



nh | HOTEL GROUP  
PART OF

MINOR  
HOTELS

# 7

RISK  
MANAGEMENT

nhow Frankfurt  
Germany

## RISK MANAGEMENT

Risk management is part of the culture of NH Hotel Group and is integrated across all of the Company's operations.

### Responsibility for Risk Management

The Company's Board of Directors is the body responsible for supervision of the risk management system, in accordance with the provisions of article 5 of the Board Regulations.

As regulated in article 25 b) paragraph 3 of the Company's Board Regulations, the Audit and Control Committee provides support to the Board of Directors in the supervision of the effectiveness of internal control, internal audit and risk management systems, including tax risk management. In this regard, as in previous years, in 2022 the Audit and Control Committee has supervised and validated the update of the Risk Map and the correct implementation of the action plans that contribute to mitigating the main risks totally or partially.

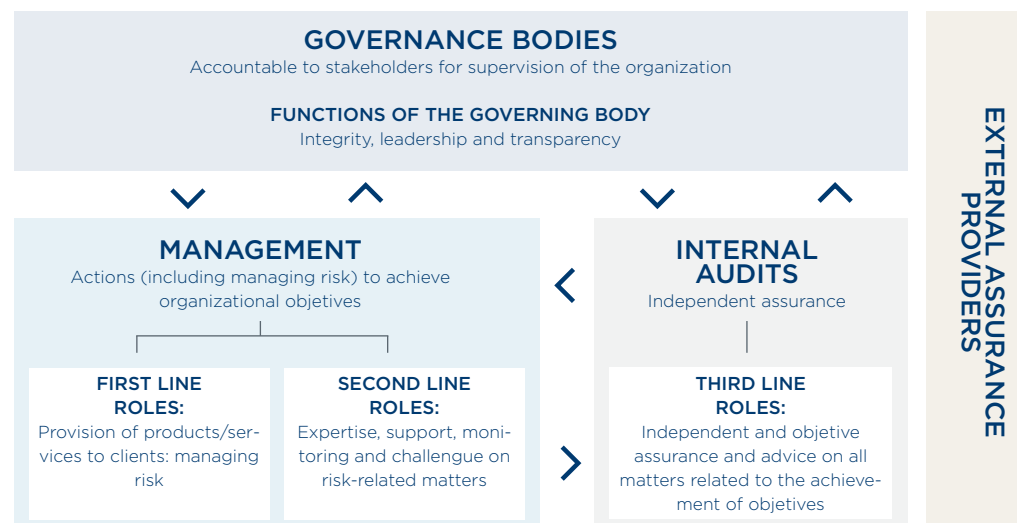
Furthermore, the duties of the Company's Management Committee include risk management and control based on tolerance to risk, assigning responsibility for the main risks, periodic monitoring of their evolution, identification of mitigating actions and the definition of response plans. For these purposes, the Executive Risk Committee, made up of members of the Management Committee and Senior Executives, provides support to the Management Committee in this supervision, as well as promoting a risk culture in the Company. To this end the Company has an internal risk management manual, updated in 2021, that details the principles, processes and controls currently in place.

The Risk Management function, integrated in the Internal Audit department, is responsible for ensuring that the Company's risk management and control system operates correctly and is linked to the strategic goals.

To ensure that there are no conflicts of independence and that the risk management and control system of NH Hotel Group works as planned in the Corporate Risk Management Policy, an independent third party periodically reviews its operation.

Furthermore, to ensure independence, the Risk Management function is independent of the Business Units and, like the Internal Audit department, is functionally dependent on the Audit and Control Committee.

In line with the above, NH Hotel Group follows the Three Lines of Defense model, updated in July 2020 by the Institute of Internal Auditors (IIA) on a worldwide level.



- **First line of defense:** provided by the functions (hotels, business units and corporate units) that own the risks and their management (Operations, Sales, Marketing, Sustainable Business, etc.).
- **Second line of defense:** provided by the functions in charge of oversight of the risks (Risk Management, Compliance, Data Protection, Internal Control, etc.)
- **Third line of defense:** provided by the internal audit function which provides independent assurance..

The object of the Corporate Risk Management Policy of NH Hotel Group (approved in 2015 by the Board of Directors), and the internal risk manual developing it, is to define the basic principles and the general framework of action for the identification and control of all kinds of risks that could affect the companies over which NH Hotel Group has effective control, and to assure alignment with the Company's strategy.



## Risk management model

The NH Hotel Group risk management model, which has been rolled out both at Group corporate headquarters and in the Business Units, seeks to identify events that could have a negative impact on the attainment of the Company's strategic goals, obtaining the highest possible assurance for shareholders and stakeholders, while protecting the Company's interests and its reputation in the short, medium and long term.

The model established for risk management is based on the COSO ERM 2017 integrated framework of Enterprise Risk Management and encompasses a range of methodologies, procedures and support tools, that allow NH Hotel Group to:

- Apply suitable governance in relation to risk management in the Company and promote an appropriate risk management culture.
- Ensure that the objectives defined in the Company are aligned with its strategy and its risk profile.
- Identify, assess and prioritize the most relevant risks that could affect the attainment of strategic goals. Identify measures to mitigate such risks and establish action plans in line with the Company's risk tolerance.
- Monitor periodically the actions plans established for the main risks, in the framework of a continuous improvement model.
- Report periodically to the Company's main governing bodies on the status of the main risks and action plans.



### GOVERNANCE & CULTURE

In relation to the management of risks in the Company



### STRATEGY AND DEFINITION OF OBJECTIVES

According to NH risk profile and aligned with the defined strategy



### PERFORMANCE, CONTROL ACTIVITIES

Identification, assessment, prioritization and response to the risks



### ANALYSIS, MONITORING AND REVIEW

Monitoring and control of indicators and activation plans, in the framework of a continuous improvement model



### INFORMATION, COMMUNICATION & REPORTING

Regularly to the main governance bodies (Management Committee, Executive Risk Committee, Audit and Control Committee and Board of Directors)



## Risk categories and identification, supervision and monitoring process

The Group's Risk Map is updated every year and approved by the Board of Directors, after being reviewed and validated by the Audit and Control Committee. In 2022, the Company has updated its Risk Map through a process in which 25 Senior Executives from all Corporate Departments and Business Units identified and assessed the main risks faced by the Company. The updated map was approved by the Board of Directors at its meeting held on July 26<sup>th</sup>, 2022.

Each of the main risks in the Company's Risk Map is assigned a risk owner, who is a member of the Management Committee.

