hesperia, S.A. On 30 November 2018, all the management agreements defined in the framework agreement entered into in 2017 with Grupo Inversor Hesperia, S.A. ("GIHSA") for the management of 28 hotels for a period of nine years were effectively terminated. As a result of the termination of these management agreements, the Group recognised income under "Other Income" (see Note 7.1).

The line item "Finance costs" includes the interest paid on the debt pending payment to Grupo Inversor Hesperia, S.A. prior to the cancellation of the aforementioned management agreement (see Note 7.1).

Other Financing agreements:

	Thousands of euros	
	2018	2017
Accounts receivable from associated companies	1,766	1,016
Loans to associates - Sotocaribe, S.L.	9,020	7,382
Total	10,786	8,398

Other accounts receivable

At 31 December 2018, 978 thousand euros had not yet been paid in respect of the audit requested by MINT following the takeover and the additional work performed for the audit of year-end closing.

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:

- 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).
- 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.
- 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:

	Hotel Business													
	31/12/2018							31/12/2017						
	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	150,546	40,848	47,154	25,604	25,129	10,702	1,109	113,811	63,826	13,071	8,649	21,529	6,624	112
Depreciation	(116,301)	(41,757)	(18,908)	(23,159)	(20,106)	(9,417)	(2,954)	(123,084)	(39,812)	(20,234)	(33,536)	(18,494)	(8,498)	(2,510)
Net profit (loss) for asset deterioration	(304)	3,295	(8,380)	4,206	191	1	383	9,005	2,216	(783)	9,471	(2,020)	-	121
BALANCESHEET														
ASSETS														
Assets by segments	2,498,183	595,885	765,478	440,001	287,391	402,698	6,730	2,353,123	681,769	577,523	454,217	290,223	348,494	897
Shareholdings in associated companies	8,971	1,002	-	-	-	5,935	2,034	9,420	1,367	-	-	-	5,913	2,140
Non-current assets classified as held for sale	12,562	12,562	-	-	-	-	-	66,621	-	66,621	-	-	-	-
Total consolidated assets	2,519,716	609,449	765,478	440,001	287,391	408,633	8,764	2,429,164	683,136	644,144	454,217	290,223	354,407	3,037
LIABILITIES														
Liabilities and equity by segments	2,519,716	609,449	765,478	440,001	287,391	408,633	8,764	2,429,164	683,136	644,144	454,217	290,223	354,407	3,037
Total Consolidated Liabilities and Equity	2,519,716	609,449	765,478	440,001	287,391	408,633	8,764	2,429,164	683,136	644,144	454,217	290,223	354,407	3,037

Thousands of euros	Thousands of euros													
	Realestate													
	31/12/2018							31/12/2017						
	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	43,412	-	-	-	-	33,322	10,090	42,545	-	-	-	-	33,556	8,989
Total consolidated assets	43,412	-	-	-	-	33,322	10,090	42,545	-	-	-	-	33,556	8,989
LIABILITIES														
Liabilities and equity by segments	43,412	-	-	-	-	33,322	10,090	42,545	-	-	-	-	33,556	8,989
Total Consolidated Liabilities and Equity	43,412	-	-	-	-	33,322	10,090	42,545	-	-	-	-	33,556	8,989

	Total													
	31/12/2018							31/12/2017						
	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	150,546	40,848	47,154	25,604	25,129	10,702	1,109	113,811	63,826	13,071	8,649	21,529	6,624	112
Depreciation	(116,301)	(41,757)	(18,908)	(23,159)	(20,106)	(9,417)	(2,954)	(123,085)	(39,812)	(20,234)	(33,536)	(18,495)	(8,498)	(2,510)
Net profit (loss) for asset deterioration	(304)	3,295	(8,380)	4,206	191	1	383	9,005	2,216	(783)	9,471	(2,020)	-	121
BALANCE SHEET														
ASSETS														
Assets by segments	2,498,183	595,885	765,478	440,001	287,391	402,698	6,730	2,353,119	681,765	577,523	454,217	290,223	348,494	897
Shareholdings in associated companies	8,971	1,002	-	-	-	5,935	2,034	9,419	1,366	-	-	-	5,913	2,140
Non-current assets classified as held for sale	55,974	12,562	-	-	-	33,322	10,090	109,166	-	66,621	-	-	33,556	8,989
Total consolidated assets	2,563,128	609,449	765,478	440,001	287,391	441,955	18,854	2,471,704	683,131	644,144	454,217	290,223	387,963	12,026
LIABILITIES														
Liabilities and equity by segments	2,563,128	609,449	765,478	440,001	287,391	441,955	18,854	2,471,704	683,131	644,144	454,217	290,223	387,963	12,026
Total Consolidated Liabilities and Equity	2,563,128	609,449	765,478	440,001	287,391	441,955	18,854	2,471,704	683,131	644,144	454,217	290,223	387,963	12,026

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:

Significant information from the Income Statement by Geographic Area	Thousands of euros (2018)						
	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and Others	TOTAL
	31/12/2018	31/12/2018	31/12/2018	31/12/2018	31/12/2018	31/12/2018	31/12/2018
Revenues	406,332	360,254	290,072	317,542	127,947	111,241	1,613,388
Depreciation	(41,757)	(18,908)	(23,159)	(20,106)	(9,417)	(2,954)	(116,301)
Financial income	2,244	465	42	525	2,719	44	6,039
Financial expenses	(49,061)	6,605	(3,681)	(7,104)	(5,036)	(1,720)	(59,997)
Results from exposure to hyperinflation (IAS 29)	-	-	-	-	25,674	-	25,674
Profit (Loss) from entities valued through the equity method	(363)	-	-	-	(51)	(85)	(499)
Variation in the provision for onerous contracts	1,671	-	-	303	-	2,368	4,342
Income tax	(11,346)	(42,566)	(14,886)	(2,675)	(13,179)	(662)	(85,314)
Profit (loss) for the year from discontinued operations net of tax	-	-	-	-	(523)	(45)	(568)

Significant information from the Income Statement by Geographic Area	Thousands of euros (2017)						
	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and Others	TOTAL
	31/12/2017	31/12/2017	31/12/2017	31/12/2017	31/12/2017	31/12/2017	31/12/2017
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)

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 2018:

- Board of Directors: 10 members in 2018 (10 in 2017),
- Executive Committee: 3 members in 2018 (5 in 2017),
- Audit and Control Committee: 3 members in 2018 (3 in 2017), and
- Appointments and Remuneration Committee: 2 members in 2018 (4 in 2017).

The amount accrued during 2018 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 attendance fees and other items, is as follows:

27.1 Remuneration of the Board of Directors

Remuneration item	Thousands of euros	
	2018	2017
Fixed remuneration	500	490
Variable remuneration	335	344
Parent Company: allowances	65	178
Parent Company: attendance allowances	813	1,017
Transactions on shares and other financial instruments	247	191
Indemnifications/other	170	86
Life insurance premiums	19	26
Total	2,149	2,332

As of 31 December 2018, the Board of Directors has ten members, of whom one is a woman and nine are men (ten persons in 2017, one woman and nine men).

In relation to the heading, "Transaction on shares and/or other financial instruments", consideration has been given to the objective long-term remuneration accrued. This includes remuneration in kind (vehicles, medical insurance and shares delivered in 2018 as a result of the settlement of the long-term incentive which ended on 31/12/2017) in the item "Others".

27.2 Remuneration of senior management

The remuneration of members of the Management Committee at 31 December 2018 and 2017, excluding those who simultaneously held office as members of the Board of Directors (whose remuneration has been set out above), is detailed below:

	Thousands of euros	
	2018	2017
Pecuniary remuneration	3,047	2,678
Remuneration in kind	699	556
Others	671	642
Total	4,417	3,876

At 31 December 2018, there were seven members of Senior Management (the same number at 31 December 2017), excluding the CEO.

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

The concept of "monetary remuneration" of executives includes fixed remuneration and variable remuneration accrued in 2018 and received in 2019.

"Compensation in kind" includes the vehicle, the cost of insurance and the settlement of the long-term incentive received in shares in 2018, the accrual period of which ended on 31 December 2017.

The heading "Other" includes the long-term objective remuneration accrued in 2018.

27.3 Information on conflicts of interest on the part of Directors

At year-end 2018, the members of the Board of Directors of NH Hotel Group, S.A. have indicated they are not in any situation of conflict, direct or indirect, that they or persons related to them, as defined in the Act, may have with the interests of the Company.

Notwithstanding the foregoing, in 2018 the Company entered into various Related Transactions as a consequence of them having been concluded with significant shareholders or the Directors of the Company. These Related Party Transactions have always been executed in strict compliance with the rules established in the applicable regulations and the Procedure for Conflicts of Interest and Related Party Transactions with Significant Shareholders, Directors and Senior Management of NH Hotel Group, S.A. approved by the Board of Directors on 26 March 2014. By virtue of this Procedure, during 2018 the Board of Directors ensured, through the Audit and Control Committee, that transactions with Directors and significant shareholders or with the respective related persons were carried out under market conditions and in adherence to the principle of equal treatment of shareholders in identical conditions. Likewise, the Director affected by such transaction (i) has abstained from influencing, intervening or voting in the decision-making by any corporate body or committee that had participated in the relevant transaction or decision and that could have affected the persons or entities with which there was a conflict of interest, and (ii) has abstained from accessing confidential information that could have affected said conflict of interest.

During 2018, the Audit and Control Committee had the opportunity to analyse the transactions with related parties described in the Annual Report of the Audit and Control Committee for the 2018, financial year which will be made public on the Company's website when the General Shareholders' Meeting is called.

28.- EVENTS AFTER THE REPORTING PERIOD

On February 7, 2019 NH Hotel Group has subscribed with Minor IPC i) a Framework Agreement that aims to establish a transparent framework of relations between the Company and Minor and its group companies, which, among others, includes criteria for the allocation of expenses between both Companies, all in compliance with the Recommendation Two of the Code of Good Governance of Listed Companies and ii) a reciprocal agreement of trademark license, by which both parties are licensed the use of their respective trademarks in the geographical areas where the other party operates. The subscription of the mentioned agreements was duly approved by the Board of Directors, after a favorable report from the Audit and Control Committee and communicated by Relevant Event on February 7, 2019.

On January 15, 2019, the sale of its 49% stake in the company Beijing NH Grand China Hotel Management CO, Ltd. was executed, this sale was a cash inflow of 1.9 million euros.

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 2018, the implementation of the sustainability initiative continued. This initiative gives continuity to the environmental achievements of recent years. Thus, compared to 2007, per Average Daily Room energy consumption has been reduced by 31%, water consumption by 27% and our carbon footprint by 67%. NH Hotel Group is committed to renewable energy, which reduces its carbon footprint. This consumption of green energy, certified as renewable, is available in 79% of our hotels in Spain, Italy, Germany, the Netherlands, Belgium and Luxembourg, covering 90% of the total electricity consumed in Europe.

NH Hotel Group holds certificates ISO 14.001 for environmental management and ISO 50.001 for energy efficiency in accommodation, catering, meetings and events. As well as the overall certificates held by the company, 137 of its hotels hold certificates including BREEAM, LEED, Green Key, Hoteles+Verdes, ISO 14.001 and ISO 50.001, all recognised by the GSTC (Global Sustainable Tourism Council).

NH Hotel Group has reported its climate change commitment and strategy to the Carbon Disclosure Project (CDP) since 2010. In 2018, the Company obtained an A- rating on the Climate Index, placing NH Hotel Group among the leading companies in the adoption of measures to effectively reduce emissions, which is indicative of advanced environmental management. This result positions the company above the average for its sector and region.

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 12), as well as trade and other accounts receivable (see Note 13). 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, mainly through guaranteed convertible senior bonds. At 31 December 2018, approximately 87.7% 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 25 b.p., the financial expense would increase by 134 thousand euros plus interest.

In the event that the increase in interest rates were 50 b.p., the financial expense would increase by 269 thousand euros plus interest.

In the event that the increase in interest rates were 1 b.p., the financial expense would increase by 538 thousand euros plus interest.

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

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

Exchange rate risk

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

- Investments in foreign countries (essentially Mexico, Argentina, Colombia, Chile, Ecuador, the Dominican Republic, 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 2018 was as follows:

	Thousands of euros	
	Currency translation difference	Changes with respect to 2017
US dollar	2,975	249
Mexican peso	(18,403)	2,362
Colombian peso	(22,833)	(4,466)

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 2018:

Year-end euro reference exchange rate	31/12/2018	31/12/2017	Change
US dollar	0.873360	0.833820	4.74%
Mexican peso	0.044460	0.042260	5.21%
Colombian peso	0.000270	0.000280	(3.57%)

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 2018 of the aforementioned currencies:

Average euro reference exchange rate in the year	2018	2017	Change
US dollar	0.846630	0.885190	(4.36%)
Mexican peso	0.044040	0.046890	(6.08%)
Colombian peso	0.000290	0.000300	(3.33%)

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.

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 2018 is based on the following points:

- The group had cash and cash equivalents amounting to 265,869 thousand euros at 31 December 2018.
- Available undrawn credit lines amounting to 312,192 thousand euros at 31 December 2018, of which 250,000 thousand euros relate to the undrawn guaranteed syndicated credit line maturing on 29 September 2021.

The capacity of the business units to generate positive cash flows from operations.

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

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

31. TRANSLATION

Translation of 2018 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 2018 are presented below:

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee	% of voting rights controlled by parent
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 Exploitation, B.V.	Den Haag	Hotel Business	100%	100%
Blacom, S.A.	Buenos Aires	Investment	100%	100%
Chartwell de México, S.A. de C.V.	México D.F.	Hotel Business	100%	100%
Chartwell de Nuevo Laredo, S.A. de C.V.	Nuevo Laredo	Hotel Business	100%	100%
Chartwell Inmobiliaria de Coahuila, S.A. de C.V.	Coahuila	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.	Queretaro	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.	México D.F.	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%
Exploitiemaatschappij Caransa Hotel, B.V.	Amsterdam	Without activity	100%	100%
Exploitiemij. Topenhôtel, B.V.	Hilversum	Hotel Business	100%	100%
Franquicias Lodge, S.A. de C.V.	México D.F.	Hotel Business	100%	100%
Gran Círculo de Madrid, S.A.	Madrid	Catering	99%	99%
Grupo Hotelero Monterrey, S.A. de C.V.	México D.F.	Hotel Business	100%	100%
Grupo Hotelero Queretaro, S.A. de C.V.	Queretaro	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%
All companies end the year on 31/12/2018				

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee	% of voting rights controlled by parent
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%
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.	México D.F.	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 Vlieghe B.V.	Hilversum	Hotel Business	100%	100%
Hotel Houdstermaatschappij Jolly, B.V.	Amsterdam	Holding company	100%	100%
Hotelera de la Parra, S.A. de C.V.	México D.F.	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.	Bruselas	Hotel Business	100%	100%
JH Deutschland, GmbH	Colonia	Hotel Business	100%	100%
JH Holland, N.V.	Amsterdam	Hotel Business	100%	100%
JH USA, Inc.	Wilginton	Hotel Business	100%	100%
Koningshof, B.V.	Veldhoven	Hotel Business	100%	100%
All companies end the year on 31/12/2018				

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee	% of voting rights controlled by parent
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 Gestion Hotelera, S.L.	Madrid	Holding company	100%	100%
Leeuwenhorst Congres Center, B.V.	Noordwijkerhout	Hotel Business	100%	100%
Liberation Exploitatie, B.V.	Sprang Capelle	Hotel Business	100%	100%
Marquette Beheer, B.V.	Hilversum	Real Estate	100%	100%
Museum Quarter, B.V.	Hilversum	Hotel Business	100%	100%
Nacional Hispana de Hoteles, S.A.	México D.F.	Hotel Business	100%	100%
Aguamarina S.A.	Rep. Dominicana	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	Berlín	Hotel Business	100%	100%
NH Central Europe, GmbH & Co. KG	Berlín	Hotel Business	100%	100%
NH Central Reservation Office, S.A.	Madrid	Call Center	100%	100%
NH Finance, S.A.	Luxemburgo	Financial company	100%	100%
NH Financing Services S.a r.l.	Luxemburgo	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	Berlín	Hotel Business	100%	100%
NH Hotelbetriebs-u. Entwicklungs, GmbH	Berlín	Hotel Business	100%	100%
NH Hoteles Austria, GmbH	Viena	Hotel Business	100%	100%
NH Hoteles Deutschland, GmbH	Berlín	Hotel Business	100%	100%
NH Hoteles España, S.A.	Barcelona	Hotel Business	100%	100%
NH Hoteles France S.A.S.U.	Francia	Hotel Business	100%	100%
NH Hoteles Switzerland GmbH	Fribourg	Hotel Business	100%	100%
NH Hotels Czequia, s.r.o.	Praga	Hotel Business	100%	100%
NH Hotels Polska, Sp. Zo.o.	Polonia	Hotel Business	100%	100%
NH Hotels USA, Inc.	Houston	Hotel Business	100%	100%
NH Hungary Hotel Management, Ltd.	Budapest	Hotel Business	100%	100%
All companies end the year on 31/12/2018				

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee	% of voting rights controlled by parent
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.	Luxemburgo	Hotel Business	100%	100%
NH Hotel Rallye Portugal, Lda.	Portugal	Hotel Business	100%	100%
NH The Netherlands, B.V. (vh GTI, B.V.)	Hilversum	Holding company	100%	100%
Nhow Rotterdam, B.V.	Den Haag	Hotel Business	100%	100%
Hotel Exploitatiemaatschappij Diegem N.V.	Diegem	Hotel Business	100%	100%
Hotel Exploitatiemaatschappij Eindhoven B.V.	Hilversum	Hotel Business	100%	100%
Nuevos Espacios Hoteleros, S.A.	Madrid	Hotel Business	100%	100%
Objekt Leipzig Messe, GmbH & Co.	Munich	Real Estate	94%	100%
Olofskapel Monumenten, B.V.	Amsterdam	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Atlanta Rotterdam, B.V.	Rotterdam	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Bogardeind Geldrop, B.V.	Geldrop	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Capelle aan den IJssel, B.V.	Capelle a/d IJssel	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Danny Kaye laan 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.	México D.F.	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 Vlieggen, 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.	México D.F.	Hotel Business	100%	100%
Servicios Corporativos Krystal Zona Rosa, S.A. de C.V.	México D.F.	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.	México D.F.	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%
NH Wilhelminakade Holding B.V.	Northern Europe	Hotel Business	100%	100%
Coperama Spain, S.L.	Madrid	Procurement network	100%	100%
All companies end the year on 31/12/2018				

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee	% of voting rights controlled by parent
Hoteles Royal, S.A.	Bogota	Holding company	97%	100%
Eurotels Chile S.A.	Chile	Holding company	97%	100%
Hotel Andino Royal S.A.S.	Bogota	Hotel Business	97%	100%
Hotel Hacienda Royal Ltda	Bogota	Hotel Business	97%	100%
Hotel La Boheme Ltda	Bogota	Hotel Business	97%	100%
Hotel Medellin Royal Ltda	Medellin	Hotel Business	97%	100%
Hotel Pacifico Royal Ltda	Cali	Hotel Business	97%	100%
Hotel Parque Royal S.A.S.	Bogota	Hotel Business	97%	100%
Hotel Pavillon Royal Ltda.	Bogota	Hotel Business	97%	100%
Hotelera Norte Sur S.A	Chile	Real Estate	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%
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.	Ciudad de Panamá	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	Bucarest	Hotel Business	100%	100%

All companies end the year on 31/12/2018

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee	% of voting rights controlled by parent
NH Brasil ABrasil Administração De Hoteis E Participadas Ltda.	Villa Olímpica	Hotel Business	100%	100%
Capredo Investments, GmbH	Suiza	Holding company	100%	100%
Palacio de la Merced, S.A.	Burgos	Hotel Business	88%	100%
Latinoamericana Curitiba Administracao De Hoteis Ltda	Curitiba	Hotel Business	100%	100%
Coperama Italia S.R.L.	Milano	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	Bogotá	Procurement network	100%	100%
Coperama Mexico S.A. de C.V.	México D.F.	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 31/12/2018				

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%
Consortio Grupo Hotelero T2, S.A. de C.V.	Mexico City	Hotel Business	10%	10%
Inmobiliaria 3 Poniente, S.A. de C.V.	Puebla	Hotel Business	27%	27%
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%
Beijing NH Grand China Hotel Management Co, Ltd.	Beijing	Hotel Business	49%	49%
All companies end the year on 31/12/2018				

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 350 hotels and 54,374 rooms in 28 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 support on distribution channels, reservations call centre, marketing strategy and systems development.

In 2018, world economic activity grew at a pace of +3.7% (Data and estimates provided by the E.C. "European Economic Forecast Autumn 2018" November 2018), greater than the previous year (+3.5%). More specifically in the Eurozone, the provisional growth rate for 2018 was 2.1%, slightly lower than 2017 (+2.2%). Global growth has maintained a positive cycle of trade and investment. In addition, European economies continue to grow, although some signs of a slowdown are beginning to appear, with more moderate growth rates. In line with the above data, when comparing the growth rates of the four countries that bring together the largest proportion of sales and results of the Group, it is observed that in the Netherlands (+2.8% in 2018 vs. +3.2% in 2017), and Spain (+2.6% in 2018 vs. +3.1% in 2017), Germany (+1.7% in 2018 vs. +2.2% in 2017), and Italy (+1.1% in 2018 vs. +1.5% in 2017) lower growth rates than the previous year were recorded. On the other hand, growth in emerging countries is expected to remain stable, albeit with greater divergences between countries. In Latin America, growth is expected to be +1.0% in 2018 (vs. +1.2% in 2017), affected by worse financing conditions with Argentina suffering currency depreciation and having declared hyperinflationary economy and Mexico with a grow slightly lower than expected.

According to the World Tourism Organization ("UNWTO") in 2018, international tourist arrivals globally reached 1,400 million, representing an increase of +6% over the previous year, clearly above the growth of 3.7% of the world economy, thus consolidating the strong results of 2017 and proving to be the second strongest year since 2010. More specifically, international tourist arrivals in Europe reached 713 million in 2018, a remarkable increase of 6% compared with an exceptionally strong 2017. Tourist growth was driven by Southern and Mediterranean Europe (+7%), Central and Eastern Europe (+6%) and Western Europe (+6%). In this European context, Spain has established itself as the tourist power in the world, along with France and the United States, and managed to break its record with 82.6 million foreign tourists, an increase of 1% in the number of international arrivals. For their part, the Americas (+3%) received 217 million international arrivals in 2018, with mixed results in all destinations. Growth was led by North America (+4%), followed by South America (+3%).

In this context, in 2018, the Group, as a result of the favourable evolution of hotel activity throughout the year, surpassed the targets set thanks to greater positioning in the top brand segment, an improved customer experience, an increase in operating and commercial efficiency, a strategy of asset rotation and a reduction in debt.

During 2018, 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 Group's RevPar in main destinations was superior to its direct competitors.

In 2018 new selective repositioning opportunities were identified to be executed in the period 2018-2020, with only a part of them having been invested in 2018. In this new phase there will also be contributions from the owners of hotels under a rental regime.

At the beginning of 2018, an agreement was entered into 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 transaction involves the sale of the building for a gross price of 155.5 million euros (584.5 thousand

euros/room), which brought an accounting gain net of taxes of more than 55 million euros in 2018 and a net cash flow of 122 million euros. The sustainable 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.

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 and nhow 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 score of the customers. In this ongoing improvement of the customer experience, worthy of note in 2018 was the launch of FASTPASS, a combination of three innovative services (Check-in Online, Choose Your Room and Check-out Online), which gives the customer full control over their stay. In this respect, NH Hotel Group has become the first European chain to offer these three services simultaneously.

In its use of quality indicators, NH Hotel Group focuses on measuring quality using new sources of information and surveys with a significant increase in the volume of reviews and number of assessments received. Its average score on TripAdvisor in 2018 was 8.4, the same level as in December 2017. Additionally, its average Google Reviews score was 8.5, compared with 8.3 in December 2017. These average scores show the high level of quality perceived by customers.

Also, the NH Rewards loyalty programme, exceeded 8.6 million members (8.4 million members in 2017), of whom 13% joined in 2018 and 18% of the total are active.

Meanwhile, in 2018, the Group began operating 10 hotels in Havana, Marseilles, Brussels, Monterrey, Venice, Madrid, Graz, Essen and Toulouse with a total of 1,604 rooms, with a total 350 hotels operating with 54,374 rooms at 31 December 2018.

In addition, the Group signed-up 5 hotels with 580 bedrooms in 2018. All firms have been under rental and management formulas, under the NH and NH Collection brands and in major cities (Havana, Hanover, Hamburg, Porto and Guadalajara).

In relation to the Master Agreement for Global Hotel Transaction and Management entered into by NH with Grupo Inversor Hesperia, S.A. ("GIHSA") relating to the management of NH of 28 GIHSA hotels, in September, GIHSA sent NH the "*Notification of Termination through Takeover*" on the occasion of the takeover bid made by MHG Continental Holding (Singapore) Pte. Ltd., a company wholly owned by Minor International Public Company Limited, for the shares representing 100% of the capital of NH. Thus, following the result of the takeover bid in October, in which Minor International obtained the "*Effective Takeover*" by reaching a 94.13% stake in NH, on 30 November 2018, the effective termination of all management contracts between GIHSA and NH was formalised, with GIHSA having paid NH all amounts due, including the "*Net Price Refund Amount*".

Revenues in 2018 totalled 1,613.4 million euros, an increase of +4.4% (+67.8 million euros) with respect to 2017. The Profit for the year attributable to the Parent was 117.8 million euros compared with 35 million euros in 2017.

Noteworthy is the application of accounting standards NIC 29 after the declaration of Argentina as a hyperinflationary economy, affecting to the accounting result of the Company (see Note 2.2)

In this year gross borrowing decreased from 716.9 million euros in December 2017 to 418.9 million euros in December 2018. At 31 December 2018, cash and cash equivalents amounted to 265.9 million euros (80.2 million euros at 31 December 2017). Additionally, this liquidity was complemented by credit lines at the end of the year amounting to 350.4 million euros, of which 250 million euros corresponded to a long-term syndicated credit line, compared to 316.3 million euros at 31 December 2017.

As indicated in Note 15, the reduction in gross debt in the period is mainly explained by the early conversion of the 250-million-euro convertible bond in June 2018 and the voluntary partial repayment of the 40-million-euro Bonds maturing in 2023.

The Bond conversion took place through the delivery to the bond-holders who requested the early conversion (248.3 million euros of the total face value of 250 million euros) of 8.6 million treasury shares and 41.9 million new issue shares. Meanwhile, bond-holders who did not request conversion received 1.7 million euros face value plus the corresponding accrued interest.

As a consequence of the change of control in the Company's shareholder structure, in September 2018 the creditors of the Syndicated Credit Facility unanimously waived the amount of 250 million euros, maintaining its maturity until 2021. In addition, and in line with the change of control, the Company offered the Bondholders the repurchase of 101% of the 2023 Bond for an amount of 400 million euros. The amount requested reached only 3.2 million euros of the total nominal amount.

In December 2018, the Company also announced the partial voluntary early redemption, for a nominal amount of 40 million euros (representing 10% of its total nominal amount), of its issue of senior secured bonds maturing in 2023. The redemption was carried out through the payment of approximately 103.76% of the nominal value of the Bonds subject to redemption with a charge to the Company's available cash.

The Company's operating improvement has recently been reflected in the improvement of the corporate credit outlooks assigned by the main rating agencies. Fitch upgraded the corporate rating to 'B+' from 'B' while maintaining the positive outlook for improved operating performance and leverage metrics. In May Moody's improved their rating from 'B2' to 'B1', reflecting excellent results, a significant improvement in indebtedness, and greater liquidity. At last, February 12th, S&P revised the outlook from positive to stable.

For its part, the Average Period of Payment to Suppliers (MTP) amounted to 61 days in 2018 (54 days in 2017), with a total amount of payments made of 289.7 million euros (293.0 million euros in 2017). As regards pending payments, they have been reduced from 31.3 million euros in December 2017 to 7.9 million euros in December 2018.

At the General Shareholders' Meeting in June 2018, shareholders approved the payment of an interim dividend from 2017 results amounting to 40 million euros, representing ten cents gross per outstanding share. For 2018, it foresees a dividend proposal of fifteen cents per share in 2019.

Given the Company's service sector component, it should be noted that there are no relevant research and development activities.

With regard to the new shareholding situation, between May and September 2018, MINT acquired the shares of the shareholders HNA and Oceanwood. As a result of these transactions, as of 30 September 2018, MINT held 179,772,214 shares in NH Hotel Group, S.A., representing 45.84% of its share capital.

In addition, on 11 June 2018, MINT made a prior announcement of a public offering to acquire 100% of the shares of NH Hotel Group, S.A. at a purchase price of 6.30 euros per share (post dividend 2017). This application was officially submitted on 10 July 2018 by means of a significant event to the CNMV, an application which was admitted for consideration by the CNMV on 19 July 2018.

MINT obtained the corresponding authorisations in competition matters (Spain's National Authority for Markets and Competition, the CNMC, and Autoridade da Concorrência) in mid-July 2018, as well as the approval by its General Shareholders' Meeting on 9 August, confirming that, from then on, the public offering was not subject to any additional conditions.

Following the submission of the prospectus to the CNMV on 25 September 2018, the public offering was authorised by the CNMV on 2 October 2018. In addition, once the period for acceptance of the tender offer expired on 26 October 2018, the CNMV announced that the tender offer had been accepted for 88.85% of the target shares, representing 47.76% of the shares in NH Hotel Group, S.A.

As a result of the settlement of the public offering on 31 October 2018, MINT currently owns 369,165,609 shares in NH Hotel Group, S.A. representing 94.13% of its share capital.

Since then, both companies have begun to explore joint value creation opportunities for the coming years.

Minor Hotels and NH Hotel Group will integrate their trademarks under a single corporate umbrella present in more than 50 countries around the world. In this way, a portfolio of more than 500 hotels under eight brands is organised: NH Hotels, NH Collection, nhow, Tivoli, Anantara, Avani, Elewana and Oaks, which completes a wide and diverse spectrum of hotel proposals connected to the needs and desires of global travellers.

Both groups currently share their knowledge base and experience in the sector in order to materialise short-term opportunities, taking advantage of the complementarity of their hotel portfolios, the implementation of economies of scale with a broader customer base and exploring development pathways for all their brands in different geographical areas. On February 7th 2019 a Master Agreement was signed with the aim to establish a transparent framework of relations between the Company and Minor.

Analysis of IFRS 16 first application

IFRS 16 establishes the principles for the recognition, measurement, presentation and disaggregation of leases and requires lessees to account for all leases under a balance sheet recognition model similar to the accounting for finance leases. Low-value asset leases and short-term leases (periods of less than 12 months) are excluded. IFRS 16 came into force on 1 January 2019 and the Group decided not to apply it early.

The standard provides that at the inception of the lease, the lessee must record a liability equal to the present value of the fixed lease payments. An asset that represents the right to use the underlying asset during the lease term (the right of use) is recognised. Lessees are required to record separately the interest expense of the lease liability from the amortisation expense of the right of use.

Transition to IFRS 16

The Group decided to apply the modified retrospective method as the transition method to IFRS 16, calculating the asset at the commencement date of each identified contract and the liability at the transition date, using for the calculation of both the incremental interest rate at the transition date and recognising the difference between the two items as an adjustment to the opening balance of the consolidated reserves.

In order to determine the term of the lease contracts, the Group has taken as non-cancellable the initial term of each contract, taking the possible unilateral extensions at the option of the Group only in those cases in which it has been reasonably considered certain that they will be exercised, and only the cancellation options whose exercise has been reasonably considered certain have been taken into account.

The impact of IFRS 16 on the Group's consolidated financial statements is significant, due to the weight of the Group's rented rooms, close to 62%, as well as the duration of these contracts.

The estimated impact at 1 January 2019 will result in an increase in assets for usage rights of approximately 1.7 billion euros, an increase in liabilities for operating leases of approximately 2.1 billion euros and a decrease in reserves of 0.4 billion euros.

The Group estimates that the net profit before tax will decrease by approximately 5 million euros, taking into account the portfolio at the transition date, without considering additions, deletions or amendments to contracts that might occur after that date.

It should be noted that the higher operational lease liability impacts indicated above is in line with average of the calculations published by the rating agencies.

ETHICS

Compliance System

Since 2014, NH Hotel Group has deployed a Compliance unit whose scope includes the following key areas:

- Code of Conduct.
- Criminal Risk Prevention Plan.

- Internal Rules of Conduct.
- Procedure for Conflicts of Interest.

Code of conduct

In line with its ethical commitment and the best practices of corporate governance, NH Hotel Group has carried out communication, awareness and training campaigns on Compliance since the last update to the Code of Conduct in 2015. The Group's Board of Directors is responsible for approving the Code of Conduct.

This document affects everybody working at NH Hotel Group, applicable to employees, managers and members of the Board of Directors, and also in certain cases to other stakeholders such as customers, suppliers, competitors and shareholders, and to the communities where NH operates its hotels.

The Code of Conduct summarises the professional behaviour expected of NH Hotel Group employees, who commit to acting with integrity, honesty, respect and professionalism in the performance of their work.

The NH Group is committed to compliance with the laws and regulations of the countries and jurisdictions where it operates. This includes, amongst other things, laws and regulations on health and safety, discrimination, taxation, data privacy, competition, prevention of corruption and money laundering, and commitment to the environment.

The Code of Conduct is published in six languages on the official website of the NH Hotel Group, available to all stakeholders. Also, since 2017, NH employees can use the "My NH" app to access the code of conduct from their mobile devices. The staff at centres operating under NH Hotel Group brands also have a handbook and an FAQs document.

Compliance Committee

In 2014 the NH Hotel Group created a Compliance Committee consisting of certain members of the Management Committee and senior directors. This body is empowered to supervise compliance with the Group's Internal Rules of Conduct, Procedure for Conflicts of Interest, Code of Conduct and Criminal Risk Prevention Plan.

The Compliance Committee supervises the management of the Compliance Office, provides detailed reports of activities to the Board's Audit and Control Committee, and is empowered to impose disciplinary measures on employees in matters within its scope.

In the course of 2018, there were six meetings of the Compliance Committee.

Compliance Office

The Compliance Office, led by the Group's head of Compliance, is responsible for disseminating and supervising compliance with the Code of Conduct and for drafting the Criminal Risk Prevention Plan. The Compliance Office reports directly to the Compliance Committee. On the other hand, the head of Internal Audit manages the Confidential Channel for Complaints and Queries relating to the Code of Conduct.

The procedure for managing complaints received via the complaints channel are specified in detail in the Code of Conduct. This procedure guarantees confidentiality and respect in every phase, and protects against retaliation.

Over the course of 2018, there were 81 reports of alleged breaches of the Code of Conduct, all of which were investigated, with appropriate disciplinary measures being taken in 60 cases.

Meanwhile, in 2018 the Criminal Risk Prevention Matrix in Spain was rationalised to provide a more efficient model for the company. Over the year, the Compliance Office deployed the Criminal Risk Prevention Plan in the seven most important countries where the Group operates.

Drafting the anti-corruption and anti-fraud policy

On 31 January 2018, NH's Board of Directors approved the Anti-Corruption Policy, in its commitment to detect and prevent the commission of corruption offences in business within the company. In order to reduce exposure to regulatory risks of a criminal nature, specifically to the risk of crimes related to corruption, bribery and fraud, in December 2018, the Compliance Committee approved an update of the Anti-Corruption and Fraud Policy, which will be submitted to the Board for approval during the first quarter of 2019.

The general principles of the Anti-Corruption and Fraud Policy are:

- Zero tolerance of bribery and corruption in the private and public sectors
- Behaviour must be appropriate and legal
- Transparency, integrity and accuracy in financial information
- Regular internal control
- Local legislation shall take precedence if stricter

Drawing up of the anti-money laundering policy

NH's Code of Conduct reflects a commitment to respect the applicable regulations on anti-money laundering policy, with special attention to diligence and care in the processes of evaluating and selecting suppliers, and in payments and collections in cash. Therefore, the Compliance Committee meeting of 19 December 2018 approved a policy that reinforces NH Hotel Group's commitment to anti-money laundering and combating the financing of terrorism, with the aim of detecting and preventing NH Hotel Group, S.A. and its group companies from being used in money laundering or terrorist financing operations. This policy will be submitted for approval to the Board of Directors of NH Hotel Group, S.A. during the first quarter of 2019; once approved, it will be disclosed to all employees and will be accompanied by specific supplementary training.

The Non-Financial Information Statement, issued by the Board of Directors on 25 February 2019, contains all the non-financial information required by Law 11/2018 of 28 December 2018. This report is available on the NH Hotel Group corporate website (<https://www.nh-hoteles.es/corporate/es>) in the annual reports included under financial information in the shareholders and investors section, with more detail on the subject.

RISK MANAGEMENT MODEL

The NH Hotel Group's Risk Management reflects the company's operations and culture, and impacts the implementation of its management actions, including risk identification, approval and management. The Board of Directors is responsible for defining the Risk Control and Management Policy of the NH Hotel Group, and regularly supervises the Risk Control and Management System through the Board's Audit and Control Committee.

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 To this end, each risk assessor within the Company can propose new risks within the SAP GRC tool for subsequent assessment.

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 2018 Risk Map was validated by the Audit and Control Committee at its meeting held on 18 December 2018 and was approved by the Board of Directors on February 7th 2019.

For the first time, the exercise was performed using the SAP GRC tool, which significantly reduced the time spent planning and evaluating risks and controls, in addition to becoming a single point of information at the Company, at global level, in relation to Risk Management.

In addition, each of the main risks on the Company's Risk Map is assigned to a Risk Owner, who in turn is a member of the Management Committee. Each risk manager reports periodically to the Audit and Control Committee (according to an established schedule) to present the existing or ongoing mitigation measures for its risks, the state of implementation of action plans and the measurement of key indicators. Over the course of 2018, risk managers turned to the Audit and Control Committee to present their corresponding risks.

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, 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.
- f) Strategic Risks, produced by difficulty accessing markets and difficulties in asset disinvestment.

Finally, the Company has an Executive Risk Committee 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.

New data protection plan

Due to the mandatory application of the General Data Protection Regulation (GDPR) in the European Union from May 2018, NH Hotel Group has launched a plan to guarantee compliance with the regulation, included in and aligned with the Transformation Plan.

This new plan includes general privacy measures by default, so that all the company's activities, applications, processes, and projects will take privacy matters into account. The plan includes key initiatives such as the effective management of personal data infringements, the data subject's consent to the gathering and use of their data, and a policy for the destruction of physical or virtual data. The plan also provides for the creation of a Data Protection Officer within the NH Hotel Group.

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CORNERSTONES AND COMMITMENTS OF THE CSR PLAN

In 2018, with the aim of leading responsible behaviour in the sector, NH Hotel Group continued with the implementation of its 2017-2019 Strategic Corporate Social Responsibility Plan, establishing the main objectives and initiatives for the different responsibility commitments defined by the Company for this year.

The Company's CSR Plan has a clear purpose with the generation of a positive economic, social and environmental impact wherever it is present. The innovative "Room 4" concept represents these goals, linked to the business of the NH Hotel Group and its key stakeholders. This cross-department three-year plan was approved by the company's main governing bodies and has the commitment of all areas of the Group. As the starting point for the creation of the Plan, on the one hand a materiality analysis was performed to determine the key aspects for the NH Hotel Group according to its strategy and stakeholders, and on the other, the company's Corporate Social Responsibility policy. It was also linked to the United Nations' Sustainable Development Goals (SDGs).

The Plan, which is deployed alongside the Group's global strategy, includes its main commitments on responsibility and the development of lines of action in the priority areas for the company: commercial, employee commitment, investment, brand purpose, corporate governance, and supplier assessment.

It also specifies the annual progress report on the Plan, both for the Group as a whole and by business unit, to the Board of Directors and Management Committee.

The Corporate Social Responsibility Plan is based on three core areas for action: People, Planet, and Responsible Business.

More specifically, in its responsible commitment to the Planet, NH Hotel Group works to minimise its impact on climate change, increase the efficiency of resources and develop more sustainable products. All this minimises its environmental footprint, with responsible consumption of natural resources.

