nH HOTELES

ANNUAL REPORT 2012

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

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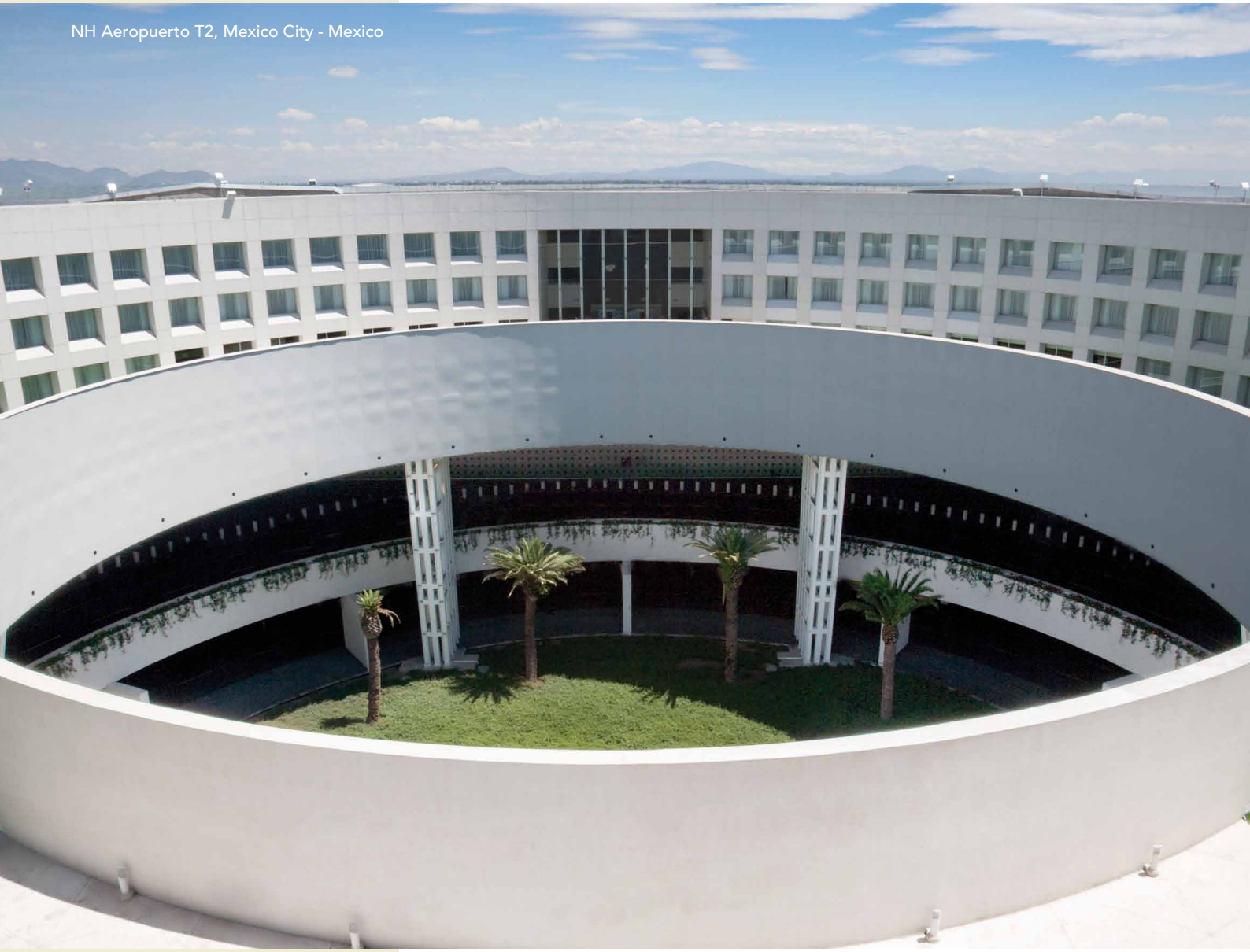
NH HOTELES

ANNUAL REPORT 2012

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT



NH Aeropuerto T2, Mexico City - Mexico

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of NH Hoteles, S.A.:

We have audited the consolidated financial statements of NH Hoteles, S.A. ("the Parent") and Subsidiaries composing, together with the Parent, the NH Hoteles Group ("the Group" - see Note 1), which comprise the consolidated statement of financial position at 31 December 2012 and the related consolidated statement of 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. As indicated in Note 2.1 to the accompanying consolidated financial statements for 2012, the Parent's directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

In our opinion, the accompanying consolidated financial statements for 2012 present fairly, in all material respects, the consolidated equity and consolidated financial position of NH Hoteles, S.A. and Subsidiaries at 31 December 2012, and the consolidated results of their operations, the changes in their consolidated equity and their consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

Without qualifying our audit opinion, it should be noted that although the Group incurred losses in 2012 and that at 31 December 2012 it had a working capital deficiency, at the date of issue of this report, as indicated in Note 31 to the accompanying consolidated financial statements, the NH Hoteles Group had increased share capital by EUR 234 million and had obtained a waiver in relation to the achievement of the financial ratios at 31 December 2012 relating to the syndicated loan of EUR 716 million.

The accompanying consolidated directors' report for 2012 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2012. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Group's accounting records.

DELOITTE, S.L.

Registered in ROAC under no. S0692

Pablo Hurtado March

30 April 2013

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CONSOLIDATED MANAGEMENT REPORT

For the financial year ending 31 december 2012

EVOLUTION OF BUSINESS AND GROUP'S SITUATION

The 2012 financial year saw the world economy grow slightly slower (3.2%) than in 2011 (3.9%). Economic growth rates also remained at similar levels, slightly lower than in on the previous year in the euro area, the United States, the United Kingdom and the Latin American countries in which the Group operates its 391 hotels. However, comparing the year-on-year economic growth rates for the four countries that account for the largest proportion of the Group's sales and income: Germany (0.9% compared to 3.1%), the Netherlands (-0.9 vs 2.2%), Spain (0.4 vs -1.4%) and Italy (0.4 compared to -2.1%), we see that these economies have fallen by around 2 to 3 percentage points. With the exception of Germany, all of these economies moved from growth to contraction.

The same is true if we compare the latest reports of the World Travel & Tourism Council, which include the 2012 growth estimates in travel and tourism GDP for all world regions. Asia and Latin America present growth of 6% in 2012 compared to a contraction of 0.5% in Europe. The move towards negative growth has also occurred in the hotel sector in Europe, but not in air traffic or transport. According to data as of November, occupancy (-0.1%) and prices (-4.5%) fell only in European hotels.

As such, the growth of the Group's sales in 2011 has been interrupted, even in a macroeconomic context of weak growth. In 2012, despite the decreasing demand, the Group managed to maintain occupancy at similar levels to 2011 (-0.3%), with a slight fall in average prices (-1.0%).

In 2012, commercial initiatives were designed to reinforce web sales channels, as well as certain local offices. Efforts to render the Group more efficient reduced operating expenses by -0.3% in absolute terms, thereby offsetting inflation. As announced in the last report, the Group will continue to focus its attention on both personnel expenses in Spain and Italy (where personnel costs compared to sales are much higher than in other business units) and on leases in the same business units. This year, a number of measures aimed at reducing operating losses and their resultant impact on cash remain in force:

- ✓ FREEZING OF INVESTMENTS: The bulk of investments are focused on maintenance and on expenditure required by legal undertakings made to public bodies. This year, some investment has been allocated to modernising and improving the services of some of our main company-owned hotels, given their high returns in terms of revenue and profit per room. In accordance with our strategy of moving towards an "asset-light" model involving management/franchise contracts that do not require investment commitments, all hotels opened and new contracts signed in 2012 were under a management arrangement. Total investment in 2012 amounted to €47 million, 16.3% less than in 2011.
- ✓ STAFF FLEXIBILITY: Thanks to the cost containment measures applied in 2012, personnel expenses have fallen by -2.9% in spite of activity levels similar to the previous year, reinforcing the sales teams, and the effect of inflation.
- ✓ REDUCTION OF OPERATING COSTS: Maintaining savings and cost-control plans has allowed us to cut costs for the third year in succession, including cutting personnel expenses by €14.1 million.
- ✓ WITHDRAWAL FROM UNPROFITABLE HOTELS: Termination of lease agreements and franchises with negative EBITDA, showing no signs of recovery. As part of our streamlining policy, 10 hotels with a total of 1,105 rooms have been removed from the NH Hoteles portfolio. Seven of these were located in Spain and Italy. The withdrawal of these hotels was offset by the addition of 5 new management contracts, contributing with 906 rooms in the Czech Republic, the Netherlands, Haiti, Spain and the Dominican Republic. Of these, those in Prague, Punta Cana and Ourense were already in operation in 2012, and along with the three management contracts signed in 2011, provided NH Group with a total of 992 operational rooms.
- ✓ NEGOTIATING AND REFINANCING HOTEL RENTAL AGREEMENTS through reductions in rental installments and freezing rent rises. The Group has managed to stabilise lease expenditure in 2012 (down by 0.6%), offsetting the opening of hotels, increases resulting from negotiations in previous years, and CPI revisions. Between 2011 and 2012, 84 actions were carried out at leased hotels with negative EBITDA, and 8 agreements were terminated early. Rent reductions are planned for 2013 in addition to those already obtained.

End customers, who are even more demanding in tourist destinations with an oversupply of hotel rooms, did not report any negative effect on quality as a result of direct action taken on operating costs. In 2012, NH Group focused its efforts on providing the Group with a system for measuring and monitoring customer satisfaction, which has enabled it to make decisions, respond and implement prompt action plans wherever necessary. NH has managed to include more than 200,000 customer assessments and more than 130,000 comments from all its hotels in a single tool known as "Quality Focus On Line". This tool analyses results either for individual hotels or from an aggregate perspective, and allows the Group to closely monitor its direct competitors. Likewise, the Board of Directors of the Parent Company decided that NH employees would have 15% of their variable target directly linked to the satisfaction results obtained in 2012, reinforcing the idea that quality is one of the mainstays of NH Hoteles.

The outcome of these policies is reflected in an improvement in overall customer assessment of NH during 2012, from 8.0 out of 10 in 2011, to 8.1 in 2012. According to these results, the most appreciated aspects of the chain, in addition to location, are service and cleanliness, which scored above 8.3; both aspects are directly related to the work of employees, showing the importance of customer-centred approach for NH Hoteles Group.

The consolidation of the Spanish hotel industry's first procurement platform, Coperama (in which NH Hoteles holds a 75% stake), continues to bear fruit. During 2012, it reasserted its position as the leading procurement network for the Spanish hospitality industry. With an average growth of three new establishments per week, and an increase of 42% compared to 2011, it ended 2012 with a total of 596 clients. With a portfolio of more than 300 suppliers, it manages annual purchases worth around €250 million for its members. This year, Coperama presented its customers with an "Electronic Catalogue", a tool that enables product searches to be turned into purchase orders, facilitating the procurement process and using technology to optimise communication between customers and suppliers. It also launched "Electronic Billing", a free-of-charge service that will allow suppliers to send electronic invoices to all establishments, eliminating the use of paper.

In 2012, NH Hoteles Group received a TripAdvisor Certificate of Excellence for quality and a Goethe Frankfurt and Die Welt Award for the Best Mid-range Chain in Germany, as well as recognition by Top Companies as one of the Best Companies to Work for in the Americas. It also received the Club de Gourmets Award for the Best Hotel Chain 2012, the Dintel Foundation Award for the best customer service and contact-centre project, a Gold Award for the Best Legal Department in Spain, an Excellence Award from Trademark Italia for the Director of the Italy Business Unit, and recognition from Service-Champions for the Central Europe BU as the Best Mid-range Hotel Chain. Individual awards conferred on our hotels include the TripAdvisor Certificate of Excellence for NH Liberdade and NH Castellar, the Conde Nast Traveller Award for the best international non-urban hotel and an R&D Hospitality Award for an innovative project at the Gran Hotel Convento di Amalfi. The MICE Report rated Hesperia Tower as the Best Conference Hotel in the Southern Europe, and NH Berlin received the Top Hotel Opening Award in the "Exceptional" category, as well as the MICE Report Award for the best conference hotel in Germany. The Mexico City Airport hotel was listed among the 10 best hotels in Mexico City by the magazine Latin Trade.

Since early March, the Group has been listed in the prestigious FTSE4Good sustainability index. This index includes listed companies from around the world, and is designed to help investors include factors such as the environment, shareholder relations, human rights and labour rights, in their investments. The Group is the only Spanish company included in the latest edition of the FTSE4Good index. This time, FTSE announced the inclusion of 20 new companies in the index, which seeks to recognise the responsible conduct of such companies, while excluding four companies. Most of the companies included as part of this update are from the United States, with six companies. Asia-Pacific countries continue to increase their presence in the index, with three new firms from Japan, two from South Korea and one from Hong Kong.

The Norwegian Government Pension Fund, meanwhile, (an investment vehicle that invests the country's oil revenues according to ethical, social and environmental criteria, so that future generations can also benefit from petroleum production) increased its stake in the Group from 2.24% to 2.40% in late 2012, a movement that highlights the responsible commitments undertaken by the Group.

THE ENVIRONMENT

The Group has been working on the Environmental Strategic Plan 2008/2012, which set reduction targets of 20% for energy and water consumption, waste generation and the carbon footprint.

The Plan has exceeded the initial targets by a substantial margin thanks to the implementation of efficiency measures, and not least due to monthly monitoring of these variables.

Implementing the Environmental Plan has helped reduce energy consumption by 25% and water consumption by 30%. This has led to a clear saving in energy costs.

NH Hoteles' carbon footprint has been cut by 44% since 2008. During 2012, reduced consumption has allowed us to absorb this year's increased energy costs while improving our customer energy and water cost ratios.

ENVIRONMENTAL STRATEGIC PLAN 2008-2012

ENERGY CONSUMPTION

-25.1%

Reduction of the energy consumption ratio per customer/night

CO_2 EMISSIONS

-44.2%

Reduction of the CO_2 released ratio per guest/night

WATER CONSUMPTION

-30.5%

Reduction of the water usage ratio per guest/night

WASTE GENERATION

-34.1%

Reduction of the waste generation ratio per guest/night

The Group was the first Spanish listed company to publish the results of its environmental plan, together with economic variables, as a further element in its transparency policy for investors and society as a whole. Awareness of this policy within the company is reinforced each year through an employee training plan.

The Group reports its climate-change commitment and strategy to the Carbon Disclosure Project (CDP). The CDP's assessment places NH Hoteles among the leading companies in the hotel industry for its strategy to combat climate change.

In 2012, the Group improved the transparency of its environmental management by obtaining two external international certifications: ISO 50001, which recognises the efficiency of the international hotel network's energy management, and ISO 14001, which certifies environmental management.

In 2012, NH Hoteles continued the important task of conducting environmental research and development with its suppliers, through the innovative Sustainable NH Club project.

The Group was awarded the Project Icarus Gold Medal by the Global Business Travel Association (GBTA), and is the first international hotel chain to receive this prize. The NH Hoteles Environmental Plan also received an award from the Spanish Confederation of Hotels and Tourist Accommodations (CEHAT).
NH Hoteles is working on a second Environmental Strategic Plan that will provide continuity for its energy efficiency measures.

RESULTS

The annual income of NH Hoteles in 2012 was €1,311.6 million. This figure is down by €116.7 million compared to 2011, a decrease of 8.2%. Hotel sales, which at €1,288.0 million continue to represent the majority of income (98%), fell by 3.8% as a result of the hotels sold the previous year being retired from the scope of consolidation (the most significant closures being Jolly Lotti, NH Ligure, NH Lucerna and NH Genk), accounting for 40% fall in sales (€20.4 million). Falling sales of F&B (-6.8%), and the decline in RevPAR also had a negative effect. The Group continues to have significant levels of activity (occupancy was at 64.6% in 2012, compared to 64.8% in 2011 in comparable terms) and both Central Europe and Benelux remain noteworthy for their positive performance in occupancy, which continues at similar levels to 2011 despite the slowdown in sales in the MICE and catering businesses (down 6.8%). Uncertainty in Europe continues to hinder the recovery of the sector, both in the corporate and events and recreational sides of the business, albeit essentially in the MICE segment.

Two very different trends have been identified: on the one hand the Central European and American economies, which are performing well in spite of some deterioration in Argentina, and on the other hand the southern European economies (Spain and Italy) which are performing poorly. In the Spain business unit, RevPAR has fallen by 7.2%, as a result of falling occupancy (down 3.7%) and prices (down 3.6%). Barcelona is an exception and is performing better than the other cities, maintaining both occupancy and price levels. In any case, income from Spain, at €307.0 million, fell by 12.0% against 2011. We are faced with a similar situation in Italy, on a lesser scale, with sales of €281.2 million, an annual fall of 4.4%. 12-month RevPAR data shows a reduction of -5.1%, explained by both falling occupancy levels and a reduction in average prices, with the business segment most severely affected. The Benelux business unit echoes the trend of other units: RevPAR is down by 2.4%, although occupancy, with levels above those of 2011, has partly halted the fall in prices (down 3.5%). However,

Benelux is different, given that it obtained better results in the fourth quarter than in the first nine months of the year. The Netherlands alone recorded income of €283.8 million, down 4.4% on 2011. These results were offset by the hotels in the UK, Luxembourg and France, which are also managed by the Benelux business unit.

With regard to Central Europe, cumulative 12 month RevPAR increased by 6.2%, with growth both in occupancy levels (3.8%), thanks to a favourable trade fair calendar, and in average prices (2.3%). Generally, all German cities showed a strong increase in occupancy and prices, with a notable increase of more than 12% in Munich and Berlin. 2012 RevPAR fell, however, in Switzerland compared to the previous year as a result of falling demand (and a strengthened Swiss franc). This business unit is expected to continue its positive trend in the first quarter of 2013. Specifically, income from NH Hoteles in Germany rose to €281.2 million, up 5.2% over 2011. For the fourth consecutive year the Americas business unit continued to perform well, and posted the second highest growth in the Group. In comparable terms, RevPAR grew by 2.8%, with falling occupancy levels (down 2.7%) offset by a rise in average prices (up 5.7%). There are significant differences in the performance of the main Latin American markets. Mexico is notable for very positive increases in RevPAR, in excess of 10% for the year as a whole, again driven by strong growth in hotel occupancy and average prices. Argentina, however, performed poorly as a result of reduced demand in its main outbound markets (Brazil and Spain) due to overall prices increases in these countries and the deterioration of the Spanish economy.

Income from real-estate activity, at €22.1 million, was up by 30.2%, and deeds were signed on 25 properties worth a total of €10.79 million, compared to 4 properties totalling €1.58 million over the same period in 2011. No plots of land were sold in 2012, whereas in 2011 nine plots were sold for total of €3.09 million.

In terms of NH Group income for 2012, equal importance is given to the negative effects of the economic crisis in the Group's main markets on hotel turnover and the lack of non-recurrent income, resulting from the failure to conclude several sale transactions for non-strategic assets. Compared to the €72.1 million posted in 2011, only €1.5 million was booked in 2012 due to sales transactions being cancelled late in negotiations as a result of final offers being much lower than the initial expressions of interest, resulting in sales that would have involved a clear loss of value for NH Hoteles.

CONSOLIDATED MANAGEMENT STATEMENT (€ million)

	2012		2011		2012/2011
	€ Million	%	€ Million	%	VAR. %
Income from hotel activity	1,288.0	98%	1,339.2	94%	(4%)
Income from Real Estate Activity	22.1	2%	17.0	1%	30%
Non-recurrent income	1.5	0%	72.1	5%	(98%)
TOTAL INCOME	**1,311.6**	**100%**	**1,428.3**	**100%**	**(8%)**
Cost of Real Estate Sales	(10.0)	(1%)	(2.0)	(0%)	391%
Personnel costs	(465.8)	(36%)	(479.9)	(34%)	(3%)
Direct management expenses	(423.3)	(32%)	(420.0)	(29%)	(1%)
Non-recurrent expenses	(36.6)	(3%)	(32.6)	(2%)	12%
MANAGEMENT PROFIT	**376.0**	**29%**	**493.8**	**35%**	**(24%)**
Reversal of provision for onerous and other agreements	(4.7)	(0%)	4.1	0%	(214%)
Leases and property taxes	(293.8)	(22%)	(291.4)	(21%)	(1%)
EBITDA	**77.5**	**6%**	**202.4**	**14%**	**(62%)**
Assets impairment provision	(268.3)	(20%)	(15.3)	(1%)	1,656%
Depreciation	(115.5)	(9%)	(119.0)	(8%)	(3%)
EBIT	**(306.3)**	**(23%)**	**68.1**	**5%**	**(550%)**
Financial expenses	(54.8)	(4%)	(51.3)	(4%)	7%
Non-recurrent exchange rate differences	(29.2)	(2%)	(1.9)	(0%)	1,437%
Change in fair value of financial instruments	2.5	0%	(6.6)	(0%)	(137%)
Equity Method Profit (Loss)	(4.2)	(0%)	(4.0)	(0%)	6%
EBT	**(392.1)**	**(30%)**	**4.3**	**0%**	**(9,176%)**
Corporate income tax	55.5	4%	6.2	0%	795%
Profit before minority interests	**(336.6)**	**(26%)**	**10.5**	**1%**	**(3,299%)**
Minority interests	44.0	3%	(4.3)	(0%)	(1,130%)
NET PROFIT (LOSS)	**(292.1)**	**(22%)**	**6.2**	**0%**	**(4,773%)**

Note: This consolidated operating statement, on which the figures of this management report are based, was drawn up using hotel management grouping criteria that do not necessarily coincide with the accounting standards applied to the consolidated financial statements of NH Hoteles Group.

Salaries and other operating costs of NH Group in 2012 amounted to €935.7 million, 0.1% higher than in the previous year, despite an average inflation rate of between 1% and 2.5% in the countries where NH operates. Thanks to the cost containment measures applied in 2012, personnel expenses have been reduced by 2.9% despite activity levels similar to the previous year, due to having reinforced the sales teams, and the effect of inflation. Other direct management expenses have increased by 0.8% as a result of increases in extraordinary cost of systems (in line with the new systems plan being implemented in the company) and the increase in commercial expenses (mainly fees due to the increase in sales concluded through intermediaries). Consumption, advertising, laundry and other expenses, meanwhile, are reduced in comparison to the previous year. Costs from real-estate activities increased due to the change in the mix of products sold: residential property rather than land.

NH Group will continue to focus its attention on personnel expenses both in Spain and Italy (which have a much higher personnel costs to sales ratio than the other business units) as well as on rents in these same business units, with the goal of returning to 2013 EBITDA levels in these business units. In line with the goal of reducing differences in personnel expenses in Spain and Italy compared to other more efficient business units (Benelux and Central Europe), expenditure on compensation and provisions for personnel restructuring has increased, and represents the most significant non-recurrent expenses item.

Expenditure on leases and municipal taxes has remained at levels below those of the previous year: €293.8 million compared with €295.5 million the previous year or 22.4% of income. This compensates for the opening of new hotels, increases originating in negotiations concluded in previous years, and CPI revisions. Between 2011 and 2012, some 84 actions were carried out at leased hotels with negative EBITDA, and 8 contracts were terminated early. Further rent reductions, in addition to those already obtained, are planned for 2013.

During 2012, the 2% decrease in economic activity in most of the markets where NH Hoteles operates not only led to a general drop in sales but also further price reductions and reduced operating margins compared to 2011. In addition, 2011 EBITDA included €72.1 million in income for capital gains generated by the sale of assets and from compensation for the termination of the investment agreement with the HNA Group. It also included €32.6 million in expenses, essentially for personnel restructuring and various provisions. In 2012, EBITDA includes €1.5 and €36.6 million respectively in income and expenditure, which together make up a difference of €74.6 million compared with non-recurrent EBITDA from the previous year. In total, the EBITDA of NH Group in 2012 amounted to €77.5 million compared to €202.4 million the previous year.

The Group has assessed the recoverability of the book value of its assets based on its business plan. Accordingly, and in line with the macroeconomic situation in Spain and Italy, which is causing a greater-than-expected impairment in certain hotel and real-estate assets, the Group has increased its provision for impairment to €268.3 million. This provision includes €51.7 million for real-estate activity. In terms of impact on net income, the total figure is reduced by the estimated recovery through tax applied to this allowance, and for the part that corresponds to minority interest holders due to impairments in Italy.

Recurrent financial expenses totalled €54.8 million, up 6.9% on the €51.3 million posted in 2011 and which responds to the terms of refinancing the syndicated loan taken out by NH Group (€715 million) and NH Italia Srl. (€75 million), with increased margins in line with market trends, and not totally offset by the reduction in the Euribor rate. However, in a context of loss of income in NH Hoteles and a strong increase in Spanish public and private risk margins, financial expenses remain at 4% of sales and 5.8% (5.6% in 2011) of NH Group's average net financial debt.

The change in fair value of financial instruments includes, as income, a €3.0 million reduction in the provision for the hedge covering the NH employee share option plan incentive approved in 2007 which, as a result of the rising share price since the end of 2011(€2.18 to €2.61), is in the black. This provision is reversible if share prices recover their value by the time the plan reaches maturity in 2013, and does not represent a cash outflow until that time.

NH Hoteles pre-tax result for 2012 is €-392.6 million which, after applying Corporate income Tax of €55.5 million due to the effect of activating the negative tax bases obtained by the Group (fundamentally in the Spain Business Unit) and minority interests of €44 million, gives a net result of €-291.1 million.

During 2012, the operating cash flow of NH Hoteles SA, excluding CAPEX and changes in working capital, stood at a positive level of €27.3 million, albeit down €121.6 million on the cash flow generated in 2011 (€149.0 million), as can be seen in the following table:

P&L ACCOUNT EXCLUDING CASH INFLOW OR OUTFLOW	
	12 M 2012
	€ Million
Income from hotel activity	1,288.0
Income from real-estate activity	22.1
Non-recurrent activity	1.5
TOTAL INCOME	**1,311.6**
Costs of real-estate sales	(10.0)
Personnel costs	(465.8)
Direct management expenses	(423.3)
Other non-recurrent expenses	(36.6)
Leases and property tax (excl. reversal of provision for onerous agreements)	(293.8)
Financial expenses	(54.8)
TOTAL EXPENSES	**(1,284.3)**
TOTAL OPERATING CASH FLOW	**27.3**

Note: This Consolidated Cash Flow Statement was drawn up using hotel management criteria, which do not necessarily coincide with the accounting criteria used in drawing up the Consolidated Cash Flow Statement of NH Hoteles, S.A. Group.

The cash outflow due to expenses, similar to that of last year (€1,279.3 thousand) and the steep decline in income of €116.7 million compared with 2011, are the main reasons for loss of cash flow, on the basis of the profit and loss statement of NH Hoteles, S.A. Group.

OVERVIEW OF NH RISK POLICY

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

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

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

The size of NH Hoteles and its excellent penetration and brand recognition provide the Group with access to many expansion opportunities, although these are selected more on the basis of rate of return and less on the need for investment, always attempting to minimise the risk inherent to the industry in which the Group operates. The industry is characterised by economic cycles, and is therefore exposed to fluctuating prices, which the Group has always managed to offset with occupancy.

The Group's credit risk can mainly be attributed to commercial debts. The amounts are shown net of any provisions for insolvencies and the risk is very low since the customer portfolio is spread among a large number of agencies and companies. Furthermore, part of the accounts receivable are guaranteed by insurance policies, sureties, bank guarantees and advance payments made by tour operators.

Concerning interest rate risks, the Group is exposed to fluctuations in the interest rates of its financial assets and liabilities, which may have an adverse effect on its results and cash flows. In order to mitigate the effect of these fluctuations, the Group has contracted a series of financial instruments, interest rate swaps and collars (a combination of swaps and options) to ensure that approximately 30% of its net debt has been hedged against extreme interest rate variations. Information on derivative financial instruments held by the Group at 31 December 2012, as well as on the policies applied to such instruments, is set out in Note 19 of the Consolidated Annual Report.

The Group has subsidiaries in several countries with operating currencies other than the euro, the Group's currency of reference. The operating results and financial position of these subsidiaries (mainly located in Mexico and Argentina) are booked in their corresponding currencies and converted later at the applicable exchange rate for their inclusion in the financial statements. In 2012 the euro fluctuated against other major currencies and this has affected sales, equity and cash flows. In order to ensure such risks are mitigated as much as possible the Group takes out debt in the same currency as the investment, always considering that the income generated in geographic areas with currencies other than the euro remains below 8% of total income.

Regarding liquidity risks, NH Group has a suitable debt maturity calendar, which is set out in Note 17 of the Consolidated Annual Report for 2012. The Group intends to obtain a waiver for non-observance by NH Finance S.A. and NH Italia Srl to fulfil certain covenants in various loans .

The level of consolidated net financial debt, in accordance with the definition of the syndicated loan, stood at €945 million at 31 December 2012, €28 million up from the Group's financial borrowing at the close of the previous year, although this is caused not by an increase in debt but by a loss of available liquidity.

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

SHARES AND SHAREHOLDERS

NH Hoteles, S.A. share capital at the end of 2012 comprised 246,617,430 fully subscribed and paid up bearer shares with a par value of € 2 each. All these shares are entitled to identical voting and economic rights and are traded on the Continuous Market of the 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 were as follows:

	2012	2011
GRUPO INVERSOR HESPERIA, S.A.	25.09%	25.09%
BANCO FINANCIERO Y DE AHORROS, S.A.	15.75%	15.75%
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA	-	5.04%
IBERCAJA BANCO, S.A.	5.04%	-
HOTELES PARTICIPADOS, S.L.	5.43%	5.43%
CK CORPORACIÓN KUTXA, S.L.	6.25%	6.25%
PONTEGADEA INVERSIONES, S.L.	5.07%	5.07%
INTESA SANPAOLO, S.P.A.	5.65%	5.65%
SHARES ALLOCATED TO EMPLOYEE REMUNERATION SCHEMES	0.84%	0.88%
SHARES OWNED BY NH EMPLOYEES	0.60%	0.63%

The Company and the National Securities Market Commission were served notice of two shareholders' agreements on 28 and 29 December 2009. The first of these is formed by Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja); Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja); and Caja de Ahorros y Monte de Piedad de Madrid (Cajamadrid), grouping together a total of 20.74% of share capital. The other agreement includes Hoteles Participados, S.L. and Caja de Ahorros y Monte de Piedad de Guipuzkoa y San Sebastián (Kutxa), which groups together a total of 11.57% of share capital.

Caja de Ahorros y Monte de Piedad de Madrid and Bancaja, among other savings banks, merged to form Banco Financiero y de Ahorros, S.A. in 2011. Likewise, Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián (Kutxa) and other Basque savings banks merged on 1 January 2012 to form Kutxabank.

As reported to the National Securities Market Commission (CNMV) on 23 January 2012, the syndication agreement between Banco Financiero y de Ahorros, S.A. and Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja) was extended for an additional period of one year, until 31 December 2012. In keeping with the notification to the National Securities Market Commission on 12 April 2012, this agreement is automatically extended for one-year periods unless terminated by one of the parties.

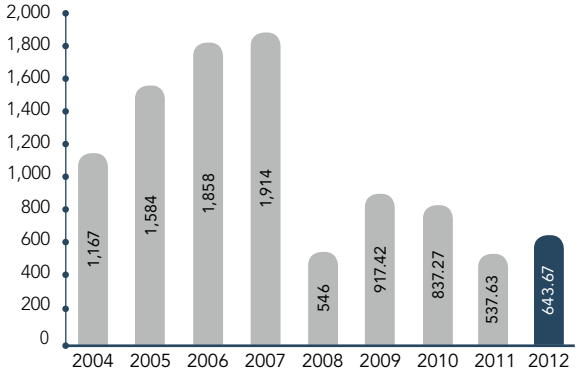
Hoteles Participados, S.L. and Kutxabank, meanwhile, reported on 20 December 2012 that the syndication agreement had been dissolved as of 31 December.

NH Hoteles, S.A.'s average share price was €2.42 per share (€3.92 in 2011). The lowest share price of €1.70 per share was recorded in December (€1.90 in December 2011) and the highest share price of €3.05 per share in May (€6.30 in May 2011). The market capitalisation of the company at the close of 2012 stood at €643.67 million.

At year-end, NH Hoteles held 1,937,517 treasury shares representing 0.79% of its share capital, with a total value of €11.590 million.

CAPITALISATION (€ MILLION)

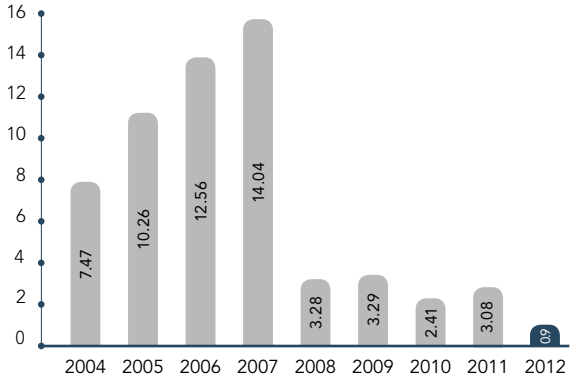
2004-2012



A total of 93,263,049 shares in NH Hoteles, S.A. were traded on the Continuous Market over the course of 2012. (201,770,177 shares in 2011), which accounted for 0.38 times (0.82 times in 2011) the total number of shares into which the Company's share capital is divided. Average daily share trading on the Continuous Market amounted to 364,308 securities (785,097 securities in 2011).

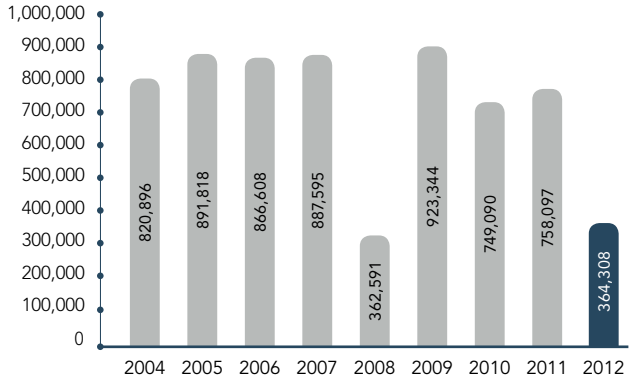
AVERAGE DAILY TRADING (€ MILLION)

2004-2012

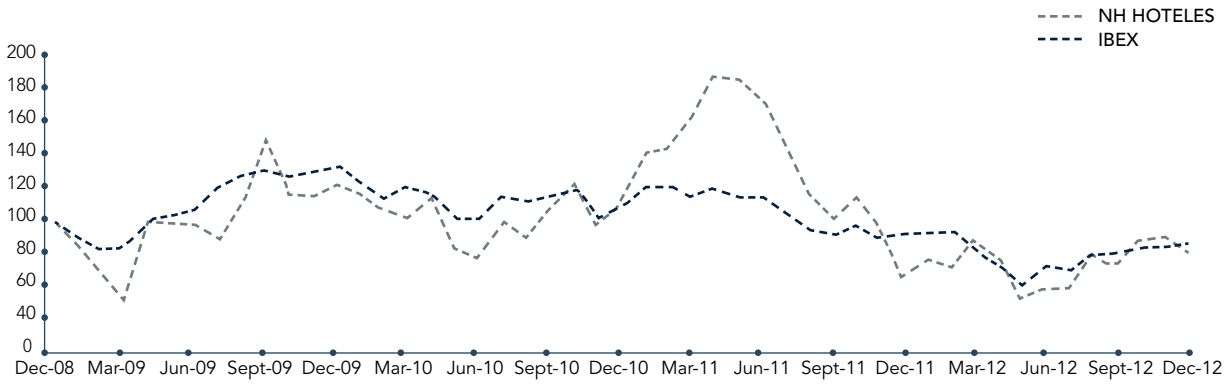


AVERAGE DAILY TRADING IN SECURITIES

2004-2012



EVOLUTION NH HOTELES – IBEX
DECEMBER 2008 - DECEMBER 2012



At the NH Hoteles, S.A. Board Meeting held on 23 November 2012, the Chairman, Mr Mariano Pérez Claver stated his decision to depart from his role as company Chairman and CEO and Board Member. Following the report of the Appointments and Remuneration Committee, the board agreed to appoint Mr Rodrigo Echenique Gordillo as the new non-executive Chairman, and Mr Federico González Tejera as CEO. Both Mr Rodrigo Echenique Gordillo and Mr Federico González Tejera are professionals with extensive business experience.

FUTURE OUTLOOK

The hotel industry is especially sensitive to the economic climate and corporate activity. However, it has shown better growth and occupancy levels than other productive activities each year over the past few years. The forecasts made by World Travel & Tourism Council (WTTC) for the next ten years point towards global year on year growth rates of between 3% and 4% and an increased weight of tourism and hospitality in global GDP. Nevertheless, in the case of Europe, where NH Group still has most of its markets, growth forecasts for these activities vary between 1% and 3% depending on the countries in question.

Over the last five years, large hotel companies like NH Hoteles, with a significant turnover and a large number of hotels, operating in many countries, with access to international distribution channels, etc. have been achieving economic results that have substantially exceeded the results recorded by smaller companies with fewer hotels, which are far more sensitive to price and occupancy level fluctuations.

The absence of any changes in the macroeconomic trend leads us to estimate that NH Group will see a recovery in hotel income in the second half of the year, with income growing at between 2% and 4%, leading to a slight increase in sales for the whole of the year against the previous year. The company will continue to adjust the cost base and this will enable it to offset the current weak climate.

Lastly, the geographical diversification of NH Hoteles activity allows countries such as Germany, England, Austria, Switzerland and Mexico, which have a better economic outlook for 2013, to amply compensate for the more stagnant economic trends in Spain and Italy.

On the other hand, however, there is in general little foresight with regard to customer bookings in the urban hotel sector. Except for some specific events, bookings are being increasingly made less in advance, making it difficult to establish any kind of forecast for the year.

Since the start of the year, the company has been working on a strategic operating plan that will substantially change its business model. The redesign of the NH brand, the segmentation of the portfolio and reinventing the "NH experience" will allow the Group to create unique solutions for everybody. In addition, the sales, marketing and communication plans will undergo significant changes, online direct sales channels will be strengthened, and a new focus will be placed on communicating with customers, all accompanied by a new organisational model within the company.

SUBSEQUENT DISCLOSURES

a) Agreement with HNA

On 17 April 2013, the Parent Company implemented and concluded a capital increase approved by the Board of Directors in its meeting of 27 February 2013, incorporating Tangla Spain, S.L., a company belonging to the Chinese business group HNA, into the shareholder structure of the Parent Company, with a post-increase stake of 20% of share capital.

The aforementioned capital increase was fully subscribed and paid up at its nominal value of €123,308,716, through the issue and distribution of a total of 61,654,358 ordinary shares, with a par value of €2 per share, along with a premium of €1.80 per share (which represents a total issue premium of €110,977,844.40), with a total outlay of €234,286,560.40.

From this moment, HNA is represented by three members on the Board of Directors of NH Hoteles, S.A.

After the capital increase, the shareholder structure of the Parent Company is as follows:

	Number of direct voting rights	Number of indirect voting rights	Total percentage of voting rights
Shareholder[1]			**%**
Grupo Inversor Hesperia, S.A.	61,870,383	-	20.070
HNA Group Co., Ltd.	-	61,654,358	20.000
Tangla Spain, S.L.U.	61,654,358	-	20.000
Banco Financiero y de Ahorros, S.A[2]	-	38,833,834	12.597
CK Corporación Kutxa-Kutxa Korporazioa, S.L.	15,413,673	-	5.000
Kutxabank, S.A.	-	15,413,673	5.000
Bancaja Inversiones, S.A.	13,955,675	-	4.527
Intesa Sanpaolo, S.P.A.	5,791,685	8,148,802	4.522
Hoteles Participados, S.L.	13,385,269	-	4.342
Amancio Ortega Gaona	-	12,512,971	4.059
Pontegadea Inversiones, S.L.	12,512,971	-	4.059
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja)	-	12,432,716	4.033
Ibercaja Banco, S.A.	12,432,716	-	4.033

[1] Source: Acording to company knowledge, the company's Annual Corporate Governance Report 2012 and disclosures made to the National Securities Market Commission (CNMV).
[2] It includes the direct shareholdings of Bancaja Inversiones, S.A., Corporación Financiera Caja de Madrid, S.A. and Sociedad de Promoción y Participación Empresarial Caja Madrid, among others.

This strategic agreement establishes a framework for creating a "joint venture" between the groups, with the main purpose of setting up a hotel business in China, one of the world's fastest growing markets, in partnership with a local group, a leader in the tourist industry. This alliance is a great opportunity to diversify the operations of NH Hoteles.

Both groups have also established an agreement to work together on marketing the Group's hotels in the Chinese market and to become the number one choice for HNA travellers. The goal is to increase the flow of Asian customers to NH hotels, thereby diversifying costumers in terms of their country of origin.

b) Request to obtain the conformity of syndicated financial institutions

NH Hoteles' request to its lenders to amend the syndicated financing agreement of 29 March 2012 did not obtain the required unanimity, since the terms accepted by 30 lenders representing 96.871% of loans were rejected by one lender with a share of 3.129%, which demanded additional conditions that would have seriously compromised the viability of the NH Hoteles business plan.

c) Agreement with HPT

On 27 February 2013, the Board of Directors of the Parent Company agreed to sign a non-binding agreement of intent for a series of hotel transactions in Latin America, the US and Europe, with Hospitality Properties Trust (HPT), an American real estate investment trust (REIT).

The Group would sell five hotels (804 rooms) in Latin America (Mexico, Colombia, Uruguay and Chile) to HPT for approximately US $70 million, while continuing to manage them under long-term contracts with an initial duration of 20 years, with a renewal option. The Group is not expected to incur any capital losses as a result of this transaction.

HPT would be granted the option of setting up a "joint venture" with NH Hoteles to acquire 100% ownership and to carry out a complete renovation of the NH Jolly Madison hotel in New York. Once the refurbishment is complete, NH Hoteles and Sonesta International Hotels, Inc. will be jointly responsible for managing and marketing the hotel.

Failure by the syndicated banks to achieve the required unanimity will prevent the Group from carrying out all the operations with HPT under the terms originally conceived in the agreement of intent.

d) Subsequent measures

As of 30 April 2013, lenders representing more than two thirds of the total outstanding loan agreed, on 31 December 2012, to waive the Group's obligation to fulfill with the financial ratios set forth in the syndicated loan agreement. It plans to pay its debt to lenders in accordance with the original schedule of the aforementioned agreement in part with the capital investment paid in last week by the HNA Group, in part by expanding the asset sale process, and also through new capitalisation and financing transactions. It is confident that these operations will restore the financial equilibrium and profitability of the Group.

ANNUAL CORPORATE GOVERNANCE REPORT

LISTED PUBLIC LIMITED COMPANIES
IDENTIFICATION DETAILS OF THE ISSUER
YEAR-END DATE: 31/12/2012
TAX ID CODE (CIF): A28027944
Company Name: NH HOTELES, S.A.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

To understand and complete this form correctly, please read the instructions provided at the end.

A - STRUCTURE OF THE COMPANY

A.1 Complete the following table regarding the capital structure of the company:

Date of last modification	Share Capital (Euros)	Number of shares	Number of voting rights
23/07/2009	493,234,860.00	246,617,430	246,617,430

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

NO

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

Name or trade name of the shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
GRUPO INVERSOR HESPERIA, S.A.	61,870,383	0	25.088
BANCO FINANCIERO Y DE AHORROS, S.A.	0	38,833,834	15.747
CK CORPORACIÓN KUT,A-KUT,A KORPORAZIOA, S.L.	15,413,673	0	6.250
KUTXABANK, S.A.	0	15,413,673	6.250
BANCAJA INVERSIONES. S.A.	13,955,675	0	5.659
INTESA SANPAOLO, S.P.A.	5,791,685	8,148,802	5.653
DON AMANCIO ORTEGA GAONA	0	12,512,971	5.074
PONTEGADEA INVERSIONES, S.L.	12,512,971	0	5.074
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA (IBERCAJA)	0	12,432,716	5.041
IBERCAJA BANCO, S.A.	12,432,716	0	5.041

Name or trade name of the indirect shareholder	Via: Name or company name of the direct shareholder	Number of direct voting rights	% of total voting rights
BANCO FINANCIERO Y DE AHORROS, S.A.	BANCAJA INVERSIONES, S.A.	13,956,080	5.659
BANCO FINANCIERO Y DE AHORROS, S.A.	CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	11,206,208	4.544
BANCO FINANCIERO Y DE AHORROS, S.A.	SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	13,560,496	5.499
INTESA SANPAOLO, S.P.A.	PRIVATE EQUITY INTERNATIONAL	8,148,802	3.304
DON AMANCIO ORTEGA GAONA	PONTEGADEA INVERSIONES, S.L.	12,512,971	5.074
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN	CK CORPORACIÓN KUTXAKUTXA KORPORAZIOA, S.L.	15,413,673	6.250

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

Nombre o denominación social del accionista	Fecha de la operación	Descripción de la operación
IBERCAJA BANCO, S.A.	28/08/2012	Se ha superado el 5% del capital Social
KUTXABANK, S.A.	04/01/2012	Se ha superado el 5% del capital Social

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

Name or trade name of the director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
MR RODRIGO ECHENIQUE GORDILLO	100	0	0.000
MR JOSÉ ANTONIO CASTRO SOUSA	1,000	62,345,188	25.281
MR FEDERICO GONZÁLEZ TEJERA	100	0	0.000
MR CARLOS GONZÁLEZ FERNÁNDEZ	25,050	0	0.010
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	11,206,208	0	4.544
MR FRANCISCO JAVIER ILLA RUIZ	1	0	0.000
MR GILLES PÉLISSON	15,000	0	0.006
HOTELES PARTICIPADOS, S.L.	13,385,269	0	5.428
MR IÑAKI ARRATÍBEL OLAZIREGI	100	0	0.000
MR JOSÉ MARÍA LÓPEZ ELOLA	1,000	0	0.000
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	100	0	0.000
MR RAMÓN LANAU VIÑALS	187	0	0.000
MR ROBERTO CIBEIRA MOREIRAS	600	0	0.000
MS ROSALBA CASIRAGHI	1	0	0.000
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	13,560,496	0	5.499

Name or trade name of the indirect shareholder	Via: Name or company name of the direct shareholder	Number of direct voting rights	% of total voting rights
MR JOSÉ ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A	61,870,383	25.088
MR JOSÉ ANTONIO CASTRO SOUSA	EUROFONDO, S.A.	474,804	0.193
% of total voting rights held by the Board of Directors			40.768

Complete the following table with information on the members of the company's Board of Directors that hold rights on shares in the company:

A.4 Indicate, as appropriate, the family, commercial, contractual or corporate relationships existing between major shareholders, in so far as they are known by the company, unless they have little relevance or are derived from ordinary commercial business of the company:

A.5 Indicate, as appropriate, the commercial, contractual or corporate relationships existing between major shareholders, and the company and/or its group, unless they have little relevance or are derived from the ordinary commercial business of the company:

A.6 Indicate if the company has been notified of any shareholder agreements that affect it according to Article 112 of the Securities Market Act (LMV). If appropriate, describe them briefly and list the shareholders bound by the agreement:

YES

% share capital affected: 20.74

SHORT DESCRIPTION OF THE AGREEMENT:

Creation of a shareholders' syndicate that shall comprise all the company shares held by said shareholders while the Shareholders' Agreement exists, with the exception of those shares acquired as a result of the provision of financial services to clients or from treasury and trading activities. Through this syndicate, all shareholder members are required to exercise the voting rights derived from their syndicated shares as a single unit. Furthermore, all syndicated shares shall vote at General Meetings as a single unit and in the way decided by the majorities specified in the Shareholders' Agreement.

Participants in the shareholder agreement
BANCAJA INVERSIONES, S.A.
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGON Y RIOJA (IBERCAJA)

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

NO

In the event of any modification or termination of these pacts, agreements or agreed actions during the year, please describe them below:

On 20 December 2012, BANCO MARE NOSTRUM, S.A. sent a Relevant Fact giving notice that, as holder of 50% of the share capital of HOTELES PARTICIPADOS, S.L., it has informed CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L. of its wish not to extend the Syndication Agreement signed on 28 December 2009 between the two entities, the purpose of which was to regulate their relations as shareholders in the company NH Hoteles, S.A., the aforesaid Syndication Agreement ending on 31 December 2012.