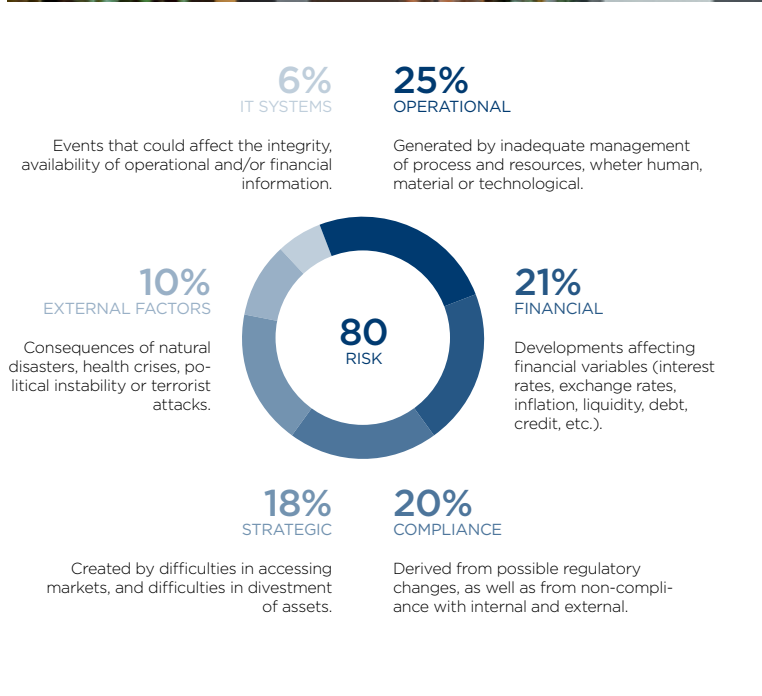
For the main risks in the Risk Map, the Audit and Control Committee periodically supervises the status of the main risks and the implementation of the action plans through a presentation to the Audit and Control Committee by the Risk Owners.

Every year, when the Risk Map is updated, the Risk Management function undertakes a reassessment of the catalogue of risks, both financial and non-financial. The definitive catalogue is validated with the Senior Executives who participate in the process, as well as the bodies involved in its validation (Management Committee, Executive Risk Committee and Audit and Control Committee) and approval (Board of Directors). In addition, during the year the risk owners can report/suggest a new risk to the Risk Office if they consider it necessary.

The Risk Map sets out the main risks to which the Company is exposed, including those associated to climate change.

In line with the COSO methodology, NH Hotel Group uses the concepts of inherent and residual risk. Inherent risk is considered to be the risk that exists without taking into account the mitigating effect of the controls put in place by the Company. Residual risk, however, does take into account the effect of these mitigating controls, and is therefore known as the risk level that persists after applying all the control measures in place in NH Hotel Group.

The six categories into which the risks NH Hotel Group is exposed to are classified are shown below:

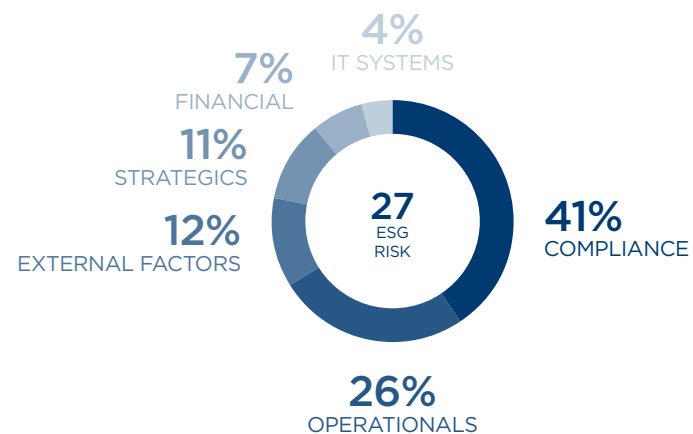


## ESG risks

Of the 80 risks identified in the Company's risk catalogue, an analysis was performed to identify the risks related to ESG (Environmental, Social and Governance) criteria.

As a result, it was determined that 27 out of the 80 risks, 34% of the total, are concerned with Environmental, Social and Governance matters. Most of them come under the categories of "Business" and "Compliance" risks.

As it is integrated within the Company's Risk Management Model, the ESG Risk Map follows the same phases of the process, including response to the risks, monitoring and control and mitigation measures adopted. All risks deriving from climate change are explained in detail in the chapter headed 'TFCD Report', in line with the recommendations of the Task Force on Climate-Related Financial Disclosures.





## Risk factors and management and control measures

RISK TREND (TR)

↑ Increase   ↔ Stable   ↓ Decrease

	Risk event	Description of the risk	RT	Control and management measures
BUSINESS	Labor legislation / collective agreements	New labor legislation or changes in conditions in collective agreements, as well as different interpretations of legislation could have a significant impact and affect financial conditions and business results.	↑	<ul style="list-style-type: none"> <li>Presence in associations in the tourist sector.</li> <li>Presence on committees of sector experts.</li> <li>Institutional relations with various bodies.</li> <li>Presence of specialized HR personnel at the negotiation of collective agreements.</li> <li>Collaboration with HR consultants.</li> </ul>
	Distribution channels (internal and external) and maximization of ADR (Average Daily Rate)	<p>Online travel agencies (OTAs) and distributors continue to increase their market share and NH must put measures in place to counter this by increasing sales through direct channels (Hotel, Website, Central Reservation System) or by renegotiating commissions with OTAs</p> <p>The loss of control over the price in direct channels compared to other distribution channels should also be considered, in light of the liberalization of scraping/ crawling tools and technologies in distribution and price.</p> <p>Finally, it is necessary to ensure that pricing projects are not delayed so that NH can maximize the net ADR. The capacity to negotiate commercial conditions should also be considered.</p>	↑	<ul style="list-style-type: none"> <li>Existence of a Revenue Management Committee.</li> <li>Optimized budgeting process</li> <li>Periodic analysis of results compared to budget and definition of action plans.</li> <li>Control process over intermediary commissions.</li> <li>Corporate commission policy.</li> <li>Definition of a Strategic Plan aimed at boosting sales through direct channels (Hotel, Website, Central Reservation System).</li> <li>NH DISCOVERY loyalty program.</li> <li>Analysis of price competitiveness (price parity compared to OTAs and distributors).</li> <li>Technological tools to improve pricing and revenue management.</li> <li>Optimized calculation of net ADR using Business Intelligence techniques.</li> <li>OTA diversification strategy and renegotiation of intermediation costs.</li> <li>Periodic analysis of competitors' results by market using external reports.</li> </ul>
STRATEGIC	Dependence on city and business segment	Any change in patterns in this segment will affect the Company with a limited possibility of mitigating the effect through other segments.	↑	<ul style="list-style-type: none"> <li>Existence of an Expansion Committee.</li> <li>Periodic attendance at hotel sector investment conferences.</li> <li>Organization of regular meetings with possible investors to develop hotel projects.</li> </ul>
	Inability to find additional growth	Inability to find additional ways of growing that permit sustainable and resilient growth that will safeguard the Company's future. NH should be capable of developing and executing a suitable Expansion/Growth Plan to counter the reaction of its competitors and assure continuous growth.	↔	<ul style="list-style-type: none"> <li>Existence of a documented expansion process (lease and management agreements).</li> <li>Definition of a Strategic Plan aimed at boosting the Company's growth by geographical area, type of contract, brands, segments, etc.</li> <li>Implementation of the Office for Integration with Minor International (principal shareholder).</li> <li>Development of the NH brands in the Middle East and the Asia Pacific region and gradual implementation of the Anantara, Tivoli and Avani brands in Europe and the Americas.</li> </ul>