The Non-Financial Information Statement, issued by the Board of Directors on 25 February 2019, contains all the non-financial information required by Law 11/2018 of 28 December 2018. This report is available on the NH Hotel Group corporate website (<https://www.nh-hoteles.es/corporate/es>) in the annual reports included under financial information in the shareholders and investors section, with more detail on the subject.

Human Resources strategy

The average number of people employed by the Parent Company and consolidated companies in 2018 is 10,956 employees.

The corporate culture of the NH Hotel is also based on the cornerstones of diversity and equality. At 31 December 2018, women made up 50.9% of the total workforce.

Also, the average age of employees at 31 December 2018 is 38.8 years old, and their average time with the company is 9 years.

Over this year, as part of the company's 2017-2019 Strategic Plan, the Human Resources strategy has continued, based on three main commitments:

- **Global leadership and talent management:** Ensuring the company's future by involving the best employees, and identifying and developing the most talented people in the NH Hotel Group, using competitive tools and mechanisms to ensure their retention and commitment.
- **Maximum performance and better workplaces:** Becoming a company recognised as a Best Place to Work, based on the high level of commitment amongst employees, active contribution to this goal, rigour in differentiating and recognising high performance, and increasing its recognition as an attractive employer.
- **Transformation and reinvention:** Searching for, assessing and leveraging opportunities to be more efficient (outsourcing, digitisation, etc.), evolving working environment and acquiring advanced analytical and predictive skills.

All the above must be based on and solidly backed by Operational Excellence in Human Resources and Internal Communication, with clear policies and processes, meeting commitments proactively, continuing to support, develop and implement the operational model of the NH Hotel Group, and controlling payroll costs and related budget items.

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 the responsible commitment to the Planet, NH Group works to minimise the impact on Climate Change, increase the efficiency of resources and develop more sustainable products. All this minimises the environmental footprint with responsible consumption of natural resources.

In 2018, the implementation of the sustainability initiative continued. This initiative gives continuity to the environmental achievements of recent years. Thus, compared to 2007, per Average Daily Room energy consumption has been reduced by 31%, water consumption by 27% and our carbon footprint by 67%. NH Hotel Group is committed to renewable energy, which reduces its carbon footprint. This consumption of green energy, certified as renewable, is available in 79% of our hotels in Spain, Italy, Germany, the Netherlands, Belgium and Luxembourg, covering 90% of the total electricity consumed in Europe.

NH Hotel Group holds certificates ISO 14.001 for environmental management and ISO 50.001 for energy efficiency in accommodation, catering, meetings and events. As well as the overall certificates held by the company, 137 of its hotels hold certificates including BREEAM, LEED, Green Key, Hoteles+Verdes, ISO 14.001 and ISO 50.001, all recognised by the GSTC (Global Sustainable Tourism Council).

NH Hotel Group has reported its climate change commitment and strategy to the Carbon Disclosure Project (CDP) since 2010. In 2018, the Company obtained an A- rating on the Climate Index, placing NH Hotel Group among the leading companies in the adoption of measures to effectively reduce emissions, which is indicative of advanced environmental management. This result positions the company above the average for its sector and region.

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.

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SHARES AND SHAREHOLDERS

NH Hotel Group, S.A. share capital at the end of 2018 comprised 392,180,243 fully subscribed and paid up bearer shares with a par value of €2 each. All these shares carry identical voting and economic rights and are traded on the Continuous Market of the Spanish Stock Exchanges.

According to the latest notifications received by the Company and the notices given to the National Securities Market Commission before the end of every financial year, the most significant shareholdings at 31 December 2018 and 2017 were as follows:

	2018	2017
Minor International Public Company Limited ("MINT")	94.13%	
HNA CO LTD		29.35%
Oceanwood Capital Management LLP		12.06%
Hesperia Group		9.27%

Changes in the shareholder structure:

Between the months of May and September 2018, various purchase and sale contracts were entered into by Minor International Public Company Limited ("MINT"), as Buyer, and the HNA Group and with funds managed by Oceanwood, all of which as Sellers. As a result of these transactions, MINT acquired all the Sellers' interests in NH Hotel Group, S.A. In addition to these transactions, MINT acquired several non-significant shareholdings, as a result of which on 30 September 2018 MINT owned 179,772,214 shares in NH Hotel Group, S.A., representing 45.84% of its share capital.

On 11 June 2018, MHG International Holding (Singapore) Pte (a company wholly owned by MINT) launched a takeover bid ("OPA") for 100% of the shares of NH Hotel Group, S.A., which, once the acceptance period was approved and opened, was accepted, among others, by the Hesperia Group.

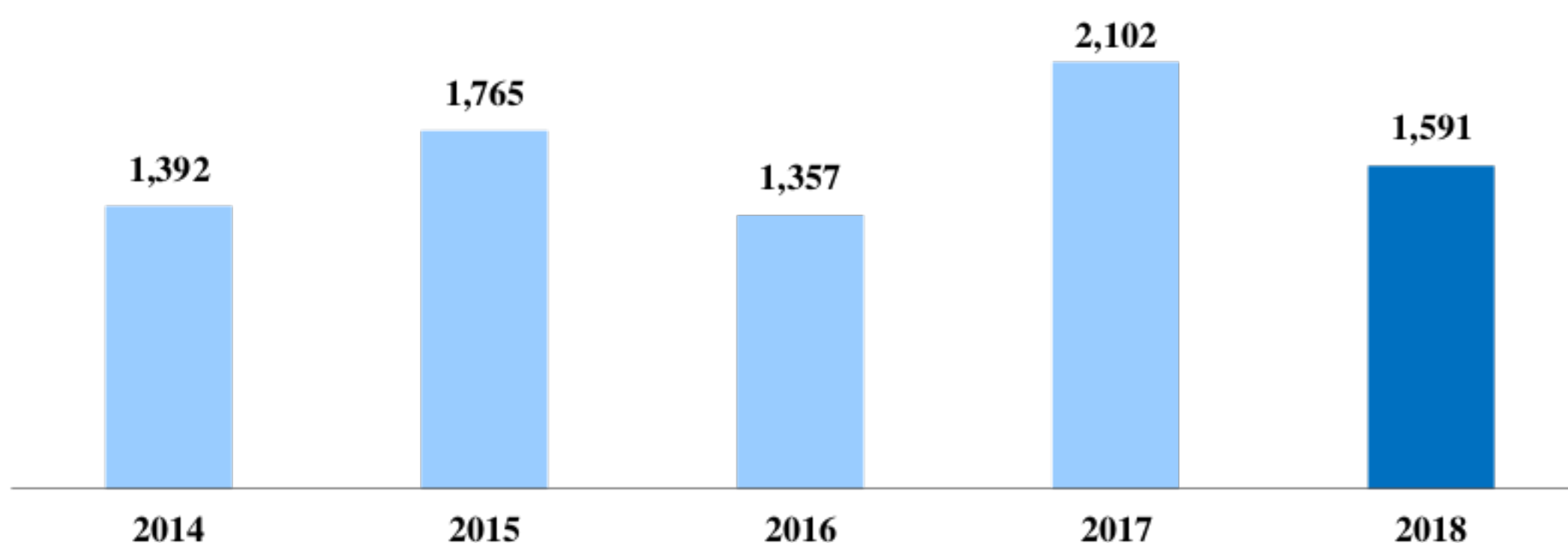
As a consequence of the takeover bid, the result of which was notified by the CNMV through a significant event on 26 October 2018, and of the purchase and sale transactions described above, (i) the funds managed by Oceanwood, the HNA Group and the Hesperia Group lost their status as significant shareholders of NH Hotel Group, S.A.; and (ii) MINT acquired, through its wholly-owned subsidiary MHG Continental Holding (Singapore) Pte. Ltd., shares representing 94.13% of the share capital of NH Hotel Group, S.A.

The average share price of NH Hotel Group, S.A. in 2018 was 6.18 euros per share (5.05 euros in 2017). The lowest share price of 3.82 euros per share (3.84 euros in December 2017) was recorded in July and the highest share price of 6.82 euros per share in December (6.26 euros in March 2017). The market capitalisation of the Group at the close of 2018 stood at 1.59068 billion euros (2.10163 billion euros at the close of 2017).

At 31 December 2018, the Group had 600,000 own shares, 9,416,368 own shares at 31 December 2017. The reduction in treasury shares over the period can be explained by the following movements:

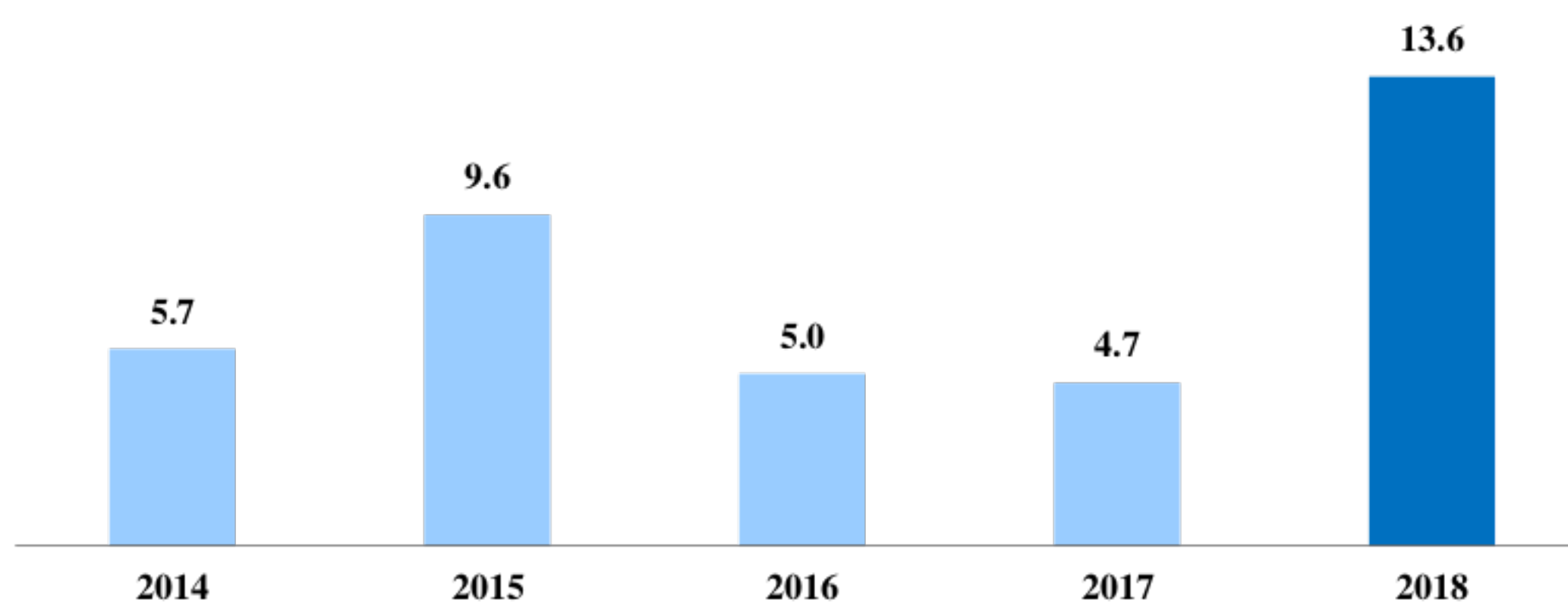
- Due to the early conversion of convertible bonds in June 2018, the loan of 9,000,000 shares associated with the issue was permanently cancelled, and the 1,384,473 shares held by one of the entities participating in the loan of securities were returned.
- In 2018, NH employees were given 247,106 shares as part of the 2015-2017 Incentive Plan, with a total of 430,738 gifted shares.
- In June 2018 the Group delivered 8,569,262 own shares to bond-holders for the early conversion of convertible bonds worth 250 million euros.

CAPITALISATION at the end of each year (in millions of euros)

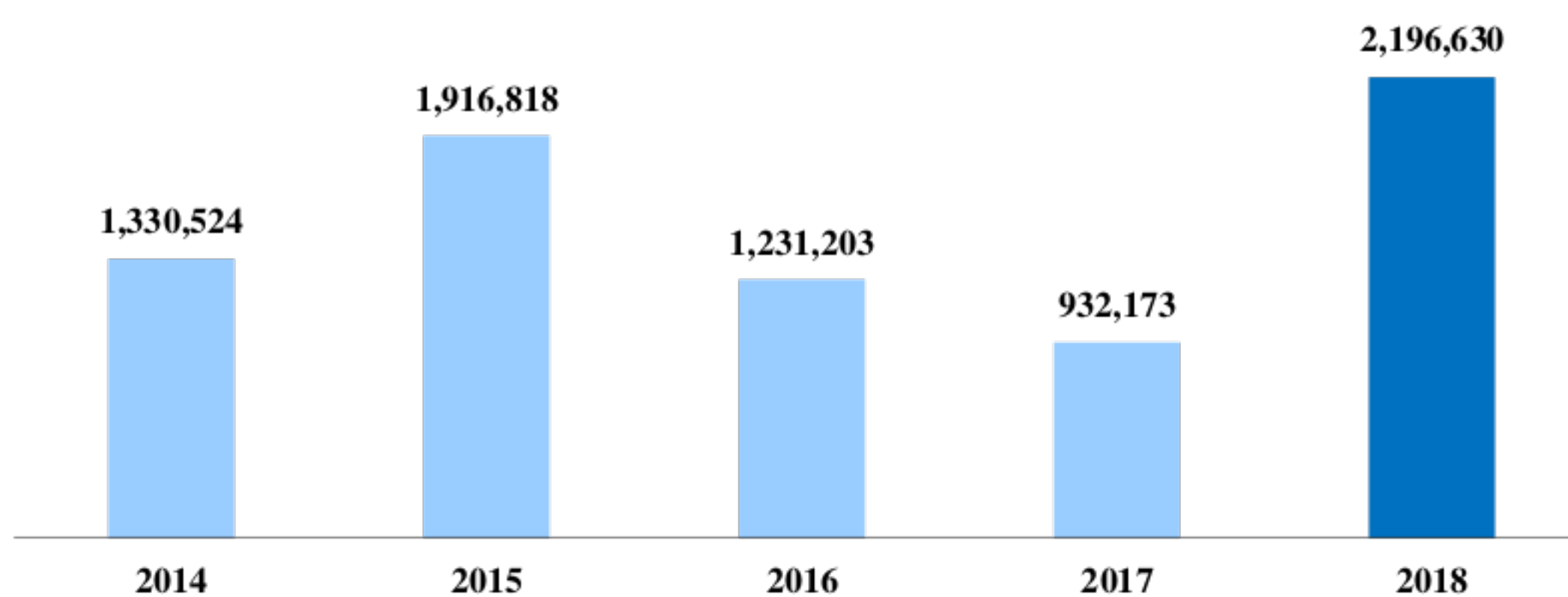


A total of 560,140,781 shares in NH Hotel Group, S.A. were traded on the Continuous Market over the course of 2018 (237,704,360 shares in 2017), which accounted for 1.43 times (0.68 times in 2017) the total number of shares into which the Company's share capital is divided. Average daily share trading on the Continuous Market amounted to 2,196,630 securities (932,173 in 2017).

AVERAGE DAILY TRADING (million euros) 2014-2018



AVERAGE DAILY TRADING (in shares) 2014-2018



**EVOLUTION NH HOTEL GROUP vs. IBEX 35
1 JANUARY 2014 - 31 DECEMBER 2018**



FUTURE OUTLOOK

Forecasts indicate that this strong momentum will continue in 2019, although at a more sustainable pace after nine years of constant expansion after the economic and financial crisis of 2009. Based on current trends, the economic outlook and the UNWTO tourism confidence index, international arrivals are expected to grow by between 3% and 4% in 2019, more in line with historical growth trends.

On the other hand, GDP growth in Europe is expected to be +1.9% in 2019 (Data and estimates provided by the E.C. “European Economic Forecast – Autumn 2018” November 2018).

It is noteworthy the volatility that Latin-American currencies may have during 2019 that may have an impact on the economic growth of such region and in the consolidated results of the group.

In this economic environment, the Group expects to benefit from the increase in sales associated with GDP growth expectations in 2019, 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 February 7, 2019 NH Hotel Group has subscribed with Minor IPC i) a Framework Agreement that aims to establish a transparent framework of relations between the Company and Minor and its group companies, which, among others, includes criteria for the allocation of expenses between both Companies, all in compliance with the Recommendation Two of the Code of Good Governance of Listed Companies and ii) a reciprocal agreement of trademark license, by which both parties are licensed the use of their respective trademarks in the geographical areas where the other party operates. The subscription of the mentioned agreements was duly approved by the Board of Directors, after a favorable report from the Audit and Control Committee and communicated by Relevant Event on February 7, 2019.

On January 15, 2019, the sale of its 49% stake in the company Beijing NH Grand China Hotel Management CO, Ltd. was executed, this sale was a cash inflow of 1.9 million euros.

IDENTIFICATION DETAILS OF THE ISSUER

End date of 12-month period of reference [31/12/2018]

CIF: [A28027944]

Company Name:

[**NH HOTEL GROUP, S.A.**]

Registered Office:

[SANTA ENGRACIA, 120 - 7ª PLANTA MADRID]

A. OWNERSHIP STRUCTURE

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

Date of last change	Share capital (€)	Number of Shares	Number of voting rights
09/05/2018	784,360,486.00	392,180,243	392,180,243

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

- YES
 No

A.2. Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors.

Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
MINOR INTERNATIONAL PUBLIC COMPANY LTD	0.00	94.13	0.00	0.00	94.13

Breakdown of the indirect holding:

Name of indirect shareholder	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
MINOR INTERNATIONAL PUBLIC COMPANY LTD	MHG CONTINENTAL HOLDING (SINGAPORE) PTE. LTD.	94.13	0.00	94.13

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

Most significant movements

Between May and September 2018, various purchase agreements signed by Minor International Public Company Limited ("Minor IPC") as Purchaser were executed with the HNA Group and with funds managed by Oceanwood, all of them as Sellers. As a result of said operations, Minor IPC acquired the full shareholding of the Sellers in NH. In addition to these operations, Minor IPC acquired various non-significant shareholding packages which meant that, on 30 September 2018, Minor IPC held 179,772,214 shares in NH Hotel Group, S.A., representing 45.84% of its share capital.

At the same time, on 11 June 2018, MHG International Holding (Singapore) Pte (a company wholly owned by Minor IPC) launched a takeover bid for 100% of the shares in NH Hotel Group, S.A., which, once approved and the acceptance period opened, it was accepted, amongst others, by Grupo Hesperia.

In the wake of the takeover bid, whose result was reported by the CNMV by means of a relevant fact on 26 October 2018, and of the aforementioned purchase operations, (i) the funds managed by Oceanwood, Grupo HNA and Grupo Hesperia lost the status of significant shareholders in NH Hotel Group, S.A.; and (ii) Minor IPC acquired, through its wholly-owned subsidiary MHG Continental Holding (Singapore) Pte. Ltd, shares representing 94.13% of the share capital in NH Hotel Group, S.A.

A.3. In the following tables, list the members of the Board of Directors (hereinafter "directors") with voting rights in the company:

Name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% of voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR ALFREDO FERNÁNDEZ AGRAS	0.04	0.00	0.00	0.00	0.04	0.04	0.00
MR RAMÓN ARAGONÉS MARÍN	0.00	0.00	0.00	0.00	0.00	0.04	0.00
MS MARIA GRECNA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR PAUL JOHNSON	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<p style="text-align: center;">% of total voting rights held by the Board of Directors</p>						0.04	

Breakdown of the indirect holding:

Name of director	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% of voting rights that can be transmitted through financial instruments
No data		N.A.	N.A.	N.A.	N.A.

A.4. If applicable, state any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are significant or arise in the ordinary course of business, except those that are reported in Section A.6:

Name of related Party	Nature of relationship	Brief description
No data		

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:

Name of related Party	Nature of relationship	Brief description
No data		

A.6. Describe the relationships, unless significant for the two parties, that exist between significant shareholders or shareholders represented on the Board and directors, or their representatives in the case of proprietary directors.

Explain, as the case may be, how the significant shareholders are represented. Explain, as the case may be, how the significant shareholders are appointed. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and post of directors, or their representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders.

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
MR STEPHEN ANDREW CHOJNACKI	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Minor IPC is the significant shareholder (94.132%) in NH and has proposed the aforesaid Director. Likewise, Mr Stephen Andrew Chojnacki is Chief Commercial Officer and General Counsel of Minor IPC. Finally, note that Mr Chojnacki is a Director of the Minor IPC group companies that are listed

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
			in section H of this Report and which, for technical reasons, have not been reproduced in section A.6.
MR WILLIAM ELLWOOD HEINECKE	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Minor IPC is the significant shareholder (94.132%) in NH and has proposed the aforesaid Director. Likewise, Mr William Ellwood Heinecke is Chairman and CEO of Minor IPC. Finally, note that Mr Heinecke holds the positions in the Minor IPC group companies broken down in section H of this Report and that have not been reproduced in section A.6.
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Minor IPC is the significant shareholder (94.132%) in NH and has proposed the aforesaid Director. Likewise, Emmanuel Jude Dillipraj Rajakarier is Chief Operation Officer of Minor IPC and CEO of Minor Hotels. Finally, note that Mr Dillipraj Rajakarier is a Director of the Minor IPC group companies listed in section H of this Report and that have not been reproduced in section A.6.

A.7. 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 so, describe these agreements and list the party shareholders:

[v] Yes
[] No

Parties to the shareholders' agreement	Percentage of affected shares	Brief description of the agreement	Date of termination of agreement, if applicable
<p>MINOR INTERNATIONAL PUBLIC COMPANY LTD, OCEANWOOD CAPITAL MANAGEMENT LLP</p>	<p>10.00</p>	<p>On 22 May 2018, Minor IPC and Oceanwood Capital Management Ltd signed a purchase agreement for the former to acquire the funds managed by Oceanwood. Said agreements included the reference to the fact that during a period of 12 months following the execution of the purchase agreement (Exclusivity Period), Minor IPC would have a preferential acquisition right over 10% of the share capital that Oceanwood could, in the future and during the Exclusivity Period, hold in NH. During this period Oceanwood undertakes not to negotiate, nor otherwise assist third parties, for the transfer of said share with third parties. Oceanwood also agrees to vote in favour of any decision that is necessary or appropriate to guarantee the success of the purchase agreement's execution, as well as in favour of the proposal to appoint the Purchaser's Directors.</p>	<p>11 June 2018</p>
<p>MINOR INTERNATIONAL PUBLIC COMPANY LTD, HNA GROUP CO LIMITED</p>	<p>26.47</p>	<p>On 5 June 2018, HNA (as seller) and through its subsidiary Tangla Spain, S.L.U. signed a purchase agreement with Minor IPC (as purchaser) for a total of 98,787,996 NH shares, representing 26.468% of its share capital. Said contract included the Seller's obligation to maintain the effective ownership of the shares subject to the sale until their transfer to the Buyer, as well as continuing to attend the General Meetings and vote in favour of all</p>	<p>21 August 2018</p>

Parties to the shareholders' agreement	Percentage of affected shares	Brief description of the agreement	Date of termination of agreement, if applicable
		decisions that were appropriate or necessary to guarantee the successful outcome of the purchase, as well as to vote in favour of any necessary resolution so that the administrators proposed by the Purchaser are appointed directors of NH.	

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

- YES
 No

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

On 5 June 2018, via a Relevant Fact, Minor IPC communicated the modification of the shareholders' agreement contained in the purchase agreement signed between Minor IPC and Oceanwood on 22 March 2018, under which Oceanwood grants Minor IPC an exclusive right to acquire another 14,000,000 shares. Oceanwood maintains and reiterates the commitments regarding these shares that have already been assumed by Oceanwood under the original shareholders' agreement.

On 11 June 2018, Minor IPC and Oceanwood, by virtue of the corresponding Relevant Fact, published that the agreements contained in the aforementioned purchase agreement formalised on 22 May 2018 and amended on 5 June 2018 were rendered null and void.

Likewise, on 21 August 2018, through a Relevant Fact, HNA communicated the execution of the purchase signed with Minor IPC and duly informed the CNMV through Relevant Facts on 5 and 15 June 2018, meaning that the aforementioned purchase is exhausted and, with that, the shareholders' agreement broken.

A.8. Indicate whether any individual person or legal entity exercises, or could exercise, control over the Company in accordance with Article 5 of the Stock Market Act. If so, give details here:

- Yes
 No

Name
MINOR INTERNATIONAL PUBLIC COMPANY LTD

A.9. 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
600,000		0.15

(*) Through:

Name or company name of the direct holder of the shareholding	Number of direct shares
No data	

Explain any significant changes during the year:

Explain the significant changes

At the end of the year, NH Hotel Group, S.A. had 600,000 treasury shares on its balance sheet, compared with 9,416,368 treasury shares at 31 December 2017. The reduction in treasury shares over the period can be explained by the following movements:

- In June 2018, the Group delivered 8,569,262 own shares to bond-holders for the early conversion of convertible bonds worth 250 million euros. These include 1,384,473 shares held by one of the entities participating in the loan of 9,000,000 shares associated with the issue, which has been definitively settled.
- In in first half of 2018, the second cycle of the long-term incentive plan was settled (see Note 23). This second cycle was settled by the delivery of 247,106 shares valued at 1,029 thousand euros.

A.10. 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 29 June 2017 authorised the Board of Directors of the Company to repurchase treasury stock under the terms indicated below:

- The acquisition can be made by any title accepted in Law, 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.
- 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.
- 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.

A.11. Estimated floating capital:

	%
Estimated floating capital	5.87

A.12. State whether there are any restrictions (article of associations, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

YES
 No

A.13. State whether the General Shareholders' Meeting has agreed to adopt neutralisation measures against take-over bids, pursuant to Law 6/2007.

YES
 No

If so, please explain the measures approved and the terms under which such limitations would cease to apply.

A.14. State if the company has issued shares that are not traded on a regulated EU market.

YES
 No

If so, please list each type of share and the rights and obligations conferred on each.

B. GENERAL SHAREHOLDERS' MEETING

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

YES
 No

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

YES
 No

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

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

B.4. Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous year:

Date of general meeting	Attendance data				
	% physically present	% present by proxy	% distance voting		Total
			Electronic voting	Others	
21/06/2016	0.09	82.10	0.00	3.60	85.79
Of which, free float:	0.09	32.57	0.00	3.60	36.26
29/06/2017	39.02	42.57	0.00	0.00	81.59
Of which, free float:	0.08	26.24	0.00	0.00	26.32
21/06/2018	8.28	62.77	0.00	0.31	71.36
Of which, free float:	0.00	24.40	0.00	0.31	24.71

B.5. State whether any point on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders for any reason.

YES
 No

B.6. State if the Articles of Association contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:

YES
 No

B.7. State whether it has been established that certain decisions other than those established by law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting.

YES
 No

B.8. 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 "Shareholders and Investors".

C. COMPANY MANAGEMENT STRUCTURE

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors established in the Articles of Association and the number set by the general meeting:

Maximum number of Directors	20
Minimum number of Directors	5
Number of directors set by the general meeting	12

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

Name of director	Representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to the Board
MR ALFREDO FERNÁNDEZ AGRAS		Other External	CHAIRMAN	19/06/2015	13/08/2018	CO-OPTED
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	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR STEPHEN ANDREW CHOJNACKI		Proprietary	DIRECTOR	21/06/2018	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MS MARIA GRECNA		Independent	DIRECTOR	21/06/2016	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR WILLIAM ELLWOOD HEINECKE		Proprietary	DIRECTOR	21/06/2018	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR PAUL JOHNSON		Independent	DIRECTOR	21/06/2016	21/06/2018	AGREEMENT BY GENERAL

Name of director	Representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to the Board
						SHAREHOLDERS' MEETING
MR FERNANDO LACADENA AZPEITIA		Independent	DIRECTOR	21/06/2016	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER		Proprietary	DIRECTOR	21/06/2018	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSÉ MARÍA SAGARDOY LLONIS		Independent	DIRECTOR	21/06/2016	29/06/2017	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING

Total number of directors	10
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State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term
MR JOSE MARÍA LÓPEZ-ELOLA GONZÁLEZ	Independent	29/06/2015	21/06/2018	Mr José Maria López Elola was a member of the Appointments, Remuneration and Corporate Governance Committee.	NO
MR JOSE ANTONIO CASTRO SOUSA	Proprietary	21/06/2018	12/11/2018	Mr José Antonio Castro was Chairman of the Executive Committee.	YES
GRUPO INVERSOR HESPERIA, S.A	Proprietary	21/06/2018	12/11/2018	Grupo Inversor Hesperia, S.A, through its	YES

Name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term
				representative Mr Jordi Ferrer Graupera was a member of the Appointments, Remuneration and Corporate Governance Committee.	

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

EXECUTIVE DIRECTORS		
Name of director	Post in organisational chart of the company	Profile
MR RAMÓN ARAGONÉS MARÍN	CHIEF EXECUTIVE OFFICER	Tourism diploma from the University of Palma de Mallorca. Master's in International Hotel Management from the International Business School, Hotel and Tourism Management. His professional career, for more than twenty years, has been in positions of management and responsibility, in companies in the tourism sector, such as Hesperia (General Manager) and NH Hotel Group, S.A. (Chief Operations Officer). He is currently Chief Executive of NH Hotel Group, S.A.

Total number of executive directors	1
Percentage of Board	10.00

PROPRIETARY DIRECTORS		
Name of director	Name or company name of the significant shareholder represented or that has proposed their appointment	Profile
MR STEPHEN ANDREW CHOJNACKI	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Degree in Foreign Relations and Economics from the University of Virginia, obtaining a Doctorate from the University of Virginia/School of Law. Mr Chojnacki has spent his professional career in the law firm Linklaters in their New York, Hong Kong and Bangkok offices. He is currently the Chief Commercial Officer and the General Counsel of Minor International PLC., Director of MHG Continental

PROPRIETARY DIRECTORS		
Name of director	Name or company name of the significant shareholder represented or that has proposed their appointment	Profile
		Holding (Singapore) Pte. Ltd., as well as Director of companies in the Minor group. During his time leading the commercial activities and legal advice of the Minor Group, he has carried out a number of mergers and acquisitions with other leading companies in the hospitality sector, with presence in Portugal, Brazil, China, Vietnam, Indonesia and Africa.
MR WILLIAM ELLWOOD HEINECKE	MINOR INTERNATIONAL PUBLIC COMPANY LTD	He holds an Honorary Doctorate of Business Administration in Management from Yonok University, Lampang. He also completed the Director Certification Program (DCP) from the Thai Institute of Directors Association (IOD). Mr Heinecke is the founder of Minor International Pcl. (MINT) and currently holds the position of Chief Executive Officer of Minor International PLC and is Chairman of the Board of Directors. Over the five decades of the Minor group's existence, Mr Heinecke has led the company and expanded its portfolio of restaurants, hotel businesses and lifestyle brand distribution. It currently has more than 2,100 restaurants, 160 hotels and 400 lifestyle outlets in 40 countries (excluding the NH Hotel Group portfolio). MINT is listed on the Thailand Stock Exchange, with revenues of more than 1.5 billion euros and a market capitalisation of 4 billion euros. Mr Heinecke is the author of the book "The Entrepreneur – 25 Golden Rules for Global Business Manager"
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Degree in Computer Systems Analysis & Design in Sri Lanka in 1984. MBA in Finance in the United Kingdom. Mr Rajakarier has spent his professional career from 2007 to date at Minor International Public Company Limited as Chief Operating Officer (COO) and Director and Chief Executive Officer (CEO) at Minor Hotel Group Limited. Minor International Public Company Limited is a global company focused on three main businesses: restaurants, the hotel sector and retail brands. From 2001 to 2007 he was Deputy Chief Financial Officer and Internal Audit Manager in the leading operator Orient Express Hotels, Trains & Cruises (Belmond).
Total number of proprietary directors		3
Percentage of Board		30.00

INDEPENDENT DIRECTORS	
Name of director	Profile
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 E nub es (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.
MS 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 2011 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 PAUL JOHNSON	Founding director and Chief Executive Officer of the hotel chain Kew Green Hotels Ltd under whose leadership 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. the leading real-estate leasing company in the tertiary sector, having led

INDEPENDENT DIRECTORS	
Name of director	Profile
	the operation to list on the Stock Market that concluded with Merlin Properties acquiring its share capital; an operation valued at close to €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.
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 (Equity Market), BBVA (Director of Global Syndicated Loans) and Banco Popular (Wholesale Banking Director and Risk Director). After brief professional experience as Director of Origination and Finance at Copernicus Servicing, S.L, since July 2018 he has been General Financial Director of OHL, S.A. He has been a Board Director for companies such as Inmobiliaria Colonial, Fomento de Construcciones y Contratas (FCC), Societé Fonciere Lyonnaise, Globalia Corporación Empresarial and Targobank, S.A.

Number of independent directors	5
Percentage of Board	50.00

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

Name of director	Description of relationship	Statement of the Board
No data		

OTHER EXTERNAL DIRECTORS

Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company or its management or shareholders:

Name of director	Reason	Company, director or shareholder to whom the director is related	Profile
<p>MR ALFREDO FERNÁNDEZ AGRAS</p>	<p>Until his resignation on 13 August 2018, Mr Alfredo Fernández Agras was a Proprietary Director, representing the funds managed by Oceanwood given their significant holding in NH. On the aforementioned date of 13 August and prior the vacancy which followed his resignation, due to the fact that the Oceanwood Funds sold their holding shares below the level considered as significant shares, the Board, on a favourable report from the Appointments, Remuneration and Corporate Governance Committee, has co-opted Mr Alfredo Fernández Agras as "Other External" since these funds continued to hold an insignificant shareholding in the Company. Pursuant to article 529 duodecies of the Capital Companies Act, duly transposed into the Company's internal regulations (article 35, section 3.2 of the Articles of Association and article 9, section 3.2 of the Board Regulations), "Proprietary directors who lose such status as a result of the sale of their shareholding by the shareholder they represent may only be re-elected as independent directors when the shareholder they represent at that time would have sold all of their shares in the company."</p>	<p>XXX</p>	<p>Degree in Economic and Business Sciences, as well as in Law from Universidad Pontificia Comillas (ICADE) in 1993. Experienced investment banker currently dedicated to investing in private companies and advising in corporate finance. He is additionally a board member of several companies, both private and listed. Over the last 20 years, he has worked for several investment banks, having been Managing Director and co-head at 360 Corporate and Managing Director at UBS Investment Bank in Spain. Previously, he worked for Merrill Lynch and Morgan Stanley in London. He has been involved in numerous M&A and capital markets operations in southern Europe, especially in relation to listed companies. He previously worked as a commercial lawyer and a statistician at Arthur Anderson.</p>

Total number of other external directors	1
Percentage of Board	10.00

State any changes in status that has occurred during the period for each director:

Name of director	Date of change	Previous Status	Current status
MR ALFREDO FERNÁNDEZ AGRAS	13/08/2018	Proprietary	Other External

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each.

	Number of female directors				% of directors of each category			
	2018	2017	2016	2015	2018	2017	2016	2015
Executive					0.00	0.00	0.00	0.00
Proprietary					0.00	0.00	0.00	0.00
Independent	1	1	1	1	25.00	16.67	25.00	25.00
Other External			1		0.00	0.00	25.00	0.00
Total	1	1	2	1	10.00	10.00	18.18	8.33

C.1.5 Indicate whether the company has diversity policies in relation to the Board of Directors of the company with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized companies, in accordance with the definition established in the Accounts Auditing Law, will at least have to report the policy they have established in relation to gender diversity.

- Yes
 No
 Partial policies

Should this be the case, describe these diversity policies, their objectives, the measures and way in which they have been applied and their results over the year. Also state the specific measures adopted by the Board of Directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors.

In the event that the company does not apply a diversity policy, explain the reasons why.

Description of policies, objectives, measures and how they have been implemented, including results achieved

On 25 February 2016, following a favourable report from the Appointments, Remuneration and Corporate Governance Committee, the Board of Directors approved a Selection Policy for Directors. Said policy 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.

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.

- 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 means

The Appointments, Remuneration and Corporate Governance Committee ensures that each time a vacancy occurs in the Board of Directors and the corresponding selection process begins, at least one woman is a candidate.

In the event that there are few or no female directors in spite of any measures adopted, please explain the reasons that justify such a situation:

Explanation of the means

So far, no women have been found who fit the professional profile sought.

- C.1.7 Explain the conclusions of the appointments committee regarding the verification of compliance with the policy on director selection. In particular, as it relates to the goal of ensuring that the number of female directors represents at least 30% of the total membership of the Board of Directors by the year 2020.

The Appointments, Remuneration and Corporate Governance Committee has concluded that, despite women having taken part in the selection process for Directors women, to date none have meet the required profile.

- 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:

Name of shareholder	Justification
No data	

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. If this is the case, please explain why the aforementioned requests were not met:

- YES
 No

C.1.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees.

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.1.10 Identify any members of the Board who are also directors or officers in other companies in the group of which the listed company is a member:

Name of director	Company name of group company	Position	Does the director have executive duties?
MR RAMÓN ARAGONÉS MARÍN	HOTELES ROYAL, S.A. (COLOMBIA)	DEPUTY DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	JV BEIJING GRAND CHINA HOTEL MANAGEMENT (CHINA)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	NH HOTELES AUSTRIA GMBH	JOINT AND SEVERAL DIRECTOR	YES
MR RAMÓN ARAGONÉS MARÍN	NH HOTELES SWITZERLAND GMBH	JOINT AND SEVERAL DIRECTOR	YES
MR RAMÓN ARAGONÉS MARÍN	CHARTWELL INMOBILIARIA DE COATZACOALCOS, S.A. DE C (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	CHARTWELL DE MEXICO, S.A. DE C.V. (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	NH HOTELES CZECHIA S.R.O.	JOINT AND SEVERAL DIRECTOR	YES
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	JOLLY HOTELS DEUTSCHLAND 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 GMBH	JOINT AND SEVERAL DIRECTOR	YES
MR RAMÓN ARAGONÉS MARÍN	FRANQUICIAS LODGE, S.A. DE C.V. (MEXICO)	DIRECTOR	NO

Name of director	Company name of group company	Position	Does the director have executive duties?
MR RAMÓN ARAGONÉS MARÍN	GRUPO HOTELERO MONTERREY, S.A. DE C.V. (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	GRUPO HOTELERO QUERETARO, SA DE CV (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	HOTELERA DE LA PARRA, S.A. DE C.V. (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	HISPANA SANTA FE, S.A. DE C.V.	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	NACIONAL HISPANA HOTELES, S. DE R.L. 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	AIS POLSKA SP.Z.O.O.	JOINT AND SEVERAL DIRECTOR	YES
MR RAMÓN ARAGONÉS MARÍN	NH MANAGEMENT BLACK SEA SRL	JOINT AND SEVERAL DIRECTOR	YES
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CORPORATIVOS CHARTWELL MONTERREY, S.A. D (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CORPORATIVOS HOTELEROS, S.A. DE C.V. (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CORPORATIVOS KRYSTAL ROSA, S.A. DE C.V. (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CHARTWELL NUEVO LAREDO SA DE CV (MEXICO)	DIRECTOR	NO

C.1.11 List any legal-person directors of your company who are members of the Board of Directors of other companies listed on official securities markets other than group companies, and have communicated that status to the Company:

Name of director	Name of listed company	Position
MR WILLIAM ELLWOOD HEINECKE	MINOR INTERNATIONAL PUBLIC COMPANY LIMITED	CHAIRMAN-CHIEF EXECUTIVE OFFICER

Name of director	Name of listed company	Position
MR WILLIAM ELLWOOD HEINECKE	INDORAMA VENTURES PUBLIC COMPANY LIMITED	DIRECTOR
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	MINOR INTERNATIONAL PUBLIC COMPANY LIMITED	DIRECTOR
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	SERENDIB HOTEL PCL	DIRECTOR

D. William Ellwood Heinecke is also Chairman of the Appointments, Remuneration and Corporate Governance Committee of the company Indorama Ventures Public Company Limited.

Mr Stephen Andrew Chojnacki is Chief Commercial Officer and General Counsel of the company listed in Thailand, Minor IPC.

