NH | HOTEL GROUP

PART OF MINOR HOTELS

ANNUAL REPORT 2019

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

NH nhow Amsterdam RAI
Amsterdam, The Netherlands

ANNUAL REPORT 2019

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

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

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

Free translation of the independent auditor´s report on the consolidated annual accounts originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

Audit report on the consolidated annual accounts issued by an independent auditor

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

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of NH Hotel Group, S.A. (the parent company) and its subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2019, consolidated profit and loss statement, consolidated statement of changes in shareholders equity, consolidated cash flow statement and the notes to the consolidated annual accounts for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the Group's consolidated equity and financial position at 31 December 2019 and the consolidated results of its operations and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We have performed our audit in accordance with audit regulations in force in Spain. Our responsibilities under said regulations are described below under *Responsibilities of the auditor in relation to the audit of the consolidated annual accounts.*

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, applicable to our audit of the consolidated annual accounts in Spain, as required by auditing regulations. In this respect, we have not provided any services other than audit services, nor have any situations or circumstances arisen that, in accordance with those regulations, might have undermined said independence.

We consider that the audit evidence obtained provides a sufficient and appropriate basis for our opinion.

Key audit matters

Key audit matters are those that, based on our professional judgement, have been of the most significance in the audit of the consolidated annual accounts for the current period. These matters have been addressed in the context of our audit of the consolidated annual accounts as a whole and in the preparation of our opinion thereon, and we do not express a separate opinion on these matters.

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matters	How the matter was addressed in the audit
Recoverability of assets associated with the hotel business.	
The Group operates 368 hotels under leases or owned. The assets associated with the hotel business include goodwill, right-of-use assets, property, plant and equipment and intangible assets, the carrying amounts of which amount to €107 million, €1,702 million, €1,713 million and €84 million, respectively, at 31 December 2019, representing 82% of all assets. The Group assesses the assets for signs of impairment each year to determine whether there are any impairment losses entailing the write-down of the carrying amounts of the assets, calculated as described in Notes 4.2 and 4.4 to the consolidated annual accounts. As a general rule, Group management estimates the recoverable amount of each cash-generating unit (CGU) on the basis of value in use, calculated using cash flows estimated by applying discount rates and expected growth rates, in accordance with the business plans approved by management. As recognised in the consolidated profit and loss statement, the Group has recorded under " Net Profit /(Losses) from asset impairment" a net positive effect of impairment and reversal of impairment on the aforementioned assets amounting of €4,889 thousand. In view of the significance of the judgements made by the Group and the significant estimates made to perform the said calculations, and considering the quantitative relevance of the assets, we believe the assessment of the recoverability of the assets associated with the hotel business to be a key audit matter.	Our audit procedures have included, among others: Understanding of the methodology employed and evaluation of the controls in place in the Group's asset recovery analysis processes. Obtainment from management of the impairment test carried out, to which we have applied the following substantive procedures, assisted by our internal experts: • Verification of the reasonableness of the procedures and methods used to perform the impairment test. • Assessment of the reasonableness of the key assumptions and estimates included in the model in relation both to future cash flow forecasts and the key aspects included in the estimation of the cash flows, such as the method applied by management to estimate the discount rates within an acceptable range. • Analysis of departures between the cash flow projections prepared by management in the past and actual data. • Arithmetic verification of the calculations taken into consideration in the impairment test and assessment of the sensitivity analyses, including the ranges within which the key model assumptions should fluctuate in order to give rise to the impairment of assets or the reversal of existing provisions. • Evaluation of the sufficiency of the related information disclosed in the consolidated annual accounts. The findings of the procedures carried out have allowed us to achieve the audit objectives for which the procedures were designed.

Key audit matters	How the matter was addressed in the audit
Adoption of IFRS 16 - Leases	

The Group has adopted IFRS 16 – Leases, with effect on 1 January 2019, for all contracts that were identified as leases pursuant to IAS 17 and IFRIC 4, barring the exemptions recognised by the standard.

As stated in Note 2.1.1 to the accompanying annual accounts, IFRS 16 lays down the principles for recognising, measuring, presenting and disclosing leases. The standard stipulates that a liability must be recognised at lease inception equal to the present value of the lease instalments. The liability will include fixed instalments and those that are in substance fixed instalments, as well as variable instalments depending on an index or interest rate. In turn, an asset will be recognised representing the right of use of the underlying asset during the lease term.

The Group has applied the modified retrospective approach, entailing the recognition at the adoption date, as indicated in Note 2.1.1, of right-of-use assets amounting to €1,747 million and a lease liability of €2,099 million.

Group management has taken the necessary steps to correctly adopt the standard, which include analysing all the contracts affected by IFRS 16, studying the specific implications of each contract type to which it is applicable, determining lease terms, estimating discount rates and adapting systems to correctly recognise the first-time adoption of the standard in the accounts.

The implementation of the new standard has had considerable accounting impacts on the Group as regards the total value of its assets and liabilities, there being numerous contracts containing non-homogeneous clauses. The risk of material misstatement as a result of any incident in this first-time adoption process, together with the assessment of management's judgements and interpretations as regards the terms of the leases and the estimation of discount rates, have led us to consider our work on the first-time adoption of IFRS 16 16 – Leases to be a key audit matter.

Our audit procedures relating to the adoption of IFRS 16 – Leases include the following:

- Understanding and assessment of the accounting policies applied by management to adopt the standard as from 1 January 2019.
- Assessment of the operating effectiveness of the key controls associated with the calculation of the accounting effects of adopting the standard.
- Testing of the completeness of information, checking the inclusion in the computer system of all the contracts to which the standard is applicable.
- Evaluation of the estimates and assumptions considered by the Group to estimate the discount rates used for the leases deemed to be affected by the adoption of the standard.
- Performance of tests of detail on the information relating to the leases recorded in the systems, checking, based on a sample of leases, their existence, the correct determination of lease terms and the amount, in accordance with applicable accounting requirements.
- Assessment of the sufficiency of the information disclosed in the consolidated annual accounts in relation to the first-time adoption of IFRS 16.

The findings of the procedures carried out have allowed us to achieve the audit objectives for which the procedures were designed.

Other matters

The consolidated annual accounts of NH Hotel Group, S.A. and subsidiaries for the financial year ended 31 December 2018 were audited by a different auditor, which issued a favourable opinion on those consolidated annual accounts on 25 February 2019.

Other information: Consolidated management report

The other information only relates to the consolidated management report for 2019, the preparation of which is the responsibility of the parent company's directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility for the information contained in this consolidated management report is defined in auditing legislation, which establishes two distinct levels:

a) A specific level applicable to the status of consolidated non-financial information and to certain information included in the Annual Corporate Governance Report (ACGR), as defined in Article 35.2. b) of Audit Law 22/2015, which consists of merely verifying that the said information has been furnished in the management report or, if applicable, that the report includes the relevant reference to the separate report on non-financial information in the manner stipulated in legislation. Otherwise, we are required to report on this matter.

b) A general level applicable to the other information included in the consolidated management report, which consists of assessing and reporting on the consistency of the said information with the consolidated annual accounts, based on our knowledge of the Group obtained during the audit of the accounts, without including information other than the audit evidence obtained, as well as evaluating and reporting on whether the content and presentation of this part of the consolidated management report are in line with applicable legislation. If we conclude that there are material misstatements on the basis of our work, we are required to report them.

On the basis of the work performed, as described above, we have verified that the information mentioned in paragraph a) above is presented in the separate report, "Non-Financial Information Consolidated Statement 2019", to which the consolidated management report refers, that the ACGR information, mentioned in the said paragraph, is included in the consolidated management report and that the other information contained in the consolidated management report is consistent with that of the consolidated annual accounts for 2019 and its content and presentation comply with application legalisation.

Responsibility of the directors and the Audit and Control Committee in relation to the consolidated annual accounts

The directors of the parent company are responsible for the preparation of the accompanying consolidated annual accounts such that they present fairly the Group's consolidated equity, financial situation and results in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for the internal control which they consider necessary to enable the preparation of annual accounts free from material misstatements, due to fraud or error.

In the preparation of the consolidated annual accounts, the parent company's directors are responsible for assessing the Group's capacity to continue as a going concern, disclosing, as appropriate, any going concern-related issues and applying the going-concern accounting principle, unless the directors intend to wind up the Group or discontinue its operations, or unless no other realistic alternative exists.

The parent company's Audit and Control Committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditors' responsibilities in relation to the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement due to fraud or error, and to issue an audit report containing our opinion.

Reasonable assurance is a high degree of assurance but does not guarantee that an audit conducted in accordance with current Spanish auditing regulations will always detect a material misstatement when such exists. Misstatements may be due to fraud or error and are regarded as material if, individually or in aggregate, it may reasonably be foreseen that they will influence the business decisions taken by users on the basis of the consolidated annual accounts.

As part of an audit conducted in accordance with prevailing Spanish audit regulations, we apply our professional judgement and maintain an attitude of professional scepticism throughout the audit. In addition:

- We identify and assess the risks of material misstatement in the consolidated annual accounts due to fraud or error; we design and apply audit procedures to respond to those risks and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting material misstatement due to fraud is higher than in the case of a material misstatement due to error, as fraud may involve collusion, falsification, deliberate omissions, intentionally erroneous statements or the circumvention of internal control.

- We obtain knowledge of internal control mechanisms relevant for the audit in order to design the audit procedures which are appropriate depending on the circumstances, and not with the intention of expressing an opinion on the efficiency of the Group's internal control system.

- We assess whether the accounting policies applied are adequate and the reasonableness of the accounting estimates and the relevant information disclosed by the parent company's directors.

- We conclude as to whether the utilisation by the parent company's directors of the going concern principle is appropriate and, basing ourselves on the audit evidence obtained, we conclude as to whether there is or not any material uncertainty in relation to the events or conditions that could generate significant doubts as to the Group's capacity to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our audit report to the corresponding information disclosed in the consolidated annual accounts or, if those disclosures are unsuitable, to express a modified opinion. Our conclusions are based on audit evidence obtained up to the date of our audit report. However, future events or conditions could cause the Group to cease to be a going concern.

- We evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosed information, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that succeeds in expressing a true and fair view.

- We obtain sufficient, adequate evidence relating to the financial information of the Group's entities or business activities to express an opinion on the consolidated annual accounts. We are responsible for managing, overseeing and performing the audit of the Group. We are solely responsible for our audit opinion.

We liaise with the parent company’s Audit and Control Committee in relation to, among other matters, the planned scope and timing of the audit and the significant audit findings, as well as any major internal control weakness that we identify in the course of our audit.

We also provide the parent company’s Audit and Control Committee with a statement to the effect that we have complied with applicable ethical requirements, including those of independence, and we have notified the Audit Committee of any issues that could reasonably pose a threat to our independence and, if appropriate, the relevant safeguards.

Among the significant risks notified to the parent company's Audit and Control Committee, we determine those that have been of the greatest significance in the audit of the consolidated annual accounts for the current period and which therefore are key audit matters.

We describe these matters in our audit report unless legal or regulatory provisions prohibit the public disclosure of the matter concerned.

Report on other legal and regulatory requirements

Additional report for the parent company's Audit and Control Committee

The opinion expressed in this report is consistent with the content of our additional report for the parent company's Audit and Control Committee dated 25 February 2020.

Term of engagement

We were appointed as the Group's auditors by the Annual General Meeting held on 13 May 2019 for a three-year period commencing as from the year ended 31 December 2019.

Services rendered

The non-audit services provided to the Group are described in Note 25.4 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by Mariano Cortés Redín (21829)

25 February 2020

CONSOLIDATED BALANCE SHEETS

At 31 December 2019 and 31 December 2018 (Thousand euros)

ASSETS

	Note	31/12/2019	31/12/2018
NON-CURRENT ASSETS:			
Goodwill	6	106,577	109,432
Intangible assets	7	83,807	110,569
Investment Property		2,964	-
Property, plant and equipment	8	1,713,123	1,637,718
Right-of-use assets	9	1,701,499	-
Investments accounted for using the equity method	10	7,517	8,971
Non-current financial investments-	11	37,402	54,126
Loans and accounts receivable not available for trading		35,327	42,598
Other non-current financial investments		2,075	11,528
Deferred tax assets	19	220,040	138,724
Other non-current assets		-	13,427
Total non-current assets		**3,872,929**	**2,072,967**

	Note	31/12/2019	31/12/2018
CURRENT ASSETS:			
Non-current assets classified as held for sale	12	47,811	55,974
Inventories		11,123	10,435
Trade receivables	13	106,496	106,601
Non-trade receivables-		55,928	38,195
Tax receivables	19	28,961	19,451
Other non-trade debtors	11	26,967	18,744
Accounts receivable from related entities		2,493	978
Cash and cash equivalents	14	289,345	265,869
Other current assets		5,771	12,109
Total current assets		**518,967**	**490,161**
TOTAL ACTIVO		**4,391,896**	**2,563,128**

NET ASSETS AND LIABILITIES

	Note	31/12/2019	31/12/2018
EQUITY:			
Share capital	15	784,361	784,361
Reserves of the parent company	15	777,089	681,068
Reserves of fully consolidated companies		(354,908)	(28,511)
Reserves of companies consolidated using the equity method		(18,198)	(23,436)
Conversion differences		(58,407)	(60,854)
Treasury shares and shareholdings	15	(1,647)	(2,530)
Consolidated profit for the period		89,964	101,573
Equity attributable to the shareholders of the Parent Company		**1,218,254**	**1,451,671**
Non-controlling interests	15	57,239	52,351
Total equity		**1,275,493**	**1,504,022**

	Note	31/12/2019	31/12/2018
NON-CURRENT LIABILITIES:			
Debt instruments and other marketable securities	16	345,652	342,485
Bank borrowings	16	106,695	71,473
Leasing liabilities	9	1,814,399	-
Other financial liabilities		1,160	1,762
Other non-current liabilities	17	7,637	47,296
Provisions for contingencies and charges	18	48,241	51,178
Deferred tax liabilities	19	180,082	177,478
Total non-current liabilities		**2,503,866**	**691,672**

	Note	31/12/2019	31/12/2018
CURRENT LIABILITIES:			
Liabilities associated with non-current assets classified as held for sale	12	2,584	2,456
Debt instruments and other marketable securities	16	141	73
Bank borrowings	16	3,111	4,881
Leasing liabilities	9	252,970	-
Other financial liabilities		251	710
Trade and other payables	20	257,499	252,704
Accounts payable from related entities		1,050	-
Tax payables	19	40,875	59,453
Provisions for contingencies and charges	18	5,021	2,713
Other current liabilities	22	49,035	44,444
Total current liabilities		**612,537**	**367,434**

NET ASSETS AND LIABILITIES		**4,391,896**	**2,563,128**

Notes 1 to 31 set forth in the Consolidated Annual Report and Annexes I/III are an integral part of the Consolidated Balance Sheet at 31 December 2019.
The Consolidated Balance Sheet at 31 December 2018 is presented solely for the purposes of comparison.
The balance sheet at 31 December 2019 includes the application of IFRS 16 (See Note 2.1.1) that was not considered during 2018 given that its entry into force was 1 January 2019 In accordance with the significant event publish in 6 May 2019, the Group has restated the comparative figures for 2018 (See Note 2.2).

CONSOLIDATED COMPREHENSIVE PROFIT AND LOSS STATEMENTS

For the years 2019 and 2018 (Thousand euros)

	Note	2019	2018
Revenues	25.1	1,708,078	1,613,388
Other operating income	25.1	9,352	6,132
Net gains on disposal of non-current assets	7, 8, 12 and 25.1	(709)	85,982
Procurements		(76,765)	(74,810)
Staff costs	25.3	(448,762)	(422,671)
Depreciation and amortisation charges	7, 8 y 9	(297,080)	(116,301)
Net Profits/(Losses) from asset impairment	6, 7, 8 y 9	4,889	(304)
Other operating expenses		(624,175)	(852,924)
Variation in the provision for onerous contracts	18	-	4,342
Other operating expenses	25.4	(624,175)	(857,266)
Gains on financial assets and liabilities and other		8,529	(373)
Profit (Loss) from entities valued through the equity method	10	22	(499)
Financial income	25.2	4,204	6,039
Change in fair value of financial instruments		306	-
Financial expenses	25.5	(135,472)	(59,997)
Results from exposure to hyperinflation (IAS 29)	2.4 and 25.6	(85)	635
Net exchange differences (Income/(Expense))		(2,341)	1,053
Impairment on financial investments	12 and 26	(18,572)	-
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**131,419**	**185,350**
Corporation tax	19	(38,568)	(79,664)
PROFIT FOR THE PERIOD FROM CONTINUING ACTIVITIES		**92,851**	**105,686**
Profit (loss) for the year from discontinued operations net of tax	12	50	(568)
PROFIT FOR THE PERIOD		**92,901**	**105,118**
Conversion differences		3,536	(2,187)
Income and expenses recognised directly in equity		**3,536**	**(2,187)**
TOTAL COMPREHENSIVE PROFIT		**96,437**	**102,931**
Profits for the year attributable to:			
Parent Company Shareholders		89,964	101,573
Non-controlling interests		2,937	3,545
Comprehensive loss attributable to:			
Parent Company Shareholders		92,245	101,399
Non-controlling interests	15.4	4,192	1,532
PROFIT PER SHARE IN EUROS (BASIC)	**5**	**0.230**	**0.275**

Notes 1 to 31 set forth in the Consolidated Annual Report and Annexes I/II form an integral part of the consolidated comprehensive profit and loss statement for 2019.
The Consolidated Comprehensive Profit and Loss Statement for 2018 is presented solely for the purposes of comparison.
The consolidated comprehensive profit and loss statement at 31 December 2019 includes the application of IFRS 16 (See Note 2.1.1) that was not considered during 2018 given that its entry into force was 1 January 2019 In accordance with the significant event publish in 6 May 2019, the Group has restated the comparative figures for 2018 (See Note 2.2).

STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

For 2019 and 2018 (Thousand euros)

	Share Capital	Reserves of the parent company			Reserves in Companies Consolidated by		Currency translation differences	Equity Instruments	Treasury shares and sharehol-dings	Results at-tributable to Parent Company	Total	Non-controlling Interests	Total Equity
		Share Premium	Legal reserves	Other reserves	Full conso-lidation	The equity method							
Balances at 31 December 2017	**700,544**	**634,659**	**56,017**	**(164,433)**	**38,877**	**(23,087)**	**(157,542)**	**27,230**	**(39,250)**	**35,489**	**1,108,504**	**43,472**	**1,151,976**
Application adjustment of IFRS 9 (Note 2.2)	-	-	-	8,571	-	-	-	-	-	-	8,571	-	8,571
Application adjustment of IAS 29 (Note 2.2)	-	-	-	-	(50,724)	-	96,862	-	-	-	46,138	7,093	53,231
Initial balance adjusted 01 January 2018	**700,544**	**634,659**	**56,017**	**(155,862)**	**(11,847)**	**(23,087)**	**(60,680)**	**27,230**	**(39,250)**	**35,489**	**1,163,213**	**50,565**	**1,213,778**
Net profit (loss) for 2018	-	-	-	-	-	-	-	-	-	117,785	117,785	6,722	124,507
Exchange differences	-	-	-	-	-	-	(174)	-	-	-	(174)	(2,013)	(2,187)
Recognised income and expenses for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(174)**	**-**	**-**	**117,785**	**117,611**	**(2,013)**	**122,320**
Capital increase	-	-	-	-	-	-	-	-	-	-	-	500	500
Distribution of Profit (Loss) 2017-													
- To Reserves	-	-	2,817	25,355	7,666	(349)	-	-	-	(35,489)	-	-	-
- To Dividends	-	-	-	(39,158)	-	-	-	-	-	-	(39,158)	(729)	(39,887)
Remuneration Scheme in shares (Note 28 and 15.3)	-	-	-	1,185	-	-	-	-	1,029	-	2,241	-	2,241
Application adjustment of IAS 29 (Note 2.2)	-	-	-	-	(43,199)	-	-	-	-	-	(43,199)	(548)	(43,747)
Acquisition of non-controlling interests	-	-	-	-	646	-	-	-	-	-	646	(2,146)	(1,500)
Convertible debentures	83,817	122,331	-	33,691	-	-	-	(27,230)	35,691	-	248,300	-	248,300
Other movements	-	-	-	33	2,011	-	-	-	-	-	2,044	-	2,044
Balance at 31 December 2018	**784,361**	**756,990**	**58,834**	**(134,756)**	**(44,723)**	**(23,436)**	**(60,854)**	**-**	**(2,530)**	**117,785**	**1,451,671**	**52,351**	**1,504,022**
Accounting correction (Note 2.2)	-	-	-	-	16,212	-	-	-	-	(16,212)	-	-	-
Balances at 31 December 2018 restated	**784,361**	**756,990**	**58,834**	**(134,756)**	**(28,511)**	**(23,436)**	**(60,854)**	**-**	**(2,530)**	**101,573**	**1,451,671**	**52,351**	**1,504,022**
Application of new accounting policy (IFRS 16) (Note 2.1.1)	-	-	-	(3,443)	(251,262)	-	-	-	-	-	(254,705)	(1,098)	(255,803)
Accounting criteria change (Note 2.3)	-	-	-	(1,041)	(16,591)	5,737	166	-	-	-	(11,729)	3,761	(7,968)
Initial balance adjusted at 1 January 2019	**784,361**	**756,990**	**58,834**	**(139,240)**	**(296,364)**	**(17,699)**	**(60,688)**	**-**	**(2,530)**	**101,573**	**1,185,237**	**55,014**	**1,240,251**
Net profit (loss) for 2019	-	-	-	-	-	-	-	-	-	89,964	89,964	2,937	92,901
Exchange differences	-	-	-	-	-	-	2,281	-	-	-	2,281	1,255	3,536
Recognised income and expenses for the period	**-**	**-**	**-**	**-**	**-**	**-**	**2,281**	**-**	**-**	**89,964**	**92,245**	**4,192**	**96,437**
Distribution of Profit (Loss) 2018-													
- To Reserves	-	-	16,019	144,173	(58,120)	(499)	-	-	-	(101,573)	-	-	-
- To Dividends	-	-	-	(58,771)	-	-	-	-	-	-	(58,771)	-	(58,771)
Remuneration Scheme in shares (Note 24)	-	-	-	(998)	-	-	-	-	970	-	(28)	-	(28)
Application adjustment of IAS 29 (Note 2.4)	-	-	-	-	1,151	-	-	-	-	-	1,151	777	1,928
Dividends distribution (Note 15.4)	-	-	-	-	-	-	-	-	-	-	-	(2,720)	(2,720)
Other movements	-	-	-	82	(1,575)	-	-	-	(87)	-	(1,580)	(24)	(1,604)
Balance at 31 December 2019	**784,361**	**756,990**	**74,853**	**(54,754)**	**(354,908)**	**(18,198)**	**(58,407)**	**-**	**(1,647)**	**89,964**	**1,218,254**	**57,239**	**1,275,493**

Notes 1 to 31 set forth in the Consolidated Annual Report and Annexes I/II form an integral part of the Consolidated Statement of Changes in Equity.
The Consolidated Statement of Changes in Equity for 2018 is presented solely for the purposes of comparison.
The Consolidated Statement of Changes in Equity for 2019 includes the application of IFRS 16 (See Note 2.1.1) that was not considered during 2018 given that its entry into force was 1 January 2019.
In accordance with the significant event publish in 6 May 2019, the Group has restated the comparative figures for 2018 (See Note 2.2).

CONSOLIDATED CASH FLOW STATEMENTS

Produced in the periods 2019 and 2018 (Thousand euros)

	Note	31/12/2019	31/12/2018
1. OPERATING ACTIVITIES			
Consolidated profit (loss) before tax:		**131,419**	**185,350**
Adjustments:			
Depreciation of tangible and amortisation of intangible assets (+)	7, 8 and 9	297,080	116,301
Impairment losses (net) (+/-)	7, 8 and 9	(4,889)	304
Allocations for provisions (net) (+/-)		-	(4,342)
Gains/Losses on the sale of tangible and intangible assets (+/-)	7, 8, 9, 12 and 25.1	709	(85,982)
Gains/Losses on investments valued using the equity method (+/-)	10	(22)	499
Financial income (-)	25	(4,204)	(6,039)
Variation in fair value of financial instruments (+)		(306)	-
Financial expenses (+)	26	135,472	59,997
Results from exposure to hyperinflation (IAS 29)	26	85	(635)
Net exchange differences (Income/(Expense))		2,341	(1,053)
Profit (loss) on disposal of financial investments	11	(8,529)	373
Impairment on financial investments18.572		18,572	
Other non-monetary items (+/-)		5,841	25,031
Adjusted profit (loss)		**573,569**	**289,804**
Net variation in assets / liabilities:			
(Increase)/Decrease in inventories		(144)	(626)
(Increase)/Decrease in trade debtors and other accounts receivable	11.2	(405)	28,387
(Increase)/Decrease in other current assets		(764)	(10,760)
Increase/(Decrease) in trade payables		5,466	10,480
Increase/(Decrease) in other current liabilities		(4,745)	2,948
Increase/(Decrease) in provisions for contingencies and expenses		(12,923)	3,330
(Increase)/Decrease in non-current assets	11	1,312	(403)
Increase/(Decrease) in non-current liabilities	17	(146)	(9,437)
Income tax paid		(55,959)	(61,561)
Total net cash flow from operating activities (I)		**505,261**	**252,162**
2. INVESTMENT ACTIVITIES			
Other financial incomes/collected dividends		**716**	**527**
Investments (-):			
Group companies, joint ventures and associates		(1,297)	(1,000)
Tangible and intangible assets and investments in property	7 and 8	(190,813)	(133,677)
Non-current financial investments		-	(671)
		(192,110)	**(135,348)**
Disinvestment (+):			
Group companies, joint ventures and associates	2.8.4 and 10	1,903	85
Tangible and intangible assets and investments in property		23,532	48,291
Non-current assets classified as held for sale		-	154,137
		25,435	**202,513**
Total net cash flow from investment activities (II)		**(165,959)**	**67,692**
3. FINANCING ACTIVITIES			
Dividends paid out (-)		(60,580)	(39,767)
Interest paid on debts (-)		(38,726)	(44,717)
Financial expenses for means of payment		(19,304)	(17,379)
Interest paid on debts and other interest		(19,422)	(27,338)
Variations in (+/-):			
Debt instruments:			
- Bonds and other tradable securities (+)	16	-	(44,894)
- Loans from credit institutions (+)		36,544	6,323
- Loans from credit institutions (-)	16	(3,974)	(11,147)
- Principal elements of lease payments (-)	9	(252,296)	-
- Other financial liabilities (+/-)		(755)	(262)
Total net cash flow from financing activities (III)		**(319,787)**	**(134,464)**
4. GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)		19,515	185,391
5. Effect of exchange rate variations on cash and cash equivalents (IV)		2	325
6. Effect of variations in the scope of consolidation (V)	2.8.4	3,959	(96)
7. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III-IV+VI)		23,476	185,620
8. Cash and cash equivalents at the start of the financial year		**265,869**	**80,249**
9. Cash and cash equivalents at the end of the financial year		**289,345**	**265,869**

The Consolidated Cash Flow Statements for 2018 is presented solely for the purposes of comparison.
The consolidated Cash Flow at 31 December 2019 includes the application of IFRS 16 (See Note 2.1.1) that was not considered during 2018 given that its entry into force was 1 January 2019 In accordance with the significant event publish in 6 May 2019, the Group has restated the comparative figures for 2018 (See Note 2.2).

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

NH Hotel Group, S.A. and Subsidiaries Report on the Consolidated Financial Statements for 2019

1.- ACTIVITY AND COMPOSITION OF THE PARENT COMPANY

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

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

During 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.

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

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

At the end of 2019, the Group was operating hotels in 30 countries, with 368 hotels and 57,466 rooms, of which around 70% are located in Spain, Germany, Italy and the Benelux countries.

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

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

2.1. Basis of presentation of the Consolidated Financial Statements

The consolidated financial statements for 2019 were drawn up by the directors of NH Hotel Group, S.A. at the Board meeting held on 25 February 2020, in accordance with the regulatory reporting framework applicable to the Group, as established in the Code of Commerce and all other Spanish corporate law, and in the International Financial Reporting Standards (“IFRS”) adopted by the European Union in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and in Law 62/2003, of 30 December, the Tax, Administrative, Labour and Social Security Measures Act as well as in the applicable standards and circulars of the National Securities Market Commission and the remaining Spanish accounting standards which may be applicable, and as such give a true and fair presentation the Group’s equity and financial position at 31 December 2019 and of the results of its operations, changes in equity and consolidated cash flows for the year then ended.

The consolidated financial statements for 2019 of the Group and the entities that it comprises have not yet been approved by the shareholders at the respective Annual General Meetings or by the respective shareholders or sole shareholders. Nonetheless, the directors of the Parent Company believe that said financial statements will be approved without any significant changes. The consolidated financial statements for 2018 were approved by the shareholders at the Annual General Meeting held on 13 May 2019 and filed with the Companies Registry of Madrid.

Since the accounting standards and valuation criteria applied in the preparation of the Group’s consolidated financial statements for 2019 may differ from those used by some of its component companies, the necessary adjustments and reclassifications have been made to standardise them and adapt them to the IFRS adopted by the European Union.

2.1.1 Standards and interpretations effective in this period

In 2019 new accounting standards came into force and were therefore taken into account when preparing the accompanying consolidated financial statements, but which did not give rise to a change in the Group's accounting policies:

A) New obligatory regulations, amendments and interpretations for the year commencing 1 January 2019:

New standards, amendments and interpretations		Obligatory application in the years beginning on or after:
Approved for use in the European Union		
New Standards:		
IFRS 16 Leases (published in January 2016)	Replaces IAS 17 and associated interpretations. The main change hinges on the fact that the new standard proposes a single accounting model for lessees who will include all leases (with some exceptions) on the balance sheet with a similar impact to that of the current financial leases (the asset will depreciate due to the right of use and a financial expense for the cost of amortising the liability).	01 January 2019
Amendments and/or interpretations		
Amendment to IFRS 9 Characteristics of early cancellation with negative offset (published in October 2017).	This amendment allows for the valuation of some financial instruments with early payment characteristics at amortised cost allowing the payment of an amount less than the unpaid amounts of principal and interest.	01 January 2019
IFRIC 23 Uncertainty over tax treatment (published in June 2017)	This interpretation clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over acceptability by the tax authorities of a certain income tax treatment used by the entity.	
Amendment to IAS 28 Long-term interest in associates and joint ventures (published in October 2017)	Clarifies that IFRS 9 must be applied to long-term interests in an associate or joint venture if the equity method is not applied.	01 January 2019
Amendment IAS 19 - Accounting for a change, reduction or settlement of a defined benefit plan (published in February 2018)	Addresses the accounting for a change, reduction, or settlement of a defined benefit plan that occurs in the fiscal year.	
Improvements to IFRS 2015-2017 Cycle (published in December 2017)	Minor amendments to a number of standards: IFRS 3, IFRS 11, IAS 12 and IAS 23.	

These regulations and amendments have been applied to these consolidated financial statements with no significant impacts on either the reported figures or the presentation and breakdown of the information, except for the application of IFRS 16; see breakdown of impacts in the following section:

B) Analysis of IFRS 16 first application..

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

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

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

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

Transition to IFRS 16

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

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

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

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

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

These elements were combined to obtain an interest rate curve for each contract based on its geoeconomic specificities and from which the calculation process consists of bringing each of the discounted flows to the present value at the interest rate corresponding to each maturity within said curve and calculating which single equivalent rate would be used to discount said flows. The simple average rate of all the Group's leasing contracts affected by IFRS 16 is 4.3%

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

This impact at 1 January 2019 was mainly greater right-of-use net assets for 1.747 billion euros, a greater liability for operating leases of 2.099 billion euros (1.839 billion euros of non-current liabilities and 260 million euros of current liabilities), lower early payments assets of 3 million euros, lower lease linearisation assets of 16 million euros (13 million euros in non-current assets, 3 million euros in current assets), lower lease linearisation liabilities of 19 million euros (17 million euros in other non-current liabilities, 2 million euros in other current liabilities), greater deferred tax assets of 88 million euros and lower equity of 256 million euros. It also entailed the reclassification of certain balance sheet items that were associated with lease contracts under the Right-of-use assets heading. Specifically, a liability for risk provisions and expenses on onerous contracts of 7 million euros, a liability for grants of 22 million euros and net intangible assets of 22 million euros.

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

In order to reconcile operating lease commitments at 31 December 2018 in accordance with IAS 17 (see Note 24.5 of the 2018 consolidated annual accounts) with operating lease liabilities in accordance with IFRS 16, it would be necessary to add the commitments discounted by operating leases in accordance with IAS 17 of approximately 2 billion euros (3.581 billion euros of pre-discounted nominal value commitments), the impact of applying different discount rates (approximately 274 million euros, and subtract the impact of contracts signed but not in force at the transition date (approximately -175 million euros), thereby achieving an operating lease liability of 2.099 billion euros (1.839 billion euros of non-current liabilities and 260 million euros of current liabilities).

The main impacts on the Group's consolidation, according to the source of the contracts in the hotel sector distributed by geographical segment of IFRS 16 at 31 December 2019 are as follows (thousands of euros):

	SPAIN	Benelux	ITALY	Germany	Latin America	Remainder	Total
Right-of-use assets	327,653	359,633	291,604	498,419	20,730	203,460	**1,701,499**
Leasing liabilities	393,308	430,026	354,367	622,116	23,113	244,439	**2,067,369**
Impact on reserves due to IFRS 16	63,079	51,392	43,168	68,928	1,177	26,961	**254,705**
Deferred tax assets	18,047	16,507	18,173	33,138	718	9,203	**95,786**
Amortisation of use rights	(58,995)	(17,570)	(30,449)	(49,626)	(2,605)	(21,834)	**(181,079)**
Financial expenses	14,846	19,354	18,842	23,988	2,683	9,907	**89,620**
Leasing expenses	(76,097)	(31,802)	(44,971)	(69,575)	(4,479)	(30,385)	**(257,309)**

C) New regulations, amendments and interpretations which will be obligatory in the years following the year commencing 01 January 2020

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

Nuevas normas, modificaciones e interpretaciones		**Obligatory application in the years beginning on or after:**
Awaiting approval for use in the European Union as of the date of publication of this document (1)		
Nuevas Normas:		
IFRS 17 Insurance contracts (published in May 2017)	Replaces IFRS 4 and reflects the principles of registration, valuation, presentation and breakdown of insurance contracts with the objective that the entity provides relevant and reliable information which allows users of the information to determine the effect which contracts have on the financial statements.	1 January 2021(2)
Amendment to IFRS 10 and IAS 28 “Sale or contribution of assets between an investor and its associates or joint ventures	These amendments clarify the accounting treatment of the sales and contributions of assets between an investor and its associates and joint ventures that will rest on if the non-monetary assets sold or contributed to an associate or joint venture constitute a “business”. The investor will recognise the full gain or loss when the non-monetary assets constitute a “business”. If the assets do not meet said definition, the investor recognises the gain or loss to the extent of the interests of other investors. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture. Originally, these amendments to IFRS 10 and IAS 28 were prospective and effective for annual periods beginning on or after 1 January 2016. However, at the end of 2015, the IASB made the decision to postpone the effective date (without setting a new specific date) as it is planning a broader review that could result in simplifying the accounting of these transactions and other aspects of the accounting of associates and joint ventures.	Pending approval

**(1) The approval status of the standards can be consulted on the EFRAG website.*
(2) The IASB has proposed its deferral to 1 January 2022 (Draft amendment to IFRS 7 published on 26 June 2019).

Amendments and/or interpretations		
Amendment to IFRS 3 - Definition of business (published in October 2018)	Clarifications to the definition of business.	01 January 2020
Amendments to IAS 1 and IAS 8 Definition of “materiality” (published in October 2018)	Amendments to IAS 1 and IAS 8 to align the definition of “materiality” to the content of the conceptual framework.	
Amendments to IFRS 9, IFRS 7 and IAS 39 Current reform of the benchmark interest rate. (published in September 2019)	Modifications that provide certain exemptions related to hedge accounting with respect to the reform of the benchmark interest rate (IBOR).	

2.2. Accounting correction

During the first quarter of 2019, a situation was detected in the Consolidated Annual Accounts at 31 December 2018 in relation to the accounting for hyperinflation in the Argentine subsidiaries of the Parent Company in accordance with IAS 29.

This situation corresponded to the recording of a higher consolidated result in 2018 derived from hyperinflation in Argentine subsidiaries, when a net amount of 19 million euros before minority interests should have been recorded directly in reserves. This therefore supposes a reclassification between the result and equity without there being any additional impact to consider.

Following a report from the Audit and Control Committee, the Board of Directors considered that the situation revealed did not represent a very significant impact on the Consolidated Annual Accounts at 31 December 2018 in the context of Article 38 of the Commercial Code as it did not affect the financial or equity position of the Company, and did not justify, therefore, the consolidated annual accounts be restated.

Based on the foregoing, the aforementioned reclassification has been recorded in equity balances at 1 January 2018, which has resulted in higher consolidated reserves of 16,212 thousand euros and a lower consolidated result for the same amount. On the other hand, the effect of the reclassification on minority interests was 3,177 thousand euros as higher reserves and the same amount as lower gain/(loss) and supposes zero effect on this heading of the abridged consolidated statement of changes in net equity (See Note 15.4).

2.3. Accounting criteria change

The impact recorded on the Statement of Changes in Equity in relation to the change in accounting criteria heading is mainly due to the provision for the pension plan on certain contract allocated in one country where a more prudent interpretation deriving a gross impact of 12,191 thousand euros, giving rise to an impact net of tax of less net equity amounting to 9,692 thousand euros. This impact has been recognised at 1 January 2019. (see Note 18)

2.4. Comparison of information

As required by IAS 1, the information on 2018 contained in this consolidated annual report is presented for solely comparative purposes with the information on 2019 and consequently does not in itself constitute the Group's consolidated financial statements for 2018.