## Risk factors and management and control measures

RISK TREND (TR)

↑ Increase   ↔ Stable   ↓ Decrease

	Risk event	Description of the risk	RT	Control and management measures
COMPLIANCE	Data privacy (GDPR)	Possible breaches of the General Data Protection (GDPR), together with the uncertainty regarding the behavior and attitude of the regulator in the event of potential privacy breaches, could compromise the Company's objectives. Furthermore, the costs and risks deriving from inadequate data protection and management increase as the Companies face more and more advanced security breaches.	↑	<ul style="list-style-type: none"> <li>Periodic review and update of the data processing activity matrix for each company in the NH Group</li> <li>"Privacy by Design" procedures.</li> <li>Existence of the Data Protection Office, supported by specialist advisors.</li> <li>Mandatory online GDPR training for all employees.</li> <li>Existence of a specific channel for reporting possible security breaches related to data protection.</li> <li>Existence of a Disaster Recovery Plan.</li> </ul>
	Changes in accounting standards	New accounting standards and regulations (e.g. IFRS16, IAS29), as well as varying interpretations of accounting standards currently in force could have a significant impact on the Company's financial statements.	↔	<ul style="list-style-type: none"> <li>Contract management using a computer tool that covers IFRS16.</li> <li>Specialist advising on new regulations.</li> <li>Periodic attendance at conferences on changes in accounting standards given by specialized advisors (external audit firms).</li> <li>Internal assessment of possible impacts of new accounting standards.</li> <li>Training courses on new accounting standards for the corresponding internal personnel.</li> </ul>
FINANCIAL	Adverse effects of the exchange rate	NH operates in countries subject to fluctuations in exchange rates (Mexico, Colombia or Argentina) and therefore the financial results could be affected.	↔	<ul style="list-style-type: none"> <li>Periodic monitoring of the impact of the exchange rate of the main local currencies.</li> <li>Specific cash repatriation plans from local currency to strong currency (e.g. USD).</li> <li>Specific strategies to manage the exchange rate effect by country (e.g. dollarization of revenues), giving priority to natural hedging (purchases in the same currency as revenues).</li> </ul>
	Adverse effects of the inflation rate	This is a phenomenon which is present today not just in hyperinflationary economies. Obviously, this affects us on the costs side. Part of them can be recovered through prices, but it is possible that not all of the increase in costs can be absorbed in this way, which could affect the group's results. In 2022 inflation rates have risen considerably, and to deal with this situation very active price negotiation policies have been maintained by Procurement/Coperama. In 2023, experts indicate that inflation rates should become more moderate.	↔	<ul style="list-style-type: none"> <li>Periodic monitoring of collective agreement negotiation.</li> <li>Analysis and review of the main sources of operating costs (housekeeping, food and beverages, energy, water, etc.).</li> <li>Monitoring of the correct application of IAS29 due to hyperinflation in Argentina.</li> </ul>

## Risk factors and management and control measures

RISK TREND (TR)

↑ Increase   ↔ Stable   ↓ Decrease

Risk event	Description of the risk	RT	Control and management measures
Interest rate risk	<p>2022 has been a year of interest rate rises, which has had a twofold effect:</p> <p>On the one hand, it affects the cost of the Company's debt structures. A rise in interest rates would cause an increase in the Group's financial expenses associated to debt with floating interest rates, which would affect results and cash flows. In this regard, to reduce its exposure, the Company has proceeded more quickly to repay the structured debt at variable rates (and therefore affected by the interest rate hikes), thanks to good cash situation generated by the business.</p> <p>At the end of 2022, 30% of the Group's financial debt is exposed to interest rate fluctuations (70% of the debt has fixed interest rates). As an estimate, an increase in interest rates of 25 basis points would lead to an increase in financial expenses of 0.5 million euros.</p> <p>On the other hand, the rise in rates may increase the cost of other products the Company uses, such as guarantees or confirming facilities, which are used to optimize working capital. In the case of guarantees, for example, the better situation of the sector, and of the Company in it, means that we can negotiate not to use this type of products in certain cases (replacing them with cost-free corporate security, which is not linked to any interest rate). In the case of confirming, the cost is not applied to NH but to the suppliers, but a scenario of rising interest rates causes them to lose interest in the product. The approach continues to be to negotiate these instruments while preferring traditional bank transfer as a payment method.</p>	↔	<ul style="list-style-type: none"> <li>Assessment of interest rate hedging instruments and reasonability of the economic/commercial terms.</li> </ul>
Reduction in available credit facilities due to concentration in the banking system	<p>Difficulties in increasing financial instruments such as bank security and WK (confirming) instruments to match the current size and future growth opportunities.</p>	↔	<ul style="list-style-type: none"> <li>Continuous dialog with banks and financial institutions to identify new partners and find the best financing arrangement for NH. Continuous dialog with the present lender banks to increase this type of facility (in some cases, a reduction in other credit facilities is required as it is difficult to increase the exposure limit).</li> <li>Analyze new short-term capital market solutions (i.e. commercial paper).</li> <li>New local financial institutions should be identified at national level, as most current lenders are unwilling to increase their exposure.</li> <li>The Company's positioning in ESG may help to diversify financing products.</li> </ul>



## Risk factors and management and control measures

RISK TREND (TR)

↑ Increase   ↔ Stable   ↓ Decrease

EXTERNAL FACTORS	Risk event	Description of the risk	RT	Control and management measures
	Change in economic cycle	The contraction of the global economy (or low levels of economic growth) could have a negative effect on NH's revenues and profitability and slow the Company's future growth.	↑	<ul style="list-style-type: none"> <li>▪ Existence of a Commercial Strategic Plan aimed at diversification and strengthening of segments.</li> <li>▪ Operational optimization and efficiency projects.</li> <li>▪ Asset Repositioning Strategy.</li> </ul>
	Geopolitical risks (terrorism and political instability)	<p>NH operates in countries where there is a risk of suffering terrorist attacks. This could cause a reduction in sales due to the "panic effect" on tourism. It could impact travel/tourism patterns in the affected areas and lead to an increase in insurance premiums and in security costs. The occurrence of a terrorist attack could cause damage to one or more NH properties the value of which is not fully covered by the current insurance policy.</p> <p>NH also operates in certain countries subject to political instability or uncertainty that could affect business decisions or financial results (e.g. Brexit, Spain/Catalonia, Italy, Mexico, etc.) This also includes the possible impact of the Helms-Burton Act on possible lawsuits against NH in courts in the USA (Cuba, Sotocaribe, etc.).</p>	↑	<ul style="list-style-type: none"> <li>▪ Existence of a communication protocol in the event of a crisis.</li> <li>▪ Existence of a Business Continuity Plan and a Disaster Recovery Plan.</li> <li>▪ Quarterly analysis of the economic and geopolitical situation in regions where NH operates and assessment of the impact on the Company's operations.</li> <li>▪ Existence of an Executive Risk Committee.</li> <li>▪ Documented Risk and Insurance Management process.</li> <li>▪ Adaptation of the commercial strategy to mitigate the impact of certain outbound markets (for example, Russia, China)</li> </ul>
	New competitors in the tourist sector	<p>The use and popularity of collaborative economic service providers, such as Airbnb, has grown enormously in recent years. These companies compete against traditional suppliers of accommodation such as hotels or hostels and could impact demand for such traditional types of accommodation or even force traditional accommodation models to modify their business model or their cost structure in order to compete effectively. The uncertainty in the regulator's behavior and attitude towards these new accommodation models also has to be considered.</p> <p>Furthermore, NH is subject to intense competition from other hotel chains, and from specialist or independent hotel operators. The increase in hotel supply in some of the main cities where NH operates, as well as the creation of new business models or the repositioning of hotels are examples of initiatives by competitors.</p> <p>Finally, large market concentrations due to mergers and acquisitions could threaten NH's market share.</p>	↑	<ul style="list-style-type: none"> <li>▪ Presence in local and/or national associations in the tourist sector.</li> <li>▪ Presence on committees of sector experts.</li> <li>▪ Institutional relations with various bodies.</li> <li>▪ Pilot projects with technological tools to monitor results of collaborative economy service providers in the main city locations where the Company is present.</li> <li>▪ Operational initiatives aimed at attracting families to NH accommodation and special initiatives launched to facilitate and increase the experience of corporate customers (for example, the NH+ Business Program website).</li> </ul>