A.7 State whether any individual or legal entity exercises or could exercise control over the company according to Article 4 of the Securities Market Act (LMV). If so, give details here:

NO

A.8 Complete the following tables regarding the company's treasury stock:

At year end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
1,937,517	0	0.790

(*) Through:

Total	0

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

Capital gain/(loss) from disposals of treasury stock during the period (thousands of euros)	0

A.9 Describe the conditions and the term of the current mandate of the Board of Directors to carry out acquisitions or transfers of treasury stock, as conferred by the General Shareholders' Meeting.

The General Shareholders' Meeting of 24 June 2010 granted the Board of Directors a period of five (5) years to take as collateral and/or to acquire, directly or indirectly, treasury stock by purchasing same by any means for a price not lower than either (i) their par value, and (ii) the share price at the time of issuing the purchase order, whichever is lower, and not higher than the share price at the time of their acquisition. In no event may the par value of the purchased shares, together with the par value of the shares taken as collateral, exceed the legally established maximum amount at any given time.

The Board of Directors is expressly authorised to freely hold the shares purchased under the aforementioned authorisation in order to comply, as appropriate, with the commitments assumed under any "Share Option-based Remuneration Schemes" or "Share-based Remuneration Schemes", implemented in the company, subject to the required approvals; as well as to pay, at the listed share price, variable remuneration payments (bonuses) arising from Company remuneration plans.

A.10 Indicate, as applicable, the legal and Bylaw restrictions on exercising voting rights, as well as the legal restrictions on acquiring or transferring shareholdings in the company. State whether there are legal restrictions on exercising voting rights:

NO

Maximum percentage of voting rights that a single shareholder can exercise due to legal restrictions	0

State whether there are Bylaw restrictions on exercising voting rights:

NO

Maximum percentage of voting rights that a single shareholder can exercise due restrictions established in Company Bylaws	0

Description of the legal and Bylaw restrictions on exercising voting rights

State whether there are legal restrictions on acquiring or transferring shareholdings in the company:

NO

A.11 Indicate whether the General Meeting has resolved to adopt neutralisation measures against a takeover bid by virtue of the provisions set forth in Act 6/2007.

NO

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

B - STRUCTURE OF THE COMPANY'S CORPORATE GOVERNANCE

B.1 Board of Directors

B.1.1 State the maximum and minimum number of directors established in the bylaws:

Maximum number of directors	20
Minimum number of directors	5

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

Name or trade name of the director	Representative	Position on the Board	First appointed	Last appointed	Election procedure
MR RODRIGO ECHENIQUE GORDILLO	-	CHAIRMAN	23/11/2012	23/11/2012	CO-OPTATION
MR JOSÉ ANTONIO CASTRO SOUSA	-	DEPUTY CHAIRMAN	24/05/2012	29/06/2012	VOTED BY SHAREHOLDERS' MEETING
MR FEDERICO GONZÁLEZ TEJERA	-	EXECUTIVE DIRECTOR	23/11/2012	21/12/2012	CO-OPTATION
MR CARLOS GONZÁLEZ FERNÁNDEZ	-	DIRECTOR	29/06/2011	29/06/2011	VOTED BY SHAREHOLDERS' MEETING
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	FERNANDO SOBRINI	DIRECTOR	18/01/2012	29/06/2012	VOTED BY SHAREHOLDERS' MEETING
MR FRANCISCO JAVIER ILLA RUIZ	-	DIRECTOR	27/10/2009	03/12/2009	VOTED BY SHAREHOLDERS' MEETING
MR GILLES PÉLISSON	-	DIRECTOR	18/01/2012	29/06/2012	VOTED BY SHAREHOLDERS' MEETING
HOTELES PARTICIPADOS, S.L.	IGNACIO EZQUIAGA DOMÍNGUEZ	DIRECTOR	29/04/2004	24/06/2010	VOTED BY SHAREHOLDERS' MEETING
MR IÑAKI ARRATÍBEL OLAZIREGI	-	DIRECTOR	28/10/2008	29/06/2012	VOTED BY SHAREHOLDERS' MEETING
MR JOSÉ MARÍA LÓPEZ ELOLA	-	DIRECTOR	25/04/2012	29/06/2012	VOTED BY SHAREHOLDERS' MEETING
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	MANUEL GALARZA PONT	DIRECTOR	31/07/2012	31/07/2012	CO-OPTATION
MR RAMÓN LANAU VIÑALS	-	DIRECTOR	24/05/2009	29/06/2009	VOTED BY SHAREHOLDERS' MEETING
MR ROBERTO CIBEIRA MOREIRAS	-	DIRECTOR	01/03/2010	24/06/2010	VOTED BY SHAREHOLDERS' MEETING
MS ROSALBA CASIRAGHI	-	DIRECTOR	12/05/2009	29/06/2012	VOTED BY SHAREHOLDERS' MEETING
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	CARLOS STILIANOPOULOS RIDRUEJO	DIRECTOR	17/06/2008	24/06/2012	VOTED BY SHAREHOLDERS' MEETING
Total number of directors					15

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

Name or trade name of the director	Type of director at time of departure	Departure date
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)	PROPRIETARY DIRECTOR	18/01/2012
MR MIGUEL RODRÍGUEZ DOMÍNGUEZ	INDEPENDENT	26/04/2012
GRUPO INVERSOR HESPERIA, S.A	PROPRIETARY DIRECTOR	24/05/2012
MR JUAN LLOPART PÉREZ	PROPRIETARY DIRECTOR	03/07/2012
MR MARIANO PÉREZ CLAVER	EXECUTIVE	23/11/2012
MS NURIA ITURRIAGAGOITIA RIPOLL	INDEPENDENT	23/11/2012

B.1.3 Complete the following tables about the different types of Board members:

EXECUTIVE DIRECTORS

Name or trade name of director	Committee that proposed the appointment	Position in the company's organisation chart
MR FEDERICO GONZÁLEZ TEJERA	APPOINTMENTS AND REMUNERATION COMMITTEE	EXECUTIVE DIRECTOR

Total number of executive directors	1
% of total Board	6.667

EXTERNAL PROPRIETARY DIRECTORS

Name or trade name of director	Committee that proposed the appointment	Name or trade name of the significant shareholder represented or proposing the appointment
MR JOSÉ ANTONIO CASTRO SOUSA	APPOINTMENTS AND REMUNERATION COMMITTEE	GRUPO INVERSOR HESPERIA, S.A.
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	APPOINTMENTS AND REMUNERATION COMMITTEE	BANCO FINANCIERO Y DE AHORROS, S.A.
MR FRANCISCO JAVIER ILLA RUIZ	APPOINTMENTS AND REMUNERATION COMMITTEE	GRUPO INVERSOR HESPERIA, S.A.
HOTELES PARTICIPADOS, S.L.	APPOINTMENTS AND REMUNERATION COMMITTEE	HOTELES PARTICIPADOS, S.L.
MR IÑAKI ARRATÍBEL OLAZIREGI	APPOINTMENTS AND REMUNERATION COMMITTEE	CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	APPOINTMENTS AND REMUNERATION COMMITTEE	BANCO FINANCIERO Y DE AHORROS, S.A.
MR RAMÓN LANAU VIÑALS	APPOINTMENTS AND REMUNERATION COMMITTEE	GRUPO INVERSOR HESPERIA, S.A
MR ROBERTO CIBEIRA MOREIRAS	APPOINTMENTS AND REMUNERATION COMMITTEE	PONTEGADEA INVERSIONES, S.L.
MRS ROSALBA CASIRAGHI	APPOINTMENTS AND REMUNERATION COMMITTEE	INTESA SANPAOLO, S.P.A.
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	APPOINTMENTS AND REMUNERATION COMMITTEE	BANCO FINANCIERO Y DE AHORROS, S.A.

Total number of proprietary directors	10
% of total Board	66.667

INDEPENDENT EXTERNAL DIRECTORS

Name or trade name of director

MR RODRIGO ECHENIQUE GORDILLO

Profile

Graduate in law from the Complutense University of Madrid and state counsel on extended leave of absence. Between 1973 and 1976 he held various government posts, holding the position of deputy director general and head of legal services, deputy director general and member of the steering committee of Banco Exterior de España. Since 1984 he has held senior positions at Banco Santander, being appointed chief executive of the bank in 1988, a post which he occupied until 1994. He remains a member of the board of directors and executive committee of Banco Santander. He has been a member and chairman of the Board of Directors of many industrial and financial companies and is currently deputy chairman of Banco Banif, S.A., and chairman of Allfunds Bank and SPREA.

Name or trade name of director

MR CARLOS GONZÁLEZ FERNÁNDEZ

Profile

Graduate in economics from the University of Bilbao and chartered accountant. For 35 years he worked for Arthur Andersen, which in 2003 merged with Deloitte, being appointed chairman, first of Arthur Andersen in 2000 and subsequently of the firm that resulted from the merger - Deloitte - from 2003 to 2009.

Name or trade name of director

MR GILLES PÉLISSON

Profile

Graduate of ESSEC Business School and MBA from Harvard Business School. He began his career at the hotel group Accor in 1983, where he held positions of responsibility, being appointed CEO of the group in 2006, as well as chairman of the board from February 2009 to 2011. He has also held the position of chairman and CEO of companies such as SUEZ Group, Bouygues Telecom and Disneyland Paris Resort.

Name or trade name of director

MR JOSÉ MARÍA LÓPEZ ELOLA

Profile

Graduate in economics from the Complutense University of Madrid. For the last 35 years, he has been director general of various credit and banking institutions, such as Bancaya Hipotecaria, S.A., Citibank España, S.A., Banco Zaragozano, S.A. and Barclays, S.A. He currently sits on the board of directors of companies such as Festina Lotus, S.A. and Celo, S.A.

Total number of independent directors	4
% of total Board	26.667

OTHER EXTERNAL DIRECTORS

State the reasons why they cannot be considered proprietary or independent directors, and their relationship with the company, its directors or shareholders

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

B.1.4 Explain, should it be the case, the reasons why proprietary directors have been appointed at the request of shareholders whose holdings are below 5% of share capital.

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

NO

B.1.5 Indicate whether any director has left their position prior to the completion of their mandate; whether the director has explained their reasons to the Board, and by what means; and, in the event that the written communication was sent to the whole of the Board, explain the reasons given:

YES

Name of the director

CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE (BANCAJA)

Reason for departure

Strategic decisions by Banco Financiero de Ahorros, S.A. (hereinafter BFA) to replace Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja), appointing in its place Corporación Financiera Caja Madrid, S.L.

Name of the director

GRUPO INVERSOR HESPERIA, S.A

Reason for departure

Decision by the shareholder, indirect holder of 25.281% of the share capital of NH Hoteles, S.A., José Antonio Castro Sousa to assume personally the role of director, replacing the company Grupo Inversor Hesperia, S.A., direct holder of 25.088%, of which José Antonio Castro Sousa was the representative natural person.

Name of the director

MR JUAN LLOPART PÉREZ

Reason for departure

Strategic decision by the major shareholder Banco Financiero de Ahorros, S.A., to replace Juan Llopart Pérez with the company Participaciones y Cartera de Inversión, S.L.

Name of the director

MR MARIANO PÉREZ CLAVER

Reason for departure

Stood down from the executive position to which his appointment as a Director was linked, as set forth in Article 14.b) of the Board of Directors Regulations.

Nombre del consejero

MR MIGUEL RODRÍGUEZ DOMÍNGUEZ

Reason for departure

Personal reasons.

Name of the director

MS NURIA ITURRIAGAGOITIA RIPOLL

Reason for departure

Personal reasons.

B.1.6 State the powers that have been delegated to the Executive Director(s), if such authorisations exist:

Name or trade name of director

MR FEDERICO GONZÁLEZ TEJERA

Short description

ALL THE POWERS THAT CORRESPOND TO THE BOARD OF DIRECTORS, EXCEPT THOSE THAT CANNOT BE DELEGATED BY LAW OR THE COMPANY'S BYLAWS.

B.1.7 Identify, as applicable, the members of the Board that hold administrative or management positions in other companies that form part of the group of the listed company:

Name or trade name of director	Trade name of group company	Position
MR JOSÉ ANTONIO CASTRO SOUSA	SOTOGRANDE. S.A.	NATURAL PERSON REPRESENTING
MR FEDERICO GONZÁLEZ TEJERA	NH ITALIA. S.R.L.	DIRECTOR
MR FEDERICO GONZÁLEZ TEJERA	SOTOGRANDE. S.A.	CHAIRMAN
MR FRANCISCO JAVIER ILLA RUIZ	NH ITALIA. S.R.L.	DIRECTOR

B.1.8 State, as applicable, the directors of your company that are members of the Board of Directors of other entities listed on official stock exchanges in Spain, other than companies in your group, which the company has been notified of:

Name or trade name of director	Name of listed company	Position
MR RODRIGO ECHENIQUE GORDILLO	VOCENTO. S.A.	DIRECTOR
MR RODRIGO ECHENIQUE GORDILLO	BANCO SANTANDER. S.A.	DIRECTOR
MR GILLES PÉLISSON	TF1	DIRECTOR
MR GILLES PÉLISSON	BIC	DIRECTOR
MR GILLES PÉLISSON	SUN RESORTS INTL MAUTITIUS	DIRECTOR
MR GILLES PÉLISSON	ACCENTURE PLC	DIRECTOR
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	INDRA SISTEMAS. S.A.	DIRECTOR
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	REALIA BUSINESS. S.A.	DIRECTOR
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	DEOLEO. S.A.	DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	DEOLEO. S.A.	DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	MECALUX. S.A.	DIRECTOR

B.1.9 State, and as applicable explain, if the company has rules on the number of boards that its directors may belong to:

YES

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

B.1.10. In relation to Recommendation 8 of the Unified Code, indicate the company's general policies and strategies that plenary sessions of the Board have the right to approve:

The investment and financing policy	YES
The definition of the corporate group structure	YES
The corporate governance policy	YES
The corporate social responsibility policy	YES
The strategic or business plan, as well as management objectives and the annual budget	YES
The policy on remuneration and performance evaluations of senior managers	YES
The risk control and management policy, as well as regular monitoring of internal information and control systems	YES
The dividend and treasury stock policy, and in particular, the limits of the same.	YES

B.1.11 Complete the following tables regarding the combined remuneration of the directors accrued during the year:

a) In the company subject to this report:

Concepto retributivo	Datos en miles de euros
Fixed Remuneration	1,072
Variable Remuneration	86
Expenses	192
Benefits stipulated by Bylaws	530
Options on shares and/or other financial instruments	0
Others	1,128
Total	**3,008**

Other Benefits	In thousands of euros
Advances	0
Loans granted	0
Pension plans and funds: Contributions	0
Pension plans and funds: Commitments made	0
Life insurance premiums	0
Guarantees extended by the company in favour of board members	0

b) For participation by company directors on other boards of directors and/or in the senior management of group companies:

Remuneration concept	In thousands of euros
Fixed Remuneration	0
Variable Remuneration	0
Expenses	2
Benefits stipulated by Bylaws	95
Options on shares and/or other financial instruments	0
Others	0
Total	**97**

Other Benefits	In thousands of euros
Advances	0
Loans granted	0
Pension plans and funds: Contributions	0
Pension plans and funds: Commitments made	0
Life insurance premiums	0
Guarantees extended by the company in favour of board members	0

c) Total remuneration by type of director:

Type of director	By company	By group
Executive directors	2,324	16
External proprietary directors	450	16
External independent directors	234	65
Other external directors	0	0
Total	**3,008**	**97**

d) In relation to the income attributable to the parent company

Total remuneration of directors (thousands of euros)	3,105
Total remuneration of directors/income attributable to the parent company (expressed as a %)	0.0

B.1.12 Identify the members of the senior management team that are not executive directors and indicate their total remuneration for the year:

Name or trade name	Position
MR ROBERTO CHOLLET IBARRA	FINANCE DIRECTOR
MR RAMÓN ARAGONÉS MARÍN	DIRECTOR GENERAL OF OPERATIONS
MR FRANCISCO JAVIER MATAS MARTÍNEZ	GENERAL MANAGER, ORGANISATION AND TECHNOLOGY
MR IÑIGO CAPELL ARRIETA	GENERAL MANAGER, RESOURCES
MR JESÚS IGNACIO ARANGUREN GONZÁLEZ-TARRÍO	GENERAL MANAGER, ASSETS AND REVENUE
MR IGNACIO DIAZ LOPEZ	CORPORATE INTERNAL AUDIT MANAGER
MR FRANCISCO ALEJANDRO ZINSER CIESLIK	GENERAL MANAGER, STRATEGY AND DEVELOPMENT
MS TAMARA WEGMANN LECUE	DIRECTOR OF THE LEGAL AREA
Total remuneration of senior management (thousands of euros)	**2,760**

B.1.13 Indicate, on an aggregate basis, whether members of the company's or group's senior management team, including executive directors, are afforded guarantees or golden parachute clauses in the event of dismissal or takeovers. Indicate whether these contracts must be communicated to, and/or approved by the governing bodies of the company or its group:

Number of beneficiaries	5

	Board of Directors	General Shareholders' Meeting
Body that authorises the clauses	YES	NO

Is the General Shareholders' Meeting notified of the clauses?	NO

B.1.14 State the process for determining the remuneration of the members of the Board of Directors and the relevant bylaw clauses:.

Process for determining the remuneration of members of the Board of Directors and the clauses in the bylaws

Under article 42 of the Bylaws and article 36 of the board regulations, directors' salaries consist of a fixed annual allocation and allowances for attending meetings of the board of directors and its delegated and consultative committees, the amount of which is determined by the general shareholders' meeting.

Additionally and independent of the remuneration described in the above paragraph, share-based remuneration systems, or those involving assigning shares or stock options, may be put in place for directors. Implementation of these remuneration systems must be agreed by the General Shareholders' Meeting, which shall determine the value of the shares that are taken as a reference, the number of options, the exercise price of the stock options, the duration of this remuneration system and any other conditions deemed appropriate. Likewise, similar remuneration systems may be established for other company personnel, directors or otherwise, provided they comply with the law.

In addition to the remuneration referred to in the above two paragraphs, executive directors are entitled to receive additional remuneration for the executive duties they perform beyond those contemplated in the post of director. In particular, this remuneration shall be comprised of the following concepts: (a) a fixed component, which reflects the services and responsibilities assumed; (b) a variable component, linked to a Chief Executive Director or company performance indicator; (c) an attendance component, comprising suitable insurance and benefits systems; and (d) indemnity in the event of dismissal or any other type of termination of the legal relationship with the company that is not due to breaches attributable to the director. The determination of the amount of the remuneration components referred to in this paragraph shall be based on market conditions and shall take into account the responsibility and degree of commitment involved in the role assigned to each executive director.

It is expressly established that along with the annual corporate governance report, the board must draw up an annual report on the remuneration of its directors, which must include complete, clear and comprehensible information on the company remuneration policy approved by the board for the current year, as well as that planned for future years, where appropriate. It must also include an overall summary of how the remuneration policy was applied during the year, as well as details of the individual salaries paid to each director.

The annual director remuneration report, the company's remuneration policy approved by the Board for the year in course, the policy for future years, the overall summary of how the remuneration policy was implemented during the financial year, as well as the breakdown of the individual remuneration due to each director shall be disclosed and brought before the Ordinary General Shareholders' Meeting as a separate point on the agenda for a consultative vote.

At the General Meeting held on 29 June 2012, and in accordance with foregoing Article of the Bylaws, a motion was passed to set the gross total amount of the fixed remuneration and attendance allowances for the Board of Directors and its Committees at one million one hundred thousand euros (€1.100.000) with effect as of 2012, excluding other kinds of remuneration corresponding to the executive director for items other than sitting on the Board.

Indicate whether the plenary sessions of the Board are reserved for approving the following decisions.

The appointment and removal of senior managers, as well as their compensation clauses, as proposed by the Chief Executive Director of the company.	NO
The remuneration of directors and, in the case of executives, any additional remuneration for executive responsibilities and any other conditions that their contracts should reflect.	YES

B.1.15 Indicate whether the Board of Directors approves a detailed remuneration policy and specify the issues covered by said policy:

YES

Amount of the fixed components, with a breakdown, as applicable, of the expenses for participating on the Board and its committees, and an estimate of the corresponding annual fixed remuneration	YES
Variable remuneration items	YES
Main characteristics of the benefits systems with an estimate of their amount or equivalent annual cost.	YES
Conditions that must apply to the contracts of those who, being executive directors, perform senior management functions.	YES

B.1.16 Indicate whether the Board submits a report on the remuneration policy of the directors as a separate point on the agenda to be voted on by the General Shareholders' Meeting, for consultation purposes. If so, explain the aspects of the report concerning the remuneration policy approved by the Board for future years, the most significant changes in these policies compared to the policy applied during the year and an overview of how the remuneration policy was applied during the year. Describe the role carried out by the Remuneration Committee and if external advice has been used, identify the external consultants that provided it:

YES

Issues defined in the remuneration policy
Articles 42 of the Bylaws and 36 of the board regulations mirror the new article 61 b of Act 24/1988, of 28 July, on the stock market, which expressly states that along with the annual corporate governance report, the board must draw up an annual report on the remuneration of its directors, which must include complete, clear and comprehensible information on the company remuneration policy approved by the board for the current year, as well as that planned for future years, where appropriate. It must also include an overall summary of how the remuneration policy was applied during the year, as well as details of the individual salaries paid to each director. The annual director remuneration report, the company's remuneration policy approved by the Board for the year in course, the policy for future years, the overall summary of how the remuneration policy was implemented during the financial year, as well as the breakdown of the individual remuneration due to each director shall be disclosed and brought before the Ordinary General Shareholders' Meeting as a separate point on the agenda for a consultative vote. In this regard, it should be noted that, in accordance with the Bylaw and regulation provisions mentioned above, the annual director remuneration report for 2011 was brought before the General Meeting held on 29 June 2012 as a separate item on the agenda for a consultative vote, the result of which were as follows: - Votos a favor: 99.97% - Votos en contra: 0.03% - Abstenciones: 0.00%

Role of the Remuneration Committee
The Appointments and Remuneration Committee plays an important role in all matters related to the remuneration policies of company directors and senior management, and is the body that proposes the aforementioned remuneration to the Board.

Have external consultants been used?

Identity of the external consultants

B.1.17 Indicate, as appropriate, the identity of the members of the Board who are also members of the Board of Directors, managers or employees of companies that hold significant shareholdings in the listed company and/or in group entities:

Name or trade name of the director	Trade name of significant shareholder	Position
MR JOSÉ ANTONIO CASTRO SOUSA	GRUPO INVERSOR HESPERIA, S.A	NATURAL PERSON REPRESENTING THE ADMINISTRADOR SOLIDARIO (DIRECTOR WITH AUTHORITY TO REPRESENT THE COMPANY ACTING ALONE) EUROFONDO, S.A.
MR FRANCISCO JAVIER ILLA RUIZ	GRUPO INVERSOR HESPERIA, S.A	JOINT DIRECTOR
MS ROSALBA CASIRAGHI	INTESA SANPAOLO, S.P.A.	MEMBER OF THE AUDIT AND CONTROL COMMITTEE
MS ROSALBA CASIRAGHI	INTESA SANPAOLO, S.P.A.	MEMBER OF THE SUPERVISORY BOARD

State, as applicable, the relevant relationships other than those in the point above, of members of the Board of Directors that links them with significant shareholders and/or in entities in the group:

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

NO

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

SELECTION PROCEDURES FOR MEMBERS OF THE BOARD.

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

The proposals to appoint directors that the Board of Directors puts to the General Shareholders' Meeting for its consideration, and the appointments decided by said Board by virtue of its legal empowerment to co-opt members, must follow the provisions of the Regulations of the Board of Directors and be proposed by the Appointments and Remuneration Committee in the case of independent directors, and based on a prior report from said Committee in the case of all other types of directors.

1. Appointment of external directors

The Regulations of the Board of Directors make special mention of the selection and appointment of external directors, due to their unique characteristics compared to executive directors.

El Consejo de Administración y la Comisión de Nombramientos y Retribuciones tienen el deber de procurar, dentro del ámbito de sus respectivas competencias, que la elección de candidatos recaiga sobre personas de reconocida solvencia, competencia y experiencia, que se encuentren dispuestas a dedicar una parte suficiente de su tiempo a la Compañía, debiendo extremar el rigor en relación con la elección de aquellas personas llamadas a cubrir puestos de consejeros independientes. A continuación, se procede a exponer brevemente las características básicas de la designación de los citados Consejeros Externos:

The basic characteristics of the appointment of the aforementioned external directors are briefly explained below:

1.1 Proprietary Directors

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

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

a) The director has been appointed by means of the shareholder's right to representation.

b) The person is a director, senior manager, employee or regular service provider of this shareholder, or to companies belonging to the same group.

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

d) The director is a spouse, a person connected to the shareholder by a similar level of affinity, or a relative of up to the second degree of kinship of a significant shareholder.

1.2 Independent Directors

Independent directors are considered to be those directors appointed because of their personal and professional attributes, who can perform their duties without being influenced by relations with the company, its significant shareholders or its managers.

The following people may not qualify as independent directors under any circumstances:

a) Those that have been employees or executive directors of companies in the group, unless 3 or 5 years have passed, respectively, since the relationship was terminated.

b) Those that receive any amount or benefit for a concept other than the remuneration for being a director, from the company or its group, unless the amount or benefit is insignificant.
For the purposes of this section, neither the dividends nor supplementary pension that the director receives in relation to his/her former professional or employment relationship shall be taken into account, provided that such additional payments are not contingent and as a result, the Company that pays them cannot suspend, modify or revoke their payment without being in breach of its obligations.

c) Those that are, or have been, during the last three years, a partner in the external auditor's firm or responsible for the audit report, whether in relation to the audit of the listed company during this period, or of any other company in its group.

d) Those that are executive directors or senior managers of another company in which an executive director or senior manager of the Company is an external director.

e) Those that maintain, or have maintained during the last year, a significant business relationship with the Company or with any Company in its group, whether on their own behalf or as a significant shareholder, director or senior manager of a company that has or has had this relationship.

Business relations are defined as the supply of goods or services, including financial or advisory services, or consultancy.

f) Those that are significant shareholders, executive directors or senior managers of a company that receives, or has received during the last three years, significant donations from the Company or its group.

People or entities that have solely been patrons of a foundation that receives donations shall not be included in this section.

g) Those that are spouses, persons connected by a similar type of affinity, or relative of up to of the second degree of kinship of an executive director or senior manager of the Company.

h) Those that have not been proposed, whether for appointment or renewal, by the Appointments Committee.

i) Those that are in any of the situations indicated in points a), e), f) or g) of this article in relation to another significant shareholder or representative on the Board. In the case of being a relation as indicated in letter g), the limitation shall not only apply in connection with the shareholder, but also with its proprietary directors in the investee company.

Proprietary directors that cease to be entitled to their position as a result of the sale of the shareholder's stake they represent may only be re-elected as independent directors when the shareholder they represented until this time has sold all of its shares in the Company.

In order to establish a reasonable balance between both types of external directors, the Board shall use the ownership structure of the Company as a basis to ensure that the relation between each type of director reflects the relationship between stable and floating capital.

2. Appointment of the Chairman and the Chief Executive Director of the Company

The Executive Chairman, or in their absence, the Chief Executive Director, shall be the chief executive of the Company and as a result, their appointment or renewal shall include the delegation, when so agreed, of all Board powers and competencies that can be legally delegated, and they shall be responsible for the effective management of the businesses of the Company, always in accordance with the decisions and criteria set by the General Shareholders' Meeting and the Board of Directors.

The Executive Chairman, or in the absence of this position, the Chief Executive Director, shall have the power to execute the resolutions of the Board and, as applicable, those of the Management Committee, both of which they permanently represent with the broadest powers, being able to adopt the measures that they judge to be appropriate in the interests of the Company, in cases of emergency.

3. Appointment of the Vice-Chairman of the Board

The Board may elect one or more Vice-chairmen (executive or otherwise) from among the directors to substitute the Chairman in cases of delegation, absence or illness, and in general in all cases, functions and attributes considered appropriate by the Board or by the Chairman themselves.

The Chairman shall be substituted by one of the Vice-chairman entrusted with executive functions in the Company, or in the absence of such a Vice-chairman, by the oldest Vice-chairman.

4. Appointment of Secretary of the Board

The appointment and dismissal of the Secretary shall be proposed by the Appointments Committee and approved by a plenary session of the Board.

5. Duration of mandate

Directors shall exercise their position for a period of three years.

However, directors appointed by co-optation shall hold their position until the date of the next meeting of the General Shareholders' Meeting.

The Board of Directors, if it so decides, may release the outgoing director from this obligation or reduce its applicable period.

Proposals to re-elect directors put before the General Shareholders' Meeting by the Board of Directors must be subject to a formal procedure, which must include a report issued by the Appointments and Remuneration Committee that evaluates the quality and dedication of the proposed directors to the position during their mandate.

The Appointments and Remuneration Committee is the competent body for reviewing the criteria that must be followed regarding the composition of the Board of Directors and the selection of candidates.

The Board shall annually evaluate the quality and effectiveness of the functioning of the Board, based on a prior report from the Appointments and Remuneration Committee, as well as the performance of the Chairman and/or Chief Executive Director of the Company.

6. Removal of Directors

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.

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 reach the age of seventy. Directors with executive duties must cease to carry out those duties when they reach the age of seventy-five, though they many remain as directors, if the board so decides.

b) When they leave the executive post with which their appointment as a director was associated or when the reasons for which they were appointed cease to exist. This shall be deemed to apply to a proprietary director when the entity or business group represented by him ceases to hold a significant proportion of the share capital or when, in the case of an independent director, he assumes an executive role in the company or any of its subsidiaries.

c) When they meet the criteria for incapacity, incompatibility or prohibition established by law, or any of the other criteria established in the board regulations.

d) Where they are seriously reprimanded by the Appointments and Remuneration Committee for failing to comply with one of more of their obligations as Directors.

e) When their permanence on the Board may affect the Company's good standing or reputation in the market or jeopardise its interest in any other way whatsoever.

To be a member of the Board, directors must fulfil any of the situations for incapacity, incompatibility or prohibition set forth in prevailing legislation.

B.1.20 State cases in which directors are obliged 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.

In addition, 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 reach the age of seventy. Directors with executive duties must cease to carry out those duties when they reach the age of seventy-five, though they many remain as directors, if the board so decides.

b) 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. It shall be construed that such a circumstance comes about for a Proprietary Director when the entity or business group said Director represents ceases to hold a significant shareholding in the Company's share capital or when, in the case of an independent Director, they become an executive of the Company or of any of its subsidiaries.

c) When they meet the criteria for incapacity, incompatibility or prohibition established by law, or any of the other criteria established in the board regulations. 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 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.

d) Where they are seriously reprimanded by the Appointments and Remuneration Committee for failing to comply with one of more of their obligations as Directors.

e) When their permanence on the Board may affect the Company's good standing or reputation in the market or jeopardise its interest in any other way whatsoever.

B.1.21 Explain whether the post of chief executive director of the company is also held by the chairman of the Board. If so, state the measures that have been taken to limit the risks of concentrating powers in a single person:

NO

State and explain, as applicable, whether rules have been established to authorise one of the independent directors to call meetings of the Board or to include new points on the agenda, in order to coordinate and represent the concerns of the external directors, and to oversee evaluation by the Board.

YES

Explanation of the rules
Article 21 of the Regulations of the Board (Article 21.2) empowers directors to ask the Chairman to include items on the agenda, and the Chairman is obliged to include these when the request has been made at least ten days prior to the date set for the meeting and is accompanied by the relevant documentation needed for said items to be communicated to the other members of the Board. Likewise, when the Chairman of the Board is also the Chief Executive Director of the company, the Board shall appoint one of the independent directors to coordinate and represent the concerns of the external directors and to oversee the evaluation of the Chairman by the Board.

B.1.22 Are reinforced majorities, different from legal majorities required for any type of decision?

YES

State how resolutions of the Board of Directors are adopted, indicating at least the minimum quorum and the type of majority required to pass resolutions:

Description of the resolution:
For any resolution, other than the above

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

Type of majority	%
Absolute majority of those attending	51.00

Description of the resolution:
Appointments of directors that directly or indirectly hold interests of any type or that have an employment, professional or mercantile relationship, or relations of any other type with competitor companies.

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

Type of majority	%
70% of its members	70.00

B.1.23 State whether there are specific requirements, other than those relating to directors, in order to be appointed Chairman:

NO

B.1.24 State whether the Chairman has the casting vote:

YES

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

B.1.25 State whether the Bylaws or the regulations of the Board establish any limit on the age of directors:

YES

Age limit Chairman	Age limit Executive Director	Age limit director
70	65	70

B.1.26 State whether the bylaws or the regulations of the Board establish a limited mandate for independent directors:

NO

Maximum number of years	0

B.1.27 In the event of few or no female directors, explain the reasons and initiatives taken to correct this situation.

Explanation of the reasons and initiatives
NH Hoteles, S.A., currently has one female director, who was appointed in 2009. In all cases, the Appointments and Remuneration Committee has been expressly assigned the role of ensuring that the selection procedure does not suffer from any implicit bias that hamper the selection of female directors, and that women that fulfil the professional profile sought are included among potential candidates (Article 26.b of the Regulation).

In particular, Indicate whether the Appointments and Remuneration Committee has established procedures to ensure that the selection processes do not suffer from any implicit bias that hamper the selection of female directors, and deliberately seeks candidates that match the profile required:

YES

State the main procedures
Article 26 b of the Regulations expressly states that the Appointments and Remuneration Committee has, among others, the function of reporting on proposals to appoint and remove directors and senior managers of the Company or its subsidiaries. In the case of vacancies on the Board of Directors, the Appointments and Remuneration Committee shall ensure that the selection procedure does not suffer from any implicit bias that hampers the selection of female directors, and that women that fulfil the professional profile sought are included among potential candidates.

B.1.28 State whether there are formal processes for delegating votes in the Board of Directors. If so, describe them here.

Article 22 of the Regulations of the Board of Directors states that directors must attend Board meetings in person. In exceptional cases when this is not possible, they shall ensure that any representation conferred on another member of the Board includes, as far as possible, the appropriate instructions. Said delegations may be made in writing or by any other means that ensures the truth and validity of the representation in the Chairman's opinion.

B.1.29 State the number of meetings that the Board of Directors has held during the year. Also indicate, as applicable, the number of times that the Board has met without its chairman attending:

Number of Board meetings	19
Number of Board meetings not attended by the Chairman	0

STATE THE NUMBER OF MEETINGS THAT THE VARIOUS COMMITTEES ATTACHED TO THE BOARD HAVE HELD DURING THE YEAR:

Number of meetings of the executive or delegate committee	4
Number of meetings of the Audit Committee	12
Number of meetings of the Appointments and Remuneration Committee	8
Number of meetings of the Appointments Committee	0
Number of meetings of the Remuneration Committee	0

B.1.30 State the number of meetings that the Board of Directors has held during the year without the attendance of all of its members. The calculation of non-attendance includes representations made without specific instructions:

Number of non-attendances by directors during the year	4
Non-attendances as a percentage of total votes during the year	1,700

B.1.31 State whether the individual and consolidated financial statements that are presented to the Board to be approved are certified in advance:

NO

Identify, as applicable, the person(s) that have certified the Company's individual and consolidated financial statements to be drafted by the Board:

B.1.32 Explain, if applicable, the mechanisms established by the Board of Directors to prevent the individual and consolidated financial statements drafted by it from being submitted to the General Shareholder's Meeting with qualifications in the audit report.

Article 41.2 of the Regulations of the Board establishes that the Board of Directors shall try to definitively prepare the financial statements so that there are no auditor qualifications. Nevertheless, when the Board considers that its criteria should remain unchanged, it shall publicly explain the content and scope of the discrepancies.

B.1.33 Is the Secretary of the Board also a director?

NO

B.1.34 Explain the procedures for appointing and removing the Secretary of the Board, indicating if the appointment and removal have been reported by the Appointments Committee and approved by a plenary session of the Board.

Appointment and removal procedure
In accordance with Article 19.4 of the Regulations of the Board, the appointment and removal of the Secretary shall be reported by the Appointments Committee and approved by a plenary session of the Board.

Does the Appointments Committee notify the appointment?	YES
Does the Appointments Committee notify the removal?	YES
Is the appointment approved by a plenary session of the Board?	YES
Is the removal of the Secretary approved by the Board?	YES

Is the Secretary of the Board responsible for specifically monitoring the recommendations on good governance?

YES

Comments
As laid down by Article 19.3 of the Board Regulations, the Secretary shall ensure the legal and material formality of all the Board's actions and ensure that its procedures and rules of governance are duly respected.

B.1.35 State, if applicable, the mechanisms established by the Company to preserve the independence of the auditor, the financial analysts, the investment banks and the ratings agencies.

The Board of Directors has established a stable and professional relationship with the Company's external accounts auditor through the Audit and Control Committee, strictly respecting its independence. In that regard, article 25 b expressly states that among their responsibilities is that of establishing the appropriate relations with the auditors or auditing firms in order to be informed about any matters that may jeopardise the independence of the auditors, to be examined by the committee, and any other matters relating to the financial auditing process, as well as those other acts of communication required by the legislation on financial auditing and auditing standards. In any event, they must receive annual written confirmation from the auditors or auditing firms of their independence with regard to the entity or entities linked to this one, either directly or indirectly, as well as information about additional services of any kind provided to those entities by those auditors or firms, or by persons or entities linked to them, in accordance with Law 19/1988, of 12 July, on Financial 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. The report must always comment on the provision of additional services referred to in the preceding section.

In addition, the Audit and Control Committee shall ensure the independence and efficiency of the internal audit function, proposing the selection, appointment, re-election and dismissal of the manager of the internal audit service. Likewise, it shall be responsible for proposing the budget of the Internal Audit Department and for receiving periodic information about its activities, as well as verifying that senior management takes into consideration the conclusions and recommendations of its reports.

B.1.36 State whether during the year the Company has changed its external auditor. If so, please identify the incoming and outgoing auditors:

NO

Outgoing auditor	Incoming auditor

In the event that there were disagreements with the outgoing auditor, explain the content of the disputes:

NO

B.1.37 State whether the audit firm carries out other work for the company and/or its group other than audit work and if so, state the total fees paid for such work and the percentage this represents of the fees billed to the company and/or its business group:

YES

	Company	Group	Total
Amount from other work other than audit work (thousands of euros)	926	200	1,126
Amount for work other than audit work / Total amount invoiced by the audit firm (%)	78.000	14.000	43.050

B.1.38 State whether the audit report of the financial statements for the previous year included qualifications or reservations. If so, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of these qualifications or reservations:

NO

B.1.39 State the number of consecutive years that the current audit firm has carried out the audit of the financial statements of the company and/or its group. Furthermore, indicate how many years the current audit firm has been auditing the accounts as a percentage of the total number of years over which the annual accounts have been audited.

	Company	Group
Number of consecutive years	11	11
Number of years audited by the current audit firm / Number of years that the company has been audited (%)	44.0	44.0

B.1.40 State the shareholdings held by members of the Board of Directors of the Company in the capital of entities engaged in the same, similar or complementary activity as the Company's corporate purpose, both in relation to the Company and its group, insofar as these have been communicated to the Company. Also, state the positions held or functions exercised in these companies:

Name or trade name of the director	Name of the investee company	% shareholding	Position or duties
MR JOSÉ ANTONIO CASTRO SOUSA	DESARROLLO TURÍSTICO ISLA BONITA, C.A.	100.000	DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	CORPORACIÓN HOTELERA HEMTEX, S.A.	100.000	DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	BONANOVA SQUACH GARDEN, S.A.	100,000	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTELES ALMERIA, S.A.	66,290	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	INFOND, S.A.	89,520	JOINT DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTEL COLIBRI, S.A.	100,000	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	GERENCIAS Y SERVICIOS TURÍSTICOS, S.A.	85,490	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTELERA DE LEVANTE, S.A.	100,000	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	CORDOBATEL, S.A.	65,470	DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HESPERIA PURCHASING CENTER, S.A.	100,000	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTEL FONTORIA, S.A.	100,000	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	PLAYA DEL OESTE, S.A.	58,280	DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTEL CONDE DE ARANDA, S.A.	100,000	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTELERA SAN JUST, S.A.	84,730	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTELERA METROPOL, S.A.	85,820	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	FONDOTEL, S.A.	96,880	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTELERA DEL NOROESTE, S.A.	100,000	SOLE DIRECTOR

MR JOSÉ ANTONIO CASTRO SOUSA	HOTELERA DEL TORMES, S.A.	100,000	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTELERA PASEO DE GRACIA, S.A.	100,000	JOINT DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTELERA DEL ESTE, S.A.	100,000	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTELERA SALVATIERRA, S.A.	100,000	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	BERCUMA, S.L.	86,280	JOINT DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	DESJUST, S.L.	100,000	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	ESPESALUD	100,000	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	BRISTOL SERVICES, S.L.	100,000	SOLE DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTELS HESPERIA ANDORRA, S.A.	99,990	NONE
MR JOSÉ ANTONIO CASTRO SOUSA	HESPERIA DEL GOLF, S.L.	100,000	JOINT DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	INVERSIONES HMR, C.A.	35,700	DIRECTOR
MR JOSÉ ANTONIO CASTRO SOUSA	HOTEL HESPERIA MADRID, S.L.	100,000	SOLE DIRECTOR
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	FONTECRUZ INVERSIONES, S.L.	9,890	NONE
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	INVERSORA DE HOTELES VACACIONALES, S.A.	25,000	DIRECTOR
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	HOTEL BARCELONA GOLF,S.A.	16,640	DIRECTOR
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	PLAYA HOTELS RESORTS, S.L.	7,230	NONE
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	AC DOS NORTE, S.L.	3,330	NONE
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	VIP CARTERA, S.L.	15,770	DIRECTOR
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	NH SEGOVIA, S.L.	46,730	NONE
MR FRANCISCO JAVIER ILLA RUIZ	HOTEL COMTAT DE VIC, S.A.	23,500	NONE
MR FRANCISCO JAVIER ILLA RUIZ	HOTELES Y GESTIÓN, S.A.	1,086	NONE
MR GILLES PÉLISSON	ACCOR,S.A.	0,012	NONE
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L	HOTEL BARCELONA GOLF,S.A.	16,640	DIRECTOR
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	PLAYA HOTELS RESORTS, S.L.	7,230	NONE
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	AC DOS NORTE, S.L.	3,330	NONE
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	NH SEGOVIA, S.L.	46,730	NONE
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	FONTECRUZ INVERSIONES, S.L.	9,890	NONE
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	ESTRATEGIA INVERSIONES EMPRESARIALES, SCR, DE RÉGIMEN SIMPLIFICADO, S.A.	25,000	DIRECTOR
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	VIP CARTERA, S.L.	15,770	DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	FONTECRUZ INVERSIONES, S.L.	9,890	NONE
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	PLAYA HOTELS RESORTS, S.L.	7,230	NONE
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	NH SEGOVIA, S.L.	46,730	NONE
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	VIP CARTERA, S.L.	15,770	DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	INVERSORA DE HOTELES VACACIONALES, S.A.	25,000	DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	AC DOS NORTE, S.L.	3,330	NONE
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	HOTEL BARCELONA GOLF,S.A.	16,640	DIRECTOR

B.1.41 State whether there is a procedure by which directors may access external advice. If so, describe said procedure:

YES

Description of the procedure
Article 28 of the Regulations of the Board of Directors expressly states that directors may request the use of legal, accounting or financial advisers, or other experts, paid for by the Company, to help them in the discharge of their duties. Such help must relate to specifically defined and complex problems that arise in the course of their work. The decision to employ such services must be communicated to the Chairman of the Company and implemented through the Secretary of the Board, unless the Board of Directors considers that such help is not necessary or appropriate.

B.1.42 State whether there is a procedure by which directors may access the information required to prepare for the meetings of the administrative bodies with sufficient time. If so, describe said procedure:

YES

Description of the procedure
Article 27 of the board regulations reflects the right of members of the board of directors to be informed and their duty to inform. In that regard, it states that it is the right and duty of every director to gather as much information as they deem necessary or appropriate at any given moment for the correct performance of their duties.. 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 that may be necessary or appropriate for the diligent exercise of its duties This right to information also extends to the different subsidiaries that comprise the consolidated group, and must always being exercised in good faith.

B.1.43 State whether the company has established rules that require directors to report and, as applicable, resign in those cases where company's credibility and reputation may be harmed. If so, describe said rules:

YES

Explain the rules
Article 14.2.e) of the Regulations of the Board of Directors of NH Hoteles, S.A. expressly establishes that directors must present their resignation "When their permanence on the Board may affect the Company's good standing or reputation in the market or jeopardise its interest in any other way whatsoever. 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 put forward as Board members.

B.1.44 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 124 of the Spanish Public Limited Companies Act:

NO

State whether the Board of Directors has studied the case. If so, explain and give the reasons for the decision taken regarding whether the director continues or not in their position.

NO

Decision made	Explanation

B.2 Committees attached to the Board of Directors

B.2.1 List all the committees attached to the Board of Directors and their members:

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Type
MR RODRIGO ECHENIQUE GORDILLO	CHAIRMAN	INDEPENDENT
MR FEDERICO GONZÁLEZ TEJERA	EXECUTIVE	MEMBER
MR JOSÉ ANTONIO CASTRO SOUSA	MEMBER	PROPRIETARY DIRECTOR
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	MEMBER	PROPRIETARY DIRECTOR
MR ROBERTO CIBEIRA MOREIRAS	MEMBER	PROPRIETARY DIRECTOR

AUDIT COMMITTEE

Name	Position	Type
MR CARLOS GONZÁLEZ FERNÁNDEZ	CHAIRMAN	INDEPENDENT
HOTELES PARTICIPADOS, S.L.	MEMBER	PROPRIETARY DIRECTOR
MR IÑAKI ARRATÍBEL OLAZIREGI	MEMBER	PROPRIETARY DIRECTOR
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	MEMBER	PROPRIETARY DIRECTOR

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Type
MR GILLES PÉLISSON	CHAIRMAN	INDEPENDENT
MR FRANCISCO JAVIER ILLA RUIZ	MEMBER	PROPRIETARY DIRECTOR
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	MEMBER	PROPRIETARY DIRECTOR

B.2.2 Indicate whether the following duties correspond to the Audit Committee.

Supervise the drafting process and integrity of the financial information relating to the Company and, as applicable, to the group, reviewing compliance with regulatory requirements, the appropriate scope of consolidation and the correct application of accounting criteria.	YES
Periodically review the internal control and risk management systems so that the main risks are identified, managed and made known.	YES
Ensure the independence and effectiveness of the internal audit; propose the selection, appointment, re-election and removal of the internal audit service manager; propose the budget for this service; receive periodic reports on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.	YES
Establish and supervise a mechanism that allows employees to confidentially, and where applicable anonymously, communicate potential irregularities, particularly financial and accounting, which they discover within the company.	YES
Present to the Board of Directors proposals to select, appoint, re-elect and substitute the external auditor, as well as the conditions of its contract.	YES
Receive information about the audit plan and its results from the external auditor on a regular basis and verify that senior management takes its recommendations into account.	YES
Ensure the independence of the external auditor.	YES
In the case of groups, encourage the group auditor to take responsibility for the audits of the companies that comprise it.	YES

B.2.3 Give a description of the rules governing the organisation and functioning, as well as the responsibilities of each committee attached to the Board.

COMMITTEE NAME
APPOINTMENTS AND REMUNERATION COMMITTEE

BRIEF DESCRIPTION

a) Composition

The Appointments and Remuneration Committee shall comprise a minimum of three and a maximum of five directors. All members of the Committee shall be non-executive directors and the majority of its members must be independent directors.