C.1.12 State whether the company has established rules on the number of boards on which its directors may hold seats, providing details if applicable, identifying, where appropriate, where this is regulated:

Yes
 No

Explanation of the roles and identification of the document where this is regulated

Article 29 of the Board Regulations expressly establishes that directors must dedicate the necessary time and effort to performing their duties, and must notify the Appointments, Remuneration and Corporate Governance 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, Remuneration and Corporate Governance Committee based on the individual circumstances in each case.

C.1.13 State total remuneration received by the Board of Directors:

Board remuneration in financial year (thousand euros)	2.149
Amount of vested pension interests for current members (thousand euros)	0
Amount of vested pension interests for former members (thousand euros)	0

C.1.14 Identify members of senior management who are not also Executive Directors, and indicate their total remuneration for the year:

Name	Position
MR FERNANDO CORDOVA MORENO	CHIEF PEOPLE OFFICER
MS LAIA LAHOZ MALPARTIDA	CHIEF ASSETS AND DEVELOPMENT OFFICER
MR ISIDORO MARTINEZ DE LA ESCALERA	CHIEF MARKETING OFFICER
MR RUFINO PÉREZ FERNANDEZ	CHIEF OPERATIONS OFFICER
MS BEATRIZ PUENTE FERRERAS	CHIEF FINANCIAL OFFICER

Name	Position
MR CARLOS ULECIA PALACIOS	GENERAL COUNSEL
MR FERNANDO VIVES SOLER	CHIEF COMMERCIAL OFFICER
Total remuneration of senior management (€ thousands)	
	4.417

C.1.15 State whether there has been any change to the regulations of the Board during the year:

- YES
 No

C.1.16 Specify the procedures for selection, appointment, re-election and removal of directors: the competent bodies, steps to follow and criteria applied 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.1.17 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 amendment

Following the annual evaluation of the Board of Directors that has been conducted in December 2017, the Company has build up an action plan in order to improve certain areas of opportunity that have been detected.

- The training of the Board has been improved, as well as the Incorporation Plan of new Directors.
- The information available to the Directors regarding the perception of relevant third parties has increased.

Notwithstanding the aforementioned there is still pending an improvement margin regarding the execution of the defined Working Plan, especially with regard to the areas linked to the strategic plan of the Company and the duration of the Audit and Control Committee.

Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been evaluated.

Description of the evaluation process and evaluated areas

The evaluation process of the Board of Directors of NH is carrying out annually with the purpose of identifying the awareness of the Directors with regard to certain performances of the Board and its Committees related to the composition, its functioning, the sessions and the performances of its duties.

The evaluation process, especially with regard to the collecting and treatment of the formulars from the Directors, as well as presentation of the results and the build up of the action plan has been carried out with the advice of KPMG, as independent advisor and specialised in this matter.

The evaluation of 2018 has been answered by all the members of the Board that have been members during all fiscal period during 2018.

The Directors have state their opinions over a variety of areas, such as functioning of the Board and their government Committees, strategic plan, operational and financing supervision, communication of stakes, etc.

C.1.18 Describe, in those years in which the external advisor has participated, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

The external advisor, KPMG has not being involved in other matters that have been presented to the Appointments, Remuneration and Corporate Governance Committee.

C.1.19 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.1.20 Are reinforced majorities other than those applicable by law required for any type of decision?:

- Yes
- No

If so, please 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.1.21. Explain if there are any specific requirements, other than those relating to Directors, to be appointed Chairman of the Board of Directors.

- YES
- No

C.1.22 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

- YES
 No

C.1.23 State whether the Articles of Association or the Board Rules establish any term limits for independent directors other than those required by law.

- YES
 No

C.1.24 State whether the Articles of Association or Board Rules establish specific proxy rules for votes at Board meetings, how they are to be delegated and, in particular, the maximum number of delegations that a director may have, as well as if any limit regarding the category of director to whom votes may be delegated and whether a director is required to delegate to a director of the same category. If so, please briefly describe the 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.1.25 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. Meetings where the chairman sent specific proxy instructions are to be counted as attended.

Number of Board meetings	14
Number of Board meetings without the Chairman	

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	
--------------------	--

Please specify the number of meetings held by each committee of the Board during the year:

Number of Meetings held by the APPOINTMENTS AND REMUNERATION COMMITTEE	9
Number of meetings of the APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	6
Number of meetings held by the EXECUTIVE COMMITTEE	9

C.1.26 State the number of meetings held by the Board of Directors during the year in which all of its directors were present. For the purposes of this section, proxies given with specific instructions should be considered as attendance

Number of meetings where at least 80% of the directors attended	14
% of attendance over total votes during the year	95.00
Number of meetings in situ or representations made with specific instructions of all directors	14
% of votes issued at in situ meetings or with representations made with specific instructions out of all votes cast during the year	100.00

C.1.27 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

- Yes
 No

Identify, if applicable, the person/s who certified the individual and consolidated financial statements of the company for preparation by the Board:

C.1.28 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.1.29 Is the Secretary of the Board a Director?

- Yes
 No

If the secretary is not a director, please complete the following table.

Name of the secretary	Representative
MR PEDRO FERRERAS DÍEZ	

C.1.30 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

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.1.31 State whether the Company has changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

- Yes
 No

If there were any disagreements with the outgoing auditor, please provide an explanation:

- Yes
 No

C.1.32 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
 No

	Company	Group Companies	Total
Amount invoiced for non-audit services (thousand euros)	498	123	621
Amount invoiced for non-audit services/Amount for audit work (in %)	67,66	7,10	25,15

C.1.33 State whether the audit report of the financial statements for the previous year included qualifications or reservations. If so, please explain the reasons given by the chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.

YES
 No

C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Individual	Consolidated
Number of consecutive years	26	26

	Individual	Consolidated
Number of years audited by the current audit firm/number of fiscal years the company has been audited (by%)	83,88	83,88

C.1.35 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
 No

Explanation of 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.1.36 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
 No

Explanation of procedure

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.1.36 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
 No

C.1.38 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 Group has signed several financing contracts that contain a clause establishing their early maturity in the event of circumstances that give rise to a change in control of the NH, among others, the the syndicated credit line for an amount up to 250 millions euro, with maturity 2021. In addition, NH issued guaranteed senior bonds with maturity 2023, which include certain consequences should control of the Issuer change, such as the possibility of NH being required to repurchase the senior bonds. As a consequence of the teakeover bid over NH, the Company got the unanimous waiver of the banks regarding the syndicated credit line, maintaining the maturity 2021. In addition and as a consequence of the change of control the Company has offered to the bond holders the purchase. The amount of the purchase only amounted 3,2 millions of the total nominal value.

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.

During 2018 and resulting from the takeover bid of shares prepared by the Minor IPC Group, the Framework Contract for Global Hotel Transaction and Management signed between NH Hotel Group and Grupo Inversor Hesperia on 5 December 2016 was resolved, as reported though a Relevant Fact on 30 November 2018.

C.1.39 Identify individually for director, and generally in other cases, and provide detail of any agreements made between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.

Number of beneficiaries	1
Type of beneficiary	Description of agreement
Two members of Senior Management and one employee	In order to encourage loyalty and permanence in the Company, compensation has been provided for which may be more than the amount resulting from applying legal regulations, in the event of unilateral termination by the Company. This amount will be equal to one

Type of beneficiary	Description of agreement
	times the fixed annual salary to two annual of total salary, i.e. fixed salary and variable perceived during the last two fiscal years.

State if these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this:

	Board of Directors	General Shareholders' Meeting
Body authorising the severance clauses	√	

	Yes	No
Are these clauses notified to the General Shareholders' Meeting?		√

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:

AUDIT AND CONTROL COMMITTEE		
Name	Position	Category
MR FERNANDO LACADENA AZPEITIA	CHAIRMAN	Independent
MS MARIA GRECNA	MEMBER	Independent
MR JOSÉ MARÍA SAGARDOY LLONIS	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of other external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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 directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

Name of directors with experience	MR FERNANDO LACADENA AZPEITIA
Date of appointment of the chairperson	21/06/2016

APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE		
Name	Position	Category
MR JOSÉ MARÍA SAGARDOY LLONIS	CHAIRMAN	Independent
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of other external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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 competences, knowledge and experience necessary on the Board of Directors. For these purposes, it shall define the abilities and functions required by candidates to cover each vacancy, and assess the time and dedication required to correctly carry out their functions.
2. Establish a representation goal for the less represented sex on the Board of Directors and create guidelines for how to achieve said goal.
3. Pass along to the Board of Directors proposals for appointments of Independent Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for the re-election or removal of said Directors by the General Shareholders' Meeting.
4. Inform the Board of proposals for appointments of remaining Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for their re-election or removal by the General Shareholders' Meeting.
5. Provide notification of proposals for appointing or removing senior management and the basic conditions of their contracts.
6. Examine or organise the Chairman of the Board's and the chief executive's succession and, if appropriate, bring proposals before the Board so that such successions are effected in an orderly fashion.
7. Propose to the Board of Directors the remuneration policy for the directors and general managers or for those who perform functions of upper management directly reporting to the Board, Executive Committee or Chief Executives, as well as the individual remuneration and other contractual conditions for the Chief Executives, ensuring compliance therewith.
8. Supervise and monitor compliance with corporate governance rules and with the corporate social responsibility policy and plan, proposing any necessary Reports to the Board.
9. Periodically evaluate the suitability of the corporate governance system, with the aim of ensuring that it fulfils its mission of promoting the company's interests.

The Board of Directors shall be informed of all the tasks carried out by the Appointments, Remuneration and Corporate Governance Committee during its first meeting, and in all events the corresponding documentation shall be made available to the Board so that it can take these actions into consideration when performing its duties.

The Appointments, Remuneration and Corporate Governance Committee shall meet as often as considered necessary by its Chairman, or when requested by two of its members or the Board of Directors. Furthermore, non-member Directors may attend Appointments, Remuneration and Corporate Governance Committee meetings on a one-off basis, when invited by the Chairman of the Committee.

EXECUTIVE COMMITTEE

Name	Position	Category
MR RAMÓN ARAGONÉS MARÍN	MEMBER	Executive
MR PAUL JOHNSON	MEMBER	Independent
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	MEMBER	Proprietary

% of executive directors	33.33
% of proprietary directors	33.33
% of independent directors	33.33
% of other external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercised in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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.

C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years:

	Number of female directors							
	2018		2017		2016		2015	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND CONTROL COMMITTEE	1	33.00	1	33.00	1	20.00	1	20.00
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE		0.00		0.00	1	16.70	1	20.00
EXECUTIVE COMMITTEE		0.00		0.00		0.00		0.00

C.2.3 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 any annual reports on the activities of each committee have been voluntarily prepared.

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 "Shareholders and Investors" - "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.

D. RELATED AND IN-GROUP TRANSACTIONS

D.1. Describe, if applicable, the procedure for approval of related-party and intragroup 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 of significant shareholder	Name of company within the group	Nature of the relationship	Type of transaction	Amount (thousand of euros)
GRUPO INVERSOR HESPERIA, S.A	NH HOTEL GROUP, S.A.	Contractual	Management contracts	8,476
GRUPO INVERSOR HESPERIA, S.A	NH HOTEL GROUP, S.A.	Contractual	Other	2,607

- 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:

Name of director or manager	Name of the related party	Relationship	Type of transaction	Amount (thousand of euros)
No data				N.A.

- 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 any event, note any intragroup transaction conducted with entities established in countries or territories which are considered tax havens:

Name of entity within the group	Brief description of the transaction	Amount (thousand of euros)
SOTOCARIBE, S.L.	Loan	9020

- D.5. State the amount of any transactions conducted with other related parties that have not been reported in the previous sections.

Name of entity within the group	Brief description of the transaction	Amount (thousand of euros)
No data		N.A.

- 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:

- Not exercise their powers for purposes other than those for which they have been conceded.
- 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.
- 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.
- 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.
- 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?

YES

No

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E1. Explain the scope of the company's Risk Management and Control System, including tax compliance risk

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.

E2. Identify the company bodies responsible for creating and implementing the Risk Management and Control 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.

Executive Committee on Risks

NH Hotel Group set up the Executive Committee on Risks in 2017, comprising members of the Management Committee and Senior Management. Its main responsibilities are: support the periodic monitoring of risks (monitoring of action plans and KRIs – Key Risk 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 in 2018.

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.

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.

Strategic Planning Department

The Strategic Planning Department is in charge of coordinating the definition and overseeing all strategic initiatives using Key Performance Indicators (KPIs).

Risk Function

The Risk 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 in 2018; this was approved by the Audit and Control Committee at its meeting on 18 December 2018 and will be submitted to the Board of Directors for approval in the first quarter of 2019. 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.

Compliance Function

Since 1 January 2018, the Compliance function has been Internal Audit's second line of independent defence. This function is responsible for disseminating and monitoring compliance with the Code of Conduct and drafting and monitoring the Criminal Risk Prevention Model, which is implemented in Spain (Business and Corporate Unit) and Italy.

E3. State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives.

- 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. This section would include tax, environmental, and fraud and corruption risks. 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.

E4. State whether the entity has risk tolerance levels, including for tax risk:

The NH Group has defined 68 KRIs for its 15 main risks which are measured monthly through a specialised risk management computer tool. Tolerance levels have been defined for each of the main KRIs. When the KRI exceeds an acceptable 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.

E5. 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 2018, the fact that a significant exposure to geopolitical risks exists must be noted. However, the company carried out a dollarisation strategy of the main contracts in local currency as well as repatriating local currency excesses that greatly contributed to mitigating the impact of the aforementioned risk. Additionally, political instability in Catalonia continued to negatively affect the company's operations.

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.

E6. Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the board of directors responds to any new challenges that arise.

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 Strategic Planning Department oversees the achievement of strategic goals by continuously monitoring strategic initiatives and detection of new risks.

The Internal Audit Department, in carrying out its Risks function, advises the risk managers in defining response plans to mitigate the main risks and supervises their implementation.

In each of the Risk Committee's meetings since its creation in May 2017, it has monitored the evolution of the KRIs, the degree of implementation of the risk map's action plans as well as new risks and challenges that could affect the company and industry in the short, medium and long term.

Since November 2017, the company has had a tool to automate the identification, assessment and monitoring of risks. This tool significantly reduces the time involved in the planning and assessment of risks and controls, ensures traceability of the analysis and is 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.

During the periodic risk supervision and monitoring process, as well as during the annual risk identification and assessment process, the company has the appropriate mechanisms to ensure that new risks and challenges are taken into consideration and given an appropriate response. The final result of this analysis is reflected in the corporate risk map that is submitted annually to the board of directors for approval.

F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS (SCIIF)

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

F.1. The company's control environment

Report on at least the following, describing their principal features:

F.1.1 What bodies and/or areas are responsible for: (i) the existence and maintenance of an adequate and effective ICFR; (ii) their implementation, and (iii) their 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 a 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. 2018 was the first full year that the three lines of defence model has been present and operating in order to reasonably guarantee the reporting of complete and accurate financial information.

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 Internal Audit.

F.1.2 State whether the following are present, especially if they relate to the creation of financial information:

- Departments and/or mechanisms responsible for: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout 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 Corporate 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, which was last revised in 2015. Responsibility for approving the Code of Conduct rests with the NH Group's Board of Directors. This document affects all NH Group employees, and applies not only to employees, managers and members of the Board of Directors, but also, in certain cases, to other stakeholders, such as customers, suppliers, competitors, shareholders and the communities in which NH runs its hotels.

The Code of Conduct summarises the professional conduct expected of all employees at centres operating under the Group's brands, promoting the commitment to act 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 overseeing compliance with the Code of Conduct and updating, monitoring and overseeing the Criminal Risk Prevention Model. The Compliance Office reports directly to the Compliance Committee.

The Criminal Risk Prevention Model has been implemented in Spain (Business Unit and Corporate) and Italy, where training was imparted on this topic during 2018. The percentage of those undertaking training is 77 % in Spain (Central Services employees, Hotel Directors and Heads of Department) and 91% in Italy.

In 2018, the roll out of an IT tool in Spain was concluded that will help manage and audit the Criminal Risk Prevention Model. Additionally, during 2018, streamlining of the Criminal Risk Prevention Matrix was carried out in seven other countries to provide the company with a more efficient model.

The Code of Conduct is available for employees on the company intranet, and for third parties on the Group's website. Through the Human Resources departments of each business unit, the NH Group has authorised a procedure whereby each employee is required to adhere to it, with training on the Code of Conduct being made available to all employees.

At 31 December 2018, use of the Code of Conduct through the online course is at 66%. 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 of the Code of Conduct stresses that 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.

- Whistle blower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature.

A procedure has been established for lodging complaints about breaches of the principles enshrined in the Code of Conduct, and this enables employees to provide confidential information about any non-compliance. This procedure ensures transparency, confidentiality and respect throughout all its stages.

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. Corporate Internal Audit Department at Santa Engracia 120, 28003 Madrid, Spain.

The Senior Vice President of the Corporate 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.

- Training and periodic refresher programmes for staff involved in the preparation and revision of financial information, as well as assessment of the ICFR (Internal Control System for Financial Information), that covers at least accounting rules, audits, internal control and risk management.

In 2018, the head of Internal Control passed the COSO programme, taught by the Institute of Internal Auditors.

On the other hand, the Corporate Finance Department, through Internal Control, has given training sessions on internal control and reporting through the SAP GRC tool to front-line users of the business unit in Latin America, users from the Coperama group companies, as well as Shared Services Centre users, as per the following:

- Internal training given to employees of the Latin America business unit whose roles are process owners and certifiers of organisational units 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 sessions on self-assessment and reporting SCIIF controls through SAP GRC aimed at users of the first line of defence from the business unit in Latin America and Coperama group companies.

Likewise, the Corporate Internal Control Department provided internal training to review self-assessment controls in SAP GRC to four employees from the third line of defence to allow them to perform their supervisory role in annually auditing the SCIIF. Additionally, the Corporate 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 2018 on IFRS 16 on leases, given by the Corporate Financial Consolidation Department.

Finally, the Corporate Internal Audit Department, being responsible for reviewing the SCIIF, has a specific training plan that, during 2018, involved a total of 665 hours of training on risks and the reporting tool, audit and fraud prevention conferences, and other topics of interest related to the function which were given to the 10 members of the department.

F.2. Financial reporting risk assessment

Report, at least

F.2.1 The main characteristics of the risk identification process, including error and fraud risk, as regards:

- 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 Corporate Internal Audit Department, which assumes the risk management 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 of 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

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 Corporate Internal Audit 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.

- If the process covers all of the objectives of financial information, (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.

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.

During 2018, Internal Control continued to update the control activities, among which are those related to the execution of controls at the corporate level.

- The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, or special purpose entities.

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.

- If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.

In designing the risk management process associated with generating Financial Reports, the following objectives have been focused on:

- Definition of the Financial Information Internal 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.

- The governing body within the company that 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.

State whether the company has at least the following, describing their main characteristics:

- 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, a review process by Group Finance Management at a corporate level and a joint review by Group Finance Management with the finance directors of the business units.

- 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 reviewed 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, the NH Hotel Group has implemented an internal control system on financial information (ICFR) based on COSO (Committee of Sponsoring Organizations of the Treadway Commission), as a framework that seeks to ensure that the relevant components and principles of internal control are present and operating jointly in the Organisation, to achieve the following objectives:

- Effectiveness and efficiency of operations
- Reliability of financial information
- Compliance with applicable laws and regulations
- Safeguarding assets

To comply with the objective of ensuring reliability of financial information reported to the markets, the NH Hotel Group has implemented a model based on three lines of defence:

- The first line of defence is all employees responsible for preparing and reporting the financial information reported and the effective execution of SCIIF controls.
 - The second line of defence is Internal Control, within the Corporate Finance Department, which is responsible for managing and updating the SCIIF risk and control matrix as a tool to implement controls that mitigate the identified risks. Among its other responsibilities, it periodically reviews the self-assessment of the controls executed and reported by the first line of defence, communicating and reporting on the main area to improve.
 - The third line of defence is the Corporate Internal Audit Department, which delegates the review of the SCIIF to the Audit and Control Committee. The Group's internal control model is audited annually to afford the Audit and Control 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.
- Since the beginning of 2018, the management of the SCIIF risk and control matrix has been carried out in the SAP GRC internal control reporting software, as the sole repository of the SCIIF report. The implementation of this tool supposes an improvement in the effectiveness of monitoring modifications in the risk and control model, as well as the monitoring of action plans to correct possible weaknesses detected in the SCIIF report. Likewise, it guarantees traceability of the evidence and communication report between users of the first and second lines of defence.

The Group's SCIIF risk and control matrix considers the relevant business cycles in drafting the financial information prepared and published by the Group, which are detailed below:

- 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.

Additionally, section F of the Annual Corporate Governance Report published by the NH Hotel Group is subject to an external audit to guarantee the truthfulness of its content.

F.3.2 Internal IT control policies and procedures (access security, change controls, their operation, operational continuity, and segregation of duties, among others) which support relevant processes within the company and relate to the creation and publication of financial information.

Internal control of IT systems

There is an internal control model prepared 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 93 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. In the event of an incident, these are resolved allowing the jobs to be re-launched and executed correctly.

Since 2011, the Group has had an Information Security area, part of the IT Department, which monitors security in all IT processes, assuring the availability, reliability and completeness of information.

Security Policy

The security policy is the reference framework defining the directives to be followed by all employees, and makes it possible to ensure the security of the IT systems and, therefore, of all the business processes. This policy was revised during the 2018 financial year.

During 2018, various initiatives linked to the Information Security Master Plan continued to be implemented, including those relating to the generation of security documentation in the information technology environment.

- F.3.3 Internal control policies and procedures intended to guide the management of subcontracted activities and those of third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, which may materially affect financial statements.

The function has been outsourced to a third party in the companies included in the scope of the SCIIF. This involved the implementation of the NH Hotel Group's SCIIF model in all those companies whose financial reporting and reporting processes were outsourced, aligning with the control models defined for the other business cycles. The SCIIF controls associated with the outsourced services function are executed and reported by users of the Shared Services Centre, although the NH Hotel Group is responsible for their effectiveness to reasonably mitigate the associated risks.

In January 2018, the outsourcing of the Administration function of the corporate structure of Hoteles Royal became effective, and the SCIIF model was extended to all outsourced financial reporting and reporting processes.

Additionally, NH Hotel Group's SCIIF risk and control matrix has 6 sub-processes and 18 control activities relating to the handover periods of transferring the administrative function to the Shared Services Centre, 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.

Also, the NH Hotel Group has obtained the report of the independent third-party ISAE 3402 "International Standard on Assurance Engagements", allowing the NH Hotel Group to check whether the control objectives and activities of the service provider have been effective in 2018.

F.4. Information and Communication.

State whether the company has at least the following, describing their main characteristics:

- F.4.1 A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organisation, as well as an up-to-date accounting policy manual distributed to the business 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 Corporate 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 Corporate Internal Audit Department is responsible for periodic review of the processes, policies and procedures defined in the Group.

- F.4.2 Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

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.

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 as well as being 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

Describe at least the following:

- F.5.1 The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is 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 supervisory functions 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 2018, the management and reporting of the SCIIF control activities, as well as their assessment and supervision, was performed through the SAP GRC tool.

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 10 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.
- 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 2018

In 2018, the SCIIF model was implemented in the Latin American business unit, identifying the most critical controls to ensure the reasonableness of the reported financial information related to said business unit, and starting process of reporting the self-assessment of controls by the first line of defence. Likewise, the SCIIF controls report has been implemented and started for the Group companies that form the Coperama purchasing platform.

On the other hand, throughout 2018, the SCIIF controls self-assessment report identified in the Group were carried out, as well as those related to the human resources process performed in Spain.

With this, the Group's SCIIF covers the business units of Southern Europe (mainly Spain and Italy), Northern Europe (mainly Benelux and Central Europe), Latin America and Corporate. This implies the scope of all NH turnover, a portfolio of 301 hotels and 13 business cycles with great significance in the submission of financial reports.

A total of 447 control activities have been defined, divided between financial reporting and IT systems, 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.

The reporting of control activities through the SAP GRC tool has been planned according to an internal control reporting schedule and in line with the execution frequency of the financial information controls. This calendar was shared by the Internal Control area with the users from the first line of defence at the beginning of 2018 so that each member carries out a self-assessment of the controls for which they are responsible, complying with the established reporting deadlines.

Different reporting activities have been designed in SAP GRC to assess the effectiveness and design of controls by the first line of defence, as well as the review of controls by Internal Control. Within the self-assessment report activity on the effectiveness of the controls, it includes the review on the evidence of the effective execution of the controls by the process owners associated with the control activities. This responsibility has been almost entirely assumed by the first line of defence.

During 2018, the Internal Control Department reviewed the evidence reported in SAP GRC for all the control activities reported throughout the year associated with the organisational units defined in the Group's risk and control matrix.

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 If there is a procedure by which the account auditor (in accordance with the contents of the Normas Técnicas de Auditoria (NTA) - "Auditing Standards"), internal auditor and other experts may communicate with senior management and the audit committee or senior managers of the company regarding significant weakness in internal control identified during the review of the annual accounts or any others they have been assigned. Likewise, whether there is an action plan to correct or mitigate the weaknesses found.

The Audit and Control 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 and Control 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 from:

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 2018, 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.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company's actions. General explanations are not be acceptable.

1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

Complies Explain

2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:

a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.

b) The mechanisms in place to resolve any conflicts of interest that may arise.

Complies Partially complies Explain Not applicable

3. That, during the course of the ordinary General Shareholders' Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the chairman of the Board of Directors makes a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:

a) Changes that have occurred since the last General Shareholders' Meeting.

b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.

Complies Partially complies Explain

4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.

And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

Complies Partially complies Explain

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

Complies Partially complies Explain

6. That listed companies which draft reports listed below, whether under a legal obligation or voluntarily, publish them on their web page with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:

- a) Report regarding the auditor's independence.
- b) Reports regarding the workings of the audit committee and the appointments and remuneration committee.
- c) Report by the audit committee regarding related-party transactions
- d) Report on the corporate social responsibility policy.

Complies Partially complies Explain

7. That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.

Complies Explain

8. That the audit committee ensures that the Board of Directors presents financial statements in the audit report for the General Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.

Complies Partially complies Explain

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies Partially complies Explain

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:

- a) Immediately distributes the additions and new proposals.
- b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.
- c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.
- d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

Complies Partially complies Explain Not applicable

The Company complies with this Recommendation, except for paragraph c). With regard to the additional points proposed by Minor IPC to the Agenda of the Shareholders meeting, the voting rules for applied to these additional points were not the same ones as for the rest of point, in accordance with article 21.3 of the Shareholders Rules.

11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establish in advance a general policy of long-term effect regarding such payments.

Complies Partially complies Explain Not applicable

12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.

And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies Partially complies Explain

13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.

Complies Explain

14. That the Board of Directors approves a selection policy for directors that:

- a) Is concrete and verifiable.
- b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.
- c) Favours diversity in knowledge, experience and gender.

That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

Complies Partially complies Explain

15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

Complies Partially complies Explain

16. That the percentage of proprietary directors divided by the number of non-executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

- a) In companies with a high market capitalisation in which interests that are legally considered significant are minimal.
- b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

Complies Explain

17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.

Complies Explain

18. That companies publish and update the following information regarding directors on the company website:

- a) Personal and biographical profile
- b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.
- c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.
- d) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.
- e) The shares and options they own.

Complies Partially complies Explain

19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies Partially complies Explain Not applicable

20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies Partially complies Explain Not applicable

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, joint venture or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies Explain

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

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. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies Partially complies Explain

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

Complies Partially complies Explain Not applicable

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. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

Complies Partially complies Explain Not applicable

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

And that the Board rules establish the maximum number of company Boards on which directors may sit.

Complies Partially complies Explain

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items do not originally appear on the agenda.

Complies Partially complies Explain

27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.

Complies Partially complies Explain

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.

Complies Partially complies Explain Not applicable

29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.

Complies Partially complies Explain

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require

Complies Explain Not applicable

31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall be duly recorded in the minutes.

Complies Partially complies Explain

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies Partially complies Explain

33. That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company, should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies Partially complies Explain

34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: chairman of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of non-executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the chairman.

Complies Partially complies Explain Not applicable

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.

Complies Explain

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:

- a) The quality and efficiency of the Board of Directors' work.
- b) The workings and composition of its committees.
- c) Diversity of membership and competence of the Board of Directors.
- d) Performance of the chairman of the Board of Directors and the chief executive officer of the company.
- e) Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies Partially complies Explain

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies Partially complies Explain Not applicable

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Complies Partially complies Explain Not applicable

39. That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies Partially complies Explain

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 Partially complies Explain

41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies Partially complies Explain Not applicable

42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:

- a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.
- b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re-election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
- c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

2. With regard to the external auditor:

- a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.
- b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.
- c) Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.
- d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.
- e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.

Complies Partially complies Explain

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies Partially complies Explain

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.
- Complies Partially complies Explain Not applicable
45. That the risk management and control policy identify, as a minimum:
- a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off-balance sheet risks.
 - b) Fixing of the level of risk the company considers acceptable.
 - c) Means identified in order to minimise identified risks in the event they transpire.
 - d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off-balance sheet risks.
- Complies Partially complies Explain
46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:
- a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.
 - b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.
 - c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.
- Complies Partially complies Explain
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 Partially complies Explain
48. That high market capitalisation companies have formed separate appointments and remuneration committees.
- Complies Explain Not applicable
49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a

vacancy on the Board of Directors.

Complies

[X]

Partially complies []

Explain []

50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

- a) Propose basic conditions of employment for senior management.
- b) Verify compliance with company remuneration policy.
- c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.
- d) Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.
- e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies

[X]

Partially complies []

Explain []

51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies

[X]

Partially complies []

Explain []

52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:

- a) That they are comprised exclusively of non-executive directors, with a majority of them independent.
- b) That their chairmen be independent directors.
- c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.
- d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.
- e) That their meetings be recorded and the minutes be made available to all directors.

Complies Partially complies Explain Not applicable

[]

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:
- a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.
 - b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.
 - c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.
 - d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.
 - e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.
 - f) Supervision and evaluation of the way relations with various stakeholders are handled.
 - g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.
 - h) Coordination of the process of reporting on diversity and reporting non- financial information in accordance with applicable rules and international benchmarks.

Complies

Partially complies

Explain

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:

- a) The objectives of the corporate social responsibility policy and the development of tools to support it.
- b) Corporate strategy related to sustainability, the natural environment and social issues.
- c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.
- d) Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.
- e) Means of supervising non-financial risk, ethics, and business conduct.
- f) Communication channels, participation and dialogue with stakeholders.
- g) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies Partially complies Explain

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies Partially complies Explain

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgement of non-executive directors.

Complies Explain

57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Complies Partially complies Explain

58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.

And, in particular, that variable remuneration components:

- a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.
- b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.
- c) They are configured on the basis of a balance between the achievement of short, medium and long term objectives, which allows the output for continuous performance to be remunerated over a sufficient period of time to appreciate their contribution to sustainable value creation, so that the measurement elements of that performance do not solely revolve around specific, occasional or extraordinary events.

Complies Partially complies Explain Not applicable

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. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

Complies Partially complies Explain Not applicable

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. That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.

Complies Partially complies Explain Not applicable

61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.

Complies Partially complies Explain Not applicable

62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.

The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Complies Partially complies Explain Not applicable

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 Partially complies Explain Not applicable

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

Complies Partially complies Explain Not applicable

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.

With regard to the Executive Director who abandoned the Company in 2016, the eventual indemnity that could be paid is still outstanding to be decided by a court's resolution. The Company will inform immediately in case of any new circumstance that could arise herefrom and duly incorporate the information in the annual reports that may be due. Notwithstanding the aforementioned the maximum amounts that could become due have been provisioned in the Annual Accounts.

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. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In that case, indicate the code in question and the date it was subscribed to.
It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July 2010.

1. RELEVANT CORPORATE GOVERNANCE ASPECTS THAT HAVE NOT BEEN INCLUDED IN THE OTHER SECTIONS: SECTION A.3.:

SECTION A.3 The following is a breakdown of the number of direct shares held by each Board member listed in the reference section:

Mr Alfredo Fernández Agras: 150,000 shares
Mr Ramón Aragonés Marín: 31,514 shares. Additionally, Mr Aragonés holds a total of 157,251 Performance shares that may be executed as long as the stated objectives are met.
Ms Maria Grecna: 12,000 shares
Mr Paul Johnson: 9,116 shares

SECTION A.6.:

The following details the positions that Proprietary Directors who represent to the shareholder Minor IPC hold in companies belonging to its group and that for technical reasons could not be broken down in the reference section.

In view of the foregoing, it is reported that Mr Chojnacki is a Director of the following companies in the Minor IPC group: Anantara

Vacation Club (HK) Limited
Anantara Vacation Club (Cambodia) Co., Ltd.
Armin Systems Limited
Avadina Hills Co., Ltd.
Avani Lesotho (Pty) Ltd
Baan Boran Chiangrai Limited
Bai Dai Tourism Company Limited Barbaron
Beach Hotel MHG Limited Benihana UK
Limited
Catering Associates Limited
Coco Palm Hotel & Resort Co.,
Ltd Corbin & King Limited
Delicious Food Holding (Singapore)
Pte. Ltd. H & A Park Co., Ltd.
Harbour View Corporation
Hoi An River Park Company Limited

Hua hin Village Limited Huahin
Resort Limited
Jada Resort and Spa (Private) Limited
Kulutara Luxury Hotel (Private) Limited
Layan Bang Tao Development Co., Ltd.
Layan Hill Residence Co., Ltd.
Letsatsi Casino (Pty) Ltd
Liwa Minor Food & Beverages LLC
MFG International Holding (Singapore) Pte. Ltd.
MHG Australia Holding Pte. Ltd.
MHG Continental Holding (Singapore) Pte. Ltd.
MHG Desaru Hotel SDN. BHD.
MHG Desaru Villas SDN. BHD.
MHG Holding Limited
MHG International Holding (Singapore) Pte. Ltd.
MHG IP Holding (Singapore) Pte. Ltd
MHG Lesotho (Pty) Ltd MHG
Management Tunisia
MHG Npark Development Co., Ltd
MHG Perth Investments PTY LTD MI
Squared Limited
Minor Consultants and Service Limited
Minor Continental Portugal S.A.
Minor Corporation Pcl. Minor
Development Limited
Minor DKL Food Group Pty Ltd Minor
DKL Management Pty Ltd
Minor Food Group (Singapore) Pte. Ltd.
Minor Hotel Group Gaborone (Pty) Ltd
Minor Hotel Group Limited
Minor Hotel Group Management (Shanghai) Limited Minor
Hotel Group MEA DMCC
Minor Hotel Group South Africa Pty Ltd
Minor Hotels Zambia Limited
Minor Lifestyle Limited Mspa
International Cairo Mspa
International Limited
Mysale.co.th Limited
Navasri Manufacturing Limited
NYE and RGP Development Co., Ltd
Oaks Hotel & Resort Limited
PH Resort (Private) Limited
Plexus Maldives Pvt. Ltd.
PT Wika Realty Minor Development
Rajadamri Lodging Limited Rajadamri
Residence Co., Ltd
Rani Minor Holding II Limited
Ribs and Rumps Operating Company Pty Ltd Samui
Resort & Spa Limited
Sands Hotels (Pty) Ltd
Select Service Partner Limited
Sizzler China Limited
Tanzania Tourism & Hospitality Investments Limited TCC
Operations Pty Ltd
The Coffee Club Franchising Company Pty Ltd
The Sothea (K.V.) Pte. Ltd.
Zanzibar Tourism & Hospitality Investments Limited

Mr Heinecke holds the following positions in Minor IPC group companies:

Pacific Cross International Limited (Director)
Minor Holdings (Thai) Limited (Director)
Plu Luang Limited (Board Chairman)
Sri Bhathana Garden Limited (Director)
Minor BKH Limited (Board Chairman)
G5 Jets Limited (Director)
MD JETS Limited (Director)
MJETS Limited (Director)
MJETS Maintenance Limited (Director)
Phuket Vessel Holding Limited (Director)

Bravo Jets Limited (Director)
 Western - Mjets Limited (Director)
 Minor Food Group (Singapore)
 Pte., Ltd (Director)
 Minor DKL Food Group Pty.Ltd (Director)
 Benihana Asia Pte.Ltd (Director)
 Benihana Holding Pte. Ltd (Director)
 Benihana UK Limited (Director)
 Chao Phaya Resort & Residence Limited (Board Chairman)
 Rajadamri Residence Limited (Board Chairman)
 Zuma Bangkok Limited (Director)
 Panaram Limited (Director)
 Chao Phaya Resort Limited (Director)
 Maerim Terrace Resort Limited (Board Chairman)
 Arabian Spas (Dubai) (LLC)(Director)
 MSpa Ventures Limited (Board Chairman)
 Eutopia Holdings Private Limited (Director)
 Harbour View Corporation (Director)
 Jada Resort and Spa (Private) Limited (Director)
 Tanzania Tourism and Hospitality Investment Limited (Director)
 Zanzibar Tourism and Hospitality Investment Limited (Director)
 O Plus E Holdings Private Limited (Director)
 PH Resorts (Private) Limited (Director)
 Per Aquum Management JLT (Director)
 Sea Fly Limited (Director)
 MHG Desaru Hotel SDN.BHD (Director)
 MHG Desaru Villas SDN.BHD (Director)
 R.G.E. (HKG) Limited (Board Chairman)
 Plexus Maldives Pvt Ltd (Director)
 CARDAMON Tented Camp Co.,Ltd.(Director)
 Corbin & King Limited (Director)

Finally, to state that Mr Dillipraj Rajakarier is a Director of the following Minor IPC group companies: Minor Hotel Group

Limited
 Samui Beach Residence Limited
 Samui Beach Club Owner Limited
 Coco Residence Limited
 Coco Recreation Limited
 Chao Phaya Resort and Residence Limited
 M Spa International Limited
 Hua Hin Resort Limited
 Hua Hin Village Limited
 Baan Boran Chiangrai Limited
 Samui Resort and Spa Limited
 Coco Palm Hotel & Resort Limited
 MHG Phuket Limited
 MI Squared Limited
 Phuket Beach Club Owner Limited
 Rajadamri Lodging Limited
 Rajadamri Residence Limited
 Zuma Bangkok Limited
 Chao Phaya Resort Limited
 Maerim Terrace Resort Limited
 MHG Holding Limited
 MHG Npark Development Company Limited
 NYE and RGP Development Co.,Ltd.
 Avadina Hills Co., Ltd.
 Layan Hill Residence Co., Ltd.
 Layan Bang Tao Development Co., Ltd.
 H&A Park Co.,Ltd.
 M&S Realty Co.,Ltd.
 Arabian Spas (Dubai) (LLC)
 Hoi An River Park Company Limited
 Anantara Vacation Club (HK) Limited
 Anantara Vacation Club (Cambodia) Co.,Ltd.
 Sanya Anantara Real Estate Limited
 Minor Hotel Management (Shanghai) Limited
 MSpa Ventures Limited
 Oaks Hotels & Resorts Limited
 Eutopia Holdings Private Limited
 Harbour View Corporation Limited

Jada Resort and Spa (Private) Limited
Kalutara Luxury Hotel & Resort (Private) Limited
Tanzania Tourism and Hospitality Investment Ltd
Zanzibar Tourism and Hospitality Investment Ltd.
O Plus E Holdings Private Ltd.
Rani Minor Holding Limited
The Sothea (K.V.) Pte Ltd.
PH Resorts (Private) Ltd.
Per Aquum Management JLT
Rani Minor Holding II Limited
Minor Hotel Group South Africa (PTY) Limited
Minor Hotel Group MEA DMCC
MHG Desaru Hotel Sdn. Bhd.
MHG Desaru Villas Sdn. Bhd.
M SPA International Cairo LLM
PT Wika Realty Minor Development
Minor Continental Portugal S.A.
Minor Hotels Zambia Limited
Avani Lesotho (Pty) Ltd
MHG Lesotho (Pty) Ltd
Minor Hotel Group Gaborone (Pty) Ltd
R.G.E. (HKG) Limited
Plexus Maldives Pvt. Ltd
MHG Management Tunisia
Corbin & King Limited
(Formerly known as Minor C&K Limited)
Barbarons Beach Hotel MHG
Letsatsi Casino (Pty) Limited
Sands Hotels (Pty) Limited
MHG Perth Investments Pty Ltd
MHG Australia Investments Pty Ltd

SECTION C.1.10

At the approval date of this Annual Corporate Governance Report, Mr Ramón Aragonés no longer held any position at JV Grand China Hotel Management (CHINA), due to the fact that NH has sold his stake in the mentioned company.