First application of IFRS 16

As a result of applying IFRS 16 from 1 January 2019, there are certain items in the consolidated financial statements at 31 December 2019 that are not comparable with the previous year (see Note 2.1.1).

Conversion of NH Argentina's financial statements

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

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

The first application of IAS 29 from 1 January 2018 led to an increase of 46 million euros in consolidated reserves and an increase in the value of minority interests of 7 million euros, recorded mainly under "Property, Plant and Equipment" (an increase of 71 million euros in net book value upon first application, see Note 8) and under deferred tax liabilities (an increase of 18 million euros in the value of liabilities at the time of first application, see Note 19).

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

After this first application, the impact of the application of IAS 29 during 2018 had a negative net effect on the reserves of consolidated companies amounting to 27 million euros. This is composed of the effect of the devaluation of the currency that compensates for the increase in equity because of the restatement of non-monetary items due to hyperinflation. On the other hand, "Property, plant and equipment" increased by 1.8 million euros (see Note 8), and the deferred tax liability increased by 1.2 million euros (see Note 19) with respect to the first application at 1 January 2018. Also, the net effect in the profit and loss account of the application of IAS 29 is recorded as income of 635 thousand euros, under the heading "Results from exposure to hyperinflation" (IAS 29) in the 2018 consolidated comprehensive profit and loss statement.

The main impacts from applying IAS 29 in 2019 have had a positive effect on equity of 1.9 million euros, an increase in property, plant and equipment of 1.5 million euros, a decrease in deferred tax liabilities of 1.2 million euros (see Note 19) and an expense of 85 thousand euros under the heading "Results from exposure to hyperinflation" (IAS 29) of the consolidated comprehensive profit and loss.

2.5. Currency of presentation

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

2.6. Going concern

The application of the new accounting standard IFRS 16 (see Note 2.1.1) has led to, among others, a liability being recognised in the short term corresponding to the current value of the lease payment commitments to be made in the next twelve months that, at 31 December 2019, amounted to 252,970 thousand euros resulting in current liabilities being 93.6 million euros higher than current assets at that date. Given that this effect is caused by a purely accounting (non-financial) approach, this does not prevent the business's normal development.

2.7. 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 have been used in preparing the Group's consolidated financial statements to quantify some of the assets, liabilities, revenue, expenses and undertakings recognised. These estimates essentially refer to:

- The assessment of possible impairment losses on certain assets.
- The hypotheses used in the actuarial calculation of liabilities for pensions and other undertakings made to the workforce;
- The useful life of the tangible and intangible assets.
- The valuation of consolidation goodwill.
- The market value of specific assets.
- Calculation of provisions and evaluation of contingencies.
- The recoverability of capitalised tax credits.

In spite of the fact that these estimates were carried out using the best information available at 31 December 2019 on events analysed, it is possible that events may take place in the future which compel their amendment (upwards or downwards) in years to come. This will be done in accordance with the provisions of IAS 8, prospectively recognising the effects of the change in estimate on the consolidated profit and loss statement.

2.8. Consolidation principles applied

2.8.1 Subsidiaries (See Appendix I)

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

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

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

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

2.8.2 Associates (See Appendix II)

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

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

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

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

2.8.3 Foreign currency translation

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

• Assets and liabilities have been converted by applying the effective exchange rate prevailing at year-end.

• Equity has been converted by applying the historical exchange rate. The historical exchange rate existing at 31 December 2003 of any companies included within the scope of consolidation prior to the transitional date has been considered as the historical exchange rate.

• The consolidated comprehensive profit and loss statement was translated at the average exchange rate for the year, except for the companies in Argentina whose economy was declared hyperinflationary in 2018 and therefore, in accordance with IAS 29, their consolidated comprehensive profit and loss statement was translated at the 2019 year-end exchange rate (see Note 4.23).

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

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

2.8.4 Changes in the scope of consolidation

The most significant changes in the scope of consolidation during 2019 and 2018 that affect the comparison between financial years were the following:

a.1 Changes in the scope of consolidation in 2019

a.1.1 Additions to the scope of consolidation

In October, the Group formed the company Anantara The Marker Ltd to acquire the company GCS Hotel Limited, operator of The Marker hotel in Dublin. The acquisition cost was 13,652 thousand euros and the inclusion of these companies has had the following effects on the consolidated balance sheet:

ITEM	Thousands of euros
Property, plant and equipment (See Note 8)	4,032
Usage Rights (See Note 9)	9,428
Current assets	2,257
Current liabilities	(2,065)
Fair value of the acquired entity's net assets	13,652
Net Consideration	**(13,652)**

The entry of this company has not had a significant effect on the consolidated comprehensive income statements at 31 December 2019. Likewise, the impact for the full year would not have a significant effect on the consolidated comprehensive income statements at 31 December 2019.

a.1.2 Disposals

In January 2019, the Group sold the 49% shareholding it held in Beijing NH Grand China Hotel Management Co, Ltd. This sale has resulted in a cash inflow of 1.9 million euros and has not had a significant impact on profits for the year (See Note 10).

a.2 Changes in the scope of consolidation in 2018

a.2.1 Additions to the scope of consolidation

During 2018, there were no additions to the scope of consolidation.

a.2.2 Disposals

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

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

2.8.5 Intra-group eliminations

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

2.8.6 Valuation uniformity

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

3.- PROPOSED DISTRIBUTION OF PROFITS

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

	2019
To legal reserve	15,894
To distribution of dividends	58,771
To voluntary reserves	84,275
Total	**158,940**

4.- VALUATION STANDARDS

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

4.1 Tangible fixed assets

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

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

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

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

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

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

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

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

4.2 Consolidation goodwill

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

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

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

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

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

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

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

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

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

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

4.3 Intangible assets

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

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

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

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

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

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

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

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

iii) On the other hand, as a consequence of entering into the consolidation of Hoteles Royal, S.A., operating rights of the hotel portfolio for 35 years were recognised within this concept.

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

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

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

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

In the case of Hoteles Royal, S.A., where the whole business of Grupo Royal was acquired and whose purchase was effective in 2015, the cash-generating unit corresponds to the Group as a whole (Colombian, Chilean and Ecuadorian market).

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

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

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

Future cash flows are estimated based on the result for the year and the records of at least five previous years. The first projected year corresponds to the budget prepared by Management for the year following the impairment test. The projections for the following years are consistent with the macroeconomic information from external information sources and the knowledge of the business by the Group's Operations Department.

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

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

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

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

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

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

Where:

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

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

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

- Risk-free rate: using the average long-term interest rates of a 10-year bond over the last 12 months for each country, in the local currency.
- Market risk premium: defined as 6.8% (6.6% in 2018), based on market reports.
- Beta or systematic risk: Used as outside sources of information, this information is gathered from independent databases and concerns the ratio between the risk of companies and overall market risk. The re-leveraged beta coefficient has been estimated on the basis of 72% de-leveraged betas (83% in 2018), the debt structure of comparable companies (Debt / (Debt + Equity) of 35% (26% in 2018) and the corresponding tax rate in each country.
- Market value of debt, amounting to 4.58% (4.11% in 2018).
- Premium by size: based on recent expert reports.

The after-tax discount rates used by the Group for these purposes range in Europe from 5.5% to 8.2% (6.2% and 9.0% in 2018) and in Latin America from 9.4% to 14.6% (10.6% and 18.4% in 2018) without taking into account Argentina, whose after-tax discount rate has been calculated taking into account its hyperinflationary economic situation (see Note 4.23) and varies between 47.1% in 2020 and 23.5% in 2024, based on the estimate of inflation. In this regard, the cash flows resulting from the impairment tests were also calculated after tax. In addition, the book value to which the value-in-use is compared does not include any deferred tax liabilities which could be associated with the assets.

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

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

	Discount rate before taxes:			
	Germany	Netherlands	Italy	Spain
2019	8.8%	7.4%	12.7%	9,3%
2018	7.8%	8.2%	10.2%	11,0%

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

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

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

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

Sociedad	2019	2018	2019	2018	2019	2018	2019	2018
	Germany		Netherlands		Italy		Spain	
Post-tax WACC	5.47%	6.22%	6.01%	6.93%	8.21%	8.42%	6.88%	8.15%
Growth rate	2.13%	2.56%	2.01%	2.14%	1.50%	1.71%	1.77%	1.90%
Average ADR	96.8	80.9	66.0	73.9	97.5	110.9	91.6	88.9
Occupancy rate	71.5%	70.1%	54.1%	61.8%	60.9%	72.8%	74.6%	72.7%

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

Additionally, the Group has analysed the potential impairment in ROU without having identified an impairment to record for this item.

4.5 4.5 Leases

Until financial year 2018, leases of fixed assets were classified as financial or operating leases. Since 1 January 2019, leases have been recognised as a right-of-use asset and the corresponding liability on the date the leased asset is available for use by the group (See Note 2.1.1).

Assets and liabilities arising from a lease are initially valued based on their present value. Leasing liabilities include the net present value of the following leasing payments:

- Fixed payments (including fixed payments in essence), less any lease incentive collectable.
- Variable payments for leases that reply on an index or rate, initially valued according to the index or rate on the start date.
- Amounts expected to be paid by the group for residual value guarantees.
- The price to exercise a purchase option if the group is reasonably certain that it will exercise that option.
- Penalty payments terminating the lease if the term of the lease reflects the group exercising that option.

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

Contracts may contain leasing and non-leasing components. The Group assigns the consideration in the contract to the leasing and non-leasing components based on their relative independent prices. For real estate leases in which the Group cannot separate the leasing and non-leasing components, it accounts for them as a single leasing component.

Leasing payments are discounted using the implicit interest rate in the lease. If this rate cannot be easily determined, which is generally the case for the group’s leases, the incremental interest rate is used. The incremental interest rate is the interest rate that the lessee would incur at the commencement of the lease if it borrowed, over a period of time, with similar guarantees and in a similar economic environment. The interest was calculated as a combination of the following elements:

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

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

Potential future increases in variable payments for leases based on an index or rate are not included in leasing liabilities until they take effect. When the adjustments to the leasing payments based on an index or rate take effect, the leasing liability is assessed again and set against the asset for right of use.

Leasing payments are allocated between principal and financial cost. The financial cost is charged to profit/(loss) during the leasing period in a manner that creates a periodic interest rate on the remaining balance of the liability for each period.

Right-of-use assets are valued at cost that comprises the following:

- The initial valuation amount of the leasing liability.
- Any leasing payment made on or before the state date, less any incentive to lease received.
- Any initial indirect cost.
- Restoration costs.
- Incentives to lease received from the lessor.
- Provision on onerous contracts

4.6 Financial Instruments

4.6.1 Financial assets

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

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

- Financial assets at amortised cost: assets whose contractual cash flows consist exclusively of principal and interest payments and, if the management model of such assets is to hold them to obtain the contractual flows. In this case, the Group records any changes in value with a charge to the consolidated comprehensive profit and loss statement.

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

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

Interest accrued on financial assets at amortised cost is recognised in the consolidated comprehensive profit and loss statement on the basis of the effective interest rate. Amortised cost is construed as the initial cost minus any collections or amortisation of the principal, taking into account any potential reductions based on expected loss.

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

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

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

4.6.2 Cash and cash equivalents

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

4.6.3 Financial liabilities

ISSUES OF BONDS AND OTHER SECURITIES

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

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

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

BANK LOANS

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

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

TRADE AND OTHER PAYABLES

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

DERIVATIVES AND HEDGE ACCOUNTING

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

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

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

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

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

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

VALUATION TECHNIQUES AND ASSUMPTIONS APPLYING TO THE MEASUREMENT OF FAIR VALUE

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

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

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

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

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

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

4.6.4 Equity instruments

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

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

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

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

Non-current assets and associated liabilities classified as held for sale are valued at the lower of their historic cost or their fair value less selling expenses.

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

4.8 Shareholdings in associated companies

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

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

4.9 Foreign currency transactions and balances

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

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

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

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

4.11 Income and expenses

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

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

Sale of rooms and other related services
Income from the sale of rooms and other related services is recognised daily based on the services provided by each hotel, including customers who are still staying at the hotel at the close of each day.

The consideration received is distributed among the contracted services. These include direct services such as room, food, drink and other consumption, and others related to banquets, events and the rental of spaces.

Provision of services
The Group recognizes the income from its hotel management contracts in the year in which the services are provided, based on the evolution of the variables that determines this income and which are mainly the total income and the gross operating profit of each hotel managed by the Group.

4.12 Official subsidies

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

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

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

4.13 Corporation tax

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

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

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

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

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

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

4.14 Obligations to employees

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

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

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

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

Therefore, to provide for these obligations to future payments to personnel, the Group has recognised a liability under "Provisions for Risks and Charges" (See Note 18).

4.15 Onerous contracts

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

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

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

4.16 Share-based Remuneration Schemes

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

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

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

4.17 Treasury shares

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

4.18 Provisions

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

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

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

4.19 Severance pay

In accordance with current employment regulations and certain employment contracts, the Group is obliged to pay indemnities to employees who are dismissed under certain conditions. The Group recognised expenses of 3,119 thousand euros for this item in 2019 (5,751 thousand euros in 2018).

The consolidated balance sheet at 31 December 2019 includes, pursuant to IFRS (IAS 37), a provision of 841 thousand euros for this item (1,059 thousand euros at 31 December 2018).

4.20 Business combinations

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

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

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

4.21 Environmental policy

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

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

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

4.22 Consolidated cash flow statements

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

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

4.23 Treatment of companies in hyperinflationary economies

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

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

• Adjusting the historical cost of non-monetary assets and liabilities and the different equity items from the acquisition date or inclusion on the consolidated balance sheet until year-end to reflect the changes in currency's purchasing power resulting from the inflation.

• Reflecting the loss or gain corresponding to the impact of inflation for the year on the net monetary position in the profit and loss account.

• Adjusting the various items of the profit and loss account and the cash flow statement for the inflationary index since its generation, with a counterpart in financial results and in a reconciliation item on the cash flow statement, respectively.

• Converting all components of the financial statements of Argentine companies at the closing exchange rate; the exchange rate at 31 December 2019 was 67.20 pesos per euro.

• The figures from the years prior to 2018 should not be amended.

5.- EARNINGS PER SHARE

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

In accordance with this:

	31/12/2019	31/12/2018
Net profit for the year (thousands of euros)	89,964	101,573
Weighted average number of shares in circulation (in thousands)	391,754	369,873
Basic earnings per share in euros	**0.230**	**0.275**

6.- GOODWILL

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

	2019	2018
NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH	75,212	77,933
Hoteles Royal, S.A.	27,607	27,607
Others	3,758	3,892
Total	**106,577**	**109,432**

The movements in this heading of the consolidated balance sheet in 2019 and 2018 were as follows (in thousands of euros):

Company	Goodwill at 31/12/2018	Conversion differences	Impairment	Goodwill at 31/12/2019
NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH	77,933	-	(2,721)	75,212
Hoteles Royal, S.A.	27,607	-	-	27,607
Others	3,892	(134)	-	3,758
Total	**109,432**	**(134)**	**(2,721)**	**106,577**

Company	Goodwill at 31/12/2017	Conversion differences	Impairment	Goodwill at 31/12/2019
NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH	79,181	-	(1,248)	77,933
Hoteles Royal, S.A.	28,629	(1,022)	-	27,607
Others	3,874	18	-	3,892
Total	**111,684**	**(1,004)**	**(1,248)**	**109,432**

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

	Thousands of euros	
	2019	2018
Hoteles Royal, S.A. CGUs	27,607	27,607
CGU 6	15,113	15,113
CGU 21	9,929	9,929
CGU 22	7,711	7,711
CGU 12	7,042	7,042
CGU 5	6,107	6,107
CGU 13	5,624	5,624
CGU 2	5,023	5,023
CGUs with goodwill allocated individually < €4M	22,421	25,276
	106,577	**109,432**

At 31 December 2019, Goodwill was subject to an impairment test which showed impairment of 2,721 thousand euros for certain CGUs with individually assigned goodwill of less than 4 million euros. This impairment arises from their worsening expectations of future cash flows mainly due to the opening of competitor hotels or the loss of a major customer.

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

- After-tax discount rate: 5.47% and 6.44% (6.22% and 7.86% respectively in 2018) for CGUs subject to the same risks (German and Austrian market); and for Grupo Royal CGUs, rates of 12.86% (Colombian and Ecuadorian markets) and 9.39% (Chilean market) (14.64% and 10.56% respectively in 2018).
- Terminal value growth rate (g): 2.13% and 2.00% (2.01% and 2.56% in 2018) for Germany and Austria and 1.10%, 3% and 3.04% (1.22%, 3% and 3.04% in 2018) for Grupo Royal CGUs (Ecuador, Chile and Colombia).

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

NH Hoteles Deutschland, GmbH and NH Hoteles Austria, GmbH

	Average values		
	Impairment test	**Scenario 1**	**Scenario 2**
Discount rate (after tax)	5.47% - 6.14%	6.47% - 7.14%	4.47% - 5.14%
Growth rate	2.13% - 2.00%	1.13% - 1.00%	3.13% - 3.00%
Occupancy rate	79.61%	78.81%	80.41%
ADR (euros)	131.00	129.69	132.31

Hoteles Royal, S.A.

	Average values		
	Impairment test	**Scenario 1**	**Scenario 2**
Discount rate (after tax)	12.93% - 9.39%	13.93% - 10.39%	11.93% - 8.39%
Growth rate	2.07% - 3.00%	1.07% - 2.00%	3.07% - 4.00%
Occupancy rate	69.00%	68.31%	69.69%
ADR (thousands of COPs)	290.81	287.9	293.72

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

Scenario 1 is a negative one where the discount rate is raised 1 b.p. above the rate used in the test and a growth rate lower by 1 b.p., i.e. with minimum growth, and falls in occupancy and ADR of 1% which would lead to an additional impairment to that registered in 2019 for an amount of 0.8 million euros with respect to the goodwill of NH Hotels Deutschland, Gmbh and NH Hoteles Austria, Gmbh, and 10.5 million euros with respect to the goodwill of Hoteles Royal, S.A.

In the case of scenario 2, an impairment had been recorded for 0.79 thousand euros less than that recorded at 31 December 2018 with respect to the goodwill of NH Hotels Deutschland, Gmbh and NH Hoteles Austria, Gmbh, and no impairment in regard to the goodwill of Hoteles Royal, S.A. was registered.

7.- INTANGIBLE ASSETS

The breakdown and movements under this heading during 2019 and 2018 were as follows (in thousands of euros):

	Balance at 31/12/17	Conversion differences	Inclusions/ Allowances	Retirements	Transfers to other items	Application of IAS 29	Balance at 31/12/2018	Exchange differences and adjustments for hyperinflation	Inclusions/ Allowances	Retirements	Transfers to other items	Balance at 31/12/2019
COST												
Hotel operating rights	69,222	(1,024)	973	(259)	-	-	68,912	6	737	-	(35,679)	33,976
Concessions, patents and trademarks	38,005	(187)	172	(68)	7	18	37,947	(8)	383	-	-	38,322
Software applications	64,328	13	12,385	(922)	669	99	76,572	(1)	13,715	(70)	(4)	90,212
Other rights	94,898	-	-	(38,612)	(9,283)	-	47,003	-	-	(3,504)	(26,460)	17,039
	266,453	**(1,198)**	**13,530**	**(39,861)**	**(8,607)**	**117**	**230,434**	**(3)**	**14,835**	**(3,574)**	**(62,143)**	**179,549**
CUMULATIVE DEPRECIATION												
Hotel operating rights	(28,373)	883	(3,401)	250	-	-	(30,641)	(1)	(1,198)	-	26,357	(5,483)
Concessions, patents and trademarks	(21,674)	347	(1,433)	54	-	(16)	(22,722)	45	(1,203)	-	(2,512)	(26,392)
Software applications	(30,336)	3	(13,900)	830	(48)	(99)	(43,550)	4	(14,394)	61	3,959	(53,920)
Other rights	(22,493)	-	(5,193)	8,248	7,051	-	(12,387)	-	-	-	12,387	-
	(102,876)	**1,233**	**(23,927)**	**9,382**	**7,003**	**(115)**	**(109,300)**	**48**	**(16,795)**	**61**	**40,191**	**(85,795)**
Impairment	(12,494)	(7)	(1,079)	712	2,303	-	(10,565)	-	-	436	182	(9,947)
NET BOOK VALUE	**151,083**						**110,569**					**83,807**

7.1 Hotel operating rights

The main movement in 2019 corresponds to the classification of various assets related to lease contracts which, at 1 January 2019, are considered as a higher value of the right-of-use assets in accordance with the application of IFRS 16 (See note 9).

7.2 Software applications

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

7.3 Other rights

The main movement in 2019 corresponds to the classification of various assets related to lease contracts which, at 1 January 2019, are considered as a higher value of the right-of-use assets in accordance with the application of IFRS 16 (See note 9).

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

As a result of this termination, the Group has de-recognised the net book value of the activated management contracts amounting to 30.4 million euros. In the same way, a revenue of 33 million euros has been recorded corresponding to the "Net Price Refund Amount" defined in the framework contract, which includes the receipt of an advance indemnity revenue amounting to 20 million euros, the settlement of the pending payment by NH related to the premiums for contracts amounting to 11,560 thousand euros, which was recognised under "Other Financial Liabilities" in the consolidated balance sheet at 31 December 2017, and the sale of the Hesperia brand, the net book value of which amounted to 45 thousand euros, for an amount of 1.4 million euros. The net effect of 2.6 million euros of revenue arising from the early cancellation of the contract entered into with GIHSA, before its tax impact, is recognised under "Net result on disposal of assets" of the 2019 consolidated comprehensive profit and loss statement.

During 2018, reversals of 436 thousand euros and transfers of 182 thousand euros were recognised under "Net Profits/(Losses) from asset impairment" of the consolidated comprehensive profit and loss statement (See note 8).

8.- PROPERTY, PLANT & EQUIPMENT

The breakdown and movements under this heading during 2019 and 2018 were as follows (in thousands of euros):

	Balance at 31/12/2017	Conversion differences	Inclusions	Retirements	Transfers to other items	Application of IAS 29 (see Note 4.23) *	Balance at 31/12/2018	Change in consolidation boundary (see Note 2.8.4)	Exchange differences and adjustments for Hyperinflation*	Inclusions	Retirements	Transfers to other items	Balance at 31/12/2019
COST													
Land and buildings	1,601,557	(30,164)	26,089	(25,210)	(4,820)	73,794	1,641,246	-	(2,058)	8,296	(1,946)	1,723	1,647,261
Plant and machinery	791,302	(2,289)	38,333	(77,742)	10,623	33,220	793,447	9,901	(979)	80,881	(47,223)	9,533	845,560
Other plant, fixtures and furniture	440,680	(1,148)	25,969	(32,606)	2,484	9,770	445,149	5,462	219	42,409	(41,576)	5,332	456,994
Other fixed assets	(529)	(21)	-	-	(3)	51	(502)	-	(19)	-	(9)	20	(510)
Property, plant and equipment in progress	27,452	679	46,625	(3,167)	(21,526)	493	50,556	-	560	39,765	(32)	(16,563)	74,286
	2,860,462	**(32,943)**	**137,016**	**(138,725)**	**(13,242)**	**117,328**	**2,929,896**	**15,363**	**(2,277)**	**171,351**	**(90,786)**	**45**	**3,023,591**
ACCUMULATED AMORTISATION													
Buildings	(342,842)	1,516	(24,412)	19,051	689	(14,609)	(360,607)	-	1,431	(24,044)	1,391	-	(381,829)
Plant and machinery	(545,332)	1,271	(39,091)	67,098	(923)	(21,165)	(538,142)	(7,059)	706	(45,995)	43,076	-	(547,414)
Other plant, fixtures and furniture	(342,127)	1,579	(28,790)	30,500	215	(8,936)	(347,559)	(4,272)	244	(29,026)	40,192	(10)	(340,431)
Other fixed assets	10	22	(81)	-	-	(123)	(172)	-	119	(66)	-	-	(119)
	(1,230,291)	**4,388**	**(92,374)**	**116,649**	**(19)**	**(44,833)**	**(1,246,480)**	**(11,331)**	**2,500**	**(99,131)**	**84,659**	**(10)**	**(1,269,793)**
Impairment	(47,007)	(2)	(10,034)	11,345	-	-	(45,698)	-	2	(4,289)	9,288	22	(40,675)
NET BOOK VALUE	**1,583,164**						**1,637,718**						**1,713,123**

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

The main additions and reductions in 2019 are due to the repositioning plan carried out by the Group, with refurbishments in all Business Units. Of note are the works of the NH Luz de Huelva and NH Malaga in Spain, the renovation of the NH Palermo and NH Ambassador in Italy, the works of the NH Vienna Airport and the NH Hamburg Altona and the new opening of the NH Leipzig Zentrum in Central Europe, the works of the NH Conference Centre Leeuwenhorst and the NH Collection Flower Market in Benelux. Finally, in New York, refurbishment of the NH New York Jolly Madison Towers.

The effect on the profit and loss account of assets de-recognised, replaced or disposed of to third parties outside the Group was and expense of 4,627 thousand euros, recognised under "Gain/(loss) on the disposal of non-current assets" in the 2019 consolidated comprehensive profit and loss statement.

The net additions in the year in the column "Changes in the scope of consolidation" come from the purchase of the company Anantara The Marker Ltd (see Note 2.8.4).

The net effect from applying IAS 29 in 2019 was the 1.5 million euro increase in assets recorded in the "Exchange differences and adjustments for hyperinflation" column. In 2018, the first year of application, the impact was as follows(See Note 2.4):

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

In 2019, and impairment amounting to 4,289 thousand euros has been recognised for certain assets; this impairment mainly corresponds to real estate and is a result of the worsening of future expectations of cash flows for different reasons, including the opening of competitors' hotels or the loss of an important customer (10,034 thousand euros in 2018). On the other hand, there was a reversal of 9,288 thousand euros resulting from the improvement in future cash flows expectations of some hotels. The net effect recorded under the heading "Profits/(Net losses) due to impairment of assets" on the consolidated comprehensive profit and loss statement for 2019, has been an income of 4,999 thousand euros.

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

	2019	2018
Spain	5,760	8,246
Italy	21,745	26,898
Germany	1,956	952
Benelux	9,306	9,376
Latin America	1,740	-
Others	168	226
Total impairment	**40,675**	**45,698**

At 31 December 2019, there were tangible fixed asset elements with a net book value of 232 million euros (237 million euros in 2018) to guarantee several mortgage loans and secured senior bonds maturing 2023 (see Note 16).

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

At 31 December 2019, firm purchase undertakings amounted to 37.8 million euros. These investments will be made between 2010 and 2021 (66.7 million euros in 2018).

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

Million euros	2019 Recoverable amount
CGU A	27.5
CGU B	22
CGU C	16.5
CGU D	11.5
CGU E	9.4
CGU F	7.7
CGU G	7.4
CGU H	7.1
CGU I	5.9
CGU J	5.6
Top Ten	**120.6**
Spain	10
Italy	5.5
Benelux	8.7
Germany	(0.3)
LatAm	5.2
Other Countries	8.7
Other CGUs	**37.8**
Total	**158.4**

9.- LEASES

IFRS 16 became effective on 1 January 2019, replacing IAS 17, IFRIC 4, SIC-15 and SIC-17 and establishing the principals for recognising, measuring, presenting and the breakdown leases. In this regard, information on leases where the NH Group is a lessee is presented below.

The amounts recorded on the consolidated balances sheets relating to leases at 1 January and 31 December 2019 are as follows:

	Thousands of euros	
	Year-end	First application
Right-of-use assets	**1,701,499**	**1,747,323**
Real estate	1,671,397	1,725,370
Operating rights	16,847	9,324
Contract premiums	13,255	12,629
Leasing liabilities	**2,067,369**	**2,099,210**
Non Current	1,814,399	1,839,135
Current	252,970	260,075

The “Contract premiums” and “Operating rights” headings are intangible assets related to lease contracts that were recorded as such in 2018 and that, with the application of IFRS 16, were reclassified at 1 January 2019 to right-of-use assets.

Additions to right-of-use assets during 2019 amounted to 131,428 thousand euros, offset by the amortisation expense recorded for the year amounting to 181,079 thousand euros.

The main additions for the year are due to the incorporation of several hotels on a lease basis. Of note is the incorporation of the Anantara Villa Padierna and the NH Collection Finisterre in Spain; NH Collection Fori Imperiali in Italy; and NH Collection Antwerp Centre in Belgium.

Likewise, among the additions for the year is the acquisition of GCS Hotel Limited operating the Anantara The Marker hotel in Dublin under lease and whose first consolidation difference was assigned to the lease contract of said property recording it as a right-of-use asset under the heading “Operating rights” for an amount of 9,428 thousand euros (See Note 2.8.4).

The movement in both right-of-use assets and leasing liabilities is mainly non-cash given that the asset is modified based on the variations produced in the liability, either due to changes in the contract’s payment structure or by the update in accordance with revenues benchmarks.

The main impacts on the consolidated comprehensive profit and loss statement related to the application of IFRS 16 are a higher financial expense of 89,620 thousand euros, a net gain of the disposal of non-current assets of 1,044 thousand euros, due mainly to cancellations of contracts that had no cash impact and net gains on asset impairment of 2,175 thousand euros.

The amounts recorded as right-of-use assets correspond to properties where the NH Group is a lessee for its operation as a hotel.

Short-term leases and low-value leases are recognised as an expense in the consolidated profit and loss statement on a straight line basis. A short-term lease contract is one where the period is less than or equal to 12 months. A “low value contract” is one whose underlying asset assigned in use would have a new value of under 5,000 euros.

10.- INVESTMENTS VALUED USING THE EQUITY METHOD

The movements under this heading of the consolidated balance sheet during 2019 and 2018 were as follows (in thousands of euros):

Company	Net Balance at 31/12/2018	Profit (Loss) 2019	Currency translation difference	Changes in the scope of consolidation and additions	Net Balance at 31/12/2019
Inmobiliaria 3 Poniente, S.A. de C.V.	1,813	(195)	105	-	1,723
Mil Novecientos Doce, S.A. de C.V.	2,042	185	123	-	2,350
Consorcio Grupo Hotelero T2, S.A. de C.V.	1,361	111	83	-	1,555
Hotelera del Mar, S.A.	720	(7)	247	-	960
Borokay Beach, S.L.	1,001	(72)	-	-	929
Beijing NH Grand China Hotel Management Co, Ltd.	2,034	-	156	(2,190)	-
Total	**8,971**	**22**	**714**	**(2,190)**	**7,517**

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

In January 2019, the Group sold its 49% shareholding in Beijing NH Grand China Hotel Management Co., Ltd. (see Note 2.7.4).

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

The balance sheet of these companies accounted for using the equity method at year-end is as follows (in thousands of euros):

Company	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities	Income	Net Profit (Loss)
Inmobiliaria 3 Poniente, S.A. de C.V.	7,038	55	(729)	(6,364)	-	(718)
Mil Novecientos Doce, S.A. de C.V.	9,283	-	-	(9,283)	739	739
Consorcio Grupo Hotelero T2, S.A. de C.V.	15,544	-	-	(15,544)	1,108	1,108
Hotelera del Mar, S.A.	940	3,729	(673)	(3,997)	-	(35)
Borokay Beach, S.L.	960	1,104	(91)	(1,973)	-	(144)

11.- NON-CURRENT FINANCIAL INVESTMENTS

11.1 Loans and accounts receivable not available for trading

The breakdown of this item at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Subordinated loans to companies owning hotels operated by the Group through leases	20,505	21,487
Other collection rights	-	3,039
Lease advance payments	-	3,005
Loans to associates (Note 26)	143	-
Long-term deposits and sureties	12,703	13,165
Others	1,976	1,902
Total	**35,327**	**42,598**

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

The main features of these agreements are as follows:

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

At year-end 2018 , “Other collection rights” included the claim for the sale of fifteen commercial premises. During 2019, an agreement was reached to deliver the aforementioned premises by cancelling the recorded accounts receivable and incorporating these premises in the “Investment Property” line.

The “Lease advance payments” item includes the advance payments made to the owners of certain hotels operated under a lease arrangement for the purchase of decoration and furniture; these are discounted from future rental payments. Resulting from the application of the new lease standard IFRS 16, there is no concept of linearisation (See Note 2.1.1).

11.2 Other non-current financial investments

This heading of the consolidated balance sheet comprised, at 31 December 2019 and 2018, the following equity interests, valued at cost:

	Thousands of euros	
	2019	2018
Varallo Comercial, S.A.	-	9,343
NH Panamá	3,767	3,767
Other investments	498	1,464
Provisions	(2,190)	(3,046)
Total	**2,075**	**11,528**

In December 2019, the Group sold its 9.87% shareholding in Varallo Comercial, S.A. and its 13.6% shareholding in Adquisiciones e Inversiones Europeo, S.L. The result of the operation was a consolidated gain of 8,525 thousand euros recorded under "Gains on financial and other operations". At year-end 2019, the Group had an account receivable under "Other non-trade debtors" for 17,017 thousand euros related to said sale. This amount has been collected in full the 2nd of January 2020.

In regard to the fair value of financial assets, it does not differ significantly from its book value.

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

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

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

Specifically, the shareholdings in Sotocaribe, S.L and Capredo Investments GmbH are classified as discontinued operations; these companies represented the entirety of the Group's property activity. Sotocaribe, S.L. was consolidated by the equity method, while Capredo Investments, GmbH was consolidated by the global method.

Additionally, in 2018, the land and property in which the NH Málaga II hotel is located, the sale of which was formalised in February this year, was recognised as available for sale. This transaction represented an asset de-recognition of 12,758 thousand euros and a positive pre-tax result of 2,874 thousand euros recorded under "Net result on disposal of assets".

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

A movement by balance headings of the assets and liabilities presented under the corresponding Held for Sale headings at 31 December 2019 and 2018 is shown below (in thousands of euros):

	31/12/2018	Net Variation	Impairment	31/12/2019
Property, plant and equipment	22,594	(12,099)	-	10,495
Financial assets	33,322	7,424	(3,481)	37,265
Investments accounted for using the equity method	33,322	7,424	(3,481)	37,265
Cash	9	8	-	17
Other current assets	49	(15)	-	34
Non-current assets classified as held for sale	**55,974**	**(4,682)**	**(3,481)**	**47,811**
Other non-current liabilities	528	36	-	564
Trade payables	363	76	-	439
Other current liabilities	1,565	16	-	1,581
Liabilities associated with assets classified as held for sale	**2,456**	**128**	**-**	**2,584**

As a result from the analysis of fair value of the company consolidated through the equity method it has been registered an impairment amounting to 3,481 thousand euros, this impact has been recorded under "Impairment on financial investments" of the consolidated comprehensive profit and loss statement. As a consequence of this, the account receivables with this company has been impaired at the end of the year (See Note 26).

	31/12/2017	Net Variation	Transfers (see Note 8)	31/12/2018
Property, plant and equipment	75,560	(65,528)	12,562	22,594
Financial assets	33,556	(234)	-	33,322
Investments accounted for using the equity method	33,556	(234)	-	33,322
Cash	2	7	-	9
Other current assets	48	1	-	49
Non-current assets classified as held for sale	**109,166**	**(65,754)**	**12,562**	**55,974**
Other non-current liabilities	615	(87)	-	528
Trade payables	376	(13)	-	363
Other current liabilities	1,386	179	-	1,565
Liabilities associated with assets classified as held for sale	**2,377**	**79**	**-**	**2,456**

Consolidated comprehensive profit and loss statements

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

	Capredo Investments, GmbH	Sotocaribe, S.L.	Total
2019			
Profit (loss) before tax	50	-	50
Profit (loss) for the year from discontinued operations net of tax	50	-	50
2018			
Profit (loss) before tax	(46)	(522)	(568)
Profit (loss) for the year from discontinued operations net of tax	(46)	(522)	(568)

Capredo Investment GmbH has no activity and the pre-tax profit is mainly the exchange differences caused by the loans that said company has with third parties.

Consolidated cash flow statements

The consolidated cash flow statements for the fully consolidated companies in 2019 and 2018 are detailed below (in thousands of euros):

2019	Capredo Investments, GmbH
Total net cash flow from operating activities I	8
Total net cash flow from investment activities II	-
Total net cash flow from financing activities III	-
GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)	-
Effect of variations in the scope of consolidation (IV)	-
Cash and cash equivalents at the start of the financial year	9
Cash and cash equivalents at the end of the financial year	17

2018	Capredo Investments, GmbH
Total net cash flow from operating activities I	7
Total net cash flow from investment activities II	-
Total net cash flow from financing activities III	-
GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)	**-**
Effect of variations in the scope of consolidation (IV)	-
Cash and cash equivalents at the start of the financial year	2
Cash and cash equivalents at the end of the financial year	9

13.- TRADE RECEIVABLES

This item reflects different accounts receivable from the Group's operations. The breakdown at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Trade receivables for services provided	111,633	113,143
Provision for bad debts	(5,137)	(6,542)
Total	**106,496**	**106,601**

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

Movements in the provision for bad debts during the years ending 31 December 2019 and 2018 were as follows

	Thousands of euros	
	2019	2018
Balance at 1 January	6,542	9,156
Conversion differences	5	(226)
Additions	3,665	7,496
Applications	(5,075)	(9,884)
Balance at 31 December	**5,137**	**6,542**

The analysis of the ageing of financial assets in arrears but not considered impaired at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Less than 30 days	24,622	22,616
From 31 to 60 days	6,596	12,720
More than 60 days	10,840	20,756
Total	**42,058**	**56,092**

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

14.- CASH AND CASH EQUIVALENTS

"Cash and Cash Equivalents" largely includes the Company's cash position and bank deposits maturing in three months or less. These assets are recognised at their fair value.

There are no restrictions on the availability of cash, except for 2,841 thousand euros reserved in accordance with a firm commitment with the co-owners of Hoteles Royal (2,207 thousand euros in 2018) for future investments in the hotels.

As at 31 December 2019, there were no restrictions on the receipt of dividends distributed by the companies in which the Parent Company holds a direct or indirect minority shareholding other than the legally established regulations on the distribution of dividends.