The Chairman of the Appointments and Remuneration Committee must be an independent director and be appointed by the Committee itself from among its members.

b) Competence

The Appointments and Remuneration Committee shall have the following duties, notwithstanding any other tasks that may be assigned to it by the Board of Directors:

- Report on proposals to appoint and dismiss directors and senior managers of the Company and its subsidiaries. In the case of vacancies arising on the Board of Directors, the Appointments and Remuneration 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.

- Approve the remuneration scales applied to senior managers of the Company.

- Approve the standard contracts applied to senior managers.

- Determinar el régimen de retribuciones del Presidente y, en su caso, del Consejero Delegado.

- Determine the remuneration scheme applied to the Chairman and, as applicable, the Chief Executive Director.

Examine or organise, as considered most appropriate, the Chairman's and the chief executive's succession, and if necessary bring proposals before the Board so that such successions are effected in an orderly well-planned fashion.

- Propose the remuneration scheme applied to members of the Board of Directors and periodically review them to ensure they are suitable for the tasks carried out by them, in accordance with Article 35 of these regulations.

- Report on incentive plans.

- Carry out an annual review of the remuneration policy applied to directors and senior managers.

- Report on the proposals to appoint members of the Executive Committee and the other committees attached to the Board of Directors.

- Prepare and maintain a register of the positions of directors and senior managers of the Company; and

- Perform any other duties that may be assigned to it under these regulations.

The Board of Directors shall be informed of all the tasks carried out by the Appointments and Remuneration 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.

c) Functioning

The Appointments and Remuneration Committee shall meet as often as considered necessary by its Chairman, or when requested by two of its members or the Board of Directors.

COMMITTEE NAME
EXECUTIVE OR DELEGATE COMMITTEE

SHORT DESCRIPTION

a) Composition

The Executive Committee shall comprise the Chairman of the Board and 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.

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.

b) Functioning

The Executive Committee shall meet as many times as called by its chairman. The Chairman and Secretary of the Board of Directors shall perform the same functions in the Executive Committee, although one or more Vice-chairmen and a Vice-secretary may also be appointed. The Executive Committee shall be validly convened when half plus one of the members are present or represented at the meeting.

Resolutions shall be passed by a majority of the directors at the meeting (in person or by proxy), with the Chairman holding the casting vote in the event of a tie.

c) Relationship with the Board of Directors

The Executive Committee shall notify the Board of the matters discussed and the decisions made at its meetings.

This Committee is currently inactive, pending a meeting to decide its new composition.

COMMITTEE NAME
AUDIT COMMITTEE

SHORT DESCRIPTION

The Audit and Control Committee shall comprise a minimum of three and a maximum of five directors, appointed by the Board of Directors. All members of the Committee must be external or non-executive directors.

The members the Audit and Control Committee, and particularly its Chairman, shall be appointed after taking into account their knowledge and experience in accounting or auditing matters, or both.

The Chairman of the Audit and Control Committee must be an independent director and be appointed from among its non-executive members. The Chairman must also be replaced every four years; previous chairmen may be re-elected one year after their previous mandate has ended.

b) Competencies

The primary function of the Audit and Control Committee, notwithstanding any other task that the Board of Directors may assign it, shall be to support the Board in its supervisory duties, specifically:

Its competencies shall include at least the following:

1. Report to the General Meeting on any matters broached within the sphere of its competence.

2. Oversee the efficacy of the company's internal controls, its internal auditing, as appropriate, and its risk management, as well as to discuss with the auditors of accounts or auditing firms any significant weaknesses detected in the internal control system during the course of an audit.

3. Oversee the process of drawing up and submitting mandatory financial reporting.

4. Propose the appointment of the auditors of accounts or auditing firm, in accordance with legislation applicable to the company, to the company's governing body so that it may be brought before the General Shareholders' Meeting or other of the company's equivalent bodies, depending on its legal nature.

5. Establish the appropriate relations with the auditors or auditing firms for the purpose of receiving information about matters that may jeopardise the independence of the auditors and should be brought before the committee, and any other matters relating to the financial auditing process, as well as other disclosures required by financial auditing laws and audit regulations. In any event, they must receive annual written confirmation from the auditors or auditing firms of their independence with regard to the entity or entities linked to this corporation, either directly or indirectly, as well as information about additional services of any kind provided to those entities by such auditors or firms, or by persons or entities linked to them, in accordance with Act 19/1988, of 12 July, on Financial Auditing.

6. Every year, prior to issuing the audit report, issue a report giving its opinion on the independence of the auditors or auditing firms. The report must always comment on the provision of additional services referred to in the preceding section.

7. Ensure the independence and effectiveness of the internal audit; propose the selection, appointment, re-election and removal of the internal audit service manager; 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.

8. Set and oversee a mechanism that allows employees to confidentially and, if deemed appropriate, anonymously report any breaches of the Code of Conduct.

9. Supervise compliance and internal codes of conduct, as well as the rules of corporate governance.

10. Inform the Board about all matters connected with related-party transactions, which shall be construed as they are defined by the Revised Text of the Capital Companies Act.

11. Inform the Board about the creation or acquisition of any equity investments in special purpose vehicles and companies registered in tax havens, as well as about any other transactions or operations of a similar nature which, due to their complexity, might negatively affect the group's transparency; and

12. Exercise any other competencies such Committee has been assigned by these Regulations or which may be assigned by the Board of Directors.

c) Organisation

The Audit and Control Committee shall meet at least once every quarter and as often as considered necessary by its Chairman, or when requested by two of its members or the Board of Directors.

The Audit and Control Committee may summon any employee or manager of the Company, and also 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.

B.2.4 State the powers that each committee has to advise, consult and, as applicable, to delegate:

COMMITTEE NAME

APPOINTMENTS AND REMUNERATION COMMITTEE

SHORT DESCRIPTION

- Report on proposals to appoint and dismiss directors and senior managers of the Company and its subsidiaries. In the case of vacancies arising on the Board of Directors, the Appointments and Remuneration 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.

- Approve the standard contracts for senior managers; determine the remuneration scheme of the Chairman and, as applicable, the Chief Executive Director.

- Examine or organise, as considered most appropriate, the Chairman's and the chief executive's succession, and if necessary bring proposals before the Board so that such successions are effected in an orderly well-planned fashion.

- Propose the remuneration scheme for directors to the Board of Directors and periodically review it to ensure it is suitable for the functions performed by them, in accordance with Article 35 of these regulations. Report on incentive plans.

- Carry out an annual review of the remuneration policy applied to directors and senior managers.

- Report on the proposals to appoint members of the Executive Committee and the other committees attached to the Board of Directors..

- Prepare and maintain a register of the positions of directors and senior managers of the Company, and perform any other functions that may be assigned to this Committee in these regulations.

COMMITTEE NAME
EXECUTIVE OR DELEGATE COMMITTEE

SHORT DESCRIPTION
General decision-making capacity and, consequently, with express delegation of all the powers corresponding to the Board of Directors, except those that cannot be delegated by law or the Company's bylaws. The Board of Directors may also entrust the Executive Committee with additional responsibilities.

COMMITTEE NAME
AUDIT COMMITTEE

SHORT DESCRIPTION
Its essential function shall be to support to the Board of Directors in its oversight functions. In order to do so, it has been vested with all the powers granted in accordance with prevailing legislation (especially the recently approved Act 12/2010 of 30 June amending the Auditing of Accounts Act and actions in the fiscal, labour-related and liberalising spheres to promote investment and job creation) as well as the Bylaws and the Board of Directors Regulations on matters having to do with auditing and control.

B.2.5 Indicate, as applicable, the existence of the regulations governing the committees attached to the Board, where they are available for consultation and any amendments that have been made to them during the year. Also state whether an annual report on the activities of each committee has been voluntarily drafted.

COMMITTEE NAME
APPOINTMENTS AND REMUNERATION COMMITTEE

SHORT DESCRIPTION
The Regulations of the Board of Directors include a detailed list of all the rules relating to the composition, organisation and competencies of the Appointments and Remuneration Committee (Article 26 of the Regulations).

The aforementioned regulations are permanently available on the website of NH Hoteles, S.A.

On 24 May 2011, the Board of Directors approved a partial amendment of the text of the Regulations in order to adapt them to the latest legislative developments. These amendments have not, however, affected the regulation of the functioning and composition of the aforesaid Committee.

Reports on the activities performed by both the Audit and Control Committee and the Appointments and Remuneration Committee have been approved on an annual basis.

COMMITTEE NAME
EXECUTIVE OR DELEGATE COMMITTEE

SHORT DESCRIPTION
The regulations governing the composition, function and competencies assigned to the Executive Committee are expressly set forth in Articles 23 and 24 of the Board Regulations, which can be consulted at any time on the NH Hoteles, S.A. website under the Shareholder Information section.

The amendments made to the Board Regulations do not affect the regulations governing the composition or function of the Executive Committee.

COMMITTEE NAME
AUDIT COMMITTEE

SHORT DESCRIPTION
Article 25 of the Regulations of the Board of Directors governs everything relating to the composition, organisation and competencies attributed to the Audit and Control Committee. The aforesaid article was amended by the Board of Directors on 24 May 2011 to adapt its content to the provisions of Act 12/2010, of 30 June, amending, among other regulations, the Financial Auditing Act (Ley de Auditoría de Cuentas), the law on actions in relation to tax and employment, liberalising actions to encourage investment and job creation, and the Securities Market Act (Ley del Mercado de Valores).

The aforementioned Regulations have been posted on the NH Hoteles website, www.nh-hotels.com, under the Shareholder Information section.

It should additionally be noted that reports on the activities performed by the Audit and Control Committee have been approved on an annual basis.

B.2.6 State whether the composition of the executive committee reflects the participation on the Board of different categories of directors:

YES

C - RELATED-PARTY TRANSACTIONS

C.1 Indicate whether the plenary session of the Board is empowered to approve the transaction that the company carries out with directors, significant shareholders or representatives on the Board, or with parties related to them, following receipt of a favourable report from the Audit Committee or any other committee entrusted with this task:

YES

C.2 Describe the relevant operations that involve a transfer of assets or liabilities between the Company or entities in its group and the Company's significant shareholders:

Name or trade name of significant shareholder	Name or trade name of company or group company	Nature of the relationship	Type of operation	Amount (thousands of euros)
GRUPO INVERSOR HESPERIA, S.A	HOTELES HESPERIA, S.L.	CONTRACTUAL	Management or partnership agreements	1,570
BANCO FINANCIERO Y DE AHORROS, S.A.	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	97,000
KUTXABANK, S.A.	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	28,400
INTESA SANPAOLO, S.P.A.	JOLLY HOTEL HOLLAND NV	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	1,875
INTESA SANPAOLO, S.P.A.	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	15,000
INTESA SANPAOLO, S.P.A.	NH ITALIA, S.R.L.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	3,333
INTESA SANPAOLO, S.P.A.	NH ITALIA, S.R.L.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	6,250
INTESA SANPAOLO, S.P.A.	NH ITALIA, S.R.L.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	75,000
PONTEGADEA INVERSIONES, S.L.	NH HOTEL RALLYE PORTUGAL LTD.	CONTRACTUAL	Leases	802
PONTEGADEA INVERSIONES, S.L.	NH HOTELES ESPAÑA, S.L.	CONTRACTUAL	Leases	9,539
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGON Y RIOJA (IBERCAJA)	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	14,450
CORPORACIÓN FINANCIERA CAJA DE MADRID, S.A.	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	35,000

C.3 List the relevant operations that involve a transfer of assets or liabilities between the Company or entities in its group and the Company's directors or managers:

Name or trade name of director or manager	Name or trade name of company or group company	Nature of the operation	Type of operation	Amount (thousands of euros)
HOTELES PARTICIPADOS, S.L.	DESARROLLO INMOBILIARIO SANTA FE	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	3,590
HOTELES PARTICIPADOS, S.L.	NH FINANCE, S.A.	CONTRACTUAL	Financing agreements, loans and capital contributions (borrower)	35,051
MR JESÚS IGNACIO ARANGUREN GONZÁLEZ-TARRÍO	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements: loans and capital contributions (lender)	3,603
MR ROBERTO CHOLLET IBARRA	NH HOTELES, S.A.	CONTRACTUAL	Financing agreements: loans and capital contributions (lender)	2,703
SOCIEDAD DE PROMOCIÓN Y PARTICIPACIÓN EMPRESARIAL CAJA MADRID	NH HOTELES, S.A.	CONTRACTUAL	Commitments acquired	56,282

C.4 Describe the relevant transactions carried out by the company with other companies 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 normal business of the Company in relation to its purpose and conditions:

Corporate name of entity in its group HARRINGTON HALL HOTEL LIMITED

Amount (thousands of euros) 4394

Short description of the transaction LOAN

C.5 State whether any of the members of the Board of Directors have found themselves in a conflict of interest during the year, according to Article 127 c of the Spanish Public Limited Companies Act (LSA).

NO

C.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 significant shareholders.

Article 32 of the Board Regulations sets forth the mechanisms to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and their directors, stating that directors shall perform their functions with absolute loyalty to the company's corporate interests.

Directors must therefore comply with the following obligations and requirements:

a) Directors may not use the name of the Company nor cite their position as directors in order to carry out transactions on their own behalf or on behalf of parties related to them.

b) Directors may not make investments or carry out transactions associated with the Company's assets, of which they have knowledge through the performance of their duties, for their own benefit or for the benefit of those related to them, when such transactions have been offered to the Company, or in which the Company has an interest, except when the Company has rejected them without the involvement of the director.

c) Directors may not make use of the Company's assets nor their position within the Company to their economic advantage unless an appropriate consideration has been made.

If the benefit is received in their position as a shareholder, it shall only be deemed fair insofar as it respects the principle of the equal treatment of shareholders.

d) Directors must notify the Board of Directors of any direct or indirect situation of conflict of interest arising with the Company. In the case of a conflict, the affected director shall abstain from involvement in the transaction to which the conflict refers.

e) Directors shall abstain from voting on issues that affect matters in which they or those related to them have a direct or indirect interest.

f) No Director may directly or indirectly make professional or trade operations or transactions with the company or with any of its group companies, where such transactions are beyond the scope of the company's ordinary business or where they are not carried out under market conditions, unless the Board of Directors is informed thereof in advance and approves the transaction, after having received a report from the Audit and Control Committee, with a favourable vote of at least 80% of the Directors attending or represented by proxy at the meeting.

g) Directors shall likewise give notice of any direct or indirect interests they or the related parties referred to by Article 231 of the Revised Text of the Capital Companies Act may hold in the capital of a company having the same, analogous or complementary kind of activity as that which constitutes the company's corporate purpose. They shall also notify the offices they may hold or the functions they may perform in such company

The persons referred to by Article 231 of the Revised Text of the Capital Companies Act shall be construed as related parties.

The situations of conflict of interest set out in the preceding paragraphs shall be reported in the Annual Report and in the annual Corporate Governance Report.

Similarly, the NH Hoteles Internal Code of Conduct, approved by the Board of Directors on 24 May 2011, regulates in detail a Conflict of Interest Procedure which is applicable to directors and members of the senior management, among others, who must in general refrain from attending or taking part in the deliberation or voting phases of those matters that present them with a conflict of interest. The secretary of the Audit and Control Committee of NH Hoteles, S.A., will draw up a Register of Conflicts of Interest of Persons Subject to Substantive Rules on Conflicts of Interest, which will be constantly updated, with detailed information about each situation that arises. The information contained in the register will be made available to the Audit and Control Committee. The latter is entrusted with ensuring compliance with the internal codes of conduct, as well as its corporate governance functions.

C.7 Is more than one company in the Group listed in Spain?

YES

Identify the subsidiary companies listed:

Listed Subsidiary Company
SOTOGRANDE, S.A.

Indicate whether the respective areas of activity and the corresponding business relations between them have been publicly defined in detail, as well as the areas and relations of the listed subsidiary company with the other companies in the Group:

YES

State any possible business relationships between the parent company and the listed subsidiary, and between the latter and other group companies.
The relationships derived from the management contracts that exist between the companies.

State the mechanisms created for resolving any conflicts of interest between the listed subsidiary and the other companies in the Group:

Mechanisms for resolving possible conflicts of interest
The mechanisms for resolving possible conflicts of interest that may arise between NH Hoteles, S.A. and the listed company that forms part of its group, Sotogrande, S.A., are defined by the Audit and Control Committees attached to the respective companies, which propose the corresponding solutions that are approved, as appropriate, by the Board of Directors of each company.

D - RISK CONTROL SYSTEMS

D.1 General description of the risk policy of the Company and/or its group, detailing and evaluating the risks covered by the system, together with an explanation of why these systems are appropriate for each type of risk.

As a basic risk management tool, the NH Group presents the group's Global Risk Map. The map was drawn up for the first time in the 2007 financial year. Since then it has been updated annually with the help of the group's different corporate departments. The principal purpose of the risk map is to provide the Group with an effective instrument for guarding against the possible occurrence of the risks identified.

Regarding the company's risk management, work has been done in 2012 on two fronts:

a) The incorporation of the risk map into a computer application managed by the company itself, which is also used by the company in relation to processes and procedures. The software allows better management of risks, describing the controls that affect each risk, and improves risk assessment management capacity.

b) The improvement of the controls implemented to mitigate the operational risks directly associated with the hotel business. This work includes the implementation of such controls in the company's front-office tools and the incorporation of new controls. The project had a second phase in 2012.

The business risk control systems of the activities of NH Hoteles, S.A. Group can be classified in the following way:

- Control of financial risk

- Control of strategic development risk

- Control of business, operational and environmental risk

- Control of regulatory risk

- Other preventative procedures

1. CONTROL SYSTEM FOR FINANCIAL RISK

The group controls its financial risks using the following mechanisms:

1.1 Procedures Manual: The relevant operations carried out by the NH Hoteles Group are standardised through an internal procedures manual covering purchase cycles, asset management, treasury, end of month processes, etc. The regulations applicable to accounting matters for all national and foreign companies in the Group are also regulated.

1.2 Internal Audit: The Internal Audit Department carries out an on-going function that mainly focuses on identifying risk situations and evaluating their management. To this end it has defined an annual audit plan that aims to verify the correct application of the established rules and procedures, both at the level of corporate departments and for different hotels, among other objectives.

1.3 Audit Committee: The Audit Committee, reporting directly to the Board of Directors, is responsible for supervising the correct functioning of all the Group's internal control systems. It also periodically analyses the principal risks of the businesses and the systems established for their management and control. It is also the body responsible for relations with the Group's external auditors.

1.4 Centralised Management: The Group, through its Finance Department, centrally manages its policies on financing, interest rates and exchange rates, using non-speculative criteria.

In accordance with the provisions set forth in Article 61 of the Securities Market Act, a detailed description of the financial reporting control systems is attached hereto as an Annex.

2. STRATEGIC RISK CONTROL SYSTEMS

2.1 The NH Hoteles Group has a team of professionals that analyse strategic opportunities of various types. This team selects the alternatives best aligned with the Group's global strategy and submits them to the Expansion and Management Committee, and subsequently to the Executive Committee and the Board of Directors.

2.2 The Group has identified a number of employees that form an Integration Committee for each acquisition, in order to standardise the policies and procedures in the different critical areas(human resources, information systems, sales management and marketing...)

2.3 The Expansion Committee, which reports to the Management Committee, analyses the opportunities that arise. It comprises members from each area in order to analyse all the opportunities and risks of the businesses that arise in the Group.

3. RISK CONTROL SYSTEMS FOR BUSINESS, TRANSACTION CONTROL AND ENVIRONMENTAL RISKS.

3.1 The Management Committee meets on a weekly basis. It analyses the information contained in the management charts drawn up by the Corporate Control Management Department to assess the development of transactions, and closely monitors aspects of the business assessment obtained through the computer system.

It also sets the policy to be applied by each Company department and monitors the application of the market policy for the Committee.

3.2 The Group, and particularly with regard to its principal activity (golf hotel management), has a policy aimed at maximising respect for the environment. The engineering and environment corporate area is therefore responsible for providing the Company with the basic mechanisms that enable it to comply with environmental legislation. The majority of its daily activity comprises direct interaction with hotels, analysis and ensuring compliance with the specific regulations.

3.3 A project geared at analysing and improving existing controls at centres through the specific enhancement and development of the computer tools used by the company (front-office and back-office) was initiated in 2012. It has a two-fold aim:

- Improvement of existing controls in its daily operations: automation and simplification

- Incorporation of new controls to supplement those that already exist.

The main objective is to reduce the risks of fraud and to reinforce existing manual controls over production through the gradual incorporation of growing number of preventive and corrective controls.

4. CONTROL SYSTEMS FOR REGULATORY RISK

This group includes all risks associated with legislation that could affect the Company's business, relating to drafting contracts (clients and suppliers), compliance with legal, administrative, international, state, regional or municipal regulations, as well as renewal of rental and management agreements. An approval procedure linking different levels within the organisation is in place, which ensures the correct approval of contracts. Furthermore, all risks affecting this sector are periodically reviewed by the Internal Audit Department as part of its annual planning.

The company can also rely on subcontracted companies which ensure compliance with occupational health and safety, security at facilities, fire fighting, etc.

As part of the company's procedures, each centre has an obligatory file which must report all agreements entered into with third parties, duly updated and signed.

5. OTHER PREVENTATIVE PROCEDURES

5.1 Occupational health and safety

The occupational health and safety plans involve planning processes that are susceptible to causing risks and establishing the appropriate safety measures.

The Company organises numerous training courses for employees and subcontractors.

5.2 Insurance

The NH Hoteles 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.

D.2 State whether any of the different types of risk (operational, technological, financial, legal, reputational, tax...) that affect the company and/or its group have materialised during the year:

YES

If so, indicate the circumstances that caused them and whether the control systems established worked.

Risk arising during the year

The risks inherent in the activity.

Circumstances that caused it

The activities of NH Hoteles, S.A.

Functioning of the control systems

The risk control and prevention systems have been shown to function effectively, and so to date the resources employed are considered to have worked satisfactorily.

Risk arising during the year

Financial risks.

Circumstances that caused it

Financial crisis, falling sales, impaired results.

Functioning of the control systems

The company is engaged in various corporate operations, as well as a refinancing process which it hopes to complete in the first half of 2013.

D.3 State whether there is a committee or other governing body responsible for establishing and supervising these control mechanisms.

YES

If so, describe its functions.

Name of the committee or body

Audit and Control Committee

Description of functions

The Audit Committee, reporting directly to the Board of Directors, is responsible for supervising the correct functioning of all the Group's internal control systems. It also periodically analyses the principal risks associated with the business and the systems established to manage and control these risks. It is also the body responsible for relations with the external auditors of the Group.

In general, the Audit Committee supports the Board of Directors in its supervisory duties, using all of the powers granted to it by the Spanish Public Limited Companies Act (LSA), the Company's Bylaws, and the Regulations of the Board of Directors in relation to audit and control.

Name of the committee or body

Internal Audit Department.

Description of functions

Identification and evaluation of risk situations; definition of an annual audit plan aimed, among other things, at verifying correct application of established rules and procedures, both at the level of corporate departments and in different hotels.

D.4 Identification and description of the processes of compliance with the various regulations that affect the company and/or its group.

Occupational Risk Prevention Department

The occupational risk prevention systems are subject to a continuous process of evaluation and internal audit. The scope covers central services as well as the various hotels.

Internal Audit

The Internal Audit Department, reporting directly to the Chairman and answerable to the Board of Directors through the Audit and Control Committee, helps manage the risks that the Group encounters in reaching its objectives.

The Audit Department therefore continuously analyses the risk control systems and procedures, the organisation models and management variables in the most relevant areas of NH Hoteles, S.A. Group. The corresponding conclusions are passed on to the managers of the areas evaluated and to the senior management of the group, including, as applicable, recommendations for specific actions to implement potential improvements.

It should likewise be pointed out that the Audit Department plays an active role in fraud prevention and control.

General Secretariat

The General Secretariat is the competent body for evaluating and mitigating legal risks, as well as overseeing the legal compliance function.

Internal Code of Conduct

On 24 May 2011 the Board of Directors of NH Hoteles, S.A. approved the Internal Code of Conduct of NH Hoteles, S.A. and its group of companies, in relation to the securities markets, compliance with which is mandatory for those to whom it applies, and which regulates everything relating to the rules of conduct regarding securities, conflicts of interest, rules of conduct in relation to privileged information, as well as transactions with securities, among other issues. In addition, on that same date the Board approved a new Code of Conduct, which is mandatory for employees, members of the senior management and directors, and also binds shareholders and suppliers insofar as it affects them expressly. The Code of Conduct contains regulations that strengthen our commitment to act with the highest standards of honesty, integrity and respect in carrying out our business, beyond the guarantee of compliance with current legislation.

The Code contains, among others, procedures for related-party transactions and conflicts of interest, as well as regulations to identify fraudulent practices.

Security Policy

All Company employees sign a security policy document that sets out the IT and electronic communications security policies of NH Hoteles. The document aims to clearly and succinctly explain to all employees the security policy of NH Hoteles with regard to the use of IT resources, access to facilities, software applications and the use of e-mail and internet in the workplace, in order to clearly define actions that are forbidden in relation to the use of these work tools.

E - GENERAL SHAREHOLDERS' MEETING

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

NO

	% quorum different from that set forth in Article 102 of the LSA for general cases	% quorum different from that set forth in Article 103 of the LSA for the specific cases of Art. 103
Quorum required for 1st call	0	0
Quorum required for 2nd call	0	0

E.2 Indicate whether here are differences with the methods established in the LSA in relation to passing company resolutions. If so, explain these differences.

NO

Describe how it differs from the LSA.

E.3 List shareholder's rights in relation to General Shareholder's Meetings that differ from those established in the LSA.

RIGHT TO INFORMATION:

Article 9 of the Regulations of the Board states that from the date of publication of the notice of the General Shareholders' Meeting, the Company shall make available to shareholders the documents and information, required by law or the Company bylaws, relating to the different points included on the agenda; it must also include the same on the Company's website from the aforementioned date. Notwithstanding the above, shareholders may also immediately and freely obtain these documents and information, under those situations and terms provided for under the law, from the Company's registered address, as well as requesting them to be sent or delivered free of charge.

The Bylaws, the Annual General Meeting Regulations and the Regulations of the Board of Directors must always appear on the website and also, where appropriate, the Regulations of the Committees of the Board of Directors, the Annual Report, the Internal Conduct Regulations, Corporate Governance Reports, notices of ordinary and extraordinary general meetings, proposals to be put to the vote and the documents and information that, in accordance with current regulations, must be made available to shareholders from the date the meeting is called, information about the proceedings of general meetings that have been held and, in particular, about the composition of the general meeting at the time of its constitution and the resolutions adopted, giving the number of votes cast and the way members voted; the existing channels of communication with the company and the means and procedures for appointing proxies for the general meeting; the means and procedures for voting in absentia, as well as for Relevant Facts.

Such information may be subject to change at any time; in which case, the relevant amendments and clarifications shall be posted on the company's website.

Additionally, an Electronic Shareholders' Forum has been set up to facilitate shareholder communications prior to upcoming General Meetings, and to serve as an instrument to post proposals to be added to the agenda, requests for support for such proposals, initiatives aimed at reaching a the percentage needed to exercise minority rights or voluntary proxy solicitations.

Article 10 of the aforesaid regulations also includes everything relating to the right of information of shareholders and states that from the moment the notice of the General Shareholders' Meeting is published, until the seventh day prior to the date of the first call, any shareholder may request the information or clarifications they deem appropriate, in writing, from the Company's Board of Directors, or may prepare, in writing, any questions they deem appropriate regarding the matters included on the Meeting agenda published in the notice of the Meeting, or regarding the publicly available information that the Company may have filed with the National Securities Market Commission since the immediately preceding General Shareholders' Meeting was held or information about the Auditor's Report.

The Board of Directors must provide in writing, until the day of the General Shareholders' Meeting, the information or clarifications requested, and respond to any questions, in writing. Responses to questions and requests for information shall be dealt with by any member of the Board of Directors expressly authorised by the Board for this purpose, via the Secretary of the Board.

At the General Meeting, the Company's shareholders may verbally request any information and clarifications they deem necessary about the issues included in the agenda, and should it be impossible to fulfil the shareholder's right at that moment, the directors shall be obliged to provide such information in writing within seven days from the end of the Meeting.

The directors shall be obliged to provide the information requested in relation to the above two sections, except when, in the opinion of the chairman, publication of the requested information may damage the Company's interests.

Information cannot be refused when the request is supported by shareholders that represent at least one quarter of the share capital.

REQUESTING AN ADDENDUM TO THE NOTICE OF MEETING AND THE FORMULATION OF PROPOSALS BY SHAREHOLDERS.

Shareholders representing at least five percent of the share capital may request that an addendum to the notice of ordinary general meeting of shareholders be published, including one or more points on the agenda, provided that they meet the requirements established by law and in the Articles of Association. Likewise, shareholders who represent at least five percent of the share capital may also, in the time frame established by law, put forward reasoned proposals on matters already included or which should be included in the agenda of the meeting called.

RIGHT TO ATTENDANCE.

Article 12 of the regulation includes everything related to the right to attendance. It establishes that shareholders may attend the General Shareholders' Meeting if they own the statutory minimum number of shares registered in their name in the corresponding book entry registry five days before the date of the Meeting, provided that they can accredit this fact by means of the appropriate registered attendance card or certificate issued by any of the participating entities in charge of the register, or directly by the Company itself, or in any other format allowed under prevailing legislation. This card or certificate may be used by shareholders as a document for granting representation in the Meeting in question. Shareholders that do not own the minimum number of shares required to attend may, at any given time, delegate representation of their shares as indicated in the following Article, to a shareholder entitled to attend the Meeting, or also join with other shareholders in the same situation in order to reach the minimum number of shares required, in which case they must appoint one of the shareholders in the group to represent them. Groups must be formed anew for each General Shareholders' Meeting and be accredited in writing.

The chairman may authorise the attendance of any person deemed appropriate, although the Meeting may revoke this authorisation.

RIGHT TO DELEGATION AND REPRESENTATION

Article 13 of the Regulations of the General Shareholders' Meeting state that all shareholders entitled to attend the Meeting, may be represented by another party, even if said party is not a shareholder. The representation must be accepted by the representative and must be conferred for each particular meeting, either using the delegation form printed on the attendance card or on any other form allowed by law.

Representation can also be granted via electronic or online means of communication that duly guarantee the representation and the identity of the represented party. Representation granted by these means shall be accepted when the electronic document that confers the representation includes the recognised electronic signature used by the represented party, or another form of signature that provides adequate guarantees of authenticity and identification of the shareholder conferring representation, and complies with the other requirements legally established at that time.

The documents in which such delegations or proxies for the General Meeting appear shall reflect voting instructions. If no such express voting instructions appear, it shall be construed that the proxy holder shall vote in favour of the proposals put forward by the Board of Directors for resolutions on the items included in the agenda.

If no voting instructions have been given because the General Shareholders' Meeting will be voting on matters that, at the time the delegation was granted, were not included on the agenda and were therefore unknown, the representative may vote in the way they consider most benefits the interests of the Company. The same shall apply when the corresponding proposal or proposals put to the vote have not been drafted by the Board of Directors.

If the identity of the party the shareholder has appointed as proxy is not indicated on the representation or delegation document, the proxy shall be deemed to be granted to the Chairman of the Board of Directors of the Company, or to the party assigned to this role, or to the party standing in for the Chairman in the General Shareholders' Meeting.
In the event of a public request for representation, the provisions of article 186 of the revised text of the Companies Act (Ley de Sociedades Capital) and, where appropriate, article 514 of the same text shall apply. In particular, the document granting the power must contain or have attached to it the agenda of the meeting, as well as the request for instructions for exercising the right to vote and an indication of how the representative will vote in the event that precise instructions are not given. In those cases, the director or person acting as proxy may not exercise the right to vote corresponding to the shares represented on any items on the agenda regarding which they may have a conflict of interest and, in any event, with respect to any resolutions on (i) their own appointment or ratification, dismissal, suspension or removal from office as a director, (ii) questions of liability involving them, (iii) the approval or ratification of the company's transactions with the director in question, with companies controlled by them or which they may represent or with any persons acting on their behalf.

Foreseeing the possibility of conflicts, the proxy may be granted to another person on a subsidiary basis.

Representation can always be withdrawn. The attendance in person at the Meeting by the party represented shall invalidate the representation.

RIGHT TO VOTE

The shareholders present or represented at the Meeting may exercise their right to vote on the resolutions put to the Meeting. Resolutions shall be adopted by the legally established majorities, with one vote corresponding to one share.

Shareholders that are natural persons without the full capacity to act, and shareholders that are legal entities, shall be represented by parties legally accredited to represent them.

In all circumstances, both for cases of voluntary representation and for legal representation, no more than one representative may be present at the Meeting.

The Chairman of the General Shareholders' Meeting or, through delegation, the Secretary thereof, shall settle any questions which may arise concerning the validity and efficacy of documents from which any shareholders' right to attend General Meetings on an individual basis or through pooling their shares with other shareholders are derived, as well as any regarding delegating or granting proxies to another person. They shall solely deem as invalid and ineffective those documents which fail to meet essential minimum legal or statutory requirements, provided such defects have not been corrected.

E.4. Indicate, as applicable, the measures adopted to promote the participation of shareholders in General Shareholder's Meetings.

From the date of publication of the notice of the General Shareholders' Meeting, the Company shall make available to shareholders the documents and information, required by law or under the Articles of Association, relating to the different agenda items, the same documents and information appearing on the Company's website from the aforesaid date. Notwithstanding the above, shareholders may also immediately and freely obtain these documents and information, under those situations and terms provided for under the law, from the Company's registered address, as well as requesting them to be sent or delivered free of charge.

Likewise, from the date the General Meeting's announcement is published, the company shall post on its website any documents and information that may legally be required as they become available, as well any others the company may deem suitable for these purposes in order to foster shareholder attendance and participation at General Meetings.

The Articles of Association, the Annual General Meeting Regulations and the Regulations of the Board of Directors must always appear on the website and also, where appropriate, the Regulations of the Committees of the Board of Directors, the Annual Report, the Internal Conduct Regulations, Corporate Governance Reports, notices of ordinary and extraordinary general meetings, proposals to be put to the vote and the documents and information that, in accordance with current regulations, must be made available to shareholders from the date the meeting is called, information about the proceedings of general meetings that have been held and, in particular, about the composition of the general meeting at the time of its constitution and the resolutions adopted, giving the number of votes cast and the way that they went; the existing channels of communication with the company and the means and procedures for appointing proxies for the general meeting; the means and procedures for voting in absentia, as well as for Relevant Facts.

Such information may be subject to change at any time; in which case, the relevant amendments and clarifications shall be posted on the company's website.

Additionally, an Electronic Shareholders' Forum has been set up to facilitate shareholder communications prior to upcoming General Meetings, and to serve as an instrument to post proposals to be added to the agenda, requests for support for such proposals, initiatives aimed at reaching a the percentage needed to exercise minority rights or voluntary proxy solicitations.

From the moment the notice of the General Shareholders' Meeting is published, until seven day prior to the date of the first call, any shareholder may request the information or clarifications they deem appropriate, in writing, from the Company's Board of Directors, or may prepare, in writing, any questions they deem appropriate regarding the matters included on the Meeting agenda published in the notice of the Meeting, or regarding the publicly available information that the Company may have filed with the National Securities Market Commission since the immediately preceding General Shareholders' Meeting was held.

The Board of Directors must provide in writing, until the day of the General Shareholders' Meeting, the information or clarifications requested, and respond to any questions, in writing. Responses to questions and requests for information shall be dealt with by any member of the Board of Directors expressly authorised by the Board for this purpose, via the Secretary of the Board. The directors must provide the information requested, except in cases where, in the opinion of the Chairman, publication of the requested information may harm the Company's interests, unless the request is supported by shareholders that represent at least one quarter of the Company's share capital.

At the General Meeting, the Company's shareholders may verbally request any information and clarifications they deem necessary about the issues included in the agenda, and should it be impossible to fulfil the shareholder's right at that moment, the directors shall be obliged to provide such information in writing within seven days from the end of the Meeting.

In all events, and for the purpose of facilitating communication between shareholders and the Company, an Investor Relations and Shareholders Department is available to shareholders, which they may contact via e-mail or telephone in order to settle any issues arising in relation to the corporate governance of the Company.

In addition to all of the above, NH Hoteles, S.A. has created a webpage informing shareholders and investors in general about the most relevant occurring in the Company. The corporate website includes important information and documents on corporate governance and is designed to be a communication channel with shareholders, providing them with up to date information about every relevant aspect.

E.5 Indicate whether the position of Chairman of the General Shareholders' Meeting coincides with the position of Chairman of the Board of Directors. Describe, where applicable, what measures are taken to guarantee the independence and correct conduct of the General Shareholders' Meeting:

YES

Describe the measures
The Regulations of the Board of Directors, which governs everything related to calling, preparing and conducting the General Shareholders' Meeting, as well as shareholders' rights, guarantee the correct conduct of the Meeting. A notary public is also present to take the minutes of the Meeting and to perform the functions associated with making these records, such organising the order of speeches established for the Meeting, and taking notes or recording contributions that shareholders wish to make.

E.6 Indicate, as applicable, and changes made during the financial year to the Regulations on General Shareholders' Meetings.

The General Meeting held on 29 June 2012 approved the amendment of certain articles of the General Meeting Regulations, in order to adapt them to the provisions of Act 25/2011, of 1 August, the Partial Reform of the Companies Act (Ley de Sociedades de Capital) and incorporation of Directive 2007/36/EC of the European Parliament and of the Council, of 11 July, on the exercise of certain rights of shareholders in listed companies, as well as Royal Decree-Law 9/2012, of 16 March, simplifying the duties of information and documentation relating to company mergers and demergers.

E.7 Give details of attendance at the general shareholders' meetings held during the year to which this report refers:

Attendance details					
Date of General Meeting	% in person	% by proxy	% distance voting		Total
			Electronic vote	Others	
29/06/2012	32.080	40.530	0.010	0.000	72.620

E.8 Briefly outline the resolutions adopted in the general meetings held during the year to which this report refers and the percentage of votes with which each resolution was adopted.

Ordinary General Meeting of 29 June 2012

I. Examination and approval of the Annual Accounts and the Consolidated Annual Report for the Company and Group, relating to the financial year ending 31 December 2011. Proposed distribution of profits and approval of the management of the Board of Directors.

Percentage of votes approving the resolution: 99.99%

II. Renewal, ratification, appointment and, where appropriate, resignation of directors.

II.1 Renewal of the appointment of Iñaki Arratibel Olaziregi, as a proprietary director.
Percentage of votes approving the resolution: 99.75%

II.2 Renewal of the appointment of Rosalba Casiraghi as a proprietary director.
Percentage of votes approving the resolution: 99.86%

II.3 Renewal of the appointment of Nuria Iturragagoitia Ripoll as an independent director.
Percentage of votes approving the resolution: 99.78%

II.4. Ratification and renewal of the appointment of co-opted director Gilles Pélisson as an independent director.
Percentage of votes approving the resolution: 99.88%

II.5. Ratification and renewal of the appointment of co-opted director Corporación Financiera Caja Madrid, S.A., as a proprietary director.
Percentage of votes approving the resolution: 99.51%

II.6. Ratification and renewal of the appointment of co-opted director José María López-Elola González as an independent director.
Percentage of votes approving the resolution: 99.88%

II.7. Ratification and renewal of the appointment of co-opted director Ramón Lanau Viñals, as a proprietary director.
Percentage of votes approving the resolution: 99.86%

II.8. Ratification and renewal of the appointment of co-opted director José Antonio Castro Sousa, as a proprietary director.
Percentage of votes approving the resolution: 99.86%

III. Appointment and, where appropriate, reelection of the auditors of the company and its consolidated group.
Percentage of votes approving the resolution: 99.96%

IV. Approval of the company website
Percentage of votes approving the resolution: 99.98%

V. Amendment of the Articles of Association.

V.1 Amendment of article 4 ´Registered office.
Percentage of votes approving the resolution: 99.99%

V.2 Amendment of article 8 ´Pre-emptive rights´.
Percentage of votes approving the resolution: 99.99%

V.3 Amendment of articles 21, 22, 24, 25 and 30 relating to the Annual General Meeting.
Percentage of votes approving the resolution: 99.99%

V.4 Amendment of articles 53 and 54 relating to the Annual Corporate Governance Report and the website, respectively.
Percentage of votes approving the resolution: 99.99%

VI. Amendment of the Annual General Meeting Regulations to adapt them to the new text of the Articles of Association.

VI.1 Amendment of articles 8, 9 and 10 relating to calling and preparing for the Annual General Meeting.
Percentage of votes approving the resolution: 99.99%

VI.2 Amendment of articles 13 and 14 relating to the organisation and constitution of the Annual General Meeting.
Percentage of votes approving the resolution: 99.99%

VI.3 Amendment of article 22 relating to the adoption of resolutions and announcement of the result.
Percentage of votes approving the resolution: 99.99%

VI.4 Amendment of article 27 relating to the publication of resolutions.
Percentage of votes approving the resolution: 99.99%

VII. Setting the annual salary of the Board of Directors and its Committees.
Percentage of votes approving the resolution: 99.97%

VIII. Delegation of powers to formalise, clarify, interpret, rectify and implement the resolutions adopted by the Annual General Meeting.
Percentage of votes approving the resolution: 99.97%

IX. Consultative voting on the annual report on directors' remuneration.
Percentage of votes approving the resolution: 99.97%

E.9 State whether there are any statutory restrictions that establish the minimum number of shares required to attend the General Shareholder's Meeting.

NO

Number of shares required to attend the General Meeting	

E.10 State and explain the policies followed by the company in relation to delegating votes in the General Shareholders' Meeting.

Voting on proposals on agenda items of any kind of general meeting may be delegated or carried out by the shareholder by ordinary or electronic mail, or by any other means of distance communication, provided that the identity of the individual exercising their right to vote is duly guaranteed. Shareholders who vote in absentia will deemed to be present for the purposes of quorum.

All shareholders entitled to attend may be represented at the Shareholders' Meeting by another party, even if that party is not a shareholder. The representation must be conferred under the terms and with the scope established by law, in writing and for each specific meeting. This restriction shall not apply when the representative is the spouse, ascendant or descendent of the represented party, or when the representative has a general power of attorney granted in a public document to administer all the assets that the represented shareholder owns in Spanish territory.

The representation may also be conferred by any means of distance communication established by the Board of Directors or the Company, provided that the identity of both the represented party and their representative is duly guaranteed. Representation granted by these means shall be accepted when the electronic document that confers the representation includes the recognised electronic signature used by the represented party,

or another form of signature that provides adequate guarantees of authenticity and identification of the shareholder conferring representation, and complies with the other requirements legally established at that time.

The documents in which such delegations or proxies for the General Meeting appear shall reflect voting instructions. If no such express voting instructions appear, it shall be construed that the proxy holder shall vote in favour of the proposals put forward by the Board of Directors for resolutions on the items included in the agenda.

If no voting instructions have been given because the General Shareholders' Meeting will be voting on matters that, at the time the delegation was granted, were not included on the agenda and were therefore unknown, the representative may vote in the way they consider most benefits the interests of the Company. The same shall apply when the corresponding proposal or proposals put to the vote have not been drafted by the Board of Directors.

Should the proxy or delegation document fail to indicate the specific person to whom the shareholder wishes to grant proxy, it shall be construed to have been granted to the Chairman of the company's Board of Directors or to the person he/she may designate, or to whoever may replace him/her as Chairman of the General Meeting.

The Chairman of the General Shareholders' Meeting, its Secretary or those designated by them shall be construed to have been empowered to determine the validity of any proxies granted and the fulfilment of the requirements to attend the Meeting.

Representation will always be revocable. If the represented party attends the Meeting in person, the representation shall be deemed to be revoked.

Shareholders that are natural persons without the full capacity to act, and shareholders that are legal entities, shall be represented by parties legally accredited to represent them.
In all circumstances, both for cases of voluntary representation and for legal representation, no more than one representative may be present at the Meeting.

The Chairman of the General Shareholders' Meeting or, through delegation, the Secretary thereof, shall settle any questions which may arise concerning the validity and efficacy of documents from which any shareholders' right to attend General Meetings on an individual basis or through pooling their shares with other shareholders are derived, as well as any regarding delegating or granting proxies to another person. They shall solely deem as invalid and ineffective those documents which fail to meet essential minimum legal or statutory requirements, provided such defects have not been corrected.

In the event of a public request for representation, the provisions of article 186 of the revised text of the Companies Act (Ley de Sociedades Capital) and, where appropriate, article 514 of the same text shall apply. In particular, the document granting the power must contain or have attached to it the agenda of the meeting, as well as the request for instructions for exercising the right to vote and an indication of how the representative will vote in the event that precise instructions are not given. In those cases, the director or person acting as proxy may not exercise the right to vote corresponding to the shares represented on any items on the agenda regarding which they may have a conflict of interest and, in any event, with respect to any resolutions on (i) their own appointment or ratification, dismissal, suspension or removal from office as a director, (ii) questions of liability involving them, (iii) the approval or ratification of the company's transactions with the director in question, with companies controlled by them or which they may represent or with any persons acting on their behalf.

Foreseeing the possibility of conflicts, the proxy may be granted to another person on a subsidiary basis.

E.11 Indicate whether the company is aware of the policy of institutional investors regarding participate, or not, in the company's decisions:

NO

E.12 State the address and method of accessing corporate governance content on your website.

All information of interest to shareholders, including the Corporate Governance Reports approved annually, are available at all times on the NH Hoteles, S.A. website www.nh-hotels.com under the section entitled "Shareholder Information".

F - DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the Company's degree of compliance with the recommendations of the Unified Code of Good Governance. In cases of non-compliance, explain the recommendations, rules, practices and criteria applied by the company.

1. The Bylaws of listed companies should not limit the maximum number of votes that a single shareholder may cast, nor contain other restrictions that stand in the way of a company take-over through the acquisition of its shares in the market.
See sections: A.9, B.1.22, B.1.23 and E.1, E.2

Complies

2. When a parent company and a subsidiary company are both stock market listed, both must provide detailed disclosure on:

a) Their respective areas of activity and possible business relations between them, as well as between the listed subsidiary and the other companies in the group;

b) The mechanisms in place for resolving potential conflicts of interest that may arise.

See sections: C.4 and C.7

Complies

3. Although not expressly required under mercantile law, operations that involve a structural change to the company, especially the following, are subject to the approval of the General Shareholders' Meeting:

a) The transformation of listed companies into holding companies through "subsidiarisation" or the incorporation of essential activities into subsidiary entities, which to date were carried out by the company itself, even though the parent maintains full control over them;

b) The acquisition or disposal of essential operational assets when this involves an effective modification of the corporate purpose;

c) Operations equivalent to effectively winding up the company.

Partially complies

The amendment of the articles approved by the General Shareholders' Meeting on 29 June 2011 expressly included the transactions mentioned in sections b) and c) of this Recommendation as matters to be submitted to the General Meeting for its approval. This does not apply to the transactions described in section a).

4. Detailed proposals of the resolutions to be adopted by the General Shareholders' Meeting, including the information referred to in Recommendation 28, should be published at the same time as the announcement of the General Meeting is published.

Complies

5. The General Shareholders' Meeting votes separately on those subjects that are essentially independent so that shareholders are able to exercise their voting preferences separately. And that this rule is applied, particularly to:

a) The appointment or ratification of directors, who must be voted for individually;

b) In the event of amendments to the bylaws, to each essentially independent article or group of articles.

See section: E.8

Complies

6. Companies allow split votes, so that financial intermediaries that legitimately appear as shareholders, but are acting on behalf of different clients, can cast their votes according to their clients' instructions.

See section: E.4

Complies

7. The Board carries out its functions with a unity of purpose and independent criteria, treating all shareholders equally, guided by the interests of the company, which is understood to be the constant maximisation of the financial value of the company. It should also ensure that the company respects all laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories in which it operates; and observes the principles of social responsibility to which it has voluntarily subscribed.