SECTION C.1.29

Notwithstanding the fact that during 2018 Mr Pedro Ferreras Díez had been acting as Board Secretary, the Board of Directors meeting held on 7 February 2019, following a favourable report from the Appointments, Remuneration and Corporate Governance Committee, appointed Mr Carlos Ulecia Palacios as new Secretary of NH, following the resignation tendered by Mr Ferreras.

SECTION C.2.1.

The reference section shows the make up of the Audit and Control Committee on 31.12.2018. It is reported that the Board of Directors, at its meeting held on 7 February 2019, approved the appointment of Mr Stephen Andrew Chojnacki, following the resignation tendered by Mr José María Sagardoy Llonis.

With regard to the make up of the Appointments, Remuneration and Corporate Governance Committee, it is noted that, during the aforementioned session, the Board of Directors approved the appointment of Mr Stephen Andrew Chojnacki as a new member of the aforesaid Committee.

During the aforementioned meeting, the Board unanimously approved assuming all the functions that are its own, so the Executive Committee has ceased its activities, with all members having submitted their respective resignations, namely Mr Ramón Aragonés, Mr Dillip Rajakarier and Mr Paul Daniel Johnson.

SECTION D.2

The first Related Transaction described under this paragraph is the one entered into between Grupo Inversor Hesperia, S.A. and NH Hotel Group, S.A. and correspond to the management fees charged by NH Hotel Group, S.A, under the Framework Contract for Transaction and Global Hotel Management signed between the parties.

As a result of the change of control of the NH Group on 30 November 2018, the effective termination of all the management contracts defined in the framework contract entered into in 2017 with Grupo Inversor Hesperia, S.A. was formalised for the management of 28 hotels for a period of nine years, which until then had been managed by the NH Group as this contract included an early termination clause in the event of a change of control of the NH Group.

As a result of this termination, the Group has de-recognised the net book value of the activated management contracts amounting to 30.4 million euros. In the same way, a revenue of 33 million euros has been recorded corresponding to the "Net Price Refund Amount" defined in the framework contract, which includes the receipt of an advance indemnity revenue amounting to 20 million euros, the settlement of the pending payment by NH related to the premiums for contracts amounting to 11,560 thousand euros, which was recognised under "Other Financial Liabilities" in the consolidated balance sheet at 31 December 2017, and the sale of the Hesperia brand, the net book value of which amounted to 45 thousand euros, for an amount of 1.4 million euros. The net effect of 2.6 million euros of revenue arising from the early cancellation of the contract entered into with GIHSA, before its tax impact, is recognised under "Net result on disposal of assets" of the 2018 consolidated comprehensive profit and loss statement has been included under paragraph D.2.

At 31 December 2018, 178 thousand euros had not yet been paid in respect of the audit requested by Minor IPC following the takeover. This amount will be refactured from NH to Minor IPC:

Finally, it is stated that on 7 February 2019 NH Hotel Group, S.A. Minor IPC entered into i) a Framework Agreement that aims to establish a transparent framework of relations between the Company and Minor and its group companies, in order to regulate, among others the allocation of costs between the parties, all in compliance with the provisions of the Second Recommendation of the Code of Good Corporate Governance of Listed Companies and ii) a reciprocal trademark licence agreement, whereby both parties licence the use of their respective trademarks in the geographical areas where the other party operates. Said agreements were duly approved by the Board of Directors following a favourable report from the Audit and Control Committee and notified through the Relevant Fact on 7 February 2019.

SECOND RECOMMENDATION

As a result of the takeover bid by Minor Group and whose result was reported by the CNMV through the Relevant Fact on 26 October 2018, both parties, in their capacity as listed companies and in compliance with the provisions of the Second Recommendation, have entered into a Framework Agreement whose objective is to regulate the relations between the Company and Minor whereby, following the best practices of corporate governance:

- (i) the scope of action of the respective hotel groups headed by NH and Minor, respectively, is delimited through the identification of preferred geographical zones or areas;
- (ii) the necessary mechanisms to prevent and respond to possible conflicts of interest are governed, as well as carrying out operations with related parties and developing business opportunities; and
- (iii) the commitments related to the exchange and provision of information by NH and its processing are established.

The signing of the aforesaid Framework Agreement by the parties was duly communicated to the CNMV by means of a Relevant Fact on 7 February 2019.

RECOMMENDATION 37

At 31 December 2018, the Executive Committee did not represent the same categories as the ones represented in the Board. Nevertheless the Board during its meeting on 7 February 2019, unanimously approved assuming all the functions that are its own, so the Executive Committee has ceased its activities, with all members having submitted their respective resignations, namely Mr Ramón Aragonés, Mr Dillip Rajakarier and Mr Paul Daniel Johnson. That's the reason why the answer to the Recommendation is to state "not applicable"

RECOMMENDATION 47

At 31 December 2018, the Appointments, Remuneration and Corporate Governance Committee was made up of two members (both Independent Directors), as well as its non-Director Secretary. This situation is brought about by the takeover bid of shares acquired by MHG Continental Holding (Singapore) Pte Ltd, which has led, among others, to the exit of the Directors representing the shareholder Grupo Inversor Hesperia, S.A. Therefore, on 12 November 2018, Mr Jordi Ferrer Graupera, ceased to be a member of the Appointments, Remuneration and Corporate Governance Committee, on behalf of the Grupo Inversor Hesperia, S.A.

On 7 February 2019, the Board of Directors unanimously approved the appointment of Mr Stephen Andrew Chojnacki as the new member.

This appointment complies with the recommendation, given that the majority of its members are Independent Directors and all members have the knowledge, aptitudes and experience suitable to properly perform their duties.

2. CODES OF ETHICAL PRINCIPLES AND GOOD PRACTICES

NH Hotel Group, S.A. it is a member of the United Nations Global Compact and supports and contributes to the Sustainable Development Goals (SDGs) that contemplate the protection and promotion of fundamental human rights.

Another global frame of reference for NH is the Global Code of Ethics for Tourism, approved in 1999 by the United Nations World Tourism Organization (UNWTO) Assembly. It is a set of 10 principles designed to guide the main tourism development actors, helping to maximise the benefits of the sector, while minimising its impact on the environment, cultural heritage and local communities.

In this vein, in September 2012, NH joined ECPAT (End Child Prostitution, Child Pornography and Trafficking of Children for Sexual Purposes) to protect children against sexual exploitation in tourism; also promoted by UNWTO and UNICEF.

NH is part of the International Tourism Partnership (ITP), a global platform for leading companies in the hotel sector that share a common commitment to social responsibility and sustainability. This organisation establishes four main goals, among which is the protection and promotion of human rights, a target that NH endorses and supports.

In 2018, the 16 NH hotels in Mexico initiated a process to voluntarily adhere to the National Code of Conduct for the protection of children and adolescents in the travel and tourism sector that aims to prevent and combat it with special emphasis on child exploitation. It is promoted by the Secretariat of Tourism of the Government of the Republic (SECTUR). In addition, training will be offered to employees in the prevention of human trafficking and child exploitation.

The Company participates in various forums and projects to promote the fight against climate change and the reduction of carbon emissions.

Finally, since 2015, NH has adhered to the 20 July 2010 Code of Good Tax Practices.



This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on.

[25/02/2019]

State whether any directors voted against or abstained from voting on this report

- YES
- No

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, 2018

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 18th, 2019, 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, 2018, 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, 2018 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 5/2013 of June 12th 2013, subsequently amended by Circular 7/2015 of December 22nd, 2015, and by Circular 2/2018 of June 12th, (hereinafter, the CNMV Circular norms).

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 norms, for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.



Pilar Cerezo Sobrino
February 25th, 2019

NH Hotel Group, S.A.

Financial Statements for the year
ended 31 December 2018 and
Directors' Report, together with
Independent Auditor's Report

*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.*

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 FINANCIAL STATEMENTS

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

Report on the Financial Statements

Opinion

We have audited the financial statements of NH Hotel Group, S.A. (the Company), which comprise the balance sheet as at 31 December 2018, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2018, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2-a to the financial statements) and, in particular, with the accounting principles and rules contained therein.

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 Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the 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.

Key Audit Matters

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

Recoverability of deferred tax assets

Description

The balance sheet as at 31 December 2018 includes deferred tax assets amounting to EUR 95 million, of which EUR 85 million relate to tax credits assets (mainly tax losses and deductions) of the Company.

At the end of the year the Company 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.

Procedures applied in the audit

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 Company 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 and the consistency of these projections with those used in other areas of estimation, such as those used in the assessment of impairment on financial investments relating to Group companies and associates or in the impairment test on hotel assets. We also involved our internal experts from the tax area in the analysis of the reasonableness of the tax assumptions considered on the basis of the applicable legislation.

Lastly, we assessed whether Note 14 to the accompanying financial statements contains the disclosures required in this connection by the regulatory financial reporting framework applicable to the Company.

Measurement of ownership interests in Group companies and associates

Description

The Company has ownership interests in the share capital of Group companies and associates that are not listed on regulated markets, as detailed in Note 8.2.

The measurement of these ownership interests requires the use of judgements and significant estimates by management, both in determining future cash flow discounting as the valuation method and in considering the key assumptions established.

The matters indicated above, and the significance of the investments held, which amounted to EUR 1,895 million at 31 December 2018, led us to determine the situation described to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, obtaining and analysing the valuation studies conducted by Company management on the aforementioned ownership interests, and verifying the clerical accuracy thereof and the appropriateness of the valuation method used in relation to the investment held. For this purpose, we analysed whether the future cash flow estimates considered in the analysis conducted were consistent with the budgets approved by the Board of Directors and with external data and historical information on the investees.

In this connection, we analysed the reasonableness of the main assumptions used (basically those relating to future cash flow forecasts, the terminal value and discount rates) and the consistency thereof with actual performance data on the investments held, as well as other key assumptions considered (such as revenue growth, assumptions regarding gross margins, cost inflation and perpetuity growth rates) using public data relating to the industry in which the investees operate. We also considered the ability to distribute dividends based on historical information and existing agreements that would not prevent the payment of dividends in the future, and also performed a sensitivity analysis on the key assumptions identified.

We involved our internal valuation experts in order to evaluate, mainly, the discount rates considered and the terminal value, expressed in perpetuity growth terms, of the projected future cash flows. Lastly, we checked that the disclosures included in Nota 8.2 to the accompanying financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

Impairment test on assets associated with the hotel activity

Description

As indicated in Note 18-a to the financial statements, at 31 December 2018 the Company carried on its activities through hotel establishments operated and owned by it, or received revenue from the lease of hotel assets owned by it. At 31 December 2018, the carrying amount of all the assets associated with the hotel activity, including both property, plant and equipment and intangible assets, was EUR 154 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"), Company 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 specific growth rates and a specific discount rate.

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 used for the hotel assets is the "discounted cash flow method", which requires estimates, among others, of:

- The future room rental revenue of each CGU (projected as the product of the occupancy rate, the average room rate and the total rooms available per year).
- The other revenue projected as the average ratio of the room rental revenue to the other 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 assistance 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 2018 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, by comparing them with available objective public data;
- 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 Company's budgets.

We also checked that the disclosures made by the Company in relation to these matters, which are included in Notes 4-c, 5 and 6 to the accompanying financial statements for 2018, contain the information required by the applicable accounting regulations.

Other Information: Directors' Report

The other information comprises only the directors' report for 2018, the preparation of which is the responsibility of the Company's directors and which does not form part of the financial statements.

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

a) A specific level that applies to the 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 directors' report, or, as the case may be, that the directors' report contains the corresponding reference to the separate report on non-financial information as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the financial statements, based on the knowledge of the entity obtained in the audit of those 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 this section of the 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 directors' report includes a reference to the fact that the information described in section a) above is presented in the directors' report of the NH Group to which the Company belongs, that the information in the ACGR, discussed in the aforementioned section, is included in the director's report and that the other information in the directors' report is consistent with that contained in the financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

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

The directors are responsible for preparing the accompanying financial statements so that they present fairly the Company's equity, financial position and results in accordance with the regulatory financial reporting framework applicable to the Company in Spain, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

Report on Other Legal and Regulatory Requirements

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated 25 February 2019.

Engagement Period

The General Meeting held on 21 June 2018 appointed us as the Group's auditors for a period of one year from 31 December 2017, i.e. for 2018.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of one year and have been auditing the financial statements uninterruptedly since the year ended 31 December 1993.

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



Pilar Cerezo Sobrino
Registered in ROAC under no. 16502

25 February 2019

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 financial statements.

Auditor's Responsibilities for the Audit of the 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 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 entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use by the 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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the entity'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 entity'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 entity's audit committee, we determine those matters that were of most significance in the audit of the 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.

Translation of 2018 Financial Statements and Management Report originally issued in Spanish and prepared in accordance with Spanish GAAP. In the event of a discrepancy, the Spanish-language version prevails (see Note 23).

NH HOTEL GROUP, S.A.

2018 Annual Accounts

Contents

BALANCE SHEET	4
INCOME STATEMENT	5
STATEMENT OF CHANGES IN EQUITY	6
CASH FLOW STATEMENT	8
REPORT OF THE ANNUAL FINANCIAL STATEMENTS	9
1.-COMPANY PURPOSE	9
2.- BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS	10
3.- PROPOSED DISTRIBUTION OF PROFITS	11
4.- ACCOUNTING POLICIES	11
5.- INTANGIBLE ASSETS	21
6.- PROPERTY, PLANT & EQUIPMENT	22
7. INVENTORY	24
8.- FINANCIAL INVESTMENTS	24
9.- NON-CURRENT ASSETS HELD FOR SALE, LIABILITIES LINKED TO NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	28
10.- CASH AND CASH EQUIVALENTS	28
11.- EQUITY	29
12.- PROVISION FOR CONTINGENCIES AND CHARGES	30
13. CURRENT AND NON-CURRENT PAYABLES	31
14.- PUBLIC AUTHORITIES AND TAX MATTERS	36
15.- INFORMATION ON AVERAGE PERIOD FOR PAYMENT TO SUPPLIERS	41
16.- THIRD-PARTY GUARANTEES AND CLAIMS IN PROCESS	42
17.- BALANCES AND TRANSACTIONS WITH RELATED PARTIES	44
18.- INCOME AND EXPENSES	46
19. REMUNERATION AND OTHER EMOLUMENTS OF THE BOARD OF DIRECTORS	50
20.- INFORMATION ON THE ENVIRONMENT	51
21.- FOREIGN CURRENCY	52
22.- EVENTS AFTER THE REPORTING PERIOD	53
23.- TRANSLATION	53
EVOLUTION OF BUSINESS AND GROUP'S SITUATION	54

NH HOTEL GROUP. S.A.

2018 Annual Accounts

BALANCE SHEET

NH Hotel Group, S.A.
BALANCE AT 31 DECEMBER 2018 AND 2017
(Thousands of euros)

ASSETS	Note	31/12/2018	31/12/2017	LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31/12/2018	31/12/2017
NON- CURRENT ASSETS:		2,203,969	2,223,024	EQUITY:	Note 11	2,030,813	1,659,263
Intangible assets	Note 5	41,966	45,208	SHAREHOLDERS' EQUITY			
Property, plant and equipment	Note 6	111,666	117,710	Share capital		784,361	700,544
Non-current investments in Group companies and associates		1,950,804	1,942,429	Share premium		828,932	706,601
Equity instruments	Note 8.2	1,894,892	1,886,517	Legal		515,727	491,835
Loans to companies	Note 17.1	55,912	55,912	Legal and statutory reserves		58,836	56,017
Non-current financial assets	Note 8.1	4,367	17,711	Other reserves		456,891	435,818
Deferred tax assets	Note 14	95,166	99,966	Prior years' losses		(255,869)	(255,869)
				Treasury shares		(2,530)	(39,250)
				Other equity instruments	Note 13.1	-	27,230
				Profit (Loss) for the year		160,192	28,172
				NON-CURRENT LIABILITIES		587,245	725,917
				Long-term provisions	Note 12	14,182	11,343
				Other provisions		14,182	11,343
				Non-current payables		389,582	428,526
				Debt instruments and other marketable securities	Note 13.1	348,051	387,715
				Debts with credit institutions	Note 13.1	38,165	37,437
				Other financial liabilities	Note 13.3	3,366	3,374
				Long- term debts with group and associate companies	Note 17.1	177,576	279,972
				Deferred tax liabilities	Note 14	5,905	6,076
						139,287	591,356
CURRENT ASSETS:		553,375	753,512	CURRENT LIABILITIES:			
Non-current assets classified as held for sale	Note 9	63,031	51,465	Short-term provisions	Note 12	-	5,800
Inventories		111	109	Current payables		568	247,544
Trade and other receivables		8,032	12,203	Debt instruments and other marketable securities	Note 13.1	1,188	246,195
Trade accounts receivable for sales and services		6,720	7,466	Debts with credit institutions	Note 13.1	(620)	1,349
Sundry debtors		13	192	Short- term debts with group and associate companies	Note 17.1	78,029	289,496
Current tax assets	Note 14	-	1,518	Trade creditors and other accounts payable		60,690	48,516
Other tax receivables	Note 14	1,300	3,027	Suppliers		41,915	32,366
Current investments in Group companies and associates	Note 17.1	480,003	688,186	Other creditors		9,846	9,720
Short- term financial investments		26	26	Personnel		6,013	5,424
Short- term accruals		2,050	1,030	Other taxes payable	Note 14	2,916	1,006
Cash and cash equivalents	Note 10	122	493				
TOTAL ASSETS		2,757,345	2,976,536	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		2,757,345	2,976,536

The accompanying Notes 1 to 23 are an integral part of the balance sheet at 31 December 2018.
The balance sheet at 31 December 2017 is presented for comparison purposes only.

INCOME STATEMENT

NH Hotel Group, S.A.

INCOME STATEMENT FOR 2018

(Thousands of euros)

	Note	31/12/2018	31/12/2017
Revenues	Note 18	195,912	31,326
Sales		31,077	29,738
Other Income	Note 17.2	164,835	1,588
Procurements		1,156	1,230
Work carried out by the company for its assets		2,461	2,854
Other operating income	Note 17.2	87,525	87,853
Non-core and other current operating income		87,525	87,853
Staff costs	Note 18.b	(36,920)	(38,186)
Wages, salaries and similar		(30,701)	(32,538)
Social security contributions		(6,219)	(5,648)
Other operating expenses		(58,021)	(50,742)
External services	Note 18.c	(22,554)	(23,192)
Taxes		(1,968)	(1,987)
Losses on, impairment of and changes in allowances for trade receivables		(101)	68
Other current operating expenses		(33,398)	(25,631)
Depreciation and amortisation charge	Notes 5 & 6	(21,062)	(19,464)
Impairment and gains or losses on disposals of non-current assets		20,590	22,982
Impairments and other losses	Notes 5 & 6	(40)	95
Income from disposals and other	Note 6 and 18.e	20,630	22,887
PROFIT/LOSS FROM OPERATIONS		191,641	37,853
Financial income		1,029	894
From securities held for trading and other financial instruments			
- Third parties		1,029	894
Financial expenses		(42,229)	(59,660)
On debts to Group companies and associates	Note 17.2	(7,368)	(4,393)
On debts to third parties		(34,861)	(55,267)
Changes in fair value of financial instruments		-	(7)
Exchange rate differences		(251)	493
Impairment and gains or losses on disposals of financial instruments	Note 8.2	7,432	51,375
FINANCIAL PROFIT/LOSS		(34,019)	(6,905)
PROFIT/LOSS BEFORE TAX		157,622	30,948
Income tax	Note 14	2,570	(2,776)
PROFIT/LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		160,192	28,172

The accompanying Notes 1 to 23 are an integral part of the income statement for 2018.

The income statement for 2017 is presented for comparison purposes only.

STATEMENT OF CHANGES IN EQUITY

NH Hotel Group, S.A.
STATEMENT OF CHANGES IN EQUITY FOR 2018
A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE

	Thousands of euros	
	2018	2017
PROFIT/LOSS AS PER INCOME STATEMENT (I)	160,192	28,172
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)	-	-
TOTAL TRANSFERS TO PROFIT OR LOSS (III)	-	-
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)	160,192	28,172

The accompanying Notes 1 to 23 are an integral part of the statement of recognised income and expense for 2018.
The statement of recognised income and expense for the year ended 31 December 2017 is presented for comparison purposes only.

NH HOTEL GROUP, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR 2018
B) STATEMENTS OF CHANGES IN TOTAL EQUITY

(Thousands of euros)

	Own Funds						Valuation adjustments	Total Shareholders' Equity
	Share capital	Share premium	Legal	Treasury Shares	Prior years' profits (losses)	Profit (Loss) for the Year		
Balances at 31 December 2016	700,544	706,601	477,432	(39,983)	(354,882)	128,964	27,230	1,645,906
<i>I. Total recognised income</i>	-	-	-	-	-	28,172	-	28,172
<i>II. Transactions with shareholders or owners</i>	-	-	-	-	-	(17,056)	-	(17,056)
1. Transactions with treasury shares or shareholdings (net)	-	-	-	-	-	(17,056)	-	(17,056)
<i>III. Other changes in equity</i>	-	-	14,403	733	99,013	(111,908)	-	2,241
1. Transfers between equity items	-	-	12,895	-	99,013	(111,908)	-	-
2. Remuneration scheme in shares	-	-	1,508	733	-	-	-	2,241
Balances at 31 December 2017	700,544	706,601	491,835	(39,250)	(255,869)	28,172	27,230	1,659,263
<i>I. Total recognised income</i>	-	-	-	-	-	160,192	-	160,192
<i>II. Transactions with shareholders or owners</i>	-	-	(13,803)	-	-	(25,355)	-	(39,158)
1. Distribution of dividends (Note 11.a)	-	-	(13,803)	-	-	(25,355)	-	(39,158)
<i>III. Other changes in equity</i>	83,817	122,331	37,695	36,720	-	(2,817)	(27,230)	250,516
1. Transfers between equity items (Note 11)	-	-	2,817	-	-	(2,817)	-	-
2. Convertible bonds	83,817	122,331	33,691	35,691	-	-	(27,230)	248,300
3. Remuneration scheme in shares	-	-	1,187	1,029	-	-	-	2,216
Balances at 31 December 2018	784,361	828,932	515,727	(2,530)	(255,869)	160,192	-	2,030,813

The accompanying Notes 1 to 23 are an integral part of the statement of changes in total equity for the year 2018.

The statement of changes in equity for the year 2017 is presented for comparison only.

CASH FLOW STATEMENT
NH HOTEL GROUP, S.A.

CASH FLOW STATEMENT FOR 2018

(Thousands of euros)

	Notes to the financial statements	2018	2017
A) CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit (loss) before tax		157,622	30,948
2. Adjustments for:		(119,172)	3,664
a) Income from holding activity (-)	Note 18.a	(164,835)	(1,588)
b) Depreciation and amortisation charge (+)	Notes 5 & 6	21,062	19,464
c) Impairment losses (+/-)	Notes 5 & 6	40	(95)
d) Changes in provisions (+/-)		7,082	(225)
e) Gains/Losses on derecognition and disposal of non-current assets (+/-)	Note 18.e	(20,630)	(22,887)
f) Gains/Losses on derecognition and disposal of financial instruments (+/-)	Note 8.2	(7,432)	(51,375)
g) Finance income (-)		(1,029)	(894)
h) Finance costs (+)		42,229	59,660
i) Exchange rate differences (+/-)		251	(493)
j) Changes in the fair value of financial instruments (+/-)		-	7
k) Other income and expenses (-/+)		4,090	2,090
3. Changes in working capital		2,356	(5,536)
a) Inventories (+/-)		(2)	(5)
b) Trade and other receivables (+/-)		(3,709)	(3,515)
c) Other current assets (+/-)		(1,020)	2,780
d) Trade and other payables (+/-)		6,457	(3,578)
e) Other current liabilities (+/-)		-	(18)
f) Other non-current assets and liabilities (+/-)		630	(1,200)
4. Other cash flows from operating activities:		(24,468)	(48,230)
a) Interest paid (-)		(25,984)	(48,309)
b) Interest received (+)		23	79
c) Income tax received (paid)		1,493	-
5. Cash flows from investment activities (+/- 1+/- 2+/-3+/-4)		16,338	(19,155)
B) CASH FLOWS FROM INVESTMENT ACTIVITIES			
6. Payments due to investment		(23,380)	(175,050)
a) Group companies and associates		(1,533)	(160,930)
b) Tangible and intangible fixed assets		(21,847)	(14,120)
7. Proceeds from disposal (+):		90,975	24,044
a) Group companies and associates		74,697	-
b) Property, plant and equipment		16,278	24,044
c) Other financial assets		-	-
8. Cash flows from investment activities (7-6)		67,595	(151,006)
C) CASH FLOWS FROM FINANCING ACTIVITIES			
9. Equity instruments receivables and (payables):		-	-
a) Purchase of treasury shares (-)		-	-
10. Proceeds and payments relating to financial liability instruments:		(45,211)	125,224
a) Issue of		-	271,975
1. Borrowings from Group companies and associates		-	271,975
b) Redemption of		-	-
1. Debt instruments and other marketable securities (-)	Note 13.1	(43,204)	(135,000)
2. Bank borrowings (-)	Note 13.1	(2,007)	(11,751)
11. Dividends payable and remuneration on other equity instruments		(39,158)	(17,056)
a) Dividends (-)	Note 11	(39,158)	(17,056)
12. Cash flows from financing activities (+/-9+/-10+/-11)		(84,369)	108,168
D) EFFECT OF EXCHANGE RATE VARIATIONS			
		65	(66)
E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)			
		(371)	(62,059)
Cash and cash equivalents at the start of the financial year		493	62,552
Cash and cash equivalents at end of year		122	493

The accompanying Notes 1 to 23 are an integral part of the cash flow statement for the year 2018.
The cash flow statement for 2017 is presented for comparison only.

**REPORT ON THE ANNUAL ACCOUNTS OF NH HOTEL GROUP S.A. FOR
THE YEAR ENDING 31 DECEMBER 2018**

=====

1.-COMPANY PURPOSE

NH HOTEL GROUP, S.A. (hereinafter the 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 Company, which focused on the management of its shareholding portfolio.

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

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

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

The Company is the head of a group of subsidiaries engaging in the same activities and that constitute, together with NH Hotel Group, S.A., the NH Hotel Group.

At the end of 2018, the Group was operating hotels in 28 countries, with 350 hotels and 54,374 rooms, of which around 69% are located in Spain, Germany, Italy and the Benelux countries.

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

The consolidated financial statements for 2018 were drawn up by the directors of NH Hotel Group, S.A. at the Board meeting held on 25 February 2019, in accordance with the regulatory reporting framework applicable to the Group, as established in the Code of Commerce and all other Spanish corporate law, and in the International Financial Reporting Standards ("IFRS") adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and in Law 62/2003, of 30 December, the Tax, Administrative, Labour and Social Security Measures Act, and as such give a true and fair presentation the Group's equity and financial position at 31 December 2018 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 were approved by the shareholders at the Annual General Meeting held on 21 June 2018 and filed with the Companies Registry of Madrid.

The consolidated financial statements for 2018 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.

Based on the contents of said consolidated financial statements, the total volume of equity, period profit, assets and consolidated sales amounted to 1,504 million euros, 118 million euros, 2,563 million euros and 1,613 million euros, respectively.

2.- BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

a) Regulatory financial reporting framework applicable to the Company

These financial statements were prepared by the directors in accordance with the regulatory financial reporting framework applicable to the Company, which consists of:

- a) Spanish Commercial Code and all other Spanish corporate law.
- b) The General Accounting Plan approved by Royal Decree 1514/2007, which was amended by Royal Decree 602/2016, and its sector adaptations.
- c) The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the General Accounting Plan and the relevant secondary legislation.
- d) The standards and circulars of the National Securities Commission.
- e) All other applicable Spanish accounting legislation.

b) True and fair presentation

These financial statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable thereto and, in particular, with the accounting principles and rules contained therein and, accordingly, provide a true and fair presentation of the Company's equity, financial position, results of operations and cash flows for 2018.

c) Non-obligatory accounting principles

No non-obligatory accounting principles were applied. Furthermore, the Company's directors formally prepared these financial statements by taking into account all the obligatory accounting principles and standards with a significant effect hereon. All obligatory accounting principles were applied.

d) Key issues in relation to the measurement and estimation of uncertainty

In the preparation of these financial statements, estimates were made by the Company's directors in order to quantify certain assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment of possible impairment losses on certain assets.
- 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 market value of specific assets.
- The calculation of provisions.
- Recoverability of tax assets.

Although these estimates were made on the basis of the best information available at year-end 2018, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively.

e) Comparative information

The information relating to 2017 contained in these notes to the financial statements is presented for the purposes of comparison with the information for 2018.

f) Grouping of items

Certain items in the balance sheet, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement are grouped together to make them easier to understand; however, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

g) Changing in accounting policies

In 2018 there were no significant changes in accounting policies with respect to those applied in 2017.

h) Correction of errors

In preparing the accompanying financial statements for 2018, no material errors were detected that would have made it necessary to restate the amounts included in the financial statements for 2017.

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):

	2018
To legal reserve	16,019
To distribution of dividends	58,737
To voluntary reserves	85,436
Total	160,192

In addition, the Company's directors will propose offsetting prior years' losses on the Company's balance sheet at 31 December 2018, amounting to 255,869 thousand euros, against voluntary reserves.

4.- ACCOUNTING POLICIES

The main accounting policies used by the Company in preparing the financial statements for 2018, in accordance with the Spanish Generally Accepted Accounting Principles, were as follows:

a) 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 Company. Only those whose cost can be estimated in an objective way and from which future economic profits are expected are recognised.

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

Intangible assets with a finite useful life are amortised according to the straight-line method, applying annual amortisation percentages calculated according to the estimated years of useful life of the asset in question.

As a general rule, intangible assets are recognised initially at acquisition or production cost. They are subsequently measured at cost less the related accumulated amortisation and any impairment losses.

"Intangible Assets" in the accompanying balance sheet includes, essentially, the following:

- i) **Usufruct Rights:** this item reflects the right to operate Hotel NH Plaza de Armas in Seville, acquired in 1994, whose amortisation is recognised in the income statement over the 30-year term of the agreement at a rate which increases by 4% each year.
- ii) **“Computer applications”** include the costs incurred by the Company in the acquisition and development of various computer software programmes acquired by the different consolidated companies. Computer applications are amortised applying the straight-line method at 20 - 25% per year.

b) Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition cost and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in Note 4-c.

Property, plant and equipment upkeep and maintenance expenses are recognised on the income statement for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

For non-current assets that necessarily take a period of more than twelve months to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to loans or other funds borrowed specifically or generally directly attributable to the acquisition or production of the assets.

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 Company depreciates its property, plant and equipment using the straight-line method, distributing the cost of the assets over the following years of estimated useful life, as follows:

	Estimated years of useful life
Buildings	50
Plant and machinery	10 - 12
Other plant, fixtures and furniture	4 - 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 retirement of an asset is calculated as the difference between the profit on the sale and the book value of the asset, and is recognised in the income statement.

c) Impairment of intangible assets and property, plant and equipment

Each year the Company assesses the possible existence of losses in value requiring it to reduce the book value of its property, plant and equipment and intangible assets. Loss of value is deemed to exist when the recoverable value is below the asset book value.

The recoverable amount is determined as the value in use. Value in use is calculated based on estimated future cash flows, discounted at a discount rate after tax which reflects the current market value, in relation to the value of money and the specific risks associated with the asset over a five-year period, and a perpetual value, except in the case of leased hotels corresponding with the leasing period, for which a perpetual value is not considered.

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

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

Once the operating result is obtained for each CGU, the impairment test is performed for those in which there are indications of impairment. The Company considers a CGU to show signs of impairment if it meets the following conditions, among others: it has negative operating results and its business is stable (i.e., this does not apply to recently opened hotels until, usually, 3 years after they open).

Additionally, all the CGUs that have shown an impairment in previous years will be analysed individually and subjected to an impairment test.

Future cash flows are estimated based on the result for the year approved by the Company's directors, and the records of 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 macroeconomic information from external sources of information, and the business knowledge of the Company's Operations Management.

A series of factors are considered by the Company's directors when drafting their projections:

- 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.
- Local management's knowledge of the local business/assets/situation of each CGU.
- 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).
- Tax costs are calculated based on the applicable tax rates.
- 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:

$$WACC=K_e \cdot E/(E+D) + K_d \cdot (1-T) \cdot D/(E+D)$$

Where:

K_e : Cost of Equity
 K_d : 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 (k_e).

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% (6.7% in 2017), based on market reports.
- Beta or systematic risk: Used as 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 83% de-leveraged betas (64% in 2017), the debt structure of comparable companies (Debt / (Debt + Equity) of 26% (31% in 2017) and the corresponding tax rate.
- Market value of debt, amounting to 2.3% (5% in 2017).
- Premium by size: based on recent expert reports.

The discount rate after tax applied by the Company for this purpose is 8.15%. In this regard, the cash flows resulting from the impairment tests were also calculated after tax. In addition, 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.

The average discount rate before tax applied by the Company for this purpose is 10.24% (8.77% in 2017).

Using a post-tax discount rate and post-tax cash flows is consistent with the standards, as the 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.

If the recoverable value of an asset is estimated to be less than its book value, the asset's book value is reduced to its recoverable amount, and the related write-down is recognised in the income 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 5 and 6 of this Annual Report.

d) Leases

Leases are classified as financial leases whenever the terms of the lease substantially transfer all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

The Company generally classifies all leases as operating leases. 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.

Expenses resulting from operating leases are charged to income in the year in which they are incurred.

When the Company 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 Company is the lessee, the cost of leasing is charged to the income statement on a straight-line basis, with the resulting asset or liability recorded in the corresponding sections of the balance sheet.

e) Financial instruments

1) Financial assets

The financial assets held by the Company are classified into the following categories:

- Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in a two-way market.
- Investments in the equity of the Company's group companies, associates and jointly controlled entities: group companies are deemed to be those related to the Company as a result of a relationship of control and associates are companies over which the Company exercises significant influence. Jointly controlled entities include companies over which, by virtue of an agreement, the Company exercises joint control with one or more other partners.
- Financial assets held for sale These include debt securities and equity instruments of other companies that are not classified in any of the previous categories.
- Financial assets held for trading: those acquired with a view to disposing of them in the short term or those that are part of a portfolio where evidence exists of recent actions with this goal. This category also includes financial derivatives that are not finance guarantees (e.g. sureties) or those designated as hedging instruments.

Initial measurement –

Financial assets are initially recognised at the fair value of the consideration given, plus any directly eligible transaction costs.

Subsequent measurement –

Loans and receivables are measured at amortised cost.

Investments in the Company's group companies, associates and interests in jointly controlled entities are measured at cost, net of any accumulated impairment losses, where appropriate. These losses are calculated as the difference between the carrying value of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement (including any goodwill).

Financial assets held for sale are measured at fair value and the gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or it is determined that it has become permanently impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the net profit or loss for the year.

Lastly, financial assets held for trading are valued at their fair value, registering the result of changes in fair value in the income statement.

At least at each reporting date, the Company tests financial assets not measured at fair value through profit or loss for impairment. Objective evidence of impairment is deemed to exist when the recoverable amount of the financial asset is lower than its carrying value. When this occurs, the impairment loss is recognised on the income statement.

In particular, in relation to valuation adjustments relating to trade and other receivables, the Company calculates the corresponding impairment losses, if any, by analysing these on a case-by-case basis and provisioning balances past due by more than 180 days.

The Company deregisters financial assets when they mature, or when the rights to the financial asset's cash flows have been transferred, along with the inherent risks and benefits of ownership.

Conversely, the Company 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.

2) Equity instruments

An equity instrument represents a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments issued by the Company are recognised in equity as the proceeds received, net of issue costs.

Treasury shares acquired by the Company during the year 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 profit or loss.

3) Financial liabilities

Financial liabilities include accounts payable by the Company that have arisen from the purchase of goods or services in the normal course of the Company's business and those which, not having commercial substance, cannot be classed as derivative financial instruments.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

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.

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 transaction costs and financial expenses are recognised on an accrual basis in the income 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.

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 Company 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).

f) Inventories

Restaurant inventories are measured at the lower of acquisition cost or realisable value

g) Foreign currency transactions

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognised by applying the exchange rates prevailing on the date of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates then prevailing. Any resulting gains or losses are recognised directly in the income statement in the year in which they arise.

h) Income tax

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

The current income tax expense is the amount payable by the Company as a result of income tax settlements for a given year. Tax credits and other tax benefits, excluding tax withholdings and interim payments, and tax loss carryforwards from prior years effectively offset in the current year reduce the current income tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences measured as the amount expected to be payable or recoverable on differences between the carrying values of assets and liabilities and their tax bases,

and tax loss and tax credit carryforwards. 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.

Deferred tax liabilities are recognised for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination and affects neither accounting profit (loss) nor taxable profit (tax loss).

Deferred tax assets are recognised to the extent that it is considered likely that the Group will have taxable profits in the future against which the deferred tax assets can be utilised.

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised in equity.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made, according to the extent of doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become likely that they will be recovered through future taxable profits.

i) Income and expenses

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discounts and taxes.

Revenue from sales and services rendered is also recognised by reference to the stage of completion of the transaction at the reporting date, provided the outcome of the transaction can be reliably estimated.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment has been established. In any case, interest from financial assets accrued after the date of acquisition is recognised as income in the income statement.

j) Provisions and contingencies

The financial statements include all the provisions with respect to which it is considered likely that the obligation will have to be settled. Contingent liabilities are not recognised in the financial statements but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognised as interest cost on an accrual basis.

The compensation to be received from a third party on settlement of the obligation is recognised as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised as a result of which the Company is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognised.

k) Termination benefits

Under current legislation and certain employment contracts, the Company is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken.

At 31 December 2018 the Company recognised 527 thousand euros for this item (4,055 thousand euros for the previous year) (see Note 18-b).

l) Environmental assets and liabilities

Environmental assets are deemed to be assets used on a lasting basis in the Company's operations whose main purpose is to minimise environmental impact and protect and improve the environment, including the reduction or elimination of future pollution.

Because of their nature, the Company's business activities do not have a significant environmental impact.

m) Obligations to employees

The Company has not established any supplementary pension plan to the social security system

Collective agreements in the hotel industry, applicable to the Company in Spain, require 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 Company has outsourced its obligations concerning its employees' pension plans.

n) Share-based remuneration schemes

These schemes, which may be paid 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.

The allocation of the aforementioned valuation to profit or loss is carried out under personnel expenses on a straight line basis over the period of time the employee is employed as a requirement for its exercise, and a balancing entry on the Balance Sheet under Reserves.

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

ñ) Transactions with related parties

The Company performs all its transactions with related parties on an arm's length basis. Also, the transfer prices are adequately supported and, therefore, the Company's directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future.

o) Current/Non-current classification

Current assets are assets associated with the normal operating cycle, which in general is considered to be one year; other assets which are expected to mature, be disposed of or be realised within twelve months from the end of the reporting period; financial assets held for trading, except for financial derivatives that will be settled in a period exceeding one year; and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current assets.

Similarly, current liabilities are liabilities associated with the normal operating cycle, financial liabilities held for trading, except for financial derivatives that will be settled in a period exceeding one year; and, in general, all obligations that will mature or be extinguished in the short term. All other liabilities are classified as non-current liabilities.

p) Onerous contracts

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

The Company follows the principle of recording a provision at the present value of the aforementioned difference 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.c.

q) Non-current assets classified as held for sale

Under the heading "Non-current assets classified as held for sale" the Company includes those assets whose book value is to be recovered through their sale and not through their continued use. 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 that the sale will be within one year from the date of classification.