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

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

15.- EQUITY

15.1 Subscribed share capital

NH Hotel Group, S.A. share capital at 31 December 2019 comprised 392,180,243 fully subscribed and paid up bearer shares with a par value of 2 euros each. All these shares carry identical voting and economic rights and are traded on the Continuous Market of the Spanish Stock Exchanges.

According to the latest notifications received by the Parent Company and the notices given to the National Securities Market Commission before the end of every financial year, the most significant shareholdings at 31 December 2019 and 31 December 2018 were as follows:

	31/12/2019	31/12/2018
Minor International Public Company Limited ("MINT")(1)	94.13%	94.13%

(1) MINT is the indirect shareholder through MHG Continental Holding (Singapore) Pte Ltd.

The aforementioned (indirect) shareholding of MINT in NH Hotel Group, S.A. is the result of the IPO made by MHG Continental Holding (Singapore) Pte Ltd. on 11 June 2018 for 100% of the shares that were part of the share capital of NH Hotel Group, S.A., the result of which was that MINT acquired, through its wholly owned subsidiary MHG Continental Holding (Singapore) Pte. Ltd, shares representing 94.13% of the share capital of NH Hotel Group, S.A.

15.2 Dividendos

The General Shareholders' Meeting on 13 May 2019 approved, among other items, the proposed distribution of dividends. It therefore decided to draw from the profits of the year ended 31 December 2018 and distribute a dividend of 15 euro cents gross per share in the parent company NH Hotel Group, S.A. with the right to receive it, outstanding on the date of the payment; all according to the following schedule:

- Last date of trading with dividend: 11 June 2019
- Ex-dividend date: 12 June 2019
- Registration date: 13 June 2019
- Payment date: 14 June 2019 for 53 million euros and 3 July for 5.2 million euros

This dividend was distributed through the companies with shares in "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal" (IBERCLEAR), with powers granted for this purpose to the Board of Directors, with express powers of substitution, so that after checking for compliance with obligations under the finance contracts of NH HOTEL GROUP, S.A., the Board will designate an entity to act as paying agent and will perform the other necessary or advisable actions for a satisfactory distribution. The total amount distributed as dividends was 58.771 million euros.

15.3 Parent Company Reserves

i) Legal reserve

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

At 31 December 2019 and 2018, the parent company's legal reserve was not fully constituted

ii) Share premium

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

15.4 Treasury shares

At 31 December 2019, the Group had 374,464 own shares, compared to 600,000 own shares at 31 December 2018. The reduction in treasury shares over the period can be explained by the following movement:

- In the first half of 2019, the third cycle of the long-term incentive plan was settled (see Note 14). This second cycle was settled by the delivery of 226,067 shares valued at 1,670 thousand euros.
- On 10 April 2019, the Group signed a liquidity contract to manage its treasury shares with Banco Santander, which entered into force on 11 April 2019. The total number of shares allocated to the securities account associated with the new Liquidity Contract is 82,645 shares and the amount allocated to the cash account is 400,000 euros. At 31 December 2019, the number of shares assigned to the liquidity contract was 83,176 shares. The negative effect recorded in reserves for operations carried out in the first half of the year was 87 thousand euros.

15.5 Minority interests

The movements in this item in 2019 and 2018 are summarised below:

	Thousands of euros	
	2019	**2018**
Opening balance	**52,351**	**43,472**
Application of IAS 29	777	9,722
Application of IFRS 16	(1,098)	-
Comprehensive profit (loss) attributable to non-controlling interests	4,192	1,532
Changes in percentage shareholdings and purchase/sales	-	(2,146)
Dividends paid to non-controlling interests	(2,720)	(729)
Other movements	3,737	500
Closing balance	**57,239**	**52,351**

The 2019 "Dividends paid to non-controlling interests" item reflects the dividends paid out to the following companies: NH Marín, S.A., for 600 thousand euros, NH Las Palmas, S.A. for 621 thousand euros and various companies in Latin America for 1,499 thousand euros.

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

The balances of the “Bonds and other negotiable securities” and “Debts with credit institutions” items at 31 December 2019 and 2018 were as follows:

	Thousands of euros			
	2019		2018	
	Long-term	Short-term	Long-term	Short-term
Secured senior bonds maturing in 2023	356,850	-	356,850	-
Borrowing costs	-	3,308	-	3,308
Arrangement expenses	(6,882)	(1,910)	(8,792)	(2,120)
Effect of renegotiation of debt IFRS 9	(4,316)	(1,257)	(5,573)	(1,115)
Debt instruments and other marketable securities	**345,652**	**141**	**342,485**	**73**
Mortgages	25,300	2,544	28,950	2,736
Unsecured loans	42,445	806	5,759	2,271
Subordinated loans	40,000	-	40,000	-
Credit lines	-	-	-	8
Arrangement expenses	(1,050)	(786)	(1,835)	(769)
Effect of renegotiation of debt IFRS 9	-	-	(1,401)	(148)
Borrowing costs	-	547	-	783
Bank borrowings	**106,695**	**3,111**	**71,473**	**4,881**
Total	**452,347**	**3,252**	**413,958**	**4,954**

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

Secured senior bonds maturing in 2023

On 23 September 2016 the Parent Company placed guaranteed senior bonds, which mature in 2023, at the nominal value of 285 million euros. The nominal yearly interest rate for said issuance of notes is 3.75%. On 4 April 2017, the parent company issued an extension of guaranteed senior bonds maturing in 2023 for a nominal amount of 115 million euros with an implicit cost until maturity of 3.17%. The outstanding nominal amount at 31 December 2019 is 356,850 thousand euros (see the heading “Depreciation and Amortisation 2018”).

Depreciation and Amortisation 2018

As a result of the change of control (see Note 15) and as established in the voluntary repurchase and early redemption offer of the senior secured bond issue maturing in 2023 (the “Bonds”) due to the change of control, requests were received for the repurchase and redemption of bonds for a nominal amount of 3,150 thousand euros.

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

- Nominal paid in advance: 3.15 million euros
- Unpaid accrued interest: 13.5 thousand euros
- Amount of the repurchase premium: 31.5 thousand euros

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

- Nominal paid in advance: 40 million euros
- Unpaid accrued interest: 304.2 thousand euros
- Amount of the repurchase premium: 1.20 million euros

The Company paid the partial redemptions from available cash.

Secured credit line

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

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

The senior notes maturing in 2023 and the syndicated credit line require the fulfilment of a series of obligations and limitations of essentially homogeneous content as regards the assumption of additional borrowing or provision of guarantees in favour of third parties, the granting of real guarantees on assets, the sale of assets, investments that are permitted, restricted payments (including the distribution of dividends to shareholders), transactions between related parties, corporate transactions and disclosure obligations. These obligations are detailed in the issue prospectus for the aforementioned notes, as well as in the credit agreement of the syndicated credit line.

In addition, the syndicated credit line requires compliance with financial ratios; in particular (i) an interest coverage ratio of > 2.00x, (ii) a debt coverage ratio of < 5.50x, and (iii) a Loan to Value ("LTV") ratio which, as a result of the redemption of the 2019 senior secured obligations due in 2017, depends on the level of NH's indebtedness at any given time as indicated below:

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

As a result of the early redemption of the convertible bonds and of the Group's reduced net debt-to-income ratio, the maximum LTV permitted at 31 December 2019 is 100%.

At 31 December 2019 these ratios were completely adhered to.

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

The guaranteed senior notes maturing in 2023 and syndicated credit line (undrawn at 31 December 2019) share the following guarantees: (i) pledge of shares: 100% of the share capital of (A) Diegem, , (B) Immo Hotel Brugge NV, (C) Immo Hotel Diegem NV, (D) Immo Hotel GP NV, (E) Immo Hotel Mechelen NV, (F) Immo Hotel Stephanie NV,(G) Onroerend Goed Beheer Maatschappij Van Alphenstraat Zandvoort, B.V. and (H) NH Italia, S.p.A. (ii) first-tier mortgage guarantee on the following hotels located in the Netherlands: NH Conference Centre Koningshof, owned by Koningshof, B.V.; NH Conference Centre LeeuweNHorst, owned by LeeuweNHorst Congres Center, B.V.; NH Schiphol Airport, owned by Onroerend Goed Beheer Maatschappij Kruisweg Hoofddorp, B.V.; NH Zoetermeer, owned by Onroerend Goed Beheer Maatschappij Danny Kayelaan Zoetermeer, B.V.; NH Conference Centre SparreNHorst, owned by SparreNHorst, B.V.; NH Capelle, owned by Onroerend Goed Beheer Maatschappij Capelle aan den IJssel, B.V.; and NH Naarden, owned by Onroerend Goed Beheer Maatschappij IJsselmeerweg Naarden, B.V. and the joint guarantee on first demand of the main operating companies in the group wholly owned by the Parent Company.

The net book value of the assets granted as mortgage security against the syndicated credit line of 250,000 thousand euros (undrawn at 31 December 2019) and guaranteed senior notes in the amount of 356,850 thousand euros, maturing in 2023, can be broken down as follows (in thousands of euros):

	Mortgaged asset	Net book value of the mortgaged asset
	NH Conference Centre Leeuwenhorst	57,229
	NH Conference Centre Koningshof	43,351
	NH Schiphol Airport	43,850
	NH Conference Centre Sparrenhorst	9,285
	NH Zoetermeer	7,494
	NH Naarden	11,016
	NH Capelle	6,234
Total		**178,459**
Net value of assets assigned as mortgage collateral		178,459
Value of guaranteed debt		**356,850**
Fixed interest		356,850
Variable interest (amount of the syndicated credit line undrawn)		250,000

Limitation on the distribution of Dividends

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

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

Additionally, as an alternative and without having to be in compliance with the previous condition: (i) in the case of bonds maturing in 2023, NH may distribute dividends provided that the leverage ratio (gross debt/EBITDA) does not exceed 4.5x.

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

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

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

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

All these metrics are calculated with consolidated data.

At 31 December 2019 all legal requirements for the distribution of dividends are met according to the propose of distribution of this annual report (See Note 3). This being said, it will be verified again at the date of the distribution.

Mortgages

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

	Mortgaged asset	Fixed rate	Variable interest	Total	Net book value of the mortgaged asset
Spain	Wilan Ander	4,169	-	4,169	5,629
	Wilan Huel	2,987	-	2,987	6,780
	NH Palacio de la Merced	-	3,213	3,213	16,015
Total Spain		**7,156**	**3,213**	**10,369**	**28,424**
Mexico	NH Querétaro	-	219	219	4,379
Italy	NH Villa San Mauro	-	877	877	-
Chile	NH Plaza de Santiago	16,379	-	16,379	18,143
Total		**23,535**	**4,309**	**27,844**	**50,946**

Subordinated loan

A loan amounting to 40,000 thousand euros fully drawn at 31 December 2019 and with a single maturity and repayment in 2037, are included in this item. The interest rate of these loans is the 3-month Euribor plus a spread.

Credit lines

At 31 December 2019 and 2018, the balances under this item include the amount drawn down from credit facilities. The joint limit of these loan agreements and credit facilities at 31 December 2019 amounted to 53,500 thousand euros, that had not been drawn down at that date. Additionally, at 31 December 2018, the Parent Company had a guaranteed syndicated credit line that had not been drawn down amounting to 250,000 thousand euros, maturing on 29 September 2021 (see section "Guaranteed syndicated credit line").

Detail of current and non-current payables

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

				Maturity							
Instrument	**Limit**	**Available**	**Disposed**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**Remainder**
Mortgage loans	27,844	-	27,844	-	2,544	2,465	2,053	6,001	1,275	856	12,650
Fixed rate	23,535	-	23,535	-	1,304	1,415	1,442	5,381	646	697	12,650
Variable interest	4,309	-	4,309	-	1,240	1,050	611	620	629	159	-
Subordinated loans	40,000	-	40,000	-	-	-	-	-	-	-	40,000
Variable interest	40,000	-	40,000	-	-	-	-	-	-	-	40,000
Guaranteed senior notes mat. in 2023	356,850	-	356,850	-	-	-	-	356,850	-	-	-
Fixed rate	356,850	-	356,850	-	-	-	-	356,850	-	-	-
Unsecured loans	45,846	2,595	43,251	-	806	173	173	42,085	14	-	-
Variable interest	45,846	2,595	43,251	-	806	173	173	42,085	14	-	-
Secured credit line	250,000	250,000	-	-	-	-	-	-	-	-	-
Variable interest	250,000	250,000	-	-	-	-	-	-	-	-	-
Credit lines	53,500	53,500	-	-	-	-	-	-	-	-	-
Variable interest	53,500	53,500	-	-	-	-	-	-	-	-	-
SUBTOTAL	**774,040**	**306,095**	**467,945**	**-**	**3,350**	**2,638**	**2,226**	**404,936**	**1,289**	**856**	**52,650**
Arrangement expenses	(10,628)	-	(10,628)	-	(2,696)	(2,890)	(2,454)	(2,202)	(30)	(30)	(326)
Effect of renegotiation of debt IFRS 9(	(5,573)	-	(5,573)		(1,257)	(1,414)	(1,588)	(1,314)	-	-	-
Borrowing costs	3,855	-	3,855		3,855	-	-	-	-	-	-
Borrowing at 31/12/2019	**761,694**	**306,095**	**455,599**	**-**	**3,252**	**(1,666)**	**(1,816)**	**401,420**	**1,259**	**826**	**52,324**
Borrowing at 31/12/2018	**769,271**	**350,359**	**418,912**	**4,954**	**(1,504)**	**(1,928)**	**(2,074)**	**365,003**	**1,318**	**903**	**52,240**

The detail for maturities of the debt for operating leases without discounting is as follows (in thousands of euros):

		Maturities						
Instrument	**Total liabilities 2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**Remainder**
Gross lease payments	2,998,501	259,006	247,223	227,611	215,623	206,669	196,727	1,645,642

Net Debt

The detail of net debt at 31 December 2019 and 2018 is as follows (in thousands of euros):

NET DEBT	**2019**	**2018**
Cash and cash equivalents	289,345	265,869
Financial debt (Long and short term)	(455,599)	(418,912)
Lease liabilities (Nota 9)	(2,067,369)	-
Net Debt	**(2,233,623)**	**(153,043)**
Cash and liquid investments	**289,345**	**265,869**
Gross debt – fixed interest rates	(2,436,698)	(366,968)
Gross debt – variable interest rates	(86,270)	(51,944)

Net debt at 31 December 2019 includes lease liabilities as a consequence of the implementation of IFRS 16, not considered in 2018 because it entered into force the 1st of January of 2019 (See Note 2.1.1).

17.- OTHER NON-CURRENT LIABILITIES

The breakdown of the "Other non-current liabilities" item in the accompanying consolidated balance sheets, at 31 December 2019 and 2018, is as follows:

	Thousands of euros	
	2019	2018
At amortised cost:		
Linearization of rents (Note 2.1.1)	-	16,925
Capital subsidies (Note 2.1.1)	1,911	24,319
Acquisition of Capredo Investment GmbH	3,150	3,150
Other liabilities	2,576	2,902
Total	**7,637**	**47,296**

Resulting from the application of IFRS 16, there is no linearization of rents and all subsidies received by owners have been transferred to right-of-use assets (see Note 2.1.1).

18.- PROVISIONS FOR RISKS AND CHARGES

The breakdown of "Provisions for risks and charges" at 31 December 2019 and 2018, together with the main movements recognised in those years were as follows:

	Thousand euros				
	Balance at 31/12/18	Additions	Applications/ Reversals	Transfers and other changes	Balance at 31/12/19
Provisions for contingencies and extraordinary costs:					
Onerous contracts (Nota 2.1.1)	5,313	-	-	(5,313)	-
Provision for pensions and similar obligations	16,740	13,589	(1,410)	-	28,919
Other claims	29,125	2,921	(16,450)	3,726	19,322
	51,178	**16,510**	**(17,860)**	**(1,587)**	**48,241**
Provisions for contingencies and current expenses:					
Onerous contracts (Nota 2.1.1)	1,654	-	-	(1,654)	-
Other provisions	1,059	4,694	(629)	(103)	5,021
	2,713	**4,694**	**(629)**	**(1,757)**	**5,021**
Total	**53,891**	**21,204**	**(18,489)**	**(3,344)**	**53,262**

	Thousand euros				
	Balance at 31/12/17	Additions	Applications/ Reversals	Transfers and other changes	Balance at 31/12/18
Provisions for contingencies and extraordinary costs:					
Onerous contracts	12,213	1,449	(6,785)	(1,564)	5,313
Provision for pensions and similar obligations	16,245	1,255	(760)	-	16,740
Other claims	21,955	9,444	(8,048)	5,774	29,125
	50,413	**12,148**	**(15,593)**	**4,210**	**51,178**
Provisions for contingencies and current expenses:					
Onerous contracts	2,513	-	(2,423)	1,564	1,654
Other provisions	6,458	716	(341)	(5,774)	1,059
	8,971	**716**	**(2,764)**	**(4,210)**	**2,713**
Total	**59,384**	**12,864**	**(18,356)**	**-**	**53,891**

At 1 January 2019, due to the application of IFRS 16, the provision for onerous contracts is registered as the lower value of the right of use (See Note 2.1.1).

Provision for pensions and similar obligations

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

This section also includes various retirement, performance related and/or long-stay awards considered in the Collective Bargaining Agreements that are applicable in Spain.

The allocations column includes the change in accounting criteria of 12,191 thousand euros, resulting in a net impact of taxes on equity of 9,692 thousand euros. (see Note 2.3)

At the end of 2019, the liabilities entered against this item were of 28,919 thousand euros (16,740 thousand euros at 31 December 2018).

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

	2019		2018	
	Netherlands	Italy	Netherlands	Italy
Discount rates	1.20%	0.20%-1.46%	1.90%	0.20%-1.46%
Expected annual rate of salary rise	0.50%	1.9%	2.50%	1.70%
Expected return from assets allocated to the plan	0.23%	2.02%	0.30%	2.02%

Other claims

The “Other claims” item includes provisions for disputes and risks that the Group considers likely to occur. Among the most significant are the provisions created on the basis of the action brought in the proceedings claiming breach of contract in a property development, as well as other claims received in relation to the termination of certain leases where certain amounts are claimed. No decision on these claims is expected in the short term (see Note 23).

19.- TAX NOTE

Tax consolidation scheme

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

NH Hotel Group, S.A. and another 17 companies with tax domicile in Spain in which it held a direct or indirect stake of at least 75% during the 2019 tax period are subject to the tax consolidation scheme governed by Title VII, Chapter VI of Law 27/2014 on Corporate Income Tax.

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

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

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

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

In 2019, Spanish companies pay taxes at the general tax rate of 25% irrespective of whether they apply the consolidated or separate taxation schemes. The foreign companies are subject to the prevailing tax rate in the countries where they are domiciled. In addition, taxes are recognised in some countries at the estimated minimum profit on a complementary basis to Corporation Tax.

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

Country	Nominal tax rate	Country	Nominal tax rate
Argentina	30%	Italy	24%
Austria	25%	Luxembourg	17%
Belgium	30%	Mexico	30%
Brasil	34%	Netherlands	25%
Chile	27%	Poland	19%
Colombia	33%	Portugal	21%
Czech R.	19%	Romania	16%
Dominican R.	27%	South Africa	28%
Ecuador	25%	Spain	25%
France	28%	Switzerland	9%
Germany	30%	United Kingdom	19%
Hugary	9%	Uruguay	25%
Ireland	12.5%	USA	21%

Financial years subject to tax inspection

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

Tax	Pending periods
Corporation	2014 - 2018
VAT	2016 to 2019
IRPF (personal income tax)	2016 to 2019
Non-resident Income Tax	2016 to 2019

In Spain during 2019, a verification and investigation process partially began to reduce the Taxable Base of revenues from certain intangible assets referred to in article 23 of the TRLIS related to Corporation Tax for the years 2016 to 2018. The Company has recorded a provision of 1 million euros in 2019. In February 2020, the agreement that contained the settlement proposed by the inspection was signed, with no material differences between the proposed settlement and the contingency calculated and provided for.

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

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

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

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

Regarding the financial years open to inspection in the rest of the group, contingent liabilities not susceptible to objective quantification may exist, which are not significant in the opinion of the Group's Directors. Moreover, the company considers that there aren't any significant uncertain tax positions.

Balances with Public Administrations

The composition of the debit balances with Public Administrations at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Deferred tax assets		
Tax credits	83,881	92,185
Tax assets due to asset impairment	31,842	34,824
Tax withholdings of workforce	3,312	2,995
Other prepaid taxes	5,219	8,720
IFRS 16 (See Note 2.1.1)	95,786	-
Total	**220,040**	**138,724**

	Thousands of euros	
	2019	2018
Shor-term taxes receivable		
Corporation tax	19,613	10,496
Value Added Tax	7,336	6,503
Other tax receivables	2,012	2,452
Total	**28,961**	**19,451**

The movements of the "Deferred tax assets" item in 2019 and 2018 were as follows:

	Thousands of euros	
	2019	2018
Opening balance	**138,724**	**137,996**
Asset impairment	(2,982)	2,729
Generation of assets due to tax losses	1,927	3,615
Settlements of assets due to tax losses	(10,667)	(4,509)
Activation of deductions	528	-
Settlement of deductions	(92)	(3,611)
IFRS 16 (See Note 2.1.1 and Note 9)	95,786	-
Others	(3,184)	2,504
Total	**220,040**	**138,724**

All these impacts have had an effect on the Consolidated Profit and Loss Statement except for the initial impact from the first application of IFRS 16 and other non-significant ones that have resulted in changes to the consolidated statement of changes in equity.

The increase in deferred tax assets is mainly due to IFRS 16 on leases being adopted in 2019 (See Note 2.1.1 and Note 9).

Additionally, in 2019 there were assets recognised due to the activation of tax losses in Germany and Ireland amounting to 1,857 and 70 thousand euros respectively, as a result of the positive results expected in future years.

The cancellation of assets is mainly due to the cancellation of tax losses to offset the positive tax bases generated in 2019, in Luxembourg, Belgium, Germany and Latin America, amounting to 906, 94, 2,253 and 260 thousand euros, respectively. Additionally, in Spain, at 31 December 2019, it has been updated the recovery plan for tax credits, which back up the capitalization of such tax credits. As a consequence of the aforementioned, the Directors of the Parent Company has decided to impair tax assets for 7,153 thousand euros. However, this impact has been offset by the recovery during the year of part of the financial burden not deducted in previous years, which has led to a less current tax expense in the Group.

At 31 December 2019, the Group had assets resulting from tax losses and deductions amounting to 83,881 thousand euros (92,185 thousand euros in 2018). At 31 December 2019, the tax credit recovery plan that supports the recognition of these tax credits had been updated. As a result of said update, and pursuant to that previously stated, the Directors of the Parent Company decided to impair the asset by 7,153 thousand euros.

At 31 December 2019, the Group had tax loss carryforwards worth 594,222 thousand euros (593,041 thousand euros at 31 December 2018) and deductions amounting to 27,695 thousand euros (27,020 thousand euros in 2018) that had not been entered in the accompanying consolidated balance sheet because the Directors considered they did not meet accounting standard requirements. These assets are grouped as follows (base amount):

	Thousands of euros	
	2019	**2018**
Finance costs and negative tax bases		
Non-deductible financial expenses in Spain	191,799	256,170
Negative tax bases generated by the Spanish entities before their inclusion in the Spanish consolidation group	102,813	99,722
Spanish consolidation group tax loss carryforwards	43,351	5,112
Negative tax bases generated in Austria	33,825	33,169
Negative tax bases generated in Latin America	3,068	967
Negative tax bases generated in Luxembourg	47,682	50,546
Negative tax bases generated in Germany	123,312	127,494
Negative tax bases generated in Hungary	1,437	2,019
Negative tax bases generated in the Netherlands	-	-
Negative tax bases generated in Belgium	1,621	2,688
Negative tax bases USA	38,684	9,781
Negative tax bases France	6,630	5,176
Negative tax bases generated in South Africa	-	197
Total	**594,222**	**593,041**
Deductions		
Deductions generated in Spain	27,695	27,020
Total	**27,695**	**27,020**
Total	**621,917**	**620,061**

Finance costs, which are not considered deductible in the Spanish corporate income tax when exceeding 30% of the operating revenue of the tax group calculated in accordance with Article 16 of Law 27/2014 of 27 December, on Corporate Income Tax, amount to 191,799 thousand euros in 2019 (256,170 thousand euros in 2018). There is no deadline for offsetting non-deductible finance costs.

The variation in unrecorded credits in 2019 is mainly due to the fact that financial expenses in Spain were not deducted in previous periods by application of the aforementioned regulations. The reduction of non-deducted financial expenses is offset by the higher amount of negative tax bases not activated in Spain and the United States. Pursuant to the above, in Spain tax credits activated for 7,153 thousand euros we cancelled, which represents a 28,509 thousand euro increase in non-activated negative tax bases. To this, negative tax bases generated by the Spanish Tax Group in 2019 for 9,724 thousand euros that have not been activated are added.

The composition of the credit balances with Public Administrations at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Deferred tax liabilities		
Revaluation of assets and other valuation differences	180,082	177,478
Total	**180,082**	**177,478**

	Thousands of euros	
	2019	2018
Short-term taxes payable		
Corporation tax	10,904	19,980
Value Added Tax	1,886	689
Personal Income Tax	7,688	7,746
Tax on Income from Capital	1,308	1,190
Social Security	8,109	7,409
Others	10,980	22,439
Total	**40,875**	**59,453**

The movements in deferred tax liabilities during 2019 are as follows:

	Thousands of euros	
	2019	2018
Opening balance	**177,478**	**167,433**
IAS 29 Hyperinflationary economies (Note 2.4)	(1,177)	19,892
Others	3,781	(9,847)
Closing balance	**180,082**	**177,478**

The reduction in deferred tax liabilities is mainly due to the reversal of impairment on revalued assets. In addition, the deferred tax liability associated with the revaluation of assets in Argentina due to application of IAS 29 has decreased by 1,177 thousand euros (see Notes 2.4 and 4.23).

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

	Thousands of euros			
	Tax credits	Prepaid Taxes	Total Assets	Liabilities
Spain	78,500	33,380	111,880	23,639
Benelux	1,887	24,480	26,367	15,851
Italy	-	23,593	23,593	96,839
Germany	1,857	41,018	42,875	3,334
Others	1,637	13,688	15,325	40,418
TOTAL	**83,881**	**136,159**	**220,040**	**180,082**

Reconciliation of the accounting result to the tax result

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

	Thousand euros																	
	2019															2018		
	Spain	France	Italy	USA	Germany	Nether-lands (1)	Latin America (2)	Luxembourg	Romania	Switzerland	Czech R.	Poland	Portugal	Others	TOTAL	Spanish Companies	Other Companies	Total
Consolidated statements of comprehensive profit and loss before taxes	38.137	(2.387)	47.435	(5.275)	(6.392)	50.206	3.862	3.052	381	393	(2)	(4)	1.692	371	131.469	12.350	172.433	184.782
Adjustments to consolidated comprehensive profit and loss:																		
Accounting consolidation adjustments	-	-	-	-	2.721	-	-	-	-	-	-	-	-	-	2.721	2.004	5.961	7.965
Due to permanent differences	(36.050)	2.022	2.443	5.275	20.555	6.334	7.591	1.956	(100)	236	2	4	385	(371)	10.282	13.362	64.224	77.586
Due to temporary differences	(501)	366	(50)	0	(12.595)	1.877	10.096	(4.329)	(26)	(146)	-	-	-	-	(5.308)	23.877	(5.096)	18.781
Tax base (Taxable profit or loss)	1.586	-	49.829	0	4.289	58.418	21.549	679	255	482	-	-	2.078	-	139.163	51.592	262.560	314.152
Current taxes to be refunded / (to pay)	8.126	371	(1.535)	3	(879)	(1.688)	4.645	-	-	-	-	-	(160)	(173)	8.708	42	(9.525)	(9.484)
Total current tax income / (expense)	(396)	-	(11.971)	-	(1.287)	(14.697)	(6.491)	(115)	(41)	(41)	-	-	(436)	-	(35.476)	(12.914)	(61.499)	(74.413)
Total deferred tax income / (expense)	(7.163)	273	1.554	0	400	1.686	2.588	(736)	(4)	(12)	-	-	256	-	(1.157)	5.969	(4.049)	1.920
Total other income / (expense)	763	-	(2.925)	10	-	8	262	-	-	(5)	-	-	(23)	(25)	(1.935)	(4.501)	(2.670)	(7.171)
Total Corporation Tax income / (expense)	**(6.796)**	**273**	**(13.342)**	**10**	**(886)**	**(13.002)**	**(3.642)**	**(851)**	**(45)**	**(59)**	**-**	**-**	**(203)**	**(25)**	**(38.568)**	**(11.445)**	**(68.219)**	**(79.664)**

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

Deductions generated by the consolidated tax group of the Parent Company

At 31 December 2019, the Tax Group held the following tax credits carryforward (thousand euros):

Year of origin	Deduction pending application	Amount
2004 to 2011	Deduction to encourage certain activities	26,915
2014 - 2017	IT Deduction	780
2019	Investment deduction in the Canary Islands	528
2013 to 2014	Other	554
		28,777

20.- COMMERCIAL CREDITORS AND OTHER ACCOUNTS PAYABLE

The breakdown of this item in the consolidated balance sheet at 31 December 2019 and 2018 is as follows (thousands of euros):

	Thousands of euros	
	2019	**2018**
Trade and other payables	215,755	218,458
Advance payments from customers	41,744	34,246
Total	**257,499**	**252,704**

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

The “Advance payments from customers” item mainly includes customer deposits arising from the Group’s hotel businesses.

21.- INFORMATION ON DEFERRED PAYMENTS TO SUPPLIERS. THIRD ADDITIONAL PROVISION. “DUTY TO REPORT” OF ACT 11/2013 OF 26 JULY

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

	2019	2018
	Days	
Average period for payment to suppliers	**63**	**62**
Ratio of paid transactions	63	63
Ratio of transactions pending payment	53	52
	Amount (thousands of euros)	
Total payments made	308,812	272,055
Total payments pending	13,732	12,128

The above information on payments to suppliers of Spanish companies refer to those which by their nature are trade creditors due to debts with suppliers of goods and services. The table includes, therefore, the “Commercial Creditors and Other Accounts Payable” item in current liabilities of the attached consolidated balance sheet at 31 December 2019 and 2018.

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

- Ratio of paid transactions: average payment period of transactions paid in 2019 weighted by the amount of each transaction.

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

22.- OTHER NON-CURRENT LIABILITIES

At 31 December 2019 and 2018, this item is broken down as follows:

	Thousands of euros	
	2019	**2018**
Outstanding remuneration	40,274	37,520
Linearization of rents (Note 2.1.1)	-	1,814
Other creditors	8,761	5,110
Total	**49,035**	**44,444**

23.- THIRD-PARTY GUARANTEES AND CLAIMS IN PROGRESS

At 31 December 2019, NH had a total of 30,371 thousand euros in economic or financial bank guarantees issued by various banks (37,353 thousand euros in 2018).

The reduction in the balance of bank guarantees at 31 December 2019 compared to that at 31 December 2018 is mainly due to the cancellation of the 6,000 thousand euro guarantee on obligations related to cash pooling contracts or centralised treasury management with one bank entity.

Of the 30,371 thousand euros in bank guarantees, 24,327 thousand euros guarantee leasing contract obligations and others related to the Group's usual operations in various countries, and 6,044 thousand euros issued in relation to public bodies.

At 31 December 2019, the Group had taken out insurance policies to cover risks arising from damage to material goods, loss of profits and third-party liability. The capital insured sufficiently covers the assets and risks mentioned above.

Commitments to third parties

- A Group company currently acts as co-guarantor for a syndicated loan granted by two banks to a company with a minority shareholding in a NH Group company which at 31 December 2019 had an outstanding principal of 15,742 thousand euros (equivalent to 17,685 thousand US dollars) and final maturity on 22 January 2020.

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

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

- Likewise, within the framework of the Group's financing, personal and real guarantees have been granted to fulfil the obligations guaranteed under the financing agreements (see Note 16).

Claims in process

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

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

- The owner of four properties in the Netherlands has claimed in court the payment of compensation to a Dutch subsidiary because there was allegedly a change of the control situation in the year 2014, which supposedly entitles him to claim a fine, according to the lease. The claim filed by the owner, both in the first instance and on appeal, was dismissed in full. The same owner has instituted fresh court proceedings alleging a change of control situation in 2018, which is pending resolution.

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

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

- A NH Group company in Italy has been sued with damages under a service provision contract requested.

- A claim has been filed against two of the Group's companies seeking payment fees to rights management from 1 January 2008 to 31 May 2013, in addition to an unspecified amount corresponding to the period thereafter until a judgment is issued, plus interest and costs. The procedure from both first instance and appeal has been resolved by setting an amount lower than the one claimed, however, a judicial review has been filed, which is pending a hearing.

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

    - Plaintiff in the proceedings against construction agents for construction defects in twenty-five homes and contractual liability.
    - Respondent in the process of claiming amounts from a real estate development due to construction defects.
    - The company may be subject to a claim for amounts derived from an eventual administrative claim.

- It filed an arbitration claim requesting the validity of the declaration of resolution to sell practised at fifteen premises in San Roque, the decision on which was in favour of the Company's interests. To the contrary, it filed for annulment of the award, which has been dismissed. The debtor company has entered into insolvency proceedings and the company has requested the right to separate the premises from the estate, and an agreement has been reached with the insolvency administration for the delivery of the aforementioned premises, which is in the execution phase.

- A former shareholder of the NH Group has requested the annulment of certain resolutions adopted by the Board of Directors, and the proceedings are currently in progress.

- With regard to the disputed amounts linked to an eventual indemnity due to the resolution of the agreement with the previous Chief Executive Officer, amounts that have been entirely provisioned during fiscal year 2019, it has been definitely resolved for an amount below the provisioned.

- As part of the contractual liability assumed by the NH Group in the 2013 hotel purchase contract, the buyers informed the Group of the requirement to pay the Dutch Capital Transfer Tax. At 31 December 2019, the total amount of this tax, plus the corresponding default interest, was 11,900 thousand euros. The purchasers submitted an appeal to the Dutch Treasury that was rejected and an appeal has been filed with the Courts that is still pending resolution. The NH Group and the purchasers have reached an agreement whereby NH assumes control of the judicial procedure and has agreed to pay 275,000 euros in compensation to the purchasers for the tax advice expenses they incurred.

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.

24.- LONG-TERM INCENTIVE PLAN

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

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

- TSR (total shareholder return) at the end of each of the plan cycles, comparing the performance of NH Hotel Group, SA shares with the following indices:
  - o IBEX Medium Cap
  - o Dow Jones Euro Stoxx Travel & Leisure
- EBITDA, discounting the amount corresponding to rentals compared annually with the forecasts of the Company's strategic plan.

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

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

The plan had a total duration of five years, divided into three three-year cycles. The third and final cycle was settled in the first half of the year with the delivery of 226,067 net shares at a fair value per unit of 4.55 euros. The settlement of this plan was done net of tax.

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

	No. of Shares Assigned at the start of each cycle (Thousands)	No. of live shares at 31/12/2019 (Thousands)	Value of the allocation (Euros)
The first cycle began on 1/1/2017 (delivery in 2020 (in force))	720.87	629.84	3.80
The second cycle began on 01/01/2018 (delivery in 2021 (in force))	517.96	482.30	5.96
The third cycle began on 01/01/2019 (delivery in 2022 (in force))	879.25	872.81	3.96

The difference between the total shares assigned at the beginning of each cycle and the live shares at 31 December 2019 are beneficiaries who left between the launch the year-end 2019.

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

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

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

The beneficiaries must remain in the Group at the end of each cycle, notwithstanding the exceptions deemed appropriate, as well as achieving the minimum thresholds for each of the objectives.

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

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

The effect of these items on the consolidated comprehensive profit and loss statement for 2019 was 3,569 thousand euros (3,275 thousand euros in 2018).

25.- INCOME AND EXPENSES

25.1 Income

The breakdown of these headings in the consolidated comprehensive profit and loss statements for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Hotel occupancy	1,222,859	1,149,805
Catering	340,562	325,026
Meeting rooms and others	91,772	86,307
Rentals and other services	52,885	52,250
Revenues	**1,708,078**	**1,613,388**
Operating subsidies	36	36
Other operating income	9,316	6,096
Other operating income	9,352	6,132
Net gain (loss) on disposal of assets	**(709)**	**85,982**

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

The breakdown of net turnover by geographical markets in 2019 and 2018 was as follows:

	Thousands of euros	
	2019	2018
Spain	440,162	406,332
Germany	371,054	317,542
Benelux	305,712	360,254
Italy	323,639	290,072
Rest of Europe	121,275	111,241
Latin America	146,236	127,947
Total	**1,708,078**	**1,613,388**

25.2 Financial income

The breakdown of the amount of financial income is:

	Thousands of euros	
	2019	**2018**
Dividend income	1,635	1,214
Interest income	1,276	1,258
Other financial income	1,293	3,567
Total	**4,204**	**6,039**

Interest income corresponds to loans valued at amortised cost.