Complies

8. The principal objective of the Board should be to approve the Company's strategy and the organisational requirements for implementing the same, as well as to supervise and control management to ensure it achieves the objectives set and fulfils the company's objectives and corporate purpose. Therefore, the plenary sessions of the Board reserves the authority to approve:

a) The general strategies and policies of the company, in particular:

i) The strategic or business plan, as well as management objectives and annual budgets;

ii) The investment and financing policy;

iii) The definition of the corporate group structure;

iv) The corporate governance policy;

v) The corporate social responsibility policy;

vi) The policy on remuneration and performance evaluations of senior managers;

vii) The risk control and management policy, as well as the periodic monitoring of internal information and control systems;

viii) The dividend policy, and also treasury stock policy and limits.

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

b) The following decisions:

i) The appointment and removal of senior managers, as well as their compensation clauses, as proposed by the Chief Executive Director of the company;

See section: B.1.14

ii) The remuneration of directors and, in the case of executives, the additional remuneration for their executive functions and other conditions that are to be respected in their contracts;

See section: B.1.14

iii) The financial information that, by virtue of being a listed company, the company must periodically make public;

iv) The investments or transactions of any kind that, on account of their high value or special characteristics, are of a strategic nature, unless it is the responsibility of the General Meeting to approve them;

v) The creation or acquisition of shareholdings in special purpose vehicles or those registered in countries or territories considered tax havens, as well as other similar transactions or operations that, due to their complexity, could impair the transparency of the group.

c) Operations that the company may carry out with directors, significant shareholders or those represented on the Board, or with any person related to them ("related party transaction").

Authorisation of the Board shall not be required however, for related party transactions that simultaneously meet the following three conditions:

1ª. That are carried out under agreements with standardised conditions and are applied in a general way to numerous clients;

2ª. That are carried out at established rates or prices, which in general are set by the supplier of the good or service;

3ª. Operations with a quantity that does not exceed 1% of the company's annual revenues.

The Board is advised to approve related party transaction that receive a prior favourable report from the Audit Committee or from any other committee that has been authorised to this end; and that the directors involved not only abstain from voting (without the right to delegation), but also vacate the meeting room while the Board deliberates and votes on the issue.

It is advisable that the competencies attributed to the Board in these matters should not be delegated, except in the aforementioned points b) and c), which may be adopted for reasons of urgency by the Executive Committee, and subsequently ratified by a plenary session of the Board.

See sections: C.1 and C.6

Partially complies

The Company complies with the recommendation in this section, except for those points established in section b.i.), for which the Board of Directors considers that the decision regarding the appointment and possible removal of senior managers must correspond and continue to correspond to the Chief Executive Director of the Company. Notwithstanding the above, the Regulations of the Board of Directors attributes responsibility to the Appointments and Remuneration Committee to provide a prior report on the appointment or dismissal of the managers that report directly to the Chief Executive Director.

9. That, in the interests of effectiveness and participation, the Board should comprise no less than five and no more than 15 members.

See section: B.1.1

Complies

10. External proprietary directors and independent directors comprise a significant majority of the Board of Directors, and the number of executive directors is kept to a minimum, taking into account the complexity of the corporate group and the percentage shareholdings of the executive directors in the company.

See sections: A.2, A.3, B.1.3 and B.1.14

Not applicable

11. If there is an external director who cannot be considered a proprietary director or an independent director, the company should explain this circumstance and their relationship either with the company or its managers, or its shareholders.

See section: B.1.3

Not applicable

12. Among the external directors, the proprietary/independent director ratio should reflect the existing ratio between the capital of the company represented by the proprietary directors and the remaining capital.

This criterion of strict proportionality can be relaxed so that the percentage of proprietary directors is greater than the total percentage of capital they represent:

1° In large cap companies in which few or no shareholdings are legally considered significant, but which include block stockholdings of considerable value.

2° In companies in which there are numerous shareholders represented on the Board and these shareholders have no links between them.

See sections: B.1.3, A.2 and A.3

Complies

13. The number of independent directors represents at least one third of the total directors.

See section: B.1.3

Explain

Of the 15 directors that make up the Board of Directors of NH Hoteles, S.A., ten are external directors, four are independent directors and one is an executive director. The four independent directors represent 26.667% of the total number of members, which, rounded up, makes up a third of the members.

14. Each specific directorship is explained by the Board to the General Shareholders' Meeting, which must make or ratify the appointment, and is confirmed or, as applicable, reviewed annually in the Annual Corporate Governance Report following verification by the Appointments Committee; and this report also explains the reasons why proprietary directors may have been appointed at the request of shareholders who hold less than 5% of the capital; and states the reasons for denying, as applicable, formal requests for representation on the Board from shareholders whose holding is equal to or above that of other shareholders at whose request proprietary directors have been appointed.

See sections: B.1.3 and B.1 4

Complies

15. When the number of directors is few or none, the Board explains the reasons and the initiatives adopted to correct this situation; and in particular, the Appointments Committee ensure that when new vacancies arise:

a) The selection procedures do not suffer from any implicit bias that hampers the selection of female directors;

b) The company deliberately seeks and includes women who match the professional profile sought among the potential candidates.

See sections: B.1.2, B.1.27 and B.2.3

Complies

16. **The chairman, as the person responsible for the efficient conduct of the Board, ensures that directors receive sufficient information in advance; promotes discussion and the active participation of directors during Board meetings, ensuring their freedom to make judgements and express opinions; and organises and coordinates with the chairmen of the relevant committees to periodically evaluate the Board as well as the Managing Director or the Chief Executive, as applicable.**

    See section: B.1.42

    Complies

17. **When the chairman of the Board is also the chief Executive Director of the company, an independent director shall be authorised to call meetings of the Board or to include new items on the agenda; to coordinate and represent the concerns of the external directors; and to organise the Board's evaluation of the chairman.**

    See section: B.1.21

    Not applicable

18. **The secretary of the Board takes pains to ensure that the actions of the Board:**

    a) Comply with the conditions and the spirit of the laws and regulations, including those approved by regulatory entities;

    b) Comply with the company's bylaws and with the regulations of the Shareholders' Meeting, the Board of Directors and any other company regulations;

    c) Take into account the recommendations on good governance contained in this Unified Code that the company has accepted.

    And in order to safeguard the independence, impartiality and professionalism of the secretary, their appointment and removal is notified by the Appointments Committee and approved by a plenary session of the Board; and this appointment and removal procedure is part of the Regulations of the Board of Directors.

    See section: B.1.34

    Complies

19. **The Board is to meet as frequently as required to efficiently perform its functions, following the program of dates and matters established at the start of the year, and each director may propose other items not initially provided on the agenda.**

    See section: B.1.29

    Complies

20. **Directors should be absent only when it is essential and the number of absences should be included in the Annual Corporate Governance Report. And in the event that representation is unavoidable, is it granted with instructions.**

    See sections: B.1.28 and B.1.30

    Partially complies

    Although Article 22 of the Board Regulations states that directors shall personally attend Board meetings, and when they are unable to do so in exceptional circumstances shall attempt to grant a proxy in favour of another member of the Board, including the relevant instructions in so far as possible, such instructions are not always in writing any may also be issued verbally.

21. **When directors or the secretary raise concerns about a proposal or, in the case of directors, about the performance of the company, and such concerns are not resolved by the Board, these concerns are recorded in the minutes at the request of the director raising them.**

    Complies

22. **Once a year, a plenary session of the Board should assess:**

    a) The quality and efficiency of the Board;

    b) The performance of the chairman of the Board and the Chief Executive of the company based on the report provided by the Appointments Committee;

    c) The performance of its committees based on the reports provided by them.

    See section: B.1.19

    Complies

23. **That all directors can exercise their right to obtain any additional information they consider necessary on matters for which the Board is responsible. And, unless otherwise stated by the bylaws or the regulations of the Board, they address their requirements to the chairman or the secretary of the Board.**

    See section: B.1.42

    Complies

24. **That all directors have the right to obtain from the company the advice they need to carry out their duties. The company facilitates the appropriate channels for exercising this right, which in special circumstances may involve external advice at the expense of the company.**

    See section: B.1.41

    Complies

25. Companies establish an orientation programme that provides new directors with a quick but sufficient understanding of the company and of its rules of corporate governance. And directors are also offered programmes to improve their knowledge when circumstances demand.

Complies

26. Companies require directors to dedicate the time and effort required to discharge their duties effectively and, as a result:

a) That directors notify the Appointments Committee of any other professional obligations that could interfere with the commitment required;

b) That companies regulate the number of boards their directors may belong to.

See sections: B.1.8, B.1.9 and B.1.17

Complies

27. Proposals on the appointment or re-election of directors submitted by the Board to the General Meeting of Shareholders, as well as their provisional appointment by co-option, are to be passed by the Board:

a) Upon a proposal by the Appointments Committee in the case of independent directors;

b) Upon a prior report from the Appointments Committee in the case of other directors.

See section: B.1.2

Complies

28. Companies publish and update the following information about their directors on their website:

a) Professional profile and biography;

b) Other boards they sit on, irrespective of whether these are listed companies;

c) Indication of the type of director, stating in the case of proprietary directors, the shareholder that they represent or with which they have ties;

d) Date of their first appointment as a director in the company as well as the date of subsequent re-appointments; and

e) Shares and share options held by the director.

Partially complies

Although the updated composition of the Board is published on the website, giving the date of their first and most recent appointment, as well as their category and shareholding, not all the detailed information that is recommended is provided.

29. Independent directors do not hold their directorship for more than 12 consecutive years.

See section: B.1.2

Complies

30. Proprietary directors present their resignation when the shareholder they represent sells its entire shareholding. And the number of proprietary directors is also reduced when the shareholders in question reduce their holdings to a level that requires fewer such directors.

See sections: A.2, A.3 and B.1.2

Complies

31. The Board of Directors does not propose the removal of any independent director before the statutory period for which the director has been appointed concludes, unless the Board has just cause, based on a report by the Appointments Committee. In particular, just cause shall be understood to include the case of a director has failed to discharge the duties inherent in their position, or falls under any of the circumstances described in part five of chapter III of the definitions of this Code.

The removal of independent directors may also be proposed as a result of mergers, takeovers or other similar corporate actions that change the structure of the company's capital when said changes obey the criteria of proportionality indicated in Recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

Complies

32. Companies establish rules that require directors to inform and, as applicable, resign when circumstances arise that could damage the company's credibility and reputation, and in particular to notify the Board of any criminal proceedings in which they are involved, and the subsequent developments of any court action.

If a director is indicted or tried for any of the offences set forth in Article 124 of the Spanish Public Limited Companies Act, the Board shall examine the case as soon as possible and, based on the specific circumstances, decide whether the director should continue in their post. The Board reports and explains all such occurrences in the Annual Corporate Governance Report.

See sections: B.1.43 and B.1.44

Complies

33. All directors clearly express their opposition when they believe that a proposal for a decision presented to the Board may not be in the Company's interests. Particularly independent and other directors who are not affected by any potential conflict of interest should oppose decisions that may be detrimental to shareholders not represented on the Board.

When the Board adopts significant or repeated decisions about which a director has serious reservations, the director draws the appropriate conclusions and, if they decide to resign, explains the reasons in the letter referred to in the following recommendation.

This recommendation also applies to the secretary of the Board, even though they may not be a director.

Complies

34. 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. And, notwithstanding the fact that this departure is reported as a significant event, the reason for the departure is reported in the Annual Corporate Governance Report.

VSee section: B.1.5

Complies

35. The remuneration policy approved by the Board specifies at least the following issues:

a) Amount and breakdown, as applicable, of fixed components of the expenses for participation on the Board and its Committees and an estimate of the annual fixed remuneration from which they originate;

b) Variable remuneration concepts, including specifically:

i) The types of directors to which they apply, as well as an explanation of the relevant percentage of variable remuneration concepts compared to fixed;

ii) Performance valuation criteria on which entitlement to share-based remuneration is based, including share options or any variable component;

iii) Main parameters and basis of any annual bonus system or other non-cash benefits; and

iv) An estimate of the sum total of variable payments arising from the proposed remuneration plan, based on the degree of fulfilment of the reference premises or targets.

c) Main characteristics of the benefits systems (for example, supplementary pensions, life insurance and similar benefits), with an estimate of their amount and equivalent annual cost;

d) Conditions that must apply to the contracts of those who hold senior management positions as well as executive directors, which should include:

i) Duration;

ii) Notice periods; and

iii) Any other clauses relating to employment bonuses as well as indemnities or "golden parachute" agreements for early cancellation or termination of the contractual relationship between the company and the executive director.

See section: B.1.15

Complies

36. Remuneration in shares in the company or in group companies, share options or share-based instruments, variable remuneration linked to the performance of the company or benefits systems are all limited to executive directors.

This recommendation will not include the provision of shares when it is conditional upon directors to hold them until their departure as a director.

See sections: A.3 and B.1.3

Explain

In recognition of his exceptional work as Chairman of NH Hoteles, the Board has agreed to pay Mr. Rodrigo Echenique a variable amount, apart from his fixed allocation, linked to the achievement of certain strategic-corporate company goals.

37. External directors should receive the remuneration necessary to reward the dedication, qualifications and responsibility that the post demands; but not so high as to compromise their independence.

Complies

38. Remuneration linked to the results of the company shall take into consideration any possible qualifications in the auditor's report that might reduce such results.

Not applicable

39. In the case of variable remuneration, payment policies incorporate the technical safeguards required to ensure that such remuneration is in line with professional performance of the beneficiaries and is not simply derived from the general evolution of the markets or the business sector of the company or from other similar circumstances.

Complies

40. The Board submits a report on the remuneration policy of the directors as a separate item on the agenda, for consultation purposes, to be voted on by the General Shareholders' Meeting. This report is made available to shareholders, either separately or in any other format that the company deems appropriate..

The report will especially focus on the remuneration policy approved by the Board for the current year as well as, if applicable, estimates for future years. It will deal with all issues referred to in Recommendation 35, except for those cases that may involve the disclosure of sensitive commercial information. It will emphasise the most significant changes in these policies compared to those applied during the previous year. It will also include an overall summary of how the remuneration policy was applied the previous year.

The Board also reports on the role of the Remuneration Committee in drafting the remuneration policy, and if external advice has been used, the identity of the external consultants used is stated.

See section: B.1.16

Partially complies

Although the Board of Directors approves an extensive Remuneration Policy Report, submitting in to the General Shareholders' Meeting for consultation, the report does not include each and every aspect listed in Recommendation 35.

41. The Annual Report shall include details of the individual remuneration earned by the directors during the year, as well as:

a) The breakdown of the remuneration of each director, which will include as applicable:

i) Attendance expenses or other fixed remuneration as a director;

ii) Any additional remuneration as chairman or as a member of another committee of the Board;

iii) Any remuneration in the form of profit-sharing or bonuses and the reason why they have been granted;

iv) Contributions made on behalf of the direct to defined contribution pension plans; or the increase in the consolidated rights of the director in relation to contributions to defined benefit schemes;

v) Any compensation agreed or paid in the event of termination of duties;

vi) Remuneration received as a director of other companies in the group;

vii) Remuneration for carrying out senior management duties by executive directors;

viii) Any other remuneration other than the above, whatever its nature or the group entity that pays it, particularly when it is considered a related party transaction or if omission distorts the true perception of the total remuneration received by the director.

b) The individualised breakdown of any share awards to directors, stock options or any other share-based instrument, detailing the following:

i) Number of shares or options granted for the year, and their exercise conditions;

ii) Number of options exercised during the year, indicating the number of shares affected and the exercise price;

iii) Number of options unexercised at the end of the year, indicating their price, date and other exercise conditions;

iv) Any changes made during the year to the exercise conditions of options already granted.

c) Information about the relationship during the previous year between the remuneration received by executive directors and the results or other performance indicators of the company.

Partially complies

The annual report reflects the majority of the information referred to in sections a) and b), but not the information described in section c).).

42. When there is a Delegate or Executive Committee (hereinafter "Executive Committee"), the participation structure of the different types of directors is similar to that of the main Board and its secretary is the Secretary of the Board.

See sections: B.2.1 and B.2.6

Complies

43. The Board is always aware of the issues and the decisions adopted by the Executive Committee and each member of the Board receives a copy of the minutes of the Committee's meetings.

Complies

44. In addition to the Audit Committee required by the Spanish Securities Market Act (LMV), the Board of Directors also creates a committee, or two separate committees, for appointments and remuneration.

The rules regarding the composition and functioning of the Audit Committee and the committee(s) for appointments and remuneration appear in the Regulations of the Board of Directors and include the following:

a) The Board appoints the members of the committees on the basis of their knowledge, skills and experience and the tasks of each committee; deliberates on their proposals and reports; and at the first plenary session of the Board following their meetings, directors must report on their activity and be held accountable for the work they have done;

b) These committees are exclusively formed of external directors, comprising at least three members. The foregoing does not exclude the attendance of executive directors or senior managers when the members of the committee expressly agree;

c) The chairmen are independent directors;

d) They have access to external advice when they deem it necessary to perform their duties;

e) Minutes should be drafted on each meeting, a copy of which should be sent to all Board members.

See sections: B.2.1 and B.2.3

Complies

45. Supervision of compliance with the internal codes of conduct and the rules on corporate governance is the responsibility of the Audit Committee, the Appointments Committee, or if separate, the committees for compliance or corporate governance.

Complies

46. Members of the Audit Committee, particularly its chairman, are appointed on the basis of their knowledge and experience in accountancy, audit or risk management.

Complies

47. Listed companies have an internal audit which, supervised by the Audit Committee, ensures the correct operation of the information and internal control systems.

Complies

48. The internal audit manager presents their annual work plan to the Audit Committee; they inform the committee directly of the incidents arise during its implementation; and, at the end of each financial year, they submit an activity report to the committee.

Complies

49. The risk management and control policy identifies at least the following:

a) The different types of risk (operational, technological, financial, legal, reputation-related, etc.) to which the company is exposed, including contingent liabilities and other off-balance sheet risks among financial and economic risks;

b) The level of risk that the company considers acceptable;

c) The measures planned to mitigate the impact of identified risks should they materialise;

d) The internal control and information systems that will be used to control and manage the aforementioned risks, including contingent liabilities or off-balance-sheet risks.

See sections: D

Complies

50. It is the responsibility of the Audit Committee to:

1° In relation to internal control and information systems:

a) Supervise the process of preparing and safeguard the integrity of the financial reporting relating to the company and, should it be the case, to the group, reviewing compliance with regulations, the adequate delimitation of the consolidated group and the proper application of accounting standards.

b) Periodically review the internal control and risk management systems so that the principal risks are identified, managed and appropriately recorded.

c) Ensure the independence and effectiveness of the internal audit; propose the selection, appointment, re-election and removal of the internal audit service manager; 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.

d) Establish and supervise a mechanism that allows employees to confidentially, and as applicable anonymously, communicate any potential irregularities, particularly financial and accounting, they discover within the Company.

2° In relation to the external auditor:

a) Present to the Board of Directors proposals to select, appoint, re-elect and substitute the external auditor, as well as the conditions of its contract.

b) Receive information about the audit plan and its results from the external auditor on a regular basis and verify that senior management takes its recommendations into account.

c) Ensure the independence of the external auditor, and for this purpose:

i) That the company notifies the Spanish Securities and Exchanges Commission of the change of auditor as a significant event and accompanies it with a statement about the existence of disagreements with the outgoing auditor and the content of such disagreements, if they exist;

ii) That it ensures that the company and the auditor follow prevailing regulations on the provision of services other than audit services, the limits on the concentration of business with the auditor and, in general, any other regulations established to ensure the independence of the auditors;

iii) That in the case of the resignation of the external auditor, to examine the circumstances that may have caused it.

d) In the case of groups, encourage the group auditor to take responsibility for the audits of the companies that comprise it.

See sections: B.1.35, B.2.2, B.2.3 and D.3

Complies

51. The Audit Committee may summon any employee or director of the company, and may require the appearance of the same without the presence of any other director.

Complies

52. The Audit Committee notifies the Board, prior to it adopting the corresponding decisions, about the following issues indicated in Recommendation 8:

a) The financial information that the company, as a listed company, must periodically disclose. The Committee must ensure that the interim accounts are drafted using the same accounting criteria as the annual accounts, and therefore consider the appropriateness of a limited review by the external auditor.

b) The creation or acquisition of shareholdings in special purpose vehicles or those registered in countries or territories considered tax havens, as well as other similar transactions or operations that, due to their complexity, could impair the transparency of the group.

c) Related party transactions, unless another supervision and control committee is has been appointed to draw up the report.

See sections: B.2.2 and B.2.3

Complies

53. The Board of Directors shall seek to file financial statements that are free from reservations or qualifications in the audit report to the General Meeting, and in the exceptional circumstances in which they may exist, both the Chairman of the Audit Committee and the auditors shall provide the shareholders with a clear explanation of the content and scope of such reservations or qualifications.

See section: B.1.38

Complies

54. The majority of the members of the Appointments Committee (or Appointments and Remuneration in the case of a single committee) are independent directors.

See section: B.2.1

Explain

The Appointments and Remuneration Committee is made up of an independent director (Gilles Péllison), who also acts as chairman, and two proprietary directors.

55. In addition to the functions indicated in the preceding Recommendations, the following correspond to the Appointments Committee:

a) Evaluate the skills, knowledge and experience required by the Board in order to define the abilities and functions required by candidates to cover each vacancy, and to assess the time and dedication required to correctly carry out their functions.

b) Examine or organise, as considered most appropriate, the Chairman's and the chief executive's succession, and if necessary bring proposals before the Board so that such successions are effected in an orderly well-planned fashion.

c) Notify the Board of appointments and departures of senior managers proposed by the Chief Executive Director.

d) Inform the Board about gender diversity issues indicated in Recommendation 14 of this Code.

See section: B.2.3

Complies

56. The Appointments Committee consults the chairman and the Chief Executive Director of the company, particularly regarding issues concerning executive directors. And that any director can request the Appointments Committee to take into consideration potential candidates to cover any director vacancies, if they consider the candidate appropriate.

Complies

57. In addition to the functions indicated in the preceding Recommendations, the following correspond to the Remuneration Committee

a) Propose to the Board of Directors:

i) The remuneration policy for directors and senior managers;

ii) The individual remuneration of executive directors and the other conditions of their contracts;

iii) The basic conditions of contracts of senior managers.

b) Safeguard compliance with the remuneration policy established by the company.

See sections: B.1.14 and B.2.3

Complies

58. The Remuneration Committee consults the Chairman and the Chief Executive Director of the company, particularly in relation to issues regarding executive directors and senior managers.

Complies

G - OTHER USEFUL INFORMATION

If you consider that there is any relevant principle or aspect relating to the corporate governance practices applied by your company that has not been included in this report, please comment and explain their content below.

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

SECTION A.5
All relations of a commercial, contractual or corporate nature made between significant shareholders and the Company and/or its group have been described in section C.2 and C.3 (in so far as the significant shareholders are also Company directors). These relations have not been included in section A.5 since these transactions are considered to arise from the ordinary course of the Company's business.

SECTION B.1.11
Without prejudice to the breakdown given in this section, it should be noted that along with the Annual Corporate Governance Report, the Board has prepared an annual report on the remuneration of its directors, which includes complete, clear and comprehensible information on the company remuneration policy approved by the Board for the current year, as well as that planned for future years, where appropriate. It also includes an overall summary of how the remuneration policy was applied during the year, as well as details of the individual salaries paid to each director. The report will be distributed and put to the vote, on a consultative basis and as a separate agenda item, at the Annual General Meeting.

With respect to section B.1 .11 d), no details have been given regarding the percentage that defines the relationship between the total remuneration of the directors and the profit attributed to the parent company as there was no profit in the 2012 financial year.

SECTION B.1.12
The persons listed in the section referred to and who are members of the senior management correspond to the members of the Management Committee, as well as the Internal Audit Director.

SECTION B.1.17
The director Carlos González Fernández holds the position of director in the company Novagalicia Banco, S.A., in which Hoteles Participados, S.A. is a shareholder..

SECTION B.1.38
On the date of issue of this report, the auditors had not yet issued the relevant Audit Report, as the legally established deadline for doing so had not passed.

SECTION B.1.40
As regards the stake held by José Antonio Castro Sousa, it should be noted that the shares are held through various companies belonging to the group Grupo Inversor Hesperia, of which Mr Castro Sousa is an indirect shareholder. In that respect, it should be stressed that the activity of most of those companies consists of owning hotels used by NH Hoteles, S.A.

With respect to the references that are made to the interests held by the three directors that represent Banco Financiero de Ahorros (namely, Sociedad de Promoción y Participación Empresarial Caja Madrid, S.A. , Corporación Financiera Caja de Madrid and Participaciones y Cartera de Inversión, S.L.) in seven companies with a similar corporate purpose to that of NH Hoteles, S.A., it should be noted that the interests are held indirectly through different companies belonging to the Banco Financiero de Ahorros group and, therefore, they are repeated in the references to the three directors.

Lastly, we wish to emphasise that the 0.0117% interest held by Mr Pélisson in the company Accor, S.A., was conferred upon him as a Chairman and Chief Executive of the company.

SECTION C.2
In relation to the lease agreements between the significant shareholder PONTEGADEA INVERSIONES, S.L. and various companies of the NH HOTELES, S.A. group, it should be noted that these agreements have actually been signed by the company PONTEGADEA INMOBILIARIA, S.L., a company that is 100% owned (indirectly) by PONTEGADEA INVERSIONES, S.L.

SECTION F.25
It is systematic practice in the company and is part of its internal procedures, that when new directors are selected, they are given informative and refresher sessions with the different management structures to provide them with information about internal aspects of the Company to help them to perform their duties better as directors of NH Hoteles, S.A.

You may include any other information, clarification or table in this section, related to the previous sections of the report, which may be relevant but not repetitive.

Specifically, please indicate whether the company is subject to legislation other than Spanish in relation to corporate governance and, as applicable, include the information that must be provided and that is different to the information required by this report.

Binding definition of independent director:
Indicate whether any of the independent directors maintains or has maintained any relation with the company, its significant shareholders or its managers, the significance or importance of which would have disqualified the director from being considered as independent in accordance with the definition included in Section 5 of the Unified Code of Good Governance:

NO

Sign and date:
This annual corporate governance report has been approved by the company's Board of Directors in its session of 20/03/2013

Indicate whether any directors voted against or abstained in relation to the approval of this report.

NO

ANNEXE TO THE 2012 ANNUAL CORPORATE GOVERNANCE REPORT

INCLUDING ASPECTS COVERED BY ARTICLE 61B OF ACT 24/1988, OF 28 OF JULY, ON THE SECURITIES MARKET

Act 2/2011, on a Sustainable Economy, has amended Act 24/1988, of 28 July, on the Securities Market (hereinafter, LMV), introducing a new chapter VI entitled "On the annual corporate governance report". Chapter VI contains, among others, a new article 61a on the distribution and content of the Annual Corporate Governance Report. The aforesaid article 61a repeals and revises the content of articles 116, on the Annual Corporate Governance Report, and 116a, which established the obligation of including additional information in the Management Report. It also requires the Annual Corporate Governance Report to include a description of the principal characteristics of the internal risk control and management systems in relation to the process of issuing financial information.

The 2012 Annual Corporate Governance Report has been based on the format provided on the CNMV website. The provisions of this Annexe have been added this Report wherever they are lacking in the CNMV template, including detailed information on the text of new Article 61b of the LMV, which is broken down under the following subheadings:

1. **Securities that are not traded in a regulated European Union market, indicating, where relevant, the various types of shares, and the rights and obligations relating to each type of share.**
   NH Hoteles, S.A. is listed on the Spanish and New York stock markets at Level 1 ADR.

2. **Any restriction on the transmissibility of securities and any restriction on voting rights**
   There are no restrictions in the company bylaws on the transmissibility of the shares from share capital.

   The restrictions on voting rights are the same as those for any other public limited company, with no specific restrictions on this right in the company bylaws other than those stipulated by law.

3. **Regulations applicable to modification of the company bylaws.**
   The regulations applicable to modification of the company bylaws are those established in Articles 285 and subsequent of Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Capital Companies Act (henceforward Capital Companies Act), which require the approval of the General Shareholders' Meeting by the majorities stipulated in Articles 194 and 201 of this Act. The Bylaws, which where adapted to the most recent legislative developments in accordance with the resolutions passed by the General Meetings of 29 June 2011 and 29 June 2012, are in keeping with the law in that regard.

4. **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 public acquisition offer and the effects thereof.**

   The NH Hoteles group has agreements signed with the partners of Residencial Marlín S.L. and Los Alcornoques de Sotogrande, S.L. that, given that the personal characteristics of the partners are essential for smooth running of projects involving these companies, establish that any change in effective control, either in the partners or in their respective parent companies, will result in a procedure enabling the other partner to leave the company with the right to have his or her shareholdings refunded and be compensated for any damages caused.

   The €715,855,325 syndicated loan signed by group company NH Finance, S.A., as borrower, and a syndicate of banks on 29 March 2012 contains a clause establishing early maturity in any circumstances giving rise to a change in control of the company NH Hoteles, S.A.

   In addition, the NH Hoteles Group has been granted loans and credits with a joint limit of €35 million containing a clause establishing their early maturity in the event of circumstances that give rise to a change in control of the company NH Hoteles, S.A.

   There are hotel management contracts signed by subsidiaries of the Group under which the company that owns (or leases) the hotels can exercise the right to terminate the contracts in the event of a change of control at NH Hoteles, S.A., such a change being deemed to be that by which one or more persons acting together can exercise at least 50.01% of the voting rights. Should that right be exercised, the company owning the hotels must pay the managing company an amount that varies according to when the right is exercised, by way of compensation for the effects arising from the termination of the contract. Accordingly, the management contracts signed between Hoteles Hesperia, S.A. (which is 99% owned by NH Hoteles España, S.L.) and the respective owners of the hotels in question establishes, for example that, in the event of a change of control at NH Hoteles, S.A., the owner may opt to terminate the management contract, but would have to pay Hoteles Hesperia, S.A., an amount related to the Average Annual Earnings, as defined in the contracts.

   Lastly, article 9 of the Bylaws of Coperama Servicios a la Hostelería, S.L., states that its shareholders will have the right of first refusal over its shares in the event that control of the company through which the shares are held changes and the new shareholder is a competitor of the other shareholders. To that effect, control shall be deemed to have changed when a different third party directly or indirectly owns more than 50% of the share capital and voting rights in the company. The shareholder assuming control must notify the other shareholders of the fact and offer to acquire their shares at fair value.

5. **The agreements between the company and its directors and managers or employees relating to compensation if they resign or are unfairly dismissed, or if the employment relationship between them comes to an end as the result of a public acquisition offer.**

   The Company has agreed to set compensation for five beneficiaries at an amount that could be greater than would correspond to them under the terms of the Workers' Statute or Royal Decree 1382/1985, of 1 August, which governs the special employment relationship for senior executives in cases of unfair dismissal and changes of control.

6. **Description of the main features of the internal risk control and management systems relating to the financial reporting process.**

   1. The company's control environment

   1.1 Bodies and/or functions responsible for: (i) the existence and maintenance of an adequate and effective internal financial information control system (SCIIF); (ii) its implementation; (iii) its supervision

   The Finance Department is the department responsible for establishing the design, implementation and comprehensive monitoring of the Group internal financial information control system. That involves taking responsibility for the maintenance of the necessary control structure and ensuring that it functions effectively and continuously over time. The purpose of the internal control system is to provide the company with reasonable guarantees that the financial information generated is reliable.

   The entity's Board of Directors is responsible for overseeing this control structure, in line with the provisions of Article 5 of the Regulation of the Board of Directors.

   In order to carry out this previously-described oversight function, the Board of Directors turns to the Audit and Control Committee, which is obliged, through its internal auditing function, to implement measures and action plans to ensure that this oversight function is properly fulfilled, as described in Article 25 of the Regulation of the Board of Directors.

1.2 Existence of the following elements, especially in relation to the financial information generation process:

1.2.1 Departments and/or mechanisms responsible for: (i) the design and supervision of the organisational structure; (ii) clearly defining the chain of responsibility and authority with an adequate distribution of tasks and functions; and (iii) ensuring that there are adequate procedures for disseminating it within the company.

Defining and reviewing the organisational structure of the Group is the responsibility of the Management Committee. Significant changes to the organisation chart, when they occur, are approved by the Board of Directors on presentation by the Appointments and Remuneration Committee. The organisation chart is available to all employees on the Group intranet.

All group employees are duly informed both of the chain of hierarchical responsibility and functions. To that end, internal channels of communication are used, most notably the intranet, managerial meetings and notice boards in each hotel.

In order to fulfil the objectives and responsibilities relating to maintenance and supervision of the Financial Information Control process, specific functions have been defined within the organisational structure, and these apply to those responsible for each process involved with Financial Information. The objectives of these functions are to ensure compliance with the implemented controls, analyse how they function, and provide information about 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 information control system. The Finance Department is entrusted with receiving information form the different individuals responsible for the process and is also responsible for ensuring correct operation of the internal control system.

1.2.2 Code of Conduct, approval body, level of dissemination and instruction, body responsible for analysing non-compliance and for proposing corrective actions and penalties.

Responsibility for approving the Code of Conduct rests with the Board of Directors of NH Hoteles, S.A. The document affects all NH group employees, being applicable not only to employees and members of the Board of Directors, but also, in certain cases, to customers and suppliers.

On 24 May 2011, the Board of Directors approved a new Code of Conduct, which has replaced the previous document that was approved in 2003.

All Group employees have been informed of the Code of Conduct, along with additional training material ("Practical Guide for Employees", "Frequently Asked Question"), by various online and offline means which are permanently available to employees on the company intranet. When the Code of Conduct was approved in 2011, a procedure was established under which each employee with a personal email address was sent the new Code of Conduct, asking them to abide by it; their email address was stored in a database kept by the Human Resources Department. With respect to those joining the company since its approval, the Code of Conduct forms part of the employment contract signed by new employees, who are therefore obliged to adhere to it.

In addition, employees receive online courses designed to ensure they have sufficient knowledge of the Code of Conduct.

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

The Code of Conduct contains the following points specifically relating to financial information and the recording of transactions:

- Section 3.2.4 c) states that "NH Hoteles shall ensure that all records of financial and accounting activity are prepared in an accurate and reliable manner, cooperating with and facilitating the work of the internal audit, inspection and intervention units and other internal control units, as well as that of external auditors and competent authorities, in all cases collaborating with the Justice department".

- Section 3.2.7 a) expressly states that "transparency of information is a fundamental principle of the conduct of the Group, being a commitment to giving reliable information to markets, whether financial or of any other kind. The company's financial information, both internal and external, will thereby offer a true reflection of its financial situation and its assets, in accordance with general accepted accounting principles'.

  The aforesaid section stresses that "the individuals responsible must transmit truthful, complete and comprehensible financial information. Under no circumstances shall they knowingly provide incorrect, inaccurate or imprecise information, with the following forms of conduct being clearly and specifically prohibited:

  - to keep records of transactions recorded on media other than normal accounting records that are not entered into official books;
  - to record non-existent expenditure, income, assets or liabilities;
  - to make entries in accounting books, incorrectly indicating their object;
  - to use false documents;
  - to deliberately destroy documents before the end of the legally-required time limit for retaining them".

1.2.3 Defined complaints channel

A procedure has been established for lodging complaints about breaches of the principles enshrined in the Code of Conduct, and this enables employees to provide confidential information about any non-compliance with the principles set out in the Code of Conduct.

The procedure for reporting and dealing with possible non-compliance and reports relating to the Code of Conduct is administered by the manager of the Group Internal Audit Department, who acts independently, giving an account of the most significant incidents over the course the year to the Company's Audit and Control Committee.

Complaints should preferably by lodged electronically using a channel expressly set up for the purpose on the NH Hoteles intranet (codeofconduct@nh-hotels.com), through which they are forwarded to the director of the Internal Audit Department, thereby ensuring that they remain confidential. In addition, they may be sent by ordinary mail to Santa Engracia 120, 28003 Madrid, Spain, addressed to the Director of Internal Audit of NH Hoteles, S.A.

The director of the Internal Audit Department is responsible for examining the information submitted, requesting the relevant evidence and reports and, where appropriate, presenting the files containing all the information in his possession to the chairman of the Board of Directors of NH Hoteles, S.A. All relevant complaints are presented to the chairman of the Audit and Control Committee.

Since the new Code of Conduct came into force, no relevant complaint of any kind that could lead to any measures being taken has been received.

1.2.4 Training and periodic skills-updating programmes on, at least, accounting standards, audit, internal control and risk management for staff involved in preparing and reviewing financial information and carrying out FICS evaluations.

The Company has put in place two action channels relating to the Internal Financial Information Control System:

- Initial training programmes on the objectives and characteristics of the financial information control system: these programmes are aimed at the individuals that make up the financial information control structure, process managers and business unit directors.

  The aim is to provide information about the most relevant matters related to the process of generating financial information, in particular on the operational processes of the company that make up the control system, the individuals responsible for maintaining the controls defined within each process, notifications regarding improvements or modifications, understanding the monitoring system in place, etc. These training programmes were carried out at the start of the assessment project and will be held once a year.

- Continuity programmes: the aim of these programmes is to maintain the efficiency and efficacy of the control system through the periodic training of the whole control system implemented. They are programmes that will be defined on an ad hoc basis according to the needs of the areas involved.

In parallel, the Finance Department, the personnel of which has the greatest involvement in preparing financial information, has a specific annual training plan delivered by external consultants that includes the chief areas of its activity: accounting rules, consolidation rules, specific financial information applicable to the sector and areas considered particularly important to its functions.

2. Main characteristics of the risk identification process

Risks relating to the Financial Information System are determined and evaluated within the general risk map produced by the Company, which is periodically reviewed and updated.

The risks defined within the Company's risk map are classified according to COSO criteria, including the following categories:

- Strategic risks: those caused by the uncertainty associated with changes in the competitive, company or industry environment.

- Financial risks: all risks caused by the uncertainty associated with fluctuations in interest rates, foreign exchange rates or difficulties and variations in the conditions for accessing financing.

- Unforeseen risks: in general, these relate to damage to the company's own assets and liabilities arising from damages caused to third parties and damages caused by natural hazards.

- Operational risks: these include risks associated with uncertainty in processes, operations and staff or due to inadequate internal systems.

The Company currently has a risk management process in place, which is properly documented and contained on a company IT application.

In designing the risk management process associated with generating Financial Information the Company has focused on the following objectives:

- Definition of the Financial Information Control System processes and subprocesses.

- 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.

  The Accounting, Reporting and Internal Control subcategories are differentiated and defined within the section on the Group operational risks.

- 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 subprocesses 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.

- Determining and monitoring the scope of the internal financial information control system. Defining the scope involves establishing which business units within the Group are relevant and, therefore, if they should be covered by the financial information control system, along with identifying the operational and support processes that have to be analysed within each business unit. To determine the scope, quantitative and qualitative criteria for relevance have been taken into account.

  The determination and review of this scope, as previously described, are fully documented within the Financial Information Control System, and must be overseen by the Group Financial Department. It is approved annually by the Audit and Control Committee.

The process thereby defined meets all the basic objectives of financial information: existence and occurrence; integrity; assessment; presentation, itemisation and comparability; rights and obligations.

Aside from the previously-described process, the Financial Department carries out a monthly accounting consolidation process.

This process starts with the consolidated accounts being received from the various Business Units each month. These are checked and approved to ensure they comply with the established principles of control, co-management and significant influence.

The last phase of this process includes verification of the standardisation adjustments affecting the income statement (monthly) and the balance sheet (quarterly)

This means all the Business Units share a documentation and consolidation system that is approved by the Financial Department, which reviews it once a year.

It is important to stress that the Company has a single Accounts Plan for the entire Group, as well as shared management IT tools in all the Business Units.

3. Main features of the Control Activities

The internal financial information control system defined within the control structure of the group includes a detailed definition not only of the companies in the group to which it must be applied, but also of the map of the most significant processes within each of them. Among the most important processes are those relating to reporting, closing accounts, consolidation and judgements and estimates.

In order to ensure the reliability of the Financial Information, accounting errors that may arise from the following control objectives are always borne in mind:

- Completeness: balances or transactions that should be recorded but are not.
- Transaction cut-off: those booked in a period other than when they were accrued.
- Accuracy: transactions recorded with errors (amounts, conditions).
- Occurrence/ Existence: transactions that have taken place within the period.
- Valuation/Allocation: record of transactions involving incorrect sums due to inadequate valuation calculations.
- Presentation/ Classification: classification errors in the various entries of the financial statements.

The controls and procedures defined within the Internal Financial Information Control System support the relevant processes to ensure the proper functioning of the information systems, such as secure access, monitoring of changes in the systems, operational continuity and separation of functions.

Supervision of the management of activities outsourced to third parties, as well as any possibly relevant evaluation, calculation or valuation tasks commissioned from independent experts are also covered by this control structure.

Every month, the Group Finance Department submits the management report to the Board of Directors for their consideration. The report includes the most important financial and managerial information, the profit and loss account, and the key indicators and financial ratios. A statement of financial position is also submitted quarterly.

The Board of Directors periodically requests an analysis of specific issues, as well as the details of particular financial transactions that, because of their importance, need to be studied in greater depth.

The Chairman of the Audit and Control Committee periodically reviews this financial information during its meetings and, as required, requests the attendance of either external and/ or internal auditors.

4. Information and Communication

The company's Resources Department is responsible for the unification, analysis and publication of all its internal rules and procedures, most notably the operational, administrative (including accounting), quality and regulatory procedures. It is the responsibility of each area (finance, operations, purchasing, sales, etc.) to issue and maintain the rules relevant to their area and that form an integral part of the company's internal controls.

Although the accounting criteria are the responsibility of the Resources Department, the Finance Department is responsible for defining and applying these criteria and ensuring that they are up to date and approved.

To that end, the Company currently has a common Accounting Plan, a Manual of Accounting Rules and a Consolidation Manual, applicable to all the countries in which the Group operates, which are updated at least annually. The aforesaid regulatory compendium reflects the requirements of the International Financial Reporting Standards (IFRS), which are the accounting standards by which the Group is governed.

Interpretation and application of the financial reporting regulations is the responsibility of the Group Financial Department, which updates and checks any possible new regulatory developments relating to the generation of financial information twice a year.

5. Supervision of the system

The Audit and Control Committee is responsible for supervising internal control, which it does by means of the Internal Audit Department, which attends the sessions of the Audit and Control Committee whenever the committee feels this to be necessary.

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:

- Supervision of internal control and risk management, evaluating and supervising the effectiveness of the internal control and risk management systems, including those affecting the reliability of financial reporting.

- Supervision of regulated financial information, analysing the process whereby the regulated financial information is produced and presented.

- Supervision of audit activities.

This means that, with regard to the foregoing, the Groups' Financial Information Control System makes it possible to:

- Provide management and the Board of Directors with sufficient information to determine whether the internal financial information control system is functioning correctly.

- Identify and correctly control defects before they can have any significant impact on the quality of the financial information.

- Maintain proper control operations, aimed at prioritising risks and maintaining constant supervision by identifying the controls for the most significant risks, identifying key controls, and lastly, checking that these controls are sufficient.

Risks of this kind are assessed by the Internal Audit Department continuously throughout the financial year. The actions carried out by that department are defined in its annual plan, which includes checking and assessing the operational controls in place in the key business processes, especially those related to the hotel business.

This supervision of the Internal Financial Information Control System ends with the most significant results and shortfalls being reported to those in charge, their managers and the Audit and Control Committee, and remedies are proposed in an action plan.

In the process of reviewing and reporting the results, the internal audit team meets with the centre managers at the end of each review and quarterly with the directors of the business units. At those meetings, incidents are examined and future action plans are defined.

The Audit Plan is approved annually by the Audit and Control Committee, and applies to all the Group business units.

The Internal Audit team has a presence in the Group's main business units, some of the most significant of which are Spain, Germany, Benelux and Italy, and its ongoing work helps to guarantee the effectiveness of the oversight tasks needed to ensure proper application of the Company's internal control system.

CONSOLIDATED BALANCE SHEETS

NH HOTELES, S.A. AND SUBSIDIARIES

Consolidated Financial Statements for 2012 drawn up in accordance with the International Financial Reporting Standards adopted by the European Union.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 31 DECEMBER 2011 (€ Thousand)			
	Note	31.12.12	31.12.11
NON-CURRENT ASSETS:			
Tangible fixed assets	8	1,869,183	2,108,812
Goodwill	6	101,814	119,968
Intangible assets	7	92,092	107,575
Real estate investments	9	6,405	6,775
Investments valued through the equity method	10	70,239	73,727
Non-current financial investments		110,369	111,409
Loans and accounts receivable not available for trading	11.1	100,661	98,903
Other non-current financial investments	11.2	9,708	12,506
Deferred tax assets	22	211,184	134,936
Other non-current assets		696	1,328
Total non-current assets		**2,461,982**	**2,664,530**

	Note	31.12.12	31.12.11
CURRENT ASSETS:			
Inventories	12	106,005	116,228
Trade accounts receivable	13	117,943	121,191
Non-trade accounts receivable		68,976	73,032
Public Administration accounts receivable	22	37,980	43,963
Other non-trade receivables		30,996	26,069
Current financial investments	14	14,850	-
Cash and cash equivalents	15	41,445	91,143
Other current assets		14,134	11,365
Total current assets		**363,353**	**412,959**
TOTAL ASSETS		**2,825,335**	**3,077,489**

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 31 DECEMBER 2011

(€ Thousand)

	Note	31.12.12	31.12.11
SHAREHOLDERS' EQUITY:			
Share capital	16.1	493,235	493,235
Parent Company Reserves	16.2	576,505	577,806
Reserves in fully consolidated companies		166,063	170,744
Reserves in companies consolidated through proportional consolidation		1,961	(1,526)
Reserves in companies consolidated through the equity method		(7,639)	(11,624)
Equity valuation adjustments	16.3	(5,690)	(376)
Currency translation differences		(79,811)	(83,429)
Treasury shares	16.4	(11,590)	(11,914)
Consolidated Profit/(Loss) for the year		(292,110)	6,231
Shareholders' equity attributable to shareholders of the Parent Company		**840,924**	**1,139,147**
Minority interests	16.5	158,909	204,650
Total shareholders' equity		**999,833**	**1,343,797**

	Note	31.12.12	31.12.11
NON-CURRENT LIABILITIES:			
Debts with credit institutions	17	180,501	225,923
Lease creditors		1,288	565
Other non-current liabilities	18	60,455	87,767
Provisions for liabilities and charges	21	57,276	30,846
Deferred tax liabilities	22	233,939	246,204
Total non-current liabilities		**533,459**	**591,305**

	Note	31.12.12	31.12.11
CURRENT LIABILITIES:			
Debts with credit institutions	17	855,358	831,122
Lease creditors		2,274	416
Trade creditors and other accounts payable	23	260,732	235,678
Public Administration creditors	22	43,116	35,672
Provisions for liabilities and charges	21	53,458	1,241
Other current liabilities	25	77,105	38,258
Total current liabilities		**1,292,043**	**1,142,387**

TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**2,825,335**	**3,077,489**

Notes 1 to 33 set forth in the Consolidated Annual Report and Annexes I/III are an integral part of the Consolidated Balance Sheet at 31 December 2012.
The Consolidated Balance Sheet at 31 December 2011 is presented solely for the purposes of comparison.