Non-current assets 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.

r) Cash flow statements

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

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities of the Company, and other activities that are not 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.- INTANGIBLE ASSETS

The detail of the different items included in "Intangible Assets" and of the changes therein in 2018 and 2017 are as follows (in thousands of euros):

	Balance at 31/12/2017	Additions	Retirements	Assignments (Note 6)	Balance at 31/12/2018
COST					
Rights of use	32,275	104	-	-	32,379
Concessions, patents and trademarks	858	147	-	7	1,012
Software applications	63,948	12,009	(370)	(1)	75,586
	97,081	12,260	(370)	6	108,977
ACCUMULATED AMORTISATION					
Rights of use	(22,151)	(1,776)	-	(6)	(23,933)
Concessions, patents and trademarks	(142)	(129)	-	6	(265)
Software applications	(29,580)	(13,533)	281	19	(42,813)
	(51,873)	(15,438)	281	19	(67,011)
Impairment	-	-	-	-	-
NET BOOK VALUE	45,208				41,966

	Balance at 31/12/2016	Additions	Retirements	Assignments (Note 6)	Balance at 31/12/2017
COST					
Rights of use	32,176	100	-	(1)	32,275
Concessions, patents and trademarks	359	315	(71)	255	858
Software applications	116,374	9,648	(63,655)	1,581	63,948
	148,909	10,063	(63,726)	1,835	97,081
ACCUMULATED AMORTISATION					
Rights of use	(20,799)	(1,363)	2	9	(22,151)
Concessions, patents and trademarks	(102)	(98)	71	(13)	(142)
Software applications	(80,635)	(12,163)	63,216	2	(29,580)
	(101,536)	(13,624)	63,289	(2)	(51,873)
Impairment	-	-	-	-	-
NET BOOK VALUE	47,373				45,208

The most significant additions in 2018 were those arising from investments made to develop the Company's computer applications.

The section "Usufruct Rights" recognises the total amount agreed by way of payment for the usufruct rights over the Hotel NH Plaza de Armas.

At the end of 2018 and 2017, the Company had fully amortised intangible assets still in use, itemised as follows (in thousands of euros):

	Thousands of euros	
	2018	2017
Usage rights, concessions, patents and brands	1,912	1,615
Software applications	3,837	10
Total	5,749	1,625

6.- PROPERTY, PLANT & EQUIPMENT

The detail of the different items of "Intangible Assets" and of the changes therein in 2018 and 2017 are as follows (in thousands of euros):

	Balance at 31/12/2017	Additions	Retirements	Transfers (Notes 5 & 9)	Balance at 31/12/2018
COST					
Land and buildings	92,193	515	-	(1,758)	90,950
Plant and machinery	62,456	2,006	(910)	18	63,570
Other plant, fixtures and furniture	9,760	940	(385)	12	10,327
Other fixed assets and assets under construction	2,362	7,833	-	(9,842)	353
	166,771	11,294	(1,295)	(11,570)	165,200
ACCUMULATED AMORTISATION					
Buildings	(12,116)	(1,794)	-	(21)	(13,931)
Plant, machinery and equipment	(30,976)	(3,013)	863	-	(33,126)
Other fixtures, tools, furniture and other fixed assets	(5,870)	(817)	349	-	(6,338)
	(48,962)	(5,624)	1,212	(21)	(53,395)
Impairment	(99)	(76)	36	-	(139)
NET BOOK VALUE	117,710				111,666

	Balance at 31/12/2016	Additions	Retirements	Transfers	Balance at 31/12/2017
COST					
Land and buildings	92,022	477	(327)	21	92,193
Plant, machinery and equipment	63,822	829	(2,278)	83	62,456
Other plant, fixtures and furniture	9,361	254	(3,978)	4,123	9,760
Other fixed assets and assets under construction	6,187	2,321	(80)	(6,066)	2,362
	171,392	3,881	(6,663)	(1,839)	166,771
ACCUMULATED AMORTISATION					
Buildings	(10,394)	(1,803)	82	(1)	(12,116)
Plant, machinery and equipment	(29,764)	(3,218)	2,006	-	(30,976)
Other fixtures, tools, Furniture and other fixed assets	(8,774)	(819)	3,716	7	(5,870)
	(48,932)	(5,840)	5,804	6	(48,962)
Impairment	(370)	-	271	-	(99)
NET BOOK VALUE	122,090				117,710

The most significant addition in the year relate to the works carried out in NH Málaga and the renovation of certain hotels, notably the NH Plaza de Armas.

Additionally, there have been disposals of tangible and intangible assets during the year, amounting to a net capital gain of 20,630 thousand euros (22,887 thousand euros in 2017) registered under the item "Income from disposals and other" in the income statement of 2018.

Transfers relate mainly to the second building of the NH Málaga II classified as a non-current asset held for sale in 2018 amounting to 11,566 thousand euros (see Note 9).

At the end of 2018 and 2017, the Company had fully depreciated items of property, plant and equipment still in use, itemised as follows:

	Thousands of euros	
	2018	2017
Plant and machinery	16,900	14,514
Other fixtures, tools, furniture and others	3,688	3,499
Total	20,588	18,013

The heading related to Land and Buildings is broken down into Land at 50,656 thousand euros and Buildings at 40,294 thousand euros.

The Company has taken out insurance policies to cover the possible risks to which the different elements of its property, plant and equipment are subject and the claims that may be filed against it for conducting

its business activities. It is understood that such policies sufficiently cover the risks to which the Company is exposed.

At 31 December 2018, there is 76 thousand euros in commitments for the purchase of fixed assets.

7. INVENTORY

At 31 December 2018 and 2017, the Company had contracted with lessors for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment reviews:

Thousands of euros	Actual value	
	2018	2017
Less than one year	6,135	6,056
Between two and five years	17,478	19,297
More than five years	5,996	8,887
Total	29,609	34,240

The current value of the rental payments has been calculated by applying a discount rate in keeping with the Company's weighted average cost of capital and includes the commitments which the Company estimates will have to be met in the future to guarantee a minimum return from hotels operated under a management agreement.

The operating lease payments recognised as an expense in the years ended 2018 and 2017 came to 4,670 thousand euros and 4,591 thousand euros respectively, almost entirely consisting of the hotel lease payments (see Note 18-c).

The term of the operating leases arranged by the Company ranges from 5 to 15 years. Also, the rental income from said leases consists of a fixed amount tied to the CPI index which is reviewed annually.

8.- FINANCIAL INVESTMENTS

8.1- Non-current financial assets

The breakdown of this item at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Other collection rights	3,039	16,395
Guarantees	1,310	1,310
Others	18	6
Total	4,367	17,711

At 2017 year-end, the "Other collection rights" line item reflected 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. At the end of 2018, the amount of this claim was collected without any economic losses by the Company.

8.2- Group companies, jointly-controlled entities and associates

The most significant information in relation to Group companies, jointly controlled entities and associates at year-end 2018 and 2017 is as follows:

Company/ Registered address /Activity	Direct shareholding	2018 - Thousands of euros					
		Share capital	Profit (Loss)	Other equity items	Total Shareholders' Equity	Cost	Provision
NH Italia, S.p.A./Valdagno/Hotelera	51%	233,847	139,195	184,895	557,937	300,249	-
NH Europa, S.A./Madrid/Holding	100%	100,743	73,492	584,571	758,806	973,359	-
Latinoamericana De Gestion Hotelera, S.A./Madrid/Holding	100%	104,036	82,494	14,744	201,274	179,217	-
NH Hoteles España, S.A./Madrid/Hotelera	100%	177,059	8,988	(17,050)	168,997	351,383	-
NH Central Reservation Office, S.L./Madrid/Call Center	100%	7,700	1,332	658	9,690	31,663	(24,918)
NH Finance, S.A./Luxemburg/Financing	99%	12,032	9,173	79,955	101,160	80,508	-
Beijing NH Grand China Hotel Management Co, Ltd	50%	8,950	(171)	(4,627)	4,152	4,421	(2,518)
Others						1,528	-
Total						1,922,328	(27,436)

Company/ Registered address /Activity	Direct shareholding	2017 - Thousands of euros					
		Share capital	Profit (Loss)	Other equity items	Total Shareholders' Equity	Cost	Provision
NH Italia, S.p.A./Valdagno/Hotelera	51%	233,847	18,596	166,479	418,922	300,209	-
NH Europa, S.A./Madrid/Holding	100%	100,743	(5,104)	751,378	847,018	973,359	-
Latinoamericana De Gestion Hotelera, S.A./Madrid/Holding	100%	104,036	3,567	10,982	118,585	179,217	(8,664)
NH Hoteles España, S.A./Madrid/Hotelera	100%	177,059	24,885	(42,947)	158,997	351,086	-
NH Central Reservation Office, S.L./Madrid/Call Center	100%	7,700	(1,134)	1,804	8,370	31,675	(26,249)
NH Finance, S.A./Luxemburg/Financing	99%	12,032	5,846	74,049	91,927	80,508	-
Beijing NH Grand China Hotel Management Co, Ltd	50%	8,950	(1,533)	(3,057)	4,360	4,421	-
Others						955	-
Total						1,921,430	(34,913)

The changes in "Investments in Group Companies" in 2018 are as follows (in thousand euros):

Company/ Registered address /Activity	Cost			Provision			Net		
	Balance at 31/12/2017	Additions	Retirements	Balance at 31/12/2018	Balance at 31/12/2017	Additions	Reversals	Balance at 31/12/2018	Balance at 31/12/2018
NH Italia, S.p.A./Valdagno/Hotelera	300,209	41	-	300,250	-	-	-	-	300,250
NH Finance, S.A./Luxemburg/Financing	80,508	-	-	80,508	-	-	-	-	80,508
NH Europa, S.L./Madrid/Holding	973,359	-	-	973,359	-	-	-	-	973,359
Latinoamericana De Gestion Hotelera, S.A./Madrid/Holding	179,217	-	-	179,217	(8,664)	-	8,664	-	179,217
NH Hoteles España, S.L./Barcelona/Hospitality	351,086	296	-	351,382	-	-	-	-	351,382
NH Central Reservation Office, S.L/Madrid/Call Center	31,675	1	(13)	31,663	(26,249)	-	1,331	(24,918)	6,745
Beijing NH Grand China Hotel Management Co, Ltd/China/Hotelera	4,421	-	-	4,421	-	(2,518)	-	(2,518)	1,903
Others	955	575	(2)	1,528	-	-	-	-	1,528
Total	1,921,430	913	(15)	1,922,328	(34,913)	(2,518)	9,995	(27,436)	1,894,892

The changes in "Investments in Group Companies" in 2017 are as follows (in thousand euros):

Company/ Registered address /Activity	Cost			Provision			Net		
	Balance at 31/12/2016	Additions	Retirements	Balance at 31/12/2017	Balance at 31/12/2016	Additions	Reversals	Balance at 31/12/2017	Balance at 31/12/2017
NH Italia, S.p.A./Valdagno/Hotelera	300,133	76	-	300,209	-	-	-	-	300,209
NH Finance, S.A./Luxemburg/Financing	80,508	-	-	80,508	-	-	-	-	80,508
NH Europa, S.L./Madrid/Holding	973,359	-	-	973,359	-	-	-	-	973,359
Latinoamericana De Gestion Hotelera, S.A./Madrid/Holding	179,217	-	-	179,217	(61,174)	-	52,510	(8,664)	170,553
NH Hoteles España, S.L./Barcelona/Hospitality	350,857	229	-	351,086	-	-	-	-	351,086
NH Central Reservation Office, S.L/Madrid/Call Center	31,652	23	-	31,675	(25,115)	(1,134)	-	(26,249)	5,426
Beijing NH Grand China Hotel Management Co, Ltd/China/Hotelera	4,421	-	-	4,421	-	-	-	-	4,421
Others	607	395	(47)	955	-	-	-	-	955
Total	1,920,754	723	(47)	1,921,430	(86,289)	(1,134)	52,510	(34,913)	1,886,517

During the first six months of 2018, the Group liquidated Hotel & Congress Technology, S.L. in which it held 50% of equity. The net result of these liquidation produced a negative result of 45 thousand euros registered under the item "Impairment and gains or losses on disposals of financial instruments" of the income statement of the year.

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

In accordance with the 9th Regulation on Registration and Valuation of the General Accounting Plan on "Non-current assets held for sale" (see Note 4.q), non-strategic assets which, pursuant to the Strategic Plan, are undergoing divestment with committed sales plans, were registered.

On 28 December 2016, the Company acquired 50% of the inactive company Capredo Investments GmbH for 3,190 thousand euros, of which 3,150 thousand euros is still outstanding (see Note 13.2).

At 2018 year-end, the land and property in which the NH Málaga II hotel is located, the sale of which is expected to take place at the beginning of 2019, was recognised as available for sale.

The significant data in relation to these assets at 31 December 2018 is as follows:

Company	Direct shareholding	Thousands of euros				
		Share capital	Profit (Loss)	Other equity items	Total Shareholders' Equity	Cost
Sotocaribe, S.L.	35.5%	61,082	1,748	100,672	160,006	42,399
Capredo Investments GmbH	100%	40	30	13,560	13,630	9,066
NH Málaga (Note 6)	-	-	-	-	-	11,566
Total						63,031

10.- CASH AND CASH EQUIVALENTS

"Cash and Cash Equivalents" largely includes the Company's cash position, loans granted and bank deposits maturing in three months or less. The average interest rate obtained by the Company for its cash and cash equivalents balances in 2018 and 2017 was a Euribor-tied variable rate. These assets are recognised at their fair value.

There are no restrictions on how cash may be used.

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.

11.- EQUITY

a) Registered share capital

On 5 June and 13 June 2018 deeds were registered for the conversion of convertible bonds (see Note 13.1) and capital increase in which a total of 41,908,455 new ordinary shares were issued, each with a nominal value of 2 euros, in the context of the conversion of bonds convertible to NH Hotel Group, S.A. shares, which were issued on 31 October 2013.

Due to this bond conversion and capital increase, the share capital of NH Hotel Group, S.A. came to 784,360,486 euros, divided into 392,180,243 ordinary shares of the same category and series, each with a face value of 2 euros and fully subscribed and paid up. All these shares carry identical voting and economic rights and are traded on the Continuous Market of the Spanish Stock Exchanges.

According to the latest notifications received by the Company and the notices given to the National Securities Market Commission before the end of every financial year, the shareholders with shareholdings above 3% at 31 December 2018 and 2017 were as follows:

	2018	2017
Minor International Public Company Limited*	94.13%	-
HNA Group Co Limited	-	29.35%
Oceanwood Capital Management LLP	-	12.06%
Hesperia Group	-	9.27%

*Ultimate shareholder through its subsidiary MHG Continental Holding (Singapore) Pte. Ltd.

Changes in the shareholder structure and control of the Company:

Between the months of May and September 2018, various purchase and sale contracts were entered into by Minor International Public Company Limited ("MINT"), as buyer, and the HNA Group and with funds managed by Oceanwood, all of which as sellers. As a result of these transactions, MINT acquired all the Sellers' interests in the Company. In addition to these transactions, MINT acquired several non-significant shareholdings, as a result of which on 30 September 2018 MINT owned 179,772,214 shares in NH Hotel Group, S.A., representing 45.84% of its share capital.

In parallel, on 11 June 2018, MHG International Holding (Singapore) Pte. Ltd. (a company wholly owned by MINT) made a takeover bid ("OPA") for 100% of the shares that formed part of the share capital of NH Hotel Group, S.A., which, once approved by the Spanish regulatory body, the "CNMV" (Spain's National Securities Market Commission), and the acceptance period was opened, was accepted, among others, by the hitherto shareholder Grupo Hesperia.

As a consequence of the takeover bid, the result of which was notified by the CNMV through a significant event on 26 October 2018, and of the purchase and sale transactions described above, (i) the funds managed by Oceanwood, the HNA Group and the Hesperia Group lost their status as significant shareholders of NH Hotel Group, S.A.; and (ii) MINT acquired, through its wholly-owned subsidiary MHG Continental Holding (Singapore) Pte. Ltd., shares representing 94.13% of the share capital of NH Hotel Group, S.A.

The three proprietary directors representing the majority shareholder "Minor International PCL" do not hold a personal interest in the Company. By virtue of the foregoing, at 2018 year-end, the different members of the Board of Directors owned or represented (by virtue of their status as proprietary) 94.16% of the share capital of the Company. At 31 December 2017, this percentage was 21.38%.

On 21 June 2018, the General Shareholders' Meeting approved the distribution of a dividend at 10 cents per outstanding share, charged to 2017 profits and voluntary reserves. The total amount of dividends paid in 2017 amounted to 39 million euros.

b) Share premium

The balance of the "Share Premium" account arose as a result of the capital increases carried out by the Company.

The Consolidated Spanish Public Limited Liability Companies Act expressly permits the use of the share premium account balance to increase capital in the entities for which it is recognised and does not establish any specific restrictions as to its use.

c) Legal reserve

Under the Consolidated Spanish Limited Liability Companies Act, the Company must transfer 10% of net profit for each year to the legal reserve until the balance of this reserve reaches at least 20% of its 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. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

At 31 December 2018 and 2017, the Company's legal reserve was not fully constituted.

d) Restricted reserve

Reserves totalling 2,530 thousand euros at 31 December 2018 (39,250 thousand euros at 31 December 2017) could not be distributed, as this figure corresponds to own shares.

e) Treasury Shares

At the end of the year, NH Hotel Group, S.A. had 600,000 treasury shares on its balance sheet, compared with 9,416,368 treasury shares at 31 December 2017. The reduction in treasury shares over the period can be explained by the following movements:

- In June 2018, the Company delivered 8,569,262 own shares to bond-holders for the early conversion of convertible bonds worth 250 million euros. These include 1,384,473 shares held by one of the entities participating in the loan of 9,000,000 shares associated with the issue, which has been definitively settled.
- In the first half of 2018, the second cycle of the long-term incentive plan was settled (see Note 18). This second cycle was settled by the delivery of 247,106 shares valued at 1,029 thousand euros.

12.- PROVISION FOR CONTINGENCIES AND CHARGES

The detail of "Provisions for Contingencies and Charges" as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Provisions for contingencies and extraordinary costs:		
Provision for pensions and similar obligations	340	306
Provision for liabilities	13,842	11,037
	14,182	11,343
Provisions for contingencies and current expenses:		
Provision for restructuring	-	5,800
	-	5,800

Provision for liabilities

In 2018, the long-term "Provision for liabilities" account includes provisions for litigation and risks which the Company considers probable. No decision on these claims is expected in the short term.

13. CURRENT AND NON-CURRENT PAYABLES

13.1 Debt instruments and Debts with credit institutions

The balances of the "Bonds and other negotiable securities" and "Debts with credit institutions" items at 31 December 2018 and 2017 were as follows:

	Thousands of euros			
	2018		2017	
	Long-term	Short-term	Long-term	Short-term
Convertible bonds	-	-	-	250,000
Guaranteed senior bonds maturing in 2023	356,850	-	400,000	-
Borrowing costs	-	3,308	-	5,125
Arrangement expenses	(8,799)	(2,120)	(12,285)	(8,930)
Debt instruments and other marketable securities	348,051	1,188	387,715	246,195
Subordinated loans	40,000	-	40,000	-
Credit lines	-	8	-	2,008
Arrangement expenses	(1,835)	(770)	(2,563)	(799)
Borrowing costs	-	142	-	140
Debts with credit institutions	38,165	(620)	37,437	1,349
Total	386,216	568	425,152	247,544

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
Rank of debt	Unguaranteed senior
Issue price	100%
Coupon	4%
Exchange price	€4.919
Conversion premium	30%
Redemption price	100%
Maximum number of shares to issue	50,823,338

In 2018 the Company announced the early conversion, at the bondholders' choice, of the convertible bonds whose execution period ended on 11 June 2018 when the conversion deadline expired. The result of the early conversion was the delivery of 248.3 million euros of the total nominal amount of 250 million euros to the bondholders who requested the early conversion. This delivery was made by the Company through

the delivery of 8.6 million treasury shares and 41.9 million newly issued shares. Meanwhile, bond-holders who did not request early conversion received 1.7 million euros face value plus the corresponding accrued interest.

Due to this conversion, the loan of 9,000,000 shares associated with the issue was permanently cancelled, and the 1,384,473 shares held by one of the entities participating in the loan of securities were returned; these shares were used for the early conversion of the bond.

Secured senior bonds maturing in 2023

On 23 September 2016, the Company placed guaranteed convertible senior bonds for a nominal value of 285,000 thousand euros, maturing in 2023. The nominal yearly interest rate for said issuance of notes is 3.75%. On 4 April 2017, the 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 2018 is 356,850 thousand euros (see the heading "Depreciation and Amortisation 2018").

"Depreciation and Amortisation 2018"

As a result of the change of control (see Note 11) and as established in the voluntary repurchase and early redemption offer for the issue of senior secured bonds maturing in 2023 (the "Bonds") due to the change of control, requests were received for the repurchase and redemption of bonds for a nominal amount of 3,150 thousand euros.

The bond repurchase offer was settled on 12 November 2018, the date on which the Company paid an aggregate amount of 3,195 thousand euros to the bondholders, who accepted the offer as a whole:

- Nominal paid in advance: 3,150 thousand euros
- Unpaid accrued interest: 13.5 thousand euros
- Amount of the repurchase premium: 31.5 thousand euros

On 14 December 2018, the Company carried out the partial voluntary early redemption, for a nominal amount of 40,000 thousand euros (representing 10% of its original total amount), of the issue of senior secured bonds maturing in 2023 (the "Bonds"), by means of a linear pro rata reduction of the nominal value of all the bonds in circulation. The Bonds were redeemed early through the payment of approximately 103.760% of the nominal value of the Bonds being redeemed, including:

- Nominal paid in advance: 40,000 thousand euros
- Unpaid accrued interest: 304.2 thousand euros
- Amount of the repurchase premium: 1,200 thousand euros

The Company paid the partial redemptions from available cash.

Secured credit line

On 22 September 2016, the 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 was extended to 29 September 2021. At 31 December 2018, this financing was available.

Obligations required in the guaranteed 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 $\geq 2.00x$, (ii) a debt coverage ratio of $\leq 5.50x$, and (iii) a Loan to Value ("LTV") ratio which, as a result of the refinancing of the 2019 senior secured obligations due in 2017, depends on the level of NH's indebtedness at any given time as indicated below:

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

As a result of the early redemption of the convertible bonds and of the Group's reduced debt ratio, the maximum LTV permitted at 31 December 2018 is 100%.

At 31 December 2018 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 2018) share the following guarantees: (i) pledge of shares: 100% of the share capital of (A) Diegem, (B) Immo Hotel BCC NV, (C) Immo Hotel Brugge NV, (D) Immo Hotel Diegem NV, (E) Immo Hotel GP NV, (F) Immo Hotel Mechelen NV, (G) Immo Hotel Stephanie NV, (H) Onroerend Goed Beheer Maatschappij Van Alphenstraat Zandvoort, B.V. and (I) 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.; 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 Debt Ratio. Net Financial (through the payment of the Dividend) / EBITDA according to the following breakdown:

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

Credit lines

At 31 December 2018, 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 2018 amounted to 44,176 thousand euros, of which 8 thousand euros had been drawn down at that date. Additionally, at 31 December 2018, the Company had a guaranteed syndicated credit line amounting to 250,000 thousand euros, maturing on 29 September 2021.

Subordinated loan

A loan amounting to 40,000 thousand euros fully drawn at 31 December 2018 and with a single maturity and repayment in 2037, are included in this item. The interest rate of these loans is the 3-month Euribor plus a differential.

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):

Instrument	Limit	Available	Disposed	Maturity						Remainder
				2018	2019	2020	2021	2022	2023	
Subordinated loans	40,000	-	40,000	-	-	-	-	-	-	40,000
Variable interest	40,000	-	40,000	-	-	-	-	-	-	40,000
Guaranteed senior notes mat. in 2023	356,850	-	356,850	-	-	-	-	-	356,850	-
Fixed rate	356,850	-	356,850	-	-	-	-	-	356,850	-
Secured syndicated credit line	250,000	250,000	-	-	-	-	-	-	-	-
Fixed rate	250,000	250,000	-	-	-	-	-	-	-	-
Credit lines	44,177	44,169	8	-	8	-	-	-	-	-
Variable interest	44,176	44,169	8	-	8	-	-	-	-	-
Arrangement expenses	(13,524)	-	(13,524)	-	(2,889)	(2,941)	(2,890)	(2,454)	(1,957)	(393)
Borrowing costs	3,450	-	3,450	-	3,450	-	-	-	-	-
Indebtedness at 31/12/2018	680,953	294,169	386,784	-	569	(2,941)	(2,890)	(2,454)	354,893	39,607
Indebtedness at 31/12/2017	971,041	298,345	672,696	247,544	(3,091)	(3,233)	(3,187)	(2,755)	437,418	-

13.2 Other non-current financial liabilities

The balance of "Other Non-Current Financial Liabilities" at the end of 2018 and 2017 is as follows (in thousands of euros):

	2018	2017
Acquisition of Capredo Investment GmbH (Note 9)	3,150	3,150
Others	216	224
Total	3,366	3,374

13.3. Information on the nature of financial instruments and their level of 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 Company's main financial assets include cash and cash equivalents (Note 10) and trade and other receivables. In general, the Company holds its cash and cash equivalents in institutions with a high level of creditworthiness and part of its trade and other receivables are endorsed by guarantees, guarantors and advance payments by tour operators.

The Company does not have a significant concentration of credit risk exposure to third parties, both due to the diversification of its financial investments and to the distribution of trade risks with short collection periods among a large number of customers.

Interest rate risk

The Company's financial assets and liabilities are exposed to fluctuations in interest rates, and this may have an adverse effect on its results and cash flow. In order to mitigate this risk, the Company 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 2018, approximately 89.9% of the gross borrowings was tied to fixed interest rates.

Aside from the impact any changes in interest rates could have on financial assets and liabilities which comprise the net cash position, changes could arise in the valuation of the financial instruments arranged by the Company. The effects of changes in the interest rates on efficient derivatives are booked against equity, while the effects on inefficient derivatives are booked in the income statement. The Company has chosen to exclude the temporary value of designating hedges in order to improve their efficiency.

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 Company's liquidity position in 2018 is based on the following points:

- The Company had cash and cash equivalents amounting to 122 thousand euros at 31 December 2018 (see Note 10).
- Available undrawn credit facilities amounting to 44,169 thousand euros at 31 December 2018. Plus the syndicated credit line for 250,000 thousand euros, maturing on 29 September 2021, which was undrawn at 31 December 2018.
- The company's capacity to increase its financial borrowing; given that it has non-collateralised assets in the companies it majority owns and meets the financial ratios required by the financing agreements.

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

Exchange rate risk

The Company is exposed to exchange rate fluctuations that may affect its sales, results, equity and cash flows, arising largely from:

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

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

14.- PUBLIC AUTHORITIES AND TAX MATTERS

NH Hotel Group, S.A. and the companies with tax residence in Spain in which it held a direct or indirect stake of at least 75% during the 2018 tax period pay Corporate Income Tax subject to the tax consolidation scheme governed by Title VII, Chapter VI of Law 27/2014 of 27 November on Corporate Income Tax.

The NH Hotel Group, S.A. tax group (hereinafter the "Tax Group") comprised the following companies in 2018:

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

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.

In previous years the Tax Group carried out restructuring operations in which it opted for the special scheme for business reorganisation provided in the Corporate Tax Law. The legally established items are included in the annual report of the corresponding year.

Balances with Public Authorities

The detail of "Balances with Public Authorities" is as follows:

Tax receivables

	Thousands of euros	
	2018	2017
Non-current receivables		
Deferred tax assets	95,166	99,966
Total	95,166	99,966
Current receivables		
VAT refundable	1,277	1,169
Corporate income tax refundable	-	1,518
Others	23	1,858
Total	1,300	4,545

Tax payables

	Thousands of euros	
	2018	2017
Non-current payables		
Deferred tax liabilities	5,905	6,076
Total	5,905	6,076
Current payables		
Corporate income tax payable	1,787	-
Tax withholdings payable	627	513
Social Security payable	494	432
Others	8	61
Total	2,916	1,006

Reconciliation of the accounting profit to the taxable income

Corporate Income tax is calculated on the basis of accounting profit or loss determined by application of the generally accepted accounting principles, and applying the relevant adjustments in accordance with the rules set out in Law 27/2014 on Corporate Income Tax. Therefore, the accounting profit may not necessarily coincide with the taxable income for Corporation Tax purposes.

The reconciliation of the accounting profit to the Corporate Income Tax to pay or refund for the years 2018 and 2017 is as follows (in thousands of euros):

	Thousands of euros	
	2018	2017
Accounting profit before tax	157,622	30,948
<u>Adjustments to accounting profit (loss):</u>		
Due to permanent differences	(175,775)	(21,051)
Due to temporary differences	4,321	587
Individual taxable base	(13,832)	10,484
Tax bases provided by the consolidated companies	73,960	58,732
Previous taxable base	60,128	69,216
Carryforwards for negative tax bases before consolidation	(6,412)	(2,875)
Set-off for negative tax bases	(8,619)	(14,429)
Tax base of the tax group	45,096	51,912
Tax liability (25%)	(11,274)	(12,978)
Double taxation relief	4,009	6,489
Non-registered deductions used in the year	1,816	1,622
Withholdings and pre-payments	3,661	6,281
Current taxes to be refunded / (to pay)	(1,787)	1,414
Previous years' taxes to be refunded	-	-
Total taxes to be refunded/(paid)	(1,787)	1,414

The permanent differences relate mainly to the non-deductible shareholding provisions, exemption on dividends and reversal of impairments of shares which were tax-deductible in tax periods before 2013 and which, as from 1 January 2016, must be reversed at a minimum annual amount on a straight-line basis over five years. In this respect, in 2018 the Tax Group added approximately 31 million euros as the minimum annual reversion amount, of which 3.6 million euros relates to the Company. In addition, the Tax Group reversed 11.6 million euros of impairment losses on the tax portfolio due to positive changes in the equity of subsidiaries.

The temporary differences relate mainly to provisions for accounting purposes and impairment losses not considered a tax expense and with the recovery of 30% of the amortisation that was not deductible in 2013 and 2014 calculated in accordance with Article 7 of Law 16/2014, introducing various tax and administrative measures aimed at consolidating public finances and driving economic activity.

Reconciliation of accounting profit and Corporate Income Tax (expense)/income

The reconciliation of accounting profit and Corporate Income Tax (expense)/income is as follows:

	2018	2017
Accounting profit before tax	157,622	30,948
Permanent differences	(175,775)	(21,051)
Adjusted tax base	(18,153)	9,897
Tax quota (25%)	4,538	(2,474)
Non-activated deductions applied in the year	-	186
De-recognition of assets and liabilities	(1,960)	-
Others	(8)	(488)
Total tax (expense)/income recognised in the income statement	2,570	(2,776)

The break down of Corporation Tax expense for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Current tax	3,458	(2,621)
Non-activated deductions applied in the year	-	186
Deferred tax	1,080	147
De-recognition of assets and liabilities	(1,960)	-
Others	(8)	(488)
Total Corporation Tax income / (expense)	2,570	(2,776)

Deferred tax assets

The changes in "Total Current Tax Expense (Tax Income)" in 2018 are as follows:

	Thousands of euros	
	2018	2017
<i>Deferred tax assets</i>		
Balance at beginning of year	99,966	108,961
Tax credit offsets	(2,102)	(3,243)
Application of capitalised deductions	(4,009)	(5,528)
Temporary differences	927	(152)
Other movements	384	(71)
Balance at end of year:	95,166	99,966

	Thousands of euros	
	2018	2017
<i>Detail of the balance on deferred tax assets</i>		
Negative tax bases	84,571	86,673
Deductions	647	4,257
Others	9,948	9,036
Balance at end of year:	95,166	99,966

The cancellation of assets amounting to 2,102 thousand euros is due to the cancellation of tax losses to offset the positive tax bases generated in 2018. This cancellation considers the net effect of the accounting adjustment for the final presentation of the 2017 corporate income tax return. Additionally, the cancellation of deductions has been made in the amount of 4,009 thousand euros as a result of their use to offset the tax quota resulting in 2018.

The balance of deferred tax assets relates mainly to tax credit on tax losses in previous years, temporary differences generated by the amortisation deductible limit and various provisions.

At 31 December 2018, the Tax Group had assets resulting from tax losses and deductions amounting to 85,218 thousand euros (90,930 thousand euros in 2017). At 31 December 2018, 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 Company's Directors have decided to maintain the tax credits recognised in the balance sheet.

At 31 December 2018, the Tax Group had the following negative tax bases pending offsetting:

Financial year	Amount
2009	59,817
2010	18,313
2011	25,909
2012	131,570
2013	12,763
2014	80,125
2015	14,905
Total	343,402

This amount considers 5,112 thousand euros related to not registered tax losses.

At 31 December 2018 the Tax Group, had tax credits worth 117,271 thousand euros (119,136 thousand euros at 31 December 2017) that had not been entered in the accompanying balance sheet because the Directors considered they did not meet accounting standard requirements. These assets are grouped as follows:

	Thousands of euros	
	2018	2017
Finance costs and negative tax bases		
Non-deductible finance costs by the Tax Group	256,170	260,852
Tax losses generated by the Tax Group	5,112	-
Tax losses generated by the Spanish entities before entering in the Tax Group	99,722	103,572
Total base	361,004	364,424
Total at 25%	90,251	91,106
Deductions by the Tax Group	27,020	28,030
Total non-activated tax credits	117,271	119,136

The Company did not capitalise the non-deductible finance costs exceeding the 30% tax EBITDA calculated in accordance with Article 16 of Law 27/2014 of 27 November on Corporate Income Tax, due to not having the required degree of certainty that sufficient profit will be generated from operations over the next ten years to offset said result pursuant to the aforementioned article. However, due to the dividends received in the year, the adjustment to the Company's individual tax base was negative to the tune of 4,405 thousand euros in 2018 (positive adjustment of 35,726 thousand euros in 2017). There is no deadline for offsetting non-deductible finance costs.

Deferred tax liabilities

The movements in deferred tax liabilities during 2018 are as follows:

	Thousands of euros	
	2018	2017
<i>Deferred tax liabilities</i>		
Balance at beginning of year:	6,076	6,247
Deferral on reinvestment	(171)	(171)
Balance at end of year:	5,905	6,076

Years open for review and tax audits

The years open for review for the Tax Group are as follows:

<u>Tax</u>	<u>Fiscal years</u>
Corporation	2014 to 2017
VAT	2015 to 2018
IRPF (personal income tax)	2015 to 2018
Non-resident Income Tax	2015 to 2018

In relation to the years open to audit, contingent liabilities not susceptible to objective quantification may exist but, in the opinion of the Directors, they are not material.

Deductions applied by the Tax Group

At 31 December 2018, the Tax Group held the following tax credits carryforward (thousand euros):

<u>Year of origin</u>	<u>Deduction pending application</u>	<u>Amount</u>
2004 to 2011	Deduction to encourage certain activities	26,240
2014 - 2017	IT Deduction	780
2013 to 2014	Other	647
		27,667

Similarly, the Tax Group availed itself in prior years of the “Deferral for reinvestment of extraordinary profit.” The essential characteristics of this reinvestment are as follows (in thousands of euros):

<u>Year of origin</u>	<u>Revenue subject to deferral</u>	<u>Amount offset</u>		<u>Amount pending</u>	<u>Last year of deferral</u>
		<u>Prior years</u>	<u>2018</u>		
1999	75,145	53,485	682	20,679	2049

This income was reinvested in the acquisition of buildings.

15.- INFORMATION ON AVERAGE PERIOD FOR PAYMENT TO SUPPLIERS

Below is the information required by Additional Provision Three of Law 15/2010 of 5 July (modified through Provision two of Law 31/2014 of 3 December) according to the ICAC Resolution of 29 January 2016 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.

	2018	2017
	Days	
Average period for payment to suppliers	65	75
Ratio of paid transactions	65	75
Ratio of transactions pending payment	50	66
	Thousands of euros	
Total payments made	79,963	96,419
Total payments pending	3,449	5,037

In accordance with the ICAC Resolution, for the calculation of the average period for payment to suppliers, the commercial transactions corresponding to the delivery of goods or provision of services rendered from the date of the entry into force of Law 31/2014, of 3 December have been taken into account.

Suppliers, for the exclusive purpose of giving the information prior to this Resolution, are considered as trade creditors for debts with suppliers of goods or services, included in the items "Suppliers" and "Sundry Creditors" in current liabilities on the attached financial balance sheet at 31 December 2018.

The average period for payment to suppliers has been calculated, as stated in the Resolution of 29 January 2017, 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 2018 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.

16.- THIRD-PARTY GUARANTEES AND CLAIMS IN PROCESS

At 31 December 2018, the Company had a total of 13,177 thousand euros in economic or financial bank guarantees issued by various banks to guarantee leasing contract obligations and others related to the usual operations of NH in various countries. Therefore, their execution would be linked to a failure by NH to comply with those contractual obligations.

At 31 December 2018, the Company had taken out insurance policies to cover risks arising from damage to material goods, loss of profits and third-party liability. The capital insured sufficiently covers the assets and risks mentioned above.

Commitments to third parties

- The Company currently acts as co-guarantor for a syndicated loan granted by two banks to the associate Sotocaribe, S.L. which at 31 December 2018 had an outstanding principal of 17,268 thousand euros (equivalent to 18,915 thousand US dollars at 31 December 2017) and final maturity on 31 December 2020.
- 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.
- Within the framework of new development projects in the normal course of business, in which the Company's subsidiaries act as lessees or operators, the Company gives personal guarantees in favour of third parties to secure its contractual obligations, often issue promissory 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 13).

Claims in progress

The Company's main contingent assets and liabilities at the date of drafting these consolidated financial statements were as follows:

- The Company appeared in the insolvency proceedings of Viajes Marsans, S.A. and Tiempo Libre, S.A., from the unsettled estate of Gonzalo Pascual Arias and Gerardo Díaz Ferrán, and in the voluntary insolvency proceedings against María Angeles de la Riva Zorrilla, in order to claim outstanding amounts. The Group also appears in the voluntary bankruptcy proceedings

of Transhotel and Orizonia 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 a hotel filed a suit against a Group's subsidiary 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 with the Supreme Court, in relation to which a decision has been handed down that does not favour the interests of the Group, and it is currently at the claim settlement stage.
- 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, with which an out-of-court settlement has been reached.
 - Defendant in the claim process for contractual breaches by a property developer, with an out-of-court settlement having been reached.
 - The company may be subject to a claim for (i) amounts derived from an eventual administrative claim; (ii) and/or constructive defects.
- 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. The debtor company has entered into insolvency proceedings and the company has requested the right to separate the premises from the estate, and an agreement has been reached with the insolvency administration for the delivery of the aforementioned premises, which is in the execution phase.
- A former shareholder of the Company requested that certain resolutions adopted at the General Shareholders' Meeting be annulled. This claim was dismissed in the first instance and he withdrew it in the appeal phase, leading to the termination of the proceedings.
- A former shareholder of the Company, different from the previous one, has requested the annulment of certain resolutions adopted by the Board of Directors, and the proceedings are currently in progress.
- There are amounts related to possible compensation for the termination of a certain service contract, which are under discussion and whose maximum amounts have been fully provisioned.

The Company's directors consider that the hypothetical loss incurred as a result of such actions would not have a material effect on equity.

17.- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

17.1.- Balances with related parties

The detail of "Balances With Related Parties" in 2018 and 2017 is as follows (in thousands of euros):

2018

	Other Group companies	Other related parties
Long-term investments:	55,912	
Loans to companies	55,912	
Short-term investments:	470,983	9,020
Loans to companies	470,983	9,020
Non-current payables	(177,576)	
Current payables	(78,029)	

2017

	Other Group companies	Other related parties
Long-term investments:	55,912	
Loans to companies	55,912	
Short-term investments:	680,804	7,382
Loans to companies	680,804	7,382
Non-current payables	(279,972)	
Current payables	(289,496)	

Long-term investments

"Loans to Companies" includes the following loans granted to the following Group companies:

	Thousands of euros	
	2018	2017
Participating loans		
NH Hoteles España, S.A.	52,969	52,969
NH Central Reservation Office, S.L.	2,943	2,943
Total	55,912	55,912

The most relevant characteristics of the participating loans are as follows:

- NH Hotel Group, S.A. will receive floating-rate interest calculated in accordance with business performance (net profit) of the borrowing company.
- The aforementioned loans may not be redeemed early unless the origin of the funds for the aforementioned transaction is an increase in shareholders' equity and provided that it does not come from the recognition of assets.
- They are considered loans subordinated to the other general creditors.