25.3 Personnel expenses

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

	Thousands of euros	
	2019	**2018**
Wages, salaries and similar	339,754	319,458
Social security contributions	81,500	75,141
Indemnifications	3,119	5,751
Contributions to pension plans and similar	11,134	10,118
Other social expenses	13,255	12,203
Total	**448,762**	**422,671**

The average number of people employed by the Parent Company and the companies consolidated through full consolidation in 2019 and 2018 broken down by professional categories was as follows:

	2019	**2018**
Group's general management	8	8
Managers and heads of department	1,465	1,428
Technical staff	972	928
Sales representatives	803	764
Administrative staff	182	201
Rest of workforce	8,033	7,626
Total	**11,463**	**10,956**

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

The breakdown of the personnel at 31 December 2019 and 2018, by gender and professional category, is as follows:

	2019		2018	
	Males	Females	Males	Females
Group's general management	6	2	6	2
Managers and heads of department	866	633	836	610
Technical staff	524	490	483	442
Sales representatives	256	601	221	548
Administrative staff	68	118	65	107
Rest of workforce	4,084	4,175	3,813	3,924
Total	**5,804**	**6,019**	**5,424**	**5,633**

The average number of people with disabilities equivalent to or greater than 33%, directly employed by the Parent Company and fully consolidated companies in Spain in 2019 and 2018, broken down by professional categories, is as follows:

	2019	2018
Managers and heads of department	3	4
Technical staff	11	13
Sales representatives	5	1
Administrative staff	5	4
Rest of workforce	90	82
Total	**114**	**103**

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

25.4 Other operating expenses

The detail of "Other Operating Expenses" of the consolidated comprehensive income for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Leases (See Notes 2.1.1 and 9)	83,647	319,435
Outsourcing of services	125,194	118,307
Commissions and bonuses for customers	92,287	85,542
Supplies	60,607	57,793
Maintenance and cleaning	42,277	43,272
Laundry and related costs	39,110	38,034
Costs associated with information technologies	41,001	38,339
Marketing and merchandising	24,574	26,556
Taxes, insurance and levies	27,737	26,307
Advisory services	15,547	16,614
Other external services	72,194	87,067
Total	**624,175**	**857,266**

In 2019, the Group experienced a higher level of activity in its hotel business, which led to an increase in some operational expenses directly related to the level of activity, such as the supplies and laundry service, among others. Also, the increase recorded in revenue per available room explains the increase in associated agency commission expenses. However, savings were achieved in other items such as marketing and merchandising, among others.

The heading on leases has reduced due to the new accounting on leases from the application of IFRS 16 (See Note 2.1 and Note 9). The expense recorded for this item in 2019 corresponds to the variable income of these contracts. On the other hand, there is no significant lease expense for contracts with a duration of less than one year or that, due to a reduced value, have ceased to be considered under IFRS 16.

During 2019 and 2018, the fees for account auditing and other services provided by the auditor of the Group's consolidated annual accounts and the fees for services invoiced by the entities related to it by control, shared ownership or management, were as follows:

	Thousands of euros	
	2019	2018
Auditing services	545	944
Other verification services	138	223
Total auditing and related services	683	1,167
Tax consulting services	-	260
Other services	23	29
Total other services	23	289
Total professional services	**706**	**1,456**

Additionally, entities associated with the international network of the consolidated annual accounts auditor have invoiced the Group for the following services:

	Thousands of euros	
	2019	2018
Auditing services	1,031	1,525
Other verification services	152	28
Total auditing and related services	1,183	1,553
Tax consulting services	274	81
Other services	1	-
Total other services	275	81
Total	**1,458**	**1,634**

During 2019, other auditing firms apart from the auditor of the consolidated annual accounts or entities associated with this company by control, shared ownership or management, have provided account auditing services to the companies making up the Group, for fees totalling 50 thousand euros (66 thousand euros in 2018). The fees accrued in 2019 by these firms for tax advice services were 244 thousand euros (209 thousand euros in 2018) and for other services, 80 thousand euros (396 thousand euros in 2018).

25.5 Finance costs

The detailed balance of this chapter of the consolidated statement of comprehensive income for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Expenses for interest	19,933	30,763
Financial expenses for means of payment	19,304	17,379
Financial effect relating to restatement of provisions and other financial liabilities	2,721	2,546
Amortisation of debt arrangement expenses	3,793	7,838
Interest on leases	89,620	-
Other financial expenses	101	1,471
Total financial expenses	**135,472**	**59,997**

The increase in interest expenses in 2019 compared to 2018 is mainly due to IFRS 16 on leases being adopted in 2019 (See Note 2.1.1 and Note 9).

The expenses for interest correspond to debts valued at amortised cost.

25.6 Results from exposure to hyperinflation

This heading includes the net effect recognised in the consolidated comprehensive profit and loss statement arising from the application of accounting standards to the financial statements of Argentine subsidiaries from the date of first application at 2019 year-end (See Note 2.4).

26.- RELATED PARTY TRANSACTIONS

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

Transactions carried out by the Group with its related parties during 2019 are stated below, distinguishing between major shareholders, members of the Board of Directors and Directors of the Parent Company and other parties that were related during the year even though there are no longer a shareholder at year-end. The conditions of the related-party transactions are equivalent to those of transactions carried out under market conditions:

	Thousands of euros		
	2019		
Income and Expenses	Major Shareholders	Associates or companies of the Group	Total
Expenses:			
Reception of services	590	-	590
Financial expenses	-	-	-
Other expenses	231	-	231
Total	**821**	**-**	**821**
Income:			
Financial income	-	324	324
Management or cooperation agreements	2,749	1,651	4,400
Total	**2,749**	**1,975**	**4,724**

	Thousands of euros		
	2018		
Income and Expenses	Major Shareholders	Associates or companies of the Group	Total
Expenses:			
Reception of services	195	-	195
Leases	1,424	-	1,424
Total	**1,619**	**-**	**1,619**
Income:			
Financial income	-	109	109
Management or cooperation agreements	8,476	1,987	10,463
Other operating expenses	978	-	978
Other income	2,607	-	2,607
Total	**12,061**	**2,096**	**14,157**

The heading "Management or cooperation agreements" referring to major shareholders includes the amounts that have accrued in the form of management fees payable to NH Group during 2019 by virtue of the hotel management agreement signed with Grupo Minor, (during 2018, management fees were accrued in favour of NH Group under the hotel management contract signed with Grupo Inversor Hesperia, S.A).

Other agreements

	Thousands of euros	
	2019	**2018**
Accounts receivable from related entities	2,493	-
Accounts receivable from associated companies (long term) (Note 11)	143	-
Accounts receivable from associated companies (short term)	1,180	1,766
Loans to associates - Sotocaribe, S.L.	9,503	9,020
Provision for impairment	(9,503)	-
Total Assets	**3,816**	**10,786**

	Thousands of euros	
	2019	**2018**
Accounts payable from related entities	(1,050)	-
Accounts payable from associated companies	(156)	-
Loans to associates		
Sotocaribe, S.L.	(5,588)	-
Total Liabilities	**(6,794)**	**-**

At 31 December 2019, the NH Hotel Group has a net balance pending collection of 1,443 thousand euros with the Minor Group (2,493 thousand euros recorded as an account receivable and 1,050 thousand euros as accounts payable).

Resulting from an analysis of the fair value of the investment in the company consolidated classified as held for sale it has been registered an impairment of the loans to associates amounting to 9,503 thousand euros and an expense of 5,588 thousand euros for the committed contribution at the end of 2019 to carry out the cancellation of the bank loan that this company has and in which NH Hotel Group acts as a guarantor of the 35.5% (See Note 29). Both impacts have been recorded under "Impairment on financial investments" of the consolidated comprehensive profit and loss statement.

27.- INFORMATION BY SEGMENTS

27.1 Information on main segments

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

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

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

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

c) They have different financial information.

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

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

	Thousand euros													
	Hotel Business													
	31/12/19							31/12/18						
	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others
OTHER INFORMATION														
Additions of fixed assets	186,185	47,492	36,153	58,740	29,398	13,827	575	150,546	40,848	47,154	25,604	25,129	10,702	1,109
Depreciation	(297,080)	(96,867)	(39,455)	(50,792)	(69,440)	(14,113)	(26,413)	(116,301)	(41,757)	(18,908)	(23,159)	(20,106)	(9,417)	(2,954)
Net profit (loss) for asset deterioration	4,889	4,161	71	5,518	(3,996)	(1,742)	877	(304)	3,295	(8,380)	4,206	191	1	383
BALANCE SHEET														
ASSETS														
Assets by segments	4,336,568	925,736	1,129,590	739,488	817,721	467,527	256,506	2,498,183	596,355	765,478	440,001	287,391	402,698	6,260
Shareholdings in associated companies	7,517	929	-	-	-	6,588	-	8,971	1,002	-	-	-	5,935	2,034
Non-current assets classified as held for sale	-	-	-	-	-	-	-	12,092	12,092	-	-	-	-	-
Total consolidated assets	4,344,085	926,665	1,129,590	739,488	817,721	474,115	256,506	2,519,246	609,449	765,478	440,001	287,391	408,633	8,294
LIABILITIES														
Liabilities and equity by segments	4,344,085	926,665	1,129,590	739,488	817,721	474,115	256,506	2,519,246	609,449	765,478	440,001	287,391	408,633	8,294
Total Consolidated Liabilities and Equity	**4,344,085**	**926,665**	**1,129,590**	**739,488**	**817,721**	**474,115**	**256,506**	**2,519,246**	**609,449**	**765,478**	**440,001**	**287,391**	**408,633**	**8,294**

	Thousand euros													
	Real estate													
	31.12.2019							31.12.2018						
	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others
OTHER INFORMATION														
Additions of fixed assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss) for asset deterioration	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BALANCE SHEET														
ASSETS														
Assets by segments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shareholdings in associated companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-current assets classified as held for sale	47.811	-	-	-	-	37.264	10.547	43.882	-	-	-	-	33.322	10.560
Total consolidated assets	47.811	-	-	-	-	37.264	10.547	43.882	-	-	-	-	33.322	10.560
LIABILITIES														
Liabilities and equity by segments	47.811	-	-	-	-	37.264	10.547	43.882	-	-	-	-	33.322	10.560
Total Consolidated Liabilities and Equity	**47.811**	**-**	**-**	**-**	**-**	**37.264**	**10.547**	**43.882**	**-**	**-**	**-**	**-**	**33.322**	**10.560**

	Thousand euros													
	Total													
	31/12/19							31/12/18						
	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others	Total	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and others
OTHER INFORMATION														
Additions of fixed assets	186,185	47,492	36,153	58,740	29,398	13,827	575	150,546	40,848	47,154	25,604	25,129	10,702	1,109
Depreciation	(297,080)	(96,867)	(39,455)	(50,792)	(69,440)	(14,113)	(26,413)	(116,301)	(41,757)	(18,908)	(23,159)	(20,106)	(9,417)	(2,954)
Net profit (loss) for asset deterioration	4,889	4,161	71	5,518	(3,996)	(1,742)	877	(304)	3,295	(8,380)	4,206	191	1	383
BALANCE SHEET														
ASSETS														
Assets by segments	4,336,568	925,736	1,129,590	739,488	817,721	467,527	256,506	2,498,183	596,355	765,478	440,001	287,391	402,698	6,260
Shareholdings in associated companies	7,517	929	-	-	-	6,588	-	8,971	1,002	-	-	-	5,935	2,034
Non-current assets classified as held for sale	47,811	-	-	-	-	37,264	10,547	55,974	12,092	-	-	-	33,322	10,560
Total consolidated assets	4,391,896	926,665	1,129,590	739,488	817,721	511,379	267,053	2,563,128	609,449	765,478	440,001	287,391	441,955	18,854
LIABILITIES														
Liabilities and equity by segments	4,391,896	926,665	1,129,590	739,488	817,721	511,379	267,053	2,563,128	609,449	765,478	440,001	287,391	441,955	18,854
Total Consolidated Liabilities and Equity	**4,391,896**	**926,665**	**1,129,590**	**739,488**	**817,721**	**511,379**	**267,053**	**2,563,128**	**609,449**	**765,478**	**440,001**	**287,391**	**441,955**	**18,854**

27.2 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 euros (2019)						
Significant information from the Profit and loss Statement by Geographic Area	**Spain**	**Benelux**	**Italy**	**Germany**	**Latin America**	**Rest of Europe and Others**	**Total**
Revenues	440,162	371,054	305,712	323,639	121,275	146,236	1,708,078
Depreciation	(96,867)	(39,455)	(50,792)	(69,440)	(14,113)	(26,413)	(297,080)
Net Profits/(Losses) from asset impairment	4,161	71	5,518	(3,996)	(1,742)	879	4,889
Financial income	2,388	236	26	465	1,030	59	4,204
Financial expenses	(38,266)	(19,334)	(22,654)	(32,450)	(11,090)	(11,678)	(135,472)
Results from exposure to hyperinflation (IAS 29)	-	-	-	-	(85)	-	(85)
Profit (Loss) from entities valued through the equity method	(71)	-	-	-	94	(1)	22
Variation in the provision for onerous contracts	-	-	-	-	-	-	-
Income tax	(6,796)	(13,317)	(13,319)	(757)	(3,656)	(723)	(38,568)
Profit (loss) for the year from discontinued operations net of tax	-	-	-	-	-	50	50

Significant information from the Profit and loss Statement by Geographic Area	Thousand euros (2018)						
	Spain	Benelux	Italy	Germany	Latin America	Rest of Europe and Others	Total
Revenues	406,332	360,254	290,072	317,542	127,947	111,241	1,613,388
Depreciation	(41,757)	(18,908)	(23,159)	(20,106)	(9,417)	(2,954)	(116,301)
Net Profits/(Losses) from asset impairment	3,295	(8,380)	4,206	191	1	383	(304)
Financial income	2,244	465	42	525	2,719	44	6,039
Financial expenses	(49,061)	6,605	(3,681)	(7,104)	(5,036)	(1,720)	(59,997)
Results from exposure to hyperinflation (IAS 29)	-	-	-	-	635	-	635
Profit (Loss) from entities valued through the equity method	(363)	-	-	-	(51)	(85)	(499)
Variation in the provision for onerous contracts	1,671	-	-	303	-	2,368	4,342
Income tax	(11,347)	(42,566)	(14,886)	(2,675)	(7,527)	(663)	(79,664)
Profit (loss) for the year from discontinued operations net of tax	-	-	-	-	(523)	(45)	(568)

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

The composition of the Board of Directors of the Parent Company and its Committees at 31 December 2019 is as follows:

- Board of Directors: 9 members in 2019 (10 members at 31 December 2018),
- Audit and Control Committee: 3 members in 2019 (3 members at 31 December 2018),
- Appointments and Remuneration Committee: 3 members in 2019 (2 members at 31 December 2018) (*).

(*) At 31 December 2018, the Appointments, Remuneration and Corporate Governance Committee was made up of two members, as well as its non-member Secretary. This situation arose from the compulsory share acquisition public offer made by MHG Continental Holding (Singapore) Pte. Ltd. and caused, among others, the departure of the Directors representing the shareholder Grupo Inversor Hesperia, SA, with Mr Jordi Ferrer Graupera on behalf of the Director Grupo Inversor Hesperia, S.A. tendering his resignation on 12 November 2018 as a member of the Appointments, Remuneration and Corporate Governance Committee At its meeting on 7 February 2019 the Board of Directors approved the appointment of Mr Stephen Chojnacki as a new member of the Committee. This appointment fulfils the composition and qualification requirements established in the Capital Companies Act.

The amount accrued during 2019 and 2018 by the members of the Parent Company's Board of Directors in relation to the remuneration of the CEO, bylaw stipulated directors' fees and attendance fees and other items, is as follows:

28.1 Remuneration of the Board of Directors

Remuneration item	Thousands of euros	
	2019	2018
Fixed remuneration	1,016	500
Variable remuneration	729	335
Parent Company: subsistence allowances	11	65
Parent Company: attendance allowances	589	813
Transactions in shares and other financial instruments	491	247
Life insurance premiums	31	19
Others	20	13
Total	**2,887**	**1,992**

As of 31 December 2019, the Board of Directors had nine members, of whom one is a woman and eight are men (ten persons in 2018, one woman and nine men).

In relation to the heading, "Transactions on shares and/or other financial instruments", consideration has been given to the objective long-term remuneration accrued. This includes remuneration in kind (vehicles and medical insurance) under the heading "Others".

28.2 Remuneration of senior management

The remuneration of members of the Management Committee at 31 December 2019 and 2018, excluding those who simultaneously held office as members of the Board of Directors (whose remuneration has been set out above), is detailed below:

	Thousands of euros	
	2019	2018
Pecuniary remuneration	2,745	3,047
Remuneration in kind	86	88
Others	670	671
Total	**3,501**	**3,806**

There were six members of Senior Management at 31 December 2019 (seven members at 31 December 2018) excluding the CEO and the Chief Financial Officer due to their status as executive directors.

The concept of monetary remuneration of executives includes fixed remuneration and variable remuneration accrued in 2019 and received in 2020.

Compensation in kind includes the vehicle and the cost of insurance.

The heading “Other” takes the long-term objective remuneration accrued in 2019 into consideration.

28.3 Information on conflicts of interest on the part of Directors

During 2019, Minor International Public Company Limited (“Minor”), an indirect majority shareholder of NH (94.132%) and represented on the Board by four proprietary Directors, and NH signed a series of Related Party Transactions, which are broken down in the Audit and Control Committee’s Annual Report, as well as in Note 26 of this Report. These Related Party Transactions have always been executed in strict compliance with the rules established in the applicable regulations and the Procedure for Conflicts of Interest and Related Party Transactions with Significant Shareholders, Directors and Senior Management of NH Hotel Group, S.A. approved by the Board of Directors on 26 March 2014. All transactions signed with Minor (and/or its group of companies) have counted on a report from the Audit and Control Committee, have been signed under market conditions and with the participation of external advisors, and in compliance with the provisions in the Framework Agreement signed between the parties on 7 February 2019, which regulates, among others, the scope of action of the respective hotel groups headed by NH and Minor through the identification of preferred geographic areas or zones, the mechanisms necessary to prevent and deal with possible conflicts of interest, as well as to carry out operations with related parties and develop business opportunities. The aforementioned Framework Agreement was duly communicated to the Market via a Relevant Fact and is published in full on the Company’s website.

During all Board Meetings dealing with issues related to Minor, the Proprietary Directors were absent when dealing with said matters and therefore did not participate in the adoption of the corresponding agreement.

29.- EVENTS AFTER THE REPORTING PERIOD

On 22 January 2020, the last payment of a syndicated loan granted by two banking entities was paid to a company in which an NH Group company is a minority shareholder. This company, which consolidates into the NH Group, using the equity method had an outstanding principal of 15,742 thousand euros (equivalent to 17,685 thousand dollars), thereby releasing the guarantees that had been granted for the fulfilment of payment of said loan.

In order to carry out such payment, the Group has made a contribution of 6,315 thousand euros (5,588 thousand euros at 31 December 2019 (See Note 26)) corresponding to the proportional part of NH Hotel Group as a guarantor.

At a date subsequent to the year-end, a claim against a Group company was filed; it is pending processing and in no case will have a significant adverse effect.

30.- INFORMATION ON ENVIRONMENTAL POLICY

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

Continuity was given to the environmental achievements of recent years in 2019. Thus, compared to 2007, per Average Daily Room energy consumption has been reduced by 31%, water consumption by 23% and our carbon footprint by 61%. NH Hotel Group is committed to renewable energy, which reduces its carbon footprint. This consumption of green energy, certified as renewable, is available in 99% of our consolidated hotels in Spain, Italy, the Netherlands, France and Luxembourg, covering 67% of the total electricity consumed in Europe.

NH Hotel Group works with the ISO 14.001 environmental management system and ISO 50.001 for energy efficiency in accommodation, catering, meetings and events. In total, the Company has 149 individual sustainability certifications in hotels such as BREEAM, LEED, Green Key, Hoteles+Verdes, ISO 14.001 Environmental Management System and/or ISO 50.001 Energy Management System. These environmental certifications are internationally recognised (ISO 14.001 and ISO 50.001) and those from the hotel sector itself such as Hoteles+Verdes and Green Key are recognised by the GSTC (Global Sustainable Tourism Council). The NH Hotel Group has reported its commitment to and strategy against climate change to CDP Climate Change since 2010 and received a B in its annual ranking.

It is also noteworthy that, in 2019, the NH Hotel Group became the first Spanish hotel company to establish emission reduction targets that are scientifically validated by the Science Based Targets initiative (SBTi) - a leading alliance in the promotion of the business sector against climate change in which CDP, the United Nations Global Compact, World Resources Institute and World Wide Fund for Nature are a part. With this formalisation, the NH Hotel Group is committed to reducing its carbon emissions by 20% throughout its value chain before 2030. This objective marks the Company's roadmap towards a significant reduction in its activity's carbon footprint in the coming years, aligned with the purpose set in the Paris Agreement to limit the increase in the global temperature to less than 2ºC, and join the efforts that are being made globally towards the transition to a low carbon economy.

31.- EXPOSURE TO RISK

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

Credit risk

The Group main financial assets include cash and cash equivalents (see Note 14), as well as trade and other accounts receivable (see Note 13). In general terms, the Group holds its cash and cash equivalents in entities with a high credit rating and part of its trade and other accounts receivable are guaranteed by deposits, bank guarantees and advance payments by tour operators.

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

Interest rate risk

The Group's financial assets and liabilities are exposed to fluctuations in interest rates, which may have an adverse effect on its results and cash flows. In order to mitigate this risk, the Group has established policies and has refinanced its debt at fixed interest rates through the issuance of convertible bonds and guaranteed convertible senior bonds. At 31 December 2019, approximately 81.3% of the gross borrowings was tied to fixed interest rates.

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

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

If the increase in interest rates were 25 bp, the financial expense would increase by 219 thousand euros plus interest.

If the increase in interest rates were 50 bp, the financial expense would increase by 438 thousand euros plus interest.

If the increase in interest rates were 100 bp, the financial expense would increase by 876 thousand euros plus interest.

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

Lastly, the long-term financial assets set out in Note 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, Colombia, Chile, Ecuador, the Dominican Republic, Brazil, Panama and the United States).
- Transactions made by Group companies operating in countries whose currency is other than the euro (essentially Mexico, Argentina, Colombia, Chile, Ecuador, the Dominican Republic, Venezuela, Brazil, the United States and the United Kingdom).

In this respect, the detail of the effect on the currency translation difference of the main currencies in 2019 was as follows:

	Thousands of euros	
	Currency translation difference	Changes with respect to 2018
US dollar	3,296	321
Mexican peso	(16,595)	1,807
Colombian peso	(24,521)	(1,688)

The changes in the currency translation difference of the above currencies was mainly due to the movements in exchange rates between 31 December 2019 and 31 December 2018:

Year-end euro reference exchange rate	2019	2018	Change
US dollar	0.890150	0.873360	1.92%
Mexican peso	0.047120	0.044460	5.98%
Colombian peso	0.000270	0.000270	-

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

Below is a detail of the movements in the average exchange rate between 2019 and 2018 of the aforementioned currencies:

Average euro reference exchange rate in the year	2019	2018	Change
US dollar	0.893180	0.846630	5.50%
Mexican peso	0.046390	0.044040	5.34%
Colombian peso	0.000270	0.000290	(6.90%)

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

Liquidity risk

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

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

The Group's liquidity position in 2019 is based on the following points:

- The group had cash and cash equivalents amounting to 289,345 thousand euros at 31 December 2019.
- Available undrawn credit lines amounting to 303,500 thousand euros at 31 December 2019, of which 250,000 thousand euros relate to the undrawn guaranteed syndicated credit line maturing on 29 September 2021 (Note 16).

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

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

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

APPENDIX I: SUBSIDIARIES

The data on the Parent company's subsidiaries at 31 December 2019 are presented below:

Investee company	Registered address of investee company	Main activity of the investee company	Parent company's % stake in investee company	% of voting rights controlled by parent company
Airport Hotel Frankfurt-Raunheim, GmbH & Co.	Munich	Real Estate	94%	94%
Artos Beteiligungs, GmbH	Munich	Holding	100%	100%
Astron Immobilien, GmbH	Munich	Holding	100%	100%
Astron Kestrell, Ltd.	Plettenberg Bay	Hotel Business	100%	100%
Atlantic Hotel Exploitatie, B.V.	Den Haag	Hotel Business	100%	100%
Blacom, S.A.	Buenos Aires	Holding	100%	100%
Chartwell de Mexico, S.A. de C.V.	Mexico D.F.	Hotel Business	100%	100%
Chartwell de Nuevo Laredo, S.A. de C.V.	Nuevo Laredo	Hotel Business	100%	100%
Chartwell Inmobiliaria de Coatzacoalcos, S.A. de C.V.	Coatzacoalcos	Hotel Business	100%	100%
City Hotel, S.A.	Buenos Aires	Hotel Business	50%	50%
Columbia Palace Hotel, S.A.	Montevideo	Hotel Business	100%	100%
Nhow london, Ltd.	London	Hotel Business	100%	100%
Coperama Holding, S.L.	Madrid	Procurement network	100%	100%
DAM 9 B.V.	Amsterdam	Holding	100%	100%
De Sparrenhorst, B.V.	Nunspeet	Hotel Business	100%	100%
Desarrollo Inmobiliario Santa Fe, S.A. de C.V.	Mexico D.F.	Hotel Business	50%	50%
Edificio Metro, S.A.	Buenos Aires	Hotel Business	100%	100%
Expl. Mij. Hotel Best, B.V.	Best	Hotel Business	100%	100%
Expl. mij. Hotel Doelen, B.V.	Amsterdam	Hotel Business	100%	100%
Expl. Mij. Hotel Naarden, B.V.	Naarden	Hotel Business	100%	100%
Expl. mij. Hotel Schiller, B.V.	Amsterdam	Hotel Business	100%	100%
Exploitatiemaatschappij Caransa Hotel, B.V.	Amsterdam	Inactive	100%	100%
Franquicias Lodge, S.A. de C.V.	Mexico D.F.	Hotel Business	100%	100%
Gran Círculo de Madrid, S.A.	Madrid	Catering	99%	99%
Grupo Hotelero Monterrey, S.A. de C.V.	Mexico D.F.	Hotel Business	100%	100%
Grupo Hotelero Queretaro, S.A. de C.V.	Querétaro	Hotel Business	69%	69%
Heiner Gossen Hotelbetrieb, GmbH	Mannheim	Hotel Business	100%	100%
The Marker Anantara Ltd.	Dublin	Holding	100%	100%
GCS Hotel Ltd.	Dublin	Hotel Business	100%	100%
NH Cash Link, S.L.	Madrid	Finance	100%	100%
HEM Atlanta Rotterdam, B.V.	Hilversum	Hotel Business	100%	100%
HEM Epen Zuid Limburg, B.V.	Wittem	Hotel Business	100%	100%
HEM Forum Maastricht, B.V.	Maastricht	Hotel Business	100%	100%
HEM Jaarbeursplein Utrecht, B.V.	Utrecht	Hotel Business	100%	100%
HEM Janskerkhof Utrecht, B.V.	Hilversum	Hotel Business	100%	100%
HEM Marquette Heemskerk, B.V.	Hilversum	Hotel Business	100%	100%
HEM Onderlangs Arnhem, B.V.	Arnhem	Hotel Business	100%	100%
HEM Spuistraat Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%

All companies end the year on 31/12/2019

Investee company	Registered address of investee company	Main activity of the investee company	Parent company's % stake in investee company	% of voting rights controlled by parent company
HEM Stadhouderskade Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%
HEM Van Alphenstraat Zandvoort, B.V.	Hilversum	Hotel Business	100%	100%
Highmark Geldrop, B.V.	Geldrop	Hotel Business	100%	100%
Highmark Hoofddorp, B.V.	Hoofddorp	Hotel Business	100%	100%
Hispana Santa Fe, S.A. de C.V.	Mexico D.F.	Hotel Business	50%	50%
Hotel Aukamm Wiesbaden, GmbH & Co.	Munich	Real Estate	94%	94%
Hotel de Ville, B.V.	Groningen	Hotel Business	100%	100%
Hotel Expl. Mij Amsterdam Noord, B.V.	Amsterdam	Hotel Business	100%	100%
Hotel Expl. Mij Leijenberghlaan Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%
Hotel expl. mij. Capelle a/d Ijssel, B.V.	Capelle a/d Ijssel	Hotel Business	100%	100%
Hotel expl. mij. Danny Kayelaan Zoetermeer, B.V.	Hilversum	Hotel Business	100%	100%
Hotel expl. mij. Stationsstraat Amersfoort, B.V.	Amersfoort	Hotel Business	100%	100%
Hotel Holding Onroerend Goed d'Vijff Vlieghen B.V.	Hilversum	Hotel Business	100%	100%
Hotel Houdstermaatschappij Jolly, B.V.	Amsterdam	Holding	100%	100%
Hotelera de la Parra, S.A. de C.V.	Mexico D.F.	Hotel Business	100%	100%
Hotelera Lancaster, S.A.	Buenos Aires	Hotel Business	50%	50%
Hotelera de Chile, S.A.	Santiago de Chile	Hotel Business	100%	100%
Gestora hotelera del siglo XXI, S.A.	Barcelona	Hotel Business	100%	100%
Hotelexploitatiemaatschappij Vijzelstraat Amsterdam, B.V.	Amsterdam	Hotel Business	100%	100%
Hotels Bingen & Viernheim, GmbH & Co.	Munich	Real Estate	94%	94%
Inmobiliaria y Financiera Aconcagua, S.A.	Buenos Aires	Hotel Business	100%	100%
Inmobiliaria y financiera Chile S.A.	Santiago de Chile	Real Estate	100%	100%
Jan Tabak, N.V.	Bussum	Hotel Business	82%	82%
JH Belgium, S.A.	Brussels	Hotel Business	100%	100%
JH Deutschland, GmbH	Cologne	Hotel Business	100%	100%
JH Holland, N.V.	Amsterdam	Hotel Business	100%	100%
JH USA, Inc.	Wilgminton	Hotel Business	100%	100%
Koningshof, B.V.	Veldhoven	Hotel Business	100%	100%
Krasnapolsky Belgian Shares, B.V.	Hilversum	Holding	100%	100%
COPERAMA Benelux, B.V.	Amsterdam	Procurement network	100%	100%
Krasnapolsky Hotels & Restaurants, N.V.	Amsterdam	Holding	100%	100%
Krasnapolsky Hotels, Ltd.	Somerset West	Hotel Business	100%	100%
Krasnapolsky ICT, B.V.	Hilversum	Inactive	100%	100%
Krasnapolsky International Holding, B.V.	Amsterdam	Holding	100%	100%
Latina Chile, S.A.	Santiago de Chile	Hotel Business	100%	100%
Latina de Gestión Hotelera, S.A.	Buenos Aires	Hotel Business	100%	100%
Latinoamericana de Gestion Hotelera, S.L.	Madrid	Holding	100%	100%
Leeuwenhorst Congres Center, B.V.	Noordwijkerhout	Hotel Business	100%	100%
Liberation Exploitatie, B.V.	Sprang Capelle	Hotel Business	100%	100%

All companies end the year on 31/12/2019

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
Marquette Beheer, B.V.	Hilversum	Real Estate	100%	100%
Museum Quarter, B.V.	Hilversum	Hotel Business	100%	100%
Nacional Hispana de Hoteles, S.A.	Mexico D.F.	Hotel Business	100%	100%
Aguamarina S.A.	Rep. Dominicana	B2B services	100%	100%
NH Atardecer Caribeño, S.A.	Madrid	B2B services	100%	100%
NH Belgium, cvba	Diegem	Holding	100%	100%
NH Caribbean Management, B.V.	Hilversum	Management	100%	100%
NH Central Europe Management, GmbH	Berlin	Hotel Business	100%	100%
NH Central Europe, GmbH & Co. KG	Berlin	Hotel Business	100%	100%
NH Central Reservation Office, S.A.	Madrid	Call Center	100%	100%
NH Finance, S.A.	Luxembourg	Finance	100%	100%
NH Financing Services S.a r.l.	Luxembourg	Finance	100%	100%
NH Hotel Ciutat de Reus, S.A.	Barcelona	Hotel Business	90%	90%
NH Europa, S.A.	Barcelona	Hotel Business	100%	100%
NH Hotelbetriebs.-u. Dienstleistungs, GmbH	Berlin	Hotel Business	100%	100%
NH Hotelbetriebs-u Entwicklungs, GmbH	Berlin	Hotel Business	100%	100%
NH Hoteles Austria, GmbH	Vienna	Hotel Business	100%	100%
NH Hoteles Deutschland, GmbH	Berlin	Hotel Business	100%	100%
NH Hoteles España, S.A.	Barcelona	Hotel Business	100%	100%
NH Hoteles France S.A.S.U.	France	Hotel Business	100%	100%
NH Hoteles Switzerland GmbH	Fribourg	Hotel Business	100%	100%
NH Hotels Czequia, s.r.o.	Praga	Hotel Business	100%	100%
NH Hotels Polska, Sp. Zo.o.	Poland	Hotel Business	100%	100%
NH Hotels USA, Inc.	Houston	Hotel Business	100%	100%
NH Hungary Hotel Management, Ltd.	Budapest	Hotel Business	100%	100%
NH Lagasca, S.A.	Madrid	Hotel Business	75%	75%
NH Las Palmas, S.A.	Gran Canaria	Hotel Business	75%	75%
NH Marin, S.A.	Barcelona	Hotel Business	50%	50%
NH Private Equity, B.V.	Luxembourg	Hotel Business	100%	100%
NH Hotel Rallye Portugal, Lda.	Portugal	Hotel Business	100%	100%
NH The Netherlands, B.V. (vh GTI, B.V.)	Hilversum	Holding	100%	100%
Nhow Rotterdam, B.V.	Den Haag	Hotel Business	100%	100%
Hotel Exploitatiemaatschappij Diegem N.V.	Diegem	Hotel Business	100%	100%
Hotel Exploitatiemaatschappij Eindhoven B.V.	Hilversum	Hotel Business	100%	100%
Nuevos Espacios Hoteleros, S.A.	Madrid	Hotel Business	100%	100%
Objekt Leipzig Messe, GmbH & Co.	Munich	Real Estate	94%	94%
Olofskapel Monumenten, B.V.	Amsterdam	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Atlanta Rotterdam, B.V.	Rotterdam	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Bogardeind Geldrop, B.V.	Geldrop	Real Estate	100%	100%

All companies end the year on 31/12/2019

Investee company	Registered address of investee company	Main activity of the investee company	Parent company's % stake in investee company	% of voting rights controlled by parent company
Onroerend Goed Beheer Maatschappij Capelle aan den Ijssel, B.V.	Capelle a/d Ijssel	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Danny Kayelaan Zoetermeer, B.V.	Zoetermeer	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Ijsselmeerweg Naarden, B.V.	Naarden	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Kruisweg Hoofddorp, B.V.	Hoofddorp	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Maas Best, B.V.	Best	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Marquette Heemskerk, B.V.	Heemskerk	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Prins Hendrikkade Amsterdam, B.V.	Amsterdam	Real Estate	100%	100%
Onroerend Goed Beheer Maatschappij Van Alphenstraat Zandvoort, B.V.	Zandvoort	Real Estate	100%	100%
Operadora Nacional Hispana, S.A. de C.V.	Mexico D.F.	Hotel Business	100%	100%
Palatium Amstelodamum, N.V.	Amsterdam	Hotel Business	100%	100%
Polis Corporation, S.A.	Buenos Aires	Hotel Business	100%	100%
Restaurant D'Vijff Vlieghen, B.V.	Amsterdam	Catering	100%	100%
Servicios Chartwell de Nuevo Laredo, S.A. de C.V.	Nuevo Laredo	Hotel Business	100%	100%
Servicios Corporativos Chartwell Monterrey, S.A. de C.V.	Monterrey	Hotel Business	100%	100%
Servicios Corporativos Hoteleros, S.A. de C.V.	Mexico D.F.	Hotel Business	100%	100%
Servicios Corporativos Krystal Zona Rosa, S.A. de C.V.	Mexico D.F.	Hotel Business	100%	100%
Nhow Amsterdam, B.V.	Utrecht	Inactive	100%	100%
Toralo, S.A.	Montevideo	Hotel Business	100%	100%
VSOP VIII, B.V.	Groningen	Hotel Business	50%	50%
NH Wilhelminakade Holding B.V.	Northen Europe	Hotel Business	100%	100%
Coperama Spain, S.L.	Madrid	Procurement network	100%	100%
Hoteles Royal, S.A.	Bogota	Holding	97%	97%
Eurotels Chile S.A.	Chile	Holding	97%	97%
Hotel Andino Royal S.A.S.	Bogota	Hotel Business	97%	97%
Hotel Hacienda Royal Ltda	Bogota	Hotel Business	97%	97%
Hotel La Boheme Ltda	Bogota	Hotel Business	97%	97%
Hotel Medellin Royal Ltda	Medellin	Hotel Business	97%	97%
Hotel Pacífico Royal Ltda	Cali	Hotel Business	97%	97%
Hotel Parque Royal S.A.S.	Bogota	Hotel Business	97%	97%
Hotel Pavillon Royal Ltda.	Bogota	Hotel Business	97%	97%
Hotelera Norte Sur S.A	Chile	Real Estate	97%	97%
Hoteles Royal del Ecuador S.A. Horodelsa	Quito	Hotel Business	54%	54%
HR Quántica SAS	Bogota	Hotel Business	50%	51%
Inmobiliaria Royal S.A	Chile	Real Estate	66%	67%
Promotora Royal S.A.	Bogota	Real Estate	97%	97%
Royal Hotels Inc.	USA	Hotel Business	97%	97%
Royal Hotels International Latin América Inc	USA	Hotel Business	97%	97%
Royal Santiago Hotel S.A.	Chile	Hotel Business	66%	67%

All companies end the year on 31/12/2019

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
Soc. Operadora Barranquilla Royal SAS	Barranquilla	Hotel Business	97%	97%
Soc. Operadora Cartagena Royal SAS	Cartagena	Hotel Business	97%	97%
Soc. Operadora Calle 100 Royal SAS	Bogota	Hotel Business	97%	97%
Soc. Operadora Urban Royal Calle 26 SAS	Bogota	Hotel Business	97%	97%
Soc. Operadora Urban Royal Calle 93 SAS	Bogota	Hotel Business	97%	97%
Sociedad Hotelera Calle 7A Ltda	Bogota	Hotel Business	97%	97%
Sociedad Hotelera Cien Internacional S.A.	Bogota	Hotel Business	62%	64%
Sociedad Hotelera Cotopaxi S.A.	Quito	Hotel Business	54%	54%
Sociedad Operadora Nh Royal Panama S.A.	City of Panama	Hotel Business	97%	97%
NH Italia, S.p.A.	Milan	Hotel Business	100%	100%
Immo Hotel Bcc N.V.	Diegem	Real Estate	100%	100%
Immo Hotel Belfort N.V.	Diegem	Real Estate	100%	100%
Immo Hotel Brugge N.V.	Diegem	Real Estate	100%	100%
Immo Hotel Diegem N.V.	Diegem	Real Estate	100%	100%
Immo Hotel Gent N.V.	Diegem	Real Estate	100%	100%
Immo Hotel Gp N.V.	Diegem	Real Estate	100%	100%
Immo Hotel Stephanie N.V.	Diegem	Real Estate	100%	100%
Immo Hotel Mechelen N.V.	Diegem	Real Estate	100%	100%
NH Management Black Sea Srl	Bucarest	Hotel Business	100%	100%
NH Brasil Abrasil Administraçao De Hoteis E Participadas Ltda.	Olympic Village	Hotel Business	100%	100%
Capredo Investments, GmbH	Switzerland	Holding	100%	100%
Palacio de la Merced, S.A.	Burgos	Hotel Business	88%	88%
Latinoamericana Curitiba Administracao De Hoteis Ltda	Curitiba	Hotel Business	100%	100%
NH Italia Real Estate, S.r.l.	Milan	Real Estate	100%	100%
NH Holding, S.r.l.	Milan	Holding	100%	100%
Coperama Italia S.r.l.	Milan	Procurement network	100%	100%
Coperama Central Europe Gmbh	Berlin	Procurement network	100%	100%
Iberinterbrokers, S.L.	Barcelona	Service provider	75%	75%
Coperama Colombia, S.A.S	Bogota	Procurement network	100%	100%
Coperama Mexico S.A. de C.V.	Mexico D.F.	Procurement network	100%	100%
Wilan Ander, S.L.	Madrid	Hotel Business	100%	100%
Wilan Huel, S.L.	Madrid	Hotel Business	100%	100%

All companies end the year on 31/12/2019

ANEXO 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
Borokay Beach, S.L.	Madrid	Hotel Business	50%	50%
Consorcio Grupo Hotelero T2, S.A. de C.V.	Mexico D.F.	Hotel Business	10%	10%
Servicios Corporativos T2, S.A. DE C.V	Mexico D.F.	Hotel Business	10%	10%
Inmobiliaria 3 Poniente, S.A. de C.V.	Puebla	Hotel Business	27%	27%
Gente con actitud de servicios gecase, S.A. De C.V.	Puebla	Hotel Business	27%	27%
Mil Novecientos Doce, S.A. de C.V.	Mexico	Hotel Business	25%	25%
Servicios Corporativos 1912, S.A. DE C.V	Mexico	Hotel Business	25%	25%
Kensington Hotel Value Added I, Ltd	Londres	Hotel Business	30%	30%
Sotocaribe, S.L.	Madrid	Holding	36%	36%
Hotelera del Mar, S.A.	Mar de Plata	Hotel Business	20%	20%

All companies end the year on 31/12/2019

CONSOLIDATED MANAGEMENT REPORT

For the financial year ending 31 December 2019

EVOLUTION OF BUSINESS AND GROUP'S SITUATION

NH Hotel Group is an international hotel operator and one of the leading urban hotel companies worldwide in terms of number of rooms. The Group operates 368 hotels and 57,466 rooms in 30 countries, and has a significant presence in Europe.