CONSOLIDATED COMPREHENSIVE PROFIT AND LOSS STATEMENTS

CONSOLIDATED PROFIT AND LOSS STATEMENTS FOR 2012 AND 2011 (€ Thousand)			
	Note	**2012**	**2011**
Net turnover	27.1	1,286,033	1,346,006
Other operating income	27.1	1,753	23,849
Net gain (loss) on disposal of non-current assets	7, 8 and 27.1	(2,357)	33,905
Procurements	12	(79,854)	(78,078)
Purchases		(74,397)	(78,078)
Inventory impairments		(5,457)	-
Personnel expenses	27.3	(433,714)	(441,452)
Depreciation allowance	7, 8 and 9	(111,351)	(119,887)
Net losses from asset impairment	6, 7 and 8	(199,060)	(7,369)
Other operating expenses		(755,008)	(698,862)
Variation in the provision for onerous agreements	21	(57,546)	8,167
Other operating expenses	27.4	(697,462)	(707,029)
Profit (loss) from entities valued through the equity method	10	(4,232)	(3,985)
Financial income	27.2	3,779	5,720
Change in fair value of financial instruments	27.6	(1,548)	(6,825)
Financial expenses	27.6	(85,019)	(68,646)
Net exchange rate differences (Income/(Expenses))		(7,469)	12
Gain (Loss) on disposal of financial investments		(3,549)	19,913
PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS		**(391,596)**	**4,301**
Corporation tax	22	55,501	6,200
PROFIT / (LOSS) FOR THE FINANCIAL YEAR		**(336,095)**	**10,501**
Currency translation differences		2,977	(25,272)
Due to valuation of financial instruments		(5,314)	6,201
Income and expenses directly attributed to shareholders' equity		**(2,337)**	**(19,071)**
TOTAL COMPREHENSIVE LOSS		**(338,432)**	**(8,570)**
Year's profit (loss) attributable to:			
Shareholders of the Parent Company		(292,110)	6,231
Minority interests		(43,985)	4,270
Comprehensive loss attributable to:			
Shareholders of the Parent Company		(293,806)	(11,457)
Minority interests	16.5	(44,626)	2,887
Profit /(Loss) per share in euros (basic and diluted)	**5**	**(1.19)**	**0.03**

Notes 1 to 33 set forth in the Consolidated Annual Report and Annexes I/III are an integral part of the Consolidated Comprehensive Profit and Loss Statement for 2012. The Consolidated Comprehensive Profit and Loss Statement for 2011 is presented solely for the purposes of comparison.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR 2012 AND 2011
(€ Thousand)

	Share capital	Share premium	Parent Company's Reserves		Reserves in companies consolidated by			Currency translation differences	Equity valuation adjustments	Treasury shares	Results attributable to Parent Company	Total	Minority interests	Shareholders' equity
			Legal reserve	Voluntary reserves	Full consolidation	Proportional consolidation	the equity method							
Initial balance adjusted 31 December 2010	**493,235**	**413,747**	**36,621**	**60,066**	**276,673**	**2,277**	**(10,174)**	**(59,540)**	**(6,577)**	**(370)**	**(41,296)**	**1,164,662**	**204,155**	**1,368,817**
Net profit (loss) for 2011	-	-	-	-	-	-	-	-	-	-	6,231	6,231	4,270	10,501
Currency translation differences	-	-	-	-	-	-	-	(23,889)		-	-	(23,889)	(1,383)	(25,272)
Cash flow hedges	-	-	-	-	-	-	-	-	6,201	-	-	6,201	-	6,201
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recognised income and expenses for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(23,889)**	**6,201**	**-**	**6,231**	**(11,457)**	**2,887**	**(8,570)**
Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	1,295	1,295
Distribution of Profit (Loss) 2010:														
- To Reserves	-	-	6,500	58,502	(101,045)	(3,803)	(1,450)	-	-	-	41,296	-	-	-
- To Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in treasury shares	-	-	-	-	-	-	-	-	-	(11,544)	-	(11,544)	-	(11,544)
Acquisition of minority interests	-	-	-	-	124	-	-	-	-	-	-	124	(124)	-
Dividend shareout	-	-	-	-	-	-	-	-	-	-	-	-	(2,982)	(2,982)
Other movements	-	-	-	2,370	(5,008)	-	-	-	-	-	-	(2,638)	(581)	(3,219)
Initial balance adjusted 31 December 2011	**493,235**	**413,747**	**43,121**	**120,938**	**170,744**	**(1,526)**	**(11,624)**	**(83,429)**	**(376)**	**(11,914)**	**6,231**	**1,139,147**	**204,650**	**1,343,797**
Net profit (loss) for 2012	-	-	-	-	-	-	-	-	-	-	(292,110)	(292,110)	(43,985)	(336,095)
Currency translation differences	-	-	-	-	-	-	-	3,618	-	-	-	3,618	(641)	2,977
Cash flow hedges	-	-	-	-	-	-	-	-	(5,314)	-	-	(5,314)	-	(5,314)
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recognised income and expenses for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,618**	**(5,314)**	**-**	**(292,110)**	**(293,806)**	**(44,626)**	**(338,432)**
Capital increase/ reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of Profit (Loss) 2011:														
- To Reserves	-	-	-	(2,233)	2,477	2,002	3,985	-	-	-	(6,231)	-	-	-
- To Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in treasury shares	-	-	-	-	-	-	-	-	-	324	-	324	-	324
Business combination	-	-	-	-	(1,706)	1,706	-	-	-	-	-	-	-	-
Acquisition of minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(58)	(58)
Dividend shareout	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	932	(5,452)	(221)	-	-	-	-	-	(4,741)	(1,057)	(5,798)
Balances at 31 December 2012	**493,235**	**413,747**	**43,121**	**119,637**	**166,063**	**1,961**	**(7,639)**	**(79,811)**	**(5,690)**	**(11,590)**	**(292,110)**	**840,924**	**158,909**	**999,833**

Notes 1 to 33 set forth in the Consolidated Annual Report and Annexes I/III form an integral part of the Consolidated Statement of Changes in Shareholders' Equity for the financial year ending 31 December 2012. The Consolidated Statement of Changes in Shareholders' Equity for the year ending 31 December 2011 is presented solely for the purposes of comparison.

CONSOLIDATED CASH FLOW STATEMENTS

CONSOLIDATED CASH FLOW STATEMENT FOR 2012 AND 2011 (€ Thousand)			
	Note	FINANCIAL YEAR 2012	FINANCIAL YEAR 2011
1. OPERATING ACTIVITIES			
Consolidated profit (loss) before tax		(391,596)	4,301
Adjustments to profit (loss):			
Depreciation of tangible and intangible assets (+)	7, 8 and 9	111,351	119,887
Losses from asset impairment (net) (+/-)	6, 7, 8 and 12	204,516	7,369
Provision allowances (net) (+/-)	21	58,787	(3,564)
Profits (Losses) from the sale of tangible and intangible assets (+/-)		2,357	(33,905)
Profits (Losses) from investments valued through the equity method (+/-)	10	4,232	3,985
Financial income (-)	27.2	(3,779)	(5,720)
Financial expenses and changes in fair value of financial instruments (+)	27.6	86,567	75,471
Net exchange rate differences (Income/(Expenses))		7,470	(12)
Other non-monetary items (+/-)		22,936	(31,735)
Adjusted result		**102,841**	**136,077**
Net change in assets / liabilities:			
(Increase)/Reduction in inventories		10,409	2,605
(Increase)/Reduction in trade and other receivables		7,128	8,031
(Increase)/Reduction in other current assets		(14,769)	2,227
Increase/(Reduction) in trade creditors		17,836	(16,749)
Increase/(Reduction) in other current liabilities		(17,691)	13,007
Increase/(Reduction) in provisions for liabilities and charges		(121)	(3,839)
Tax on profits paid		(9,376)	(8,745)
Total net cash flow from operating activities (I)		**96,257**	**132,614**
2. INVESTMENT ACTIVITIES			
Financial income	26.2	3,779	5,692
Investments (-):			
Group companies, joint ventures and associated companies		(614)	(6,032)
Tangible and intangible assets and real-estate investments		(53,039)	(67,556)
Non-current financial investments		-	(73)
		(53,653)	(73,661)
Disposals (+):			
Group companies, joint ventures and associated companies		-	89,929
Tangible and intangible assets and real-estate investments		2,105	80,425
Non-current financial investments		3,839	728
Other Assets		632	252
		6,576	**171,334**
Total net cash flow from investment activities (II)		**(43,298)**	**103,365**
3. FINANCING ACTIVITIES			
Interest paid for debts (-)		(68,165)	(68,469)
Changes in (+/-):			
Equity instruments			
- Reserves			(3,714)
- Minority interests		43	(2,975)
Liability instruments:			
Debts with credit institutions (+)		15,000	35,355
Debts with credit institutions ()		(43,423)	(270,412)
Other non-current liabilities (+/)		(5,637)	(5,722)
Total net cash flow from investment activities (III)		**(102,182)**	**(315,937)**
4. GROSS INCREASE/ REDUCTION OF CASH OR EQUIVALENT ASSETS (I+II+III)		**(49,223)**	**(79,958)**
5. Effect of changes in exchange rates on cash and equivalent assets (IV)		**475**	**2,016**
6. Effect of changes in scope of consolidation (V)		**-**	**-**
7. NET INCREASE/ REDUCTION OF CASH OR EQUIVALENT ASSETS (I+II+III-IV+VI)		**(49,698)**	**(81,974)**
8. Cash or equivalent assets at beginning of the year		**91,143**	**173,117**
9. Cash or equivalent assets at the end of the year (7+8)		**41,445**	**91,143**

Notes 1 to 33 set forth in the Consolidated Annual Report and Annexes I to III form an integral part of the Consolidated Cash Flow Statement for 2012.
The Consolidated Cash Flow Statement for 2012 is presented solely for the purposes of comparison.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

NH HOTELES, S.A. AND SUBSIDIARIES
REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2012

1. ACTIVITY AND COMPOSITION OF THE PARENT COMPANY

NH HOTELES, S.A. (hereinafter the Parent Company) was incorporated as a public limited company in Spain on 23 December 1881 under the trade name "Material para Ferrocarriles y Construcciones, S.A.", which was subsequently changed to "Material y Construcciones, S.A." (MACOSA) and later to "Corporación Arco, S.A."

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

In 1998, 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.

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

An essentially European expansion strategy was initiated in 2000 aimed at creating a strong global brand in the urban hotel segment through the incorporation of the Dutch hotel company "Krasnapolsky Hotels and Restaurants N.V.", followed by the acquisition of the Mexican company "Nacional Hispana de Hoteles, S.R.L de C.V." in June 2001 and the purchase of the German hotel company "Astron Hotels" in 2002.

Between 2003 and 2005, the Group's organic growth allowed it to enter different European markets, such as Italy and Romania, as well as new cities such as London. It also entered the quality tourist sector, with a significant real estate component, in 2005 with projects in Cap Cana (Dominican Republic) and the Mayan Riviera (Mexico).

Having consolidated acquisitions made in preceding periods, the Group continued its international expansion strategy in 2007 and 2008 through the acquisition of the Italian Framon and Jolly Hotel chains.

The Group entered into an agreement with Grupo Inversor Hesperia, S.A. (hereinafter "Hesperia") in 2009 to merge their respective hotel management businesses. As a result, the Group now manages 49 hotels owned or operated by Hesperia.

The Parent Company heads a group of subsidiary companies engaged in the same activity, which together with NH Hoteles, S.A. comprise NH Hoteles Group (hereinafter the "Group" – see Annexes I, II and III).

At the end of 2012, the Group was operating hotels in 25 countries, with 391 hotels and 58,853 rooms, of which around 78% are located in Spain, Germany, Italy and the Benelux.

NH Hoteles, S.A. has its registered address in Madrid.

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

2.1 Basis of presentation of the Financial Statements

The consolidated annual accounts for 2012 were drawn up by the Directors of NH Hoteles, S.A. at the Board meeting held on 20 March 2013 in accordance with the Group's legal framework. This framework is set forth in the Code of Commerce and business law, and in the International Financial Reporting Standards (hereinafter IFRS) adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and Act 62/2003 of 30 December on Fiscal, Administrative and Social Measures, and as such present a true image of the Group's equity and financial situation at 31 December 2012 and of the results of Group's transactions, changes in equity and cash flows during the financial year ending on said date.

As indicated in Note 31 of this Consolidated Annual Report, on 17 April 2013, the Group concluded the agreement signed with China's HNA Group, which represented an outlay of €234 million in the form of a capital increase.

The Group also requested the syndicated banks participating in a €716 million loan to amend the terms of said loan by novation, which would include the release of collateral, modifications to the syndicated loan, and a waiver from its obligation to comply with the financial ratios at 31 December 2012. At the end of the subscription period of the aforementioned novation, the unanimity required for all the requested amendments (see Note 31) had not been achieved, except the waiver from compliance with financial ratios.

In order to include these developments, which the directors of the Parent Company consider significant, it was decided during the 30 April 2013. Board meeting to reformulate the consolidated annual accounts for the 2012.

The consolidated financial statements of the Group and the entities that comprise it corresponding to 2012 are pending approval by their respective General Shareholders Meetings or Members. Nonetheless, the directors of the Parent Company understand that said financial statements will be approved without any significant changes.

Since the accounting standards and valuation criteria applied in the preparation of the Group's consolidated financial statements for 2012 may differ from those used by some of its member companies, adjustments and reclassifications were used to standardise them and adapt them to the European Union's IFRS.

2.1.1 Standards and interpretations effective in this period

In this financial year, the Group adopted the following standards and interpretations which entered into force in 2012 and apply to the Group's consolidated financial statements:

- *Amendment of IFRS 7 Financial Instruments: Disclosure of transfers of financial assets*

This amendment extends and reinforces the breakdown of transfers of financial assets, principally those that qualify them for retirement from the balance sheet, but with some kind of continuing involvement in the asset.

The entry into force of this amendment did not entail any change in the Group's Consolidated Annual Accounts.

- *Amendment to IAS 12 Income taxes Deferred tax on real estate*

The fundamental change arising from this amendment is that it introduces an exception to the general principles of IAS 12 that affects deferred tax on real estate, which the Group measures using the fair-value model in IAS 40 Investment Property. The amendment introduces the assumption, in terms of calculating applicable deferred taxes, that the book value of the assets will be recovered entirely through sale.

This presumption can be rebutted if the property is depreciable (which would exclude the non-depreciable and component) and is held to obtain economic benefits over time through use, rather than through sale.

The entry into force of this amendment did not entail any change in the Group's consolidated annual accounts since, as described under Note 4.2, investment property is valued using the cost model.

2.1.2 Standards and interpretations issued and not in force

The most significant standards and interpretations published by the IASB on the date these consolidated annual accounts 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 annual accounts or because they had not been endorsed by the European Union, were the following:

New standards, amendments and interpretations		Compulsory application for financial years commencing after:
Approved for use in the European Union		
Amendment to IAS 1	Presentation of other comprehensive income	1 July 2012
Amendment to IAS 19	Employee benefits	1 January 2013
Yet to be approved for use in the European Union		
IFRS 9	Financial instruments	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
Revised IAS 27	Separate financial statements	1 January 2013
Revised IAS 28	Investments in associates and joint ventures	1 January 2013
Amendment to IAS 32	Financial instruments: presentation - Offsetting assets with financial liabilities	1 January 2014
Amendment to IFRS 7.	Financial instruments: Disclosure requirements regarding the offsetting financial assets and financial liabilities	1 January 2013
Improvements to IFRS 2009-2011 cycle	Minor amendments to a number of standards.	1 January 2013
Amendments to IFRS 10, 11 and 12	Transition guidance	1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment companies	1 January 2014
IFRIC Interpretation 20	Stripping costs in the production phase of a surface mine	1 January 2013

The Directors have assessed the potential future impacts of these standards, and consider that their entry into force will not have a significant impact on the consolidated annual accounts, except for the following:

- *IFRS 11 Joint Arrangements.*

IFRS 11 Joint Arrangements will replace IAS 31, which is currently in force. The fundamental change which IFRS 11 addresses with regard to the current standard is the elimination of the proportional consolidation option for jointly controlled entities, which would be consolidated by the equity method.

This new rule will affect the Group's consolidated annual accounts, since the proportional consolidation option has been used to consolidate joint ventures in its financial statements (see Note 2.5.3 and Annex III). Accordingly, the impact of consolidating these joint ventures by the equity method, instead of by proportional consolidation, would lead, in more significant items, to a smaller net turnover of €7,555 thousand, lower procurement costs of €5,961 thousand, reduced personnel expenses of €860,000 and smaller operating costs of €1,094 thousand, all calculated in reference to the current figures.

- *IFRS 12: Disclosure of interests in other entities.*

IFRS 12 is a disclosure standard which groups together all the accounting disclosure requirements on interests in other entities (be they subsidiaries, associated companies, joint ventures or other interests), including new disclosure requirements.

Its entry into force would foreseeably broaden the disclosures currently required by the Group in relation to interests in other entities and other investment vehicles.

2.2 Information on 2011

As required by IAS 1, the information from 2011 contained in this consolidated annual report is presented solely for comparison with the information from 2012, and consequently does not in itself constitute the Group's consolidated annual accounts for 2011.

2.3 Currency of presentation

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

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

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

Estimates made by the management of the Group and of the consolidated entities (subsequently ratified by their Directors) have been used in the Group's consolidated financial statements to quantify some of the assets, liabilities, revenue, expenses and undertakings recorded. 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 personnel.
- The useful life of the tangible and intangible assets.
- The valuation of consolidation goodwill.
- The market value of specific assets.
- The estimation of onerous agreements.
- Calculation of provisions and evaluation of contingencies.

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

As is show in the balance sheet, current liabilities considerably exceed current assets. In addition, in 2012 the Group incurred losses of €292 million.

On 17 April 2013, as described under Note 31, the Parent Company completed the incorporation of China's HNA Group into the share capital of NH Hoteles, S.A., through the subscription and payment of a capital increase of €234 million.

Furthermore, on 30 April 2013 lender banks agreed to waive the Group's obligation to comply with the financial ratios established in the syndicated loan agreement.

The Directors of the Parent Company have reformulated these annual accounts following the going concern principle, since they consider that the Group will meet its payment obligations on their maturity date. It will do so by using the capital investment paid in last week by the HNA Group, by expanding the asset sale process, and through new capitalisation and financing transactions. It is confident that these operations will restore the financial equilibrium and profitability of the Group.

2.5 Consolidation principles applied

2.5.1 Subsidiaries (See Annex 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 capacity to exercise control. This capacity is shown when the Parent Company holds the power to manage an investee entity's financial and operating policy in order to obtain profits from its activities.

The financial statements of subsidiaries are consolidated with those of the Parent Company by applying the full consolidation method. Consequently, all significant balances and effects of any transactions taking place between them have been eliminated in the consolidation process.

Stakes held by minority shareholders in the Group's equity and results are respectively presented in the "Minority 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 the effective date of disposal, as appropriate.

2.5.2 Associated companies (See Annex II)

Associated companies are considered as any companies in which the Parent Company holds the capacity 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%.

Capredo Investments GmbH is a vehicle lacking any inherent activity used for making final investments in a series of companies domiciled in the Dominican Republic in which the Group holds an effective stake of 25%. Hence, this vehicle has been considered an associated company.

Associated companies are valued in the consolidated financial statements by the equity method; in other words, through the fraction of their net equity value the Group's stake in their capital represents once any dividends received and other equity retirements have been considered.

2.5.3 Joint ventures (See Annex III)

Joint ventures are considered to be any ventures in which the management of the investee companies is jointly held by the Parent Company and third parties not related to the Group, without any of them holding a greater degree of control than the others. The financial statements of joint ventures are consolidated by the proportional consolidation method, so that aggregation of balances and subsequent elimination are carried out in proportion to the stake held by Group in relation to the capital of these entities.

If necessary, any adjustments required are made to the financial statements of said companies to standardise their accounting policies with those used by the Group.

2.5.4 Foreign currency translation

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

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

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

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

2.5.5 Changes in the scope of consolidation

The most significant changes in the scope of consolidation during 2012 and 2011 that affect the comparison between financial years were the following:

a.1 Changes in the scope of consolidation in 2012

a.1.1 Additions

On 31 January 2012, the company Grupo Sotogrande, S.A. acquired 819 shares in Resco Sotogrande, S.L., representing 50% of the share capital of this company, for a sum of €240,000. As the result of the above transaction, the Group acquired control of Resco Sotogrande, S.L., which until this time had been consolidated by the proportional method, being jointly managed by both shareholders, Sotogrande S.A. and the vendor of the 819 shares, in accordance with the agreements signed between the parties.

The details of the business combination are as follows:

	€ Thousand		
	Book Value	**Adjustments**	**Fair Value**
Non-current assets	3	-	3
Inventories	11,285	(2,098)	9,187
Other current assets	55	-	55
Debts with credit institutions	(7,458)	-	(7,458)
Other liabilities	(237)	-	(237)
Total net assets	**3,648**	**(2,098)**	**1,550**
Cost of the business combination			**240**
Book value of the previous investment			**1,310**
Income from the businesses combination			**-**

The fair value of Resco Sotogrande, S.L. inventories has been calculated based on the sale prices offered in the negotiations with clients that were ongoing at the time of the business combination.

In the event that that business combination had taken place on 1 January 2012, the total comprehensive loss for the Group in 2012 would have been an additional €10,000.

a.1.2 Other corporate transactions

On 30 April 2012, the General Shareholders' Meeting of Donnafugata Resort S.r.l. resolved to reduce capital by €7.082 million and charge it to previous years' losses, and to subsequently increase capital by approximately €6.152 million. Both transactions were notarised on 20 July 2012. Given that the remaining shareholders did not participate in this capital increase, the Parent Company subscribed it entirely, thereby increasing its percentage interest from 78.00% to 88.80%. As a result of the put option granted to the minority shareholders of Donnafugata Resort, S.r.l., described in Note 26, the Group consolidates the annual accounts of this company considering the equity interest represented by said option in relation to the share capital of this subsidiary. At 31 December 2012, the consolidated equity interest in Donnafugata Resort, S.r.l. stood at 97.61% (95.3% at 31 December 2011).

The effect of this operation reduced reserves by €58,000, as a result of which the minority shareholders did not subscribe to the aforementioned capital increase.

a.2 Changes in the scope of consolidation in 2011

a.2.1 Additions

On 30 April 2011, the General Shareholders' Meeting of Donnafugata Resort S.r.l. resolved to reduce capital by €6.784 million and charge it to prior years' losses, and to subsequently increase capital by approximately €6.294 million. Both transactions were recorded in public instruments on 3 May 2011. Given that the remaining shareholders did not participate in this capital increase, the Parent Company subscribed it entirely, thereby increasing its direct percentage interest from 58.82% to 78.00%.

a.2.2 Disposals

The company Jolly Hotels France, S.A., the owner of a hotel in Paris, was sold in 2011 for €89 million. The capital gain booked for this transaction amounted to €19.94 million.

The effect of retiring the above mentioned company from the consolidated balance sheet at 31 December 2011 was as follows:

	€ Thousand
Tangible fixed assets	84,550
Tax	(4,725)
Other long-term debts	(14,941)
Working capital	(1,103)
Net assets disposed of	**63,781**
Consideration	(89,687)
Profit before minority interests	**(25,906)**
Minority interests	5,966
Consolidated profit	**(19,940)**

3. PROFITS AND LOSSES ALLOCATION AND DISTRIBUTION

At the Ordinary General Shareholders' Meeting, the Parent Company's directors will propose that the losses be applied to the "Previous year's losses" account to be offset in future financial years. In accordance with Article 273.4 of the Revised Text of the Capital Companies Act, the directors will propose to allocate €418,000 as an unavailable reserve, as provided by such article, at the Ordinary General Shareholders' Meeting and charge it to freely available reserves, because the Parent Company has not generated any profits this year.

4. VALUATION STANDARDS

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

4.1 Tangible fixed assets

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

Due to the transition to IFRS, the Group reappraised the value of some land to its market value on the basis of appraisals made by an independent expert for a total amount of €217 million. 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 booked as higher cost of such assets. Conservation and maintenance costs are charged against the consolidated comprehensive profit and loss statement for the year in which they are incurred.

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

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

4.2 Real-estate investments

These reflect the value of land, buildings and structures held either for rental or to obtain a capital gain on their sale.

Real estate investments are valued at their original cost. Buildings are valued according to the cost of the corresponding certifications of the works executed plus any expenses associated with the project (works management, fees, architect's fees, etc.) and depreciated on a straight-line basis depending on their useful life, which is the same as that used in tangible fixed assets for similar elements.

Interest costs attributable to these investments are activated during the construction period up to the moment they are ready for sale and are considered as an increased investment cost. Should financial income be obtained from temporary investment of surpluses, said income reduces the cost of the investment.

Revenue and profits or losses arising from the sale of the assets to buyers and the execution of deeds of sale, being the time when the inherent rights and obligations are transferred, are recognised. Rental income is attributed to the results on an accrual basis.

An accrual basis is used to recognise rental costs, charging all maintenance, management and depreciation costs of the rented assets to profit and loss.

The Group periodically determines the fair value of real estate investment elements, using appraisals performed by independent experts as a reference.

4.3 Consolidation goodwill

Consolidation goodwill reflects excess acquisition cost when compared to the Group's interest in the market value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity on the date of acquisition.

Any positive difference between the cost of interests in the capital of consolidated and associated entities and the corresponding theoretical book values 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 whose market value is above their net book value 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 entered into the books as goodwill, which is assigned to one or more specific cash-generating units (in general hotels) which are expected to make a profit.

Goodwill will only be booked when it has been acquired for valuable consideration.

Any goodwill generated through the acquisition of associated companies is booked as an increased value of the interest.

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

Goodwill is not depreciated. In this regard, the Group estimates, using the so-called "Impairment Test", the possible existence of permanent losses of value that would reduce the recoverable value of goodwill to an amount less that the net cost booked at the end of each year and provided evidence of a loss of value exists. Should this be the case, they are written down in the consolidated comprehensive profit and loss statement. Any write-downs entered into the books cannot be subject to subsequent review.

All goodwill is assigned to one or more cash-generating units in order to conduct the impairment test. The recoverable value of each cash-generating unit is determined either as the value in use or the net sale price that would be obtained for the assets assigned to the cash-generating unit, whichever is higher. The value in use is calculated on the basis of estimated future cash flows discounted at an after tax rate that reflects the current market valuation with respect to the cost of money and the specific risks associated with the asset.

The discount rates used by the Group for these purposes range from 7.42% to 12%, depending on the different risks associated with each specific asset.

4.4 Intangible assets

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

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

Intangible assets with an indefinite useful life are not depreciated and are hence subjected to the "impairment test" at least once a year (see Note 4.3).

Intangible assets with a definite useful life are depreciated 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 recorded under the "Intangible assets" heading:

i) Rights of use: This item reflects the right to operate Hotel NH Plaza de Armas in Seville, acquired in 1994, whose depreciation is attributed to the consolidated comprehensive profit/loss over the 30-year term of the agreement at a growing rate of 4% per year.

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

iii) "Concessions, patents and trademarks" basically reflect the disbursements made by Gran Círculo de Madrid, S.A. for the refurbishment and remodelling works of the building where the Casino de Madrid is located. The depreciation 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.

iv) "Software applications" include various computer programs acquired by different consolidated companies. These programs are valued at their original cost price and depreciated at 25% per year on a straight-line basis.

4.5 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 book values of its tangible and intangible assets. A loss is deemed to exist when the recoverable value is less than the book value.

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

Future estimates have been drawn up over a period of five financial years, except in cases in which the remaining term of a lease agreement is less, plus a residual value.

The discount rates used by the Group for these purposes range from 7.42% to 12%, depending on the different risks associated with each specific asset.

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

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

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

4.6 Leases

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

4.6.1 Operating leases

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

When the Group acts as the lessor, it recognises the income from operating leases using the straight-line method according to the terms of the agreements signed. These assets are depreciated in accordance with the policies adopted for similar own use tangible assets. When the Group acts as the lessee, lease expenses are charged to the consolidated comprehensive profit and loss statement on a straight-line basis.

4.6.2 Financial leases

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

The cost of assets acquired through financial leasing agreements is booked in the consolidated balance sheet according to the nature of the asset described in the agreement.

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

4.7 Financial instruments

4.7.1 Financial assets

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

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

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

- Outstanding loans and accounts receivable generated by the Company: These are financial assets generated by the companies in exchange for deliveries of cash or the supply of goods or services.

Negotiable financial assets are valued after their acquisition at fair value, and any changes are included in the net profit/loss for the financial year.

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

Held-to-maturity financial assets and accounts receivable issued by the Group are valued at their depreciated cost and any interest accrued is recognised in the consolidated comprehensive profit and loss statement on the basis of their effective interest rate. Depreciated cost is construed as the initial cost minus any charges or depreciation of the principal, considering any potential reductions arising from impairment or default.

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

4.7.2 Cash and cash equivalents

This item of the consolidated balance sheet reflects the position of cash, demand accounts and other highly liquid short-term investments that can be quickly converted into cash and which are not subject to any value change risks.

4.7.3 Financial liabilities

BANK LOANS

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

TRADE CREDITORS AND OTHER ACCOUNTS PAYABLE

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

DERIVATIVES AND HEDGE ACCOUNTING

Derivatives used to hedge against the risks the Group's operations are exposed to, 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 booked 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 booked in the equity item "Equity valuation adjustments" and not recognised as results until the losses or gains of the hedged element are booked in profit or loss or until the hedged element matures. The ineffective part of the hedge is directly entered into the consolidated comprehensive profit and loss statement.

Hedge accounting is interrupted when the hedging instrument expires or is sold or finalised or exercised, or when it no longer meets the hedge accounting criteria. At that time, any cumulative gain or loss corresponding to the hedging instrument that has been booked 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.

The derivatives involved in other financial instruments or in other important agreements are booked separately as derivatives only when their risks and characteristics are not closely related to those of the important agreements and as long as such important agreements are not valued at fair value through the recognition of any changes occurred to fair value in the consolidated comprehensive profit and loss statement.

VALUATION TECHNIQUES AND HYPOTHESES THAT APPLY 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).

4.7.4 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 booked in equity for the amount received, net of the issue expenses.

4.8 Inventories

The criteria followed to value the different elements that comprise inventories are as follows:

Real estate operations (through Sotogrande, S.A.)

All costs incurred are identified by area and product in order to determine the cost of each element at the moment it is sold. This method assigns to the cost of the sale a proportional part of the total value of the land and of the development costs based on the percentage the square metres sold represents of the total square metres available for sale in each area.

All land and plots held for sale are classified under current assets though their construction and sale period may exceed one year.

i) Undeveloped land: Undeveloped land is valued at original cost, which includes any legal expenses for deeds of sale, registration and any taxes not directly recoverable from the Inland Revenue.

ii) Developed land: Developed land is valued at cost or market value, whichever is lower. The cost mentioned above includes the cost of land, development costs and the cost of technical projects. Taking into consideration the peculiar characteristics of this activity (development and sale of a property measuring approximately 16 million square metres over a period of approximately 50 years), the value of developed land includes the personnel expenses and overheads incurred by the technical department in connection with the development and design of the different projects. In 2012, there were no personnel expenses directly attributable to projects. In 2011, however, they amounted to €29,000.

iii) Buildings constructed and under construction: These are valued at cost price, which includes the proportional part of the cost of land and infrastructures and any costs directly incurred in connection with the different promotions (projects, building licences, certifications of works, declaration of new works, registration at registry, etc.). The Group takes into account the market value and the term for realising the sales of its finished products, making the necessary value adjustments whenever needed.

Hotel operations

Catering edible products are valued at original cost or at realisation value, whichever is lower.

4.9 Transactions and balances in foreign currency

The Group's functional currency is the euro. Consequently, any transactions in currencies other than the euro are considered as "foreign currency" and are booked 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 balance sheet. Any gains or losses thus revealed are directly attributed to the consolidated comprehensive profit and loss statement.

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.

As such, on 31 December 2012, current liabilities included mortgage loans associated with real-estate inventories, whose initial maturity schedule includes maturities beyond 12 months worth €3,102 thousand (€7,468 thousand at 31 December 2011, see Note 17).

4.11 Income and expenses

Income and expenses are booked 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 arising from them arise.

More specifically, income is calculated at the fair value of the consideration to be received and represents the amounts to be charged 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 charged for or paid and the effective interest rate that applies.

In accordance with IAS 18, the Group follows the criterion of booking sales of real estate under construction and, consequently, any profits from the same at the moment the significant risks and benefits of such real property are transferred to the buyer and the buyer has taken effective control over the property.

As a general rule and following the principle of correlation between income and expenses, any commission fees for sales staff and others of a general nature (sales representatives, advertising, etc.) not specifically attributable to real estate developments, though solely connected to the same, incurred from the moment the developments are initiated up to the moment the sales are booked are entered into the books under the "Other current assets" item of the assets side of the consolidated balance sheet, so that they may be attributed to expenses at the moment the sales are booked, provided the margin from the sale agreements entered into pending entry into the books exceeds the amount of such costs at the end of each year.

4.12 Official subsidies

Group companies follow the criteria set out below to book official subsidies:

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

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

4.13 Tax on profits

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

Deferred tax assets and liabilities include temporary differences, being any amounts expected to be payable or recoverable due to differences between the book values of the assets and liabilities and their tax value, as well as the tax losses carryforward and any credits resulting from unapplied tax relieves. Said amounts are booked by applying to the relevant temporary difference or credit the tax rate at which they are expected to be recovered or settled.

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

Deferred tax liabilities for all taxable temporary differences are recognised, except for those in which the temporary difference arises from the initial recognition of goodwill whose depreciation may not be deducted for tax purposes 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, meanwhile, are only recognised if it is deemed probable that the consolidated entities will make sufficient tax profits in the future to make them effective 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 asset (tax losses carryforward and tax credits) are only recognised if it is likely that the consolidated companies will make sufficient tax profits in the future to make them effective.

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 Undertakings made to the personnel

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 incapacity to work or upon reaching a certain age, as well as to those who have attained a certain level of seniority and fulfilled certain pre-established requirements.

The liabilities accrued for these obligations are booked under the "Provisions for liabilities and charges" item of the consolidated balance sheet attached (see Note 21).

In accordance with Royal Decree Law 16/2005, the Group has outsourced the above-mentioned undertakings, financing all the services accrued in advance.

In accordance with prevailing Italian legislation, the employees of the subsidiary company Donnafugata Resort S.r.l. are entitled to compensation should they voluntarily leave the company or be dismissed. The "Non-current provisions" item of the consolidated balance sheet attached hereto includes the liabilities accrued for this item, which amounted to €193,000 at 31 December 2012 (€200,000 in 2011).

4.15 Onerous agreements

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

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

The pre-tax discount rates used reflect the current market value of money, as well as the specific risks associated with these agreements. More specifically, a rate of between 7.42% and 12% has been used.

4.16 Share-based remuneration schemes

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

In accordance with IFRS 2, above-mentioned valuation is attributed to profit or loss under personnel expenses during the period established for the employee to remain in the company before exercising the option. This value is imputed on a straight-line basis to the consolidated comprehensive profit and loss statement from the date the scheme was implemented to the exercise date. As set forth in the Rules of the Scheme, settlement is to be made in cash. Therefore, the valuation obtained is recognised with a counter liability in favour of employees. Furthermore, the Group re-estimates the initial valuation mentioned above every year by recognising in the year's profit or loss both the part corresponding to the year in question and those corresponding to previous years.

Subsequently, the difference between the settlement and the recognised liability, as described above, for any transactions settled is booked in the consolidated comprehensive profit and loss statement once the required permanence period has transpired. Ongoing transactions at

year-end are likewise charged to the consolidated comprehensive profit and loss statement for the amount of the difference between the recognised liability to date and the corresponding updated value.

Lastly, as set out in Note 19 of this consolidated annual report, in order to hedge against any possible financial liabilities from such remuneration scheme, the Group has contracted a financial instrument to hedge the future cash flows needed to settle this remuneration scheme. This financial instrument (an equity swap arrangement) is considered a derivative and booked in accordance with the general rules that apply to such instruments (see Note 4.7).

4.17 Treasury shares

Pursuant to IAS 32, treasury shares are presented by reducing the Group's equity.

The profits and losses obtained by the Group on the disposal of these treasury shares are booked in the "Share premium" item of the consolidated balance sheet.

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 a the Group in a payment obligation (either legal or implicit), provided the amount can be reliably estimated.

4.19 Severance payments

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 recorded expenses of €25,266 thousand for this item in 2012 (€18,263 thousand in 2011).

The consolidated financial statement at 31 December 2012 includes, pursuant to the International Financial Report Standards (IAS 37), a provision of €19,981 thousand for this item (€1,090 thousand at 31 December 2011).

4.20 Business combinations

The business combinations by which 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 minority interests and the fair value of any previous stake in the acquired entity, less the identifiable net assets of the acquired entity, measured at fair value.

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

In the case of business combinations carried out in stages, goodwill is only measured and recorded once the control of a business has been acquired. To do this, any holdings are measured subject to fair value and the corresponding profit or loss is recognised.

4.21 Environmental policy

Investments arising from environmental activities are valued at their original cost and activated as increased fixed asset or inventory costs in the financial year in which they are incurred.

Any expenses arising from environmental protection and improvement are attributed to the profit or loss for the year when they are incurred, irrespective of the moment when the cash or financial flows arising 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 incorporated at the moment the liability or obligation linked to the indemnities or payment arises.

4.22 Consolidated cash flow statements

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

- Cash flows: Inflows or outflows of cash or cash equivalents. The latter are construed as highly liquid short-term investments with a little risk of change in their value.

- Operating activities: The typical activities of the entities comprising the consolidated group, along with other activities that cannot be classified as investment or financing activities.

- Investment activities: Activities involving the acquisition, disposal or drawing down by other means of long-term assets and other investments not included under cash and cash equivalents.

- Financing activities: Activities resulting in changes in the amount and composition of equity and liabilities and which do not form part of the operating activities.

5. PROFIT (LOSS) PER SHARE

The basic profit per share is determined by dividing the net profit or loss attributed to the Group (after taxes and minority interests) by the weighted average number of shares in circulation during the financial year, as shown below:

	2012	2011	Change
Profit (Loss) for the year (€ Thousand)	(292,110)	6,231	4,788.50%
Weighted average number of shares issued (thousands of shares)	246,617	246,617	0.00%
Weighted average number of shares treasury shares (thousands of shares)	1,973	1,595	23.70%
Weighted average number of shares in circulation (thousands of shares)	244,644	245,022	(0.15%)
Profit / (Loss) per share (€)	**(1.19)**	**0.03**	**(4,795.74%)**

6. GOODWILL

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

	2012	2011
NH Hoteles Deustchland GmbH and NH Hoteles Austria GmbH	97,467	108,068
Others	4,347	11,900
Total	**101,814**	**119,968**

The movements under this heading of the consolidated balance sheet in 2012 and 2011 were as follows (€ thousands):

Company	Goodwill 31.12.10	Translation difference	Goodwill 31.12.11
NH Hoteles Deustchland GmbH and NH Hoteles Austria GmbH	108,068	-	108,068
Others	12,340	(440)	11,900
Total	**120,408**	**(440)**	**119,968**

Company	Goodwill 31.12.11	Translation difference	Impairment	Goodwill 31.12.12
NH Hoteles Deustchland GmbH and NH Hoteles Austria GmbH	108,068	-	(10,601)	97,467
Others	11,900	(1,295)	(6,258)	4,347
Total	**119,968**	**(1,295)**	**(16,859)**	**101,814**

Recoverable goodwill values have been allocated to each cash generating unit, mainly rental agreements, by using five year projections on results, investments and working capital.

A breakdown of the cash generating units to which goodwill on consolidation have been allocated is shown below.

	€ Thousand
CGU 6	17,574
CGU 21	11,319
CGU 22	8,508
CGU 12	8,116
CGU 13	6,500
CGU 2	5,774
CGU 9	4,121
CGUs with individually allocated goodwill < €4 mill	39,902
	101,814

The basic hypotheses used to estimate future cash flows of these CGUs are detailed below:

- Discount rate: 7.42% and 8.12%, since these are CGUs subject to the same risks (German and Austrian markets), apart from CGU 24, for which a discount rate of 12% has been used, due to the fact that it is located in another geographic market (South America).
- Terminal value growth rate (g): 2%

As a result of the impairment analysis carried out by the Group at the end of 2012, an impairment of €16,859 thousand has been booked in the following Cash Generating Units:

	€ Thousand
CGU 12	(16)
CGUs with individually allocated goodwill < €4 mill.	(16,843)
	(16,859)

A sensitivity analysis of the loss of value of goodwill with respect of changes in key financial hypotheses is shown below:

Terminal value growth rate	€ Thousand		
	Discount rate		
	-100 bp	No change	100 bp
0%	(2,533)	(3,313)	(4,494)
1%	-	(3,077)	(4,494)
2%	-	-	(4,425)

A sensitivity analysis of the loss of value of goodwill with respect of changes in key financial hypotheses is shown below, average daily rate (ADR) and percentage of occupancy:

Change in average rate (ADR)	€ Thousand		
	Change in occupancy levels		
	-100 bp	No change	100 bp
-1%	(6,988)	(3,860)	(1,372)
No change	(2,116)	-	1,750
1%	747	2,164	3,585

7. INTANGIBLE ASSETS

The breakdown and movements under this heading during 2012 and 2011 were as follows (€ thousand):

	Balance at 31.12.10	Change in the scope of consolidation	Additions/ Allowances	Retirements	Balance at 31.12.11	Additions/ Allowances	Retirements	Balance at 31.12.12
COST								
Rights of use	30,200	-	-	-	30,200	98	-	30,298
Rental agreement premiums	69,966	-	61	(7)	70,020	-	-	70,020
Concessions, patents and trademarks	35,329	(117)	95	(208)	35,099	630	(984)	34,745
Software applications	46,465	(6)	3,990	(147)	50,302	11,809	-	62,111
	181,960	(123)	4,146	(362)	185,621	12,537	(984)	197,174
CUMULATIVE DEPRECIATION								
Rights of use	(15,748)	-	(320)	-	(16,068)	(320)	-	(16,388)
Rental agreement premiums	(7,408)	-	(2,432)	-	(9,840)	(2,923)	-	(12,763)
Concessions, patents and trademarks	(8,340)	117	(1,985)	53	(10,155)	(1,985)	972	(11,168)
Software applications	(33,146)	6	(8,955)	141	(41,954)	(10,219)	-	(52,173)
	(64,642)	123	(13,692)	194	(78,017)	(15,447)	972	(92,492)
Provisions	**(1,393)**	**-**	**-**	**1,364**	**(29)**	**(12,561)**	**-**	**(12,590)**
NET BOOK VALUE	115,925				107,575			92,092

7.1 Rights of use

On 28 July 1994, NH Hoteles, S.A. was granted a right of use on Hotel NH Plaza de Armas in Seville, which is owned by Red Nacional de los Ferrocarriles Españoles (RENFE), for a thirty-year period commencing on the date the agreement was executed. NH Hoteles, S.A. will pay RENFE the amount of €30.20 million in accordance with a payment schedule which concludes in 2014.

The Group has reflected the entire amount agreed upon as the transaction's price in the "Rights of use" item. In order to correctly accrue this price, the result of spreading out the cost over the thirty year term of the agreement is assigned to the consolidated comprehensive profit and loss statement in accordance with an increasing instalment with a percentage annual growth of 4%. Additionally, the outstanding short- and long-term amounts, which stood at €1.49 million and €1.49 million respectively at 31 December 2012 (€1.49 million and €2.99 million at 31 December 2011), are reflected in the "Other current liabilities" and "Other non-current liabilities" (see Notes 25 and 18) items of the attached consolidated balance sheet.

7.2 Rental agreement premiums

There were no significant movements in 2012.

7.3 Software applications

The most significant inclusions in 2012 came about in Spain as a result of the investments made in the development of computer and financial applications.

8. TANGIBLE FIXED ASSETS

The breakdown and movements under this heading during 2012 and 2011 were as follows (€ thousands):

	Balance at 31.12.10	Change in the scope of consolidation	Currency translation differences	Additions	Retirements	Assignments (Note 9)	Balance at 31.12.11	Currency translation differences	Additions	Retirements	Assignments (Note 9)	Balance at 31.12.12
COST												
Land and buildings	2,021,954	(116,404)	(5,939)	240,998	(184,303)	-	1,956,306	(4,494)	7,807	(1,131)	1,499	1,959,987
Plant and machinery	793,885	(7,805)	(1,741)	23,982	(18,592)	-	789,729	(1,731)	13,894	(6,462)	2,603	798,038
Other facilities, tools and furniture	509,393	(3,557)	(1,746)	18,611	(11,443)	11,344	522,602	(1,791)	12,169	(10,691)	1,421	523,710
Other fixed assets	14,357	-	(20)	1,197	(1,500)	(11,344)	2,690	(5)	43	(1,071)	-	1,657
Fixed assets in progress	30,941	-	(562)	9,381	(6,907)	-	32,853	(334)	865	(1,363)	(5,523)	26,498
	3,370,530	(127,766)	(10,008)	294,169	(222,745)	-	3,304,180	(8,355)	34,778	(20,718)	-	3,309,885
CUMULATIVE DEPRECIATION												
Buildings	(295,819)	33,513	2,083	(31,617)	14,648	6,722	(270,470)	1,577	(27,604)	325	(344)	(296,516)
Plant and machinery	(414,682)	1,679	1,025	(39,771)	13,533	(27,293)	(465,509)	1,153	(36,966)	5,159	5	(496,158)
Other facilities, tools and furniture	(393,236)	2,823	906	(33,508)	6,747	11,528	(404,740)	925	(30,796)	8,584	(5)	(426,032)
Other fixed assets	(11,760)	-	207	(914)	273	9,043	(3,151)	15	(167)	947	344	(2,012)
	(1,115,497)	38,015	4,221	(105,810)	35,201	-	(1,143,870)	3,670	(95,533)	15,015	-	(1,220,718)
Provisions	**(55,726)**	**5,201**	**-**	**(15,626)**	**14,653**	**-**	**(51,498)**	**(107)**	**(169,639)**	**1,260**	**-**	**(219,984)**
NET BOOK VALUE	**2,199,307**						**2,108,812**					**1,869,183**

The "Translation differences" column reflects the effect of changes in the exchange rate used in the conversion of the different tangible fixed asset items.

The most significant movements under this heading during 2012 and 2011 were as follows:

i) The most significant additions to this heading during 2012 and 2011, broken down by business units, were as follows:

	€ Thousand	
	2012	**2011**
Italy	13,010	12,284
Germany	9,447	243,756
Spain	7,387	14,159
Benelux	2,717	14,649
Latin America	1,214	7,942
Rest of Europe	1,003	1,379
	34,778	**294,169**

In Italy, the most significant additions in 2012 were related to the renovation of the NH Firenze hotel (€5 million) in Florence, the NH President (€3.9 million), the NH Leonardo Da Vinci (€2.8 million), NH La Spezia (€0.8 million) and NH Berlin Friedrichstrasse (€0.5 million).

In Germany, additions related to a large number of hotels, the most significant being furnishing the NH Berlin Mitte (€0.8 million), NH Frankfurt Rhein-Main (€0.8 million), NH Muenchen Neue Messe (€0.5 million), NH Hamburg Norge (€0.5 million) and NH Berlin City West (€0.5 million).

ii) The most significant retirements during 2012 occurred in the Czech Republic and Spain:

In Spain the most significant retirements concerned the NH Condor, at a cost of €3.5 million, NH Mercader (€1.3 million), NH Villa de Coslada (€0.7 million), NH Villa de Bilbao (€0.6 million) and NH Aránzazu (€0.6 million).

In the Czech Republic, the most significant retirement involved the NH Praha Radlicka (€2.1 million).

The Group has allocated a provision of €169.6 million for the impairment of hotel assets this year. Furthermore, a provision of €1.26 million has been applied from the provision made in previous years for hotel assets located in Spain. At 31 December 2012, the Group had tangible fixed assets with a net book value of €644.9 million (€586.80 million in 2011) guaranteeing several mortgage loans (see Note 17).

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

Firm purchase undertakings amounted to €10.90 million at 31 December 2012. These investments will be made between 2013 and 2015.