## Risk factors and management and control measures

RISK TREND (TR)

↑ Increase   ↔ Stable   ↓ Decrease

SYSTEMS	Risk event	Description of the risk	RT	Control and management measures
	Cyberattacks	<p>The number of cyberattacks continues to increase significantly as the attacks become more sophisticated and the methods of attack diversify. The damage deriving from such incidents may lead to financial losses or the loss of intellectual property, which makes it necessary to reinforce the current strategies for the mitigation of cyber risks.</p> <p>Cyberattacks could cause a loss of sensitive information of the business or customers (including credit card data), business interruptions, lawsuits deriving from system interruption, and other costs and liabilities.</p>	↔	<ul style="list-style-type: none"> <li>▪ Existence of a corporate Security Policy.</li> <li>▪ Periodic intrusion testing to detect vulnerabilities in systems and communications.</li> <li>▪ Perimeter security measures.</li> <li>▪ Periodic analysis of malware, viruses, etc.</li> <li>▪ Cybersecurity awareness campaigns (training capsules).</li> <li>▪ Online training in cybersecurity for all employees (mandatory).</li> <li>▪ Information Security Management System based on international standards.</li> <li>▪ Annual audit by an external firm of compliance with PCI-DSS regulations.</li> </ul>
	Inability to keep up with technology	<p>NH's current operations and its technological infrastructure may not be capable of meeting performance expectations in relation to quality, business operations, cost and innovation as effectively as our competitors, especially competitors that were "born in the digital age" and have a low cost structure for their operations, or even competitors with a long history and larger operations.</p> <p>Accordingly, NH needs to keep up to date in relation to the technological developments necessary to support its operations and its business adequately and compete effectively.</p> <p>Finally, the inability of NH's systems and processes to meet the Company's demands and the speed of its growth must also be taken into account, as well as the difficulty in having the necessary resources to face this challenge.</p>	↔	<ul style="list-style-type: none"> <li>▪ Existence of periodic controls to monitor the performance of NH's technological platforms.</li> <li>▪ Recurring analysis to ensure that versions of the systems are kept up to date.</li> <li>▪ Attendance at events and meetings with suppliers and specialist consultants to keep abreast of new technological developments.</li> <li>▪ Analysis of business and technological requirements and coordination between departments in projects for the integration of hotels in the portfolio.</li> <li>▪ Performance analysis of the customer booking process on the NH website and using the mobile app.</li> <li>▪ Recurring review of the NH web download time on mobile and desktop devices.</li> <li>▪ FastPass initiative, combination of three innovative services: Online Check-in, Choose Your Room and Online Check-out.</li> <li>▪ Existence of a Digital Evolution Plan (DER).</li> </ul>
	SAP/website crashes	<p>NH is currently operating with SAP systems both in back-office and front-office. If there is a crash in SAP, NH might not be able to bill its customers or might have to stop the activity of the administration department. Furthermore, NH's revenues depend on the success and availability of the website.</p>	↔	<ul style="list-style-type: none"> <li>▪ Existence of a documented process that details the tasks and actions to be carried out at operational level in the event of system shutdowns (whether planned or unplanned) to mitigate the impact on the operation.</li> <li>▪ The measures detailed above for the risk of cyberattacks (intrusion testing, perimeter security, analysis of malware and viruses, etc.).</li> </ul>

## EMERGING RISKS AND NEW CHALLENGES

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Emerging risks are risks that are expected to have a significant impact on the Company's operations and, therefore, on its financial results in the future in the medium term (2031-2050).

Accordingly, during the periodic process of supervision and monitoring of risks in the Executive Risk Committee and in the Audit and Control Committee, as well as during the annual risk identification and assessment process, the Company has adequate mechanisms to ensure that emerging risks and new challenges are taken into consideration and given an adequate response. The final result of this analysis is reflected in the corporate Risk Map which is submitted annually to the Board of Directors for approval.

Additionally, risk owners can report any emerging risks or new risks detected at any time, so that the Risk Office can proceed to analyze and consider them. These risks form part of our risk map, but the Company analyzes them in more depth to identify the potential long-term impacts and advance the pertinent mitigation measures.





## EMERGING RISKS IDENTIFIED IN 2022

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### Risk of Floods

**Physical Risk | Environmental Category**

### Risk of extreme precipitation

(Torrential rains, hail and snowstorms)

**Physical Risk | Environmental Category**

In most of the countries where the Company operates, the Group is exposed to the risk of extreme natural events, the frequency and/or gravity of which may be amplified by climate change.

Both risks are due to changes in precipitation patterns, both in frequency and intensity, that take the form of abundant rain and saturation due to an excess of water in the soil or overflowing river courses, flooding the surrounding land.

Among these extreme natural events, both risks are notable for the increase in their potential residual impact on the Company's business, taking into account the estimate of a likely increase in daily extreme precipitation of 7% for each degree Celsius that the global temperature rises. This results in a progressive intensification of the likelihood of floods in specific regions of the world, aggravated both by the increase in sea level and by the increase in intense precipitation.