- They shall be considered net equity for the purposes of capital reduction and liquidation of companies envisaged in current Spanish corporate legislation.

The Company's directors intend to extend the aforementioned loans on maturity.

Short-term investments:

“Loans to Companies” includes the following balances with Group companies:

	Thousands of euros	
	2018	2017
NH Europa, S.L.	144,447	99,924
Latinoamericana de Gestión Hotelera, S.L.	87,316	105,493
Current payables to Group companies	239,220	475,387
Total	470,983	680,804

The financing of NH Europa, S.L. and Latinoamericana de Gestión Hotelera, S.L. consists of a current account on which a variable interest rate linked to the quarterly Euribor plus a spread is paid.

The balances that comprise the current accounts payable to Group companies are made up mainly of the balances relating to the financing structure of the consolidated NH Hotel Group of which the Company is the Parent. The accounts receivable or accounts payable accrue interest at a floating rate pegged to the 3-month Euribor plus a spread. In this way, NH Hotel Group, S.A. centralises the Group's cash through a bank and in a single account.

Non-current payables

The "Long-term Debts" heading mainly consists of the loan with the Group company NH Finance, S.A. with maturity in 2020.

Current payables

“Current Payables” includes the following loans from Group companies:

	Thousands of euros	
	2018	2017
Current account with NH Hoteles España, S.A.	15	136,572
Current payables to Group companies	78,014	152,924
Total	78,029	289,496

17.2.- Transactions with related parties

The transactions performed with related parties in 2017 and 2018 are as follows:

Income

	Thousands of euros	
	2018	2017
Dividends	163,140	32
Group holding activity (Note 18.a)	163,140	32
Lease income	8,922	8,231
Group (Note 18.a)	8,922	8,231
Other operating expenses (income)	563	
Group	563	
Non-controlling	1,804	1,936
Group holding activity (Note 18.a)	1,695	1,556
Associates	109	380
Fees (Accessory Income)	87,525	87,853
Group	87,525	87,853

Expenses

	Thousands of euros	
	2018	2017
Non-controlling	7,368	4,393
Group	7,368	4,393

18.- INCOME AND EXPENSES

a) Revenues

The revenue itemised by activity is as follows (in thousands of euros):

	Thousands of euros	
	2018	2017
Hotel activity:		
Accommodation in rooms	16,681	15,777
Leasing (Note 17.2)	8,922	8,231
Catering	4,366	4,224
Rooms	830	854
Others	1,138	652
	31,937	29,738
Holding activity:		
Dividend income (Note 17.2)	163,140	32
Income from lending activity (Note 17.2)	1,695	1,556
	164,835	1,588
Revenues	196,772	31,326

Similarly, revenue corresponding to 2018 and 2017 was distributed by geographic market as follows (in thousands of euros):

	2018	2017
National market	196,772	31,326
	196,772	31,326

b) Staff costs

The breakdown of "Transactions With Related Parties" on the balance sheet for 2018 and 2017 is as follows (in thousands of euros):

	2018	2017
Wages, salaries and similar	30,174	28,483
Social security contributions	6,219	5,648
Termination benefits (Note 4.k)	527	4,055
	36,920	38,186

The average number of employees at the Company in 2018 and 2017, by professional category, was as follows:

	2018	2017
Group's general management	8	8
Managers and heads of department	83	84
Technical staff	132	124
Sales representatives	34	24
Administrative staff	42	33
Rest of workforce	153	158
Average number of employees	452	431

In calculating the average number of employees, the Company has not taken into account employees whose contracts have a duration of less than two days.

The workforce at 31 December 2018 and 2017, by professional category and gender, was as follows:

	31/12/2018		31/12/2017	
	Males	Females	Males	Females
Group's general management	6	2	6	2
Managers and heads of department	43	39	45	38
Technical staff	65	77	59	64
Sales representatives	5	29	2	22
Administrative staff	16	27	11	20
Rest of workforce	66	95	65	91
Average number of employees	201	269	188	237

The average number of employees at the Company with a disability equal to or greater than 33% in 2018 and 2017, by professional category, was as follows:

	2018	2017
Managers and heads of department	-	1
Sales representatives	1	1
Administrative staff	-	-
Rest of workforce	-	-
Average number of employees	1	2

The average age of the Company's workforce was approximately 40 years and average length of service in the Group came to 7.5 years.

Long-term Share-based Incentive Plan

On 25 June 2013, the Company's General Shareholders Meeting approved a long-term share-based incentive plan ("the plan") for the NH Hotel Group SA's executives and employees, as follows:

The plan will consist of the grant of ordinary shares of NH Hotel Group, S.A. to the beneficiaries calculated as a percentage of the fixed salary, according to their level of responsibility. The number of shares to be granted shall be subject to the degree of fulfilment of the following objectives:

- TSR (total shareholder return) at the end of each of the plan cycles, comparing the performance of NH Hotel Group, SA shares with the following indices:
 - IBEX Medium Cap
 - 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 01/01/2015 with delivery of shares in 2018 (settled)
- 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%. The second cycle was settled in the first half of 2018, with 74.4% being complied with. 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. The maximum amount approved by the General Shareholders' Meeting for the current cycle of this plan is 4,400 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 01/01/2018 with delivery of shares in 2021 (in force)

- The third cycle began on 01/01/2019 with delivery of shares in 2022 (in force)

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:

- 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
- Revaluation of the Share
- Recurring Net Profit
- 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 the date of publication of this report, all the cycles had been approved by the Board of Directors.

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 statement of changes in equity for 2018 was 1,187 thousand euros (1,508 thousand euros in 2017).

c) External services

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

	Thousands of euros	
	2018	2017
Lease rentals (Note 7)	4,670	4,591
Outsourcing of services	780	842
Supplies	582	581
Maintenance and cleaning	966	1,023
Laundry and related costs	496	493
Costs associated with information technologies	14,506	14,856
Marketing and merchandising	119	217
Other external services	435	589
	22,554	23,192

d) Other operating expenses

“Other Operating Expenses” include the fees relating to statutory audit services and other services provided to the Company, which in 2018 and 2017 totalled:

	Thousands of euros	
	2018	2017
Audit	736	284
Other verification services	209	245
Tax	260	185
Others	29	471
	1,234	1,185

e) Gains or losses on disposals of fixed assets

There have been disposals of tangible and intangible assets during the year, amounting to a net capital gain of 20,630 thousand euros (22,887 thousand euros in 2017).

19. REMUNERATION AND OTHER EMOLUMENTS OF THE BOARD OF DIRECTORS

The Management Bodies of the Company have the following composition at 31 December 2018:

- Board of Directors: 10 members in 2018 (10 in 2017),
- Executive Committee: 3 members in 2018 (5 in 2017),
- Audit and Control Committee: 3 members in 2018 (3 in 2017), and
- Appointments and Remuneration Committee: 2 members in 2018 (4 in 2017).

The amount accrued during 2018 and 2017 by the members of the Company’s Board of Directors in relation to the remuneration of the CEO, bylaw stipulated directors' fees and attendance fees and other items, is as follows:

19.1 Remuneration of the Board of Directors

Remuneration item	Thousands of euros	
	2018	2017
Fixed remuneration	500	490
Variable remuneration	335	344
Parent Company: allowances	65	178
Parent Company: attendance allowances	813	1,017
Transactions on shares and other financial instruments	247	191
Indemnifications/other	170	86
Life insurance premiums	19	26
Total	2,149	2,332

As of 31 December 2018, the Board of Directors has ten members, of whom one is a woman and nine are men (ten persons in 2017, one woman and nine men).

In relation to the heading, "Transaction on shares and/or other financial instruments", consideration has been given to the objective long-term remuneration accrued. This includes remuneration in kind (vehicles, medical insurance and shares delivered in 2018 as a result of the settlement of the long-term incentive which ended on 31/12/2017) in the item “Others”.

19.2 Remuneration of senior management

The remuneration of members of the Management Committee at 31 December 2018 and 2017, excluding those who simultaneously held office as members of the Board of Directors (whose remuneration has been set out above), is detailed below:

	Thousands of euros	
	2018	2017
Pecuniary remuneration	3,047	2,678
Remuneration in kind	699	556
Others	671	642
Total	4,417	3,876

At 31 December 2018, there were seven members of Senior Management (the same number at 31 December 2017), excluding the CEO.

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

The concept of "monetary remuneration" of executives includes fixed remuneration and variable remuneration accrued in 2018 and received in 2019.

"Compensation in kind" includes the vehicle, the cost of insurance and the settlement of the long-term incentive received in shares in 2018, the accrual period of which ended on 31 December 2017.

The heading "Other" includes the long-term objective remuneration accrued in 2018.

19.3 Information on conflicts of interest on the part of Directors

At year-end 2018, the members of the Board of Directors of NH Hotel Group, S.A. have indicated they are not in any situation of conflict, direct or indirect, that they or persons related to them, as defined in the Act, may have with the interests of the Company.

Notwithstanding the foregoing, in 2018 the Company entered into various Related Transactions as a consequence of them having been concluded with significant shareholders or the Directors of the Company. These Related Party Transactions have always been executed in strict compliance with the rules established in the applicable regulations and the Procedure for Conflicts of Interest and Related Party Transactions with Significant Shareholders, Directors and Senior Management of NH Hotel Group, S.A. approved by the Board of Directors on 26 March 2014. By virtue of this Procedure, during 2018 the Board of Directors ensured, through the Audit and Control Committee, that transactions with Directors and significant shareholders or with the respective related persons were carried out under market conditions and in adherence to the principle of equal treatment of shareholders in identical conditions. Likewise, the Director affected by such transaction (i) has abstained from influencing, intervening or voting in the decision-making by any corporate body or committee that had participated in the relevant transaction or decision and that could have affected the persons or entities with which there was a conflict of interest, and (ii) has abstained from accessing confidential information that could have affected said conflict of interest.

During 2018, the Audit and Control Committee had the opportunity to analyse the transactions with related parties described in the Annual Report of the Audit and Control Committee for the 2018, financial year which will be made public on the Company's website when the General Shareholders' Meeting is called.

20.- INFORMATION ON THE ENVIRONMENT

For the Company, sustainability drives innovation, seeking to surprise our guests as well as achieving water and energy efficiency. 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 2018, the implementation of the sustainability initiative continued. This initiative gives continuity to the environmental achievements of recent years. Thus, compared to 2007, per Average Daily Room energy consumption has been reduced by 31%, water consumption by 27% and our carbon footprint by 67%. NH Hotel Group is committed to renewable energy, which reduces its carbon footprint. This consumption of green energy, certified as renewable, is available in 79% of our hotels in Spain, Italy, Germany, the Netherlands, Belgium and Luxembourg, covering 90% of the total electricity consumed in Europe.

The Company holds certificates ISO 14.001 for environmental management and ISO 50.001 for energy efficiency in accommodation, catering, meetings and events. As well as the overall certificates held by the company, 137 of its hotels hold certificates including BREEAM, LEED, Green Key, Hoteles+Verdes, ISO 14.001 and ISO 50.001, all recognised by the GSTC (Global Sustainable Tourism Council).

The Company has reported its climate change commitment and strategy to the Carbon Disclosure Project (CDP) since 2010. In 2018, the Company obtained an A- rating on the Climate Index, placing NH Hotel Group among the leading companies in the adoption of measures to effectively reduce emissions, which is indicative of advanced environmental management. This result positions the company above the average for its sector and region.

Equally, the Company forms part of FTSE4 Good, an index of the London Stock Exchange which recognises the socially responsible behaviour of companies worldwide.

21.- FOREIGN CURRENCY

The most significant balances in foreign currency in 2018, valued at the year-end exchange rate, is broken down as follows

	Currency	Thousands of euros
Current investments in Group companies and associates	ARS	3,122
Current investments in Group companies and associates	BRL	105
Current investments in Group companies and associates	CLP	1,200
Current investments in Group companies and associates	COP	5,428
Current investments in Group companies and associates	CHF	76
Current investments in Group companies and associates	DOP	78
Current investments in Group companies and associates	GBP	26
Current investments in Group companies and associates	HUF	10
Current investments in Group companies and associates	MXN	1,215
Current investments in Group companies and associates	USD	165
Current investments in Group companies and associates	UYU	516
Current investments in Group companies and associates	ZAR	47
Short- term debts with group and associate companies	DOP	(629)
Cash and cash equivalents	USD	91

The most significant balances in foreign currency in 2017, valued at the year-end exchange rate, is broken down as follows

	Currency	Thousands of euros
Current investments in Group companies and associates	ARS	3,752
Current investments in Group companies and associates	BRL	93
Current investments in Group companies and associates	CLP	412
Current investments in Group companies and associates	COP	2,037
Current investments in Group companies and associates	CHF	205
Current investments in Group companies and associates	DOP	(29)
Current investments in Group companies and associates	GBP	325
Current investments in Group companies and associates	HUF	9
Current investments in Group companies and associates	MXN	3,125
Current investments in Group companies and associates	USD	1,624
Current investments in Group companies and associates	UYU	361
Current investments in Group companies and associates	ZAR	33
Short- term debts with group and associate companies	DOP	(629)

Foreign currency transactions in 2018 and 2017 are not significant.

22.- EVENTS AFTER THE REPORTING PERIOD

On February 7, 2019 NH Hotel Group has subscribed with Minor IPC i) a Framework Agreement that aims to establish a transparent framework of relations between the Company and Minor and its group companies, which, among others, includes criteria for the allocation of expenses between both Companies, all in compliance with the Recommendation Two of the Code of Good Governance of Listed Companies and ii) a reciprocal agreement of trademark license, by which both parties are licensed the use of their respective trademarks in the geographical areas where the other party operates. The subscription of the mentioned agreements was duly approved by the Board of Directors, after a favorable report from the Audit and Control Committee and communicated by Relevant Event on February 7, 2019.

On January 15, 2019, the sale of its 49% stake in the company Beijing NH Grand China Hotel Management CO, Ltd. was executed, this sale was a cash inflow of 1.9 million euros.

23.- TRANSLATION

Translation of 2018 Financial Statements and Management Report originally issued in Spanish and prepared in accordance with Spanish GAAP. In the event of a discrepancy, the Spanish-language version prevails.

**MANAGEMENT REPORT
FOR THE YEAR ENDED
31 DECEMBER 2018**

EVOLUTION OF BUSINESS AND GROUP'S SITUATION

The Company "NH Hotel Group, S.A." is part of the NH Group, an international hotel operator and one of the leading urban hotel companies worldwide in terms of number of rooms. The Group operates 350 hotels and 54,374 rooms in 28 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 support on distribution channels, reservations call centre, marketing strategy and systems development.

In 2018, world economic activity grew at a pace of +3.7% (Data and estimates provided by the E.C. "European Economic Forecast Autumn 2018" November 2018), greater than the previous year (+3.5%). More specifically in the Eurozone, the provisional growth rate for 2018 was 2.1%, slightly lower than 2017 (+2.2%). Global growth has maintained a positive cycle of trade and investment. In addition, European economies continue to grow, although some signs of a slowdown are beginning to appear, with more moderate growth rates. In line with the above data, when comparing the growth rates of the four countries that bring together the largest proportion of sales and results of the Group, it is observed that in the Netherlands (+2.8% in 2018 vs. +3.2% in 2017), and Spain (+2.6% in 2018 vs. +3.1% in 2017), Germany (+1.7% in 2018 vs. +2.2% in 2017), and Italy (+1.1% in 2018 vs. +1.5% in 2017) lower growth rates than the previous year were recorded. On the other hand, growth in emerging countries is expected to remain stable, albeit with greater divergences between countries. In Latin America, growth is expected to be +1.0% in 2018 (vs. +1.2% in 2017), affected by worse financing conditions with Argentina suffering currency depreciation and having declared hyperinflationary economy and Mexico with a grow slightly lower than expected.

According to the World Tourism Organization ("UNWTO") in 2018, international tourist arrivals globally reached 1,400 million, representing an increase of +6% over the previous year, clearly above the growth of 3.7% of the world economy, thus consolidating the strong results of 2017 and proving to be the second strongest year since 2010. More specifically, international tourist arrivals in Europe reached 713 million in 2018, a remarkable increase of 6% compared with an exceptionally strong 2017. Tourist growth was driven by Southern and Mediterranean Europe (+7%), Central and Eastern Europe (+6%) and Western Europe (+6%). In this European context, Spain has established itself as the tourist power in the world, along with France and the United States, and managed to break its record with 82.6 million foreign tourists, an increase of 1% in the number of international arrivals. For their part, the Americas (+3%) received 217 million international arrivals in 2018, with mixed results in all destinations. Growth was led by North America (+4%), followed by South America (+3%).

In this context, in 2018, the Group, as a result of the favourable evolution of hotel activity throughout the year, surpassed the targets set thanks to greater positioning in the top brand segment, an improved customer experience, an increase in operating and commercial efficiency, a strategy of asset rotation and a reduction in debt.

During 2018, 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 Group's RevPar in main destinations was superior to its direct competitors.

In 2018 new selective repositioning opportunities were identified to be executed in the period 2018-2020, with only a part of them having been invested in 2018. In this new phase there will also be contributions from the owners of hotels under a rental regime.

At the beginning of 2018, an agreement was entered into 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 transaction involves the sale of the building for a gross price of 155.5 million euros (584.5 thousand euros/room), which brought a capital gain of more than 55 million euros in 2018 and a net cash

flow of 122 million euros. The sustainable 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.

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 and nhow 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 score of the customers. In this ongoing improvement of the customer experience, worthy of note in 2018 was the launch of FASTPASS, a combination of three innovative services (Check-in Online, Choose Your Room and Check-out Online), which gives the customer full control over their stay. In this respect, NH Hotel Group has become the first European chain to offer these three services simultaneously.

In its use of quality indicators, NH Hotel Group focuses on measuring quality using new sources of information and surveys with a significant increase in the volume of reviews and number of assessments received. Its average score on TripAdvisor in 2018 was 8.4, the same level as in December 2017. Additionally, its average Google Reviews score was 8.5, compared with 8.3 in December 2017. These average scores show the high level of quality perceived by customers.

Also, the NH Rewards loyalty programme, exceeded 8.6 million members (8.4 million members in 2017), of whom 13% joined in 2018 and 18% of the total are active.

Meanwhile, in 2018, the Group began operating 10 hotels in Havana, Marseilles, Brussels, Monterrey, Venice, Madrid, Graz, Essen and Toulouse with a total of 1,604 rooms, with a total 350 hotels operating with 54,374 rooms at 31 December 2018.

In addition, the Group signed-up 5 hotels with 580 bedrooms in 2018. All firms have been under rental and management formulas, under the NH and NH Collection brands and in major cities (Havana, Hanover, Hamburg, Porto and Guadalajara).

In relation to the Master Agreement for Global Hotel Transaction and Management entered into by NH with Grupo Inversor Hesperia, S.A. ("GIHSA") relating to the management of NH of 28 GIHSA hotels, in September, GIHSA sent NH the *"Notification of Termination through Takeover"* on the occasion of the takeover bid made by MHG Continental Holding (Singapore) Pte. Ltd., a company wholly owned by Minor International Public Company Limited, for the shares representing 100% of the capital of NH. Thus, following the result of the takeover bid in October, in which Minor International obtained the *"Effective Takeover"* by reaching a 94.13% stake in NH, on 30 November 2018, the effective termination of all management contracts between GIHSA and NH was formalised, with GIHSA having paid NH all amounts due, including the *"Net Price Refund Amount"*.

The Company's revenues in 2018 totalled 196.8 million euros, an increase of +99.4% (+165.5 million euros) with respect to 2017. The Profit for the year attributable to the Company stood at 160.2 million euros compared with 28.2 million euros in 2017.

In this year, gross indebtedness decreased from 672.7 million euros in December 2017 to 386.8 million euros in December 2018. At 31 December 2018, cash and cash equivalents amounted to 0.12 million euros (0.5 million euros at 31 December 2017). Additionally, this liquidity was complemented by credit lines at the end of the year amounting to 294.2 million euros undrawn, of which 250 million euros corresponded to a long-term syndicated credit line, compared to 298.3 million euros at 31 December 2017.

As indicated in Note 13, the reduction in gross debt in the period is mainly explained by the early conversion of the 250-million-euro convertible bond in June 2018 and the voluntary partial repayment of the 40-million-euro Bonds maturing in 2023.

The Bond conversion took place through the delivery to the bond-holders who requested the early conversion (248.3 million euros of the total face value of 250 million euros) of 8.6 million treasury shares and 41.9 million new issue shares. Meanwhile, bond-holders who did not request conversion received 1.7 million euros face value plus the corresponding accrued interest.

As a consequence of the change of control in the Company's shareholder structure, in September 2018 the creditors of the Syndicated Credit Facility unanimously waived the amount of 250 million euros, maintaining its maturity until 2021. In addition, and in line with the change of control, the Company offered the Bondholders the repurchase of 101% of the 2023 Bond for an amount of 400 million euros. The amount requested reached only 3.2 million euros of the total nominal amount.

In December 2018, the Company also announced the partial voluntary early redemption, for a nominal amount of 40 million euros (representing 10% of its total nominal amount), of its issue of senior secured bonds maturing in 2023. The redemption was carried out through the payment of approximately 103.76% of the nominal value of the Bonds subject to redemption with a charge to the Company's available cash.

The Company's operating improvement has recently been reflected in the improvement of the corporate credit outlooks assigned by the main rating agencies. Fitch upgraded the corporate rating to 'B+' from 'B' while maintaining the positive outlook for improved operating performance and leverage metrics. In May Moody's improved their rating from 'B2' to 'B1', reflecting excellent results, a significant improvement in indebtedness, and greater liquidity. At last, February 12th, S&P revised the outlook from positive to stable.

For its part, the Average Period of Payment to Suppliers (MTP) amounted to 65 days in 2018 (75 days in 2017), with a total amount of payments made of 80 million euros (96.4 million euros in 2017). As regards pending payments, they have been reduced from 5 million euros in December 2017 to 3.4 million euros in December 2018.

At the General Shareholders' Meeting in June 2018, shareholders approved the payment of an interim dividend from 2017 results amounting to 40 million euros, representing ten cents gross per outstanding share. For 2019, it is foreseen a dividend proposal of fifteen cents per share in 2019.

Given the Company's service sector component, it should be noted that there are no relevant research and development activities.

With regard to the new shareholding situation, between May and September 2018, MINT acquired the shares of the shareholders HNA and Oceanwood. As a result of these transactions, as of 30 September 2018, MINT held 179,772,214 shares in NH Hotel Group, S.A., representing 45.84% of its share capital.

In addition, on 11 June 2018, MINT made a prior announcement of a public offering to acquire 100% of the shares of NH Hotel Group, S.A. at a purchase price of 6.30 euros per share (post dividend 2017). This application was officially submitted on 10 July 2018 by means of a significant event to the CNMV, an application which was admitted for consideration by the CNMV on 19 July 2018.

MINT obtained the corresponding authorisations in competition matters (Spain's National Authority for Markets and Competition, the CNMC, and Autoridade da Concorrência) in mid-July 2018, as well as the approval by its General Shareholders' Meeting on 9 August, confirming that, from then on, the public offering was not subject to any additional conditions.

Following the submission of the prospectus to the CNMV on 25 September 2018, the public offering was authorised by the CNMV on 2 October 2018. In addition, once the period for acceptance of the tender offer expired on 26 October 2018, the CNMV announced that the tender offer had been accepted for 88.85% of the target shares, representing 47.76% of the shares in NH Hotel Group, S.A.

As a result of the settlement of the public offering on 31 October 2018, MINT currently owns 369,165,609 shares in NH Hotel Group, S.A. representing 94.13% of its share capital.

Since then, both companies have begun to explore joint value creation opportunities for the coming years.

Minor Hotels and NH Hotel Group will integrate their trademarks under a single corporate umbrella present in more than 50 countries around the world. In this way, a portfolio of more than 500 hotels under eight brands is organised: NH Hotels, NH Collection, nhow, Tivoli, Anantara, Avani, Elewana and Oaks, which completes a wide and diverse spectrum of hotel proposals connected to the needs and desires of global travellers.

Both groups currently share their knowledge base and experience in the sector in order to materialise short-term opportunities, taking advantage of the complementarity of their hotel portfolios, the implementation of economies of scale with a broader customer base and exploring development pathways for all their brands in different geographical areas. On February 7th 2019 a Master Agreement was signed with the aim to establish a transparent framework of relations between the Company and Minor.

ETHICS

Compliance System

Since 2014, NH Hotel Group has deployed a Compliance unit whose scope includes the following key areas:

- Code of Conduct.
- Criminal Risk Prevention Plan.
- Internal Rules of Conduct.
- Procedure for Conflicts of Interest.

Code of conduct

In line with its ethical commitment and the best practices of corporate governance, NH Hotel Group has carried out communication, awareness and training campaigns on Compliance since the last update to the Code of Conduct in 2015. The Group's Board of Directors is responsible for approving the Code of Conduct.

This document affects everybody working at NH Hotel Group, applicable to employees, managers and members of the Board of Directors, and also in certain cases to other stakeholders such as customers, suppliers, competitors and shareholders, and to the communities where NH operates its hotels.

The Code of Conduct summarises the professional behaviour expected of NH Hotel Group employees, who commit to acting with integrity, honesty, respect and professionalism in the performance of their work.

The NH Group is committed to compliance with the laws and regulations of the countries and jurisdictions where it operates. This includes, amongst other things, laws and regulations on health and safety, discrimination, taxation, data privacy, competition, prevention of corruption and money laundering, and commitment to the environment.

The Code of Conduct is published in six languages on the official website of the NH Hotel Group, available to all stakeholders. Also, since 2017, NH employees can use the "My NH" app to access the code of conduct from their mobile devices. The staff at centres operating under NH Hotel Group brands also have a handbook and an FAQs document.

Compliance Committee

In 2014 the NH Hotel Group created a Compliance Committee consisting of certain members of the Management Committee and senior directors. This body is empowered to supervise compliance with the Group's Internal Rules of Conduct, Procedure for Conflicts of Interest, Code of Conduct and Criminal Risk Prevention Plan.

The Compliance Committee supervises the management of the Compliance Office, provides detailed reports of activities to the Board's Audit and Control Committee, and is empowered to impose disciplinary measures on employees in matters within its scope.

In the course of 2018, there were six meetings of the Compliance Committee.

Compliance Office

The Compliance Office, led by the Group's head of Compliance, is responsible for disseminating and supervising compliance with the Code of Conduct and for drafting the Criminal Risk Prevention Plan. The Compliance Office reports directly to the Compliance Committee. On the other hand, the head of Internal Audit manages the Confidential Channel for Complaints and Queries relating to the Code of Conduct.

The procedure for managing complaints received via the complaints channel are specified in detail in the Code of Conduct. This procedure guarantees confidentiality and respect in every phase, and protects against retaliation.

Over the course of 2018, there were 81 reports of alleged breaches of the Code of Conduct, all of which were investigated, with appropriate disciplinary measures being taken in 60 cases.

Meanwhile, in 2018 the Criminal Risk Prevention Matrix in Spain was rationalised to provide a more efficient model for the company. Over the year, the Compliance Office deployed the Criminal Risk Prevention Plan in the seven most important countries where the Group operates.

Drafting the anti-corruption and anti-fraud policy

On 31 January 2018, NH's Board of Directors approved the Anti-Corruption Policy, in its commitment to detect and prevent the commission of corruption offences in business within the company. In order to reduce exposure to regulatory risks of a criminal nature, specifically to the risk of crimes related to corruption, bribery and fraud, in December 2018, the Compliance Committee approved an update of the Anti-Corruption and Fraud Policy, which will be submitted to the Board for approval during the first quarter of 2019.

The general principles of the Anti-Corruption and Fraud Policy are:

- Zero tolerance of bribery and corruption in the private and public sectors.
- Behaviour must be appropriate and legal.
- Transparency, integrity and accuracy in financial information.
- Regular internal control.
- Local legislation shall take precedence if stricter.

Drawing up of the anti-money laundering policy

NH's Code of Conduct reflects a commitment to respect the applicable regulations on anti-money laundering policy, with special attention to diligence and care in the processes of evaluating and selecting suppliers, and in payments and collections in cash. Therefore, the Compliance Committee meeting of 19 December 2018 approved a policy that reinforces NH Hotel Group's commitment to anti-money laundering and combating the financing of terrorism, with the aim of detecting and preventing NH Hotel Group, S.A. and its group companies from being used in money laundering or terrorist financing operations. This policy will be submitted for approval to the Board of Directors of NH Hotel Group, S.A. during the first quarter of 2019; once approved, it will be disclosed to all employees and will be accompanied by specific supplementary training.

The Non-Financial Information Statement of consolidated group, issued by the Board of Directors on 25 February 2019, contains all the non-financial information required by Law 11/2018 of 28 December 2018. This report is available on the NH Hotel Group website (<https://www.nh-hoteles.es/corporate/es>) in the annual reports included under financial information in the shareholders and investors section, with more detail on the subject.

RISK MANAGEMENT MODEL

The NH Hotel Group's Risk Management reflects the company's operations and culture, and impacts the implementation of its management actions, including risk identification, approval and management. The Board of Directors is responsible for defining the Risk Control and Management Policy of the NH Hotel Group, and regularly supervises the Risk Control and Management System through the Board's Audit and Control Committee.

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 Group'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 to this end, each risk assessor within the Company can propose new risks within the SAP GRC tool for subsequent assessment.
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 2018 Risk Map was validated by the Audit and Control Committee at its meeting held on 18 December 2018 and was approved by the Board of Directors on February 7th 2019.

For the first time, the exercise was performed using the SAP GRC tool, which significantly reduced the time spent planning and evaluating risks and controls, in addition to becoming a single point of information at the Company, at global level, in relation to Risk Management.

In addition, each of the main risks on the Company's Risk Map is assigned to a Risk Owner, who in turn is a member of the Management Committee. Each risk manager reports periodically to the Audit and Control Committee (according to an established schedule) to present the existing or ongoing mitigation measures for its risks, the state of implementation of action plans and the measurement of key indicators. Over the course of 2018, risk managers turned to the Audit and Control Committee to present their corresponding risks.

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 Group'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, 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.
- f) Strategic Risks, produced by difficulty accessing markets and difficulties in asset disinvestment.

Finally, the Company has an Executive Risk Committee 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.

New data protection plan

Due to the mandatory application of the General Data Protection Regulation (GDPR) in the European Union from May 2018, NH Hotel Group has launched a plan to guarantee compliance with the regulation, included in and aligned with the Transformation Plan.

This new plan includes general privacy measures by default, so that all the company's activities, applications, processes, and projects will take privacy matters into account. The plan includes key initiatives such as the effective management of personal data infringements, the data subject's consent to the gathering and use of their data, and a policy for the destruction of physical or virtual data. The plan also provides for the creation of a Data Protection Officer within the NH Hotel Group.

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CORNERSTONES AND COMMITMENTS OF THE CSR PLAN

In 2018, with the aim of leading responsible behaviour in the sector, NH Hotel Group continued with the implementation of its 2017-2019 Strategic Corporate Social Responsibility Plan, establishing the main objectives and initiatives for the different responsibility commitments defined by the Company for this year.

The Group's CSR Plan has a clear purpose with the generation of a positive economic, social and environmental impact wherever it is present. The innovative "Room 4" concept represents these goals, linked to the business of the NH Hotel Group and its key stakeholders. This cross-department three-year plan was approved by the company's main governing bodies and has the commitment of all areas of the Group. As the starting point for the creation of the Plan, on the one hand a materiality analysis was performed to determine the key aspects for the NH Hotel Group according to its strategy and stakeholders, and on the other, the company's Corporate Social Responsibility policy. It was also linked to the United Nations' Sustainable Development Goals (SDGs).

The Plan, which is deployed alongside the Group's global strategy, includes its main commitments on responsibility and the development of lines of action in the priority areas for the company: commercial, employee commitment, investment, brand purpose, corporate governance, and supplier assessment.

It also specifies the annual progress report on the Plan, both for the Group as a whole and by business unit, to the Board of Directors and Management Committee.

The Corporate Social Responsibility Plan is based on three core areas for action: People, Planet, and Responsible Business.

More specifically, in its responsible commitment to the Planet, NH Hotel Group works to minimise its impact on climate change, increase the efficiency of resources and develop more sustainable products. All this minimises its environmental footprint, with responsible consumption of natural resources.

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Human Resources strategy

The average number of people employed by the Company and consolidated companies in 2018 is 452 employees.

The corporate culture of the NH Hotel is also based on the cornerstones of diversity and equality. At 31 December 2018, women made up 50.9% of the total workforce.

Also, the average age of employees at 31 December 2018 is 38.8 years old, and their average time with the company is 9 years.

Over this year, as part of the company's 2017-2019 Strategic Plan, the Human Resources strategy has continued, based on three main commitments:

- **Global leadership and talent management:** Ensuring the company's future by involving the best employees, and identifying and developing the most talented people in the NH Hotel Group, using competitive tools and mechanisms to ensure their retention and commitment.
- **Maximum performance and better workplaces:** Becoming a company recognised as a Best Place to Work, based on the high level of commitment amongst employees, active contribution to this goal, rigour in differentiating and recognising high performance, and increasing its recognition as an attractive employer.
- **Transformation and reinvention:** Searching for, assessing and leveraging opportunities to be more efficient (outsourcing, digitisation, etc.), evolving the working environment and acquiring advanced analytical and predictive skills.

All the above must be based on and solidly backed by Operational Excellence in Human Resources and Internal Communication, with clear policies and processes, meeting commitments proactively, continuing to support, develop and implement the operational model of the NH Hotel Group, and controlling payroll costs and related budget items.

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 the responsible commitment to the Planet, NH Group work to minimise the 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 2018, the implementation of the sustainability initiative continued. This initiative gives continuity to the environmental achievements of recent years. Thus, compared to 2007, per Average Daily Room energy consumption has been reduced by 31%, water consumption by 27% and our carbon footprint by 67%. NH Hotel Group is committed to renewable energy, which reduces its carbon footprint. This consumption of green energy, certified as renewable, is available in 79% of our hotels in Spain, Italy, Germany, the Netherlands, Belgium and Luxembourg, covering 90% of the total electricity consumed in Europe.

NH Hotel Group holds certificates ISO 14.001 for environmental management and ISO 50.001 for energy efficiency in accommodation, catering, meetings and events. As well as the overall certificates held by the company, 137 of its hotels hold certificates including BREEAM, LEED, Green Key, Hoteles+Verdes, ISO 14.001 and ISO 50.001, all recognised by the GSTC (Global Sustainable Tourism Council).

NH Hotel Group has reported its climate change commitment and strategy to the Carbon Disclosure Project (CDP) since 2010. In 2018, the Company obtained an A- rating on the Climate Index, placing NH Hotel Group among the leading companies in the adoption of measures to effectively reduce emissions, which is indicative of advanced environmental management. This result positions the company above the average for its sector and region.

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.

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SHARES AND SHAREHOLDERS

NH Hotel Group, S.A. share capital at the end of 2018 comprised 392,180,243 fully subscribed and paid up bearer shares with a par value of €2 each. All these shares carry identical voting and economic rights and are traded on the Continuous Market of the Spanish Stock Exchanges.

According to the latest notifications received by the Company and the notices given to the National Securities Market Commission before the end of every financial year, the most significant shareholdings at 31 December 2018 and 2017 were as follows:

	2018	2017
Minor International Public Company Limited	94.13%	-
HNA Group Co Limited	-	29.35%
Oceanwood Capital Management LLP	-	12.06%
Hesperia Group	-	9.27%

Changes in the shareholder structure:

Between the months of May and September 2018, various purchase and sale contracts were entered into by Minor International Public Company Limited ("MINT"), as Buyer, and the HNA Group and with funds managed by Oceanwood, all of which as Sellers. As a result of these transactions, MINT acquired all the Sellers' interests in NH Hotel Group, S.A. In addition to these transactions, MINT acquired several non-significant shareholdings, as a result of which on 30 September 2018 MINT owned 179,772,214 shares in NH Hotel Group, S.A., representing 45.84% of its share capital.

On 11 June 2018, MHG International Holding (Singapore) Pte (a company wholly owned by MINT) launched a takeover bid ("OPA") for 100% of the shares of NH Hotel Group, S.A., which, once the acceptance period was approved and opened, was accepted, among others, by the Hesperia Group.

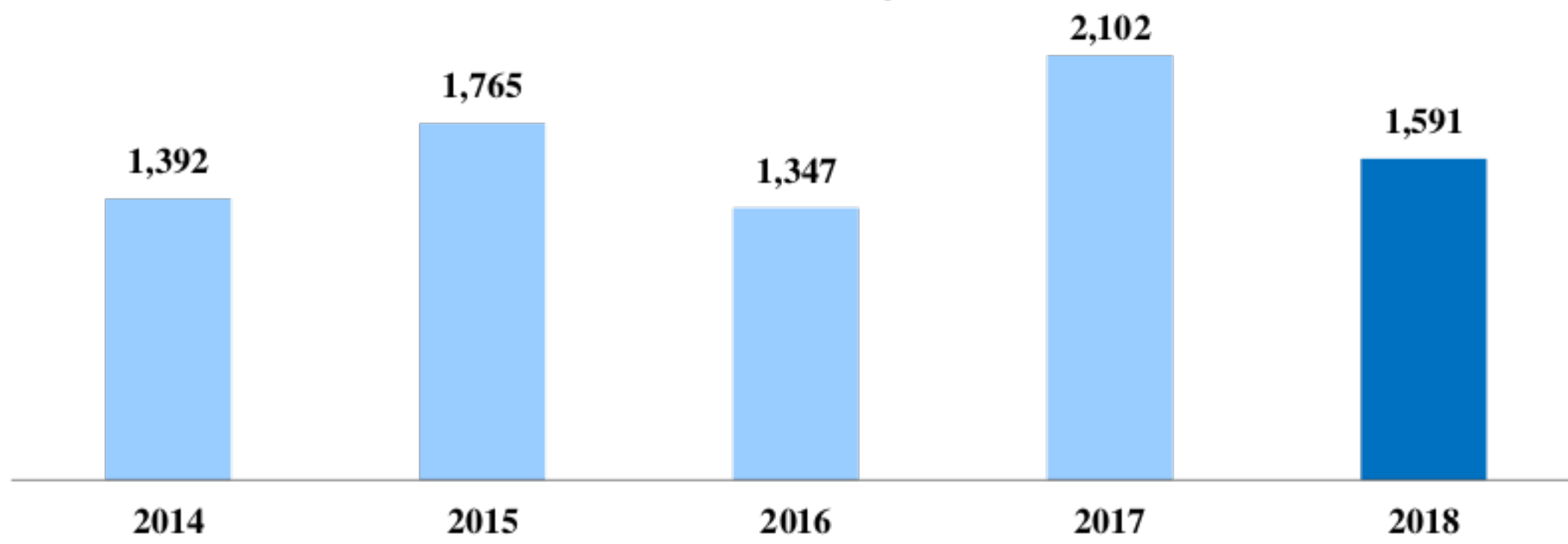
As a consequence of the takeover bid, the result of which was notified by the CNMV through a significant event on 26 October 2018, and of the purchase and sale transactions described above, (i) the funds managed by Oceanwood, the HNA Group and the Hesperia Group lost their status as significant shareholders of NH Hotel Group, S.A.; and (ii) MINT acquired, through its wholly-owned subsidiary MHG Continental Holding (Singapore) Pte. Ltd., shares representing 94.13% of the share capital of NH Hotel Group, S.A.

The average share price of NH Hotel Group, S.A. in 2018 was 6.18 euros per share (5.05 euros in 2017). The lowest share price of 3.82 euros per share (3.84 euros in December 2017) was recorded in July and the highest share price of 6.82 euros per share in December (6.26 euros in March 2017). The market capitalisation of the Group at the close of 2018 stood at 1.59068 billion euros (2.10163 billion euros at the close of 2017).