9. REAL-ESTATE INVESTMENTS

The movements under this heading of the consolidated balance sheet in 2012 and 2011 were as follows:

	€ Thousand				
	Balance at 12/31/10	Additions/ Allowances	Balance at 12/31/11	Additions/ Allowances	Balance at 12/31/12
Cost:					
Buildings	11,889	16	11,905	-	11,905
Advances and tangible fixed assets in progress	-	-	-	-	-
	11,889	**16**	**11,905**	**-**	**11,905**
CUMULATIVE DEPRECIATION:					
Buildings	(2,413)	(385)	(2,798)	(370)	(3,168)
	(2,413)	**(385)**	**(2,798)**	**(370)**	**(3,168)**
Impairment	**(1,612)**	**(720)**	**(2,332)**	**-**	**(2,332)**
	(1,612)	**(720)**	**(2,332)**	**-**	**(2,332)**
NET VALUE	**7,864**		**6,775**		**6,405**

The most significant investments included in this item of the consolidated balance sheet through Sotogrande were as follows:

- Premise D.02 Sotogrande Marina
- Premise E.07 Sotogrande Marina
- Finca Hípica Valderrama
- International School
- Terrazas Ribera del Marlin
- Ribera del Marlin public car park

The Group's real-estate investments mainly correspond to real estate to be operated under rental agreements. The use of these investments are broken down as follows:

	Square metres	
	2012	2011
Offices	219	219
Sports centre	11,215	11,215
Terrazas R. Marlin	2,778	2,778
Public car park	11,272	11,272
Educational centre	5,445	5,445
	30,929	**30,929**

The fair value of the Group's real-estate investments at 31 December 2012, calculated on the basis of appraisals made by independent third parties, amounted to approximately €12.5 million (€12.9 million in 2011).

Rental income from the Group's real-estate investments amounted to €390,000 in 2012 (€379,000 in 2011). Likewise, operating expenses directly connected with real-estate investments amounted to €37,000 (€34,000 in 2011).

At year-end 2012, the Group is unable to make any kind of investments that total over 5% of the total sales of NH Group in the preceding financial year (see Note 17) without obtaining the express authorisation of the syndicated lenders.

The Group has also taken out insurance policies to cover any possible risks to which the different elements of its real-estate investments are subject, as well as 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.

10. INVESTMENTS VALUED USING THE EQUITY METHOD

The movements under this heading of the consolidated balance sheet during 2012 and 2011 were as follows:

Company	Net balance at 31.12.10	Additions	Disposals or reductions	Assignments	Profit (Loss) 2011	Currency translation differences	Net balance at 31.12.11
Sotocaribe, S.L.	46,117	-	-	-	(1,171)	(1,433)	43,513
Capredo Investments, GmbH	18,361	-	-	-	(66)	(1,264)	17,031
Varallo Comercial, S.A.	-	5,964		7,956	(3,013)	(2,808)	8,099
Inmobiliaria 3 Puente, S.A. de C.V.	1,968	-	-	-	177	(266)	1,879
Palacio de la Merced, S.A.	1,267	-	-	-	55	-	1,322
Mil Novecientos Doce, S.A. de C.V.	1,836	68	-	-	41	(237)	1,708
Consorcio Grupo Hotelero T2, S.A. de C.V.	423	-	(242)	-	(8)	(18)	155
Fonfir1, S.L.	20	-	-	-	-	-	20
Losan Investment Ltd.	-	-	-	-	-	-	-
Harrington Hall, Ltd.	-	-	-	-	-	-	-
Total	**69,992**	**6,032**	**(242)**	**7,956**	**(3,985)**	**(6,026)**	**73,727**

Company	Net balance at 31.12.11	Additions	Disposals or reductions	Assignments	Profit (Loss) 2012	Currency translation differences	Net balance at 31.12.12
Sotocaribe, S.L.	43,513	-	-	-	(480)	776	43,809
Capredo Investments GmbH	17,031	-	-	-	(3,039)	(95)	13,897
Varallo Comercial, S.A.	8,099	376	-	-	(947)	(470)	7,058
Inmobiliaria 3 Poniente, S.A. de C.V.	1,879	-	-	(171)	138	72	1,918
Palacio de la Merced, S.A.	1,322	-	-	-	16	-	1,338
Mil Novecientos Doce, S.A. de C.V.	1,708	-	-	171	46	78	2,003
Consorcio Grupo Hotelero T2, S.A. de C.V.	155	-	-	-	34	7	196
Fonfir1, S.L.	20	-	-	-	-	-	20
Losan Investment Ltd.	-	-	-	-	-	-	-
Harrington Hall, Ltd.	-	-	-	-	-	-	-
Total	**73,727**	**376**	**-**	**-**	**(4,232)**	**368**	**70,239**

Although the Group has only a 14.135% shareholding in Varallo Comercial, S.A., it exercises significant influence over the company through both the appointment of a board member and its involvement in determining how the profits obtained by this company are to be distributed.

The Group likewise exercises significant influence over Consorcio Grupo Hotelero T2, S.A. de C.V., as it actively participates in determining how the profits obtained by this company are to be distributed.

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. The holdings in the companies Harrington Hall Hotel Ltd. and Losan Investment Ltd. are in this situation.

The most relevant financial information on the main stakes held in joint ventures is set out in Annex III of this consolidated annual report.

11. NON-CURRENT FINANCIAL INVESTMENTS

11.1 Loans and accounts receivable not available for trading

The breakdown of this item at 31 December 2012 and 2011 is as follows:

	€ Thousand	
	2012	2011
Subordinated loans to companies owning hotels operated by the Group through leases (*)	44,373	40,472
Other collection rights	11,574	10,433
Loans to staff (Note 28)	-	6,123
Lease advance payments	22,124	9,892
Accounts receivable from joint ventures (Note 28)	4,043	4,469
Loans to associated companies (Note 28) (*)	2,250	2,250
Long-term deposits and surety	12,052	11,492
Others	4,245	13,772
Total	**100,661**	**98,903**

(*) These loans accrue an average rate of interest of between 3% and 4.89%

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

These transactions, which are mainly aimed at refinancing and reducing rents, are currently being used for the Group's growth. The main features of these agreements are as follows:

- Hotel rents 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 (€2.21 million in 2012 and €1.89 million in the preceding year).
- New rental 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 rental agreements has been analysed and independent experts consider them to be operating leases.

The "Other collection rights" item reflects the claim filed against the insurance company that underwrote the ten-year building works insurance. The amount claimed corresponds to the repair works performed and yet to be carried out on a housing development belonging the subsidiary Sotogrande, S.A.

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

In addition, €17,428 thousand is booked as the balancing entry for the promissory notes provided to the owners of a number of leased hotels (see Note 18).

11.2 Other non-current financial investments

This heading of the consolidated balance sheet comprised, at 31 December 2012 and 2011, the following equity interests, valued at cost:

Company	€ Thousand	
	2012	2011
Hotelera del Mar, S.A.	3,151	4,645
NH Panamá, S.A.	3,539	3,539
Others investments	5,547	5,104
Provisión Hotelera del Mar, S.A.	(421)	-
Other provisions	(2,108)	(782)
Total	**9,708**	**12,506**

These companies were not consolidated at 31 December 2012, since they were inactive on said date.

12. INVENTORIES

This item of the consolidated balance sheet was as follows at 31 December 2012 and 2011, including movements during both years:

	Balance at 31/12/10	Disposals or reductions	Net Changes in Inventories	Balance at 31/12/11	Changes in the scope of consolidation (Note 2.5.5)	Additions/ Allowances	Net Changes in Inventories	Balance at 31/12/12
Developed land	46,558	-	-	46,558	-	-	-	46,558
Undeveloped land	12,261	-	(670)	11,591	-	-	-	11,591
Finished works	50,321	369	(973)	49,717	5,642	-	(8,959)	46,400
Trade inventories	9,833	-	(1,471)	8,362	-	-	649	9,011
	118,973	**369**	**(3,114)**	**116,228**	**5,642**	**-**	**(8,310)**	**113,560**
Impairment	**-**	**-**	**-**	**-**	**(2,098)**	**(6,584)**	**1,127**	**(7,555)**
Net value	**118,973**	**-**	**(3,114)**	**116,228**	**3,544**	**(6,584)**	**(7,183)**	**106,005**

The Group has reduced the value of its real-estate inventories to their possible recovery value, basing its calculations on the appraisals carried out by independent experts. The existing provision for this item at 31 December 2012 amounts to €7,555 thousand. The net provision allowance booked in 2012, for €5,457 thousand, is included under "Inventory impairment" on the accompanying consolidated comprehensive profit and loss statement for 2012.

	2012			2011		
	Net Changes in Inventories	Purchases	Total Procurements	Net Changes in Inventories	Purchases	Total Procurements
Undeveloped land	-	-	-	670	-	670
Finished works	8,959	2,122	11,081	973	-	973
Trade inventories	(649)	63,965	63,316	1,471	74,964	76,435
Total	**8,310**	**66,087**	**74,397**	**3,114**	**74,964**	**78,078**

The Group currently owns approximately 1,535,000 m² of land. It is subject to the urban development regulations of the San Roque General Urban Zoning Plan approved by the Cadiz Provincial Town Planning Commission on 2 November 1987, which generally classifies the land owned by the Group as land for scheduled development. The average cost of developed land amounted to €42 per m² and the cost of undeveloped land was of €22 per m² at 31 December 2012.

On 23 April 2007, the Group entered into a legal-administrative town planning agreement with the San Roque Town Council pursuant to Act 7/2002 of 17 December on the Urban Zoning of Andalusia. The maximum plot area in said agreement totalled 633,893 m² with 2,887 housing units, which greatly exceeded the figures set forth in the Plan's initial review in February 2005. The review was left without effect and the maximum plot area was raised to the figure assigned in the aforementioned General Plan of 1987.

Based on the valuations made by American Appraisal España, S.L. and Tasaciones Inmobiliarias, S.A. during 2012, the market value of the Group's real-estate inventories is as follows:

	€ Thousand
Developed land	43,889
Undeveloped land	138,298
Finished works	42,382
	224,569

At 31 December 2012, the value of inventories used as security for mortgage loans amounted to €24,804 thousand (€28,319 thousand in 2011) (see Note 17).

13. TRADE RECEIVABLES

This item reflects different accounts receivable from the Group's operations. The breakdown at 31 December 2012 and 2011 is as follows:

	€ Thousand	
	2012	2011
Trade receivables for services provided	126,462	131,320
Trade receivables for real-estate product sales	6,625	8,194
Provision for bad debts	(15,144)	(18,323)
Total	**117,943**	**121,191**

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

Movements in the provision for bad debts during the years ending 31 December 2012 and 2011 were as follows:

	€ Thousand	
	2012	2011
Balance at 1 January	18,323	17,999
Currency translation differences	(23)	11
Allowances	991	1,869
Applications	(4,147)	(1,556)
Balance at 31 December	**15,144**	**18,323**

The analysis of the ageing of financial assets in arrears but not considered impaired at 31 December 2012 and 2011 is as follows:

	€ Thousand	
	2012	2011
Less than 30 days	15,284	27,862
From 31 to 60 days	11,839	18,240
More than 60 days	25,466	11,107
Total	**52,589**	**57,209**

14. CURRENT FINANCIAL INVESTMENTS

The breakdown of this heading at 31 December 2012 and 2011 is as follows:

	€ Thousand	
	2012	2011
Short-term deposits	12,000	-
Loans to staff (Note 28)	2,850	-
Total	**14,850**	**-**

The item "Short-term deposits" includes a deposit made with maturity on 26 April 2013 and an annual interest rate of 1.5%.

15. 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 2012 and 2011 was a variable Euribor-indexed rate. These assets are booked at their fair value.

There are no restrictions on cash withdrawal, save for a deposit of €5.7 million which guarantees certain of the Group's financial obligations. This deposit is remunerated at the Euribor (one-month) rate and is renewed monthly.

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 Hoteles, S.A. Board of Directors have the right to dispose, as representatives or authorised officials, 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 Hoteles, S.A. holds other accounting documents, namely the consolidated annual accounts, from which sufficient data can be extracted in relation to the aforementioned accounts.

16. SHAREHOLDERS' EQUITY

16.1 Subscribed share capital

Share capital at 31 December 2012 was represented by 246,617,430 bearer shares at a par value of €2 each.

All these shares are entitled to identical voting and economic rights and are traded on the Continuous Market of the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges.

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

At year-end 2012 and 2011, the members of the Board of Directors were the holders or stable proxies of shareholdings representing approximately 73.49% and 68.35% of the share capital, respectively.

The main aims of NH Hoteles Group capital management are to ensure short and long-term financial stability, the positive evolution of NH Hoteles, S.A. share price, and suitable funding for investments while maintaining the level of indebtedness. All the above is aimed 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.

	2012	2011
Grupo Inversor Hesperia, S.A.	25.09%	25.09%
Banco Financiero y de Ahorros, S.A.	15.75%	15.75%
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	-	5.04%
Ibercaja Banco, S.A.	5.04%	-
Hoteles Participados, S.L.	5.43%	5.43%
CK Corporación Kutxa, S.L.	6.25%	6.25%
Pontegadea Inversiones, S.L.	5.07%	5.07%
Intesa Sanpaolo, S.p.A.	5.65%	5.65%
Shares allocated to Employee Remuneration Schemes	0.84%	0.88%
Shares owned by NH employees	0.60%	0.63%

In recent years, the Group's strategy has not varied, maintaining a financial leverage ratio of 0.98x. The leverage ratios at 31 December 2012 and 2011 were as follows:

	€ Thousand	
	2012	**2011**
Debts with lenders (*) (Note 17)	1,035,859	1,057,045
Gross debt	**1,035,859**	**1,057,045**
Negotiable financial assets	-	-
Cash and cash equivalents (Note 15)	56,295	91,143
Liquid assets	**56,295**	**91,143**
Total Net Debt	**979,564**	**965,902**
Total Shareholders' Equity	999,833	1,343,797
Financial leverage	**0.98**	**0.72**

(*) Short and long-term debts with credit institutions, excluding arrangement expenses and accrued interest pending maturity.

16.2 Parent Company Reserves

i) Legal reserve

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

ii) Share premium

The Revised Text of the Capital Companies Act expressly allows the balance of this reserve to increase capital and lays down no restrictions on how it is used.

iii) Other non-available reserves

Dividends may not be distributed until the goodwill item (excluding consolidation goodwill) booked in the individual financial statements of the companies included within the scope of consolidation of the Group has been fully written off, unless the amounts of available reserves are at least equal to the unamortised balances.

Reserves totalling €11,590 thousand at 31 December 2012 (€11,914 thousand at 31 December 2011) could not be distributed, as this figure corresponds to the treasury share reserve.

16.3 Equity valuation adjustments

CASH FLOW HEDGES

This heading of the consolidated balance sheet reflects the net changes in the value of financial derivatives designated as cash flow hedging instruments (see Note 4.7.3).

Movements in the balance of this item during 2012 and 2011 are shown below:

	€ Thousand	
	2012	2011
Opening balance	(376)	(6,577)
Withdrawals	376	6,201
Additions	(5,690)	-
Ending balance	**(5,690)**	**(376)**

A negative reserve of €5.314 million was booked in 2012 for equity adjustments connected with the cash flow hedging of interest rate swaps (IRS) and collars.

The negative reserve for equity valuation adjustments refers to interest rate derivatives, effective at 31 December 2012, amounting to €5.690 million. In 2012, the Group signed interest-rate swap agreements for €316 million, equivalent to 100% of the A1 tranche of the syndicated loan of NH Finance, S.A. at an average rate of 1.02% (see Note 19).

16.4 Treasury shares

At year-end, the Group held 1,937,517 shares in NH Hoteles, S.A. (2,056,429 shares at year-end 2011), which represented 0.79% of its share capital at a total cost of €11.590 million (€11.914 million at year-end 2011).

16.5 Minority interests

The movements in this heading in 2012 and 2011 are summarised below:

	€ Thousand	
	2012	2011
Opening balance	**204,650**	**204,155**
Capital increases/reductions	-	1,295
Comprehensive profit (loss) attributed to minority interests	(44,626)	2,887
Changes in percentage stakes	(58)	(124)
Dividends paid to minority interests	-	(2,982)
Other movements	(1,057)	(581)
Ending balance	**158,909**	**204,650**

The "Capital increases" item in 2011 reflects the amounts contributed by minority interests to the capital increase of Grupo Hotelero Querétaro, S.A. de C.V. totalling €112,000 and Hotel Ciutat de Mataró, S.A., namely €600,000.

The "Dividends paid to minority interests" item basically reflects the dividends paid out in 2011 to the following companies: NH Las Palmas, S.A. amounting to €264,000; City Hotel, S.A. amounting to €1,180,000; Hotelera Lancaster, S.A. amounting to €435,000; NH Marín, S.A., €880,000; and Coperama Servicios a la Hostelería, S.L., €223,000.

17. DEBTS WITH CREDIT INSTITUTIONS

The breakdown of debts with credit institutions at 31 December 2012 and 2011 was as follows (€ thousand):

		Limit	Available	Drawn Down	2012	2013	2014	2015	Remainder
Mortgage guarantee loans		**227,205**	**-**	**227,205**		**133,442**	**18,028**	**12,868**	**62,867**
Fixed interest rate		45,274	-	45,274	-	2,562	2,938	3,072	36,702
Variable interest rate		181,931	-	181,931	-	130,880	15,090	9,796	26,165
Asset guarantee loans		**9,272**	**-**	**9,272**	**-**	**8,272**	**1,000**	**-**	**-**
Variable interest rate		9,272	-	9,272	-	8,272	1,000	-	-
Subordinated loans		**75,000**	**-**	**75,000**	**-**	**0**	**-**	**-**	**75,000**
Variable interest rate		75,000	-	75,000	-	0	-	-	75,000
Syndicated Loans		**729,855**	**442**	**729,413**	**-**	**715,855**	**-**	**13,558**	**-**
Variable interest rate	Tranche A2	150,000	-	150,000	-	150,000.000	-	-	-
Variable interest rate	Tranche B	250,000	-	250,000	-	250,000.000	-	-	-
Variable interest rate	Benelux line	14,000	442	13,558	-	-	-	13,558	-
Fixed interest rate	Tranche A1	315,855	-	315,855	-	315,855	-	-	-
SUBTOTAL		1,041,332	442	1,040,890	-	857,569	19,028	26,426	137,867
Credit lines		**11,304**	**268**	**11,036**	**-**	**11,036**	**-**	**-**	**-**
Variable interest rate		11,304	268	11,036	-	11,036	-	-	-
Arrangement expenses		**-**	**-**	**(18,186)**	**-**	**(15,366)**	**(470)**	**(470)**	**(1,880)**
Debt due to interest		**-**	**-**	**2,119**	**-**	**2,119**	**-**	**-**	**-**
Debt situation at 31/12/2012		1,052,636	710	1,035,859	-	855,358	18,558	25,956	135,987
Debt situation at 31/12/2011		1,079,570	22,043	1,057,045	831,122	27,501	24,967	14,362	159,093

Mortgage guarantee loans, whether syndicated or not, can be broken down as follows (€ thousands):

	Mortgaged asset	Fixed interest rate	Variable interest rate	Total	Net value value of the mortgaged asset
Spain	NH Calderón	-	5,710	5,710	39,750
	NH Lagasca	-	9,240	9,240	18,228
	NH Ppe. de la Paz	-	4,207	4,207	4,030
	NH Alanda	-	3,304	3,304	23,343
	Promocion R. Marlin-50%, Las Cimas	-	4,719	4,719	24,804
	NH Sotogrande	-	5,155	5,155	50,218
	NH Eurobuilding *	-	-	-	-
Total Spain		-	32,335	32,335	165,548
Mexico	Grupo Hotelero Querétaro	-	3,590	3,590	6,569
	Santa Fe Project	-	2,801	2,801	10,348
Total Mexico		-	6,391	6,391	16,917
Netherlands	NH Groningen	-	2,808	2,808	7,062
	NH Carlton	-	1,875	1,875	75,987
	NH Krasnapolsky *	-	-	-	107,018
	NH Koningshof *	-	-	-	40,198
	NH Leeuwenhorst *	-	-	-	51,436
	NH Sparrenhorst *	-	-	-	17,786
	NH Schiphol *	-	-	-	39,884
	NH Barbizon *	-	-	-	59,816
	NH Amsterdam Centre *	-	-	-	44,525
	NH Zootermeer *	-	-	-	7,172
	NH Rotterdam **	-	14,000	14,000	14,420
Total Netherlands		-	18,683	18,683	465,304
Germany	Leipzig	7,989	-	7,989	15,573
	Bingen & Vierheim	6,251	-	6,251	10,734
	Raunheim	16,785	-	16,785	11,731
	Wiesbaden	9,610	-	9,610	1,672
Total Germany		40,635	-	40,635	39,710
Italy	IMI (Ancona, Palermo, Cavalieri Ravenna, V. Veneto)	-	75,000	75,000	141,598
	Donnafugata	-	34,782	34,782	45,313
	Villa San Mauro	-	3,386	3,386	6,207
	Torino Ambasciatori	-	3,125	3,125	16,218
	La Spezia	-	556	556	19,443
	Firenze	-	1,000	1,000	40,577
	Catania	-	3,333	3,333	11,824
	Triestre	-	2,000	2,000	22,023
	Milanofiori y centro conv.	-	10,800	10,800	49,025
	Genova	-	4,540	4,540	27,702
Total Italy		-	138,522	138,522	379,930
Switzerland	NH Fribourg	4,639	-	4,639	9,263
Total Switzerland		4,639	-	4,639	9,263
Total		45,274	195,931	241,205	1,076,673

** Does not include debt amounts corresponding to assets provided as mortgage security for the NH FINANCE S.A. syndicated loan of €716 million, agreed in April 2012. There are also companies whose shares are pledged as collateral for said loan.*

*** Guarantee corresponding to the credit line in the Netherlands, refinanced in parallel with the aforementioned syndicated loan.*

The following loans and credit facilities are included in the "Syndicated loans" item:

- A syndicated loan granted to NH Finance, S.A. by 33 national and international financial institutions, signed on 24 April 2012, for €716 million, divided into three tranches: Tranche A1, for €316 million, Tranche A2 for €150 million and Tranche B for €250 million.

Tranche A2 will be repaid in full upon maturity in 2017, whereas the ordinary repayment schedule for tranches A1 and B is as follows:

Tranche A1	Tranche B
31 March 2013 - 10%	30 June 2013 - 40%
31 March 2014 - 10%	31 March de 2014 - 40%
31 March 2015 - 20%	31 March de 2015 - 20%
31 March 2016 - 30%	-
31 March 2017 - 40%	-

The three tranches are tied to the Euribor plus a spread of 4.5%. However, since the option to repay €100 million of Tranche B before 31 December 2012 was not exercised, the spread from 1 January 2013 increased to 5.5%. As such, the Group has initiated proceedings to mortgage additional assets, since it did not exercise said option. The interest rate for Tranche A1 is totally covered by interest-rate hedge agreements (see Note 19).

The Group is committed to complying with certain financial ratios on an annual basis. At 31 December 2012, it did not comply with said ratios, giving cause for early redemption if so agreed by the lenders representing at least two thirds of the outstanding amount of the syndicated loan. Because of this, the total outstanding amount of this loan is presented in the current liabilities heading of the consolidated balance sheet at said date. However, on 30 April 2013, the lenders agreed to waive the Group's obligation to comply, as a result of which the original maturity schedule for the syndicated loan (see Note 31) remains in effect.

In addition, the Group is not able to make investments totalling more than 5% of the total sales of NH Group in the preceding financial year without obtaining the express authorisation of the syndicated lenders.

- A mortgage-secured credit line with RBS for €14 million, refinanced in parallel to the syndicated loan, and with similar terms and conditions.

The item "Mortgage guarantee loans" includes the following loans, among others:

- A loan taken out with Banca IMI (Banca Intesa Group) and granted to NH ITALY S.R.L. for the amount of €75 million, which is aimed at financing the purchase of the holding in NH Italia, as well as the refurbishment of Italian hotels. The loan was granted in July 2012 and is tied to Euribor rate plus a spread of 4.25%. The final year of maturity is 2015, with a possible extension to 2017. This loan has a mortgage guarantee on five of the Group's hotel assets in Italy. The Group has requested its lenders to waive this non-compliance in order to avoid early repayment.

Furthermore, the item "Asset guarantee loans" includes the following loans:

- A loan of €3 million granted to Jolly Hotels S.p.A. (now NH Italia) by Banca Populare de Vicenza, which accrues a Euribor-indexed interest rate with maturity in June 2014.

In addition, the "Subordinated loans" item includes two loans for a combined amount of €75 million, totally available at 31 December 2012 and with maturity and single repayment date at the end of their useful lives, 2036 and 2037.

The average interest rates for the Group's loans during 2012 and 2011 were 4.93% and 3.73% respectively.

18. OTHER NON-CURRENT LIABILITIES

The breakdown of the "Other non-current liabilities" item of the accompanying consolidated balance sheets, at 31 December 2012 and 2011, is as follows:

	€ Thousand	
	2012	2011
At fair value:		
Put option for Donnafugata Resort, S.r.l.	9,900	5,899
Interest rate derivatives (Notes 19 and 25)	3,207	185
2007/2013 Share-Based Remuneration Scheme (Notes 19, 20 and 25)	-	43,389
At amortised cost:		
Capital subsidies	19,718	21,020
Issue of promissory notes	17,428	2,719
Indemnity for termination of the Hotel NH Buhlerhöhe lease	6,032	9,275
Right of use Hotel Plaza de Armas (Note 7.1)	1,495	2,990
Loans with members	914	900
Other liabilities	1,761	1,390
	60,455	87,767

On 26 October 2012, the Court of Arbitration ratified the valuation of the company Donnafugata Resort, S.r.l. carried out by an independent expert following notification by minority shareholders of said company in 2010 that they intended to exercise a put option (at 31 December 2012, they represented 8.81% of the share capital). As a result of this decision, the Parent Company booked the minority shareholder put option in accordance with said valuation, which amounted to €9,900 thousand.

The financial liability resulting from booking the Donnafugata Resort, S.r.l. put option at fair value, as well as other derivatives, was classified as level 2 in accordance with the calculation hierarchy established in IFRS 7.

The change in this option fair value has been booked in the "Change in fair value of financial instruments" item of the attached consolidated comprehensive profit and loss statement for 2012.

The heading "Interest rate derivatives" includes the liability for a five-year interest-rate risk swap (combinations of fixed-rate options) hedge for the new syndicated loan granted in the first half of 2012

Debt from the remuneration scheme linked to the value of the listed share price, granted in 2007 and with maturity in 2013 (see Note 25) is classified under current liabilities.

Subsidies received to build hotels and golf courses are basically included in the "Capital subsidies" item at 31 December 2012, as follows:

	€ Thousand	
	2012	2011
Donnafugata	16,269	16,936
Sotogrande	1,905	2,136
Parco Degli Aragonesi	1,534	1,777
Other subsidies	10	171
	19,718	21,020

At 31 December 2012, 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.

The "Issue of promissory notes" item included liabilities for the registration of future payment commitments derived from renting several of the chain's hotels. The balancing entry for this liability is detailed in Note 11.

The heading "Indemnity for termination of the Hotel NH Buhlerhöhe lease" includes the liability corresponding to the part of the compensation to be paid to the hotel's owner for termination of the long-term maturity lease agreement. The Group paid €3 million in 2012.

19. DERIVATIVE FINANCIAL INSTRUMENTS

The breakdown of derivatives in the consolidated balance sheets for 2012 and 2011 is as follows:

Item	€ Thousand	
	2012	2011
	Financial liability	Financial liability
Interest-rate derivatives (Notes 18 and 25)	5,814	1,784
Share-based remuneration scheme 2007-2013 (Notes 20 and 25)	40,344	43,389
Total	46,158	45,173

19.1 Interest rate derivatives

The following is a breakdown of derivatives and their corresponding fair values at 31 December 2012 and 2011, along with the maturity dates of the notional amounts to which they are linked. This information is presented (€ thousand) separating the derivatives considered as accounting hedges (in accordance with the requirements set forth in IAS 39) from those considered inefficient.

Subsidiary company	Instrument	Fair value 31.12.2012	Fair value 31.12.2011	Outstanding notionals / Amount			
		Financial	Financial	31.12.2012	31.12.2013	31.12.2014	31.12.2015 and subsequent
Efficient hedges							
NH FINANCE, S.A.	Collar	-	(376)	-	-	-	-
NH FINANCE, S.A.	IRS	(5,690)	-	316,083	284,475	252,866	189,650
Total efficient hedges		(5,690)	(376)	316,083	284,475	252,866	189,650
Inefficient hedges							
NH FINANCE, S.A.	Options	-	(1,224)	-	-	-	-
Donnafugata Resort	Cap	(124)	(184)	12,259	11,187	10,634	-
Total inefficient hedges		(124)	(1,408)	12,259	11,187	10,634	-
Total hedges		(5,814)	(1,784)	328,342	295,662	263,500	189,650

In order to determine the fair value of interest rate derivatives (IRS, collars and others), the Group uses discounted cash flow on the basis of the implicit rates determined by the euro interest rate curve according to market conditions on the date of valuation.

These financial instruments have been classified as level 2 instruments in accordance with the calculation hierarchy established in the IFRS 7.

Efficient hedges

The Group hedges the interest-rate risk of part of the syndicated loan (through NH Finance, S.A.) and other variable interest-rate loans in euros, through interest rate swaps (IRS). In IRS, interest rates are swapped so that the Group receives a variable interest rate from the bank (3-month Euribor rate) in exchange for a fixed interest payment for the same nominal amount. The variable interest rate received from the derivative offsets the interest payment of the financing line being hedged. The end result is a fixed interest payment for the financing line hedged.

In 2012, the Group signed interest-rate swap agreements for €316 million, equivalent to 100% of the A1 tranche of the syndicated loan for NH Finance, S.A., at an average rate of 1.02%.

The figure booked in Shareholders' Equity as the effective part of the cash flow hedging relationships of the IRS, net of any taxes, totalled minus €5,314 thousand at 31 December 2012 (plus €6,201 thousand at 31 December 2011).

Inefficient hedges

The Group hedges the interest-rate risk of part of its euro loans, using a Cap interest-rate option. The Cap hedging agreement sets a maximum interest-rate limit in exchange for a premium. If the interest rates exceed this limit, the financial institution will pay the Group the differential laid down in the agreement.

The change in the fair value of this interest-rate derivative contributed €62 million in 2012 (€27 million in 2011) to the consolidated comprehensive profit and loss statement.

The financial instrument contracted by NH Finance, S.A. in relation to the syndicated loan, whereby the Company was paying the bank an interest rate varying between 3.2% and 4.2%, provided the Euribor rate touched a specific fixed limit of between 2.65% and 3.50%, matured on 2 February 2012. The effect of settling this hedge contributed €1,224 thousand to the consolidated comprehensive profit and loss statement for 2012.

19.2 Sensitivity analysis of derivative financial instruments

Interest rate sensitivity analysis

Changes in the fair value of the interest rate derivatives contracted by the Group depend on the long-term change in the euro interest rate curve. The fair value of these derivatives totalled minus €5,814 thousand at 31 December 2012 (€1,784 thousand at 31 December 2011).

The details of the sensitivity analysis on the fair values of the derivatives contracted by the Group at year-ends 2012 and 2011 in both Shareholders' Equity ("efficient hedges") as well as in Profit (Loss) ("inefficient hedges") are shown below:

Sensitivity	€ Thousand			
	Shareholders' Equity		Profit (Loss)	
	2012	2011	2012	2011
+0.5% (rise in the rate curve)	3,790	-	1	10
-0.5% (fall in the rate curve)	(3,790)	-	(1)	(5)

20. SHARE-BASED REMUNERATION SCHEMES

A remuneration scheme linked to the listed value of shares approved in May 2007 was in force in the Group at 31 December 2012. The changes in the number of rights granted within the framework of this Remuneration Scheme in 2012 and 2011 were as follows:

	Plan 2007
In force at 31 December 2010	**3,123,517**
Cancelled options	(941,913)
In force at 31 December 2011	**2,181,604**
Cancelled options	(118,075)
In force at 31 December 2012	**2,063,529**

On 29 May 2007, the General Shareholders' Meeting announced and approved a stock option plan called "Plan 2007" for specific employees of the Group, dividing them into two groups. Upon maturity of the scheme in April 2013, these employees will have received, as appropriate, remuneration equivalent to the difference between the exercise or "strike" price of the option and the settlement price, this being the list price of the shares over the last ten stock market sessions prior to the exercise date.

The main characteristics of the Plan are as follows:

- Beneficiaries: Employees of NH Hoteles, S.A. and its group of companies who have been designated by the Appointments and Remuneration Committee. At 31 December 2012, 103 Group employees benefited from the scheme. These employees have been awarded a total of 2,063,529 options.

- Maximum number of assignable options: 3,790,000 options.

- Strike price: €17.66 for the first group, comprising 20 executives, and €15.27 for the second group, made up of 83 executives.

As required by the Master Plan, this exercise price must be reduced by €0.71, the theoretical value of the preferential subscription right of the capital increase carried out in June 2009.

This Plan is valued and booked in the consolidated comprehensive profit and loss statement, as indicated in Note 4.16. The impact of the Plan on the consolidated comprehensive profit and loss statement for 2012 led to a reduction of €400,000 (a reduction of €136,000 in 2011) in personnel expenses The main hypotheses used in the valuation of this Plan, which was granted in 2007, are as follows:

- Period of employment before being able to exercise the option: Up to five years, the Plan's maximum term ("equity swap"). The Plan may be exercised in thirds on an annual basis.

- Risk-free rate: 1.59%

- Return per dividend: 0.16%

The Group entered into an equity swap arrangement in November 2007 to hedge against any possible financial liabilities arising from the exercise of this Incentive Plan linked to the listed value of shares. Subsequently, a novation amending this agreement was signed on 13 June 2009 to complement the financial hedge and adjust it to new market conditions.

The main features of this agreement, after it was amended, are as follows:

- The number of shares, which were initially equivalent to the maximum number of options granted, was increased to a total of 6,316,666 after the capital increase approved by the Parent Company General Shareholders' Meeting on 16 June 2009.

- The Group will pay the financial institution a return based on Euribor plus a spread to be applied on the result of multiplying the number of units by the initial price.

- The Group may totally or partially rescind the agreement in advance, and should this be the case, if the share is listed below its initial price, the Group will pay the financial institution this difference. Should the list price be above the initial price, but below the strike prices, the Group will receive the difference between both amounts.

Applying accounting standards, the Group allocated a provision of €40.34 million under liabilities in the consolidated balance sheet at 31 December 2012, in order to hedge against any eventual loss the bank could suffer as a result of the negative evolution of the price of the shares covered by the swap (see Note 25). The change in fair value of this financial instrument contributed €3 million to the consolidated comprehensive profit and loss statement in 2012 (a loss of €9.2 million in 2011).

The details of the provision's calculation at 31 December 2012 are as follows:

	€ Million		
	Old shares	**New shares**	**Total**
Number of stock options in the plan	3.79	2.53	6.32
Required provision	50.60	5.68	56.28
Transfer price	13.35	2.25	8.91
Listing December 2012	-	-	2.61
Share price at end of December 2012	-	-	16.49
Provision to be allocated	-	-	39.79
Updated financial flows	-	-	0.55
Total provision	**-**	**-**	**40.34**

The Company has entirely provisioned the aforementioned amount (Note 25).

Sensitivity analysis of NH Hoteles share price

Changes in the fair value of the NH Hoteles, S.A. share price derivative contracted by the Group depend mainly on changes in the shares' listing, but also on the evolution of the euro interest rate curve and on dividend estimates made by market agents. The net fair value of this derivative amounted to minus €40,344 thousand at 31 December 2012 (minus €43,389 thousand at 31 December 2011).

A breakdown of the sensitivity analysis on the fair values of the derivatives contracted by the Group is shown below:

Sensitivity on Results	€ Thousand	
	2012	2011
+10% (rise in the share price)	1,648	1,377
10% (fall in the share price)	(1,648)	(1,377)

The sensitivity analysis shows that the negative fair value of the derivatives falls with increases in the share price, while their negative fair value increases with falls in the share price.

21. PROVISIONS FOR LIABILITIES AND CHARGES

The breakdown of the "Provisions for contingencies and expenses" item at 31 December 2012 and 2011, together with the main movements recorded in those years are as follows:

	€ Thousand					
	Balance at 12/31/10	Allowances	Applications/ Reductions	Transfers	Changes in the scope of consolidation (Note 2.5.5)	Balance at 12/31/11
Provisions for non-current liabilities and charges:						
Onerous agreements	5,313	354	(3,392)	(1,241)	-	1,034
Provisions for pensions and similar obligations	20,224	995	(3,431)	-	-	17,788
Provision for Share-Based Remuneration Scheme (Note 20)	136	-	(136)	-	-	-
Other claims	14,433	4,142	(2,027)	-	(4,524)	12,024
	40,106	5,491	(8,986)	(1,241)	(4,524)	30,846
Provisions for current liabilities and charges:						
Onerous agreements	5,129	-	(5,129)	1,241	-	1,241
	5,129	-	(5,129)	1,241	-	1,241
Total	45,235	5,491	(14,115)	-	(4,524)	32,087

	€ Thousand				
	Balance at 12/31/11	Allowances	Applications/ Reductions	Transfers	Balance at 12/31/12
Provisions for non-current liabilities and charges:					
Onerous agreements	1,034	58,787	-	(33,477)	26,344
Provisions for pensions and similar obligations	17,788	2,631	(3,646)	-	16,773
Other claims	12,024	6,545	(4,410)	-	14,159
	30,846	67,963	(8,056)	(33,477)	57,276
Provisions for current liabilities and charges:					
Onerous agreements	1,241	-	(1,241)	33,477	33,477
Restructuring provision	-	19,981	-	-	19,981
	1,241	19,981	(1,241)	33,477	53,458
Total	32,087	87,944	(9,297)	-	110,734

Onerous agreements

The Group has classified a number of hotel lease agreements, to which it is committed between 2013 and 2030, and on which the Group makes an operating loss, as onerous. Cancellation of these agreements could force the Group to make full payment of rent for the outstanding years of the lease, or quantifiable compensation, where applicable.

Provisions for pensions and similar obligations

The item "Provision for pensions and similar obligations" includes the pension fund of certain employees of the Netherlands business unit, as well as the T.F.R. (Trattamento di fine rapporto), an amount paid to all workers in Italy at the moment they leave the company for any reason. This is another remuneration element, whose payment is deferred and annually allocated in proportion to fixed and variable remuneration both in kind and in cash, which is valued on a regular basis. The annual amount to be reserved is equivalent to the remuneration amount divided by 13.5. The annual cumulative fund is reviewed at a fixed interest rate of 1.5% plus 75% of the increase in the consumer price index (CPI). At year-end 2012, the liabilities booked under this item amounted to €13,522 thousand (€15,470 thousand at 31 December 2011).

The projected unit credit method is used to calculate the obligations associated with this pension plan.

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

	2012	2011
Discount rates	5.75%	5.75%
Expected annual rate of salary rise	2.50%	2.50%
Expected return from assets allocated to the plan	4.75%-5.75%	4.75%-5.75%

No reductions or settlements related to the plan occurred in 2012. Any actuarial gains and losses generated were not significant (see Note 4.19).

Restructuring provision

The allowances booked during 2012 under the item "Restructuring provision" include the short-term provision of €19.981 million to cover the restructuring plan that the Group approved for reorganisation purposes, and which is being carried out both in Spain and Italy (see Note 4.19).

22. TAX NOTE

The breakdown of deferred taxes, by country and item, at 31 December 2012 is as follows:

	€ Thousand			
	Tax credits	Prepaid Taxes	Total Assets	Liabilities
Spain	134,984	50,103	185,087	68,712
Italy	5,090	6,743	11,833	113,901
Germany	-	3,947	3,947	1,152
Others	736	9,581	10,317	50,174
Total	**140,810**	**70,374**	**211,184**	**233,939**

Balances with Public Administrations

The composition of the debit balances with Public Administrations at 31 December 2012 and 2011 is as follows:

	€ Thousand	
	2012	2011
Deferred tax assets		
Tax credits	140,810	83,124
Tax assets due to asset impairment	40,591	28,407
Tax withholdings of personnel	1,137	1,220
Derivative financial instruments	10,932	11,845
Other prepaid taxes	17,714	10,340
	211,184	**134,936**

	€ Thousand	
	2012	2011
Short-term taxes receivable		
Corporate Income Tax	5,270	4,355
Value Added Tax	24,955	31,117
Other tax receivables	7,755	8,491
Total	**37,980**	**43,963**

The balances of the "Deferred tax assets" item mainly correspond to the tax withholdings that arose as a consequence of the depreciation of certain assets, and from the activation of negative tax bases.

The movements of the "Deferred tax assets" item in 2012 and 2011 are as follows:

	€ Thousand	
	2012	2011
Opening balance	**134,936**	**119,574**
Asset impairment	12,184	(1,267)
Additions due to derivative instruments	(915)	2,409
Tax credits	57,686	11,242
Others	7,293	2,978
Total	**211,184**	**134,936**

The additions due to tax credits are mainly due to the negative tax bases generated by the Group's companies, most of which were contributed by the Spanish business unit.

At 31 December 2012, the Group had drawn up a plan to recover tax credits based on the Group's business plan, considering a 2% annual growth in the tax base from 2017, without taking fiscal planning actions or extraordinary transactions into account. Total compensation from these tax credits would end in 2020. For this reason, the directors of the Parent Company have decided to book the deferred tax assets stated above.

Below is a sensitivity analysis based on the tax base used in the estimate:

Annual Tax Base Variation	**(10%)**	**(20%)**	**(30%)**
Year of Recovery	**2020**	**2021**	**2022**

Meanwhile, following the principle of prudence, the Group has not capitalised the financial expense of the financial burden, which exceeds 30% of the operating income of the tax group calculated in accordance with Article 20 of the Revised Text of the Corporation Tax Act, approved by Royal Legislative Decree 4/2004 of 5 March, since it is uncertain that sufficient income will be generated in the next 10 years to compensate for the financial loss in the sense of the provisions of the foregoing Article 20. The amount based on the excess financial burden in 2012 is €31,345 thousand.

The composition of the credit balances with Public Administrations at 31 December 2012 and 2011 is as follows:

	€ Thousand	
	2012	2011
Deferred tax liabilities		
Reversal of asset re-valuations	233,939	246,204
Total	**233,939**	**246,204**

	€ Thousand	
	2012	2011
Short-term taxes payable		
Corporate Income Tax	14,482	9,376
Value Added Tax	7,641	5,364
Personal Income Tax	6,281	6,727
Capital Gains Tax	1,538	675
Social Security	6,987	7,888
Others	6,187	5,642
Total	**43,116**	**35,672**

The deferred tax balance mainly corresponds to re-valuations made to several assets belonging to the Group.

The movements in deferred tax liabilities during 2012 are as follows:

	€ Thousand	
	2012	2011
Opening balance	**246,204**	**257,155**
Change due to withdrawals	-	(4,725)
Others	(12,265)	(6,226)
Ending balance	**233,939**	**246,204**

Total Corporate Tax Income or Expense

The Group operates in many countries and is therefore subject to different tax jurisdictions regarding taxation and corporation tax matters.

NH Hoteles, S.A. and the companies with tax domicile in Spain in which it held a direct or indirect stake of at least 75% during the 2012 tax period are subject to the tax consolidation scheme governed by Title VII, Chapter VII of the Revised Text of the Corporation Tax Act approved by Royal Legislative Decree 4/2004 of 5 March.

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

During 2012, there were no changes in the scope of consolidation of the Spanish tax group.

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

Spanish companies pay taxes at the general tax rate of 30% irrespective of whether they apply the consolidated or separate taxation schemes. The other companies are subject to the prevailing tax rate in the countries where they are domiciled. In addition, taxes are booked in some countries at the estimated minimum profit on a complementary basis to Corporate Income Tax.

The prevailing tax rates in the different jurisdictions where the Group performs relevant activities are as follows:

Country	Nominal Rate
Argentina	35%
Colombia	33%
Chile	20%
Panama	25%
Brazil	34%
Mexico	30%
Uruguay	25%
Dominican Republic	25%
Germany	33%

Country	Nominal Rate
Romania	16%
Poland	19%
Switzerland	15%
Czech Rep.	19%
Luxembourg	28,8%
Italy	31,4%
Netherlands	25%
France	33%
Portugal	25%

The reconciliation between the accounting profit or loss, the corporate income tax base, current and deferred tax for the year, is as follows:

	€ Thousand														
	2012													2011	
	Spain	Germany	France	Czech Rep.	Romania	Poland	Switzer-land	Luxembourg	Latin America (1)	Italy	Nether-lands (2)	Portugal	TOTAL	Spanish Companies	Other Companies
Consolidated profit (loss) before tax	**(307,253)**	**(11,314)**	**531**	**(1,423)**	**376**	**47**	**(2,512)**	**2,536**	**(6,565)**	**(106,119)**	**39,878**	**223**	**(391,595)**	**(59,766)**	**64,067**
Adjustments to accounting profit (loss):															
Accounting consolidation adjustments	89,699	10,600	-	-	-	-	-	-	1,220	-	-	-	101,519	-	(7,407)
Due to permanent differences	16,919	6,175	(538)	-	32	(2)	3,243	(3,568)	16,020	59,803	18,227	43	116,354	24,661	(24,264)
Due to temporary differences	9,876	166	-	-	-	-	-	6	6,330	79,659	4,207	-	100,244	2,998	49,453
Tax base (Taxable profit or loss)	**(190,759)**	**5,627**	**(7)**	**(1,423)**	**408**	**45**	**731**	**(1,026)**	**17,005**	**33,343**	**62,312**	**266**	**(73,478)**	**(32,107)**	**81,849**
Current taxes to be refunded / (to pay)	(579)	-	-	-	(5)	-	-	-	(958)	4,466	6,245	43	9,212	509	(5,531)
Total current tax income / (expense)	57,228	(1,875)	2	-	(65)	(8)	(110)	295	(4,677)	(10,470)	(15,578)	(67)	24,675	10,531	(7,888)
Total deferred tax income / (expense)	2,963	55	-	-	-	-	-	2	1,741	25,013	1,052	-	30,826	417	3,141
Total Corporate Tax income / (expense)	**60,191**	**(1,820)**	**2**	**-**	**(65)**	**(8)**	**(110)**	**297**	**(2,936)**	**14,543**	**(14,526)**	**(67)**	**55,501**	**10,948**	**(4,747)**

(1) 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.
(2) The Netherlands business area includes Belgium and South Africa

Financial years subject to tax inspection

The last four financial years of the Tax Consolidation Group are open to inspection in accordance with Spanish tax legislation.

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

Deductions applied by the consolidated tax group of the Parent Company

The deductions generated during the year are essentially due to double taxation.

At 31 December 2012, the Tax Group held the following tax credits carryforward (€ thousand):

Year of origin	Deduction pending application	Amount
2002 to 2010	Investment in export activity	29,047
2006 to 2012	Tax deduction to avoid double taxation	15,123
2002 to 2012	Others	472
		44,642

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

		Amount offset			
Year of origin	**Revenue qualifying for deferral**	**Previous years**	**Year 2012**	**Amount Outstanding**	**Last year of deferral**
1999	75,145	49,393	682	25,070	2049

All these revenues were reinvested through various financial interests, except for those originating in 1999, which were reinvested in the acquisition of real estate.

Revenue from previous year deducted for the reinvestment of extraordinary profits, in accordance with the provisions set forth in Article 42 of the Revised Text of the Corporate Income Tax Act, is shown below (€ thousand).

Financial year	Date of transmission	Revenue deferred	Deduction		Company generating the capital gain	Company reinvesting
			Applied	Outstanding		
2008	June	1.583	-	190	Gran Círculo de Madrid, S.A.	NH Europa, S.L.

The capital gains obtained in 2008 were re invested in 2009 through the acquisition of new shares in the Italian subsidiary through NH Europa, S.L., formerly "NH Hotel Rallye, S.A." These shares were issued as a result of a capital increase of €73 million, allocated to acquiring new hotels and refurbishing existing ones, with an obligation to maintain the investment during a three year period.

Negative tax bases

At year-end, the Italy Business Unit has €20,511 thousand in tax losses carryforwards, which do not have an expiry date.

At 31 December 2012, the consolidated tax group of which NH Hoteles, S.A. is the parent company has the following tax loss carry-forwards:

Financial year	€ Thousand	Maturity
2007	8,992	2025
2008	20,424	2026
2009	96,752	2027
2010	74,173	2028
2011	47,415	2029
2012	192,759	2030
Total	**440,515**	

NH Central Reservation Office, S.L. (formerly called Retail Invest, S.A.); Latinoamericana de Gestión Hotelera, S.A.,; Hoteles Hesperia, S.A.; Nuevos Espacios Hoteleros S.A. and Club Deportivo Sotogrande, S.A. obtained negative tax bases before their incorporation into the Group of which NH Hoteles, S.A. is the parent company.