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

In 2019, world economic activity grew at a pace of +2.9% (Data and estimates provided by the E.C. "European Economic Forecast Autumn 2019" November 2019), lower than the previous year (+3.6%). The European Union has estimated +3.0% growth of world economic activity in 2020, slightly greater than the growth of 2019. More specifically in the Eurozone, the provisional growth rate for 2019 was 1.1% (+2.1% in 2018) and growth is expected to be +1.2% in 2020. Global growth has led to a positive cycle of trade and investment. In addition, European economies continue to grow, although with more moderate growth rates. In line with the above data, when comparing the growth rates of the four countries that bring together the largest proportion of sales and results of the Group, it is observed that in Spain (+1.9% in 2019 vs. +2.4% in 2018), Holland (+1.7% in 2019 vs. +2.6% 2018), Germany (+0.4% in 2019 vs. +1.5% in 2018), and Italy (+0.1% in 2019 vs. (+0.8% in 2018) lower growth rates than the previous year were recorded. On the other hand, growth in Latin America is expected to be +1.1% in 2020 (vs. -0.1% in 2019), given that almost all economies as a whole have been revised down substantially since Spring due to both cyclical and structural factors that have affected the growth previously expected in these economies.

According to the World Tourism Organization ("UNWTO") in 2019, international tourist arrivals globally reached 1.5 billion, representing an increase of +4% over the previous year, clearly above the growth of 2.9% of the world economy. International arrivals in 2019 grew in all regions. However, the uncertainty surrounding Brexit, the collapse of Thomas Cook, geopolitical and social tensions and the slowdown of the global economy made growth slower in 2019 compared to the exceptional growth rates of 2017 and 2018. This slowdown mainly affected advanced economies, especially Europe and Asia and the Pacific. Whilst growth in Europe was lower than in previous years (+4%), it continues to lead in terms of the number of international arrivals with 743 million international tourists last year (51% of the world market). In this European context, Spain has established itself as the tourist power in the world, along with France and the United States, and managed to break its record with more than 83 million foreign tourists, an increase of 1% in the number of international arrivals. On the other hand, the Americas (+2%) offered mixed results as, although many Caribbean islands consolidated their recovery after the 2017 hurricanes, the number of arrivals to South America fell, in part due to social and political unrest.

In this context, in 2019, the Group, as a result of the favourable evolution of hotel activity throughout the year, surpassed the targets set thanks to greater positioning in the top brand segment, an improved customer experience, an increase in operating and commercial efficiency and the first milestones of integrating with Minor Hotels, among others, the access to the luxury segment with the Anantara brand.

During 2019, the value of the price strategy continued to be enhanced, greater Group growth being obtained in the top cities compared to direct competitors, where there are market measures in place. At Group level, the evolution of the RevPAR in the top destinations was superior to that of its competitors.

In 2018 new selective repositioning opportunities were identified to be executed in the period 2018-2020, having used a significant part of said investment in 2018 and 2019. In this new phase, there will also be contributions from the owners of hotels under a rental regime.

Among the main milestones reached over the last years of transformation, the appearance of NH Hotel Group value proposition stands out based on the improvement of the quality, experience and the brand architecture with the NH Collection, NH Hotel and nhow brands. In this vein, the Group improved the customer experience thanks to implementing a solid operational vision, including the new elements making up the hotels' basic product range, known as Brilliant Basics, which are already in place in all of the establishments and which are contributing to a better experience and higher average score of the customers. In this ongoing improvement of the customer experience, worthy of note was the launch of "Fastpass", a combination of three innovative services (Check-in Online, Choose Your Room and Check-out Online), which gives the customer full control over their stay. In this respect, NH Hotel Group has become the first European chain to offer these three services simultaneously. A new service, "City Connection", has been launched where you can enjoy the city without limits. Under the slogan "Stay in one hotel, enjoy them all", the NH Hotel Group offered a range of services that allow customers to enjoy them in any hotel in the city they are in, regardless of the hotel they are staying in for the duration of their stay.

The NH Hotel Group continues to be at the forefront of innovation. This last year ended up being very important in the Company's digital transformation project to make processes and systems more efficient, increase the capacity to differentiate from the competition, and continue improving the Company's basic processes. One of the great achievements therefore has been to centralise all its properties and functions into a single integrated system. This allows the NH Hotel Group to have a fully-integrated digital platform: NH Digital Core Platform. A pioneering technological solution in the sector that has allowed all the Group's hotel's systems to be integrated which has become the basis for the NH Hotel Group to expand its customer knowledge, maximise its efficiency and innovate on a large scale in all its value areas.

In its use of quality indicators, the NH Hotel Group considers as a priority on measuring quality using new sources of information and surveys with a significant increase in the volume of reviews and number of assessments received. Its average score on TripAdvisor in 2019 was 8.4, the same level as in December 2018. Additionally, its average Google Reviews score was 8.6, compared with 8.5 in December 2018. These average scores demonstrate the high levels of quality perceived by customers and the positive growth trend that the NH Hotel Group has had throughout the year.

Also, the NH Rewards loyalty programme has now reached 9.5 million members (8.6 million members in 2018), 15% of whom are active, i.e. have made at least one booking in the last 12 months.

On the other hand, in 2019, the Group started operating 13 new hotels in the following destinations: Mannheim, Valencia, Mérida, Marbella, Santiago de Chile, Leipzig, La Coruña, Porto, Rome, Andorra la Vella, Amberes, Dublin and Cancún. In addition, following the agreement reached with Minor, 3 hotels have begun operations under a rental agreement, nine under management and one franchise with the brands Tivoli, Avani and Anantara in Portugal. As a whole, all the openings in the year contribute 4,038 rooms and, as a result, the Group now has 368 hotels with 57,466 rooms at 31 December 2019.

In addition to the Portuguese signings and the agreements to operate 8 hotels (formely known as "Boscolo") that respectively provide 2,452 and 1,115 rooms, the Group signed up 12 new hotels in 2019 with 1,262 rooms. These signings have been under rentals in La Coruña, Marbella, Rome, Verona, Hamburg, Dublin, Alicante and Cagliari and management in Aguascalientes, Andorra la Vella, Porto and Malaga. In addition, two of the signing were made under the luxury brand Anantara, 6 NH Collection and one nhow.

Revenues in 2019 totalled 1,708.1 million euros, an increase of +5.9% (+94.7 million euros). The Profit for the year attributable to the Parent was 90.0 million euros compared with 101.6 million euros in 2018. This decrease was affected by the application of IFRS 16 accounting regulations since 1 January 2019, which reduced the Profit for 2019.

In this year gross borrowing increased from 418.9 million euros in December 2018 to 455.6 million euros in December 2019. At 31 December 2019, cash and cash equivalents amounted to 289.3 million euros (265.9 million euros at 31 December 2018). Additionally, this liquidity was complemented by credit lines at the end of the year amounting to 303.5 million euros, of which 250 million euros corresponded to a long-term syndicated credit line, compared to 350.4 million euros at 31 December 2018.

The Group's operating and financial transformation has been reflected in the corporate credit outlooks assigned by the main ratings agencies. In May 2019, Moody's confirmed the rating of 'B1' reflecting some excellent results. In December 2019, Fitch lowered the corporate rating to 'B' from 'B+' in line with the application of its subsidiary connection criteria which reflects a change in the overall assessment of the strength of the connection by the agency on this point.

At the General Shareholders' Meeting in May 2019, shareholders approved the payment of an interim dividend from 2018 results amounting to approximately 59 million euros, representing fifteen cents per outstanding share (gross). Said dividend was disbursed on 14 June 2019. The Group also established a medium term shareholder remuneration policy of nearly 50% of recurring net profit.

As a result of the public offering on 31 October 2018, Minor currently owns 369,165,609 shares in NH Hotel Group, S.A. representing 94.13% of its share capital. Since then, both companies have begun to explore joint value creation opportunities for the coming years.

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

Both groups currently share their knowledge base and experience in the sector in order to materialise short-term opportunities, taking advantage of the complementarity of their hotel portfolios to define a global sales strategy, the implementation of economies of scale with a broader customer base, explore development pathways for all their brands in different geographical areas and access to shared talent.

As a first milestone in the integration and sampling the alignment of interests, June 2019 saw the announcement of the transfer to the NH Hotel Group of the operation of a portfolio of 13 Minor Hotels in Portugal. This agreement was reached under market conditions, following a favourable report from the Audit and Control Committee assisted by external advisors, and the approval of the NH Board of Directors, without the participation of the Proprietary Directors in both bodies on behalf of the shareholder Minor. Thus, Minor International has agreed to the sale of three hotels in Lisbon to funds managed by Invesco Real Estate, which will simultaneously be operated by the NH Hotel Group through a long-term sustainable rental contract with the new ownership. At the same time, the NH Hotel Group reached an agreement with Minor International to operate another nine hotels in Portugal under a management regime plus a franchise contract.

At 31 December 2019, the NH Hotel Group had also reached an agreement with Covivio, one of the leading European real estate investors, to operate a unique portfolio of eight high-end hotels previously belonging to the renowned Boscolo portfolio, located in privileged locations in Rome, Florence, Venice, Nice, Prague and Budapest. This portfolio will be operated by the NH Hotel Group under a sustainable variable rental contract with a guaranteed minimum that includes a loss protection mechanism and extension rights at NH's option. Most of the hotels will be converted to the Anantara and NH Collection brands after carrying out a in-depth repositioning programme in all properties promoted by Covivio over the coming months. It is estimated that the transaction will be completed by the end of the first half of 2020.

Analysis of first application of IFRS 16

From 1 January 2019, the new accounting regulation establishes the recognition of operating leases on the balance sheet through a financial liability equal to the current value of the fixed lease amounts, and an asset for the right to use the underlying asset. Therefore, the interest expense of the lease liability from the amortisation expense of the right of use is recorded separately.

The Group has adopted the amended retrospective method, calculating the asset at the start date of each contract and the liability at the changeover date using an incremental interest rate calculated for each agreement at the date of application of the regulations. The difference between both items is recorded as an adjustment to the opening balance of the consolidated reserves. The effects of initial application of the standard have been recognised on the date of initial application and, therefore, the comparative information has not been restated.

Given the nature of the leased assets, which represent 61% of the Group's rooms, and the term of these contracts, the impact on the Group's financial statements is significant.

ETHICS

Compliance System

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

- Code of Conduct.
- Criminal Risk Prevention Plan.
- Internal Rules of Conduct.
- Procedure for Conflicts of Interest.

Code of conduct

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

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

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

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

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

The head of Internal Audit manages the Confidential Channel for Complaints and Queries relating to the Code of Conduct. The procedure for managing complaints received via the complaints channel are specified in detail in the Code of Conduct. This procedure guarantees confidentiality and respect in every phase, and protects against retaliation.

Over the course of 2019, there were 45 reports of alleged breaches of the Code of Conduct, all of which were investigated, with appropriate disciplinary measures being taken in 32 cases.

Compliance Committee

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

The Compliance Committee supervises the management of the Compliance Office and is empowered to impose disciplinary measures on employees in matters within its scope.

In the course of 2019, there were three meetings of the Compliance Committee.

The Company has decided to roll out its crime prevention model to other countries (Germany, Holland, Belgium, United Kingdom, Colombia, Mexico and Argentina), having constituted local Compliance Committees in the Business Units covering the aforementioned countries.

Compliance Office

The Compliance Office, led by the Group's head of Compliance, is responsible for disseminating and supervising compliance with the Code of Conduct and for drafting the Criminal Risk Prevention Plan. The Compliance Office reports directly to the Compliance Committee.

Conversely, and as mentioned above, in 2019 the Compliance Office started actions aimed at rolling out its function in crime prevention to other NH Business Units.

Drafting the anti-corruption and anti-fraud policy

On 31 January 2018, NH's Board of Directors approved the Anti-Corruption Policy, in its commitment to detect and prevent the commission of corruption offences in business within the company. In order to reduce exposure to regulatory risks of a criminal nature, specifically to the risk of crimes related to corruption, bribery and fraud, in December 2018, the Compliance Committee approved an update of the Anti-Corruption and Fraud Policy, which was approved by the Board of Directors on 13 May 2019.

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

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

Drawing up of the anti-money laundering policy

NH's Code of Conduct reflects a commitment to respect the applicable regulations on anti-money laundering policy, with special attention to diligence and care in the processes of evaluating and selecting suppliers, and in payments and collections in cash. Therefore, the Compliance Committee meeting of 19 December 2018 approved a policy that reinforces NH Hotel Group's commitment to anti-money laundering and combating the financing of terrorism, with the aim of detecting and preventing NH Hotel Group, S.A. and its group companies from being used in money laundering or terrorist financing operations. Said Policy was approved by the Board on 13 May 2019.

The aforementioned Policies have been duly communicated to all Group employees and the corresponding online training has been made available to ensure their disclosure and understanding.

RISK MANAGEMENT

Risk management governance

The Company's Board of Directors is responsible for overseeing the risk management system, in line with the provisions of Article 5 of the Regulation of the Board of Directors. As regulated by Section 3 of article 25 b) of the Regulation of the Company's Board of Directors, the Audit and Control Committee supports the Board of Directors in supervising the effectiveness of the internal control, internal audit and the risk management systems, including tax risks. In this regard, carried out during the various meetings held in 2019 were control and monitoring of the Company's main risks, their evolution in recent years and the main mitigation and response measures.

On the other hand, amongst other functions, the Company's Management Committee manages and controls risks based on risk tolerance, assigns ownership of the main risks, periodically monitors their evolution, identifies mitigation actions as well as defining response plans. For these purposes, the Executive Risk Committee, made up from members of the Management Committee and Senior Executives, supports the Management Committee in such oversight, as well as promoting a culture of risks in the Company. For them, the Company has an internal risk management manual that details the principles, processes and controls in place.

Risk Management, integrated into the Internal Audit department, is responsible for ensuring the risk management and control system in the Company functions properly and is linked to the strategic objectives. To ensure that there are no conflicts of independence and that the NH risk management and control system works as set out in the Corporate Risk Management Policy, an independent third party has reviewed its operation annually for the last two years.

As an additional guarantee of independence, Risk Management is independent of the Business Units and, as with Internal Audit, it maintains a functional reporting line to the Audit and Control Committee.

In line with the above, NH follows the Three Lines of Defence model ('The three lines of defence for effective risk management and control' Position Paper issued by the Institute of Internal Auditors in January 2013):

- First line of defence: carried out by each function (business and corporate units) that owns the risk and its management (Operations, Commercial, Marketing, etc.).
- Second line of defence: performed by the functions responsible for risk supervision (Risk Management, Compliance, Data Protection, Internal Control, etc.)
- Third line of defence: carried out by Internal Audit that affords independent assurance.

The NH Hotel Group's Corporate Risk Management Policy (approved by the Board of Directors in 2015), as well as the internal manual that implements it, aim to define the basic principles and the general framework of action to identify and control all types of risks that may affect the companies over which the NH Hotel Group has effective control, as well as ensuring alignment with the Company's strategy.

Risk management model

The risk management system of the NH Hotel Group, which is rolled out in both the Group's corporate head office and its Business Units, aims to identify events that may negatively affect achievement of the objectives of the Company's Strategic Plan, providing the maximum level of assurance to shareholders and stakeholders and protecting the group's revenue and reputation.

The risk management model is based on the integrated COSO IV ERM (Enterprise Risk Management) framework, is managed through SAP GRC and includes a set of methodologies, procedures and support tools that allow the NH Hotel Group:

1. To adopt adequate governance in relation to the Company's risk management, as well as promoting an appropriate risk management culture.
2. To ensure that the Company's defined objectives are aligned with its strategy and risk profile.
3. To identify, evaluate and prioritise the most significant risks that could affect achievement of strategic objectives To identify measures to mitigate these risks, as well as establish action plans and Key Risk Indicators based on the Company's tolerance to risk.
4. To follow-up on the action plans and the key indicators established for the main risks, within a continuous improvement model framework.
5. Periodic reporting in SAP GRC by risk managers about the status of their respective risks and, in turn, reporting to the Company's main governing bodies.

The Group's Risk Map is updated annually and approved by the Board of Directors once reviewed and validated by the Audit and Control Committee. The Company updated its Risk Map in 2019 through a process in which 37 Senior Executives identified and assessed the main risks faced by the Company. This Map was approved by the Board of Directors at its meeting on 25 July 2019.

For the main risks of the Risk Map, the Audit and Control Commission receives a report every six months detailing the operation of the risk management and control system and includes conclusions on it. The measurement of the key indicators is included for this, stating if they are kept within the set tolerance values or if they need to be adjusted. The implementation status of the previously agreed action plans is also included in the report.

Each of the main risks on the Company's Risk Map is assigned a Risk Owner who, in turn, is a member of the Management Committee. Each risk manager reports periodically to the Audit and Control Committee (according to an established schedule) to present the existing or ongoing mitigation measures for its risks, the state of implementation of action plans and the measurement of key indicators in accordance with established tolerances. During 2019, the Owners of the main risks attended the Audit and Control Committee to present their corresponding risks and made a formal validation in SAP GRC.

Each year, coinciding with the update of the Risk Map, Risk Management is responsible for reassessing the risk catalogue, both financial and non-financial. The final catalogue is validated with the Senior Executives who take part in the process, as well as with the bodies involved in its validation (Management Committee, Executive Risk Committee and Audit and Control Committee) and approval (Board of Directors). Additionally, Risk Owners can report/suggest a new risk to the Risk Office through SAP GRC during the year.

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

a) Financial Risks: events that affect financial variables (interest rates, exchange rates, inflation, liquidity, debt, credit, etc.).
b) Compliance Risks: arising from possible regulatory changes as well as non-compliance with internal and external regulations.
c) Business Risks: generated by inadequate management of procedures and resources, whether human, material or technological.
d) Risks from External Factors: arising from natural disasters, political instability or terrorist attacks.
e) Systems Risks: events that could affect the integrity, availability or reliability of operational and financial information.
f) Strategic Risks: produced by difficulty accessing markets and difficulties in asset disinvestment.

New data protection plan

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

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

NH ROOM 4 SUSTAINABLE BUSINESS PILLARS AND COMMITMENT

The NH Hotel Group performs its hotel activity with the ambition of leading responsible behaviours, and creating shared value at an economic, social and environmental level wherever it operates. With this philosophy, the Company worked on the development of the new Strategic Plan in 2019, giving continuity to the previous one, in which one of the pillars is NH ROOM4 Sustainable Business; a key part of the Company's global strategy.

The strategic vision of NH ROOM4 Sustainable Business is, in turn, based on three fundamental management levers: NH ROOM4 People, NH ROOM4 Planet and NH ROOM4 Responsible Shared Success, all of which are framed under the same premise of sustainable and ethical principles, responsible culture and spirit of citizenship.

Convinced it is moving in the right direction to achieve the next sustainability challenges, the Company is aligned with the Sustainable Development Goals (SDGs) to which it can contribute and undertakes to continue creating long-term and global value within the framework of the 2030 Agenda. NH ROOM4 Sustainable Business, which is deployed alongside the Group's global strategy, includes its main commitments on sustainability and the development of lines of action in the priority areas for the company: commercial, employee commitment, investment, brand purpose, corporate governance, and supplier assessment.

Since 2013, the NH Hotel Group has been listed on the FTSE4GOOD index and renews its presence year after year thanks to the responsible management of the business and the improvements implemented. The index was created by the London Stock Exchange to help investors include environmental, social and governance (ESG) factors into their decision making.

At the same time, the Company has been listed on the Ethibel Sustainability Index since 2015. Ethibel is an index that unites companies from different sectors who are leaders in Corporate Social Responsibility. The presence of the NH Hotel Group demonstrates the Company's good performance and encourages Socially Responsible Investment (SRI) among investors and funds.

Finally, the NH Hotel Group has been included on Bloomberg's gender equality index 2020 for the first time; it being the only Spanish hotel company among the index's 325 companies.

Human Resources Strategy

The average number of people employed by the Parent Company and consolidated companies in 2019 is 11,464 employees.

The corporate culture of the NH Hotel is also based on the cornerstones of diversity and equality. At 31 December 2019, women made up 50.9% of the total workforce.

Also, the average age of employees at 31 December 2019 is 38.9 years old, and their average time with the company is 8.7 years.

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

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

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

Environmental sustainability

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

Continuity was given to the environmental achievements of recent years in 2019. Thus, compared to 2007, consumption per occupied room is reduced by: 31% for energy consumption, 23 % for water and the carbon footprint by 61%. NH Hotel Group is committed to renewable energy, which reduces its carbon footprint. This consumption of green energy, certified as renewable, is available in 99% of our consolidated hotels in Spain, Italy, the Netherlands, France and Luxembourg, covering 67% of the total electricity consumed in Europe.

NH Hotel Group works with the ISO 14.001 environmental management system and ISO 50.001 for energy efficiency in accommodation, catering, meetings and events. In total, the Company has 149 individual sustainability certifications in hotels such as BREEAM, LEED, Green Key, Hoteles+Verdes, ISO 14.001 Environmental Management System and/or ISO 50.001 Energy Management System. These environmental certifications are internationally recognised (ISO 14.001 and ISO 50.001) and those from the hotel sector itself such as Hoteles+Verdes and Green Key are recognised by the GSTC (Global Sustainable Tourism Council). The NH Hotel Group has reported its commitment to and strategy against climate change to CDP Climate Change since 2010 and received a B in its annual ranking.

It is also noteworthy that, in 2019, the NH Hotel Group became the first Spanish hotel company to establish emission reduction targets that are scientifically validated by the Science Based Targets initiative (SBTi) - a leading alliance in the promotion of the business sector against climate change in which CDP, the United Nations Global Compact, World Resources Institute and World Wide Fund for Nature are a part. With this formalisation, the NH Hotel Group is committed to reducing its carbon emissions by 20% throughout its value chain before 2030. This objective marks the Company's roadmap towards a significant reduction in its activity's carbon footprint in the coming years, aligned with the purpose set in the Paris Agreement to limit the increase in the global temperature to less than 2ºC, and join the efforts that are being made globally towards the transition to a low carbon economy.

SHARES AND SHAREHOLDERS

NH Hotel Group, S.A. share capital at the end of 2019 comprised 392,180,243 fully subscribed and paid up bearer shares with a par value of €2 each. All these shares carry identical voting and economic rights and are traded on the Continuous Market of the Spanish Stock Exchanges.

According to the latest notifications received by the Company and the notices given to the National Securities Market Commission before the end of every financial year, the most significant shareholdings at 31 December 2019 and 2018 were as follows:

	2019	2018
Minor International Public Company Limited ("MINT") (1)	94.13%	94.13%

(1) MINT is the indirect shareholder through MHG Continental Holding (Singapore) Pte Ltd

The aforementioned (indirect) shareholding of MINT in NH Hotel Group, S.A. is the result of the IPO made by MHG Continental Holding (Singapore) Pte Ltd. on 11 June 2018 for 100% of the shares that were part of the share capital of NH Hotel Group, S.A., the result of which was that MINT acquired, through its wholly owned subsidiary MHG Continental Holding (Singapore) Pte. Ltd, shares representing 94.13% of the share capital of NH Hotel Group, S.A.

The average share price of NH Hotel Group, S.A. in 2019 was 4.57 euros per share (6.18 euros in 2018). The lowest share price of 3.89 euros per share was recorded in January (3.82 euros in December 2018) and the highest share price of 5.28 euros per share in March (6.82 euros in July 2018). The market capitalisation of the Group at the close of 2019 stood at 1,839.33 million euros.

At 31 December 2019, the Group had 374,464 own shares (it includes 83,176 shares related to the Liquidity contract) 600,000 own shares at 31 December 2018. The reduction of treasury shares in the period is explained by the delivery of 226,067 shares to NH employees under the Long-term Incentive Plan.

Liquidity contract for treasury shares management

On 10 April 2019, the NH Board of Directors entered into a liquidity contract to manage its treasury shares with Banco Santander, S.A. The Contract became effective on 11 April 2019.

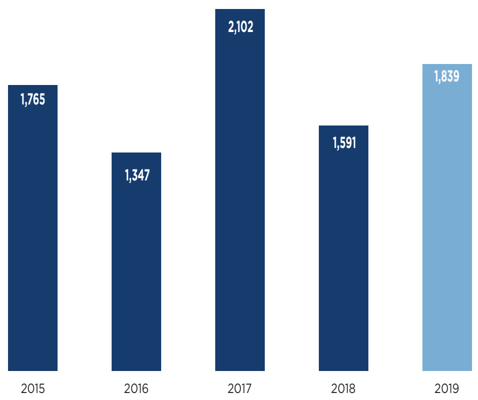
This contract is in accordance with the liquidity contract model in Circular 1/2017 of 26 April from the National Securities Market Commission on liquidity contracts for the purpose of its acceptance as a market practice.

The total number of shares allocated to the securities account associated with the new Liquidity Contract is 82,645 shares and the amount allocated to the cash account is 400,000 euros.

The Liquidity Contract was agreed upon by the Board of Directors at the proposal of the Proprietary Directors on behalf of the shareholder Minor as a measure to encourage and favour the liquidity of the Company's shares taking the current market conditions into account.

CAPITALISATION (AT THE END OF EACH YEAR)

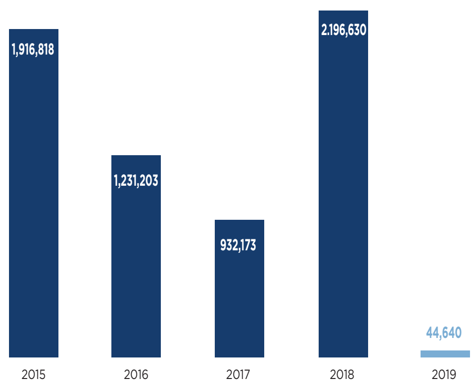
(Million euros)



During 2019, 11,383,314 shares in NH Hotel Group, S.A. were traded on the Continuous Market (560,140,781 shares in 2018) with average daily share trading on the Continuous Market of 44,640 shares (2,196,630 shares in 2018).

AVERAGE DAILY TRADING

(In shares)



EVOLUCIÓN NH HOTEL GROUP vs. IBEX 35

1 JANUARY 2015-31 DECEMBER 2019

FUTURE OUTLOOK

The Forecasts of the European Union for November month indicate that this growth will be moderate in 2020, although at a more sustainable pace after ten years of constant expansion following the economic and financial crisis of 2009. World growth of between 3% and 4% is expected in 2020, an outlook that is reflected in the last UNWTO Confidence Index which shows prudent optimism: 47% of participants believe that Tourism will offer better results than in 2019 and 43% believe it will remain the same. It is expected that some major sporting events, including the Olympic Games in Tokyo, and other cultural events, such as the Dubai Expo 2020, will have a positive impact on the hotel sector.

On the other hand, GDP growth in the Eurozone is expected to be +1.2% in 2020 (Data and estimates provided by the E.C. "European Economic Forecast – Autumn 2019" November 2019).

It is worth mentioning regarding volatility and macroeconomic situation and social instability the evolution that currencies may have in Latin America over the coming months and their impact on the economic growth of that region.

In this economic environment, the Group expects to benefit from the increase in sales associated with GDP growth expectations in 2020, together with the positive impact of the repositioning investments made in recent years and supported by the implementation of price management tools which will allow us to continue to optimise this strategy.

Non-financial Information Statement

The 2019 consolidated Non-Financial Information Statement, issued by the Board of Directors on 25 February 2020, contains all the non-financial information required by Law 11/2018 of 28 December 2018. This document is presented as a separate report, is part of this Consolidated Management Report and is available on the corporate website of the NH Group (https://www.nh-hoteles.es/corporate), within the section on Annual reports included in financial information.

EVENTS AFTER THE REPORTING PERIOD

On 22 January 2020, the last payment of a syndicated loan granted by two banking entities was paid to a company in which an NH Group company is a minority shareholder. This company, which consolidates into the NH Group, using the equity method had an outstanding principal of 15,742 thousand euros (equivalent to 17,685 thousand dollars), thereby releasing the guarantees that had been granted for the fulfilment of payment of said loan.

In order to carry out such payment, the Group has made a contribution of 6,315 thousand euros (5,588 thousand euros at 31 December 2019 (See Note 26)) corresponding to the proportional part of NH Hotel Group as a guarantor.

At a date subsequent to the year-end, a claim against a Group company was filed; it is pending processing and in no case will have a significant adverse effect.

ANNUAL CORPORATE GOVERNANCE REPORT

For listed public limited companies
Identification details of the issuer
End date of 12-month period of reference: 31/12/2019
Tax id code (CIF): A28027944
Company name: NH Hotel Group, S.A.
Registered office: Santa Engracia, 120 - 7ª planta, Madrid.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED PUBLIC LIMITED COMPANIES

A - OWNERSHIP STRUCTURE

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

Date of last change	Share capital (€)	Number of Shares	Number of voting rights
09/05/2018	784,360,486,00	392,180,243	392,180,243

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

NO

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

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

Breakdown of the indirect holding:

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

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

Most significant movements

There were no significant movements in the shareholding structure of NH Hotel Group, S.A. in 2019.

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

Name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% of voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
DON ALFREDO FERNÁNDEZ AGRAS	0.04	0.00	0.00	0.00	0.04	0.00	0.00
DON RAMÓN ARAGONÉS MARÍN	0.01	0.00	0.00	0.00	0.01	0.06	0.00
DOÑA BEATRIZ PUENTE FERRERAS	0.00	0.00	0.00	0.00	0.00	0.03	0.00

% of total voting rights held by the Board Directors	**0.05**

Breakdown of the indirect holding:

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

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

Name of related Party	Nature of relationship	Brief descriptionn
No data		

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

Name of related Party	Nature of relationship	Brief descriptionn
No data		

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

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

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
MR STEPHEN ANDREW CHOJNACKI	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MHG CONTINENTAL HOLDING (SINGAPORE) PTE. LTD.	Minor International Public Company Ltd. is an indirect shareholder in NH Hotel Group, S.A. and, through MHG Continental Holding (Singapore) Pte Ltd, holds 94.132% in NH Hotel Group, S.A. MHG Continental Holding (Singapore) Pte Ltd, in exercising its right of proportional representation, has appointed Mr Stephen Andrew Cojnacki as a proprietary director of NH Hotel Group, S.A. Likewise, Mr Chojnacki is a director of MHG Continental Holding (Singapore) Pte Ltd.
MR STEPHEN ANDREW CHOJNACKI	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Mr Stephen Andrew Chojnacki is a Director Chief Commercial Officer and General Secretary of Minor International Public Company Ltd. Mr Chojnacki is also a director of the Minor group companies as listed in section H of this report.
MR WILLIAM ELLWOOD HEINECKE	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MHG CONTINENTAL HOLDING (SINGAPORE) PTE. LTD.	Minor International Public Company Ltd. is an indirect shareholder in NH Hotel Group, S.A. and, through MHG Continental Holding (Singapore) Pte Ltd, holds 94.132% in NH Hotel Group, S.A. MHG Continental Holding (Singapore) Pte Ltd, in exercising its right of proportional representation, has appointed Mr William Ellwood Heinecke as a proprietary director of NH Hotel Group, S.A.
MR WILLIAM ELLWOOD HEINECKE	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Mr William Ellwood Heinecke is Chairman of the Board of Directors of Minor International Public Company Ltd. as well as Chairman of the Executive Management Committee. Finally, note that Mr Heinecke holds the positions in the Minor group companies as broken down in section H of this report.
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MHG CONTINENTAL HOLDING (SINGAPORE) PTE. LTD.	Minor International Public Company Ltd. is an indirect shareholder of NH Hotel Group, S.A. and, through MHG Continental Holding (Singapore) Pte Ltd, holds 94.132% in NH Hotel Group, S.A. MHG Continental Holding (Singapore) Pte Ltd, in exercising its right of proportional representation, has appointed Mr Rajakarier as a proprietary director of NH Hotel Group, S.A.
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Mr Rajakarier was appointed Group Chief Executive Officer of Minor International Public Company Ltd. effective from 1 January 2020. He is also a director of the Minor group companies as broken down in section H of this report.
MR KOSIN CHANTIKUL	MINOR INTERNATIONAL PUBLIC COMPANY LTD	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Minor International Public Company Ltd is the significant indirect shareholder (94.132%) in NH and has proposed the aforesaid Director. Mr Chantikul is also a director of the Minor group companies as listed in section H of this report.

A.7 Indicate whether the company has been informed of shareholders' agreements which affect it, as established in Articles 530 and 531 of the Capital Companies Act. If so, describe these agreements and list the party shareholders:

NO

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

NO

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

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

YES

Name
MINOR INTERNATIONAL PUBLIC COMPANY LTD

A.9 Fill in the following tables regarding the Company's treasury stock:

At year end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
374,464		0.10

(*) Through:

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

Explain any significant changes during the year:

Explain the significant changes

At year-end, NH Hotel Group, S.A. had 374,464 own shares on its balance sheet compared to 600,000 at 31 December 2018. This reduction during the period is explained by the following movements:

- Part of the long-term incentive plan was settled in the first half of 2019. The settlement was realised through the delivery of 226,067 shares.
- On 11 April 2019 the liquidity contract signed between the Company and Banco de Santander, S.A. to manage treasury stock came into force. The total number of shares allocated to the securities account associated with the liquidity contract was 82,645 and the amount allocated to the cash account was 400,000 euros. At 31 December 2019, the number of shares related to liquidity contracts amounted to 83,176; an additional 531 to those initially allocated to the securities account.

A.10 Describe the conditions and the term of the current mandate of the Board of Directors to issue, repurchase or transmit treasury stock, as conferred by the General Shareholders' Meeting.

The General Shareholders' Meeting held on 29 June 2017 authorised the Board of Directors of the Company to repurchase treasury stock under the terms indicated below:

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

b) The acquisition, including the shares which the Company, or a person acting in their own name but on behalf of the Company, may have acquired beforehand and have in its portfolio, can be made as long as this does not lead to net equity being below the amount of share capital plus the reserves made unavailable by law or the Company's articles of association. For these purposes, equity will be considered the amount qualified as such pursuant to the criteria for preparing the annual accounts, reduced by the amount of the profit directly attributed to it, and increased by the amount of the uncalled subscribed share capital, as well as the amount of the nominal and the premiums for issuing the subscribed share capital that is accounted for as a liability.

c) The shares must be fully paid up.

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

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

The shares acquired due to the authorisation can be disposed of or amortised, or used in the payment systems set out in Article 146.a) 3 of the Capital Companies Act.