At 31 December 2018, the Group had 600,000 own shares, 9,416,368 own shares at 31 December 2017. The reduction in treasury shares over the period can be explained by the following movements:

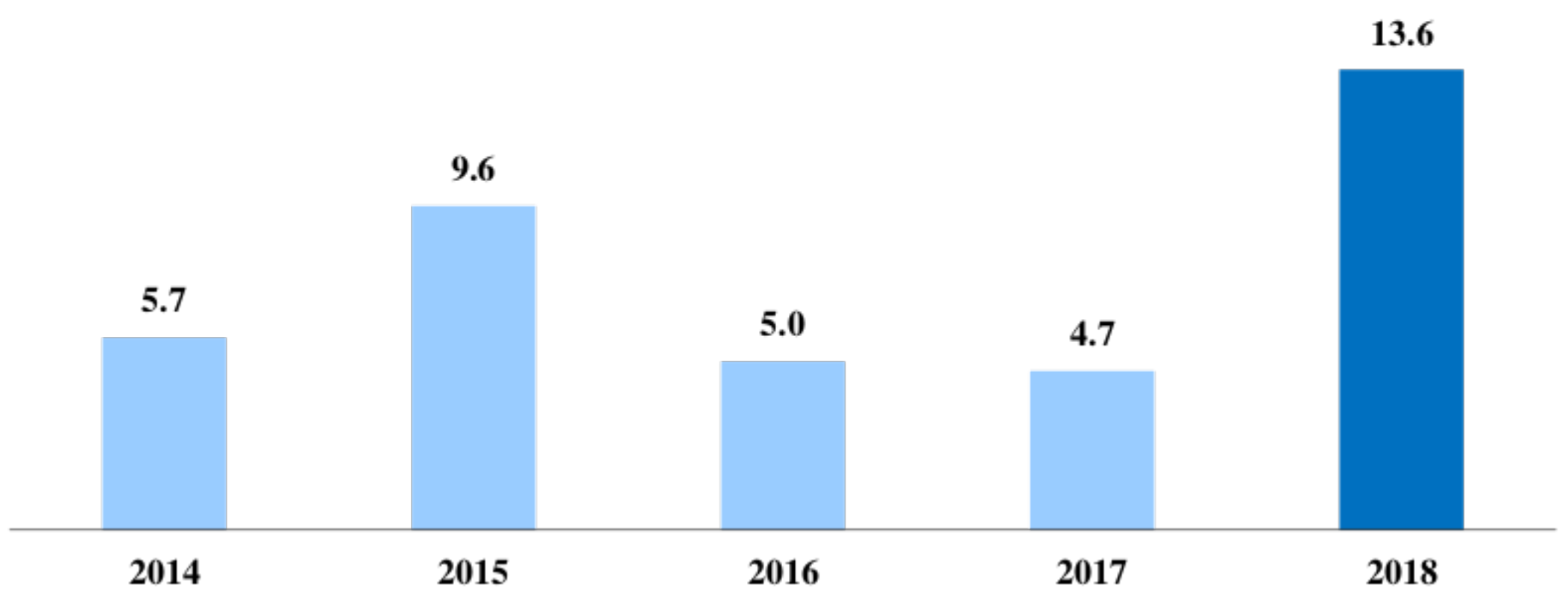
- Due to the early conversion of convertible bonds in June 2018, the loan of 9,000,000 shares associated with the issue was permanently cancelled, and the 1,384,473 shares held by one of the entities participating in the loan of securities were returned.
- In 2018, NH employees were given 247,106 shares as part of the 2015-2017 Incentive Plan, with a total of 430,738 gifted shares.
- In June 2018 the Group delivered 8,569,262 own shares to bond-holders for the early conversion of convertible bonds worth 250 million euros.

CAPITALISATION at the end of each year (in millions of euros)



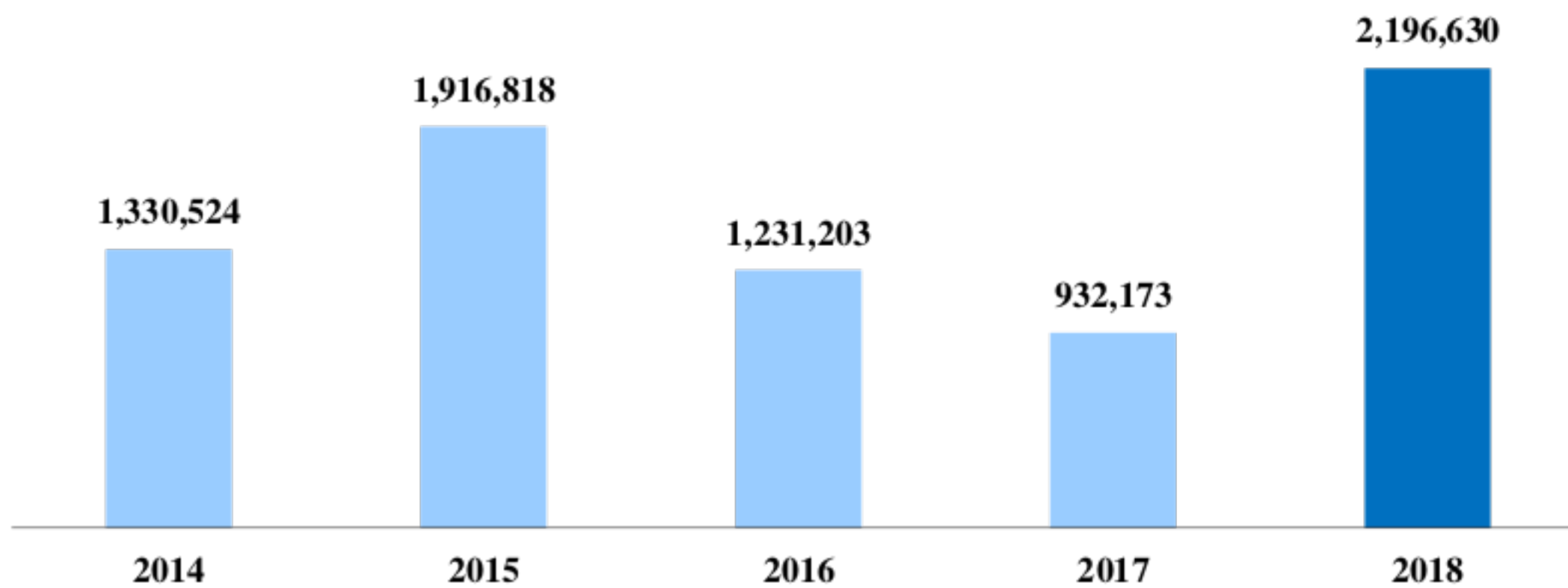
A total of 560,140,781 shares in NH Hotel Group, S.A. were traded on the Continuous Market over the course of 2018 (237,704,360 shares in 2017), which accounted for 1.43 times (0.68 times in 2017) the total number of shares into which the Company's share capital is divided. Average daily share trading on the Continuous Market amounted to 2,196,630 securities (932,173 in 2017).

**AVERAGE DAILY TRADING (million euros)
2014-2018**



8

**AVERAGE DAILY TRADING (in shares)
2014-2018**



**EVOLUTION NH HOTEL GROUP vs. IBEX 35
1 JANUARY 2014 - 31 DECEMBER 2018**



FUTURE OUTLOOK

Forecasts indicate that this strong momentum will continue in 2019, although at a more sustainable pace after nine years of constant expansion after the economic and financial crisis of 2009. Based on current trends, the economic outlook and the UNWTO tourism confidence index, international arrivals are expected to grow by between 3% and 4% in 2019, more in line with historical growth trends.

On the other hand, GDP growth in Europe is expected to be +1.9% in 2019 (Data and estimates provided by the E.C. “European Economic Forecast – Autumn 2018” November 2018).

It is noteworthy the volatility that Latin-American currencies may have during 2019 that may have an impact on the economic growth of such region and in the consolidated results of the group.

In this economic environment, the Group expects to benefit from the increase in sales associated with GDP growth expectations in 2019, 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 February 7, 2019 NH Hotel Group has subscribed with Minor IPC i) a Framework Agreement that aims to establish a transparent framework of relations between the Company and Minor and its group companies, which, among others, includes criteria for the allocation of expenses between both Companies, all in compliance with the Recommendation Two of the Code of Good Governance of Listed Companies and ii) a reciprocal agreement of trademark license, by which both parties are licensed the use of their respective trademarks in the geographical areas where the other party operates. The subscription of the mentioned agreements was duly approved by the Board of Directors, after a favorable report from the Audit and Control Committee and communicated by Relevant Event on February 7, 2019.

On January 15, 2019, the sale of its 49% stake in the company Beijing NH Grand China Hotel Management CO, Ltd. was executed, this sale was a cash inflow of 1.9 million euros.

IDENTIFICATION DETAILS OF THE ISSUER

End date of 12-month period of reference [31/12/2018]

CIF: [A28027944]

Company Name:

[**NH HOTEL GROUP, S.A.**]

Registered Office:

[SANTA ENGRACIA, 120 - 7ª PLANTA MADRID]

A. OWNERSHIP STRUCTURE

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

Date of last change	Share capital (€)	Number of Shares	Number of voting rights
09/05/2018	784,360,486.00	392,180,243	392,180,243

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

- YES
 No

A.2. Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors.

Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
MINOR INTERNATIONAL PUBLIC COMPANY LTD	0.00	94.13	0.00	0.00	94.13

Breakdown of the indirect holding:

Name of indirect shareholder	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
MINOR INTERNATIONAL PUBLIC COMPANY LTD	MHG CONTINENTAL HOLDING (SINGAPORE) PTE. LTD.	94.13	0.00	94.13

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

Most significant movements

Between May and September 2018, various purchase agreements signed by Minor International Public Company Limited ("Minor IPC") as Purchaser were executed with the HNA Group and with funds managed by Oceanwood, all of them as Sellers. As a result of said operations, Minor IPC acquired the full shareholding of the Sellers in NH. In addition to these operations, Minor IPC acquired various non-significant shareholding packages which meant that, on 30 September 2018, Minor IPC held 179,772,214 shares in NH Hotel Group, S.A., representing 45.84% of its share capital.

At the same time, on 11 June 2018, MHG International Holding (Singapore) Pte (a company wholly owned by Minor IPC) launched a takeover bid for 100% of the shares in NH Hotel Group, S.A., which, once approved and the acceptance period opened, it was accepted, amongst others, by Grupo Hesperia.

In the wake of the takeover bid, whose result was reported by the CNMV by means of a relevant fact on 26 October 2018, and of the aforementioned purchase operations, (i) the funds managed by Oceanwood, Grupo HNA and Grupo Hesperia lost the status of significant shareholders in NH Hotel Group, S.A.; and (ii) Minor IPC acquired, through its wholly-owned subsidiary MHG Continental Holding (Singapore) Pte. Ltd, shares representing 94.13% of the share capital in NH Hotel Group, S.A.

A.3. In the following tables, list the members of the Board of Directors (hereinafter "directors") with voting rights in the company:

Name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% of voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR ALFREDO FERNÁNDEZ AGRAS	0.04	0.00	0.00	0.00	0.04	0.04	0.00
MR RAMÓN ARAGONÉS MARÍN	0.00	0.00	0.00	0.00	0.00	0.04	0.00
MS MARIA GRECNA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR PAUL JOHNSON	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<p style="text-align: center;">% of total voting rights held by the Board of Directors</p>						0.04	

Breakdown of the indirect holding:

Name of director	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% of voting rights that can be transmitted through financial instruments
No data		N.A.	N.A.	N.A.	N.A.

A.4. If applicable, state any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are significant or arise in the ordinary course of business, except those that are reported in Section A.6:

Name of related Party	Nature of relationship	Brief description
No data		

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:

Name of related Party	Nature of relationship	Brief description
No data		

A.6. Describe the relationships, unless significant for the two parties, that exist between significant shareholders or shareholders represented on the Board and directors, or their representatives in the case of proprietary directors.

Explain, as the case may be, how the significant shareholders are represented. Explain, as the case may be, how the significant shareholders are appointed. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and post of directors, or their representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders.

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
MR STEPHEN ANDREW CHOJNACKI	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Minor IPC is the significant shareholder (94.132%) in NH and has proposed the aforesaid Director. Likewise, Mr Stephen Andrew Chojnacki is Chief Commercial Officer and General Counsel of Minor IPC. Finally, note that Mr Chojnacki is a Director of the Minor IPC group companies that are listed

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
			in section H of this Report and which, for technical reasons, have not been reproduced in section A.6.
MR WILLIAM ELLWOOD HEINECKE	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Minor IPC is the significant shareholder (94.132%) in NH and has proposed the aforesaid Director. Likewise, Mr William Ellwood Heinecke is Chairman and CEO of Minor IPC. Finally, note that Mr Heinecke holds the positions in the Minor IPC group companies broken down in section H of this Report and that have not been reproduced in section A.6.
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Minor IPC is the significant shareholder (94.132%) in NH and has proposed the aforesaid Director. Likewise, Emmanuel Jude Dillipraj Rajakarier is Chief Operation Officer of Minor IPC and CEO of Minor Hotels. Finally, note that Mr Dillipraj Rajakarier is a Director of the Minor IPC group companies listed in section H of this Report and that have not been reproduced in section A.6.

A.7. 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 so, describe these agreements and list the party shareholders:

[v] Yes
[] No

Parties to the shareholders' agreement	Percentage of affected shares	Brief description of the agreement	Date of termination of agreement, if applicable
MINOR INTERNATIONAL PUBLIC COMPANY LTD, OCEANWOOD CAPITAL MANAGEMENT LLP	10.00	On 22 May 2018, Minor IPC and Oceanwood Capital Management Ltd signed a purchase agreement for the former to acquire the funds managed by Oceanwood. Said agreements included the reference to the fact that during a period of 12 months following the execution of the purchase agreement (Exclusivity Period), Minor IPC would have a preferential acquisition right over 10% of the share capital that Oceanwood could, in the future and during the Exclusivity Period, hold in NH. During this period Oceanwood undertakes not to negotiate, nor otherwise assist third parties, for the transfer of said share with third parties. Oceanwood also agrees to vote in favour of any decision that is necessary or appropriate to guarantee the success of the purchase agreement's execution, as well as in favour of the proposal to appoint the Purchaser's Directors.	11 June 2018
MINOR INTERNATIONAL PUBLIC COMPANY LTD, HNA GROUP CO LIMITED	26.47	On 5 June 2018, HNA (as seller) and through its subsidiary Tangla Spain, S.L.U. signed a purchase agreement with Minor IPC (as purchaser) for a total of 98,787,996 NH shares, representing 26.468% of its share capital. Said contract included the Seller's obligation to maintain the effective ownership of the shares subject to the sale until their transfer to the Buyer, as well as continuing to attend the General Meetings and vote in favour of all	21 August 2018

Parties to the shareholders' agreement	Percentage of affected shares	Brief description of the agreement	Date of termination of agreement, if applicable
		decisions that were appropriate or necessary to guarantee the successful outcome of the purchase, as well as to vote in favour of any necessary resolution so that the administrators proposed by the Purchaser are appointed directors of NH.	

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

- YES
 No

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

On 5 June 2018, via a Relevant Fact, Minor IPC communicated the modification of the shareholders' agreement contained in the purchase agreement signed between Minor IPC and Oceanwood on 22 March 2018, under which Oceanwood grants Minor IPC an exclusive right to acquire another 14,000,000 shares. Oceanwood maintains and reiterates the commitments regarding these shares that have already been assumed by Oceanwood under the original shareholders' agreement.

On 11 June 2018, Minor IPC and Oceanwood, by virtue of the corresponding Relevant Fact, published that the agreements contained in the aforementioned purchase agreement formalised on 22 May 2018 and amended on 5 June 2018 were rendered null and void.

Likewise, on 21 August 2018, through a Relevant Fact, HNA communicated the execution of the purchase signed with Minor IPC and duly informed the CNMV through Relevant Facts on 5 and 15 June 2018, meaning that the aforementioned purchase is exhausted and, with that, the shareholders' agreement broken.

A.8. Indicate whether any individual person or legal entity exercises, or could exercise, control over the Company in accordance with Article 5 of the Stock Market Act. If so, give details here:

- Yes
 No

Name
MINOR INTERNATIONAL PUBLIC COMPANY LTD

A.9. 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
600,000		0.15

(*) Through:

Name or company name of the direct holder of the shareholding	Number of direct shares
No data	

Explain any significant changes during the year:

Explain the significant changes

At the end of the year, NH Hotel Group, S.A. had 600,000 treasury shares on its balance sheet, compared with 9,416,368 treasury shares at 31 December 2017. The reduction in treasury shares over the period can be explained by the following movements:

- In June 2018, the Group delivered 8,569,262 own shares to bond-holders for the early conversion of convertible bonds worth 250 million euros. These include 1,384,473 shares held by one of the entities participating in the loan of 9,000,000 shares associated with the issue, which has been definitively settled.
- In in first half of 2018, the second cycle of the long-term incentive plan was settled (see Note 23). This second cycle was settled by the delivery of 247,106 shares valued at 1,029 thousand euros.

A.10. 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 29 June 2017 authorised the Board of Directors of the Company to repurchase treasury stock under the terms indicated below:

- The acquisition can be made by any title accepted in Law, 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.
- 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.
- 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.

A.11. Estimated floating capital:

	%
Estimated floating capital	5.87

A.12. State whether there are any restrictions (article of associations, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

YES
 No

A.13. State whether the General Shareholders' Meeting has agreed to adopt neutralisation measures against take-over bids, pursuant to Law 6/2007.

YES
 No

If so, please explain the measures approved and the terms under which such limitations would cease to apply.

A.14. State if the company has issued shares that are not traded on a regulated EU market.

YES
 No

If so, please list each type of share and the rights and obligations conferred on each.

B. GENERAL SHAREHOLDERS' MEETING

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

YES
 No

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

YES
 No

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

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

B.4. Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous year:

Date of general meeting	Attendance data				
	% physically present	% present by proxy	% distance voting		Total
			Electronic voting	Others	
21/06/2016	0.09	82.10	0.00	3.60	85.79
Of which, free float:	0.09	32.57	0.00	3.60	36.26
29/06/2017	39.02	42.57	0.00	0.00	81.59
Of which, free float:	0.08	26.24	0.00	0.00	26.32
21/06/2018	8.28	62.77	0.00	0.31	71.36
Of which, free float:	0.00	24.40	0.00	0.31	24.71

B.5. State whether any point on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders for any reason.

YES
 No

B.6. State if the Articles of Association contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:

YES
 No

B.7. State whether it has been established that certain decisions other than those established by law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting.

YES
 No

B.8. 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 "Shareholders and Investors".]

C. COMPANY MANAGEMENT STRUCTURE

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors established in the Articles of Association and the number set by the general meeting:

Maximum number of Directors	20
Minimum number of Directors	5
Number of directors set by the general meeting	12

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

Name of director	Representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to the Board
MR ALFREDO FERNÁNDEZ AGRAS		Other External	CHAIRMAN	19/06/2015	13/08/2018	CO-OPTED
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	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR STEPHEN ANDREW CHOJNACKI		Proprietary	DIRECTOR	21/06/2018	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MS MARIA GRECNA		Independent	DIRECTOR	21/06/2016	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR WILLIAM ELLWOOD HEINECKE		Proprietary	DIRECTOR	21/06/2018	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR PAUL JOHNSON		Independent	DIRECTOR	21/06/2016	21/06/2018	AGREEMENT BY GENERAL

Name of director	Representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to the Board
						SHAREHOLDERS' MEETING
MR FERNANDO LACADENA AZPEITIA		Independent	DIRECTOR	21/06/2016	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER		Proprietary	DIRECTOR	21/06/2018	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSÉ MARÍA SAGARDOY LLONIS		Independent	DIRECTOR	21/06/2016	29/06/2017	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING

Total number of directors	10
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State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term
MR JOSE MARÍA LÓPEZ-ELOLA GONZÁLEZ	Independent	29/06/2015	21/06/2018	Mr José Maria López Elola was a member of the Appointments, Remuneration and Corporate Governance Committee.	NO
MR JOSE ANTONIO CASTRO SOUSA	Proprietary	21/06/2018	12/11/2018	Mr José Antonio Castro was Chairman of the Executive Committee.	YES
GRUPO INVERSOR HESPERIA, S.A	Proprietary	21/06/2018	12/11/2018	Grupo Inversor Hesperia, S.A, through its	YES

Name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term
				representative Mr Jordi Ferrer Graupera was a member of the Appointments, Remuneration and Corporate Governance Committee.	

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

EXECUTIVE DIRECTORS		
Name of director	Post in organisational chart of the company	Profile
MR RAMÓN ARAGONÉS MARÍN	CHIEF EXECUTIVE OFFICER	Tourism diploma from the University of Palma de Mallorca. Master's in International Hotel Management from the International Business School, Hotel and Tourism Management. His professional career, for more than twenty years, has been in positions of management and responsibility, in companies in the tourism sector, such as Hesperia (General Manager) and NH Hotel Group, S.A. (Chief Operations Officer). He is currently Chief Executive of NH Hotel Group, S.A.

Total number of executive directors	1
Percentage of Board	10.00

PROPRIETARY DIRECTORS		
Name of director	Name or company name of the significant shareholder represented or that has proposed their appointment	Profile
MR STEPHEN ANDREW CHOJNACKI	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Degree in Foreign Relations and Economics from the University of Virginia, obtaining a Doctorate from the University of Virginia/School of Law. Mr Chojnacki has spent his professional career in the law firm Linklaters in their New York, Hong Kong and Bangkok offices. He is currently the Chief Commercial Officer and the General Counsel of Minor International PLC., Director of MHG Continental

PROPRIETARY DIRECTORS		
Name of director	Name or company name of the significant shareholder represented or that has proposed their appointment	Profile
		Holding (Singapore) Pte. Ltd., as well as Director of companies in the Minor group. During his time leading the commercial activities and legal advice of the Minor Group, he has carried out a number of mergers and acquisitions with other leading companies in the hospitality sector, with presence in Portugal, Brazil, China, Vietnam, Indonesia and Africa.
MR WILLIAM ELLWOOD HEINECKE	MINOR INTERNATIONAL PUBLIC COMPANY LTD	He holds an Honorary Doctorate of Business Administration in Management from Yonok University, Lampang. He also completed the Director Certification Program (DCP) from the Thai Institute of Directors Association (IOD). Mr Heinecke is the founder of Minor International Pcl. (MINT) and currently holds the position of Chief Executive Officer of Minor International PLC and is Chairman of the Board of Directors. Over the five decades of the Minor group's existence, Mr Heinecke has led the company and expanded its portfolio of restaurants, hotel businesses and lifestyle brand distribution. It currently has more than 2,100 restaurants, 160 hotels and 400 lifestyle outlets in 40 countries (excluding the NH Hotel Group portfolio). MINT is listed on the Thailand Stock Exchange, with revenues of more than 1.5 billion euros and a market capitalisation of 4 billion euros. Mr Heinecke is the author of the book "The Entrepreneur – 25 Golden Rules for Global Business Manager"
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Degree in Computer Systems Analysis & Design in Sri Lanka in 1984. MBA in Finance in the United Kingdom. Mr Rajakarier has spent his professional career from 2007 to date at Minor International Public Company Limited as Chief Operating Officer (COO) and Director and Chief Executive Officer (CEO) at Minor Hotel Group Limited. Minor International Public Company Limited is a global company focused on three main businesses: restaurants, the hotel sector and retail brands. From 2001 to 2007 he was Deputy Chief Financial Officer and Internal Audit Manager in the leading operator Orient Express Hotels, Trains & Cruises (Belmond).
Total number of proprietary directors		3
Percentage of Board		30.00

INDEPENDENT DIRECTORS	
Name of director	Profile
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 E nub es (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.
MS 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 2011 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 PAUL JOHNSON	Founding director and Chief Executive Officer of the hotel chain Kew Green Hotels Ltd under whose leadership 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. the leading real-estate leasing company in the tertiary sector, having led

INDEPENDENT DIRECTORS	
Name of director	Profile
	the operation to list on the Stock Market that concluded with Merlin Properties acquiring its share capital; an operation valued at close to €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.
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 (Equity Market), BBVA (Director of Global Syndicated Loans) and Banco Popular (Wholesale Banking Director and Risk Director). After brief professional experience as Director of Origination and Finance at Copernicus Servicing, S.L, since July 2018 he has been General Financial Director of OHL, S.A. He has been a Board Director for companies such as Inmobiliaria Colonial, Fomento de Construcciones y Contratas (FCC), Societé Fonciere Lyonnaise, Globalia Corporación Empresarial and Targobank, S.A.

Number of independent directors	5
Percentage of Board	50.00

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

Name of director	Description of relationship	Statement of the Board
No data		

OTHER EXTERNAL DIRECTORS

Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company or its management or shareholders:

Name of director	Reason	Company, director or shareholder to whom the director is related	Profile
<p>MR ALFREDO FERNÁNDEZ AGRAS</p>	<p>Until his resignation on 13 August 2018, Mr Alfredo Fernández Agras was a Proprietary Director, representing the funds managed by Oceanwood given their significant holding in NH. On the aforementioned date of 13 August and prior the vacancy which followed his resignation, due to the fact that the Oceanwood Funds sold their holding shares below the level considered as significant shares, the Board, on a favourable report from the Appointments, Remuneration and Corporate Governance Committee, has co-opted Mr Alfredo Fernández Agras as "Other External" since these funds continued to hold an insignificant shareholding in the Company. Pursuant to article 529 duodecies of the Capital Companies Act, duly transposed into the Company's internal regulations (article 35, section 3.2 of the Articles of Association and article 9, section 3.2 of the Board Regulations), "Proprietary directors who lose such status as a result of the sale of their shareholding by the shareholder they represent may only be re-elected as independent directors when the shareholder they represent at that time would have sold all of their shares in the company."</p>	<p>XXX</p>	<p>Degree in Economic and Business Sciences, as well as in Law from Universidad Pontificia Comillas (ICADE) in 1993. Experienced investment banker currently dedicated to investing in private companies and advising in corporate finance. He is additionally a board member of several companies, both private and listed. Over the last 20 years, he has worked for several investment banks, having been Managing Director and co-head at 360 Corporate and Managing Director at UBS Investment Bank in Spain. Previously, he worked for Merrill Lynch and Morgan Stanley in London. He has been involved in numerous M&A and capital markets operations in southern Europe, especially in relation to listed companies. He previously worked as a commercial lawyer and a statistician at Arthur Anderson.</p>

Total number of other external directors	1
Percentage of Board	10.00

State any changes in status that has occurred during the period for each director:

Name of director	Date of change	Previous Status	Current status
MR ALFREDO FERNÁNDEZ AGRAS	13/08/2018	Proprietary	Other External

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each.

	Number of female directors				% of directors of each category			
	2018	2017	2016	2015	2018	2017	2016	2015
Executive					0.00	0.00	0.00	0.00
Proprietary					0.00	0.00	0.00	0.00
Independent	1	1	1	1	25.00	16.67	25.00	25.00
Other External			1		0.00	0.00	25.00	0.00
Total	1	1	2	1	10.00	10.00	18.18	8.33

C.1.5 Indicate whether the company has diversity policies in relation to the Board of Directors of the company with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized companies, in accordance with the definition established in the Accounts Auditing Law, will at least have to report the policy they have established in relation to gender diversity.

- Yes
 No
 Partial policies

Should this be the case, describe these diversity policies, their objectives, the measures and way in which they have been applied and their results over the year. Also state the specific measures adopted by the Board of Directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors.

In the event that the company does not apply a diversity policy, explain the reasons why.

Description of policies, objectives, measures and how they have been implemented, including results achieved

On 25 February 2016, following a favourable report from the Appointments, Remuneration and Corporate Governance Committee, the Board of Directors approved a Selection Policy for Directors. Said policy 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.

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.

- 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 means

The Appointments, Remuneration and Corporate Governance Committee ensures that each time a vacancy occurs in the Board of Directors and the corresponding selection process begins, at least one woman is a candidate.

In the event that there are few or no female directors in spite of any measures adopted, please explain the reasons that justify such a situation:

Explanation of the means

So far, no women have been found who fit the professional profile sought.

- C.1.7 Explain the conclusions of the appointments committee regarding the verification of compliance with the policy on director selection. In particular, as it relates to the goal of ensuring that the number of female directors represents at least 30% of the total membership of the Board of Directors by the year 2020.

The Appointments, Remuneration and Corporate Governance Committee has concluded that, despite women having taken part in the selection process for Directors women, to date none have meet the required profile.

- 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:

Name of shareholder	Justification
No data	

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. If this is the case, please explain why the aforementioned requests were not met:

- YES
 No

C.1.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees.

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.1.10 Identify any members of the Board who are also directors or officers in other companies in the group of which the listed company is a member:

Name of director	Company name of group company	Position	Does the director have executive duties?
MR RAMÓN ARAGONÉS MARÍN	HOTELES ROYAL, S.A. (COLOMBIA)	DEPUTY DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	JV BEIJING GRAND CHINA HOTEL MANAGEMENT (CHINA)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	NH HOTELES AUSTRIA GMBH	JOINT AND SEVERAL DIRECTOR	YES
MR RAMÓN ARAGONÉS MARÍN	NH HOTELES SWITZERLAND GMBH	JOINT AND SEVERAL DIRECTOR	YES
MR RAMÓN ARAGONÉS MARÍN	CHARTWELL INMOBILIARIA DE COATZACOALCOS, S.A. DE C (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	CHARTWELL DE MEXICO, S.A. DE C.V. (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	NH HOTELES CZECHIA S.R.O.	JOINT AND SEVERAL DIRECTOR	YES
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	JOLLY HOTELS DEUTSCHLAND 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 GMBH	JOINT AND SEVERAL DIRECTOR	YES
MR RAMÓN ARAGONÉS MARÍN	FRANQUICIAS LODGE, S.A. DE C.V. (MEXICO)	DIRECTOR	NO

Name of director	Company name of group company	Position	Does the director have executive duties?
MR RAMÓN ARAGONÉS MARÍN	GRUPO HOTELERO MONTERREY, S.A. DE C.V. (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	GRUPO HOTELERO QUERETARO, SA DE CV (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	HOTELERA DE LA PARRA, S.A. DE C.V. (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	HISPANA SANTA FE, S.A. DE C.V.	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	NACIONAL HISPANA HOTELES, S. DE R.L. 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	AIS POLSKA SP.Z.O.O.	JOINT AND SEVERAL DIRECTOR	YES
MR RAMÓN ARAGONÉS MARÍN	NH MANAGEMENT BLACK SEA SRL	JOINT AND SEVERAL DIRECTOR	YES
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CORPORATIVOS CHARTWELL MONTERREY, S.A. D (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CORPORATIVOS HOTELEROS, S.A. DE C.V. (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CORPORATIVOS KRYSTAL ROSA, S.A. DE C.V. (MEXICO)	DIRECTOR	NO
MR RAMÓN ARAGONÉS MARÍN	SERVICIOS CHARTWELL NUEVO LAREDO SA DE CV (MEXICO)	DIRECTOR	NO

C.1.11 List any legal-person directors of your company who are members of the Board of Directors of other companies listed on official securities markets other than group companies, and have communicated that status to the Company:

Name of director	Name of listed company	Position
MR WILLIAM ELLWOOD HEINECKE	MINOR INTERNATIONAL PUBLIC COMPANY LIMITED	CHAIRMAN-CHIEF EXECUTIVE OFFICER

Name of director	Name of listed company	Position
MR WILLIAM ELLWOOD HEINECKE	INDORAMA VENTURES PUBLIC COMPANY LIMITED	DIRECTOR
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	MINOR INTERNATIONAL PUBLIC COMPANY LIMITED	DIRECTOR
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	SERENDIB HOTEL PCL	DIRECTOR

D. William Ellwood Heinecke is also Chairman of the Appointments, Remuneration and Corporate Governance Committee of the company Indorama Ventures Public Company Limited.

Mr Stephen Andrew Chojnacki is Chief Commercial Officer and General Counsel of the company listed in Thailand, Minor IPC.

C.1.12 State whether the company has established rules on the number of boards on which its directors may hold seats, providing details if applicable, identifying, where appropriate, where this is regulated:

Yes
 No

Explanation of the roles and identification of the document where this is regulated

Article 29 of the Board Regulations expressly establishes that directors must dedicate the necessary time and effort to performing their duties, and must notify the Appointments, Remuneration and Corporate Governance 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, Remuneration and Corporate Governance Committee based on the individual circumstances in each case.

C.1.13 State total remuneration received by the Board of Directors:

Board remuneration in financial year (thousand euros)	2.149
Amount of vested pension interests for current members (thousand euros)	0
Amount of vested pension interests for former members (thousand euros)	0

C.1.14 Identify members of senior management who are not also Executive Directors, and indicate their total remuneration for the year:

Name	Position
MR FERNANDO CORDOVA MORENO	CHIEF PEOPLE OFFICER
MS LAIA LAHOZ MALPARTIDA	CHIEF ASSETS AND DEVELOPMENT OFFICER
MR ISIDORO MARTINEZ DE LA ESCALERA	CHIEF MARKETING OFFICER
MR RUFINO PÉREZ FERNANDEZ	CHIEF OPERATIONS OFFICER
MS BEATRIZ PUENTE FERRERAS	CHIEF FINANCIAL OFFICER

Name	Position
MR CARLOS ULECIA PALACIOS	GENERAL COUNSEL
MR FERNANDO VIVES SOLER	CHIEF COMMERCIAL OFFICER
Total remuneration of senior management (€ thousands)	
	4.417

C.1.15 State whether there has been any change to the regulations of the Board during the year:

- YES
 No

C.1.16 Specify the procedures for selection, appointment, re-election and removal of directors: the competent bodies, steps to follow and criteria applied 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.1.17 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 amendment

Following the annual evaluation of the Board of Directors that has been conducted in December 2017, the Company has build up an action plan in order to improve certain areas of opportunity that have been detected.

- The training of the Board has been improved, as well as the Incorporation Plan of new Directors.
- The information available to the Directors regarding the perception of relevant third parties has increased.

Notwithstanding the aforementioned there is still pending an improvement margin regarding the execution of the defined Working Plan, especially with regard to the areas linked to the strategic plan of the Company and the duration of the Audit and Control Committee.

Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been evaluated.

Description of the evaluation process and evaluated areas

The evaluation process of the Board of Directors of NH is carrying out annually with the purpose of identifying the awareness of the Directors with regard to certain performances of the Board and its Committees related to the composition, its functioning, the sessions and the performances of its duties.

The evaluation process, especially with regard to the collecting and treatment of the formulars from the Directors, as well as presentation of the results and the build up of the action plan has been carried out with the advice of KPMG, as independent advisor and specialised in this matter.

The evaluation of 2018 has been answered by all the members of the Board that have been members during all fiscal period during 2018.

The Directors have state their opinions over a variety of areas, such as functioning of the Board and their government Committees, strategic plan, operational and financing supervision, communication of stakes, etc.

C.1.18 Describe, in those years in which the external advisor has participated, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

The external advisor, KPMG has not being involved in other matters that have been presented to the Appointments, Remuneration and Corporate Governance Committee.

C.1.19 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.1.20 Are reinforced majorities other than those applicable by law required for any type of decision?:

- Yes
- No

If so, please 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.1.21. Explain if there are any specific requirements, other than those relating to Directors, to be appointed Chairman of the Board of Directors.

- YES
- No

C.1.22 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

- YES
 No

C.1.23 State whether the Articles of Association or the Board Rules establish any term limits for independent directors other than those required by law.

- YES
 No

C.1.24 State whether the Articles of Association or Board Rules establish specific proxy rules for votes at Board meetings, how they are to be delegated and, in particular, the maximum number of delegations that a director may have, as well as if any limit regarding the category of director to whom votes may be delegated and whether a director is required to delegate to a director of the same category. If so, please briefly describe the 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.1.25 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. Meetings where the chairman sent specific proxy instructions are to be counted as attended.

Number of Board meetings	14
Number of Board meetings without the Chairman	

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	
--------------------	--

Please specify the number of meetings held by each committee of the Board during the year:

Number of Meetings held by the APPOINTMENTS AND REMUNERATION COMMITTEE	9
Number of meetings of the APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	6
Number of meetings held by the EXECUTIVE COMMITTEE	9

C.1.26 State the number of meetings held by the Board of Directors during the year in which all of its directors were present. For the purposes of this section, proxies given with specific instructions should be considered as attendance

Number of meetings where at least 80% of the directors attended	14
% of attendance over total votes during the year	95.00
Number of meetings in situ or representations made with specific instructions of all directors	14
% of votes issued at in situ meetings or with representations made with specific instructions out of all votes cast during the year	100.00

C.1.27 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

- Yes
 No

Identify, if applicable, the person/s who certified the individual and consolidated financial statements of the company for preparation by the Board:

C.1.28 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.1.29 Is the Secretary of the Board a Director?

- Yes
 No

If the secretary is not a director, please complete the following table.

Name of the secretary	Representative
MR PEDRO FERRERAS DÍEZ	

C.1.30 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

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.1.31 State whether the Company has changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

- Yes
 No

If there were any disagreements with the outgoing auditor, please provide an explanation:

- Yes
 No

C.1.32 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
 No

	Company	Group Companies	Total
Amount invoiced for non-audit services (thousand euros)	498	123	621
Amount invoiced for non-audit services/Amount for audit work (in %)	67,66	7,10	25,15

C.1.33 State whether the audit report of the financial statements for the previous year included qualifications or reservations. If so, please explain the reasons given by the chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.

YES
 No

C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Individual	Consolidated
Number of consecutive years	26	26

	Individual	Consolidated
Number of years audited by the current audit firm/number of fiscal years the company has been audited (by%)	83,88	83,88

C.1.35 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
 No

Explanation of 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.1.36 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
 No

Explanation of procedure

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.1.36 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
 No

C.1.38 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 Group has signed several financing contracts that contain a clause establishing their early maturity in the event of circumstances that give rise to a change in control of the NH, among others, the the syndicated credit line for an amount up to 250 millions euro, with maturity 2021. In addition, NH issued guaranteed senior bonds with maturity 2023, which include certain consequences should control of the Issuer change, such as the possibility of NH being required to repurchase the senior bonds. As a consequence of the teakeover bid over NH, the Company got the unanimous waiver of the banks regarding the syndicated credit line, maintaining the maturity 2021. In addition and as a consequence of the change of control the Company has offered to the bond holders the purchase. The amount of the purchase only amounted 3,2 millions of the total nominal value.

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.

During 2018 and resulting from the takeover bid of shares prepared by the Minor IPC Group, the Framework Contract for Global Hotel Transaction and Management signed between NH Hotel Group and Grupo Inversor Hesperia on 5 December 2016 was resolved, as reported though a Relevant Fact on 30 November 2018.

C.1.39 Identify individually for director, and generally in other cases, and provide detail of any agreements made between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.

Number of beneficiaries	1
Type of beneficiary	Description of agreement
Two members of Senior Management and one employee	In order to encourage loyalty and permanence in the Company, compensation has been provided for which may be more than the amount resulting from applying legal regulations, in the event of unilateral termination by the Company. This amount will be equal to one

Type of beneficiary	Description of agreement
	times the fixed annual salary to two annual of total salary, i.e. fixed salary and variable perceived during the last two fiscal years.