The amounts of the above-mentioned tax loss carry-forwards that can only offset positive results of the aforementioned companies when the Group obtains a positive tax base, are as follows (€ thousand):

Year of origin	Amount	Offsetting Deadline
1997	11,107	2015
1998	4,119	2016
1999	-	2017
2000	-	2018
2001	17,713	2019
2002	19,037	2020
2003	25,900	2021
2004	8,438	2022
2005	1,491	2023
2006	15,242	2024
2007	2,332	2025
2008	2,426	2026
2009	851	2027
2010	330	2028
	108,986	

23. TRADE CREDITORS

The breakdown of this item in the consolidated balance sheet at 31 December 2012 and 2011 is as follows (€ thousand):

	€ Thousand	
	2012	2011
Trade creditors	238,180	214,826
Advance payments from customers	22,552	20,852
	260,732	235,678

The "Trade creditors" item reflects the accounts payable arising from the Group regular trading activities.

The "Advance payments from customers" item mainly includes customer deposits arising from the Group's hotel and real-estate businesses. Sotogrande, S.A. included €1 million in advance payments from customers in 2012 (€1.74 million at 31 December 2011).

24. INFORMATION ON DEFERRED PAYMENTS TO SUPPLIERS. THIRD ADDITIONAL PROVISION, "DUTY TO REPORT" OF ACT 15/2010 OF 5 JULY

A breakdown of the information required by the Third Additional Provision of Act 15/2010 of 5 July on agreements executed under Spanish legislation appears below:

	2012		2011	
	€ Thousand	%	€ Thousand	%
Payments made within the maximum legal term	159,204	75%	189,900	80%
Remainder	53,960	25%	46,053	20%
Total payments in the financial year	213,164	100%	235,953	100%
Weighted average exceeded payment period (days)	31		16	
Deferrals exceeding the maximum legal deadline at year end	5,037		2,326	

The above information on payments to suppliers refer to those which by their nature are trade creditors due to debts with suppliers of goods and services. The table includes, therefore, the "Trade creditors" item in current liabilities of the attached consolidated balance sheet at 31 December 2012.

The weighted average exceeded payment period (PMPE) has been calculated as the coefficient comprised of the sum of the product of each of the supplier payments made in the year with a delay exceeding the legal payment deadline and the number of days by which the relevant deadline has been exceeded in the numerator, and the total amount of the payments made in the year with a delay exceeding the legal payment deadline in the denominator.

The maximum legal deadline for payment of the Group Spanish companies in 2012, in accordance with Act 3/2004 of 29 December, establishing measures to combat late payment in commercial transactions, is 75 days.

25. OTHER CURRENT LIABILITIES

At 31 December 2012 and 2011, this item is broken down as follows:

	Miles de Euros	
	2012	2011
Share-based remuneration scheme (Notes 18,19 and 20)	40,344	-
Outstanding remunerations	28,836	27,417
Interest rate derivatives (Notes 18 and 20)	2,607	1,599
Rent reviews	1,368	1,172
Provision for Los Cortijos refurbishment expenses	1,008	4,687
Outstanding lease payments	98	765
Other creditors	2,844	2,618
	77,105	38,258

The interest-rate hedge derivatives from the previous syndicated loan signed on 2 August 2007 were settled in February 2012.

26. THIRD-PARTY GUARANTEES AND CONTINGENT ASSETS AND LIABILITIES

Financial institutions granted the Group sureties totalling €23.42 million (€28.47 million at 31 December 2011) which, in general terms, guarantee the fulfilment of certain obligations taken on by the consolidated companies in the performance of their activities.

At 31 December 2012, 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.

Undertakings with third parties

- A Group company currently acts as co-guarantor for a syndicated loan granted by two banks to the associated company Sotocaribe, S.L. which at 31 December 2012 had an outstanding principal of €17.813 million, with latest maturity in 2014.

- The shareholders' agreements on Harrington Hall Hotel Ltd. (the company which owns the Harrington Hall Hotel) and Losan Investments Ltd. (the company which owns the Kensington Hotel) were respectively signed on 29 March 2005 and 10 March 2006 by NH Europa, S.A. and Losan Hoteles, S.L. (currently Carey Property, S.L.). By means of these agreements, should the latter company receive a purchase offer for 100% of the shares in either of the companies at a price deemed to be the market price, Losan Hoteles, S.L. (currently Carey Property, S.L.) may require NH Europa, S.A., which shall be obliged to accept, to transfer its shares to the third party making the offer. However, NH Europa, S.A. shall have a preferential acquisition right on Losan Hoteles, S.L. (currently Carey Property, S.L.) shares in Harrington Hall Ltd. and Losan Hoteles Ltd.

- On 1 December 2005, an agreement was reached with Intesa Sanpaolo S.p.A. for this company to acquire NH Italia S.r.l. share capital. In the agreement, a put option was granted to Intesa Sanpaolo S.p.A. on the stake thus acquired from March 2008 to March 2015. The price will be set at the fair value and determined by an independent investment bank. The price shall be settled in NH Hoteles, S.A. shares. The €124 million investment made by Intesa Sanpaolo S.p.A. in NH Italia S.r.l. is booked under the "Minority interests" heading of the attached consolidated balance sheet.

- Article 9 of the Articles of Association of Coperama Servicios a la Hostelería, S.L. sets forth that members shall have preferential acquisition rights over the shareholdings should the company through which the ownership of said shareholdings is held be taken over by a new owner which is a competitor of the other members. For these purposes, a take-over is considered to have taken place when a third party directly or indirectly holds more than 50% of the company's share capital or of its voting rights. The member in which the change the control has come about must report such circumstance and offer the other members the possibility of acquiring its stake at fair value.

- On 25 March 2009, Sotogrande, S.A. granted the minority shareholders of Donnafugata Resort S.r.l. representing 30% of its share capital a put option. On 20 October 2010, the shareholders of Compagnia Immobiliare Azionaria, S.p.A. and Repinvest Sicily S.r.l. gave notice of their intention to partially exercise the above-mentioned put option in accordance with the agreement signed by the parties in March 2009. An independent expert was commissioned to appraise the company as a consequence of this notice. Sotogrande, S.A. considers that the appraisal given to the company by the above-mentioned expert was excessive and far from its real value. Consequently, it initiated arbitration proceedings to challenge the independent expert's report. On 26 October 2012, the arbitration court issued its decision confirming the valuation of the independent expert (see Note 18).

- 40,106,941 ordinary shares in the Sotogrande, S.A. representing 89.30% of its share capital and worth €715,855,325 are pledged as security under then Commercial Financing Agreement arranged on 29 March 2012 between various creditor institutions, NH Finance, S.A. with various Group companies as guarantors.

- Within the context of operations in the Caribbean, an undertaking was made by the Parent Company as part of the Real Arena complex management agreement to obtain a minimum return to guarantee coverage of the €35 million dollars obtained to finance construction of the hotel.

Contingent assets and liabilities

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

- In 2008, a Group subsidiary in Italy terminated a service agreement with the construction company in charge of building a tourist complex being developed by said subsidiary on the grounds of several breaches of contract. As a result of said termination, the construction company filed a €15 million claim for damages against the Italian company.

  The Group company in Italy has filed a counterclaim, affirming that the termination was due to breach of contract and for this reason, compensation of approximately €33 million is being claimed from the construction company. The Court appointed a technical expert, who quantified the damages in favour of the construction company at approximately €1.4 million, and the damages in favour of the Sotogrande Group's company at least €6.4 million. Subsequent to year-end 2012, the technical expert revised the previous estimate, increasing the quantification of the damages in favour of both parties by the same amount. All parties are now waiting for the next hearing to take place, which is scheduled on 10 May 2013.

  As a result of the termination of the above-mentioned agreement, the Group company enforced a demand guarantee granted by Intesa Sanpaolo, S.p.A. to construction company. Although Intesa initially refused to pay the guarantee, it did so after enforcement proceedings. On 20 June 2012, the Court ratified its initial decision, ruling that the Group's Italian subsidiary was not obligated to return the foregoing sum. However, for reasons of prudence and given the financial situation of the Group, on 31 December 2012, the attached consolidated balance sheet includes a liability for the sum of €6,771 thousand under the heading "Current provisions".

- The owner of a tourist complex has initiated arbitration proceedings against a Group company in Italy, claiming damages for a delay in construction works and demanding demolition of part of the works and the execution of some additional works. The Group company has filed a counterclaim for, among other things, errors in the maps attached to the lease agreement, which gave rise to errors in the sizes of the plots. The arbitration proceedings are currently in the conclusions stage.

- A hotel owner in Belgium has started arbitration proceedings against a Group company, claiming payment of rent.

- The owner of an establishment in France claimed compensation for eviction from a Group company; the Court agreed a compensation of €4 million. This decision has been appealed before the competent courts.

- NH Group has appeared in the insolvency proceedings of Viajes Marsans, S.A. and Tiempo Libre, S.A., belonging to Mr Gonzalo Pascual Arias and Mr Gerardo Díaz Ferrán, and in the voluntary insolvency proceedings against Ms Maria Angeles de la Riva Zorrilla, in order to claim outstanding amounts. A provision for this non-recoverable debt has been made in these consolidated financial statements.

- A Group company in Spain has served notice of termination of a lease agreement due to a breach of obligations on the part of the property owners. The owners are claiming fulfilment of contractual obligations consisting in the payment of outstanding rent since the early termination of the lease agreement. The Group has filed a counterclaim.

- The management agreements signed by Hoteles Hesperia, S.A. and the respective owners/lessees of Hesperia hotels establish that the owners may opt to terminate the management agreement in the event NH Hoteles, S.A. is taken over. The owners are obliged to pay Hoteles Hesperia, S.A. an amount equivalent to the Average Annual Remuneration, as set forth in said agreements.

- NH Group has signed agreements with the shareholders of Residential Marlin S.L. and Los Alcornoques de Sotogrande, S.L. Under these agreements the personal characteristics of the shareholders are essential for the development of the projects, establishing that any change of effective control in either the shareholders or the parent companies will enable the other shareholder to split off from the company with entitlement to a reimbursement of their corporate assets plus any resulting damages.

- Sotogrande, S.A. has signed agreements with the shareholders of Corporación Hotelera Dominicana, S.A., Corporación Hotelera Oriental, S.A., Inmobiliaria CHDOM, SA and Inmobiliaria CHDOR, S.A., under which Sotogrande, S.A. undertakes to maintain its holding in Capredo Investments, GmbH, a company that currently holds a direct interest in the foregoing companies. A breach of this agreement will entitle local shareholders to compensation for damages.

- A Dominican Republic financial institution has initiated real-estate enforcement proceedings for the property inventories of an associated company in which the Group has a 25% stake on the grounds of non-payment of a loan granted to finance a property development in the Caribbean. In February 2013, the financial institution held a public auction for the seized properties. However, the directors of the subsidiary and their legal advisers have filed all the legal actions permitted under Dominican legislation to gain time and negotiate with the aforementioned institution. At the time of writing, the directors were negotiating cancellation of the debt through dation in payment. The final outcome of the proceedings is uncertain.

- Furthermore, in 2010 the Group filed a claim before the courts of Malaga against construction agents for construction faults and defects in one of its developments, along with a claim against the insurance company underwriting the building works' ten-year insurance policy, claiming the cost of the repair works carried and pending on the development. The repairs carried out the housing units which form part of this development cost €3,676 thousand (€17,389 thousand in 2011). These costs are booked under the "External services" item of the attached consolidated comprehensive profit and loss statement for 2012. At 31 December 2012, the attached consolidated balance sheet included under the "Current Provisions" liability item an estimated €1,008 thousand (€4,685 thousand at 31 December 2011) in costs pending for this item. It also recognised a collection right against the insurance company for the amount of €10,850 thousand (€10,434 thousand at 31 December 2011) which has been booked under non-current assets in the heading "Loans and accounts receivable not available for trading - Long-term loans", based on the opinion of the Group's lawyers.

- The Commercial Financing Agreement for €715,855,325 was signed on 29 March 2012 between various creditor institutions, NH Finance, S.A., and certain Group companies acting as guarantors. It contains an early repayment clause, applicable if circumstances give rise to change in the control of the company NH Hoteles, S.A. It also includes the obligation to maintain control over 100% of NH Finance, S.A. and to maintain control of its other Material Subsidiaries (as defined in the aforementioned Financing Agreement). A change in the control of the subsidiaries takes place when NH Hoteles' stake is less than 50.1%.

- The Group has been granted loans and credits with a combined limit of €35 million containing a clause establishing their early maturity in the event of circumstances leading to a change in control of the company NH Hoteles, S.A.

- The owners of a hotel have filed a claim against NH for the fulfilment of certain contractual obligations. The Group company responded by filing a counterclaim.

- The owners of a hotel have filed a claim against NH for unpaid rent. The Group company filed a claim for early termination of the lease agreement.

At 31 December 2012, other legal actions were brought by the Group which cannot be objectively quantified. 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.

27. INCOME AND EXPENSES

27.1 Income

The breakdown of this heading in the consolidated comprehensive profit and loss statements for 2012 and 2011 is as follows:

	€ Thousand	
	2012	2011
Hotel occupancy	850,296	870,216
Catering	314,460	337,327
Meeting rooms and others	68,628	78,012
Real estate	20,577	14,454
Golf and sports clubs	3,221	3,553
Rents and other services	28,851	42,444
Net turnover	**1,286,033**	**1,346,006**
Operating subsidies	26	126
Other operating income	1,727	23,723
Other operating income	**1,753**	**23,849**
Net gain (loss) on disposal of assets	**(2,357)**	**33,905**

The "Rents and other services" item reflects income from the fees invoiced to hotels operated under a management arrangement and services provided by the Group to third parties.

The breakdown of net turnover by geographical markets in 2012 and 2011 is as follows:

	€ Thousand	
	2012	2011
Spain - Hotels	307,119	348,876
Spain - Real Estate	20,491	14,454
Benelux	283,846	296,804
Italy	214,031	229,770
Germany	281,233	267,162
Latin America	85,942	81,331
Rest of Europe	93,371	107,609
	1,286,033	**1,346,006**

The heading "Net gain (loss) on disposal of non-current assets" for the year 2012 includes the de-recognition of furnishings, facilities and equipment as a result of the withdrawal of NH Praha Radlicka in the Czech Republic, NH Trier in Germany, and the hotels NH Mercader, NH Condor and NH Villa de Coslada in Spain (see Note 8).

The result of the disposal of assets in 2011 corresponds to the sale of five hotels to the INVESCO investment fund, through the Artos transaction, the sale of the NH Molenvijver Genk in Genk (Belgium), the sale of the NH Ligure in Turin (Italy) and the sale of shops in the hotel NH Krasnapolsky in Amsterdam (Netherlands).

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

The breakdown of this item's balance in the consolidated profit and loss statement is as follows:

	€ Thousand	
	2012	2011
Income from negotiable securities	612	818
Interest income	2,901	4,464
Other financial income	266	438
	3,779	**5,720**

27.3 Personnel expenses

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

	€ Thousand	
	2012	2011
Wages, salaries and similar	291,845	300,926
Social security contributions	72,445	72,572
Indemnities	25,266	18,263
Contributions to pension plans and similar	9,313	7,486
Other social expenses	34,845	42,205
	433,714	441,452

The average number of workers employed by the Parent Company and fully consolidated companies in 2012 and 2011, broken down by professional categories, is as follows:

	2012	2011
Group general management	9	9
Managers and heads of department	1,378	1,426
Technical staff	1,000	990
Sales representatives	552	559
Administrative staff	478	575
Rest of personnel	10,378	11,130
Average number of employees	13,795	14,689

The breakdown of the personnel at 31 December 2012 and 2011, by gender and professional category, is as follows:

	31-12-2012		31-12-2011	
	Males	Females	Males	Females
Group general management	9	-	9	-
Managers and heads of department	742	617	750	630
Technical staff	761	244	763	194
Sales representatives	146	393	129	414
Administrative staff	144	314	229	335
Rest of personnel	5,837	3,997	5,814	4,317
Average number of employees	7,639	5,565	7,694	5,890

The reduction in the average number of employees is due to a larger volume of services being outsourced with the aim of adapting the personnel to the Group activity level, essentially in Spain and Italy.

The average number of people with a disability equivalent to or greater than 33%, directly employed by the Parent Company and fully consolidated companies in 2012, broken down by professional categories, is as follows:

	2012	2011
Managers and heads of department	2	2
Technical staff	3	3
Rest of personnel	33	32
Average number of employees	38	37

No people with a disability equivalent to or greater than 33% were employed in 2012 by multi-group proportionally consolidated companies.

The average age of the Group personnel is approximately 37, and average seniority in the Group amounts to 7.2 years.

27.4 Other operating expenses

This heading of the consolidated comprehensive profit and loss statement for 2011 and 2012 is as follows:

	€ Thousand	
	2012	2011
Leases	297,990	291,410
External services	390,295	394,148
Allowances for contingency and expense provisions	9,176	5,137
	697,461	690,695

In 2012 and 2011, the fees for auditing of accounts and other services provided by the Group auditors, Deloitte, S.L. and other companies linked

to the auditor through controlling interests, common ownership or management, as well as by the auditing firms engaged by different Group companies, and booked under this heading, were as follows:

2012

Invoiced services	€ Thousand		
	Main Auditor	Others	Total
Auditing services	1,405	42	1,447
Other verification services	60	-	60
Total auditing and related services	**1,465**	**42**	**1,507**
Tax consulting services	270	9	279
Other services	856	-	856
Total services billed	**2,591**	**51**	**2,642**

2011

Invoiced services	€ Thousand		
	Main Auditor	Others	Total
Auditing services	1,461	43	1,504
Other verification services	66	-	66
Total auditing and related services	**1,527**	**43**	**1,570**
Tax consulting services	143	-	143
Other services	620	-	620
Total services billed	**2,290**	**43**	**2,333**

27.5 Operating leases

At 31 December 2012 and 2011, the Group had made undertakings concerning future minimal rental payments by virtue of non-cancellable operating lease agreements, which expire as set out in the table below.

The current value of the rental payments has been calculated by applying a discount rate in keeping with the Group weighted average cost of capital and includes the undertakings which the Group estimates will have to be covered in the future to guarantee a minimum return from hotels operated under a management agreement.

	€ Thousand	
	2012	2011
Less than one year	296,112	275,012
Between two and five years	1,081,433	1,067,708
More than five years	841,425	892,727
Total	**2,218,970**	**2,235,447**

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. Essentially, the methods used to determine the rent can be reduced to fixed rents linked to the consumer price index; fixed rents complemented by a variable part, which is linked to the property's operation; or completely variable rents which are determined by business performance during the year. In some cases, variable rents are set with a minimum profitability threshold for the owners of the property under operation.

The breakdown, by business units, of the current value of the rental payments at 31 December 2012 is as follows:

	Less than one year	Between two and five years	More than five years	Total
Spain	101,780	352,435	242,336	696,551
Germany and Central Europe	111,266	407,673	309,442	828,381
Italy	43,564	176,131	119,097	338,792
Benelux	36,384	138,284	170,550	345,218
Latin America	3,118	6,910	-	10,028
Total	**296,112**	**1,081,433**	**841,425**	**2,218,970**

The breakdown, by business units, of the current value of the rental payments at 31 December 2011 is as follows:

	Less than one year	Between two and five years	More than five years	Total
Spain	90,683	360,421	281,199	732,303
Germany and Central Europe	101,734	380,741	328,623	811,098
Italy	44,713	182,760	123,211	350,684
Benelux	34,530	135,164	159,548	329,242
Latin America	3,352	8,621	147	12,120
Total	**275,012**	**1,067,707**	**892,728**	**2,235,447**

27.6 Financial expenses and changes in fair value of financial instruments

The breakdown of this item in the consolidated comprehensive profit and loss statements for 2012 and 2011 is as follows:

	€ Thousand	
	2012	2011
Expenses for interest	70,460	57,954
Financial expenses for means of payment	10,634	10,409
Other financial expenses	3,925	283
Total financial expenses	**85,019**	**68,646**

	€ Thousand	
	2012	2011
Put option on Donnafugata Resort (Note 17)	4,001	231
Interest rate derivatives	592	(2,644)
2007-2013 Share-based remuneration scheme	(3,045)	9,238
Total change in fair value of financial instruments	**1,548**	**6,825**

28.RELATED-PARTY TRANSACTIONS

In addition to its subsidiaries, associated and multi-group companies, the Group "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 organizations over which the mentioned personnel may exert significant influence or control.

Below is a table stating the transactions carried out by the Group during 2012 and 2011 with its related parties, distinguishing between significant shareholders, Board Members and Directors of the Parent Company, and other related parties. The conditions of the related-party transactions are equivalent to those of transactions carried out under market conditions:

	€ Thousand				
	31/12/2012				
INCOME AND EXPENSES	Significant shareholders	Directors and executives	Group entities, companies or persons	Other related parties	Total
EXPENSES:					
Financial expenses	13,566	-	-	-	13,566
Management or cooperation agreements	-	-	-	-	-
R&D transfers and licensing agreements	-	-	-	-	-
Leases	10,341	-	-	-	10,341
Receipt of services	-	-	-	-	-
Asset purchases (completed or ongoing)	-	-	-	-	-
Value adjustments for bad or doubtful debts	-	-	-	-	-
Losses from the retirement or disposal of assets	-	-	-	-	-
Other expenses	1,548	-	-	-	1,548
	25,455	**-**	**-**	**-**	**25,455**
INCOME:					
Financial income		183	105	-	288
Management or cooperation agreements	6,644	-	-	-	6,644
R&D transfers and licensing agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	-	-	-	-	-
Provision of services	-	-	55	-	55
Asset sales (completed or ongoing)	-	-	-	-	-
Profits from the retirement or disposal of assets	-	-	-	-	-
Other income	-	-	-	-	-
	6,644	**183**	**160**	**-**	**6,987**

Financial expenses accrued from financing agreements with credit institutions that are shareholders of the Parent Company, amounted to €13,566 thousand in 2012 (€10,886 thousand in 2011).

The Group entered into several operating lease agreements with Pontegadea Inversiones, S.L. totalling €10,341 thousand in 2012 (€10,052 thousand in 2011).

In addition, the Group has an equity swap agreement with Bankia (formerly Caja Madrid) to hedge against any possible financing liabilities arising from the 2007-2013 Share-Based Remuneration Scheme (see Note 7). Financial expenses associated with this agreement totalled €1,548 thousand at 31 December 2012 (€1,343 thousand at 31 December 2011).

The heading "Management or cooperation agreements" includes the amounts which, by virtue of the hotel management agreement entered into with Grupo Inversor Hesperia, S.A., have accrued as management fees in the Group benefit during 2012.

The financial income heading includes the funding granted in 1998 to Group Directors to purchase shares in the Parent Company. This funding was converted into a loan in 2001. At 31 December 2012, it is guaranteed by the shares themselves and allows the borrowers to extend the term of the loans to 30 April 2013 at the latest. These loans have accrued interest amounting to €183 million this financial year.

The heading "Provision of services" includes commissions invoiced on the sale of apartments and premises to Residencial Marlin, S.L.

	€ Thousand				
	31/12/2012				
OTHER TRANSACTIONS	Significant shareholders	Directors and executives	Group entities, companies and individuals	Other related parties	Total
Purchases of tangible, intangible and other assets	-	-	-	-	-
Funding agreements: loans and capital contributions (lender)	-	-	(3,334)	-	(3,334)
Financial leasing agreements (lessor)	-	-	-	-	-
Repayment or cancellation of loans and lease agreements (lessor)	-	-	-	-	-
Sales of tangible, intangible and other assets	-	-	-	-	-
Funding agreements: loans and capital contributions (borrower)	51,705	-	-		51,705
Financial leasing agreements (lessee)	-	-	-	-	-
Repayment or cancellation of loans and lease agreements (lessee)	-	-	-	-	-
Guarantees and sureties given	-	-	-	-	-
Guarantees and sureties received	-	-	-	-	-
Commitments undertaken	-	-	-	-	-
Commitments/guarantees cancelled	-	-	-	-	-
Dividends and other profits distributed	-	-	-	-	-
Other transactions	(33)	-	-	-	(33)

FUNDING AGREEMENTS: LOANS AND CAPITAL CONTRIBUTIONS

At 31 December 2012 and 31 December 2011, this heading is broken down according to significant shareholders, as follows:

	€ Thousand		
	2012	2011	Movement
Banco Financiero y de Ahorros, S.A.	132,001	131,114	886
Intesa Sanpaolo S.p.A.	101,458	73,409	28,049
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastian	28,400	10,500	17,900
NCG Banco, S.A.	28,316	29,503	(1,186)
Banco Mare Nostrum, S.A.	10,325	10,325	-
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	14,450	8,339	6,111
Total	**314,950**	**263,190**	**51,760**
Interest accrued but not payable	**30**	**85**	**(55)**

Unmatured accrued financial expenses in relation to funding agreements with credit institutions that are shareholders of the Parent Company amounted to €30,000 at 31 December 2012 (€85,000 at 31 December 2011).

FUNDING AGREEMENTS

	€ Thousand		
	2012	2011	Movement
Credits to personnel (Note 14.1)	2,850	6,123	(3,273)
Accounts receivable from joint ventures:			
Los Alcornoques de Sotogrande, S.L.	4,043	4,469	(426)
Other accounts receivable from joint ventures	1,735	1,740	(5)
Current accounts with joint ventures:			
Resco Sotogrande, S.L.	-	369	(369)
Loans to associated companies			
Harrington Hall Hotel Ltd.	4,394	4,394	-
Corporación Hotelera Dominicana, S.A.	697	582	115
Sotocaribe, S.L.	2,144	1,520	624
Total	15,863	19,197	(3,334)

The heading "Accounts receivable from joint ventures: Los Alcornoques de Sotogrande, S.L." includes the balance receivable from Los Alcornoques de Sotogrande, S.L., one of the Group joint ventures. The maturity of this outstanding balance is subject to the approval of the new San Roque General Urban Development Plan.

The heading "Other accounts receivable from joint ventures" also includes the current balance at 31 December 2012 for the building services provided by Sotogrande, S.A., as well as the commission fees invoiced on the sale of apartments and premises.

The heading "Loans to associated companies- Harrington Hall Hotel Ltd." includes the subordinated loan granted by the Group to Harrington Hall Hotel Ltd. for the amount of €2,250 thousand to refinance the company's financial debt prior to its acquisition. This section also includes the interest accrued during the year from the aforementioned loan to Harrington Hall Hotel Ltd. and a current account maintained with this company for €2,144 thousand.

OTHER TRANSACTIONS

By virtue of the contractual relationship entered into with Grupo Inversor Hesperia, S.A., at 31 December 2012, €1.84 million remained outstanding, of which €1.39 million were due on this date. The net balance booked in respect of Grupo Inversor Hesperia, S.A. at 31 December 2012 is €1.57 million (€1.61 million at 31 December 2011).

	€ Thousand				
	31/12/2012				
INCOME AND EXPENSES	Significant shareholders	Directors and executives	Group entities, companies and individuals	Other related parties	Total
EXPENSES:					
Financial expenses	10,886	-	-	-	10,886
Management or cooperation agreements	-	-	-	-	-
R&D transfers and licensing agreements	-	-	-	-	-
Leases	10,052	-	-	-	10,052
Receipt of services	-	-	-	-	-
Asset purchases (completed or ongoing)	-	-	-	-	-
Value adjustments for bad or doubtful debts	-	-	-	-	-
Losses from the retirement or disposal of assets	-	-	-	-	-
Other expenses	1,343	-	-	-	1,343
	22,281	-	-	-	22,281
INCOME:					
Financial income	-	-	444	-	444
Management or cooperation agreements	-	-	-	5,730	5,730
R&D transfers and licensing agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	-	-	-	-	-
Provision of serves	-	-	58	-	58
Asset sales (completed or ongoing)	-	-	-	-	-
Profits from the retirement or disposal of assets	-	-	-	-	-
Other income	-	-	-	-	-
	-	-	502	5,730	6,232

OTHER TRANSACTIONS	€ Thousand				
	31/12/2012				
	Significant shareholders	Directors and executives	Group entities, companies and individuals	Other related parties	Total
Purchases of tangible, intangible and other assets	-	-	-	-	-
Funding agreements: loans and capital contributions (lender)	-	-	(27,320)	(2,497)	(29,817)
Financial leasing agreements (lessor)	-	-	-	-	-
Repayment or cancellation of loans and lease agreements (lessor)	-	-	-	-	-
Sales of tangible, intangible and other assets	-	-	-	-	-
Funding agreements: loans and capital contributions (borrower)	31,159	-	-		31,159
Financial leasing agreements (lessee)	-	-	-	-	-
Repayment or cancellation of loans and lease agreements (lessee)	-	-	-	-	-
Guarantees and sureties given	-	-	-	-	-
Guarantees and sureties received	-	-	-	-	-
Commitments undertaken	-	-	-	-	-
Commitments/guarantees cancelled	-	-	-	-	-
Dividends and other profits distributed	-	-	-	-	-
Other transactions	-	-	-	-	-

29. INFORMATION BY SEGMENTS

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

Main segments – Business

The business lines described below have been established on the basis of the organizational structure of NH Hoteles Group at the end of 2012, considering both the nature of the products and services offered and the target customer segments.

In 2012, NH Hoteles Group focused its operations on two main business lines: hotels and real estate. These constitute the basis upon which the Group presents the information on its main segment.

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

Secondary segments – Geographical

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

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

This segment ordinary income corresponds to income directly attributable to the segment plus a relevant proportion of the Group general income that can be distributed to it using fair rules of distribution. The ordinary income of each segment does not include interest or dividend income or the gains arising from the sale of investments or transactions aimed at redeeming or discharging debt. Ordinary income by segments interests includes the share of the profit or loss of associated entities and joint ventures consolidated under the equity method. The corresponding proportion of the income from joint ventures consolidated using the proportional consolidation method is also included.

The profit or loss of the segment is presented before any adjustments corresponding to minority interests are made.

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

The information by segments of these operations is presented below.

29.1 Information on main segments

	€ Thousand					
	Hotel Business		Real Estate		Total	
	2012	2011	2012	2011	2012	2011
INCOME-						
Sales and other operating income	1,267,295	1,345,764	20,491	24,091	1,287,786	1,369,855
Net gain on disposal of non-current assets	(2,357)	33,905	-	-	(2,357)	33,905
Total income	**1,264,938**	**1,379,669**	**20,491**	**24,091**	**1,285,429**	**1,403,760**
PROFIT (LOSS)-						
Inventory impairments	-	-	(5,457)	-	(5,457)	-
Net losses from asset impairment	(199,060)	(6,649)	-	(720)	(199,060)	(7,369)
Profit (loss) from entities valued through the equity method	(713)	(2,748)	(3,519)	(1,237)	(4,232)	(3,985)
Financial income	3,257	5,143	522	577	3,779	5,720
Change in fair value of financial instruments	(1,548)	(6,825)	-	-	(1,548)	(6,825)
Financial expenses	(84,395)	(66,613)	(624)	(2,033)	(85,019)	(68,646)
Net exchange-rate differences	(7,469)	12	-	-	(7,469)	12
Profit (Loss) on disposal of financial investments	(3,549)	19,913	-	-	(3,549)	19,913
Profit (Loss) before tax	(375,891)	15,970	(15,705)	(11,669)	(391,596)	4,301
Tax	50,175	2,301	5,326	3,899	55,501	6,200
Profit (Loss) for the year	(325,716)	18,271	(10,379)	(7,770)	(336,095)	10,501
Minority interests	(43,985)	4,270	-	-	(43,985)	4,270
Profit (Loss) attributable to the Parent Company	(281,731)	14,001	(10,379)	(7,770)	(292,110)	6,231

	€ Thousand					
	Hotel Business		Real Estate		Total	
	2012	2011	2012	2011	2012	2011
OTHER INFORMATION						
Additions of fixed assets	47,229	298,216	86	115	47,315	298,331
Depreciation	(112,135)	(120,706)	784	819	(111,351)	(119,887)
Net losses from asset impairment	(199,060)	(7,369)	-	-	(199,060)	(7,369)
BALANCE SHEET						
ASSETS						
Assets by segments	2,630,219	2,840,911	124,877	162,851	2,755,096	3,003,762
Shareholdings in associated companies	12,533	13,183	57,706	60,544	70,239	73,727
Total consolidated assets	**2,642,752**	**2,854,094**	**182,583**	**223,395**	**2,825,335**	**3,077,489**
LIABILITIES						
Liabilities and equity by segments	2,642,752	2,854,094	182,583	223,395	2,825,335	3,077,489
Total Consolidated Liabilities and Shareholders' Equity	**2,642,752**	**2,854,094**	**182,583**	**223,395**	**2,825,335**	**3,077,489**

29.2 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:

	€ Thousand					
	Net turnover		Total assets		Additions of tangible fixed assets and intangible assets	
	2012	2011	2012	2011	2012	2011
Spain	327,614	363,330	854,793	982,498	19,924	18,321
Benelux	283,846	296,804	722,831	733,602	2,717	14,649
Germany	281,233	267,162	302,728	308,572	9,447	243,756
Italy	214,031	229,770	618,544	685,514	13,010	12,284
Rest of Europe	93,367	107,609	35,232	51,970	1,003	1,379
Latin America	85,942	81,331	291,207	315,333	1,214	7,942
Total	**1,286,033**	**1,346,006**	**2,825,335**	**3,077,489**	**47,315**	**298,331**

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

The amounts due in 2012 and 2011 to the members of the Parent Company governing bodies, Board of Directors (15 members, 13 in 2011), Executive Committee (5 members) Audit and Control Committee (4 members) and Appointments and Remuneration Committee (3 members), for the remuneration of Executive Directors, attendance fees and allowances, are as follows:

30.1 Remuneration of the Board of Directors

Remuneration item	€ Thousand	
	2012	2011
Fixed remuneration	1,072	900
Variable remuneration	86	417
Parent Company: allowances	192	113
Parent Company: attendance allowances	530	532
Compensation/other	1,128	6,340
Life insurance premiums	-	52
Consolidated companies: allowances	2	2
Consolidated Companies: attendance allowances	95	28
Total	**3,105**	**8,384**

The "Compensation" item includes both compensation and remuneration under a post contractual non-competition agreement, received by Mr Mariano Pérez Claver, who left the Group on 23 November 2012.

In 2011, the "Compensation" item includes both compensation and remuneration under a post contractual non-competition agreement, received by Mr Gabriele Burgio, who left the Group on 28 February 2011.

The Board of Directors had 15 members at 31 December 2012, of which 1 is a woman and 14 are men (in 2011, there were 13 members: 2 women and 11 men).

30.2 Remuneration of Senior Management

The remuneration of members of the Management Committee at 31 December 2012 and 2011, excluding those who simultaneously held office as members of the Board of Directors (whose remuneration has been set out above), is detailed below:

	€ Thousand	
	2012	2011
Remuneration in cash	2,708	3,079
Remuneration in kind	52	35
Total	**2,760**	**3,114**

In 2012, the Management Committee unanimously accepted a voluntary 10% reduction in their fixed salaries.

There were 10 members of Senior Management in 2012 (9 members in 2011).

30.3 Information on conflicts of interest among Directors

At year-end 2012, the members of the Board of Directors of NH Hoteles, S.A. some people individuals associated with the Board, as defined in the Revised Text of the Capital Companies Act, held interests in the capital of the following companies engaged in the same, similar or complementary type of operations as those comprising the corporate purpose of NH Hoteles, S.A.

Holder	Investee company	Activity	Number of shares
Francisco Javier Illa Ruiz	Hotel Comtat de Vic, S.A.	Hotel Business	23.50%
Francisco Javier Illa Ruiz	Hoteles y Gestión, S.A.	Hotel Business	1.09%
José Antonio Castro Sousa	Bonanova Squash Garden, S.A	Hotel Business	100.00%
José Antonio Castro Sousa	Bristol Services, S.L.	Hotel Business	100.00%
José Antonio Castro Sousa	Hotel Colibri, S.A.	Hotel Business	100.00%
José Antonio Castro Sousa	Hotel Conde de Aranda, S.A.	Hotel Business	100.00%
José Antonio Castro Sousa	Cordobatel, S.A.	Hotel Business	65.47%
José Antonio Castro Sousa	Gerencias y Serv. Turísticos, S.A.	Hotel Business	85.49%
José Antonio Castro Sousa	Hotelera Metropol, S.A.	Hotel Business	85.82%
José Antonio Castro Sousa	Infond, S.A.	Hotel Business	89.52%
José Antonio Castro Sousa	Desjust, S.L.	Hotel Business	100.00%
José Antonio Castro Sousa	Hotelera Sant Just, S.A.	Hotel Business	84.73%
José Antonio Castro Sousa	Playa del Oeste, S.A.	Hotel Business	58.28%
José Antonio Castro Sousa	Hotelera del Noroeste, S.A.	Hotel Business	100.00%
José Antonio Castro Sousa	Hotelera del Tormes, S.A.	Hotel Business	100.00%
José Antonio Castro Sousa	Hotel Hesperia Madrid, S.L.	Hotel Business	100.00%
José Antonio Castro Sousa	Hoteles Almeria, S.A.	Hotel Business	66.29%
José Antonio Castro Sousa	Hotelera Salvatierra, S.A.	Hotel Business	100.00%
José Antonio Castro Sousa	Hotelera del Este, S.A.	Hotel Business	100.00%
José Antonio Castro Sousa	Hotel Fontoria, S.A.	Hotel Business	100.00%
José Antonio Castro Sousa	Hotelera Paseo de Gracia, S.A.	Hotel Business	100.00%
José Antonio Castro Sousa	Bercuma, S.L.	Hotel Business	86.28%
José Antonio Castro Sousa	Hotels Hesperia Andorra, S.A.	Hotel Business	99.99%
José Antonio Castro Sousa	Corp. Hotelera Hemtex, S.A.	Hotel Business	100.00%
José Antonio Castro Sousa	Desarrollo Turístico Isla Bonita, C.A.	Hotel Business	100.00%
José Antonio Castro Sousa	Inversiones HMR, C.A.	Hotel Business	35.70%
José Antonio Castro Sousa	Hesperia del Golf, S.L.	Hotel Business	100.00%
José Antonio Castro Sousa	Hesperia Purchasing Center, S.A.	Procurement network	100.00%
José Antonio Castro Sousa	Hotelera de Levante, S.A.	Hotel Business	100.00%
José Antonio Castro Sousa	Espesalud, S.L.	Hotel Business	100.00%
José Antonio Castro Sousa	Fondotel, S.A.	Hotel Business	96.88%
Coporación Financiera Caja de Madrid	NH Segovia, S.L.	Hotel Business	46.73%
Coporación Financiera Caja de Madrid	AC Dos Norte, S.L.	Hotel Business	3.33%
Coporación Financiera Caja de Madrid	Inversora de Hoteles Vacacionales, S.L.	Hotel Business	25%
Coporación Financiera Caja de Madrid	Playa Hotels & Resorts, S.L.	Hotel Business	7.23%
Coporación Financiera Caja de Madrid	Fontecruz Inversiones, S.A	Hotel Business	9.89%
Coporación Financiera Caja de Madrid	Hotel Barcelona Golf, S.A.	Hotel Business	16.64%
Coporación Financiera Caja de Madrid	VIP Cartera, S.L.	Hotel Business	15.77%
Participaciones y Cartera de Inversión, S.L.	NH Segovia, S.L.	Hotel Business	46.73%
Participaciones y Cartera de Inversión, S.L.	AC Dos Norte, S.L.	Hotel Business	3.33%
Participaciones y Cartera de Inversión, S.L.	Inversora de Hoteles Vacacionales, S.L.	Hotel Business	25%
Participaciones y Cartera de Inversión, S.L.	Playa Hotels & Resorts, S.L.	Hotel Business	7.23%
Participaciones y Cartera de Inversión, S.L.	Fontecruz Inversiones, S.A	Hotel Business	9.89%
Participaciones y Cartera de Inversión, S.L.	Hotel Barcelona Golf, S.A.	Hotel Business	16.64%
Participaciones y Cartera de Inversión, S.L.	VIP Cartera, S.L.	Hotel Business	15.77%
Soc. de Promoción y Part. Emp. Caja de Madrid, S.A.	NH Segovia, S.L.	Hotel Business	46.73%
Soc. de Promoción y Part. Emp. Caja de Madrid, S.A.	AC Dos Norte, S.L.	Hotel Business	3.33%
Soc. de Promoción y Part. Emp. Caja de Madrid, S.A.	Inversora de Hoteles Vacacionales, S.L.	Hotel Business	25%
Soc. de Promoción y Part. Emp. Caja de Madrid, S.A.	Playa Hotels & Resorts, S.L.	Hotel Business	7.23%
Soc. de Promoción y Part. Emp. Caja de Madrid, S.A.	Fontecruz Inversiones, S.A	Hotel Business	9.89%
Soc. de Promoción y Part. Emp. Caja de Madrid, S.A.	Hotel Barcelona Golf, S.A.	Hotel Business	16.64%
Soc. de Promoción y Part. Emp. Caja de Madrid, S.A.	VIP Cartera, S.L.	Hotel Business	15.77%

Regarding the interests held by the three Board Members representing Banco Financiero de Ahorros (in other words, Sociedad de Promoción y Participación Empresarial Caja Madrid, S.A., Corporación Financiera Caja de Madrid and Participaciones y Cartera de Inversión, S.L.) in seven companies with a similar corporate purpose to that of NH Hoteles, S.A., it should be pointed out that these are indirect holdings through various companies belonging to the Banco Financiero de Ahorros group. As a result of it, they appear in the details of these three board members.

The breakdown of the positions held in companies engaged in the same, similar or complementary type of operations as those comprising the corporate purpose of NH Hoteles, S.A. and which do not belong to the Group or are not associated to it, by members the Parent Company's Board of Directors and individuals associated with them, is as follows:

Holder	Investee company	Activity	Positions
Francisco Javier Illa Ruiz	Desarrollo Turístico Isla Bonita, C.A.	Hotel Business	Main Director
	Grupo Inversor Hesperia, S.A.	Hotel Business	Joint Director
	Corporación Hotelera Hemtex, S.A.	Hotel Business	Director
	Hotels Hesperia Andorra, S.A.	Hotel Business	Board Sec. and Attorney-in-Fact
	HMR	Hotel Business	Director
	RH2005	Hotel Business	Director
	Bonanova Squash Garden, S.A	Hotel Business	Sole Director
	Bristol Services, S.L.	Hotel Business	Sole Director
	Hotel Colibrí, S.A.	Hotel Business	Sole Director
	Hotel Conde de Aranda, S.A.	Hotel Business	Sole Director
	Cordobatel, S.A.	Hotel Business	Board Member
	Gerencias y Serv. Turísticos, S.A.	Hotel Business	Sole Director
	Hotelera Metropol, S.A.	Hotel Business	Sole Director
	Infond, S.A.	Hotel Business	Joint Director
	Desjust, S.L.	Hotel Business	Sole Director
	Hotelera Sant Just, S.A.	Hotel Business	Sole Director
	Playa del Oeste, S.A.	Hotel Business	Chairman
	Hotelera del Noroeste, S.A.	Hotel Business	Sole Director
	Hotelera del Tormes, S.A.	Hotel Business	Sole Director
	Hotel Hesperia Madrid, S.L.	Hotel Business	Sole Director
	Hoteles Almería, S.A.	Hotel Business	Sole Director
	Hotelera Salvatierra, S.A.	Hotel Business	Sole Director
	Hotelera del Este, S.A.	Hotel Business	Sole Director
	Hotel Fontoria, S.A.	Hotel Business	Sole Director
	Hotelera Paseo de Gracia, S.A.	Hotel Business	Joint Director
	Bercuma, S.L.	Hotel Business	Joint Director
	Hesperia del Golf, S.L.	Hotel Business	Joint Director
	Hesperia Purchasing Center, S.A.	Hotel Business	Sole Director
	Hotelera de Levante, S.A.	Hotel Business	Sole Director
	Espesalud, S.L.	Hotel Business	Sole Director
	Fondotel, S.A.	Hotel Business	Sole Director
José Antonio Castro Sousa	HMR		Director
	Infond, S.A.		Joint Director
	Grupo Inversor Hesperia, S.A.		Joint Director
	Cordobatel, S.A.		Board Member
	Hotelera Paseo de Gracia, S.A.		Joint Director
	Bercuma, S.L.		Joint Director
	Corp. Hotelera Hemtex, S.A.	Hotel Business	Chairman
	Desarrollo Turístico Isla Bonita, C.A.	Hotel Business	Chairman
	Hesperia del Golf, S.L.	Hotel Business	Joint Director
Roberto Cibeira Moreiras	Epic Hotel LLC	Hotel Business	Board Member
	Hoteles y Clubs de Vacaciones, S.A.	Hotel Business	Representative of the Board Member/Legal Entity (Pontegadea Inversiones, S.L.)
	Royal Cupido, S.A.	Hotel Business	Representative of the Board Member/Legal Entity (Pontegadea Inversiones, S.L.)
Gilles Pélisson	Sun Resorts Intl (Mauritius)	Hotel Business	Board Member

31. SUBSEQUENT DISCLOSURES

A) AGREEMENT WITH HNA

On 17 April 2013, the Parent Company implemented and concluded a capital increase approved by the Board of Directors in its meeting of 27 February 2013, incorporating Tangla Spain, S.L., a company belonging to the Chinese business group HNA, into the shareholder structure of the Parent Company, with a post-increase stake of 20% of share capital.

The aforementioned capital increase was fully subscribed and paid up for its nominal value of €123,308,716 through the issue and distribution of a total of €61,654,358 ordinary shares, with a par value of €2 per share, along with a premium of €1.80 per share (which represents a total issue premium of €110,977,844.40), with a total outlay of €234,286,560.40.

From this moment, HNA is represented by three members on the Board of Directors of NH Hoteles, S.A.

After the capital increase, the shareholder structure of the Parent Company is as follows:

Shareholder[1]	Number of direct voting rights	Number of indirect voting rights	Total percentage of voting rights
			%
Grupo Inversor Hesperia, S.A.	61,870,383	-	20.07
HNA Group Co., Ltd.	-	61,654,358	20
Tangla Spain, S.L.U.	61,654,358	-	20
Banco Financiero y de Ahorros, S.A.[2]	-	38,833,834	12.597
CK Corporación Kutxa-Kutxa Korporazioa, S.L.	15,413,673	-	5
Kutxabank, S.A.	-	15,413,673	5
Bancaja Inversiones, S.A..	13,955,675	-	4.527
Intesa Sanpaolo, S.P.A.	5,791,685	8,148,802	4.522
Hoteles Participados, S.L.	13,385,269	-	4.342
Amancio Ortega Gaona	-	12,512,971	4.059
Pontegadea Inversiones, S.L.	12,512,971	-	4.059
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja)	-	12,432,716	4.033
Ibercaja Banco, S.A.	12,432,716	-	4.033

(1) Source: According to company knowledge, the company's Annual Corporate Governance Report 2012, and disclosures made to the National Securities Market Commission (CNMV)
(2) It includes the direct shareholdings of Bancaja Inversiones, S.A., Corporación Financiera Caja de Madrid, S.A. and Sociedad de Promoción y Participación Empresarial Caja Madrid, among others.

The strategic agreement establishes a framework for creating a "joint venture" between both groups, with the main purpose of developing a hotel business in China, one of the world's fastest growing markets, in partnership with a local group, leader in the tourist industry. This alliance is a great opportunity to diversify the operations of NH Hoteles.

Both groups have also established an agreement to work together on marketing the Group's hotels in the chinese market and to become the number one choice for HNA travellers. The goal is to increase the flow of Asian customers to NH hotels, thereby diversifying customers in terms of their country of origin.

B) REQUEST TO OBTAIN THE CONFORMITY OF SYNDICATED FINANCIAL INSTITUTIONS

NH Hoteles' request to its lenders to amend the syndicated financing agreement of 29 March 2012 did not obtain the required unanimity, since the terms accepted by 30 lenders representing 96.871% of loans were rejected by one lender with a share of 3.129%, which demanded additional conditions that would have seriously compromised the viability of the NH Hoteles business plan.