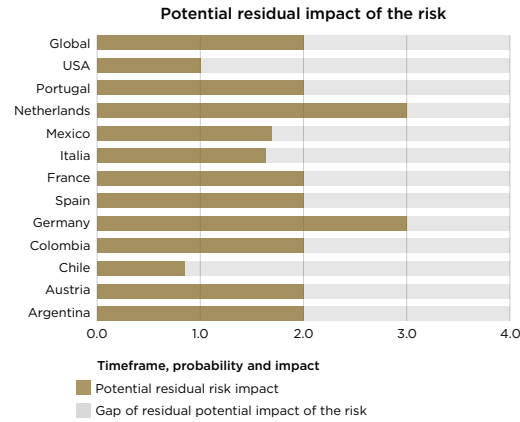
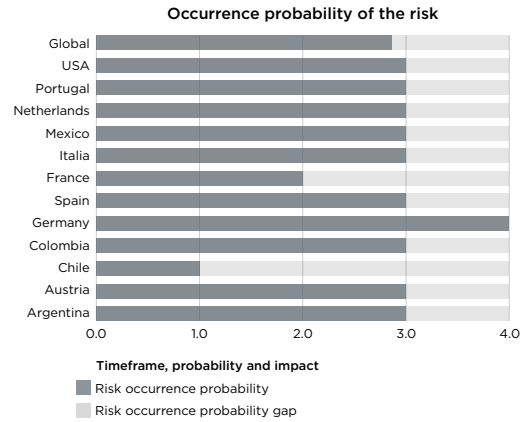
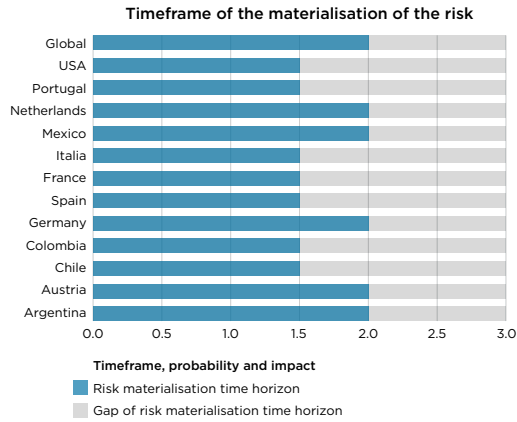
With the increase in sea level and in intense precipitation and the consequent changes in the intensity of precipitation, the likelihood of floods has increased in some places and will continue to increase\*. Among the countries most exposed to these risks are countries in northern Europe such as Germany and Netherlands and in southern Europe such as Spain, France and Italy, where these adverse weather phenomena are becoming more and more intense due to the "tropicalization" of the Mediterranean Sea, with potentially damaging effects for NH Hotel Group, as it represents 49% of the portfolio.

The occurrence of such events could have a direct or indirect impact on guests and employees, but also on the Group's business and assets, affecting its activity negatively and compromising its financial situation. Protecting guests and employees is a priority for NH Hotel Group, so the Company is responding to these changes, analyzing the current situation of its hotels and future assets. According to the IPCC, in Spain alone the cost of the floods caused by extreme precipitation phenomena has been on average 800 million euros a year.

(\*) Source: Sixth Assessment Report (AR6), IPCC



### RISKS OF FLOODS



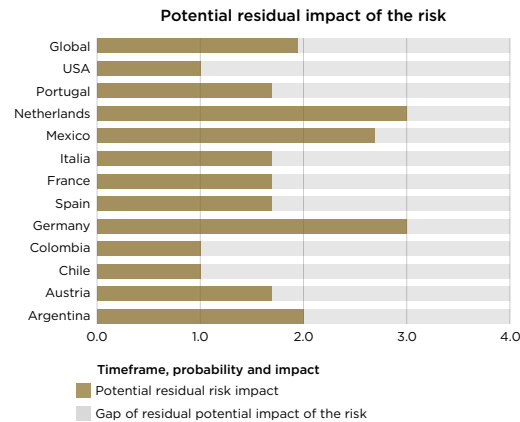
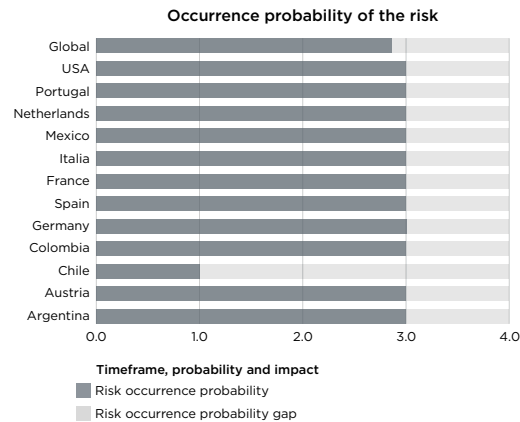
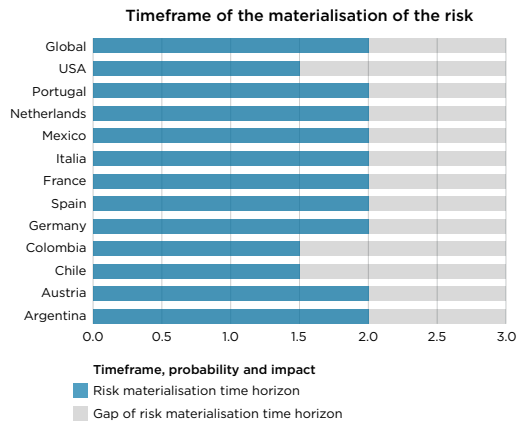
**Impact on the value chain**

- ✓ SUPPLY CHAIN
- ✓ INFRASTRUCTURES
- ✓ SERVICES

**Financial variables impacted**

- ✓ REVENUE
- ✓ COSTS
- ✓ ASSETS AND LIABILITIES
- ✗ ACCESS TO CAPITAL

### RISK OF EXTREME PRECIPITATION



**Impact on the value chain**

- ✓ SUPPLY CHAIN
- ✓ INFRASTRUCTURES
- ✓ SERVICES

**Financial variables impacted**

- ✓ REVENUE
- ✓ COSTS
- ✓ ASSETS AND LIABILITIES
- ✗ ACCESS TO CAPITAL

### Mitigation measures

- Design of contingency plans and action protocols in the event of floods in potentially exposed hotels, which will establish preventive and corrective actions, and investments in infrastructure and equipment (containment dykes, drainage, bilge pumps, cleaning of drains and sewers, correct channeling of bodies of water, etc.).
- Installation of watertight closing systems in the main doors and windows that could be affected by a sudden rise in water level (garages, street level...).
- Installation of high-resistance windows (tempered glass) to protect from potential impacts caused by hailstones.



## Risks of extreme weather phenomena

(Cyclones, hurricanes, typhoons, tornadoes)

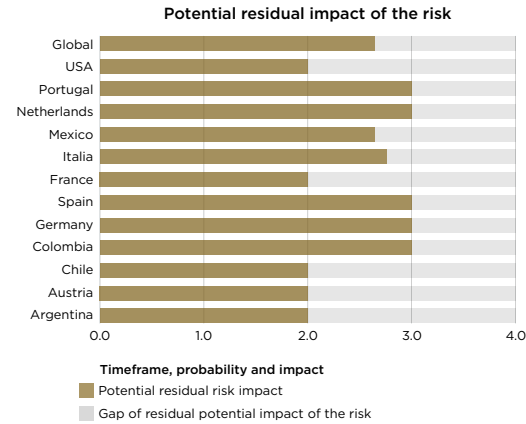
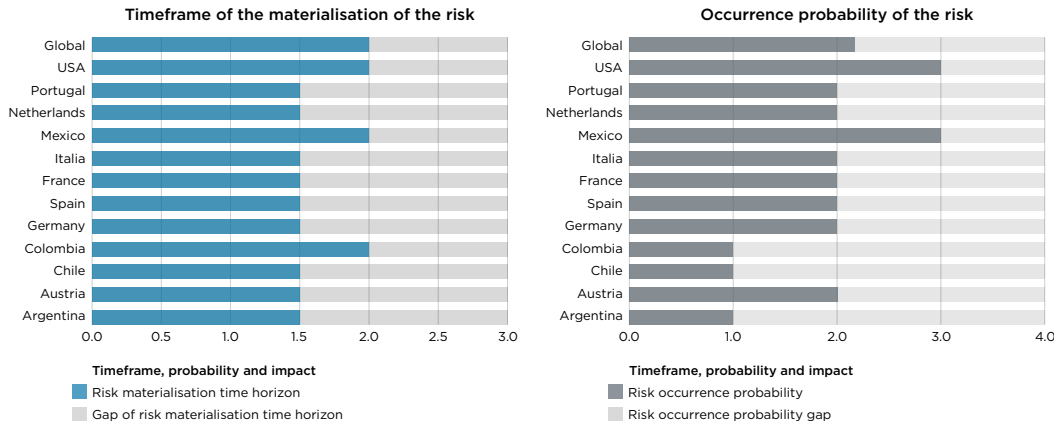
### Physical Risk | Environmental Category