A.11 Capital flotante estimado:

	%
Estimated floating capital	5.87

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

NO

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

NO

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

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

NO

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

B - GENERAL SHAREHOLDERS' MEETING

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

NO

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

NO

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

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

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

	Attendance detail				
			% remote voting		
Date of general meeting	**% physically present**	**% present by proxy**	**Electronic voting**	**Others**	**Total**
29/06/2017	39.02	42.57	0.00%	0.00	81.59
Of which, free float:	0.08	26.24	0.00%	0.00	26.32
29/06/2018	8.28	62.77	0.00%	0.31	71.36
Of which, free float:	0.00	24.40	0.00%	0.31	24.71
21/06/2019	94.21	0.90	0.00%	0.00	95.11
Of which, free float:	0.08	0.90	0.00%	0.00	0.98

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

NO

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

NO

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

NO

B.8 Indicate the address and access on the Company website to information on corporate governance and other information on general shareholders' meetings which must be available to shareholders on the Company website.:

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

C - COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

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

Maximum number of Directors	**20**
Minimum number of Directors	**5**
Number of directors set by the general meeting	**9**

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

Name of director	Representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to the Board
MR ALFREDO FERNÁNDEZ AGRAS		Independent	CHAIRMAN	19/06/2015	13/05/2019	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR RAMÓN ARAGONÉS MARÍN		Executive	CHIEF EXECUTIVE OFFICER	29/06/2017	29/06/2017	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR		Independent	DIRECTOR	21/06/2016	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR KOSIN CHANTIKUL		Proprietary	DIRECTOR	10/04/2019	13/05/2019	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR STEPHEN ANDREW CHOJNACKI		Proprietary	DIRECTOR	21/06/2018	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR WILLIAM ELLWOOD HEINECKE		Proprietary	DIRECTOR	21/06/2018	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR FERNANDO LACADENA AZPEITIA		Independent	DIRECTOR	21/06/2016	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MS BEATRIZ PUENTE FERRERAS		Executive	DIRECTOR	10/04/2019	13/05/2019	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER		Proprietary	DIRECTOR	21/06/2018	21/06/2018	AGREEMENT BY GENERAL SHAREHOLDERS' MEETING

Total number of directors	**9**

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

Name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term
MS MARIA GRECNA	Independent	21/06/2018	10/04/2019	Ms Maria Grecna was a member of the Audit and Control Committee.	YES
MR PAUL JOHNSON	Independent	21/06/2018	10/04/2019	Paul Johnson was a member of the Executive Committee until 7.02.2019, the date on which the Board unanimously decided to assume all the functions that were its own and having relieved the Executive Committee of its activities and terminating the positions of its members.	YES
MR JOSÉ MARÍA SAGARDOY LLONIS	Independent	29/06/2017	10/04/2019	Mr José María Sagardoy was a member of the Audit and Control Committee, as well as the Appointments, Remunerations and Corporate Governance Committee, acting as Chairman of the latter.	YES

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

Executive directors

Name of director	Post in organisational chart of the company	Profile
MR RAMÓN ARAGONÉS MARÍN	CHIEF EXECUTIVE OFFICER	Tourism diploma from the University of Palma de Mallorca. Master's in International Hotel Management from the International Business School, Hotel and Tourism Management. His professional career, for more than twenty years, has been in positions of management and responsibility, in companies in the tourism sector, such as Hesperia (General Manager) and NH Hotel Group, S.A. (Chief Operations Officer). He is currently Chief Executive of NH Hotel Group, S.A.
MS BEATRIZ PUENTE FERRERAS	CHIEF FINANCIAL OFFICER	Ms Beatriz Puente Ferreras has been Chief Financial Officer of NH Hotel Group, S.A. since 2015. Prior to joining NH, she was Finance Director of AENA (2013-2015) where she was responsible for preparing and coordinating the process to privatise the company and its IPO. She also led the negotiations to restructure its debt. Prior to that, She was Finance Director (2007-2013) and Investor Relations and Corporate Development Director (2005-2007) at Vocento, S.A. and was responsible for preparing the IPO for the company. Before Vocento, Ms Puente worked for Citigroup Global Markets (Spain) as Deputy Chairwoman of the investment bank's M&A division (2003-2004) and Investment Banking Associate for the Financial Institutions & LatAm area (2001-2003) in London and NY. In 2018 she was awarded Best CFO by Institutional Investor in the Leisure&Hotels sector and in 2012 received the Young Managers with Talent Award (Financial Management category) from Seeliger and Conde. Ms Beatriz Puente Ferreras has an MBA from JL Kellogg School of Management (Northwestern University) (1998-2000) with a Fullbright scholarship and a Degree in Business Administration from Colegio Universitario de Estudios Financieros (CUNEF) (1995).

Total number of executive directors	**2**
Percentage of Board	**22,22%**

Proprietary directors

Name of director	Name or company name of the significant shareholder represented or that has proposed their appointment	Profile
MR KOSIN CHANTIKUL	MINOR INTERNATIONAL PUBLIC COMPANY LTD	With a degree in Economics from Wesleyan University, USA (2000-2004) and having studied the Director Certification Program (DCP), he was a member of the Thai Institute of Directors (IOD) (2014). He began his career at Lehman Brothers, was an associate at Lehman Brothers Principal Transactions Group (until 2008) and subsequently at Nomura Asia Asset Finance (until 2010). In 2012 he was appointed Investments Director at Boutique Asset Management and between 2013 and 2015 he was Group Acquisitions Director for Minor International PCL. Since 2015, he has been responsible for the Minor Group's investments and acquisitions. He has led investments, strategic partnerships and mergers and acquisitions activities in the hospitality sectors on behalf of Minor International PCL and led transactions in Thailand, Indonesia, Malaysia, Vietnam, Cambodia, Australia, United Kingdom, Portugal, Spain, Brazil, Maldives, Seychelles, South Africa, Zambia, Botswana, Lesotho and Mozambique.
MR STEPHEN ANDREW CHOJNACKI	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Degree in Foreign Relations and Economics from the University of Virginia, obtaining a Doctorate from the University of Virginia/School of Law. Mr Chojnacki has spent his professional career in the law firm Linklaters in their New York, Hong Kong and Bangkok offices. He is currently Chief Commercial Officer and General Secretary (General Board) of Minor International PLC., Director of MHG Continental Holding (Singapore) Pte. Ltd., as well as a Director of companies in the Minor group. During his time leading the commercial activities and legal advice of the Minor Group, he has carried out a number of mergers and acquisitions with other leading companies in the hospitality sector, with presence in Portugal, Brazil, China, Vietnam, Indonesia and Africa.
MR WILLIAM ELLWOOD HEINECKE	MINOR INTERNATIONAL PUBLIC COMPANY LTD	He holds an Honorary Doctorate of Business Administration in Management from Yonok University, Lampang. He also completed the Director Certification Program (DCP) from the Thai Institute of Directors Association (IOD). Mr Heinecke is the founder of Minor International Pcl. (MINT) and is currently Chairman of the Board of Directors of said company. Over the five decades of the Minor group's existence, Mr Heinecke has led the company and expanded its portfolio of restaurants, hotel businesses and lifestyle brand distribution. It currently has more than 2,100 restaurants, 160 hotels and 400 lifestyle outlets in 40 countries (excluding the NH Hotel Group portfolio). MINT is listed on the Thailand Stock Exchange, with revenues of more than 1.5 billion euros and a market capitalisation of 4 billion euros. Mr Heinecke is the author of the book "The Entrepreneur – 25 Golden Rules for Global Business Manager"
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	MINOR INTERNATIONAL PUBLIC COMPANY LTD	Degree in Computer Systems Analysis & Design in Sri Lanka in 1984. MBA in Finance in the United Kingdom. Mr Rajakarier has spent his professional career from 2007 to date at Minor International Public Company Limited as Chief Operating Officer (COO) and Director and Chief Executive Officer (CEO) at Minor Hotel Group Limited. Minor International Public Company Limited is a global company focused on three main businesses: restaurants, the hotel sector and retail brands. From 2001 to 2007 he was Deputy Chief Financial Officer and Internal Audit Manager in the leading operator Orient Express Hotels, Trains & Cruises (Belmond). Since 1.01.2020 he has been Group CEO of Minor International Public Company Limited.

Total number of proprietary directors	**4**
Percentage of Board	**44,44%**

Independent directors

Name of director	Profile
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	He holds a degree in Law and Economics and Business Administration and Management from the Universidad Pontificia Comillas (ICADE E-3) and a diploma from the Business Management Programme (PADE) of IESE Business School. He was a founding partner of Results Mazimizer (consultancy for the execution and implementation of marketing, sales and communications projects) and Enubes (digital marketing company) and has been the Managing Partner since September 2015. Between July 2008 and August 2015 he held various senior positions in Mutua Madrileña, first as Sales and Marketing Director until May 2011 and subsequently as Deputy General Manager, whilst also being a Director at SegurCaixa Adeslas (from July 2011) and a Director at Mutuactivos Inversiones (from July 2013). Between August 2003 and June 2008 Mr José María Cantero de Montes-Jovellar was Marketing and Customers Director (sales and value enhancement management of the Residential Business Unit) of Amena/Orange in Spain. Previously, between July 1994 and July 2003 he worked for Procter & Gamble España in various positions within the marketing department: Assistant Brand Manager, Brand Manager, and his final position as Business Team Leader Textiles Care division for Spain and Portugal.
MR ALFREDO FERNÁNDEZ AGRAS	Degree in Economic and Business Sciences, as well as in Law from Universidad Pontificia Comillas (ICADE) in 1993. Experienced investment banker, currently dedicated to investing in private companies and advising in corporate finance. He is additionally a board member of several companies, both private and listed. Over the last 20 years, he has worked for several investment banks, having been Managing Director and co-head at 360 Corporate and Managing Director at UBS Investment Bank in Spain. Previously, he worked for Merrill Lynch and Morgan Stanley in London. He has been involved in numerous M&A and capital markets operations in southern Europe, especially in relation to listed companies. He previously worked as a commercial lawyer and a statistician at Arthur Anderson.
MR FERNANDO LACADENA AZPEITIA	Degree in Economics and Business Administration and a Law Degree from ICADE (Specialty E-3) in Madrid. Executive with more than 35 years' experience in financing and very oriented towards management. Lately, specialised in the financial area in large listed multinational corporations, with significant experience in the negotiation and structuring of financing operations, relationships with capital markets and investment operations (M&A). Since December 2014, he has been the CEO of Testa Inmuebles en Renta SOCIMI, S.A., a leading property leasing management company in the third sector, having directed the operation to float the company with Merlin Properties taking a stake in its share capital; an operation valued at approximately €2 billion. He is the chairman of ASPRIMA, the association of companies with leased assets in Spain. Prior to that, for seven years he was the CFO at Grupo Sacyr Vallehermoso, managing financing with banks and the relationship with analysts and investors and participating directly in the investment processes and the partnership strategy to develop new businesses in both local markets and internationally. Previously he worked for 13 years in similar positions in Grupo ACS Dragados, after having started in Arthur Andersen where he spent the first 10 years of his professional career.

Number of independent directors	**3**
Percentage of Board	**33,33%**

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

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

Other External Directors

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

Name of director	Reason	Company, director or shareholder to whom the director is related	Profile
No data			

Total number of other external directors	
Percentage of Board	

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

Name of director	Date of change	Previous Status	Current status
MR ALFREDO FERNÁNDEZ AGRAS	13/05/2019	Other External	Independent

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

	Number of female directors				% of directors of each category			
	2019	2018	2017	2016	2019	2018	2017	2016
Executive	1	0	0	0	50.00	0.00	0.00	0.00
Proprietary	0	0	0	0	0.00	0.00	0.00	0.00
Independent	0	1	1	1	0.00	25.00	16.67	25.00
Other External	0	0	0	1	0.00	0.00	0.00	25.00
Total	1	1	1	2	11.11	10.00	10.00	18.18

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

PARTIAL POLICIES

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

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

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

On 25 February 2016, following a favourable report from the Appointments, Remuneration and Corporate Governance Committee, the Board of Directors approved a Selection Policy for Directors. Said policy seeks to prevent discrimination, with meritocracy as the criterion guiding the selection process to identify the best candidates for the Company. However, and notwithstanding the foregoing, each time that there is a vacancy on the Board of Directors, and the corresponding selection process begins, at least one woman must be considered as a candidate until the 30% target is met.

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

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

Explanation of the means

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

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

Explanation of the means

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

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

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

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

Indicate whether formal requests for representation on the Board from shareholders whose shareholding is equal to or greater than other shareholders at whose request proprietary directors have been appointed, have not been acted upon. If this is the case, please explain why the aforementioned requests were not met:

NO

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

Name of director	Brief description
MR RAMÓN ARAGONÉS MARÍN	All the powers that correspond to the board of directors, except those that cannot be delegated by law or the company's articles of association.

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

Name of director	Company name of group company	Position	Does the director have executive duties?
MR RAMÓN ARAGONÉS MARÍN	NH HOTELES AUSTRIA GMBH	Joint and Several Director	NO
MR RAMÓN ARAGONÉS MARÍN	NH HOTELES SWITZERLAND GMBH	Joint and Several Director	NO
MR RAMÓN ARAGONÉS MARÍN	NH HOTELES CZECHIA S.R.O.	Joint and Several Director	NO
MR RAMÓN ARAGONÉS MARÍN	NH HOTELES DEUTSCHLAND GMBH	Joint and Several Director	NO
MR RAMÓN ARAGONÉS MARÍN	NH HOTELBETRIEBS-UND ENTWICKLUNGS GMBH	Joint and Several Director	NO
MR RAMÓN ARAGONÉS MARÍN	JOLLY HOTELS DEUTSCHLAND GMBH	Joint and Several Director	NO
MR RAMÓN ARAGONÉS MARÍN	NH HOTELBETRIEBS- UND DIENSTLEISTUNGS GMBH	Joint and Several Director	NO
MR RAMÓN ARAGONÉS MARÍN	NH CENTRAL EUROPE GMBH	Joint and Several Director	NO
MR RAMÓN ARAGONÉS MARÍN	NH MANAGEMENT BLACK SEA SRL	Joint and Several Director	NO
MR RAMÓN ARAGONÉS MARÍN	AIS POLSKA SP ZOO	Joint and Several Director	NO
MR RAMÓN ARAGONÉS MARÍN	NH CASH LINK, S.L.	Joint Director	NO
MR RAMÓN ARAGONÉS MARÍN	NH HUNGARY SZALLODUAZEMELTETO KFT	Joint and Several Director	NO
MR RAMÓN ARAGONÉS MARÍN	JOLLY HOTELS USA INC	Chairman of the Board	NO
MR RAMÓN ARAGONÉS MARÍN	HEINER GOSSEN HOTELBETRIEB GmbH	Joint and Several Director	NO
MS BEATRIZ PUENTE FERRERAS	COPERAMA SPAIN, S.L.U.	Joint Director	NO
MS BEATRIZ PUENTE FERRERAS	NH EUROPA,S.L.U	Joint and Several Director	NO
MS BEATRIZ PUENTE FERRERAS	COPERAMA HOLDING, SL.U	Director	NO

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

Name of director	Name of listed company	Name of listed company
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	SERENDIB HOTEL PCL	DIRECTOR
MR EMMANUEL JUDE DILLIPRAJ RAJAKARIER	MINOR INTERNATIONAL PUBLIC COMPANY LIMITED	CHIEF EXECUTIVE OFFICER
MR WILLIAM ELLWOOD HEINECKE	MINOR INTERNATIONAL PUBLIC COMPANY LIMITED	CHAIRMAN
MR WILLIAM ELLWOOD HEINECKE	INDORAMA VENTURES PUBLIC COMPANY LIMITED	DIRECTOR
MS BEATRIZ PUENTE FERRERAS	METROVACESA, S.A.	DIRECTOR

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

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

YES

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

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

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

Board remuneration in financial year (thousand euros)	2,888
Amount of vested pension interests for current members (thousand euros)	0
Amount of vested pension interests for former members (thousand euros)	0

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

Name	Position
MR FERNANDO CÓRDOVA MORENO	GENERAL MANAGER, PEOPLE
MR LAIA LAHOZ MALPARTIDA	GENERAL MANAGER, ASSETS AND DEVELOPMENT
MR ISIDORO MARTINEZ DE LA ESCALERA	GENERAL MANAGER, MARKETING
MR RUFINO PÉREZ FERNANDEZ	GENERAL MANAGER, OPERATIONS
MR CARLOS ULECIA PALACIOS	GENERAL SECRETARY
MR FERNANDO VIVES SOLER	GENERAL MANAGER, SALES

Total remuneration of senior management (€ thousands)	**3,501**

C.1.15 Indique si se ha producido durante el ejercicio alguna modificación en el reglamento del consejo:

NO

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

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

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

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

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

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

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

In any event, those subject to any incapacity, disqualification, prohibition or conflict of interests set forth in current legislation may not be proposed for appointment as Board members. All those directly or indirectly holding interests of any type or that have an employment, professional or mercantile relationship, or relations of any other type with competitor companies, shall be considered as incompatible for the position of director, except when the Board of Directors, with a favourable vote of at least 70% of its members, agrees to set aside this condition. The above is without prejudice to any other waiver that, in compliance with current legislation, the General Shareholders' Meeting had to provide.

C.1.17 Explain how far the annual assessment of the board has led to important changes in its internal organisation, and on the procedures applicable to its activities:

Description of amendment
Following the annual evaluation of the Board of Directors carried out in December 2018, an action plan was developed to improve the detected areas of opportunity. • The period with which information was provided to the directors prior to the committees/board has improved. • The Annual Work Plan and the structure of the Audit and Control Committee sessions have markedly improved. • There has been a slight improvement in the frequency of Board meetings. There remain, however, areas to improve. Some of these are repetitions of the above such as increasing the frequency of board meetings or receiving documentation prior to the meetings even sooner. Other areas, such as changing the focus of Board presentations, placing greater attention on the new and relevant and less so on what has already been sent are new aspects for improvement that arose in the December 2019 Board Evaluation.

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

Description of the evaluation process and evaluated areas

The evaluation process of the NH Board of Directors is carried out annually to identify the directors' perceptions regarding the practices of the Board of Directors and its committees in aspects such as composition, operation, sessions or performance of the functions.

KPMG, an independent company specialised in this area, were employed for the evaluation process and have assisted in the collection, order and processing of the forms filled out by the directors, as well as presenting the results and plan of action.

The 2019 evaluation was answered by all board members who held their positions throughout all of 2019.

The directors responded on various issues in reference to NH's governing bodies (operations, Board functions, strategic planning, operational and financial supervision, etc.), as well as questions about the sessions of each committee (planning, presentations , communication and participation, etc.)

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

KPMG, have not participated in any matter presented to the Appointments, Remuneration and Corporate Governance Committee for the years in which they have collaborated in the Board of Directors evaluation process.

C.1.19 Indicate cases in which Directors are compelled to resign.

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

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

a) When they cease the executive positions to which their appointment as Director was associated or when the reasons for which they were appointed disappear, it being understood that said circumstance occurs to a Proprietary Director when the Entity or Business Group they represent ceases to hold a shareholding significant in the Company's share capital or when, for an Independent Director, they are integrated into the executive line of the Company or any of its subsidiaries.

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

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

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

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

YES

If so, please describe the differences.

Description of the differences

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

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

NO

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

NO

C.123 State whether the Articles of Association or the Board Rules establish any term limits for independent directors other than those required by law:

NO

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

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

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

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

C.1.25 Indicate the number of meetings that the Board of Directors has held over the year. Also indicate, as applicable, the number of times that the Board has met without its Chairman attending. Meetings where the chairman sent specific proxy instructions are to be counted as attended.

Number of Board meetings	8
Number of Board meetings without the Chairman	0

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

Number of meetings	0

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

Number of Meetings held by the APPOINTMENTS AND REMUNERATION COMMITTEE	8
Number of meetings of the APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	5

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

Number of meetings where at least 80% of the directors attended	4
% of attendance over total votes during the year	82.00
Number of meetings in situ or representations made with specific instructions of all directors	8
% of votes issued at in situ meetings or with representations made with specific instructions out of all votes cast during the year	100.00

C.127 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

NO

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

C.1.28 Explain, if applicable, the mechanisms established by the Board of Directors to prevent the individual and consolidated annual accounts it draws up from being submitted to the General Meeting of Shareholders with qualifications in the auditors' report.

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

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

NO

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

Name of the secretary	Representative
MR CARLOS ULECIA PALACIOS	

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

The Board of Directors has established a stable and professional relationship with the Company's external accounts auditor through the Audit and Control Committee, strictly respecting its independence. By way of an example, the Audit and Control Committee holds regular meetings with the external auditor without the executive team being present. In this sense, article 25. b) of the Regulations of the Board of Directors expressly establishes that one of its responsibilities is to pass along to the Board of Directors proposals for selecting, appointing, re-electing and substituting external auditors, as well as conditions for their contracting and regularly collecting information from them on the audit plan and its execution, in addition to preserving its independence in exercising its functions.

Furthermore, the Audit and Control Committee is responsible for establishing suitable relationships with auditors or audit firms in order to receive information regarding any issues that may jeopardise their independence, so that these can be examined by the committee, and any other matters related with the process of conducting financial audits, as well as any other communications stipulated in the financial auditing legislation and audit regulations. In any event, it must receive written confirmation on an annual basis from the auditors or auditing firms of their independence from the Company or entities related to it either directly or indirectly, as well as information on any additional service of any kind provided to such entities and the corresponding fees received by the aforementioned auditors or by persons related to them in accordance with the provisions set forth in legislation regarding auditing.

Likewise, every year, prior to issuing the audit report, the Audit and Control Committee must also issue a report in which it gives its opinion on the independence of the auditors or auditing firms. This report must always contain an assessment of the additional services referenced in the above paragraph, considered individually and together, that are separate from the legal audit and with regard to their independence and to audit regulations.

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

YES

Outgoing auditor	Incoming auditor
Deloitte, S.L.	PricewaterhouseCoopers Auditores, S.L.

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

NO

C.1.32 State whether the audit firm carries out other work for the company and/or its group other than audit work and if so, state the total fees paid for such work and the percentage this represents of the fees billed to the company and/or its business group:

YES

	Company	Group Companies	Total
Amount invoiced for non-audit services (thousand euros)	161	275	436
Amount invoiced for non-audit services/Amount for audit work (in %)	29,54	23,25	27,66

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

NO

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

	Individual	Consolidated
Number of consecutive years	1	1
Number of years audited by the current audit firm/number of fiscal years the company has been audited (by %)	3,13%	3,13%

C.1.35 Indicate and, if applicable, provide details of whether there is a procedure whereby Directors can have the information necessary to prepare for meetings of the management bodies with sufficient time:

YES

Explanation of procedure

According to article 21 of the Regulations of the Board, the announcement of the meeting, which will be published at least three days before the date of the meeting, will include a preview of the likely agenda for the meeting and will be accompanied by the necessary written information that is available.

Furthermore, article 27 of the aforementioned Regulations indicates that Directors must diligently inform themselves of the Company's progress, and to that end, collect any necessary or pertinent information in order to correctly perform their duty. To this end, the Board has been assigned the broadest possible powers to gain information about any aspect of the Company; to examine its books, registers and documents and any other information concerning its operations. Said right to information is also extended to the various subsidiary companies that are included in the consolidated group, insofar as it is necessary for the Director to correctly perform their functions as referred to in article 6 of said Regulations.

With the aim of not disturbing the Company's normal management, the exercise of the right to information will be channelled through the Chairman or Secretary of the Board of Directors, who will respond to requests from Directors by directly providing him/her the information or putting them in touch with the appropriate people in the suitable level of the organisation. With the aim of being assisted in the exercise of their functions, the Directors may obtain the necessary consulting from the Company to perform their functions. In special circumstances, they may even request that the Company hire legal, accounting or financial consultants or other experts. Such help must relate to specifically defined and complex problems that arise in the course of their work. The decision to employ such services must be communicated to the Chairman of the Company and implemented through the Secretary of the Board, unless the Board of Directors considers that such services are not necessary or appropriate.

C.1.36 State and, if applicable, provide details on whether the company has established rules that require directors to report and, as applicable, resign in those cases where the company's credibility and reputation may be harmed.

YES

Explanation of procedure

The Regulations of the Board includes a mechanism to oblige the Directors to provide immediate notification of all legal proceedings in which they may be adversely affected. In this way, article 14.2.d) of the Regulations of the Board of Directors of NH Hotel Group, S.A., expressly establishes that Directors shall place their office at the disposal of the Board of Directors and tender their resignation when their continued presence on the Board may affect the good standing or reputation that the Company enjoys in the market, or put its interests at risk in any other way. In this case, the Director must immediately inform the Board of the facts or procedural difficulties that affect said reputation or risk.

It also establishes that in all events, those subject to any incapacity, disqualification, prohibition or conflict of interests set forth in current legislation may not be proposed for appointment as Board members.

C.1.37 State whether any member of the Board of Directors has notified the Company that they have been prosecuted or issued with a summons for oral proceedings in relation to the offences indicated in Article 213 of the Spanish Capital Companies Act:

NO

C.1.38 List the significant agreements signed by the company and that come into force, are modified or are terminated in the case of a change in control of the company resulting from a take-over bid, and their effects.

The NH Group has signed several financing contracts that contain a clause establishing their early maturity in the event of circumstances that give rise to a change in control of the NH, amongst which includes a Syndicated Credit Line for 250 million euros that matures in 2021. In addition, NH issued guaranteed senior bonds that mature in 2023, which include certain consequences should control of the Issuer change, such as the possibility of NH being required to repurchase the senior bonds.

As a result of the change of control in the Company's shareholders, a unanimous waiver by the creditors of the Syndicated Credit Line amounting to 250 million euros was obtained in September 2018, keeping the maturity until 2021.

Additionally, and in line with the change of control, the Company offered the Bondholders the repurchase at 101% of the 2023 Bond for 400 million euros. The requested amount reached only 3.2 million euros of the total nominal.

Likewise, the change of control following a public takeover bid could have different effects on other leasing and hotel management agreements signed by the Company. NH has carried out a study of these clauses and estimates that the change of control will not have a significant economic impact.

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

Number of beneficiaries	2
Type of beneficiary	**Description of agreement**
Two members of Senior Management and one employee	In order to encourage loyalty and permanence in the Company, compensation has been provided for which may be more than the amount resulting from applying legal regulations, in the event of unilateral termination by the Company. These amounts range from one year's fixed salary to two years' total salary, i.e., fixed plus variable pay received over the last two years.

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

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

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

C.2 Committees of the Board of Directors

C.2.1 List all the committees of the Board of Directors, their members and the proportion of Executive, Proprietary, Independent and other external Directors thereon:

AUDIT AND CONTROL COMMITTEE

Name	Position	Category
MR FERNANDO LACADENA AZPEITIA	CHAIRMAN	Independent
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	MEMBER	Independent
MR STEPHEN ANDREW CHOJNACKI	MEMBER	Proprietary

% of executive directors	0,00
% of proprietary directors	33,33
% of independent directors	66,67
% of other external directors	0,00

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

The Audit and Control Committee shall comprise a minimum of three and a maximum of six directors, appointed by the Board of Directors. All members sitting on said Committee shall be External Directors, the majority of whom, at least, must be independent directors, and one of whom must be designated by taking into consideration their knowledge and experience in accounting, auditing, or both. The Chairman of the Audit Committee must be appointed from among its independent members. The Chairman must also be replaced every four years; previous chairmen may be re-elected one year after their previous mandate has ended.

The Audit Committee will have at least the following responsibilities:

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

2. Supervise the effectiveness of the company's internal control, internal auditing, where applicable, and risk-management (including tax risk) systems, as well as discussing with auditors or audit companies any significant weaknesses in the internal control system identified during audits.

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

4. Pass along to the Board of Directors proposals for selecting, appointing, re-electing and substituting external auditors, as well as conditions for their contracting and regularly collecting information from them on the audit plan and its execution, in addition to preserving its independence in exercising its functions.

5. Establish suitable relationships with auditors or audit firms in order to receive information regarding any issues that may jeopardise their independence, so that these can be examined by the committee, and any other matters related with the process of conducting financial audits, as well as any other communications stipulated in the financial auditing legislation and audit regulations. In any event, it must receive written confirmation on an annual basis from the auditors or auditing firms of their independence from the Company or entities related to it either directly or indirectly, as well as information on any additional service of any kind provided to such entities and the corresponding fees received by the aforementioned auditors or by persons related to them in accordance with the provisions set forth in legislation regarding auditing.

6. Issue, once a year and prior to the release of the auditor's report on the financial statements, a report expressing an opinion on the independence of the auditors or audit firms. This report must always contain an assessment of the additional services referenced in the above paragraph, considered individually and together, that are separate from the legal audit and with regard to their independence and to audit regulations.

7. Provide previous information for the Board of Directors on all matters established by law, the articles of association and in the Regulation of the Board, and, in particular on:

   a. The financial information which the company must periodically publish;
   b. The creation or acquisition of any equity investments in special purpose vehicles and companies registered in tax havens; and
   c. Related party operations.

8. Safeguard the independence and effectiveness of the internal audit area; propose the selection, appointment, re-election and removal of the manager of the internal audit service; propose the budget for this service; receive periodic information about its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

9. Set up and oversee a mechanism that allows employees confidentially and anonymously to report any breaches of the Code of Conduct.

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

The Audit and Control Committee will meet at least once every quarter and as many times as may be necessary, after being called by the Chairperson on their own initiative or upon the request of two of the Committee or the Board of Directors.

The Audit and Control Committee may require any of the Company's employees or managers, including the Company's Accounts Auditor, to attend its meetings. Through its Chairman, the Audit and Control Committee will give the board an account of its activities and work done, either at the meetings scheduled for the purpose or at the very next meeting when the Chairman of the Audit and Control Committee deems it necessary. The minutes of its meetings will be available to any member of the board that requests them.

Non-member Directors may attend Audit and Control Committee meetings on a one-off basis, when invited by the Chairman of the Committee.

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

Name of directors with experience	MR FERNANDO LACADENA AZPEITIA
Date of appointment of the chairperson	21/07/2017

APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE

Name	Position	Category
MR JOSÉ MARÍA CANTERO MONTES-JOVELLAR	CHAIRMAN	Independent
MR STEPHEN ANDREW CHOJNACKI	MEMBER	Proprietary
MR ALFREDO FERNÁNDEZ AGRAS	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	33.33
% of independent directors	66.67
% of other external directors	0.00

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

The Appointments, Remuneration and Corporate Governance Committee shall comprise a minimum of three and maximum of six Directors and shall be exclusively non-executive directors appointed by the Board of Directors, two of whom, at least, must be Independent Directors. The Chairman of the Committee shall be chosen by the Independent Directors that comprise it. The Appointments, Remuneration and Corporate Governance Committee will have at least the following responsibilities:

1. Evaluate the competences, knowledge and experience necessary on the Board of Directors. For these purposes, it shall define the abilities and functions required by candidates to cover each vacancy, and assess the time and dedication required to correctly carry out their functions.

2. Establish a representation goal for the less represented sex on the Board of Directors and create guidelines for how to achieve said goal.

3. Pass along to the Board of Directors proposals for appointments of Independent Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for the re-election or removal of said Directors by the General Shareholders' Meeting.

4. Inform the Board of proposals for appointments of remaining Directors for their designation by co-opting or for their submission to the decision of the General Shareholders' Meeting, as well as proposals for their re-election or removal by the General Shareholders' Meeting.

5. Provide notification of proposals for appointing or removing senior management and the basic conditions of their contracts.

6. Examine or organise the Chairman of the Board's and the chief executive's succession and, if appropriate, bring proposals before the Board so that such successions are effected in an orderly fashion.

7. Propose to the Board of Directors the remuneration policy for the directors and general managers or for those who perform functions of upper management directly reporting to the Board, Executive Committee or Chief Executives, as well as the individual remuneration and other contractual conditions for the Chief Executives, ensuring compliance therewith.

8. Supervise and monitor compliance with corporate governance rules and with the corporate social responsibility policy and plan, proposing any necessary Reports to the Board.

9. Periodically evaluate the suitability of the corporate governance system, with the aim of ensuring that it fulfils its mission of promoting the company's interests.

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

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

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

	Number of female directors							
	2019		2018		2017		2016	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND CONTROL COMMITTEE	0	0.00%	1	33.00%	1	33.00%	1	20.00%
APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE	0	0.00%	0	0.00%	0	0.00%	1	16.70%

C.2.3 Indicate, as applicable, the existence of regulations governing the committees attached to the Board, where they are available for consultation and any amendments that have been made to them during the year. Also state whether any annual reports on the activities of each committee have been voluntarily prepared.

The Company Articles of Association (Articles 45 - 48), and the Regulations of the Board of Directors (Articles 23 - 26) comprehensively cover all regulations relating to the Board's Committees. The aforementioned internal regulations of the Company are available on the company website (www.nh-hotels.es), in the section "Shareholders and Investors" - "Corporate Governance". Said website also includes all information regarding the composition of each Committee. The Audit and Control Committee and the Appointments, Remuneration and Corporate Governance Committee annually issue a report on the activities they have carried out during the financial year.

D - RELATED AND IN-GROUP TRANSACTIONS

D.1 Describe, if applicable, the procedure for approval of related-party and intragroup transactions.

Articles 33.1.c) of the Articles of Association and 5.5.c) of the Board Regulations assign the Board of Directors the duty of approving related party transactions, understood to be transactions between the Company and Directors, significant shareholders or bodies represented on the Board, or people associated with them, as defined in the LSC. This approval will follow a report by the Audit and Control Committee (Article 48.4 of the Articles of Association and 25 b) of the Board Regulations).

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

1. That are carried out under agreements with standardised conditions and are applied in a general way to numerous clients;
2. That are carried out at generally established rates or prices, set by the supplier of the good or service; and
3. Operations with a quantity that does not exceed 1% of the company's annual revenues.

Additionally, on 26 March 2014 the Board of Directors approved a Procedure on Conflicts of Interest and Related Party Transactions, available on the Company's website, which includes the approval of such transactions in greater detail. In this way, the aforementioned Procedure implements the provisions of the Regulations of the Board of Directors and the Internal Code of Conduct on the Securities Market of the NH Hotel Group, S.A., and aims to detail the rules to be followed in those transactions the Group performs with Directors, with people subject to rules of conflict of interest, or with major shareholders. Said Procedure establishes in detail everything relative to i) the written communication that must be submitted by shareholders or Directors regarding transactions to be performed by them or their respective Related Parties to the Secretary of the Board of Directors, who will send it to the Audit and Control Committee periodically for its review and, if necessary, to be passed along to the Board, provided that it does not fall within the pre-established criteria of cases that do not have to be submitted to the Board; and ii) the obligation of maintaining a registry of said transactions.

Finally, to comply with Recommendation 6 of the Code of Good Governance, the Annual Audit and Control Committee Report includes a sections on Related Operations that have been managed in said Committee. This Report was published on the Company's website to coincide with the Board meeting.

D.2 List transactions which are significant for their amount or relevant due to their subject, between the company or entities in its group, and significant shareholders of the company:

Name of significant shareholder	Name of company within the group	Nature of the relationship	Type of transaction	Amount (thousand euros)
MINOR INTERNATIONAL PUBLIC COMPANY LTD	NH RALLYE PORTUGAL, LDA	CONTRACTUAL	MANAGEMENT AGREEMENT	2,749
MINOR INTERNATIONAL PUBLIC COMPANY LTD	NH RALLYE PORTUGAL, LDA	CONTRACTUAL	RENDERING OF SERVICES	590
MHG CONTINENTAL HOLDING (SINGAPORE) PTE. LTD.	NH HOTEL GROUP, S.A.	Contractual CONTRACTUAL	LICENCE AGREEMENT	2.607

D.3 List transactions which are significant for their amount or relevant due to their subject, between the company or entities in its group, and the managers or directors of the company:

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

D.4 Report on the significant transactions carried out by the company with other entities belonging to the same group, provided they are not eliminated in the process of drafting the consolidated financial statements and do not form part of the Company's normal business in relation to its purpose and conditions.

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

Name of entity within the group	Brief description of the transaction	Amount (thousand of euros)
SOTOCARIBE, S.L.	Loan	9,503

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

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

D.6 Describe the mechanisms established to detect, determine and resolve possible conflicts of interest between the Company and/or its Group, and their directors, managers or major shareholders.

Article 32 of the Regulations of the Board establishes the duty of loyalty and the duty to prevent situations of conflict of interest that the Directors must comply with. Thus, the aforementioned article states that Directors must perform their duties with the loyalty of a faithful representative, operating under good faith and in the Company's best interest. In particular, the duty of loyalty obliges Directors to:

a) Not exercise their powers for purposes other than those for which they have been conceded.

b) Keep the information, data, reports or background that they have had access to in the performance of their duty confidential, even when they have left the position, except for cases where allowed or required by the law.

c) Abstain from participating in the deliberation and voting for agreements and decisions in which they or an associate have a direct or indirect conflict of interests. Those agreements or decisions that affect their position as a Director shall be excluded from the above requirement to abstain, such as their selection or removal for positions in the administration body or others of similar significance.

d) Perform their duties under the principle of personal responsibility with freedom of criteria or judgement and independence with regard to instructions from and connections to third parties.

e) Adopt the necessary measures for avoiding situations in which his/her interests may enter into conflict with the company's interests and with his/her responsibilities to the company.

In particular, avoiding the situations of conflict of interest referred to in the above letter e), obliges the Director to abstain from:

i) Carrying out transactions with the Company, except where they were ordinary transactions carried out under standard conditions for clients and of little importance, with these being understood to be those whose information is not necessary to express the true image of the equity, financial situation and profit and loss of the company.

ii) Using the Company name or their position as director to unduly influence the completion of private transactions.

iii) Making use of company assets, including confidential Company information, for private purposes.

iv) Exploiting the Company's business opportunities.

v) Receiving benefits or remuneration from third parties other than the Company and its Group of associate companies while carrying out my duties, except where these were mere acts of courtesy.

vi) Carrying out activities on their own account, or for third parties, which would entail either actual or potential effective competition with the Company or which, in any other way, would place them in permanent conflict with the Company's interests.

The above provisions shall also be applicable in the case that the beneficiary of the prohibited acts or activities is an associate of the Director, in accordance with the definition provided in article 231 LSC.