C) AGREEMENT WITH HPT

On 27 February 2013, the Board of Directors of the Parent Company approved a non-binding agreement of intent for a series of hotel transactions in Latin America, the US and Europe, with Hospitality Properties Trust (HPT), an American real estate investment trust (REIT).

The Group would sell five hotels (804 rooms) in Latin America (Mexico, Colombia, Uruguay and Chile) to HPT for approximately US $70 million, while continuing to manage them under long-term contracts with an initial duration of 20 years, with a renewal option. It is not expected that the Group will incur any capital losses as a result of this transaction.

HPT would be granted the option of setting up a "joint venture" with NH Hoteles to acquire 100% of ownership and to carry out a complete renovation of the NH Jolly Madison hotel in New York. Once the refurbishment is complete, NH Hoteles and Sonesta International Hotels, Inc. will be jointly responsible for managing and marketing the hotel.

Failure by the syndicated banks to achieve the required unanimity will prevent the Group from carrying out all the operations with HPT under the terms originally conceived in the agreement of intent.

D) SUBSEQUENT MEASURES

As of 30 April 2013, lenders representing more than two thirds of the total outstanding loan agreed, on 31 December 2012, to waive the Group obligation to fulfill the financial ratios set forth in the syndicated loan agreement. The group expects to pay its debt to lenders in accordance with the original schedule of the aforementioned agreement in part with the capital investment paid in last week by the HNA Group, in part by expanding the asset sale process, and also through new capitalisation and financing transactions. It is confident that these operations will restore the financial equilibrium and profitability of the Group.

The pro forma maturity schedule for the Group financial debt at 31 December 2012, in view of the foregoing waiver, is stated in the following table:

				Maturities				
	Limit	Available	Drawn Down	2012	2013	2014	2015	Remainder
Mortgage guarantee loans	**227,205**	**-**	**227,205**	**-**	**69,692**	**25,528**	**20,368**	**111,617**
Fixed rate	45,274	-	45,274	-	2,562	2,938	3,072	36,702
Variable rate	181,931	-	181,931	-	67,130	22,590	17,296	74,915
Asset guarantee loans	**9,272**	**-**	**9,272**	**-**	**8,272**	**1,000**	**-**	**-**
Fixed rate	-	-	-	-	-	-	-	-
Variable rate	9,272	-	9,272	-	8,272	1,000	-	-
Subordinated loans	**75,000**	**-**	**75,000**	**-**	**-**	**-**	**-**	**75,000**
Variable rate	75,000	-	75,000	-	-	-	-	75,000
Syndicated loan	**729,855**	**442**	**729,413**	**-**	**131,586**	**131,586**	**126,730**	**339,511**
Variable rate Tranche A2	150,000	-	150,000	-	-	-	-	150,000
Variable rate Tranche B	250,000	-	250,000	-	100,000	100,000	50,000	-
Variable rate Benelux line	14,000	442	13,558	-	-	-	13,558	-
Fixed rate Tranche A1	315,855	-	315,855	-	31,586	31,586	63,172	189,511
SUBTOTAL	1,041,332	442	1,040,890	-	209,550	158,114	147,098	526,128
Credit lines	**11,304**	**268**	**11,036**	**-**	**11,036**	**-**	**-**	**-**
Variable rate	11,304	268	11,036	-	11,036	-	-	-
Debt arrangement expenses	**-**	**-**	**(18,186)**	**-**	**(8,096)**	**(3,059)**	**(2,802)**	**(4,229)**
Debt due to interest	**-**	**-**	**2,119**	**-**	**2,119**	**-**	**-**	**-**
Debt situation at 31/12/2012	1,052,636	710	1,035,859	-	214,609	155,055	144,296	521,899
Debt situation at 31/12/2011	1,079,570	22,043	1,057,045	831,122	27,501	24,967	14,362	159,093

The consolidated balance sheet at 31 December 2012, pro forma, reflecting the waiver and the capital increase resulting from the agreement with HNA, is as follows:

NH HOTELES, S.A. AND SUBSIDIARIES BALANCE AT 31/DEC/2012

ASSETS	31/Dec /2012	Pro forma 31/Dec/2012	LIABILITIES AND SHAREHOLDERS' EQUITY	31/Dec /2012	Pro forma 31/Dec/2012
Fixed assets and real estate investments	2,069,494	2,069,494	**NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY**	**840,924**	**1,075,210**
Non-current financial investments	180,608	180,608	Minority interests	158,909	158,909
Deferred tax assets and other non-current assets	211,880	211,880	**TOTAL SHAREHOLDERS' EQUITY**	**999,833**	**1,234,119**
NON-CURRENT ASSETS	**2,461,982**	**2,461,982**			
			Subsidies	19,718	19,718
			Provisions for contingencies and expenses	57,276	57,276
			Debts with credit institutions	180,501	821,250
			Deferred tax liabilities and other non-current liabilities	275,964	275,964
			NON-CURRENT LIABILITIES	**533,459**	**1,174,208**
Inventories	106,005	106,005			
Trade accounts receivable	117,943	117,943	Provisions for contingencies and expenses	53,458	53,458
Other accounts receivable	68,976	68,976	Debts with credit institutions	855,358	214,609
Other current assets	28,984	28,984	Trade creditors	303,848	303,848
Cash, bank and equivalents	41,445	275,731	Other accounts payable	79,379	79,379
CURRENT ASSETS	**363,353**	**597,639**	**CURRENT LIABILITIES**	**1,292,043**	**651,294**
TOTAL ASSETS	2,825,335	3,059,621	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2,825,335	3,059,621

E) CONTINGENT LIABILITIES

Subsequent to year-end 2012, the construction company responsible for the execution of repair works on the "Los Cortijos de la Reserva" development filed a claim for arbitration against a Group company for a total sum of €2.9 million, mainly for the End of Works Certification, the return of the guarantee fund and cost overruns.

In addition, the claimant has requested that two bank sureties for the combined amount of €741,000 issued by two financial institutions in favour of this subsidiary company be paid to the court to cover the contractual obligations and penalties arising from execution of the aforementioned repair works.

Similarly, the owners' associations of the "Ribera del Marlin" development filed a €2.5 million claim against a subsidiary in which the Group owns a 50% stake for repairs as a result of contractual non-performance, defects and shortcomings in shared elements of said housing development.

In the opinion of the Parent Company Directors and legal advisers, the Group is not expected to incur any significant capital losses from the foregoing disputes.

32. INFORMATION ON ENVIRONMENTAL POLICY

The management of the integrated water cycle within the Sotogrande development and its surroundings forms part of the operations performed by the Group through Sotogrande, S.A., which include waste water treatment and purification to minimise damage to the environment.

As part of its treatment and purification operations the Group owns two wastewater treatment plants capable of serving up to 20,000 inhabitants. These plants are interconnected, so that the treated tributary is discharged into the sea through an underwater outfall. Likewise, the Company has built a tertiary treatment system in one of the treatment plants. This further purifies water, making it suitable to irrigate part of the Real Club de Golf de Sotogrande and the pitches of the Santa María Polo Club, with whom agreements have been signed for this purpose. The tertiary treatment plant has been in service since July 2003. The implementation of this tertiary system has increased water resources by 300,000 m^3 / year.

Furthermore, the Group is currently focusing its actions on urban land with partially approved plans as part of its promotional and development activities for the Sotogrande development. In these circumstances, no preliminary environmental impact studies need be conducted on its real estate or tourist developments. Nonetheless, the Group policy aims to achieve maximum respect for the environment, and for this purpose it has contracted the services of an environmental consulting firm to provide environmental diagnoses and consulting on the Company's actions.

The amount of the foregoing environmental assets, net of depreciation, at 31 December 2012 was €1,384 thousand (€1,467 thousand in 2011).

The Group had not allocated any provisions for environmental contingencies and claims at year-end 2012.

33. EXPOSURE TO RISK

The Group financial risk management is centralised at the Corporate Finance Division. This Division has established the necessary measures in place to control exposure to changes in interest and exchange rates, on the basis of the Group 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 policies are described below:

CREDIT RISK

The Group main financial assets include cash and cash equivalents (see Note 15), 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 through guarantees, surety 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 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 contracted financial instruments to ensure that approximately 36% of net financial debt is indexed 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. The Group concluded the process of refinancing its debt through a syndicated loan of €805 million, and, as part of its strategy, has covered 39% of refinanced debt through a hedging instrument (IRS).

Aside from the impact any changes in the interest rates could have on financial assets and liabilities which comprise the net cash position, changes could arise in the valuation of the financial instrument contracted by the Group. 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 consolidated comprehensive profit and loss statement. The Group has chosen to exclude the temporary value of designating hedges in order to improve their efficiency. Note 19 of the consolidated annual report attached hereto sets out the sensitivity analysis conducted on the above-mentioned derivatives in the face of changes in interest rates.

Lastly, the long-term financial assets set out in Note 11 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, the Dominican Republic, Colombia, Panama and the United States).

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

In order to ensure these risks are mitigated, the Group has established policies and contracted certain financial derivatives (see Note 19). More specifically, the Group endeavours to align the composition of its financial debt with cash flows in the different currencies. Likewise, financial instruments are contracted in order to reduce exchange-rate differences from transactions denominated in foreign currencies.

The Group has conducted a sensitivity analysis on the possible exchange rate fluctuations that might occur in the markets in which it operates. For this

analysis, the Group has taken into consideration fluctuations in the main currencies with which it operates other than its functional currency (the US dollar, the Argentine peso, the Mexican peso and the Colombian peso). On the basis of this analysis, the Group considers that a 5% depreciation in the corresponding currencies would have the following impact on equity:

	€ Thousand	
	Shareholders' Equity	**Profit (Loss)**
US dollar	(308)	(29)
Argentine peso	(3,486)	9
Mexican peso	(4,626)	(214)
Colombian peso	(1,090)	42

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.

This risk management is focused on close monitoring the maturity schedule of the Group financial debt, as well as on proactive management and maintaining credit lines that allow any forecast cash needs to be met (see Note 31).

The Group liquidity position in 2012 is based on the following points:

- The Group had cash and cash equivalents amounting to €53.445 million available at 31 December 2012.
- Undrawn credit lines amounting to €711,000 were available at 31 December 2012.
- The Group business units have the capacity to generate cash flow from their operations in a recurrent and significant manner. Cash flow from operations in 2012 amounted to €96.257 million.
- The Group capacity to increase its financial debt, provided that the financial leverage ratio stood at 0.98 at 31 December 2012 (see Note 16).

On 22 March 2010, NH Hoteles, S.A. entered into an agreement with Banco Bilbao Vizcaya Argentaria, S.A. in order to increase liquidity of shares in the subsidiary company Sotogrande, S.A. and advertising them in the market. Thus, an undertaking was made to respond to purchase orders for shares of the above-mentioned company. Likewise, liquidity and advertising shares will be fostered when there are purchase or sale positions in the market.

Lastly, the Group makes cashflow 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.

MARKET RISKS

The Group is exposed to risks connected with the evolution of the share prices of listed companies. This risk is materialised in the remuneration schemes linked to the listed value of shares in the Parent Company. In order to mitigate this market risk arising from an increase in listed prices, the Group entered into the equity swap arrangement described in Note 19 of this consolidated annual report. Likewise, Note 19 also describes the sensitivity analysis of this financial derivative with regard to changes of +/- 10% in Parent Company shares.

At 31 December 2012, 36% of its financial debt was at a fixed rate (including the syndicated loan) and it had accounts receivable guaranteed through credit insurance up to €50 million. In addition, the Company does not consider necessary to implement an interest-rate risk mitigation policy, as its exposure to such risks is low. Nonetheless, it maintains loan agreements in several currencies as a natural hedge (US dollar and Swiss franc).

ANNEX I: SUBSIDIARIES

Data on the Company's subsidiaries at 31 December 2012 are presented below:

Investee company	Registered address of investee company	Main activity of the Investee Company	Parent company's % stake in investee company	% of voting rights controlled by parent company	Net book value at parent company	€ Thousand			
						Assets	Liabilities	Equity	(Profit) Loss for the year
Airport Hotel Frankfurt-Raunheim, GmbH & Co.	Munich	Real Estate	94%	100%	5,267	22,448	(16,845)	(4,400)	(1,203)
NH Aguamarina S.A.	Santo Domingo	Hotel Business	94%	100%	963	1,208	(183)	(780)	(245)
Artos Beteiligungs, GmbH	Munich	Holding	94%	100%	45,369	104,721	(56,456)	(49,159)	894
Astron Immobilien, GmbH	Munich	Holding	100%	100%	25,597	38,752	(13,155)	(25,597)	-
Astron Kestrell, Ltd. (*)	Plettenberg Bay	Hotel Business	100%	100%	(1,263)	647	(1,910)	1,147	116
Atlantic Hotel Exploitatie, B.V.	The Hague	Hotel Business	100%	100%	94	-	94	-	(94)
Blacom, S.A.	Buenos Aires	Investment	100%	100%	1,443	1,445	(2)	(1,444)	0
Borokay Beach, S.L.	Barcelona	Hotel Business	50%	50%	4,245	15,711	(7,221)	(8,810)	321
Caribe Puerto Morelos, S.A. de C.V. (*)	Mexico City	Hotel Business	100%	100%	4,704	4,665	39	(4,814)	110
Chartwell de México, S.A. de C.V. (*)	Mexico City	Hotel Business	100%	100%	5,007	5,223	(216)	(4,837)	(170)
Chartwell de Nuevo Laredo, S.A. de C.V. (*)	Nuevo Laredo	Hotel Business	100%	100%	1,787	3,700	(1,913)	(1,546)	(240)
Chartwell Inmobiliaria de Coatzacoalcos, S.A. de C.V. (*)	Coatzacoalcos	Hotel Business	100%	100%	2,967	3,836	(869)	(2,865)	(102)
City Hotel, S.A. (*)	Buenos Aires	Hotel Business	50%	50%	4,399	11,528	(2,731)	(8,262)	(535)
Club Deportivo Sotogrande, S.A.	San Roque	Tourist Services	93%	93%	3,618	4,067	(195)	(3,977)	105
Cofir, S.L.	Madrid	Corporate services	100%	100%	55	55	-	(57)	2
Columbia Palace Hotel, S.A. (*)	Montevideo	Hotel Business	100%	100%	6,437	9,699	(3,262)	(6,040)	(397)
Coperama Servicios a la Hosteleria, S.L. (*)	Barcelona	Procurement network	75%	75%	8,050	18,645	(7,912)	(3,878)	(6,855)
De Sparrenhorst, B.V.	Nunspeet	Hotel Business	100%	100%	(46)	-	(46)	-	46
Desarrollo Inmobiliario Santa Fe, S.A. de C.V. (*)	Mexico City	Hotel Business	50%	50%	3,595	12,097	(4,906)	(6,260)	(930)
Donnafugata Resort, S.R.L (*)	Italy	Tourist Services	89%	89%	3,371	78,643	(74,847)	(10,179)	6,383
Edificio Metro, S.A. (*)	Buenos Aires	Hotel Business	100%	100%	9,005	9,903	(898)	(8,655)	(349)
Establecimientos Complementarios Hoteleros, S.A.	Barcelona	Hotel Business	100%	100%	(3,253)	659	(3,912)	2,265	988
Expl. mij. Grand Hotel Krasnapolsky, B.V.	Amsterdam	Hotel Business	100%	100%	11,999	16,067	(4,068)	(12,131)	132
Expl. Mij. Hotel Best, B.V.	Best	Hotel Business	100%	100%	127	295	(168)	(312)	185
Expl. mij. Hotel Doelen, B.V.	Amsterdam	Hotel Business	100%	100%	6,870	7,441	(571)	(5,988)	(883)
Expl. Mij. Hotel Naarden, B.V.	Naarden	Hotel Business	100%	100%	(539)	(355)	(185)	54	485
Expl. mij. Hotel Schiller, B.V.	Amsterdam	Hotel Business	100%	100%	7,943	9,223	(1,280)	(7,090)	(853)
Exploitatiemaatschappij Caransa Hotel, B.V.	Amsterdam	Without activity	100%	100%	311	-	311	(311)	-
Exploitatiemij. Tropenhotel, B.V.	Hilversum	Hotel Business	100%	100%	(3)	242	(245)	4	(1)
Fast Good Islas Canarias, S.A.	Las Palmas	Catering	100%	100%	(1,559)	(1,552)	(7)	1,524	35
Fast Good Península Ibérica, S.A.	Madrid	Catering	100%	100%	(22,981)	10,846	(33,827)	22,940	41
Franquicias Lodge, S.A. de C.V. (*)	Mexico City	Hotel Business	100%	100%	177	178	(1)	(172)	(6)
Gran Círculo de Madrid, S.A. (*)	Madrid	Catering	99%	99%	24,088	27,661	(3,266)	(38,680)	14,285
Grupo Financiero de Intermediacion y Estudios, S.A.	Madrid	Corporate services	100%	100%	(18,872)	257	(19,129)	18,844	27
Grupo Hotelero Monterrey, S.A. de C.V.	Mexico City	Hotel Business	100%	100%	1,132	2,380	(1,248)	(1,049)	(83)
Grupo Hotelero Queretaro, S.A. de C.V.	Querétaro	Hotel Business	69%	69%	2,947	7,252	(2,956)	(3,832)	(464)
Hanuman Investment, S.L.	Tenerife	Hotel Business	50%	50%	1,490	3,277	(296)	(3,201)	220
Heiner Gossen Hotelbetrieb, GmBH	Mannheim	Hotel Business	100%	100%	(779)	(781)	3	765	14
HEM Atlanta Rotterdam, B.V.	Hilversum	Hotel Business	100%	100%	5,802	6,408	(605)	(5,494)	(308)
HEM Epen Zuid Limburg, B.V.	Wittem	Hotel Business	100%	100%	(1,904)	(1,269)	(635)	1,679	225
HEM Forum Maastricht, B.V.	Maastricht	Hotel Business	100%	100%	2,041	2,817	(776)	(1,717)	(324)
HEM Jaarbeursplein Utrecht, B.V.	Utrecht	Hotel Business	100%	100%	7,511	9,415	(1,904)	(7,094)	(417)
HEM Janskerkhof Utrecht, B.V.	Hilversum	Hotel Business	100%	100%	957	1,347	(390)	(920)	(37)

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	Net book value at parent company	€ Thousand			
						Assets	Liabilities	Equity	(Profit) Loss for the year
HEM Marquette Heemskerk, B.V.	Hilversum	Hotel Business	100%	100%	(1,383)	(1,193)	(190)	1,114	270
HEM Onderlangs Arnhem, B.V.	Arnhem	Hotel Business	100%	100%	406	643	(237)	(438)	32
HEM Spuistraat Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%	15,810	17,047	(1,240)	(14,217)	(1,593)
HEM Stadhouderskade Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%	4,326	5,026	(699)	(4,840)	514
HEM Van Alphenstraat Zandvoort, B.V.	Hilversum	Hotel Business	100%	100%	2,313	2,679	(366)	(2,631)	317
Hesperia Enterprises de Venezuela, S.A.	Margarita Island	Hotel Business	100%	100%	1,654	1,813	(159)	(527)	(1,127)
Highmark Geldrop, B.V.	Geldrop	Hotel Business	100%	100%	(1,870)	(1,639)	(231)	1,652	218
Highmark Hoofddorp, B.V.	Hoofddorp	Hotel Business	100%	100%	(11,420)	(10,930)	(490)	10,355	1,066
Hispana Santa Fe, S.A. de C.V.	Mexico City	Hotel Business	50%	50%	(1)	(7)	5	3	(2)
Hotel Aukamm Wiesbaden, GmbH & Co.	Munich	Real Estate	94%	100%	860	10,571	(9,656)	(112)	(803)
Hotel Ciutat de Mataro, S.A.	Barcelona	Hotel Business	50%	50%	(504)	(747)	(261)	(536)	1,544
Hotel de Ville, B.V.	Groningen	Hotel Business	100%	100%	(1,287)	51	(1,338)	1,188	100
Hotel Expl. Mij Amsterdam Noord, B.V.	Amsterdam	Hotel Business	100%	100%	(3,032)	(2,320)	(712)	3,444	(412)
Hotel Expl. Mij Leijenberghlaan Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%	5,444	6,211	(768)	(5,189)	(254)
Hotel expl. mij. Capelle a/d Ijssel, B.V.	Capelle a/d Ijssel	Hotel Business	100%	100%	4,303	4,555	(252)	(4,283)	(20)
Hotel expl. mij. Danny Kayelaan Zoetermeer, B.V.	Hilversum	Hotel Business	100%	100%	(713)	(596)	(117)	509	204
Hotel expl. mij. Stationsstraat Amersfoort, B.V.	Amersfoort	Hotel Business	100%	100%	(64)	268	(331)	212	(148)
Hotel Expl.mij. Diegem, N.V. (*)	Diegem	Hotel Business	100%	100%	79,817	91,089	(11,272)	(81,586)	1,769
Hotel Houdstermaatschappij Jolly, B.V.	Amsterdam	Holding	100%	100%	707	709	(2)	(709)	2
Hoteleira Brasil, Ltda.	Brazil	Hotel Business	100%	100%	527	676	(149)	(527)	-
Hotelera de la Parra, S.A. de C.V. (*)	Mexico City	Hotel Business	100%	100%	22,630	18,285	4,345	(22,630)	-
Hotelera del Mar, S.A.	Mar del Plata	Hotel Business	20%	20%	2,435	15,807	(3,634)	(7,250)	(4,922)
Hotelera Lancaster, S.A. (*)	Buenos Aires	Hotel Business	50%	50%	1,589	3,883	(705)	(2,746)	(432)
Hoteles Hesperia, S.A. (*)	Barcelona	Hotel Business	100%	100%	9,160	13,527	(4,367)	(10,686)	1,525
Hotelexploitatiemaatschappij Vijzelstraat Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%	65,285	84,697	(19,412)	(63,133)	(2,152)
Hotels Bingen & Viernheim, GmbH & Co.	Munich	Real Estate	94%	100%	4,460	11,054	(6,309)	(4,225)	(520)
Immobiliare 4 Canti, Srl. (*)	Messina	Hotel Business	50%	50%	-	-	-	-	-
Inmobiliaria y Financiera Aconcagua, S.A. (*)	Buenos Aires	Hotel Business	100%	100%	2,072	2,649	(577)	(1,836)	(236)
Inversores y Gestores Asociados, S.A.	Madrid	Corporate services	100%	100%	81	274	(193)	(46)	(35)
Jan Tabak, N.V. (*)	Bussum	Hotel Business	81%	81%	7,350	9,970	(887)	(8,932)	(151)
JH Belgium, S.A. (*)	Brussels	Hotel Business	100%	100%	108	2,899	(2,790)	(629)	520
JH Deutschland, GmbH (*)	Cologne	Hotel Business	96%	96%	8,525	10,774	(1,932)	(6,731)	(2,110)
JH Holland, N.V. (*)	Amsterdam	Hotel Business	100%	100%	10,306	10,354	(48)	(10,555)	249
JH USA, Inc.	Wilmington	Hotel Business	100%	100%	71,328	87,342	(16,014)	(70,946)	(382)
Koningshof, B.V.	Veldhoven	Hotel Business	100%	100%	30,882	37,744	(6,861)	(29,618)	(1,265)
Krasnapolsky Belgian Shares, B.V.	Hilversum	Holding	100%	100%	(8,522)	(8,522)	(0)	8,522	-
Krasnapolsky Events, B.V.	Amsterdam	Without activity	100%	100%	69	69	-	(69)	-
Krasnapolsky H&R Onroerend Goed, B.V.	Amsterdam	Real Estate	100%	100%	114,503	126,587	(12,084)	(108,274)	(6,230)
Krasnapolsky Hotels & Restaurants, N.V.	Amsterdam	Holding	100%	100%	428,723	566,868	(138,144)	(404,692)	(24,031)
Krasnapolsky Hotels, Ltd. (**)	Somerset West	Hotel Business	100%	100%	(1,681)	762	(2,443)	778	904
Krasnapolsky ICT, B.V.	Hilversum	Without activity	100%	100%	16	16	-	(16)	-
Krasnapolsky International Holding, B.V.	Amsterdam	Holding	100%	100%	6,541	25,926	(19,385)	(6,352)	(189)
Latina Chile, S.A. (*)	Santiago de Chile	Hotel Business	100%	100%	8,395	8,400	(5)	(8,380)	(16)
Latina de Gestión Hotelera, S.A. (*)	Buenos Aires	Hotel Business	100%	100%	85,352	93,809	(8,457)	(87,107)	1,755
Latinoamericana de Gestion Hotelera, S.L. (*)	Madrid	Holding	100%	100%	99,700	144,788	(45,088)	(106,197)	6,497
Leeuwenhorst Congres Center, B.V.	Noordwijkerhout	Hotel Business	100%	100%	55,501	61,521	(6,020)	(53,108)	(2,393)
Liberation Exploitatie, B.V.	Sprang Capelle	Hotel Business	100%	100%	(5,309)	(4,730)	(579)	4,957	351
Marquette Beheer, B.V.	Hilversum	Real Estate	100%	100%	278,919	278,919	(0)	(278,919)	(0)
Museum Quarter, B.V.	Hilversum	Hotel Business	100%	100%	448	751	(303)	(994)	546
Nacional Hispana de Hoteles, S.A. (*)	Mexico City	Hotel Business	100%	100%	73,701	73,444	257	(72,848)	(853)
NH Atardecer Caribeño, S.L.	Madrid	Real Estate	100%	100%	1,413	735	678	(1,510)	97

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	Net book value at parent company	€ Thousand			
						Assets	Liabilities	Equity	(Profit) Loss for the year
NH Belgium, cvba	Diegem	Holding	100%	100%	34,872	37,706	(2,833)	(34,739)	(133)
NH Caribbean Management, B.V.	Hilversum	Management	100%	100%	(100)	(100)	-	100	-
NH Central Europe Management, GmbH	Berlin	Holding	100%	100%	50	51	(1)	(48)	(3)
NH Central Europe, GmbH & Co. KG (*)	Berlin	Hotel Business	100%	100%	117,646	119,116	(1,470)	(118,610)	964
NH Central Reservation Office, S.L. (*)	Madrid	Call Centre	100%	100%	6,792	11,569	(4,777)	(4,733)	(2,060)
NH Domo y Decoración, S.L.	Madrid	Without activity	50%	50%	-	-	-	-	-
NH Europa, S.A. (*)	Barcelona	Hotel Business	100%	100%	18,674	344,459	(325,784)	(22,759)	4,085
NH Fashion Tapas, S.L.	Madrid	Catering	100%	100%	55	56	(1)	(42)	(13)
NH Finance, S.A. (*)	Luxembourg	Financial company	100%	100%	78,021	787,644	(709,623)	(75,188)	(2,833)
NH Hotel Ciutat de Reus, S.A.	Barcelona	Hotel Business	90%	90%	1,381	1,845	(312)	(1,459)	(73)
NH Hotelbetriebs.-u. Dienstleistungs, GmbH	Berlin	Hotel Business	100%	100%	(15,234)	(14,120)	(1,114)	15,255	(21)
NH Hotelbetriebs-u Entwicklungs, GmbH	Berlin	Hotel Business	100%	100%	(3,644)	(2,961)	(683)	4,261	(618)
NH Hoteles Austria, GmbH (*)	Vienna	Hotel Business	100%	100%	1,741	9,178	(7,437)	(2,487)	746
NH Hoteles Deutschland, GmbH (*)	Berlin	Hotel Business	100%	100%	12,633	76,535	(63,902)	(4,766)	(7,867)
NH Hoteles España, S.L. (*)	Barcelona	Hotel Business	100%	100%	82,765	237,906	(155,141)	(189,931)	107,166
NH Hoteles Participaties, NV (*)	Amsterdam	Holding	100%	100%	456,062	504,038	(47,975)	(453,669)	(2,394)
NH Hotels Czequia, s.r.o.	Prague	Hotel Business	100%	100%	(1,458)	(1,435)	(23)	35	1,423
NH Hoteles France, S.R.L.	Nice	Hotel Business	100%	100%	2,396	6,577	(4,181)	(1,863)	(533)
NH Hotels Polska, Sp. Zo.o.	Poland	Hotel Business	100%	100%	129	130	(1)	(91)	(38)
NH Hoteles Switzerland, GmbH	Fribourg	Hotel Business	100%	100%	5,943	13,677	(7,735)	(8,564)	2,622
NH Hotels USA, Inc.	Houston	Hotel Business	100%	100%	276	310	(33)	(273)	(4)
NH Hungary Hotel Management, Ltd. (*)	Budapest	Hotel Business	100%	100%	(154)	1,801	(1,955)	(272)	426
NH Italia, S.p.A. (*)	Milan	Hotel Business	56%	56%	174,103	731,712	(418,013)	(341,369)	27,671
NH Lagasca, S.A.	Madrid	Hotel Business	100%	100%	6,220	15,961	(9,741)	(5,741)	(480)
NH Las Palmas, S.A. (*)	Gran Canaria	Hotel Business	75%	75%	10,471	16,673	(2,714)	(13,127)	(832)
NH Logroño, S.A.	Logroño	Hotel Business	76%	76%	1,024	1,982	(643)	(1,629)	290
NH Management Black Sea, S.R.L.	Bucharest	Hotel Business	100%	100%	2,041	2,104	(63)	(1,730)	(311)
NH Marin, S.A. (*)	Barcelona	Hotel Business	50%	50%	930	3,475	(1,614)	(1,026)	(834)
NH Orio, Srl. (*)	Milan	Without activity	100%	100%	-	-	-	-	-
NH Private Equity, B.V.	Amsterdam	Hotel Business	100%	100%	(16,014)	5,662	(21,676)	13,804	2,210
NH Rallye Portugal, Lda.	Portugal	Hotel Business	100%	100%	2,314	662	1,653	(2,158)	(156)
NH Resorts, S.L.	Madrid	Hotel Business	100%	100%	(792)	(750)	(42)	(151)	943
NH The Netherlands, B.V. (vh GTI, B.V.)	Hilversum	Holding	100%	100%	465,183	483,920	(18,737)	(457,885)	(7,297)
Nuevos Espacios Hoteleros, S.L.	Madrid	Hotel Business	100%	100%	(5,824)	2,501	(8,324)	312	5,511
Objekt Leipzig Messe, GmbH & Co.	Munich	Real Estate	94%	100%	380	13,619	(13,215)	375	(779)
Olofskapel Monumenten, B.V.	Amsterdam	Real Estate	100%	100%	1,073	681	392	(917)	(156)
Onroerend Goed Beheer Maatschappij Atlanta Rotterdam, B.V.	Rotterdam	Real Estate	100%	100%	20,215	20,996	(780)	(19,212)	(1,003)
Onroerend Goed Beheer Maatschappij Bogardeind Geldrop, B.V.	Geldrop	Real Estate	100%	100%	9,702	10,033	(330)	(9,239)	(463)
Onroerend Goed Beheer Maatschappij Capelle aan den Ijssel, B.V.	Capelle a/d Ijssel	Real Estate	100%	100%	9,119	9,055	63	(8,725)	(393)
Onroerend Goed Beheer Maatschappij Danny Kayelaan Zoetermeer, B.V.	Zoetermeer	Real Estate	100%	100%	8,895	9,514	(619)	(8,487)	(408)
Onroerend Goed Beheer Maatschappij Ijsselmeerweg Naarden, B.V.	Naarden	Real Estate	100%	100%	15,135	15,433	(298)	(14,418)	(716)
Onroerend Goed Beheer Maatschappij Kruisweg Hoofddorp, B.V.	Hoofddorp	Real Estate	100%	100%	56,455	58,001	(1,547)	(53,883)	(2,572)
Onroerend Goed Beheer Maatschappij Maas Best, B.V.	Best	Real Estate	100%	100%	6,526	6,636	(110)	(6,219)	(307)
Onroerend Goed Beheer Maatschappij Marquette Heemskerk, B.V.	Heemskerk	Real Estate	100%	100%	6,059	6,071	(12)	(5,808)	(251)
Onroerend Goed Beheer Maatschappij Van Alphenstraat Zandvoort, B.V.	Zandvoort	Real Estate	100%	100%	13,920	13,544	376	(13,236)	(684)
Onroerend Goed Beheer Maatschappij Prins Hendrikkade Amsterdam, B.V.	Amsterdam	Real Estate	100%	100%	80,540	83,649	(3,109)	(76,758)	(3,783)
Onroerend Goed Beheer Maatschappij Stadhouderskade Amsterdam, B.V.	Amsterdam	Real Estate	100%	100%	64,384	67,608	(3,224)	(61,448)	(2,936)
Operadora Nacional Hispana, S.A. de C.V.	Mexico City	Hotel Business	100%	100%	7,108	20,349	(13,241)	(5,388)	(1,720)

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	Net book value at parent company	€ Thousand			
						Assets	Liabilities	Equity	(Profit) Loss for the year
Palatium Amstelodamum, N.V.	Amsterdam	Hotel Business	100%	100%	6,634	8,734	(2,100)	(7,204)	570
NH Parque de la 93, S.A.	Bogotá	Hotel Business	100%	100%	21,382	23,028	(1,647)	(22,041)	660
Polis Corporation, S.A.	Buenos Aires	Hotel Business	95%	95%	7,733	9,341	(1,200)	(7,350)	(790)
Resco Sotogrande, S.L.	Spain	Real Estate	100%	100%	2,164	5,678	3,415	3,759	(1,496)
Restaurant D'Vijff Vlieghen, B.V.	Amsterdam	Catering	100%	100%	2,252	2,686	(434)	(2,045)	(208)
Servicios Chartwell de Nuevo Laredo, S.A. de C.V. (*)	Nuevo Laredo	Hotel Business	100%	100%	(1)	(1)	-	28	(28)
Servicios Corporativos Chartwell Monterrey, S.A. de C.V. (*)	Monterrey	Hotel Business	100%	100%	(43)	58	(101)	58	(15)
Servicios Corporativos Hoteleros, S.A. de C.V. (*)	Mexico City	Hotel Business	100%	100%	808	1,154	(345)	(543)	(265)
Servicios Corporativos Krystal Zona Rosa, S.A. de C.V. (*)	Mexico City	Hotel Business	100%	100%	(44)	462	(505)	(9)	53
Servicios de Operación Turística, S.A. de C.V. (*)	Guadalajara	Hotel Business	100%	100%	-	-	-	-	-
Servicios Hoteleros Tlalnepantla, S.A. de C.V. (*)	Mexico City	Hotel Business	100%	100%	-	-	-	6	(6)
Sotogrande, S.A. (*)	Cadiz	Real Estate	97%	97%	194,697	234,376	(33,703)	(209,800)	9,126
Stadskasteel Oudaen, B.V.	Utrecht	Without activity	100%	100%	(1,067)	(1,067)	-	1,067	-
Goude Hooft, B.V.	The Hague	Without activity	100%	100%	(1,076)	(1,076)	-	1,076	-
Toralo, S.A. (*)	Uruguay	Hotel Business	100%	100%	6,803	8,026	(1,223)	(6,469)	(334)
Varallo comercial, S.A.	Santo Domingo	Hotel Business	14%	14%	(4)	622.83	(652,47)	(1,31)	30,95
VSOP VIII, B.V. (**)	Groningen	Hotel Business	50%	50%	1,706	8,310	(4,894)	(2,761)	(651)

(*) Companies audited by Deloitte
(**) Companies audited by PriceWaterhouseCoopers

ANNEX II: ASSOCIATED COMPANIES

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	Net book value at parent company	€ Thousand			
						Investee Company Details			
						Assets	Liabilities	Equity	(Profit) Loss for the year
Capredo Investments, GmbH (*)	Switzerland	Holding	50%	50%	16,643	45,547	(363)	(46,201)	1,017
Consorcio Grupo Hotelero T2, S.A. de C.V.	Mexico City	Hotel Business	10%	10%	493	22,614	(17,681)	(4,578)	(356)
Fonfir 1, S.L.	Madrid	Real Estate	50%	50%	1,503	203	(3)	(59)	(141)
Harrington Hall Hotel, Ltd.	London	Hotel Business	25%	25%	1,259	56,340	(63,927)	10,677	(3,089)
Inmobiliaria 3 Poniente, S.A. de C.V.	Mexico	Hotel Business	27%	27%	1,844	8,940	(2,134)	(6,285)	(521)
Kensington Hotel Value Added I, Ltd	London	Hotel Business	30%	30%	3,248	5,546	-	7,224	(12,771)
Mil Novecientos Doce, S.A. de C.V.	Mexico	Hotel Business	25%	25%	2,024	13,441	(5,343)	(7,910)	(188)
Palacio de la Merced, S.A.	Burgos	Hotel Business	25%	25%	1,533	15,576	(9,470)	(6,041)	(66)
Sotocaribe, S.L.	Madrid	Holding	36%	36%	62,353	79,916	84,231	164,147	(872)
Varallo Comercial, S.A.	Dominican Republic	Hotel Business	14%	14%	4	623	(652)	(1)	31

(*) Companies audited by Deloitte

ANNEX III: JOINT VENTURES

The data on the three real-estate companies with registered addresses in San Roque, Cadiz which are consolidated with the Parent Company using the proportional consolidation method are presented below. At 31 December 2012, the Parent Company's percentage interest in investee companies and the percentage of voting rights controlled by the Parent Company amounted to 50%, as shown below:

Investee company	€ Thousand				
	Net book value at parent company	Assets	Liabilities	Equity	(Profit) Loss for the year
Los Alcornoques de Sotogrande, S.L.	934	8,085	(8,937)	(2,454)	3,306
Residencial Marlin, S.L.	23,406	55,581	(8,495)	(56,479)	9,393
Borokay Beach, S.L.	4,245	15,711	(7,221)	(8,810)	321

ANNUAL REPORT OF THE AUDIT COMMITTE

1) Functions, competencies and functioning of the Audit Committee

The Audit and Control Committee's primary function is to provide the Board of Directors with support in its oversight and control functions, the most important of which consist of ensuring that generally accepted accounting standards are correctly applied and the integrity of the internal control systems used to draw up the individual and consolidated Annual Accounts is maintained.

On 31 March 2004, the Board of Directors approved the Board of Directors Regulations which developed the Audit and Control Committee's framework, the way it is run and its composition. One of the most significant changes has been caused by the entry into force of the following legislation: Law 12/2010 of 30 June, amending Law 19/1988 of 12 July, on the Auditing of Accounts, Law 24/1988 of 28 July on the Securities Market and the consolidated text of the Law on Limited Companies, approved by Royal Legislative Decree 1564/1989 of 22 December, for its adaptation to EU regulations, by virtue of which the Audit Committee has been given a specific legal framework regarding its functioning and powers, with the bylaw provisions and content of the Board Regulations on this matter having been appropriately modified for the purposes of adaptation to the aforementioned legal text.

Consequently, both the text of the Articles of Association, as well as the regulations contained in the Board Regulations govern all matters concerning the composition, competencies and functioning of the Audit Committee, which can essentially be summarised as follows:

a) Composition

The Audit and Control Committee shall comprise at least three and at most five Directors appointed by the Board of Directors. All the members of said Committee must be external or non-executive Directors.

The Audit and Control Committee's members, and particularly its Chairman, shall be appointed on the basis of their knowledge and experience in accounting, auditing or risk management.

The Chairman of the Audit and Control Committee shall be an independent director and shall be appointed from among the directors who hold neither management nor executive responsibilities in the organisation nor maintain a contractual relationship other than the office to which they have been appointed. The Chairman shall be appointed from among the Committee's members who are non-executive directors. The chairman shall be replaced every four years and may be re-elected one year after standing down from office.

b) Competencies

Notwithstanding any other tasks it may be entrusted with by the Board of Directors, the Audit and Control Committee's primary function consists of providing support to the Board of Directors in its oversight functions and, more specifically, it holds at least the following competencies:

1. By means of its Chairman, to report, within the sphere of its competence, on any issues raised by shareholders at the General Shareholders' Meeting.

2. Supervising the effectiveness of the company's internal control, internal auditing, where applicable, and risk-management systems, as well as discussing any significant weaknesses in the internal control system, identified during audits, with auditors or audit companies.

3. To supervise the process of preparing and the integrity of financial reporting relating to the Company and, should it be the case, to the Group, reviewing compliance with regulations, correct scope of consolidation and the proper application of accounting standards.

4. To propose to the Board of Directors the appointment of the Auditor of Accounts for submission to the General Shareholders' Meeting, as well as, where appropriate, the conditions under which the Auditor's services are engaged, the scope of their professional mandate and the revocation or renewal of their appointment.

5. Establishing suitable relationships with auditors or audit firms in order to receive information regarding any issues that may endanger their independence, so that these can be examined by the committee, as well as any other matters related with the process of conducting accounts auditing, as well as any other communications stipulated in the accounts auditing legislation and audit regulations. In any event, it shall receive written confirmation on an annual basis from the auditors of accounts or auditing firms of their independence from the Company or from any entities related to it either directly or indirectly, as well as information on any additional service of any kind whatsoever provided to such entities by the aforementioned auditors of accounts or by persons related to them in accordance with the provisions set forth in Act 19/1988 of 12 July on the Auditing of Accounts.

6. Issuing, once a year and prior to the release of the accounts auditing report, a report expressing an opinion regarding the independence of the auditors or audit firms. This report must, in all cases, make a statement regarding the provision of any services additional to those mentioned in the previous section.

7. To safeguard the independence and efficiency of the internal auditing area; to propose the recruitment, appointment, reappointment and removal of the person in charge of internal auditing; to propose said service's budget; to receive periodic information about its activities; and to verify that senior management is aware of the conclusions and recommendations made in internal audit reports.

8. To set and oversee a mechanism that allows employees to report in confidence and, if appropriate, anonymously, any irregularities that could be potentially important, especially any financial and accounting irregularities they may notice within the company, and specifically those related to the Code of Conduct.

9. To supervise compliance and internal codes of conduct, as well as the rules of corporate governance.

10. To inform the Board about all matters connected with related-party transactions, which shall be construed as they are defined by the prevailing Capital Companies Act.

11. To inform the Board about the creation or acquisition of any equity investments in special purpose vehicles and companies registered in tax havens, as well as about any other transactions or operations of a similar nature which, due to their complexity, might negatively affect the group's transparency.

12. To exercise any other competencies said Committee has been assigned by virtue of these Regulations or by the Board of Directors.

c) Functioning

The Audit and Control Committee shall meet at least once a quarter and as many times as may be necessary after being called by its Chairman at his/her own initiative or upon the request of two of its members or of the Board of Directors.

The Audit and Control Committee may require any of the Company's employees or executives to attend its meetings, in addition to the Company's Auditor of Accounts.

2) Composition of the Audit Committee

The composition of the Audit and Control Committee fulfils the regulations laid down by the Board Regulations of NH Hoteles, S.A.,.which faithfully reflects the Recommendations of the Unified Code of Good Governance.

In 2012 there was one change in the make-up of the Audit Committee, brought about by the resignation tendered by D.Juan Llopart, having designated D.Manuel Galarda Pont as his replacement in representation of Participaciones y Cartera de Inversion S.L.

After this change, the composition of the Audit Committee is as follows:

Chairman:
Mr Carlos González Fernández

Members:
Mr Iñaki Arratíbel Olaziregi
Mr Ignacio Ezquiaga Domínguez (acting on behalf of Hoteles Participados, S.L.)
Mr Manuel Galarza Pont (acting on behalf of Participaciones y Carrtera de Inversion S.L.)

3) Relationships with External Auditors

The parent company of Grupo NH Hoteles has been audited by well-renowned companies since 1986. Between 1986 and 1992 it was audited by Peat Marwick, and by Arthur Andersen between 1993 and 2001. It has been audited by Deloitte since 2002.

The Consolidated Annual Accounts for financial year 2012 were audited by five independent firms.

Deloitte is the principal auditor and, as such, issues an auditing opinion on the consolidated annual accounts. It verified the accounts of the companies which form part of the Spain (except Portugal), Italy, Germany, The Netherlands/Belgium, Austria, Switzerland, Mexico. MERCOSUR and Sotogrande Business Units, which account for 96,5 % of consolidated assets and 98,6 % of turnover.

Deloitte was appointed as the Group's principal auditor for a one-year period at the General Shareholders' Meeting of NH Hoteles held on 29 June 2012 and the auditors of the different Business Units mentioned above were appointed at their respective General Shareholders' Meetings held over the course of the first half of 2012. This firm has been the Group's principal auditor since 2002, though changes occurred regarding the partner responsibility for the audit in 2003, 2005 and 2007. The total fees received by the firm for its professional auditing services for financial year 2012 amounted to 1,40 million euros (1,46 million euros in 2011).

PriceWaterhouseCoopers was appointed as auditor of the Dutch, Belgian and Swiss companies in 1998, of the Austrian companies in 2004 and of a Luxembourg company in 2009, having been replaced in this role by Deloitte in 2011.

The companies in Portugal are audited by Batista, Costa y Asociados; the US companies are audited by McGladrey & Pullen, LLP and the Hungarian company by Ernst & Young. The total fees for the auditing services provided in financial year 2012 by all these auditing firms amounted to 0.04 million euros (0.04 million euros in 2011).

The Audit Committee has received information about such issues as may have endangered the independence of the auditors and, after carefully reviewing this information, has issued a report expressing its opinion regarding their independence and the provision of services in addition to those of auditing.

4) Contents and Results of the Audit Committee's Work

The Audit Committee held twelve meetings in 2012, which covered the following matters:

a) Analysis and assessment, along with the external auditors, of the Financial Statements and the Annual Reports for 2011 and 2012, ensuring that the auditing opinion was issued under conditions of absolute independence.

b) Review of the information relating to any issues that may endanger the independence of the auditors. Issuance of the report on the independence of the auditors.

c) Review of periodic financial reporting prior to its analysis and approval by the Board of Directors in order to ensure said reporting is reliable, transparent and drawn up using uniform accounting standards and principles.

d) Monitoring of the Internal Audit Plan for 2012, including an examination of its conclusions and the implementation, as appropriate, of the necessary corrective measures.

e) Review and updating of the Group's Risk Map. Analysis and assessment of the specific risks related to the Financial information issuing.

f) Examination of the Annual Corporate Governance Report prior to its submission to the Board of Directors for analysis and approval, placing special emphasis on analysing how the situations of Directors and Executives had been recorded.

g) Analysis of related-party transactions in order to verify that they had been performed under market conditions, as has been the case.

h) Monitoring the most significant projects carried out by the internal auditing team. Audits Performance in Italy and Resorts. SCIIF development and implementation. Continuous audit evolution analysis.

5) Priorities for 2013

This Committee's priorities for this year, apart from those related to drawing up and issuing public financial reporting, are focused on:

1. Continuation of the project to implement the System of Internal Control over Financial Reporting. Periodical review of the implementation performed (Corporate and Spain/ Portugal Business Unit)

2. Development and Implementation of the Continuous Auditing Project:
   - Obtaining, preparing and analysing the main operational / financial indicators (KPI/KRI).
   - Use of the mentioned indicators for the selection of risk areas. Internal control system implementation based on sending the KPI to the different profit centres.
   - New Audit working papers implementation, following these steps:
     a. Previous analysis of risk areas.
     b. Remote audit process. Risk control through KPI.
     c. Face audit. Substantive test performance in the hotels.

3. Analysis and review of the operational and administrative risk map with regard to hotels:
   - Review and improvement of the controls implemented at present.
   - Design of new controls, implementation in IT tools.

4. Follow up of the incidences detected in the audits performed in previous months. Compliance of the action plans issued by the departments and Business Units.

5. Analysis and evaluation of all the processes related to IT systems related to the Front area of the company (Booking, Production, Invoicing). Controls and procedures development.

To conclude this report, it should be highlighted that this Committee has had access to external experts (auditors, appraisers or consultants) and members of the economic and financial management teams whenever it has deemed it necessary in order to carry out the aforementioned work.

Madrid, 27th of March, 2013

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WEBSITES OF INTEREST:

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Corporate website: http://corporate.nh-hotels.com
Environmental website: http://medioambiente.nh-hoteles.es

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