State if these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this:

	Board of Directors	General Shareholders' Meeting
Body authorising the severance clauses	√	

	Yes	No
Are these clauses notified to the General Shareholders' Meeting?		√

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:

AUDIT AND CONTROL COMMITTEE		
Name	Position	Category
MR FERNANDO LACADENA AZPEITIA	CHAIRMAN	Independent
MS MARIA GRECNA	MEMBER	Independent
MR JOSÉ MARÍA SAGARDOY LLONIS	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of other external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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 directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

Name of directors with experience	MR FERNANDO LACADENA AZPEITIA
Date of appointment of the chairperson	21/06/2016

APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE		
Name	Position	Category
MR JOSÉ MARÍA SAGARDOY LLONIS	CHAIRMAN	Independent
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of other external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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 competences, knowledge and experience necessary on the Board of Directors. For these purposes, it shall define the abilities and functions required by candidates to cover each vacancy, and assess the time and dedication required to correctly carry out their functions.
2. Establish a representation goal for the less represented sex on the Board of Directors and create guidelines for how to achieve said goal.
3. Pass along to the Board of Directors proposals for appointments of Independent Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for the re-election or removal of said Directors by the General Shareholders' Meeting.
4. Inform the Board of proposals for appointments of remaining Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for their re-election or removal by the General Shareholders' Meeting.
5. Provide notification of proposals for appointing or removing senior management and the basic conditions of their contracts.
6. Examine or organise the Chairman of the Board's and the chief executive's succession and, if appropriate, bring proposals before the Board so that such successions are effected in an orderly fashion.
7. Propose to the Board of Directors the remuneration policy for the directors and general managers or for those who perform functions of upper management directly reporting to the Board, Executive Committee or Chief Executives, as well as the individual remuneration and other contractual conditions for the Chief Executives, ensuring compliance therewith.
8. Supervise and monitor compliance with corporate governance rules and with the corporate social responsibility policy and plan, proposing any necessary Reports to the Board.
9. Periodically evaluate the suitability of the corporate governance system, with the aim of ensuring that it fulfils its mission of promoting the company's interests.

The Board of Directors shall be informed of all the tasks carried out by the Appointments, Remuneration and Corporate Governance Committee during its first meeting, and in all events the corresponding documentation shall be made available to the Board so that it can take these actions into consideration when performing its duties.

The Appointments, Remuneration and Corporate Governance Committee shall meet as often as considered necessary by its Chairman, or when requested by two of its members or the Board of Directors. Furthermore, non-member Directors may attend Appointments, Remuneration and Corporate Governance Committee meetings on a one-off basis, when invited by the Chairman of the Committee.

EXECUTIVE COMMITTEE

Name	Position	Category
MR RAMÓN ARAGONÉS MARÍN	MEMBER	Executive
MR PAUL JOHNSON	MEMBER	Independent
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	MEMBER	Proprietary

% of executive directors	33.33
% of proprietary directors	33.33
% of independent directors	33.33
% of other external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercised in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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.

C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years:

	Number of female directors							
	2018		2017		2016		2015	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND CONTROL COMMITTEE	1	33.00	1	33.00	1	20.00	1	20.00
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE		0.00		0.00	1	16.70	1	20.00
EXECUTIVE COMMITTEE		0.00		0.00		0.00		0.00

C.2.3 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 any annual reports on the activities of each committee have been voluntarily prepared.

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 "Shareholders and Investors" - "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.

D. RELATED AND IN-GROUP TRANSACTIONS

D.1. Describe, if applicable, the procedure for approval of related-party and intragroup 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 of significant shareholder	Name of company within the group	Nature of the relationship	Type of transaction	Amount (thousand of euros)
GRUPO INVERSOR HESPERIA, S.A	NH HOTEL GROUP, S.A.	Contractual	Management contracts	8,476
GRUPO INVERSOR HESPERIA, S.A	NH HOTEL GROUP, S.A.	Contractual	Other	2,607

- 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:

Name of director or manager	Name of the related party	Relationship	Type of transaction	Amount (thousand of euros)
No data				N.A.

- 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 any event, note any intragroup transaction conducted with entities established in countries or territories which are considered tax havens:

Name of entity within the group	Brief description of the transaction	Amount (thousand of euros)
SOTOCARIBE, S.L.	Loan	9020

- D.5. State the amount of any transactions conducted with other related parties that have not been reported in the previous sections.

Name of entity within the group	Brief description of the transaction	Amount (thousand of euros)
No data		N.A.

- 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:

- Not exercise their powers for purposes other than those for which they have been conceded.
- 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.
- 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.
- 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.
- 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?

YES

No

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E1. Explain the scope of the company's Risk Management and Control System, including tax compliance risk

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.

E2. Identify the company bodies responsible for creating and implementing the Risk Management and Control 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.

Executive Committee on Risks

NH Hotel Group set up the Executive Committee on Risks in 2017, comprising members of the Management Committee and Senior Management. Its main responsibilities are: support the periodic monitoring of risks (monitoring of action plans and KRIs – Key Risk 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 in 2018.

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.

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.

Strategic Planning Department

The Strategic Planning Department is in charge of coordinating the definition and overseeing all strategic initiatives using Key Performance Indicators (KPIs).

Risk Function

The Risk 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 in 2018; this was approved by the Audit and Control Committee at its meeting on 18 December 2018 and will be submitted to the Board of Directors for approval in the first quarter of 2019. 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.

Compliance Function

Since 1 January 2018, the Compliance function has been Internal Audit's second line of independent defence. This function is responsible for disseminating and monitoring compliance with the Code of Conduct and drafting and monitoring the Criminal Risk Prevention Model, which is implemented in Spain (Business and Corporate Unit) and Italy.

E3. State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives.

- 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. This section would include tax, environmental, and fraud and corruption risks. 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.

E4. State whether the entity has risk tolerance levels, including for tax risk:

The NH Group has defined 68 KRIs for its 15 main risks which are measured monthly through a specialised risk management computer tool. Tolerance levels have been defined for each of the main KRIs. When the KRI exceeds an acceptable 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.

E5. 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 2018, the fact that a significant exposure to geopolitical risks exists must be noted. However, the company carried out a dollarisation strategy of the main contracts in local currency as well as repatriating local currency excesses that greatly contributed to mitigating the impact of the aforementioned risk. Additionally, political instability in Catalonia continued to negatively affect the company's operations.

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.

E6. Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the board of directors responds to any new challenges that arise.

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 Strategic Planning Department oversees the achievement of strategic goals by continuously monitoring strategic initiatives and detection of new risks.

The Internal Audit Department, in carrying out its Risks function, advises the risk managers in defining response plans to mitigate the main risks and supervises their implementation.

In each of the Risk Committee's meetings since its creation in May 2017, it has monitored the evolution of the KRIs, the degree of implementation of the risk map's action plans as well as new risks and challenges that could affect the company and industry in the short, medium and long term.

Since November 2017, the company has had a tool to automate the identification, assessment and monitoring of risks. This tool significantly reduces the time involved in the planning and assessment of risks and controls, ensures traceability of the analysis and is 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.

During the periodic risk supervision and monitoring process, as well as during the annual risk identification and assessment process, the company has the appropriate mechanisms to ensure that new risks and challenges are taken into consideration and given an appropriate response. The final result of this analysis is reflected in the corporate risk map that is submitted annually to the board of directors for approval.

F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS (SCIIF)

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

F.1. The company's control environment

Report on at least the following, describing their principal features:

F.1.1 What bodies and/or areas are responsible for: (i) the existence and maintenance of an adequate and effective ICFR; (ii) their implementation, and (iii) their 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 a 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. 2018 was the first full year that the three lines of defence model has been present and operating in order to reasonably guarantee the reporting of complete and accurate financial information.

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 Internal Audit.

F.1.2 State whether the following are present, especially if they relate to the creation of financial information:

- Departments and/or mechanisms responsible for: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout 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 Corporate 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, which was last revised in 2015. Responsibility for approving the Code of Conduct rests with the NH Group's Board of Directors. This document affects all NH Group employees, and applies not only to employees, managers and members of the Board of Directors, but also, in certain cases, to other stakeholders, such as customers, suppliers, competitors, shareholders and the communities in which NH runs its hotels.

The Code of Conduct summarises the professional conduct expected of all employees at centres operating under the Group's brands, promoting the commitment to act 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 overseeing compliance with the Code of Conduct and updating, monitoring and overseeing the Criminal Risk Prevention Model. The Compliance Office reports directly to the Compliance Committee.

The Criminal Risk Prevention Model has been implemented in Spain (Business Unit and Corporate) and Italy, where training was imparted on this topic during 2018. The percentage of those undertaking training is 77 % in Spain (Central Services employees, Hotel Directors and Heads of Department) and 91% in Italy.

In 2018, the roll out of an IT tool in Spain was concluded that will help manage and audit the Criminal Risk Prevention Model. Additionally, during 2018, streamlining of the Criminal Risk Prevention Matrix was carried out in seven other countries to provide the company with a more efficient model.

The Code of Conduct is available for employees on the company intranet, and for third parties on the Group's website. Through the Human Resources departments of each business unit, the NH Group has authorised a procedure whereby each employee is required to adhere to it, with training on the Code of Conduct being made available to all employees.

At 31 December 2018, use of the Code of Conduct through the online course is at 66%. 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 of the Code of Conduct stresses that 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.

- Whistle blower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature.

A procedure has been established for lodging complaints about breaches of the principles enshrined in the Code of Conduct, and this enables employees to provide confidential information about any non-compliance. This procedure ensures transparency, confidentiality and respect throughout all its stages.

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. Corporate Internal Audit Department at Santa Engracia 120, 28003 Madrid, Spain.

The Senior Vice President of the Corporate 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.

- Training and periodic refresher programmes for staff involved in the preparation and revision of financial information, as well as assessment of the ICFR (Internal Control System for Financial Information), that covers at least accounting rules, audits, internal control and risk management.

In 2018, the head of Internal Control passed the COSO programme, taught by the Institute of Internal Auditors.

On the other hand, the Corporate Finance Department, through Internal Control, has given training sessions on internal control and reporting through the SAP GRC tool to front-line users of the business unit in Latin America, users from the Coperama group companies, as well as Shared Services Centre users, as per the following:

- Internal training given to employees of the Latin America business unit whose roles are process owners and certifiers of organisational units 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 sessions on self-assessment and reporting SCIIF controls through SAP GRC aimed at users of the first line of defence from the business unit in Latin America and Coperama group companies.

Likewise, the Corporate Internal Control Department provided internal training to review self-assessment controls in SAP GRC to four employees from the third line of defence to allow them to perform their supervisory role in annually auditing the SCIIF. Additionally, the Corporate 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 2018 on IFRS 16 on leases, given by the Corporate Financial Consolidation Department.

Finally, the Corporate Internal Audit Department, being responsible for reviewing the SCIIF, has a specific training plan that, during 2018, involved a total of 665 hours of training on risks and the reporting tool, audit and fraud prevention conferences, and other topics of interest related to the function which were given to the 10 members of the department.

F.2. Financial reporting risk assessment

Report, at least

F.2.1 The main characteristics of the risk identification process, including error and fraud risk, as regards:

- 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 Corporate Internal Audit Department, which assumes the risk management 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 of 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

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 Corporate Internal Audit 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.

- If the process covers all of the objectives of financial information, (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.

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.

During 2018, Internal Control continued to update the control activities, among which are those related to the execution of controls at the corporate level.

- The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, or special purpose entities.

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.

- If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.

In designing the risk management process associated with generating Financial Reports, the following objectives have been focused on:

- Definition of the Financial Information Internal 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.

- The governing body within the company that 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.

State whether the company has at least the following, describing their main characteristics:

- 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, a review process by Group Finance Management at a corporate level and a joint review by Group Finance Management with the finance directors of the business units.

- 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 reviewed 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, the NH Hotel Group has implemented an internal control system on financial information (ICFR) based on COSO (Committee of Sponsoring Organizations of the Treadway Commission), as a framework that seeks to ensure that the relevant components and principles of internal control are present and operating jointly in the Organisation, to achieve the following objectives:

- Effectiveness and efficiency of operations
- Reliability of financial information
- Compliance with applicable laws and regulations
- Safeguarding assets

To comply with the objective of ensuring reliability of financial information reported to the markets, the NH Hotel Group has implemented a model based on three lines of defence:

- The first line of defence is all employees responsible for preparing and reporting the financial information reported and the effective execution of SCIIF controls.
 - The second line of defence is Internal Control, within the Corporate Finance Department, which is responsible for managing and updating the SCIIF risk and control matrix as a tool to implement controls that mitigate the identified risks. Among its other responsibilities, it periodically reviews the self-assessment of the controls executed and reported by the first line of defence, communicating and reporting on the main area to improve.
 - The third line of defence is the Corporate Internal Audit Department, which delegates the review of the SCIIF to the Audit and Control Committee. The Group's internal control model is audited annually to afford the Audit and Control 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.
- Since the beginning of 2018, the management of the SCIIF risk and control matrix has been carried out in the SAP GRC internal control reporting software, as the sole repository of the SCIIF report. The implementation of this tool supposes an improvement in the effectiveness of monitoring modifications in the risk and control model, as well as the monitoring of action plans to correct possible weaknesses detected in the SCIIF report. Likewise, it guarantees traceability of the evidence and communication report between users of the first and second lines of defence.

The Group's SCIIF risk and control matrix considers the relevant business cycles in drafting the financial information prepared and published by the Group, which are detailed below:

- 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.

Additionally, section F of the Annual Corporate Governance Report published by the NH Hotel Group is subject to an external audit to guarantee the truthfulness of its content.

F.3.2 Internal IT control policies and procedures (access security, change controls, their operation, operational continuity, and segregation of duties, among others) which support relevant processes within the company and relate to the creation and publication of financial information.

Internal control of IT systems

There is an internal control model prepared 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 93 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. In the event of an incident, these are resolved allowing the jobs to be re-launched and executed correctly.

Since 2011, the Group has had an Information Security area, part of the IT Department, which monitors security in all IT processes, assuring the availability, reliability and completeness of information.

Security Policy

The security policy is the reference framework defining the directives to be followed by all employees, and makes it possible to ensure the security of the IT systems and, therefore, of all the business processes. This policy was revised during the 2018 financial year.

During 2018, various initiatives linked to the Information Security Master Plan continued to be implemented, including those relating to the generation of security documentation in the information technology environment.

- F.3.3 Internal control policies and procedures intended to guide the management of subcontracted activities and those of third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, which may materially affect financial statements.

The function has been outsourced to a third party in the companies included in the scope of the SCIIF. This involved the implementation of the NH Hotel Group's SCIIF model in all those companies whose financial reporting and reporting processes were outsourced, aligning with the control models defined for the other business cycles. The SCIIF controls associated with the outsourced services function are executed and reported by users of the Shared Services Centre, although the NH Hotel Group is responsible for their effectiveness to reasonably mitigate the associated risks.

In January 2018, the outsourcing of the Administration function of the corporate structure of Hoteles Royal became effective, and the SCIIF model was extended to all outsourced financial reporting and reporting processes.

Additionally, NH Hotel Group's SCIIF risk and control matrix has 6 sub-processes and 18 control activities relating to the handover periods of transferring the administrative function to the Shared Services Centre, 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.

Also, the NH Hotel Group has obtained the report of the independent third-party ISAE 3402 "International Standard on Assurance Engagements", allowing the NH Hotel Group to check whether the control objectives and activities of the service provider have been effective in 2018.

F.4. Information and Communication.

State whether the company has at least the following, describing their main characteristics:

- F.4.1 A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organisation, as well as an up-to-date accounting policy manual distributed to the business 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 Corporate 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 Corporate Internal Audit Department is responsible for periodic review of the processes, policies and procedures defined in the Group.

- F.4.2 Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

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.

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 as well as being 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

Describe at least the following:

- F.5.1 The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is 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 supervisory functions 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 2018, the management and reporting of the SCIIF control activities, as well as their assessment and supervision, was performed through the SAP GRC tool.

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 10 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.
- 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 2018

In 2018, the SCIIF model was implemented in the Latin American business unit, identifying the most critical controls to ensure the reasonableness of the reported financial information related to said business unit, and starting process of reporting the self-assessment of controls by the first line of defence. Likewise, the SCIIF controls report has been implemented and started for the Group companies that form the Coperama purchasing platform.

On the other hand, throughout 2018, the SCIIF controls self-assessment report identified in the Group were carried out, as well as those related to the human resources process performed in Spain.

With this, the Group's SCIIF covers the business units of Southern Europe (mainly Spain and Italy), Northern Europe (mainly Benelux and Central Europe), Latin America and Corporate. This implies the scope of all NH turnover, a portfolio of 301 hotels and 13 business cycles with great significance in the submission of financial reports.

A total of 447 control activities have been defined, divided between financial reporting and IT systems, 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.

The reporting of control activities through the SAP GRC tool has been planned according to an internal control reporting schedule and in line with the execution frequency of the financial information controls. This calendar was shared by the Internal Control area with the users from the first line of defence at the beginning of 2018 so that each member carries out a self-assessment of the controls for which they are responsible, complying with the established reporting deadlines.

Different reporting activities have been designed in SAP GRC to assess the effectiveness and design of controls by the first line of defence, as well as the review of controls by Internal Control. Within the self-assessment report activity on the effectiveness of the controls, it includes the review on the evidence of the effective execution of the controls by the process owners associated with the control activities. This responsibility has been almost entirely assumed by the first line of defence.

During 2018, the Internal Control Department reviewed the evidence reported in SAP GRC for all the control activities reported throughout the year associated with the organisational units defined in the Group's risk and control matrix.

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 If there is a procedure by which the account auditor (in accordance with the contents of the Normas Técnicas de Auditoría (NTA) - "Auditing Standards"), internal auditor and other experts may communicate with senior management and the audit committee or senior managers of the company regarding significant weakness in internal control identified during the review of the annual accounts or any others they have been assigned. Likewise, whether there is an action plan to correct or mitigate the weaknesses found.

The Audit and Control 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 and Control 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 from:

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 2018, 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.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company's actions. General explanations are not be acceptable.

1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

Complies Explain

2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:

a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.

b) The mechanisms in place to resolve any conflicts of interest that may arise.

Complies Partially complies Explain Not applicable

3. That, during the course of the ordinary General Shareholders' Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the chairman of the Board of Directors makes a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:

a) Changes that have occurred since the last General Shareholders' Meeting.

b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.

Complies Partially complies Explain

4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.

And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

Complies Partially complies Explain

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

Complies Partially complies Explain

6. That listed companies which draft reports listed below, whether under a legal obligation or voluntarily, publish them on their web page with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:

- a) Report regarding the auditor's independence.
- b) Reports regarding the workings of the audit committee and the appointments and remuneration committee.
- c) Report by the audit committee regarding related-party transactions
- d) Report on the corporate social responsibility policy.

Complies Partially complies Explain

7. That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.

Complies Explain

8. That the audit committee ensures that the Board of Directors presents financial statements in the audit report for the General Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.

Complies Partially complies Explain

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies Partially complies Explain

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:

- a) Immediately distributes the additions and new proposals.
- b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.
- c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.
- d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

Complies Partially complies Explain Not applicable

The Company complies with this Recommendation, except for paragraph c). With regard to the additional points proposed by Minor IPC to the Agenda of the Shareholders meeting, the voting rules for applied to these additional points were not the same ones as for the rest of point, in accordance with article 21.3 of the Shareholders Rules.

11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establish in advance a general policy of long-term effect regarding such payments.

Complies Partially complies Explain Not applicable

12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.

And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies Partially complies Explain

13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.

Complies Explain

14. That the Board of Directors approves a selection policy for directors that:

- a) Is concrete and verifiable.
- b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.
- c) Favours diversity in knowledge, experience and gender.

That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

Complies Partially complies Explain

15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

Complies Partially complies Explain

16. That the percentage of proprietary directors divided by the number of non-executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

- a) In companies with a high market capitalisation in which interests that are legally considered significant are minimal.
- b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

Complies Explain

17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.

Complies Explain

18. That companies publish and update the following information regarding directors on the company website:

- a) Personal and biographical profile
- b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.
- c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.
- d) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.
- e) The shares and options they own.

Complies Partially complies Explain

19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies Partially complies Explain Not applicable

20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies Partially complies Explain Not applicable

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, joint venture or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies Explain

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

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. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies Partially complies Explain

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

Complies Partially complies Explain Not applicable

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. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

Complies Partially complies Explain Not applicable

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

And that the Board rules establish the maximum number of company Boards on which directors may sit.

Complies Partially complies Explain

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items do not originally appear on the agenda.

Complies Partially complies Explain

27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.

Complies Partially complies Explain

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.

Complies Partially complies Explain Not applicable

29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.

Complies Partially complies Explain

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require

Complies Explain Not applicable

31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall be duly recorded in the minutes.

Complies Partially complies Explain

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies Partially complies Explain

33. That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company, should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies Partially complies Explain

34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: chairman of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of non-executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the chairman.

Complies Partially complies Explain Not applicable

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.

Complies Explain

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:

- a) The quality and efficiency of the Board of Directors' work.
- b) The workings and composition of its committees.
- c) Diversity of membership and competence of the Board of Directors.
- d) Performance of the chairman of the Board of Directors and the chief executive officer of the company.
- e) Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies Partially complies Explain

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies Partially complies Explain Not applicable

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Complies Partially complies Explain Not applicable

39. That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies Partially complies Explain

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 Partially complies Explain

41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies Partially complies Explain Not applicable

42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:

- a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.
- b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re-election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
- c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

2. With regard to the external auditor:

- a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.
- b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.
- c) Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.
- d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.
- e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.

Complies Partially complies Explain

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies Partially complies Explain

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.
- Complies Partially complies Explain Not applicable
45. That the risk management and control policy identify, as a minimum:
- a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off-balance sheet risks.
 - b) Fixing of the level of risk the company considers acceptable.
 - c) Means identified in order to minimise identified risks in the event they transpire.
 - d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off-balance sheet risks.
- Complies Partially complies Explain
46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:
- a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.
 - b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.
 - c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.
- Complies Partially complies Explain
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 Partially complies Explain
48. That high market capitalisation companies have formed separate appointments and remuneration committees.
- Complies Explain Not applicable
49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a

vacancy on the Board of Directors.

Complies

[X]

Partially complies []

Explain []

50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

- a) Propose basic conditions of employment for senior management.
- b) Verify compliance with company remuneration policy.
- c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.
- d) Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.
- e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies

[X]

Partially complies []

Explain []

51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies

[X]

Partially complies []

Explain []

52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:

- a) That they are comprised exclusively of non-executive directors, with a majority of them independent.
- b) That their chairmen be independent directors.
- c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.
- d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.
- e) That their meetings be recorded and the minutes be made available to all directors.

Complies Partially complies Explain Not applicable

[]

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:
- a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.
 - b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.
 - c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.
 - d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.
 - e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.
 - f) Supervision and evaluation of the way relations with various stakeholders are handled.
 - g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.
 - h) Coordination of the process of reporting on diversity and reporting non- financial information in accordance with applicable rules and international benchmarks.

Complies

Partially complies

Explain

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:

- a) The objectives of the corporate social responsibility policy and the development of tools to support it.
- b) Corporate strategy related to sustainability, the natural environment and social issues.
- c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.
- d) Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.
- e) Means of supervising non-financial risk, ethics, and business conduct.
- f) Communication channels, participation and dialogue with stakeholders.
- g) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies Partially complies Explain

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies Partially complies Explain

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgement of non-executive directors.

Complies Explain

57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Complies Partially complies Explain

58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.

And, in particular, that variable remuneration components:

- a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.
- b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.
- c) They are configured on the basis of a balance between the achievement of short, medium and long term objectives, which allows the output for continuous performance to be remunerated over a sufficient period of time to appreciate their contribution to sustainable value creation, so that the measurement elements of that performance do not solely revolve around specific, occasional or extraordinary events.

Complies Partially complies [X] Explain Not applicable

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. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

Complies Partially complies [X] Explain Not applicable

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. That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.

Complies [X] Partially complies Explain Not applicable

61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.

Complies Partially complies Explain Not applicable

62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.

The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Complies Partially complies Explain Not applicable

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 Partially complies Explain Not applicable

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

Complies Partially complies Explain Not applicable

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.

With regard to the Executive Director who abandoned the Company in 2016, the eventual indemnity that could be paid is still outstanding to be decided by a court's resolution. The Company will inform immediately in case of any new circumstance that could arise herefrom and duly incorporate the information in the annual reports that may be due. Notwithstanding the aforementioned the maximum amounts that could become due have been provisioned in the Annual Accounts.

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. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In that case, indicate the code in question and the date it was subscribed to.
It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July 2010.

1. RELEVANT CORPORATE GOVERNANCE ASPECTS THAT HAVE NOT BEEN INCLUDED IN THE OTHER SECTIONS: SECTION A.3.:

SECTION A.3 The following is a breakdown of the number of direct shares held by each Board member listed in the reference section:

Mr Alfredo Fernández Agras: 150,000 shares

Mr Ramón Aragonés Marín: 31,514 shares. Additionally, Mr Aragonés holds a total of 157,251 Performance shares that may be executed as long as the stated objectives are met.

Ms Maria Grecna: 12,000 shares

Mr Paul Johnson: 9,116 shares

SECTION A.6.:

The following details the positions that Proprietary Directors who represent to the shareholder Minor IPC hold in companies belonging to its group and that for technical reasons could not be broken down in the reference section.

In view of the foregoing, it is reported that Mr Chojnacki is a Director of the following companies in the Minor IPC group: Anantara

Vacation Club (HK) Limited
Anantara Vacation Club (Cambodia) Co., Ltd.
Armin Systems Limited
Avadina Hills Co., Ltd.
Avani Lesotho (Pty) Ltd
Baan Boran Chiangrai Limited
Bai Dai Tourism Company Limited Barbaron
Beach Hotel MHG Limited Benihana UK
Limited
Catering Associates Limited
Coco Palm Hotel & Resort Co.,
Ltd Corbin & King Limited
Delicious Food Holding (Singapore)
Pte. Ltd. H & A Park Co., Ltd.
Harbour View Corporation
Hoi An River Park Company Limited

Hua hin Village Limited Huahin
Resort Limited
Jada Resort and Spa (Private) Limited
Kulutara Luxury Hotel (Private) Limited
Layan Bang Tao Development Co., Ltd.
Layan Hill Residence Co., Ltd.
Letsatsi Casino (Pty) Ltd
Liwa Minor Food & Beverages LLC
MFG International Holding (Singapore) Pte. Ltd.
MHG Australia Holding Pte. Ltd.
MHG Continental Holding (Singapore) Pte. Ltd.
MHG Desaru Hotel SDN. BHD.
MHG Desaru Villas SDN. BHD.
MHG Holding Limited
MHG International Holding (Singapore) Pte. Ltd.
MHG IP Holding (Singapore) Pte. Ltd
MHG Lesotho (Pty) Ltd MHG
Management Tunisia
MHG Npark Development Co., Ltd
MHG Perth Investments PTY LTD MI
Squared Limited
Minor Consultants and Service Limited
Minor Continental Portugal S.A.
Minor Corporation Pcl. Minor
Development Limited
Minor DKL Food Group Pty Ltd Minor
DKL Management Pty Ltd
Minor Food Group (Singapore) Pte. Ltd.
Minor Hotel Group Gaborone (Pty) Ltd
Minor Hotel Group Limited
Minor Hotel Group Management (Shanghai) Limited Minor
Hotel Group MEA DMCC
Minor Hotel Group South Africa Pty Ltd
Minor Hotels Zambia Limited
Minor Lifestyle Limited Mspa
International Cairo Mspa
International Limited
Mysale.co.th Limited
Navasri Manufacturing Limited
NYE and RGP Development Co., Ltd
Oaks Hotel & Resort Limited
PH Resort (Private) Limited
Plexus Maldives Pvt. Ltd.
PT Wika Realty Minor Development
Rajadamri Lodging Limited Rajadamri
Residence Co., Ltd
Rani Minor Holding II Limited
Ribs and Rumps Operating Company Pty Ltd Samui
Resort & Spa Limited
Sands Hotels (Pty) Ltd
Select Service Partner Limited
Sizzler China Limited
Tanzania Tourism & Hospitality Investments Limited TCC
Operations Pty Ltd
The Coffee Club Franchising Company Pty Ltd
The Sothea (K.V.) Pte. Ltd.
Zanzibar Tourism & Hospitality Investments Limited

Mr Heinecke holds the following positions in Minor IPC group companies:

Pacific Cross International Limited (Director)
Minor Holdings (Thai) Limited (Director)
Plu Luang Limited (Board Chairman)
Sri Bhathana Garden Limited (Director)
Minor BKH Limited (Board Chairman)
G5 Jets Limited (Director)
MD JETS Limited (Director)
MJETS Limited (Director)
MJETS Maintenance Limited (Director)
Phuket Vessel Holding Limited (Director)

Bravo Jets Limited (Director)
 Western - Mjets Limited (Director)
 Minor Food Group (Singapore)
 Pte., Ltd (Director)
 Minor DKL Food Group Pty.Ltd (Director)
 Benihana Asia Pte.Ltd (Director)
 Benihana Holding Pte. Ltd (Director)
 Benihana UK Limited (Director)
 Chao Phaya Resort & Residence Limited (Board Chairman)
 Rajadamri Residence Limited (Board Chairman)
 Zuma Bangkok Limited (Director)
 Panaram Limited (Director)
 Chao Phaya Resort Limited (Director)
 Maerim Terrace Resort Limited (Board Chairman)
 Arabian Spas (Dubai) (LLC)(Director)
 MSpa Ventures Limited (Board Chairman)
 Eutopia Holdings Private Limited (Director)
 Harbour View Corporation (Director)
 Jada Resort and Spa (Private) Limited (Director)
 Tanzania Tourism and Hospitality Investment Limited (Director)
 Zanzibar Tourism and Hospitality Investment Limited (Director)
 O Plus E Holdings Private Limited (Director)
 PH Resorts (Private) Limited (Director)
 Per Aquum Management JLT (Director)
 Sea Fly Limited (Director)
 MHG Desaru Hotel SDN.BHD (Director)
 MHG Desaru Villas SDN.BHD (Director)
 R.G.E. (HKG) Limited (Board Chairman)
 Plexus Maldives Pvt Ltd (Director)
 CARDAMON Tented Camp Co.,Ltd.(Director)
 Corbin & King Limited (Director)

Finally, to state that Mr Dillipraj Rajakarier is a Director of the following Minor IPC group companies: Minor Hotel Group

Limited
 Samui Beach Residence Limited
 Samui Beach Club Owner Limited
 Coco Residence Limited
 Coco Recreation Limited
 Chao Phaya Resort and Residence Limited
 M Spa International Limited
 Hua Hin Resort Limited
 Hua Hin Village Limited
 Baan Boran Chiangrai Limited
 Samui Resort and Spa Limited
 Coco Palm Hotel & Resort Limited
 MHG Phuket Limited
 MI Squared Limited
 Phuket Beach Club Owner Limited
 Rajadamri Lodging Limited
 Rajadamri Residence Limited
 Zuma Bangkok Limited
 Chao Phaya Resort Limited
 Maerim Terrace Resort Limited
 MHG Holding Limited
 MHG Npark Development Company Limited
 NYE and RGP Development Co.,Ltd.
 Avadina Hills Co., Ltd.
 Layan Hill Residence Co., Ltd.
 Layan Bang Tao Development Co., Ltd.
 H&A Park Co.,Ltd.
 M&S Realty Co.,Ltd.
 Arabian Spas (Dubai) (LLC)
 Hoi An River Park Company Limited
 Anantara Vacation Club (HK) Limited
 Anantara Vacation Club (Cambodia) Co.,Ltd.
 Sanya Anantara Real Estate Limited
 Minor Hotel Management (Shanghai) Limited
 MSpa Ventures Limited
 Oaks Hotels & Resorts Limited
 Eutopia Holdings Private Limited
 Harbour View Corporation Limited

Jada Resort and Spa (Private) Limited
Kalutara Luxury Hotel & Resort (Private) Limited
Tanzania Tourism and Hospitality Investment Ltd
Zanzibar Tourism and Hospitality Investment Ltd.
O Plus E Holdings Private Ltd.
Rani Minor Holding Limited
The Sothea (K.V.) Pte Ltd.
PH Resorts (Private) Ltd.
Per Aquum Management JLT
Rani Minor Holding II Limited
Minor Hotel Group South Africa (PTY) Limited
Minor Hotel Group MEA DMCC
MHG Desaru Hotel Sdn. Bhd.
MHG Desaru Villas Sdn. Bhd.
M SPA International Cairo LLM
PT Wika Realty Minor Development
Minor Continental Portugal S.A.
Minor Hotels Zambia Limited
Avani Lesotho (Pty) Ltd
MHG Lesotho (Pty) Ltd
Minor Hotel Group Gaborone (Pty) Ltd
R.G.E. (HKG) Limited
Plexus Maldives Pvt. Ltd
MHG Management Tunisia
Corbin & King Limited
(Formerly known as Minor C&K Limited)
Barbarons Beach Hotel MHG
Letsatsi Casino (Pty) Limited
Sands Hotels (Pty) Limited
MHG Perth Investments Pty Ltd
MHG Australia Investments Pty Ltd

SECTION C.1.10

At the approval date of this Annual Corporate Governance Report, Mr Ramón Aragonés no longer held any position at JV Grand China Hotel Management (CHINA), due to the fact that NH has sold his stake in the mentioned company.

SECTION C.1.29

Notwithstanding the fact that during 2018 Mr Pedro Ferreras Díez had been acting as Board Secretary, the Board of Directors meeting held on 7 February 2019, following a favourable report from the Appointments, Remuneration and Corporate Governance Committee, appointed Mr Carlos Ulecia Palacios as new Secretary of NH, following the resignation tendered by Mr Ferreras.

SECTION C.2.1.

The reference section shows the make up of the Audit and Control Committee on 31.12.2018. It is reported that the Board of Directors, at its meeting held on 7 February 2019, approved the appointment of Mr Stephen Andrew Chojnacki, following the resignation tendered by Mr José María Sagardoy Llonis.

With regard to the make up of the Appointments, Remuneration and Corporate Governance Committee, it is noted that, during the aforementioned session, the Board of Directors approved the appointment of Mr Stephen Andrew Chojnacki as a new member of the aforesaid Committee.

During the aforementioned meeting, the Board unanimously approved assuming all the functions that are its own, so the Executive Committee has ceased its activities, with all members having submitted their respective resignations, namely Mr Ramón Aragonés, Mr Dillip Rajakarier and Mr Paul Daniel Johnson.

SECTION D.2

The first Related Transaction described under this paragraph is the one entered into between Grupo Inversor Hesperia, S.A. and NH Hotel Group, S.A. and correspond to the management fees charged by NH Hotel Group, S.A, under the Framework Contract for Transaction and Global Hotel Management signed between the parties.

As a result of the change of control of the NH Group on 30 November 2018, the effective termination of all the management contracts defined in the framework contract entered into in 2017 with Grupo Inversor Hesperia, S.A. was formalised for the management of 28 hotels for a period of nine years, which until then had been managed by the NH Group as this contract included an early termination clause in the event of a change of control of the NH Group.

As a result of this termination, the Group has de-recognised the net book value of the activated management contracts amounting to 30.4 million euros. In the same way, a revenue of 33 million euros has been recorded corresponding to the "Net Price Refund Amount" defined in the framework contract, which includes the receipt of an advance indemnity revenue amounting to 20 million euros, the settlement of the pending payment by NH related to the premiums for contracts amounting to 11,560 thousand euros, which was recognised under "Other Financial Liabilities" in the consolidated balance sheet at 31 December 2017, and the sale of the Hesperia brand, the net book value of which amounted to 45 thousand euros, for an amount of 1.4 million euros. The net effect of 2.6 million euros of revenue arising from the early cancellation of the contract entered into with GIHSA, before its tax impact, is recognised under "Net result on disposal of assets" of the 2018 consolidated comprehensive profit and loss statement has been included under paragraph D.2.

At 31 December 2018, 178 thousand euros had not yet been paid in respect of the audit requested by Minor IPC following the takeover. This amount will be refactured from NH to Minor IPC:

Finally, it is stated that on 7 February 2019 NH Hotel Group, S.A. Minor IPC entered into i) a Framework Agreement that aims to establish a transparent framework of relations between the Company and Minor and its group companies, in order to regulate, among others the allocation of costs between the parties, all in compliance with the provisions of the Second Recommendation of the Code of Good Corporate Governance of Listed Companies and ii) a reciprocal trademark licence agreement, whereby both parties licence the use of their respective trademarks in the geographical areas where the other party operates. Said agreements were duly approved by the Board of Directors following a favourable report from the Audit and Control Committee and notified through the Relevant Fact on 7 February 2019.

SECOND RECOMMENDATION

As a result of the takeover bid by Minor Group and whose result was reported by the CNMV through the Relevant Fact on 26 October 2018, both parties, in their capacity as listed companies and in compliance with the provisions of the Second Recommendation, have entered into a Framework Agreement whose objective is to regulate the relations between the Company and Minor whereby, following the best practices of corporate governance:

- (i) the scope of action of the respective hotel groups headed by NH and Minor, respectively, is delimited through the identification of preferred geographical zones or areas;
- (ii) the necessary mechanisms to prevent and respond to possible conflicts of interest are governed, as well as carrying out operations with related parties and developing business opportunities; and
- (iii) the commitments related to the exchange and provision of information by NH and its processing are established.

The signing of the aforesaid Framework Agreement by the parties was duly communicated to the CNMV by means of a Relevant Fact on 7 February 2019.

RECOMMENDATION 37

At 31 December 2018, the Executive Committee did not represent the same categories as the ones represented in the Board. Nevertheless the Board during its meeting on 7 February 2019, unanimously approved assuming all the functions that are its own, so the Executive Committee has ceased its activities, with all members having submitted their respective resignations, namely Mr Ramón Aragonés, Mr Dillip Rajakarier and Mr Paul Daniel Johnson. That's the reason why the answer to the Recommendation is to state "not applicable"

RECOMMENDATION 47

At 31 December 2018, the Appointments, Remuneration and Corporate Governance Committee was made up of two members (both Independent Directors), as well as its non-Director Secretary. This situation is brought about by the takeover bid of shares acquired by MHG Continental Holding (Singapore) Pte Ltd, which has led, among others, to the exit of the Directors representing the shareholder Grupo Inversor Hesperia, S.A. Therefore, on 12 November 2018, Mr Jordi Ferrer Graupera, ceased to be a member of the Appointments, Remuneration and Corporate Governance Committee, on behalf of the Grupo Inversor Hesperia, S.A.

On 7 February 2019, the Board of Directors unanimously approved the appointment of Mr Stephen Andrew Chojnacki as the new member.

This appointment complies with the recommendation, given that the majority of its members are Independent Directors and all members have the knowledge, aptitudes and experience suitable to properly perform their duties.

2. CODES OF ETHICAL PRINCIPLES AND GOOD PRACTICES

NH Hotel Group, S.A. it is a member of the United Nations Global Compact and supports and contributes to the Sustainable Development Goals (SDGs) that contemplate the protection and promotion of fundamental human rights.

Another global frame of reference for NH is the Global Code of Ethics for Tourism, approved in 1999 by the United Nations World Tourism Organization (UNWTO) Assembly. It is a set of 10 principles designed to guide the main tourism development actors, helping to maximise the benefits of the sector, while minimising its impact on the environment, cultural heritage and local communities.

In this vein, in September 2012, NH joined ECPAT (End Child Prostitution, Child Pornography and Trafficking of Children for Sexual Purposes) to protect children against sexual exploitation in tourism; also promoted by UNWTO and UNICEF.

NH is part of the International Tourism Partnership (ITP), a global platform for leading companies in the hotel sector that share a common commitment to social responsibility and sustainability. This organisation establishes four main goals, among which is the protection and promotion of human rights, a target that NH endorses and supports.

In 2018, the 16 NH hotels in Mexico initiated a process to voluntarily adhere to the National Code of Conduct for the protection of children and adolescents in the travel and tourism sector that aims to prevent and combat it with special emphasis on child exploitation. It is promoted by the Secretariat of Tourism of the Government of the Republic (SECTUR). In addition, training will be offered to employees in the prevention of human trafficking and child exploitation.

The Company participates in various forums and projects to promote the fight against climate change and the reduction of carbon emissions.

Finally, since 2015, NH has adhered to the 20 July 2010 Code of Good Tax Practices.



This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on.

[25/02/2019]

State whether any directors voted against or abstained from voting on this report

- YES
- No

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, 2018

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 18th, 2019, 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, 2018, 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, 2018 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 5/2013 of June 12th 2013, subsequently amended by Circular 7/2015 of December 22nd, 2015, and by Circular 2/2018 of June 12th, (hereinafter, the CNMV Circular norms).

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 norms, for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.



Pilar Cerezo Sobrino
February 25th, 2019