By 2050, both the average temperature of the earth's surface and the sea temperature will experience significant increases, especially in the basin that flow into the Adriatic Sea, causing an increase in the frequency and intensity of extreme weather phenomena such as cyclones, hurricanes, typhoons or tornadoes.

To study the likelihood and impact of this risk, the variations in average temperature, in relative humidity, sea temperature and wind speed and, finally, the number of consecutive dry days have been taken into account. As a result of these variations, there is a greater likelihood of occurrence in regions such as the USA and Mexico. However, considering that most of NH Hotel Group's assets are located in Europe, the residual potential impact could be greater in this geographical area. For example, it is likely that the Company's assets in Italy will be affected by prolonged periods of high temperatures and drought, as well as intense precipitation associated to more frequent systems such as long-term medicanes.



### EXTREME PRECIPITATION RISKS



#### Impact on the value chain

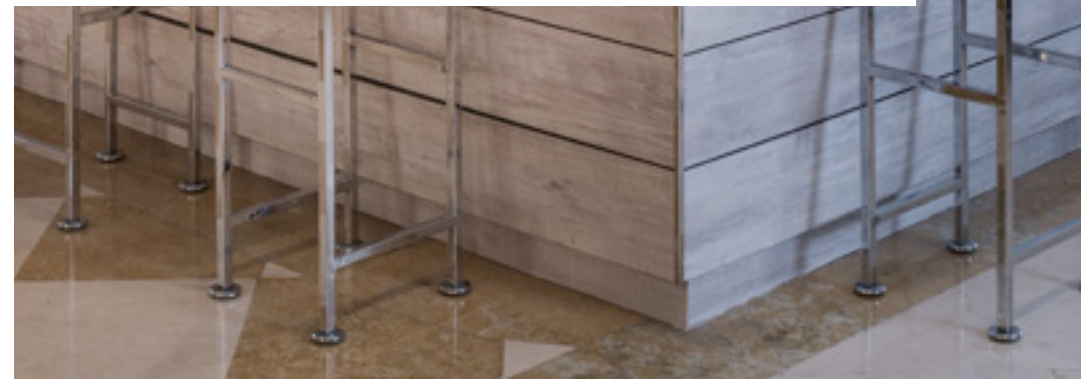
- ✓ SUPPLY CHAIN
- ✓ INFRASTRUCTURES
- ✓ SERVICES

#### Financial variables impacted

- ✓ REVENUE
- ✓ COSTS
- ✓ ASSETS AND LIABILITIES
- ✗ ACCESS TO CAPITAL

### Mitigation measures

- Design of contingency plans and action protocols for extreme weather phenomena in potentially exposed hotels, that establish preventive and correction actions, and investments in infrastructure and equipment (protection systems for equipment and infrastructure, containment dykes, bilge pumps, etc.).





## Risks of increase in temperature

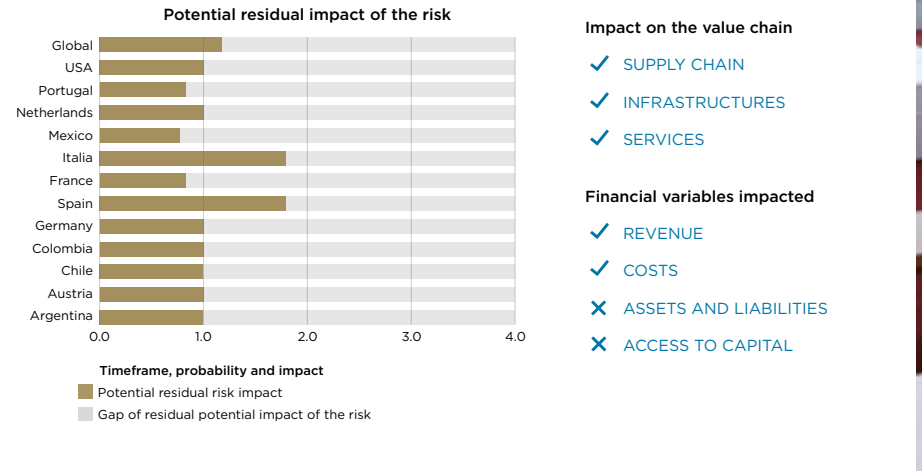
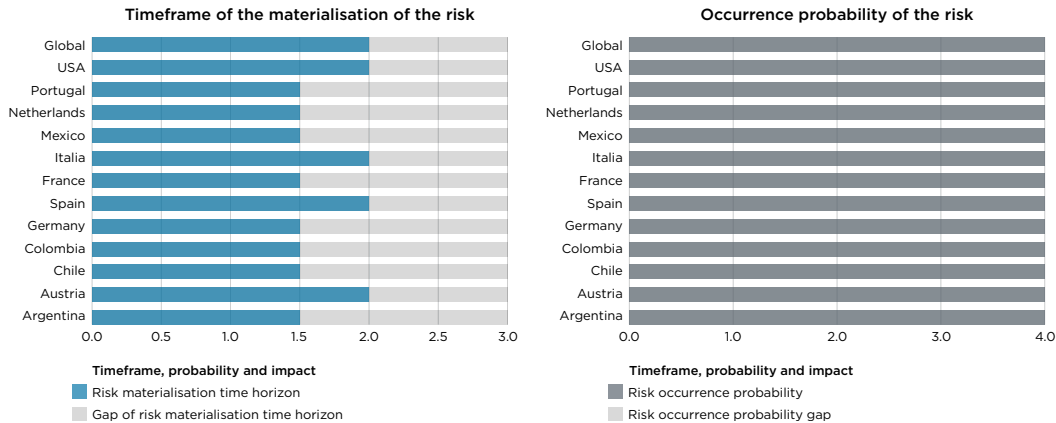
### Physical Risk | Environmental Category

In recent decades there has been an increase in the frequency and intensity of extreme heat events which are expected to increase independently of the greenhouse gas emission scenario, with increases in average temperatures of between 1.3°C and 2.2°C between 2041 and 2060.