The Company may waive the prohibitions set out in this article, as established in article 230 LSC.

In any event, directors must notify the Board of Directors of any direct or indirect situation of conflict of interest that they or their associates may have with the Company. Situations of conflict of interest involving Directors will be subject to inclusion in the Annual Report.

Additionally, on 26 March 2014 the Board of Directors approved a Procedure on Conflicts of Interest and Related Party Transactions, available on the Company's website, which includes the approval of such transactions in greater detail. In this way, the aforementioned Procedure implements the provisions of the Regulations of the Board of Directors and the Internal Code of Conduct on the Securities Market of the NH Hotel Group, S.A., and aims to detail the rules to be followed when the Company's interests or those of any of its Group's companies directly or indirectly clash with a Director's personal interests. Said Procedure establishes in detail everything relative to i) the obligation of communicating possible situations of conflict of interest to the Secretary of the Board, who will send them to the Audit and Control Committee periodically; ii) the obligation of the affected Director to abstain from attending and intervening in the phases of deliberation and voting regarding those matters in which they are involved in a conflict of interest, both in meetings of the Board of Directors as well as before any other company body, committee or board that participates in the corresponding transaction or decision, and iii) the obligation of keeping a registry of said transactions.

Finally, it should be noted that all related operations entered into between Minor International Public Company Limited (and its group of companies) and NH have been signed under market conditions and in compliance with legal, statutory and the aforementioned provisions, as well as in the Framework Agreement signed between the parties on 7 February 2019 which regulates, among others, the scope of action of the respective hotel groups headed by NH and Minor by means of preferential geographic areas or areas, the mechanisms necessary to prevent and respond to possible conflicts of interest, as well as to carry out operations with related parties and the development of business opportunities. The aforementioned Framework Agreement was duly communicated to the Market via a Relevant Fact and is published in full on the Company's website.

During all Board Meetings dealing with issues related to Minor, the Proprietary Directors were absent when dealing with said matters and therefore did not participate in the adoption of the corresponding agreement.

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

NO

E - RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the company's Risk Management and Control System, including tax compliance risk:

The risk management system of the NH Hotel Group, which is rolled out in both the Group's corporate head office and its Business Units, aims to identify events that may negatively affect achievement of the objectives of the Company's Strategic Plan, providing the maximum level of assurance to shareholders and stakeholders and protecting the group's revenue and reputation.

The risk management model is based on the integrated COSO IV ERM (Enterprise Risk Management) framework, is managed through SAP GRC and includes a set of methodologies, procedures and support tools that allow the NH Hotel Group:

1. To adopt adequate governance in relation to the Company's risk management, as well as promoting an appropriate risk management culture.
2. To ensure that the Company's defined objectives are aligned with its strategy and risk profile.
3. To identify, evaluate and prioritise the most significant risks that could affect achievement of strategic objectives To identify measures to mitigate these risks, as well as establish action plans and Key Risk Indicators based on the Company's tolerance to risk.
4. To follow-up on the action plans and the key indicators established for the main risks, within a continuous improvement model framework.
5. Periodic reporting in SAP GRC by risk managers about the status of their respective risks and, in turn, reporting to the Company's main governing bodies.

Such methodologies and procedures are also used in relation to tax risk management. The NH Hotel Group has a Corporate Tax Strategy that forms part of the Group's Corporate Governance System, the objective of which is to establish the values, principles and rules that must govern the Group's activities in terms of tax, with a Tax Risk Management and Control Procedure.

On the other hand, NH Hotel Group's Corporate Risk Management Policy (approved by the Board of Directors in 2015), as well as the internal manual that implements it, aim to define the basic principles and the general framework of action to identify and control all types of risks that may affect the companies over which the NH Hotel Group has effective control, as well as ensuring alignment with the Company's strategy.

In addition, there are a number of specific policies that complement the Corporate Risk Management Policy and that are established in relation to certain risks:

- Purchasing policy.
- Travel policy.
- Sustainability policy.
- Information security policy.
- Corporate credit policy.
- Corporate tax policy.
- Corporate gifts policy.
- Corporate committees policy.
- Anti-fraud and corruption policy.
- Money laundering and terrorist financing prevention policy.
- Corporate responsibility policy.
- Debt financing policy.
- Code of Conduct.
- Internal Code of Conduct (ICC).

The Group's Risk Map is updated annually and approved by the Board of Directors once reviewed and validated by the Audit and Control Committee. The Company updated its Risk Map in 2019 through a process in which 37 Senior Executives identified and assessed the main risks faced by the Company. The value of each risk is obtained as a result of the product of probability and impact according to a predefined scale (4x4 matrix). This Map was approved by the Board of Directors at its meeting on 25 July 2019.

For the main risks of the Risk Map, the Audit and Control Commission receives a report every six months detailing the operation of the risk management and control system and includes conclusions on it. The measurement of the key indicators is included for this, stating if they are kept within the set tolerance values or if they need to be adjusted. The implementation status of the previously agreed action plans is also included in the report.

Each of the main risks on the Company's Risk Map is assigned a Risk Owner who, in turn, is a member of the Management Committee. Each Risk Owner periodically attends the Audit and Control Committee (in accordance with an established calendar) to present the existing or ongoing mitigation measures for their risks, implementation status of the action plans and measurement of key indicators in accordance with established tolerances. During 2019, the Owners of the main risks attended the Audit and Control Committee to present their corresponding risks and made a formal validation in SAP GRC.

Each year, coinciding with the update of the Risk Map, Risk Management is responsible for reassessing the risk catalogue, both financial and non-financial. The final catalogue is validated with the Senior Executives who take part in the process, as well as with the bodies involved in its validation (Management Committee, Executive Risk Committee and Audit and Control Committee) and approval (Board of Directors). Additionally, Risk Owners can report/suggest a new risk to the Risk Office through SAP GRC during the year.

E.2 Identify the company bodies responsible for creating and implementing the Risk Management and Control System, including tax risks:

The Company's Board of Directors is responsible for overseeing the risk management system, in line with the provisions of Article 5 of the Regulation of the Board Directors.

As regulated by Section 3 of article 25 b) of the Regulation of the Company's Board of Directors, the Audit and Control Committee supports the Board of Directors in supervising the effectiveness of the internal control, internal audit and the risk management systems, including tax risks. In this regard, carried out during the various meetings held in 2019 were control and monitoring of the Company's main risks, their evolution in recent years and the main mitigation and response measures.

On the other hand, amongst other functions, the Company's Management Committee manages and controls risks based on risk tolerance, assigns ownership of the main risks, periodically monitors their evolution, identifies mitigation actions as well as defining response plans. For these purposes, the Executive Risk Committee, made up from members of the Management Committee and Senior Executives, supports the Management Committee in such oversight, as well as promoting a culture of risks in the Company. For them, the Company has an internal risk management manual that details the principles, processes and controls in place.

Risk Management, integrated into the Internal Audit department, is responsible for ensuring the risk management and control system in the Company functions properly and is linked to the strategic objectives.

To ensure that there are no conflicts of independence and that the NH risk management and control system works as set out in the Corporate Risk Management Policy, an independent third party has reviewed its operation annually for the last two years.

As an additional guarantee of independence, Risk Management is independent of the Business Units and, as with Internal Audit, it maintains a functional reporting line to the Audit and Control Committee.

In line with the above, NH follows the Three Lines of Defence model ('The three lines of defence for effective risk management and control' Position Paper issued by the Institute of Internal Auditors in January 2013).

- First line of defence: carried out by each function (business and corporate units) that owns the risk and its management (Operations, Commercial, Marketing, etc.).
- Second line of defence: performed by the functions responsible for risk supervision (Risk Management, Compliance, Data Protection, Internal Control, etc.)
- Third line of defence: carried out by Internal Audit or an independent third party according to the organisational model.

In regard to tax, the Corporate Tax Department forms part of the Finance Department and is responsible for designing, implementing and monitoring the Group's Tax Risk Management.

E.3 State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives.

The NH Hotel Group's risk catalogue includes a total of 65 risks grouped into the following six categories:

a) Financial Risks, such as fluctuation of interest rates, exchange rates, inflation, liquidity, non-compliance with financing undertakings, restrictions on financing and credit management.

b) Compliance Risks, arising from possible regulatory changes, interpretation of legislation, regulations and contracts, and non-compliance with internal and external regulations. This section would include tax, environmental, and fraud and corruption risks. It also covers Reputational Risks, arising from the Company's behaviour which negatively affects fulfilment of the expectations of one or more of its stakeholders (shareholders, customers, suppliers, employees, the environment and society in general)).

c) Business Risks generated by inadequate management of procedures and resources, whether human, material or technological. This category encompasses difficulty in adapting to changes in customer demand and needs.

d) Risks arising from External Factors, such as the consequences resulting from natural disasters, political instability or terrorist attacks.

e) Systems Risks, produced by attacks or faults in infrastructures, communications networks and applications that may affect security (physical and logical) and the integrity, availability or reliability of operational and/or financial information.

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

E.4 State whether the entity has risk tolerance levels, including for tax risk:

The NH Hotel Group's risk management model allows it to identify, evaluate and prioritise the most significant risks that could affect achievement of the Company's strategic objectives. Key Risk Indicators have been defined based on the Company's tolerance to risk so that they can be monitored. These indicators are measured quarterly using SAP GRC.

For the main risks on the Risk Map, the Audit and Control Committee receives a half-yearly report that includes the measurement of the key indicators. This report states if the indicators remain within the set tolerances or if they exceed the acceptable tolerance level in which case the Risk Owners are asked to define mitigation measures to bring the risk level to the desired tolerance level.

Additionally, each Risk Owner periodically attends the Audit and Control Committee to present, amongst other information, the results from the measurement of their key indicators in accordance with the set tolerances.

The results from the measurements of the key indicators for the Company's main risks are also presented at all the meetings held throughout the year by the Executive Risk Committee, formed from members of the Management Committee and Senior Executives. This meeting analyses the measurements and tolerances of the indicators in detail, especially those deviating from an acceptable level of risk.

The NH Hotel Group's Risk Management and Control System seeks to ensure that the Company's defined objectives are aligned with its strategy and risk profile. In the same vein, the corporate Risk Map is aligned with the Strategic Plan, the process of setting objectives and, finally, the budgeting process. To guarantee this alignment, the tolerances defined to monitor the main risks to which the Company is exposed are periodically analysed by the Risk Owners and adjusted if required. In this way, the periodic monitoring of the Company's main risks, as well as the Strategic Plan set the risk tolerance levels.

For tax matters, the Group acts in line with its Corporate Tax Strategy and the Tax Risk Management and Control Procedure. On 11 November 2015, the Group approved its adherence to the Good Tax Practices Code which was approved on 20 July 2010 in the plenary session of the Large Companies Forum.

E.5 State which risks, including tax risks, have had an impact over the year.

In relation to risks which have materialised and had a limited negative effect on the Group in 2019, it is worth noting the exposure to the exchange rate in Latin America and, especially, Argentina (depreciation of the Argentinian peso in a hyper-inflationary environment) as well as the instability in Chile in the final quarter of the year.

With the exception of that previously mentioned, no other risk materialised that had a significant negative impact on the Company's financial statements. In any event, the Company's risk management system has managed to identify, analyse and adequately deal with those risks which threaten compliance of the Company's priority objectives.

E.6 Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the board of directors responds to any new challenges that arise.

The design of the response to risk takes into account the following factors: the cost/benefit analysis between the impact of risk and the actions to be taken to manage it, the appetite and tolerance for risk and the strategic goals of the NH Hotel Group.

The Company follows an extensive coverage policy by taking out insurance policies for the risks to which it is exposed. It also has a policy of continuously reviewing this coverage.

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

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

In each of its meetings, the Executive Risk Committee's monitors the evolution of the key indicators, the degree of implementation of the Risk Map's action plans as well as new risks and challenges that could affect the company and the industry in the short, medium and long term.

The Audit and Control Committee regularly carries out the following supervisory and control functions, as specified in Article 25 b) of the Regulation of the Board of Directors:

The Tax Department oversees the Group's tax risk management. The Group has approved a Tax Risk Management and Control Procedure in order to identify and, as far as possible, mitigate any tax risk that may arise in Spain or in the countries in which the Group operates.

During 2019, the Company carried out a process to define and identify emerging risks. These risks are those that are expected to have a significant impact on the operations and, therefore, the Company's financial results in the future (long term, 3-5 years or more), although it is possible that in some cases they have already begun to impact the NH Hotel Group business.

Therefore, during the periodic risk oversight and monitoring process in the Executive Risk Committee and the Audit and Control Committee, as well as during the annual risk identification and evaluation process, the Company has the appropriate mechanisms to guarantee that emerging risks and new challenges are taken into account and responded to appropriately. The final result of this analysis is reflected in the corporate Risk Map that is submitted annually to the Board of Directors for approval.

As an additional measure, SAP GRC allows the Risk Owners to report on emerging risks or new risks that are detected at any time so that the Risk Office can analyse them and give due consideration.

Below highlights the emerging risks that the Company has already detected and on which monitoring and analysis, impact assessment and mitigation work is being carried out:

- Technological risks (cyber-attacks, information security, technological innovation)
- Risks related to social behaviour patterns (collaborative economy, changing customer preferences, demographic changes)
- Risks related to climate change (natural disasters, extreme weather events)
- Regulatory risks (data privacy/GDPR, new environmental legislation)
- The dependence on intermediaries and specifically online travel agencies (OTAs) and distributors and the sophistication of technological reservation tools are also considered emerging risks.
- Some geopolitical risks that affect the tourism sector such as terrorism, the change in the economic cycle, political instability and, to a lesser extent, Brexit.
- Some risks arising from external factors such as pandemics or strikes, both internal (hotel staff) and external (e.g. air traffic controllers)

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

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

F.1 The company's control environment

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

F.1.1 What bodies and/or areas are responsible for: (i) the existence and maintenance of an adequate and effective ICFR; (ii) their implementation, and (iii) their supervision.

Amongst others, the Board of Directors has the powers to determine the risk management and control policy as well as the internal information and control systems as stated in section 3 of article 5 of its governing rules. Likewise, the Board of Directors is responsible for a suitable and effective Internal Control System regarding the Group's Financial Information which aims to provide the Group with a reasonable assurance as to the reliability of the financial information produced and published on the financial markets.

Conversely, the Group's Finance Management is responsible for the design, implementation and proper working of the ICFR.

The Audit and Control Committee is responsible for monitoring the effectiveness of internal control in accordance with section b) of article 25 of the Board of Directors' governing rules. This responsibility is in turn delegated to Internal Audit.

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

• Departments and/or mechanisms responsible for: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout the entity.

Defining and reviewing the organisational structure of the Group is the responsibility of the Management Committee.

Significant changes to the organisation chart, i.e., those affecting Senior Management, are approved by the Board of Directors, after being proposed by the Appointments and Remuneration Committee. The organisation chart is available to all employees on both the Group's intranet.

Both the hierarchical and functional lines of responsibility are duly communicated to all Group employees. The internal communication channels are used for this, amongst which we highlight the intranet, the app for employees, the executive meetings and information boards in each hotel.

In order to fulfil the objectives and responsibilities relating to maintenance and supervision of the Financial Reporting Control process, specific functions have been defined which apply to those responsible for each process involved with Financial Reporting, in order to ensure compliance with the implemented controls, analyse how well they function, and report any changes or incidents that may occur.

On an ascending scale of responsibility, this structure includes the supervisors of each process in the area of control, the directors of each business unit and the directors of each corporate area directly concerned with the processes related to the internal Financial Reporting Control System.

Within the Corporate Finance Department, Internal Control is entrusted with receiving information from the different individuals responsible for the process and is also responsible for ensuring correct operation of the Internal Control System.

• Code of conduct, the body approving this, degree of dissemination and instruction, including principles and values, (state if there is specific mention of transaction recording and creation of financial information), a body charged with analysing breaches and proposing corrective actions and sanctions.

The NH Group has had a Code of Conduct since 2006, which was last revised in 2015. Responsibility for approving the Code of Conduct rests with the NH Group's Board of Directors. This document affects all NH Group employees, and applies not only to employees, managers and members of the Board of Directors, but also, in certain cases, to other stakeholders, such as customers, suppliers, competitors, shareholders and the communities in which NH runs its hotels.

The Code of Conduct summarises the professional conduct expected of all employees at centres operating under the Group's brands, promoting the commitment to act with integrity, honesty, respect and professionalism in the performance of their work. The NH Group is committed to complying with the laws and regulations in the countries and jurisdictions in which it operates. These include laws and regulations on health and safety, discrimination, taxation, data privacy, competition, anti-corruption, prevention of money laundering and commitment to the environment. The key areas covered by the Code are:

- Commitment to people.
- Commitment to customers.
- Commitment from suppliers.
- Commitment to competitors.
- Commitment to shareholders.
- Commitment to communities and society.
- Commitment to the Group's assets, knowledge and resources.
- Obligations regarding fraudulent or unethical practices.
- Commitment to the stock market.

Since 2014, NH Group has driven the creation of the Compliance function, the scope of which applies to the following key areas:

- Internal Code of Conduct: Sets out minimum standards to be respected in relation to the purchase and sale of securities and privileged and confidential information and its processing.

- Conflict of Interests Procedure: Establishes the rules to be followed in situations where there is a conflict of interests between the Company, or any of the companies making up the Group, and the direct or indirect personal interests of the Directors or persons subject to the conflict of interests rules.

- Code of Conduct: Intends to establish the main values and rules which should govern the conduct and actions of each of the employees and executives of the Group, as well as the members of the governing bodies of the companies that form part of the Group.

Criminal Risk Prevention Model: Describes the crime prevention and management principles in place at NH Group and defines the structure and operation of the control and monitoring bodies set up within the Company, systematising existing controls for the purpose of preventing and mitigating the risk of crimes being committed in the Company's various areas.

Compliance Committee
NH Hotel Group set up the Compliance Committee in 2014, comprising members of the Management Committee and Senior Management. It has the power oversee compliance with the Group's Internal Code of Conduct, Conflict of Interests Procedure, Code of Conduct and Criminal Risk Prevention Model.

The Compliance Committee has the power to approve decisions and impose, if necessary, disciplinary sanctions on employees in matters within their mandate.

Compliance Office
The Compliance Office is in charge of overseeing compliance with the Code of Conduct and updating, monitoring and overseeing the Criminal Risk Prevention Model. The Compliance Office reports directly to the Compliance Committee.

The Criminal Risk Prevention Model has been implemented in Spain (Business Unit and Corporate) and Italy, where training was imparted on this topic during 2018 and 2019. The percentage of those undertaking training is 75% in Spain (Central Services employees, Hotel Directors and Heads of Department) and 87% in Italy.

In 2018, the roll out of an IT tool in Spain (SAP GRC) was concluded that will help manage and audit the Criminal Risk Prevention Model. During 2019, the Crime Prevention Model was audited by the Internal Audit Department assisted by a top-tier external consultant. Additionally, during 2019, the implementation of the Model to seven other countries begun with the aim of providing the company with a more efficient model.

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

At 31 December 2019, use of the Code of Conduct through the online course is at 73%.

In regard to financial information and recording operations, a transparent information behaviour is adopted in the Group's Code of Conduct construed as the undertaking to release reliable information to the markets, both financial and of any other nature. Hence, the company's internal and external financial and economic reporting shall faithfully reflect its economic, financial and equity position in accordance with generally accepted accounting standards.

- It is additionally specified in the section on "Obligations regarding fraudulent or unethical practices" that the NH Group adopts a transparent information behaviour, understood as the undertaking to release reliable information to the markets, both financial and of any other nature. Hence, the Company's internal and external financial and economic reporting shall faithfully reflect its economic, financial and equity position in accordance with generally accepted accounting standards with the falsification, manipulation or deliberate use of false information being considered fraud.

- Individuals (amongst whom include, employees, directors, members of the Board of Directors) must transmit information in a manner that is truthful, complete and understandable. Under no circumstances may they knowingly provide incorrect, inexact or inaccurate information and must refrain from:

  - Keeping a record of transactions in non-accounting media not recorded in official books.
  - Keeping accounts which, referring to the same activity and financial year, hide or fake the company's true situation.
  - Recording expenses, income, assets or liabilities which are non-existent or not in line with reality.
  - Noting businesses, acts, transactions or, in general, financial transactions in the compulsory books, or making a note of them with figures other than the true ones.
  - Making entries in accounting books, incorrectly indicating their purpose.
  - Using false documents.
  - Deliberately destroying documents before the end of the legally-required time limit for retaining them.

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

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

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

Complaints should preferably be lodged electronically using a channel expressly set up for the purpose and available to all stakeholders (codeofconduct@nh-hotels.com), through which they are forwarded to the Internal Audit Department. In addition, they may be sent by post for the attention of the Senior Vice President of NH Hotel Group, S.A. Corporate Internal Audit Department at Santa Engracia 120, 28003 Madrid, Spain.

The Senior Vice President of the Corporate Internal Audit Department is responsible for analysing the information presented and requesting the corresponding evidence and reports. All complaints received are reported periodically to the Compliance Committee and the Audit and Control Committee, upholding the principles of confidentiality non-retaliation guaranteed in the Code of Conduct.

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

During 2019, staff from the Corporate Financial Department involved in the preparation and review of the financial information attended training programmes and knowledge update sessions on subjects such as economic forecasts and accounting and tax developments, as well as such as training courses in international taxation.

Similarly, seven members of the Corporate Administration Department and two from Internal Control obtained the "Lean Six Sigma Black Belt for the Services Industry" certification after attending eight training days; a total of 64 hours.

Finally, the Corporate Internal Audit Department, being responsible for reviewing the ICFR model, has a specific training plan that, during 2019, involved a total of 740 hours of training on risks and the reporting tool, audit and fraud prevention conferences, and other topics of interest related to the function which were given to the 10 members of the department. Also during this year, four members of the department obtained the "Certified Internal Auditor Certification",the only certificate recognized worldwide among internal audits. The other members of the internal audit are in the process of obtaining it.

On the other hand, the Corporate Financial Department, through its Internal Control Area, gave training sessions to users of the first line of defence business units, especially in Latin America within the consolidation and development process of the ICFR report.

F.2 Financial reporting risk assessment

Report, at least

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

• Whether the process exists and is documented.

The goal of the process of assessing financial risks is to establish and maintain an effective process for identifying, analysing and managing the current risks relevant to the preparation and reporting of financial information.

NH Hotel Group has:

- A Corporate Risk Management Policy approved by the Board of Directors in November 2015. This Policy is publicly available on the corporate website.
- A Corporate Risk Management Manual, approved by the Executive Risk Committee in March 2018, that develops the aforementioned policy.
- An operating procedure for the Risk Committee approved by the Executive Risk Committee in July 2017. The procedure is published in the NH intranet and accessible to all the company's employees.
- A Corporate Tax Policy approved by the Board of Directors in July 2015. This Policy is publicly available on the corporate website.
- A drafting process of the Risk Map.

The Risk Map is updated annually and Senior Executives from finance are involved during the process to identify and assess risks.

There is a formally documented matrix that includes the most important controls and risks of the Internal Control over Financial Reporting System (ICFR). This matrix is reviewed annually by Internal Audit and the external auditor who issues an opinion on the ICFR. The matrix is updated periodically through the identification of key financial risks to ensure the reasonable integrity and exactness of the financial information of the group.

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

In order to ensure the reliability of Financial Reporting, when identifying risks and controls, the accounting errors that may arise from the following objectives for financial information are always considered:

- Completeness: balances or transactions that should be recorded but are not.
- Transaction cut-off: those booked in a period other than when they were accrued.
- Accuracy: transactions recorded with errors (amounts, conditions).
- Occurrence/Existence: registered transactions which have not taken place within the reporting period.
- Valuation/Allocation: record of transactions involving incorrect sums due to inadequate valuation calculations.
- Presentation/Classification: classification errors in the various entries of the financial statements.
- Understandability: lack of quality of financial information which makes it difficult to understand for a person with reasonable economics and business knowledge.

Throughout 2019, Internal Control has continued to update the control activities in the risk matrix and ICFR controls. To do this, it has taken into account the changes that have occurred in the Group's processes and the search to better cover the associated risks, as well as the uniformity of the control activities carried out in the different business units. In this regard, a redesign of controls in human resources and tax areas has been carried out.

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

The Financial Department will consolidate the accounts every month.

This process involves reporting the consolidated income statement and balance sheet reported by each of the Administration Departments of the business units to the Corporate Finance Department.

Each year, the Administration Departments of the business units confirm to the Consolidation area, within the Corporate Financial Department, the companies that are part of their corresponding consolidation perimeters.

Additionally, throughout the year, the business units report on variations which arise in their consolidation perimeter to the Finance Department which, in turn, coordinate the modification of these in all the Group's financial reporting and consolidation systems.

On the other hand, the tax department of the Corporate Finance Department is responsible for maintaining the Group's organisational chart and periodically reporting the updated version to a distribution list of people within the Finance Department to control changes in the consolidation perimeter.

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

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

- Definition of the Financial Information Internal Control System processes and sub-processes.

Determination of the relevant risk categories and types for each of the different Internal Financial Information Control System processes defined in the point above.

Corresponding subcategories have been defined for each of these risk categories.

- Definition and analysis of controls for each specific risk and establishment of their degree of effectiveness.

A risk matrix has been established for each of the sub-processes detailed above, in which the most relevant risks for each process are defined, along with the operational controls and their effectiveness in mitigating the risks that affect them.

• The governing body within the company that supervises the process.

The company's Board of Directors is responsible for supervising the risk assessment process. To carry out the aforementioned supervision duties, the Board of Directors turns to the Audit and Control Committee, which performs this duty through Internal Audit or the external auditor depending on the nature of the risk.

F.3 Control Activities.

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

F.3.1 Procedures to review and authorise the financial report and description of the ICFR, to be published on the securities market, indicating its responsible bodies, and documentation describing the workflows and controls (including those regarding fraud risk) of the different types of transactions which can have a tangible effect on the financial accounts, including the accounting close procedure and the specific review of the relevant judgements, estimations, evaluations and projections.

There is a financial information review and authorisation procedure in the NH Hotel Group which is set out below:

- Internal reporting of financial information:

Each month, the Group's Finance Management send the Group's most significant information management to the Board of Directors for their review which contains the income statement and the main economic indicators. Prior to reporting to these governing bodies, the information undergoes a review process by the finance directors at a business unit level, a review process by Group Finance Management at a corporate level and a joint review by Group Finance Management with the finance directors of the business units.

In addition the external auditor of NH realizes limited revisions of the intermediate summarized consolidated financial statements of the Group according to NIC 34, "Intermediate Financial Information" and the audit of the consolidated annual accounts of the group according to IFRS regulation. Additionally the external auditor realized limited revisions of the consolidated financial information of the group in compliance with the International Rules of audit services 2410, "Revision of intermediate financial information realized by independent auditor of the company".

- Reporting of information to stock markets:

The consolidated accounts and the quarterly consolidated financial reports are prepared based on the information reports of the business units and, once reviewed by their respective directors, the consolidation process is undertaken by Corporate Consolidation and the information required to prepare the consolidated accounts is provided both by the Finance Department and other Corporate departments always with the review of the corresponding people responsible for it. Once the consolidated financial statements have been received, they are reviews by the Group's Finance Management and by the Audit and Control Committee before being prepared and approved by the Board of Directors (section b) of article 33 of the Parent's Articles of Association and sections 3. d) and 5. b) of Article 5 of the Board of Directors' Governing rules). Once prepared, they are published through the National Securities Market Commission.

Additionally, each quarter, the Group publishes financial information to the stock markets. Finance Management is responsible for the process of issuing such information while the Board of Directors, in accordance with section 3 of article 40 of its Governing rules, is responsible for ensuring the preparation is carried out in line with the principles, criteria and professional practices with which the Annual Accounts are produced and enjoy the same reliability. To this end, said information is reviewed by the Audit and Control Committee which, when it deems it appropriate, requires the presence of both external and internal auditors.

Likewise, the Board of Directors may request analysis of specific issues, as well as the details of particular financial transactions which, because of their importance, require greater analysis.

The Corporate Organisation Department is responsible for documenting and updating the year-end process, with the support of the Finance Department, which is published on the corporate intranet. This process includes the ICFR controls implemented to mitigate those risks identified at year-end among which are those risks related to the different review levels of the financial information generated.

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

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

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

- The first line of defence is all employees responsible for preparing and reporting the financial information reported and the effective execution of ICFR controls.
- The second line of defence is Internal Control, within the Corporate Finance Department, which is responsible for managing and updating the ICFR risk and control matrix as a tool to implement controls that mitigate the identified risks. Among its other responsibilities, it periodically reviews the self-assessment of the controls executed and reported by the first line of defence, communicating and reporting on the main area to improve.
- The third line of defence is the Corporate Internal Audit Department, which delegates the audit of the ICFR to the Audit and Control Committee. The Group's internal control model is audited annually to afford the Audit and Control Committee and Board of Directors reasonable security as to its effectiveness and, as a result, the reliability of the financial information generated and published on the stock market.

As a result of the maturity of the system of internal control of the financial information (SCIIF), fiscal year 2019 has realized the internal certification of the financial controls involving directors of the Business Units, corporate directors and members of the Management Committee of the Group.

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

-Accounting close, consolidation and financial reporting process
- Purchasing and suppliers
- Sales and customers
- Cash
- Financing
- Fixed assets
- Inter-company
- Tax
- Human resources
- Provisions and contingencies
- Loyalty programme
- Shared services centre
- Business support technological processes

The structure of the financial risk and controls matrix includes the following information:

- Organisational unit: the organisational level to which the controls are implemented and determines the scope of the assessed entities.
- Process and sub-process: set of activities related to a specific function within the operation of an organisational unit. They include those with a potential significant impact on the financial information prepared by the Group.
- Risk: the possible events or actions which could affect the capacity of the company to meet financial reporting objectives and/or implement strategies successfully.
- Description of the control: definition of the control activities included in the policies, procedures and practices applied by the Group to ensure it meets its control objectives and the risk is mitigated.
- Evidence: documentation prepared by the control's owner when executing the control in the first line of defence and that is reported to the following lines of defence to determine the control's effectiveness in mitigating the associated risks.
- Classification of the controls: preventive or detective, manual or automatic; this last one depending on whether they can be monitored using data from automated tools.
- Ownership of the controls: they belong to the first line of defence in accordance with the COSO model. They are those who execute the controls and those responsible for their self-assessment and the assessment of their design.
- Managers of the controls: within the first line of defence are the owners of the sub-processes who are responsible for overseeing the correct execution and reporting of the control activities.
- Frequency: makes reference to how often the controls are executed and reported.

To manage the internal financial information controls model, which is embodied in the update to the risk matrix and ICFR controls, the Corporate Internal Control Department carries out a series of activities, the following of which are of note:

- Planning the evaluation reporting activities for the controls by the first line of defence users.
- Evaluation of the controls' effectiveness in covering the main financial information risks.
- Communication with the first line of defence on incidents detected in relation to the lack of effectiveness of controls resulting from their reviews, and monitoring of compliance with the implemented action plans.
- Communication of incidents and monitoring compliance with the implemented action plans resulting from the annual audits carried out by the Corporate Internal Audit Department.
- Update of the ICFR risks and controls matrix based on: analysis carried out by Internal Control on the scope of the matrix in accordance with quantitative criteria such as balances of the consolidated financial statements, and qualitative criteria such as the complexity of the balances calculation and degree of automation in generating and recording economic transactions, in the main; reporting of proposals to change the design of controls by first line of defence users; communications made by the Corporate Organisation Department on modifications made to those processes that directly or indirectly have an impact on generating and/or reporting financial information.

Within the risks identified in the business cycles defined in the ICFR matrix are the risks of fraud and the controls associated with its mitigation.

Likewise, the matrix includes controls specific to the review of relevant judgements, estimates, valuations and projections whose execution mitigates the risk of reporting unreliable financial information.

Additionally, the Group has a documented procedure which collates the policies to follow in the valuation of those assets of the consolidated balance sheet which involve the making of judgements, estimates, valuations and/or projections with a material impact on the consolidated financial statements.

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

Information Security (InfoSec) within Information Systems (IT & Systems) of the NH Hotel Group has a set of security policies and procedures aimed at ensuring the integrity, availability and confidentiality of the company's operational and financial information.

NH Hotel Group has formally defined procedures that regulate changes, maintenance and developments on the systems that hold financial information. Controls are defined in these procedures to ensure that an appropriate system development methodology is followed, assessing the risks and impacts associated with the changes, as well as involving key business users and conducting sufficient and adequate testing before being placed into production.

There is a model implemented that guarantees the appropriate operation of the company's information systems. This model includes event monitoring processes, incident management procedures, guidelines regarding operational continuity (backups, disaster recovery plan, business continuity plan, etc.), as well as user management policies

Finally, this year internal audit has optimized the general IT controls to reduce them to 35 controls that hold the company's financial information.

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

The NH Hotel Group has outsourced accounting management to a company with a Shared Services Centre.

The NH Hotel Group's ICFR model includes control activities related to the year-end process and that affect those companies included within the scope of the outsourcing company and which in turn belong to the Group's consolidation perimeter.

Said control activities are executed and reported by users of the Shared Services Centre, although the NH Hotel Group is responsible for their effectiveness to reasonably mitigate the associated risks.

During 2019, the Administration function of the corporate structure of Tivoli was outsourced, and the ICFR model was extended to all outsourced financial reporting and reporting processes affecting these companies.

Additionally, NH Hotel Group's ICFR risk and control matrix has 6 sub-processes and 18 control activities relating to the handover periods of transferring the administrative function to the Shared Services Centre, the settling-in period, the provision of the service, compliance with regulations, the continuity of the service and the governance model in the outsourcing contract.

The NH Hotel Group has also obtained the ISAE 3402 "International Standard on Assurance Engagements" report from an independent third party as a guarantee that the control activities that support the service provider's control objectives operated properly during 2019.

F.4 Information and Communication.

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

F.4.1 A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organisation, as well as an up-to-date accounting policy manual distributed to the business units through which the company operates.

Through Corporate Consolidation, NH Hotel Group's Finance Management is responsible for defining, updating and correctly applying the accounting policies as well as responding to questions and queries which arise in their interpretation. In this same sense, it is charged with communicating any change which occurs in accounting matters to the heads of the business and corporate units and which affects them in the reporting of financial information.

The Group has an accounting policies manual and a consolidation manual -both published on the intranet- in accordance with the International Financial Reporting Standards (IFRS), which are those which govern the NH Hotel Group.

The Corporate Organisation Department is responsible for unifying, analysing and publishing the rules and procedures applicable in the Group, among which are the operational, administrative (including accounting), quality and regulatory procedures.

It is the responsibility of all departments within the company to periodically review their defined processes, policies and procedures so that may be audited by Internal Audit following the annual audit plan approved by the Audit and Control Committee.

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

As discussed in section F.4.1, the consolidated financial information which NH Hotel Group publishes on the stock market is in accordance with International Financial Reporting Standards (IFRS). In this sense, the information reported from the Group's business units follows these international regulations. Likewise, there is a single accounts plan applied by all the companies which are included in the consolidated group.

Grupo NH has a common consolidation tool for all companies. This tool centralises all the information corresponding to the accounting of the companies which make up the financial consolidation of the NH Hotel Group into a single system. The input of financial information from the ERP to the consolidation system is automatic for those companies already migrated to the common ERP implemented in most Group companies, or manually for those companies with a different ERP. In this sense, preventive controls have been defined in the consolidation tool itself which ensure data is input correctly.

Finance Directors of the business units report the financial information to the Corporate office monthly using two unique standard reporting packets designed by the Corporate Finance Department for reporting of the financial management information and the consolidated balance sheet.

The dumping of information from the accounts and the accounting headings to the reporting is the same for both models, having previously been approved by the Corporate Finance Department. Any change in criteria for the dumping and presentation of information to be reported is communicated from the Corporate office to the Finance Directors of the business units.

In turn, the Corporate Finance Department uses the same reporting models to prepare the management reports and annual accounts published on the stock market.

All this ensures that the information reported between business units is comparable as well as being homogeneous to be included in the Group's consolidated financial reporting.

At an internal control level, the area responsible for managing the ICFR model pursues the homogenisation of the processes in all the Group's business units so that the risk and control matrix is the same.

Additionally, the self-assessment report and assessment of the controls' design through SAP GRC allows a single reporting model for all business units. Likewise, this method allows reporting evidence of the control activities according to the latest version of the controls recorded in the system.

F.5 Supervision of the system.

Describe at least the following:

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

Supervisory activities of the Audit Committee

The Audit and Control Committee is the advisory body to which the Board of Directors has delegated its supervisory functions to update and supervise the ICFR. As part of this function and to fulfil the tasks delegated by the Board, the Committee receives and reviews the financial reports which the NH Group issues to the markets and regulatory bodies, particularly

the consolidated annual financial statements accompanied by the Audit Report. The Committee supervises the preparation process and the completeness of the financial reports of the Company and its subsidiaries, and checks that the legal requirements applicable to the NH Group are complied with, the consolidation perimeter is appropriate and that generally accepted accounting standards are applied correctly.

The Audit and Control Committee receives an annual report from the Internal Audit SVP on its assessment of the effectiveness of the ICFR model, the weaknesses detected during internal audits, and the plans or actions already in place to remedy any detected weaknesses.

The Audit and Control Committee supports and supervises the work of the Internal Audit department in its assessment of the ICFR. The Committee proposes the selection, appointment and replacement of the body or person responsible for Internal Audit services, validates and approves the strategy, the Internal Audit annual plan and objectives for the year, and is responsible for evaluating the performance of the Internal Audit Department Manager annually.

The Internal Audit Plan for assessing the ICFR is presented to the Audit and Control Committee or its Chairman for approval before it is put into practice, in order to include all the opportune considerations.

The level of implementation of the relevant recommendations arising from the ICFR is reviewed by the Audit and Control Committee at least once a year.

Internal Audit Function

Internal audits are carried out by the Group's Internal Audit Department, which reports functionally to the Audit and Control Committee and administratively to the General Secretariat. This hierarchical structure is designed to guarantee the independence of the internal audit function to encourage direct communication to and from the Audit and Control Committee.

The Internal Audit function, via a team consisting of 10 auditors located in both Corporate and the business units, ensures, within reason, the effectiveness of the internal control system, supervising and evaluating the design and effectiveness of the risk management system applied to the company, including specific IT audits.

This function has internal auditing statutes which were updated in 2017 and have been formally approved by the Audit and Control Committee, and an internal audit manual which sets out the Department's working methods.

In relation to monitoring the ICFR, the Internal Audit Department is responsible for:

- Independently evaluating the internal control model for financial reporting.
- Testing the assertions of the Board.
- Testing the effectiveness of internal controls in the companies within the scope of application.
- Helping to identify weaknesses in controls and reviewing action plans to correct inadequate controls.
- Carry out follow-up work to see if the action plans to mitigate weaknesses in controls have been properly implemented.
- Coordinating between the Board and the external auditor when clarification is needed on scope and testing plans.

Scope of ICFR 2019

The NH Hotel Group's ICFR is implemented and consolidated in all its business units. In 2019, the model was extended to companies in the Tivoli hotel portfolio, reporting within the Southern Europe business unit. Therefore, when there is any change in the Group's portfolio, it is integrated into the model's organisational structure.

This implies the scope of all NH turnover, with a portfolio of 307 hotels and 13 business cycles with great significance in the submission of financial reports.

During fiscal year 2019 the number of control activities has been optimized to a total of 290, divided between financial report and IT systems as a consequence of eliminating non key controls and optimizations automatic controls GITC. For each of them control responsibles have been defined at corporate level, Business Unit and Shared Service Centre.

F.5.2 If there is a procedure by which the account auditor (m accordance with the contents of the Normas Tecnicas de Auditoria (NTA) - "Auditing Standards"), internal auditor and other experts may communicate with senior management and the audit committee or senior managers of the company regarding significant weakness in internal control identified during the review of the annual accounts or any others they have been assigned. Likewise, whether there is an action plan to correct or mitigate the weaknesses found.

The Audit and Control Committee meets at least quarterly to review the periodic financial reports. It also discusses matters relating to internal controls and/or other current initiatives.

The Financial Department, through the Chief Financial Officer, is responsible for notifying senior management of any important matter relating to the ICFR and/or financial reporting through the meetings of the Management Committee.

All the weaknesses detected by the Internal Audit Department during its work are subject to recommendations and action plans agreed with the audited department. The Internal Audit Department supervises the implementation of the agreed actions and reports their status to the NH Group's various governing bodies (mainly the Audit and Control Committee).

The external auditor notifies the Audit and Control Committee of the conclusions of its audit procedures, and any other matters which may be considered important. The external auditor also has access to the Audit and Control Committee in order to share, comment on or report any aspects they consider necessary or pertinent, including without the presence of the Company's Management. The external auditor, without breaching his/her independence, will participate in the dialogue with Management.

F.6 Other relevant information

None.

F.7 Report by the external auditor.

Report from:

F.7.1 Whether the ICFR reports sent to the markets have been reviewed by the external auditor, in which case the company must include the corresponding report as an appendix. If not, it must report its reasons.

The scope of the auditor's review procedures have been carried out in accordance with Circular E14/2013 of 19 July 2013 from the Spanish Institute of Chartered Accountants, whereby the published Guidelines for Action and auditor's report model referred to the information related to the internal control system of the financial information of the listed companies which is attached as an annex.

G - DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the Company's degree of compliance with the recommendations of the Code of Good Governance for listed companies.
In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company's actions. General explanations are not be acceptable.

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

   Complies

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

   a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.
   b) The mechanisms in place to resolve any conflicts of interest that may arise.

   Complies

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

   a) Changes that have occurred since the last General Shareholders' Meeting.
   b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.

   Complies

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

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

   Complies

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

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

   Complies

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

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

   Complies

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

   Complies

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

   Complies

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

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

   Complies

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

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

    Not applicable

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

    Not applicable

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

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

    Complies

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

    Complies

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

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

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

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

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

    Complies

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

    Complies

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

    This criterion may be relaxed:

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

    Complies

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

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

    Complies

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

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

    Complies

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

    Not applicable

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

    Complies

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

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

    Complies

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

    If a director is indicted or sent for trial for any of the offences provided for in company law, the board of directors shall examine the case as soon as possible and, based on the specific circumstances, decide whether the director should continue in their post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

    Complies

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

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

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

    Complies

24. When, due to resignation or for other reasons, a director vacates their post before the end of their term, they explain the reasons in a letter sent to every member of the board of directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

    Complies

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

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

    Complies

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

    Complies

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

    Complies

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

    Complies

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

    Complies

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

    Complies

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

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

    Complies

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

    Complies

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

    Complies

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

Not applicable

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

Complies

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

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

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

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

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

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

Complies

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Not applicable

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Not applicable

39. That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies

40. Under supervision of the audit committee, there is a unit that carries out the internal audit function, tasked with ensuring the proper functioning of the information and internal control systems and that functionally comes under the non-executive chairman of the board or of the audit committee.

Complies

41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies

42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:

a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.
b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re-election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

2. With regard to the external auditor:

a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.
b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.
c) Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.
d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.
e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.

Complies

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies

45. That the risk management and control policy identify, as a minimum:

a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off balance sheet risks.
b) Fixing of the level of risk the company considers acceptable.
c) Means identified in order to minimise identified risks in the event they transpire.
d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.

Complies

46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.
b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.
c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.

Complies

47. The members of the appointments and remuneration committee (or the appointments committee and remuneration committee, if they are separate) are appointed endeavouring to ensure that they have suitable knowledge, skills and experience for the functions that they are called to perform and that the majority of such members are independent directors.

Complies

48. That high market capitalisation companies have formed separate appointments and remuneration committees.

Not applicable

49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.

Complies

50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

a) Propose basic conditions of employment for senior management.
b) Verify compliance with company remuneration policy.
c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.
d) Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.
e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies

51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies

52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:

a) That they are comprised exclusively of non-executive directors, with a majority of them independent.
b) That their chairmen be independent directors.
c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.
d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.
e) That their meetings be recorded and the minutes be made available to all directors.

Not applicable

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:

a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.
b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.
c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.
d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.
e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.
f) Supervision and evaluation of the way relations with various stakeholders are handled.
g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.
h) Coordination of the process of reporting on diversity and reporting non- financial information in accordance with applicable rules and international benchmarks.

Complies

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:

a) The objectives of the corporate social responsibility policy and the development of tools to support it.
b) Corporate strategy related to sustainability, the natural environment and social issues.
c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.
d) Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.
e) Means of supervising non-financial risk, ethics, and business conduct.
f) Communication channels, participation and dialogue with stakeholders.
g) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgement of non-executive directors.

Complies

57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Complies

58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.

And, in particular, that variable remuneration components:

a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.
b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.
c) They are configured on the basis of a balance between the achievement of short, medium and long term objectives, which allows the output for continuous performance to be remunerated over a sufficient period of time to appreciate their contribution to sustainable value creation, so that the measurement elements of that performance do not solely revolve around specific, occasional or extraordinary events.

Partially complies

The Company's executive short-term variable remuneration has ten per cent linked to the professional performance of both Executive Directors, i.e. their performance assessment. The eight competences measured in this performance assessment are non-financial and are linked to predetermined and measurable performance criteria, as is recommended.

In relation to long-term variable remuneration, although it does not include non-financial criteria as a measure of achievement, it does include a "clawback" clause with an application period of two years from the end of each cycle and for which the payback of the award may be demanded in the following cases:

i. Restatement of the Company's financial statements wherever not due to the modification of applicable accounting standards or interpretations.
ii. Any of the Executive Directors being sanctioned for serious breach of the code of conduct and other internal regulations which may be applicable.
iii. When the settlement and payment of the award was wholly or partially produced on the basis of information whose falsehood or serious inaccuracy is manifestly demonstrated a posteriori.

59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

Partially complies

There is no deferral scheme in the Company's current annual variable remuneration system for any of its participants. With long-term variable remuneration, its very nature allows the Company's performance to be seen in the medium and long term (3 years), in addition to ex post control instruments which would be activated when circumstances arise which make it evident that the payment was made on an erroneous premise.

60. That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.

Complies

61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.

Complies

62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.

The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Explain

The "Performance Shares Plan 2017-2022" establishes the obligation to retain the shares delivered to the Executive Directors for at least one year. In addition, the Executive Directors will be obliged to hold an amount in shares equivalent to at least one year of fixed remuneration throughout their entire tenure. To determine compliance with this obligation, it considers the share price on the day they were delivered.

63. Contractual agreements include a clause that allows the company to claim repayment of the variable components of remuneration where the payment has not been adjusted to the terms for performance or where they were paid in the light of data which is later proven to be inaccurate.

Complies

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

Explain

In no event will the Executive Director appointed in 2017, Ramón Aragonés Marín, and the Executive Director appointed in 2019, Beatriz Puente Ferreras, be entitled to receive any compensation derived from the termination of their position and ending of such commercial relationship. However, the possible indemnities derived from an ending of the employment relationship will continue in effect during their terms as Executive Directors, recognising that period as time employed. Once ended, as appropriate, the business relationship will take over the labour relationship which was in effect between company and employee until the taking on of the new position in all its effects, except in serious and culpable breach and thus declared jurisdictionally.

With regard to the amounts linked to the leave of the previous Chief Executive Officer in 2016 and having provisioned its maximum amounts, during fiscal year 2019 the dispute has been resolved definitively by an amount below the provisioned amount.

H - OTHER RELEVANT INFORMATION

1. If there are any aspects relating to the corporate governance of the Company or the Group's entities which have not been covered in the other sections of this report, but which are necessary to include in order to gather complete and detailed information on the structure and practices of the governance of the entity or the Group, please note them briefly.

2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In that case, indicate the code in question and the date it was subscribed to. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July 2010.

1. RELEVANT CORPORATE GOVERNANCE ASPECTS THAT HAVE NOT BEEN INCLUDED IN THE OTHER SECTIONS: SECTION A.3.:

SECTION A.3
The following is a breakdown of the number of shares directly held by each Board member listed in the reference section:
Mr Alfredo Fernández Agras holds 150,000 shares
Mr Ramón Aragonés Marín directly holds 46,156 shares. Additionally, Mr Aragonés holds a total of 227,714 Performance Shares that may be executed as long as the stated objectives are met.
Ms Beatriz Puente Ferreras holds a total of 28,835 direct shares. She additionally holds a total of 110,849 Performance Shares that may be executed as long as the stated objectives are met.

SECTION A.5
In regard to the commercial or contractual relations between Minor IPC and the Company and/or its group, refer to section D, Related Transactions.

SECTION A.6
The following details the positions that Proprietary Directors who represent to the shareholder Minor IPC hold in companies belonging to its group and that for technical reasons could not be broken down in the reference section.

In view of the foregoing, it is reported that Mr Chojnacki is a Director of the following companies in the Minor IPC group:

Anantara Vacation Club (HK) Limited
Anantara Vacation Club (Cambodia) Co., Ltd.
Anantara (Shangai) Tourism Consulting Co, Ltd.
Avadina Hills Co., Ltd.
Avani Lesotho (Pty) Ltd
Baan Boran Chiangrai Limited
Barbaron Beach Hotel MHG Limited
Chicken Time Company Ltd.
Coco Palm Hotel & Resort Co., Ltd
Corbin & King Limited
Delicious Food Holding (Singapore) Pte. Ltd.
H & A Park Co., Ltd.
Harbour View Corporation
HHarbour View Corporation
Hoi An River Park Company Limited
Hua hin Village Limited
Huahin Resort Limited
Jada Resort and Spa (Private) Limited
Kulutara Luxury Hotel (Private) Limited
Layan Bang Tao Development Co., Ltd.
Layan Hill Residence Co., Ltd.
Letsatsi Casino (Pty) Ltd
Liwa Minor Food & Beverages LLC
MFG International Holding (Singapore) Pte. Ltd.
MHG Australia Holding Pte. Ltd.
MHG Australia Investment PYT Ltd.
MHG Continental Holding (Singapore) Pte. Ltd.
MHG Desaru Hotel SDN. BHD.
MHG Desaru Villas SDN. BHD.
MHG Holding Limited
MHG International Holding (Singapore) Pte. Ltd.
MHG IP Holding (Singapore) Pte. Ltd
MHG Lesotho (Pty) Ltd
MHG Management Tunisia
MHG Npark Development Co., Ltd
MHG Perth Investments PTY LTD
MI Squared Limited
Minor Corporation Pcl.
Minor Development Limited
Minor DKL Food Group Pty Ltd
Minor DKL Management Pty Ltd
Minor Food Group (Singapore) Pte. Ltd.
Minor Food Holding Co., Ltd
Minor Hotel Group Gaborone (Pty) Ltd

Minor Hotel Group Limited
Minor Hotel Group Management (Shanghai) Limited
Minor Hotel Group MEA DMCC
Minor Hotel Group South Africa Pty Ltd
Minor Hotel Portugal
Minor Lifestyle Limited
Mspa International Cairo
Mspa International Limited
Navasri Manufacturing Limited
NYE and RGP Development Co., Ltd
Oaks Hotel & Resort Limited
PH Resort (Private) Limited
Plexus Maldives Pvt. Ltd.
PT Wika Realty Minor Development
Rajadamri Lodging Limited
Rajadamri Residence Co., Ltd
Rani Minor Holding II Limited
Ribs and Rumps Operating Company Pty Ltd
Samui Resort & Spa Limited
Sands Hotels (Pty) Ltd
Seredib Hotel Pcl
Sizzler China Limited
Tanzania Tourism & Hospitality Investments Limited
TCC Operations Pty Ltd
The Coffee Club Franchising Company Pty Ltd
The Good Life Global Ltd.
The Minor Good Group Pcl
The Sothea (K.V.) Pte. Ltd.
Zanzibar Tourism & Hospitality Investments Limited

Mr Heinecke holds the following positions in Minor IPC group companies:

Pacific Cross International Limited (Consejero)
Minor Holdings (Thai) Limited (Consejero)
Plu Luang Limited (Presidente Consejo)
Sri Bhathana Garden Limited (Consejero)
Minor BKH Limited (Presidente Consejo)
G5 Jets Limited (Consejero)
MD JETS Limited (Consejero)
MJETS Limited (Consejero)
MJETS Maintenance Limited (Consejero)
Phuket Vessel Holding Limited (Consejero)
Bravo Jets Limited (Consejero)
Western - Mjets Limited (Consejero)
Minor Food Group (Singapore) Pte., Ltd (Consejero)
Minor DKL Food Group Pty.Ltd (Consejero)
Benihana Asia Pte.Ltd (Consejero)
Benihana Holding Pte. Ltd (Consejero)
Benihana UK Limited (Consejero)
Chao Phaya Resort & Residence Limited (Presidente del Consejo)
Rajadamri Residence Limited (Presidente del Consejo)
Zuma Bangkok Limited (Consejero)
Panaram Limited (Consejero)
Chao Phaya Resort Limited (Consejero)
Maerim Terrace Resort Limited (Presidente del Consejo)
Arabian Spas (Dubai) (LLC)(Consejero)
MSpa Ventures Limited (Presidente del Consejo)
Eutopia Holdings Private Limited (Consejero)
Harbour View Corporation (Consejero)
Jada Resort and Spa (Private) Limited (Consejero)
Tanzania Tourism and Hospitality Investment Limited (Consejero)
Zanzibar Tourism and Hospitality Investment Limited (Consejero)
O Plus E Holdings Private Limited (Consejero)
PH Resorts (Private) Limited (Consejero)
Per Aquum Management JLT (Consejero)
Sea Fly Limited (Consejero)
MHG Desaru Hotel SDN.BHD (Consejero)
MHG Desaru Villas SDN.BHD (Consejero)
R.G.E. (HKG) Limited (Presidente del Consejo)
Plexus Maldives Pvt Ltd (Consejero)
CARDAMON Tented Camp Co.,Ltd.(Consejero)
Corbin & King Limited (Consejero)

Mr Dillipraj Rajakarier is a Director of the following Minor IPC group companies:

Minor Hotel Group Limited
Samui Beach Residence Limited
Samui Beach Club Owner Limited
Coco Residence Limited
Coco Recreation Limited

Chao Phaya Resort and Residence Limited
M Spa International Limited
Hua Hin Resort Limited
Hua Hin Village Limited
Baan Boran Chiangrai Limited
Samui Resort and Spa Limited
Coco Palm Hotel & Resort Limited
MHG Phuket Limited
MI Squared Limited
Phuket Beach Club Owner Limited
Rajadamri Lodging Limited
Rajadamri Residence Limited
Zuma Bangkok Limited
Chao Phaya Resort Limited
Maerim Terrace Resort Limited
MHG Holding Limited
MHG Npark Development Company Limited
NYE and RGP Development Co.,Ltd.
Avadina Hills Co., Ltd.
Layan Hill Residence Co., Ltd.
Layan Bang Tao Development Co., Ltd.
H&A Park Co.,Ltd.
Arabian Spas (Dubai) (LLC)
Hoi An River Park Company Limited
Anantara Vacation Club (HK) Limited
Anantara Vacation Club (Cambodia) Co.,Ltd.
Sanya Anantara Real Estate Limited
Minor Hotel Management (Shanghai) Limited
MSpa Ventures Limited
Oaks Hotels & Resorts Limited
Eutopia Holdings Private Limited
Harbour View Corporation Limited
Jada Resort and Spa (Private) Limited
Kalutara Luxury Hotel & Resort (Private) Limited
Tanzania Tourism and Hospitality Investment Ltd
Zanzibar Tourism and Hospitality Investment Ltd.
O Plus E Holdings Private Ltd.
Rani Minor Holding Limited
The Sothea (K.V.) Pte Ltd.
PH Resorts (Private) Ltd.
Per Aquum Management JLT
Rani Minor Holding II Limited
Minor Hotel Group South Africa (PTY) Limited
Minor Hotel Group MEA DMCC
MHG Desaru Hotel Sdn. Bhd.
MHG Desaru Villas Sdn. Bhd.
M SPA International Cairo LLM
PT Wika Realty Minor Development
Minor Hotels Zambia Limited
Avani Lesotho (Pty) Ltd
MHG Lesotho (Pty) Ltd
Minor Hotel Group Gaborone (Pty) Ltd
R.G.E. (HKG) Limited
Plexus Maldives Pvt. Ltd
MHG Management Tunisia
Corbin & King Limited
(Formerly known as Minor C&K Limited)
Barbarons Beach Hotel MHG
Letsatsi Casino (Pty) Limited
Sands Hotels (Pty) Limited
MHG Australia Investments Pty Ltd
Verita MHG Company Ltd
Anantara /Shangai) Tourism Consulting Co, Ltd
GHA Holding Ltd
Minor Hotels Portugal, S.A.
MINT Residential (VIC) Pty Ltd.
Chicken Time Co, Ltd.

Mr Kosin Chantikul is a Director of the following companies belonging to the group Minor IPC Ltd:

MHG (India) Private Ltd
Bodhi Hotel&Resort Put Ltd
MHG Desaru Hotel Sdn Bhd
MHG Desaru Villas Sdn Bhd
Avadina Hills Co, Ltd
Corbin & King Ltd
M&S REalty Co Ltd.

Lastly, on 17 January 2020, Mr Aragonés and Ms Puente were appointed members of the Minor IPC Strategic Committee. This appointment falls within the purpose of both Companies to apply unit management criteria in accordance with the provisions of the Framework Agreement signed between NH Hotel Group and Minor IPC on 7 February 2019 and whose full text is available on the Company's website..

SECTION C.1.11
Other than the positions stated in the reference section, Mr Heinecke also holds the following:
- Executive Management Committee Chairman of Minor International Public Company Limited
- Chairman of the Appointments, Remuneration and Corporate Governance Committee of Indorama Ventures Public Company Limited.

SECTION D.2
The related transactions described have been signed due to the transaction signed between a Minor´s subsidiary and NH Rallye Portugal (100% belonging to NH Hotel Group, S.A.)in order to manage 9 hotels in Portugal and advise the operation of 2 hotels in Brasil. The transaction has been duly informed to the Market on 1 nad 30 july 2019.

The first of the mentioned transaction makes reference to the management fess obtained by NH Hotel Rallye Portugal during fiscal year 2019.

The second transaction refers to the Transitional Service Agreement, by virtue of which NH Hotel Rallye pais certain amounts to Minor´s subsidiary in order to guarranty a ordenly transition of the management of the aforementioned hotels.

Finally the last described transaction (under D2) refers to the Brand fee paid due to the Brand Licence agreement by means of which each party licenses to the other party the use of its corresponding commercial brands in the geographical areas where the other party operates. The licence agreement ahs been duly informed to the Market on 7th February 2019.

According to what has been described under sections D1 and D& all related party transactions have been done in compliance with applicable laws and internal regulations, guarantying full transparency and avoiding any conflict of interest.

2. CODES OF ETHICAL PRINCIPLES AND GOOD PRACTICES

NH Hotel Group, S.A. it is a member of the United Nations Global Compact and supports and contributes to the Sustainable Development Goals (SDGs) that contemplate the protection and promotion of fundamental human rights.

Another global frame of reference for NH is the Global Code of Ethics for Tourism, approved in 1999 by the United Nations World Tourism Organization (UNWTO) Assembly. It is a set of 10 principles designed to guide the main tourism development actors, helping to maximise the benefits of the sector, while minimising its impact on the environment, cultural heritage and local communities.

In this vein, in September 2012, NH joined ECPAT (End Child Prostitution, Child Pornography and Trafficking of Children for Sexual Purposes) to protect children against sexual exploitation in tourism; also promoted by UNWTO and UNICEF.

NH is part of the International Tourism Partnership (ITP), a global platform for leading companies in the hotel sector that share a common commitment to social responsibility and sustainability. This organisation establishes four main goals, among which is the protection and promotion of human rights, a target that NH endorses and supports.

In 2018, the 16 NH hotels in Mexico initiated a process to voluntarily adhere to the National Code of Conduct for the protection of children and adolescents in the travel and tourism sector that aims to prevent and combat it with special emphasis on child exploitation. It is promoted by the Secretariat of Tourism of the Government of the Republic (SECTUR). In addition, training will be offered to employees in the prevention of human trafficking and child exploitation.

The Company participates in various forums and projects to promote the fight against climate change and the reduction of carbon emissions.

Finally, since 2015, NH has adhered to the 20 July 2010 Code of Good Tax Practices.

This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on:

25/02/2020

State whether any directors voted against or abstained from voting on this report.

NO

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

Corresponding to the 2019 financial year

1. Introducción

The Audit and Control Committee of NH Hotel Group, S.A. ("NH") issues this report on the operation of the Committee and compliance with its goals during the year 2019 (hereinafter the "Report").

The object of the Report is to give an account of the activity carried out by this Committee to the Board of Directors in accordance with the provisions of Recommendation 6 of the Code of Good Governance for Listed Companies, approved by a Resolution of the Board of the CNMV dated February 18th, 2015.

The composition, competences and operation of the Audit and Control Committee are regulated in article 48 of the Company's Bylaws and article 25 of the Board Regulations.

2. Composition of the Audit and Control Committee

As of December 31st, 2019, the Audit and Control Committee was made up of 3 members, together with the Secretary who is not a member.

The composition of the Audit and Control Committee as of December 31st, 2019 is as follows:

Chairman:
Mr Fernando Lacadena Azpeitia (Independent)

Members:
Mr. José Maria Cantero de Montes-Jovellar (Independent)
Mr. Stephen Andrew Chojnacki (Proprietary)

Secretary:
Mr. Carlos Ulecia Palacios

The provisions of the applicable regulations are met, which require that the Audit and Control Committee be made up of a minimum of three and a maximum of six Directors appointed by the Board of Directors and that all the members of this Committee should be External Directors, at least a majority of whom must be Independent Directors, and one of them will be appointed taking into account his/her knowledge and experience in the field of accounting, auditing or both.

The Chairman of the Audit and Control Committee is to be appointed out of the Independent Directors who form part of the Committee and should be replaced every four years, and may be re-elected after one year has elapsed since being replaced.

3. Competences

The principal function of the Audit and Control Committee is to provide support to the Board of Directors in its supervision and control functions, the most important manifestation of which is the duty to assure the effectiveness of the Company's internal control and supervise the process of drawing up and presenting regulatory financial information.

The Audit and Control Committee is assigned at least the following competences:

1. Report to the General Meeting on matters raised within its sphere of competence.
2. Supervise the efficacy of the Company's internal control, internal audit, as the case may be, and the risk management systems, including tax risks, and discuss with the accounts auditors or audit firms any significant weaknesses in the internal control system that may have been detected in the course of the audit.
3. Supervise the process of drawing up and presenting regulatory financial information.
4. Make proposals to the Board of Directors for the selection, appointment, re-election and replacement of the external auditor, as well as the contract conditions, and obtain information regularly from the external auditor concerning the audit plan and its execution, as well as preserving its independence in exercising its functions.

5. Establish the pertinent relations with the accounts auditors or audit firms in order to receive information on any matters that may put their independence at risk, so that they can be examined by the Committee, and any other matters related to the audit process, and other communications established in auditing legislation and auditing standards. In any case, it must receive written confirmation each year from the accounts auditors or audit firms of their independence in relation to the Company or companies related to it directly or indirectly, as well as information on any additional services of any kind provided to and the corresponding fees received from such companies by the aforesaid auditors or companies, or by persons or entities related to them in accordance with the provisions of legislation on auditing.

6. Issue each year, prior to the issue of the report of the auditors, a report in which an opinion will be expressed on the independence of the auditors or audit firms. This report must, in any case, contain a valuation of the additional services provided, other than statutory audit, as referred to in the preceding section, individually considered and regarded as a whole, in relation to the regime of independence or to auditing legislation.

7. Report, in advance, to the Board of Directors on all matters established by law, the Company's Bylaws and the Board Regulations, and in particular, on:

   a. the financial information the company is required to publish periodically,
   b. the creation or acquisition of shareholdings in entities with a special purpose or domiciled in countries or territories classified as tax havens and
   c. related-party operations.

8. Ensure the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and removal of the person responsible for the internal audit service; propose the budget for this service, receive regular information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

9. Establish and supervise a mechanism to allow employees to report confidentially and anonymously any breaches of the Code of Conduct.

10. Supervise compliance with internal codes of conduct and rules of corporate governance.

4. Operation

The Audit and Control Committee will meet at least once a quarter, and as often as is appropriate, on being convened by its Chairman, on his/her own decision or in response to the request of two of its members or of the Board of Directors.

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

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

The Audit and Control Committee met 8 times in 2019.

Furthermore, Board members who are not members of the Committee and executives of NH may attend the meetings of the Audit and Control Committee, at the Chairman's invitation.

5. 5. Relations with External Auditors

NH Hotel Group, S.A. has been audited since fiscal year 1986 by prestigiouse audit companies. During the period 1986-1992 the company was audited by Peat Marwick and between 1993-2001 by Arthur Andersen. Since 2002 and until fiscal year 2018 the Audit has been realized by Deloitte. The General Sharehodlers meeting helt on 13th Mai 2019 approved, among others, the appointment of PricewaterhouseCoopers Auditores, S.L. as new auditor of the Company and its grouo companies for fiscal year 2019. The appointment has been done in compliance with Regulation (UE) No 537/2014 European Parliament of 16th april 2014 regarding requirements for legal audits of companies. The Audit and Control Audit has submitted submitted ition to the Board following article 16.5 of the referred Regulation.

During fiscal years 2019 and 2018, the remunerations regarding audit services and other services rendered to NH Hotel Group, as well as related companies are the following:

	Thousend Euros	
	2019	**2018**
Audit services	545	944
Other verification services	138	223
Total Audit and related servicios	**683**	**1.167**
Tax advice services	-	260
Other services	23	29
Total other servicios	**23**	**286**
Total servicios	**706**	**1.456**

Adicionalmente, entidades vinculadas a la red internacional del auditor de las cuentas anuales consolidadas han facturado al Grupo los siguientes servicios:

	Thousend Euros	
	2019	2018
Audit services	1031	1525
Other verification services	152	28
Total Audit and related services	**1183**	**1553**
Tax advice services	274	81
Other services	1	-
Total other services	**275**	**81**
Total	**1458**	**1634**

6. Content and results of the work of the Audit Committee in 2019

The Audit Committee held 8 meetings in 2019 at which it dealt with the following matters:

a) Analysis and evaluation, in conjunction with the external auditors, of the Financial Statements and Annual Report for the year 2018, checking that their audit opinion has been issued under conditions of absolute independence.

b) Review of information on matters that could jeopardize the auditors' independence. Issue of the Report on the auditors' independence.

c) Review of periodic financial information for 2018 prior to its analysis and approval by the Board of Directors to ensure that it is reliable, transparent and has been prepared by applying uniform accounting principles and policies.

d) Approval of the External Auditor's fees for the 2019 Audit.

e) Supervision of the Internal Audit strategic plan.

f) Monitoring of the Internal Audit Plan for 2019, examining its conclusions and implementing any necessary corrective measures.

g) Monitoring of the most significant projects carried out by the Internal Audit team.

h) Supervision of the Update of the Group's Risk Map and monitoring.

i) Supervision of risks relating to the System of Internal Controls over Financial Reporting (ICFR).

j) Examination of the Annual Corporate Governance Report, prior to sending it to the Board of Directors for study and approval, with special emphasis on the analysis of the register of situations of directors and executives (membership of other Management bodies, involvement in legal proceedings, related-party transactions, etc.).

k) Analysis of (i) the Company's tax organization, (ii) how the tax policy is determined and (iii) certain corporate restructuring operations.

7. Analysis of related-party operations

In 2019 the Audit and Control Committee has analysed the following related-party operations:

a) Framework Agreement signed on February 7th, 2019 between NH Hotel Group, S.A. ("NH") and Minor International Public Company Limited ("Minor"), establishing a transparent framework for relations between NH and Minor (and its group companies) in which, following best practice in corporate governance and in particular, the Second Recommendation of the Code of Good Governance for Listed Companies:

   i) The scope of the activity of the respective hotel groups headed by NH and Minor, respectively, is limited by identifying preferential geographical zones;

   ii) The necessary mechanisms are regulated to prevent and respond to possible conflicts of interest, and also to govern operations with related parties and the development of business opportunities; and

   iii) Commitments are established concerning the exchange and provision of information by NH and the processing of such information.

   The full text of the Agreement was published on the Company's corporate website (www.nh-hotels.com), after it had been reported to the Markets.

b) In the context of the above, the parties signed a reciprocal trademark license agreement, whereby both parties have licensed the use of their respective trademarks in the geographical areas where the other party operates. This Agreement was also reported to the Markets through a Notice of Relevant Event dated February 7th, 2019.

c) Hotel Service Agreement signed by NH Brasil and a subsidiary of Minor on February 7th, 2019 to advise on the management of its two hotels in Brazil .

d) Agreement whereby Minor has sold to Invesco Real Estate ("Invesco") three hotels located in Lisbon which simultaneously became operated by NH by virtue of a sustainable long-term lease agreement with the new owners. At the same time, NH and Minor reached an agreement to operate, on a management basis, nine more hotels of the latter in Portugal. The transactions was duly reported to the Markets through the corresponding Notices of Relevant Event dated July 1st and 30th, 2019.

e) Data Transfer Agreement between NH and companies belonging to the Minor group for the purpose of regulating personal data interactions between the two parties.

The suscription of all Related Party Transctions haven been realized in strict compliance with the rules established by the Company both in its Bylaws and the Board Regulations, as well as in the Procedure for Related-Party Operations and Conflicts of Interest, approved by the Board of Directors on 26 March 2014. All transcations signed with Minor (and/or its group companies) have had the previous favorable report of the Audit and Control Committee, have been signed upon market condition and with the involvement of external advisors and in compliance with the Framework Agreement signed between the parties the 7th February 2019, that regulates, among others, the scope of action of the respective hotel groups of NH and Minor by identifying MINT's and NH's preferred business geographical areas are defined and the necessary mechanisms to prevent and solve possible conflicts of interest, as well as related party transactions and development of business opportunities are regulated. The aforementioned Framework Agreement has been duly informed to the Market and published in NH´s website.

During all meetings of the Board and the Audit and Control Committee dealing with matters related to Minor, the proprietary Directors have been absent from the meetings during the time these matters haven been dealed, without having participated in the resolution of these matters.

8. Priorities for 2020

Independently of the customary tasks required by general regulations and by the regulations of NH in relation to financial information to be reported to the market and the supervision of the external auditors' independence, the Audit and Control Committee examined and approved the Internal Audit Department's work plan for 2020, which envisages the following priorities:

1. Operational and financial audits of the Company's key processes in hotels, Central Services of the Business Units and Corporate HQ.

2. Supervision of adequate implementation of processes and internal controls to guarantee attainment of the objectives included in the new Strategic Plan approved by the Board of Directors in January 2020.

3. Monitoring of incidents detected in the audits carried out in previous years and of the execution of the action plans drawn up by the different Departments and Business Units.

4. Audit of key management processes in recently opened hotels and support to Corporate projects with a technological component.

5. In exercising the Risk Management function, (i) update of the Risk Map, (ii) monitoring of Key Risk Indicators (KRIs) and action plans, and (iii) implementation of the actions plans deriving from the creation of the Company's first Assurance Map in December 2019 and (iv) collaboration with other Departments of the second line of defense so that the Company benefits from combined Assurance.

6. In exercising the fraud prevention/detection and investigation function: (i) management of the NH Hotel Group Whistleblowing Channel, (ii) identification of possible breaches of the principles set out in the Code of Conduct and (iii) investigation of possible fraudulent acts.

To conclude this Report, it should be noted that in carrying out all the tasks mentioned in it, the Committee has had access, whenever considered useful, to all the external professionals (auditors, experts or consultants) or members of Economic and Financial Management, Legal and Internal Audit Management it has considered necessary, as well as contacts with the external Audit.

Madrid, February 21st, 2020

AUDITOR'S REPORT ON "INFORMATION REGARDING THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING (ICSFR)"

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Auditor´s report on "information regarding the Internal Control System over Financial Reporting (ICSFR)" of NH Hotel Group, S.A. for the 2019 financial year

To the Board of Directors of NH Hotel Group, S.A.

In accordance with the request of the Board of Directors of NH Hotel Group, S.A. ("The Entity") and our engagement letter dated November 30, 2019, we have applied certain procedures in respect of the attached "Information regarding the Internal Control System over Financial Reporting" ("ICSFR"), included in in section "F" of the Annual Corporate Governance Report (hereinafter, IAGC) of NH Hotel Group, S.A. for the 2019 financial year, which includes a summary of the Entity's internal control procedures relating to its annual financial information.

The Board of Directors is responsible for adopting the necessary measures to reasonably ensure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to that system and preparing and establishing the content of the accompanying Information regarding the ICSFR.

In this regard, it should be borne in mind that, regardless of the quality of the design and operating efficiency of the internal control system used by the Entity in relation to its annual financial information, only a reasonable, but not absolute, degree of assurance may be obtained in relation to the objectives it seeks to achieve, due to the limitations inherent in any internal control system.

In the course of our audit work on the consolidated annual accounts and in accordance with Spanish Auditing Standards, the sole purpose of our evaluation of the Entity's internal control system is to enable us to establish the scope, nature and timing of our audit procedures in respect of the Entity's annual accounts. Accordingly, our internal control evaluation, performed for the purposes of our audit, is not sufficient in scope to enable us to issue a specific opinion on the effectiveness of such internal control over the regulated annual financial information.

For the purposes of the present report, we have exclusively applied the specific procedures described below, as indicated in the "*Guidelines concerning the auditor's Report on the Information regarding the Internal Control System over Financial Reporting for listed entities*" published by the National Securities Market Commission on its web site, which sets out the work to be performed, the scope of such work and the content of this report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or review of the internal control system, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Entity's annual financial information for the 2019 financial year described in the accompanying Information regarding the ICSFR. Had we applied additional procedures to those determined by the aforementioned Guidelines, or had we performed an audit or review of the internal control system in relation to the regulated annual financial information, other matters could have come to light in respect of which you would have been informed.

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

In addition, as this special engagement is not an audit of financial statements and is not subject to the revised Auditing Act approved by Royal Decree Law 1/2011, of July 1, we do not express an audit opinion under the terms of the aforementioned legislation.

The procedures applied were as follows:

1. Reading and understanding the information prepared by the Entity in relation to the ICSFR – as disclosed in the Directors' Report – and the evaluation of whether such information includes all the information required as per the minimum content set out in Section F regarding the description of the ICSFR, in the model of the Annual Corporate Governance Report, as established in Circular nº 7/2015 of the National Securities Market Commission dated December 22, 2015.

2. Making enquiries of personnel in charge of preparing the information mentioned in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described have been implemented and are functioning in the Entity.

3. Review of supporting documentation explaining the information described in point 1 above and which mainly comprises the information made directly available to the persons responsible for preparing the information on the ICSFR. Such documentation includes reports prepared by the internal audit function, senior management and other internal and external specialists in support of the functions of the audit committee.

4. Comparison of the information described in point 1 above with our knowledge of the Entity´s ICSFR, obtained by means of the application of the procedures performed within the framework of the audit engagement on the consolidated annual accounts.

5. Reading the minutes of meetings of the board of directors, audit committee and other committees of the Entity, for the purposes of evaluating the consistency between the matters dealt with therein in relation to the ICSFR and the information described in point 1 above.

6. Obtaining a representation letter concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in point 1 above.

As a result of the procedures applied in relation to the Information regarding the ICSFR, no inconsistencies or incidents have been identified which could affect such information.

This report has been prepared exclusively within the framework of the requirements of article 540 of the revised Spanish Companies Act and Circular nº 5/2013 of the National Securities Market Commission, dated June 12, 2013, as modified by Circular nº 7/2015 of the National Securities Market Commission, dated December 22, 2015, for the purposes of describing the ICSFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Mariano Cortés Redín

February 25, 2020

nH | HOTEL GROUP PART OF MINOR HOTELS

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