Independently of the greenhouse gas emission scenario, the frequency and intensity of extreme heat events have increased in recent decades and are forecast to continue to increase. The risk of such an increase in temperature is seen in the increase of stress caused to materials due to temperature, an increase in daily temperature variability, a rise in the number of hot nights per year or the increase in the frequency and intensity of heatwaves\*.

This risk has a high probability of occurrence in all the countries in NH Hotel Group's portfolio, but it presents a higher residual potential risk in countries in southern Europe. Spain is among the potentially most affected countries, where greater impact of the increase in maximum temperature is observed with heatwaves in the central and southern areas of Spain. Assets located in these regions will be most affected by these variables in 2050 under climate scenario SSP1 -RCP2.6.

### RISKS OF INCREASE IN ENVIRONMENTAL TEMPERATURE



### Mitigation measures

- Development of energy efficiency studies in hotels to identify actions that will improve energy efficiency: change of windows, installation of façade coverings, replacement of climate control technologies, change of lighting elements, application of domotics, etc.

(\*) Source: Sixth Assessment Report (AR6), IPCC

## Risks related to new legal requisites concerning safety of infrastructure

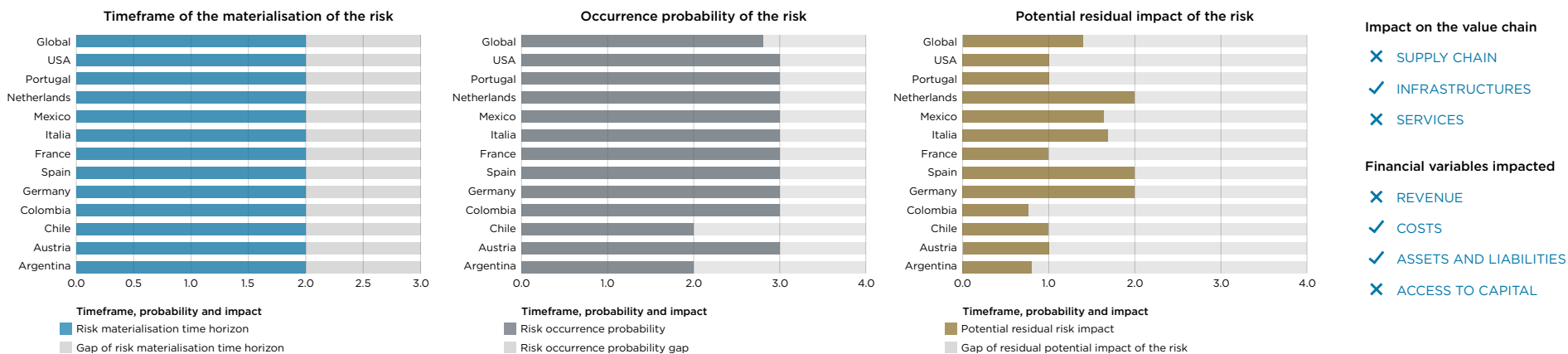
Transitional Risk | Political-Legal Category

The Group's operations may be affected by the introduction of new legal requisites concerning safety that require actions to be carried out on infrastructure.

This risk shows the need for investments associated to improving the safety and resilience of infrastructure in the face of the physical effects of climate change, such as improving the resistance of windows, façade elements, roofs, doors and the construction of safe spots.



### EXTREME PRECIPITATION RISKS



### Mitigation measures

- Development of plans to adapt infrastructure in response to climate risks so that it is less susceptible to its impacts through specific actions: Construction of containment dykes, water evacuation systems, doors with flood-prevention mechanisms, etc.



## NH HOTEL GROUP'S RESPONSE TO THE RISKS AND OPPORTUNITIES ASSOCIATED TO CLIMATE CHANGE BASED ON THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD)

At NH Hotel Group, the fight against climate change is a fundamental strategic value, and with the aim of advancing in the definition of its climate strategy, in 2021 an analysis was carried out to determine the Company's situation with respect to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the steps that should be taken to align with them.

As a result of this analysis, an exercise was carried out to improve the current methodology for the identification of exposure to physical and transitory risks and the opportunities associated to Climate Change. This analysis included a greater level of detail of these risks, as well as short, medium and long-term time horizons.

### Governance

All climate-related matters that the Company has to address are included in the chapter "UP FOR PLANET" and in the chapter "Sustainable Business Strategy > Sustainable Business Governance".

### Strategy

During the first half of 2022, NH Hotel Group carried out an analysis to identify its exposure to the physical and transitory risks and the opportunities associated to Climate Change.

For each of the climate-related risks and opportunities considered in the analysis, the impacts in different terms associated to each of them which are expected to materialize significantly have been assessed. The assessment has been carried out considering the impact in 4 timeframes:

- **Present** (0-2 years: 2022-2024)
- **Short-term** (3 - 8 years: 2025-2030)
- **Medium-term** (9 - 28 years: 2031-2050)
- **Long-term** (> 29 years: beyond 2050)

The financial impact that these risks and opportunities could cause to NH Hotel Group and the effect they could have on its business, strategy and financial planning will be examined in the second phase of the work carried out to define the alignment with the TCFD recommendations.

The analysis encompasses the countries where NH Hotel Group's presence is most relevant in terms of volume of hotels owned or leased, their contribution to the Company's results and their strategic relevance: Argentina, Austria, Chile, Colombia, France, Germany, Italy, Mexico, Netherlands, Spain, Portugal and the USA.

The definition of the universe of risks included in the analysis took into account the IPCC with regard to climate

risk generating factors: "Principal climate impact drivers" and "Secondary climate impact drivers". The types of climate risks defined by the TCFD have also been taken into consideration: physical risks (acute and chronic) and transition risks (political and legal, technologies, market and reputational).

As a result, the risks analyzed were classified, following the TCFD inventory, according to their nature in two categories:

- **Physical risks**, analyzing the impacts of both acute and chronic risks on NH Hotel Group's activities throughout the entire value chain.
- **Transitory risks**, assessing the political, legal, market, technological and reputational risks they could have on the Group's activities and/or its value chain.





## RISK UNIVERSE ANALYZED

PHYSICAL	Chronic	<ul style="list-style-type: none"> <li>▪ Increase in air temperature [SC; I; S]</li> <li>▪ Rise in sea level [I; S]</li> <li>▪ Reduction in availability of water resources [SC; I].</li> </ul>
	Acute	<ul style="list-style-type: none"> <li>▪ Extreme weather phenomena: Cyclones, hurricanes, typhoons, tornadoes, etc. [SC; I; S]</li> <li>▪ Extreme precipitation: torrential rain, hail, snowstorms, etc. [SC; I; S]</li> <li>▪ Floods [SC; I; S].</li> <li>▪ Extreme coastal phenomena [SC; I; S].</li> <li>▪ Wildfires [SC; I; S]</li> <li>▪ Alteration and imbalance of living organisms in marine ecosystems [SC; I; S].</li> <li>▪ Insect plagues [SC; I; S].</li> </ul>
TRANSITION	Politics and regulation	<ul style="list-style-type: none"> <li>▪ Taxes linked to GHG emissions [SC; I; S].</li> <li>▪ New climate reporting requisites [SC; I].</li> <li>▪ New legal requisites concerning energy efficiency [SC; I; S].</li> <li>▪ New legal requisites related to the reduction of GHG emissions and climate risk management [SC; I; S].</li> <li>▪ New legal requisites related to infrastructure safety [I]</li> <li>▪ New legal requisites on protection of the environment [I; S]</li> <li>▪ Greater exposure to environmental litigation/breaches [I]</li> <li>▪ Restrictions to vehicle mobility [SC; I].</li> </ul>
	Market	<ul style="list-style-type: none"> <li>▪ Change in customer behavior/preferences [SC; I; S].</li> <li>▪ Variation in availability of resources [SC; S].</li> <li>▪ Geopolitical and social instability [SC; I; S].</li> <li>▪ Change in insurance conditions [I]</li> <li>▪ Inadequate insurance coverage [I]</li> <li>▪ Difficulties in access to financing [SC]</li> <li>▪ Loss in value of assets [I]</li> </ul>
	Technology	<ul style="list-style-type: none"> <li>▪ Transition to low-emission technologies [SC; I].</li> <li>▪ Increase in operational difficulties for equipment and facilities [I].</li> </ul>
	Reputation	<ul style="list-style-type: none"> <li>▪ Failure to achieve climate goals [SC; I; S].</li> <li>▪ Changes in customers' perception of the Company [SC; I; S].</li> <li>▪ Degradation of the image of the tourist industry [SC; I; S].</li> </ul>

Impact on elements of value chain (supply chain [SC]; infrastructure management [I]; services [S])



The inventory of opportunities analyzed was classified as follows:

**OPPORTUNITY UNIVERSE ANALYZED**

<b>Products and services</b>	<ul style="list-style-type: none"> <li>Changes in customer behavior/preferences [SC; I; S].</li> </ul>
<b>Efficiency of resources</b>	<ul style="list-style-type: none"> <li>Direct government incentives related to energy efficiency and consumption of resources [SC; I].</li> </ul>
<b>Energy source</b>	<ul style="list-style-type: none"> <li>Direct government incentives related to decarbonization of transport [I].</li> </ul>
<b>Markets</b>	<ul style="list-style-type: none"> <li>Access to financing [SC]</li> <li>Changes in customer perception [S]</li> <li>Changes in insurance conditions [SC]</li> <li>Improvement in the image of hospitality [SC; S].</li> <li>Differentiation from the competition [S]</li> <li>Opening of new markets [I; S]</li> <li>Indirect state incentives [SC; I; S].</li> <li>Asset capitalization [I]</li> </ul>
<b>Resilience</b>	<ul style="list-style-type: none"> <li>Direct government incentives related to the battle against climate change [I].</li> </ul>

Impact on elements of the value chain (supply chain [SC]; infrastructure management [I]; services [S])

Once the risks and opportunities for the Company had been identified and defined, a more detail analysis of the impact on the value chain was carried out. This allows us to understand the specific impact of climate change on the activities of NH Hotel Group as a whole.

Three different areas were considered:

**Upstream - Supply chain** [SC]

**Infrastructure management** [I]

**Downstream - services** [S]

The Company has analyzed separately the implication of each risk and opportunity for these three elements in order to assess the effects of climate change on NH Hotel Group's value chain. Thanks to this approach, NH Hotel Group knows in greater detail the impact on the business, on the strategy and on the financial plan.



**SUPPLY CHAIN**

Goods and services necessary for the hotel activity

**EXAMPLE**

Reduced availability of water resources which entails problemnt in water supply (limitations, water cut-offs, increase in cost, etc.). Problems in the supply and quality of local food and increase in the cost of food and electricity.



**INFRASTRUCTURE MANAGEMENT**

Most common intallations in the Company's hotels

**EXAMPLE**

Rise in sea level, increase in expenses and investments associated to maintenance, repair, reinforcement, renovation, and construction of infrastructure, to correct or adapt to the chronic effects of climate change, such as retaining walls, relocation of infrastructure, etc.

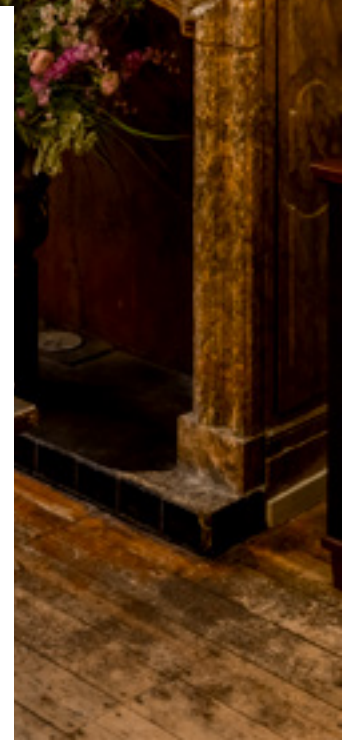


**SERVICES**

Services provided regularly in owned and leased hotels

**EXAMPLE**

Wildfires: Loss of natural value and biodiversity in the area where the hotels are located, redoing their attractiveness to tourist and, therefore, demand.



In order to know how climate impacts affect financial planning, in the 2022 exercise, financial variables have been identified in line with the TCFD recommendations, quantifying financially the most relevant Risks and opportunities in a next step of the implementation to be done during 2023.

Financial variables	Example of potential impact for NH Hotel Group
REVENUES	Changes in customer behavior and preferences, such as the decline in tourism in certain areas affected by the physical risks of climate change, will affect the demand for the Company's services, which would lead to a reduction in the revenues obtained.
COSTS	Increase in operating costs, such as the price of energy and staff costs. Furthermore, the greater exposure to environmental litigation/breaches may give rise, in the event of non-compliance with these requisites, to an increase in the cost structure, as higher penalties would be faced.
ASSETS AND LIABILITIES	An increase in extreme coastal phenomena could lead to depreciation in the value of assets as a result of being exposed to greater risk. If the requisites of new legislation for the decarbonization of buildings are not met, assets would be affected negatively, which would reduce their market value.
ACCESS TO CAPITAL	The hotel sector's high exposure to climate change risks (physical or transition risks) could increase the requisites for access to and the price of financing

The assessment of risks and opportunities that has been carried out includes an analysis of climate scenarios considering both physical (RCP) and socioeconomic (SSP) factors.

The scenarios chosen, have been selected taking into account the objectives of the Paris Agreement, the new scientific updates of the latest IPCC Assessment Report (AR6) and the overall recommendations of the TCFD, not just the limitation of the temperature increase to 2° or less, but also their general characteristics: type, diversity, scope...

Out of the four scenarios, the one chosen for the analysis of climate risks and opportunities aligns both with the reality of the Company (realistic and consistent with its objectives and commitments) and with the evolution of the projections suggested by the trends analyzed by the scientific community for the world climate.

This scenario, known as SSP1 - RCP2.6, envisages a future in which society will shift gradually but extensively towards a more sustainable model than the current model, achieving more integrated development that respects the perceived environmental limits.

RISK AND UNCERTAINTY MATRIX

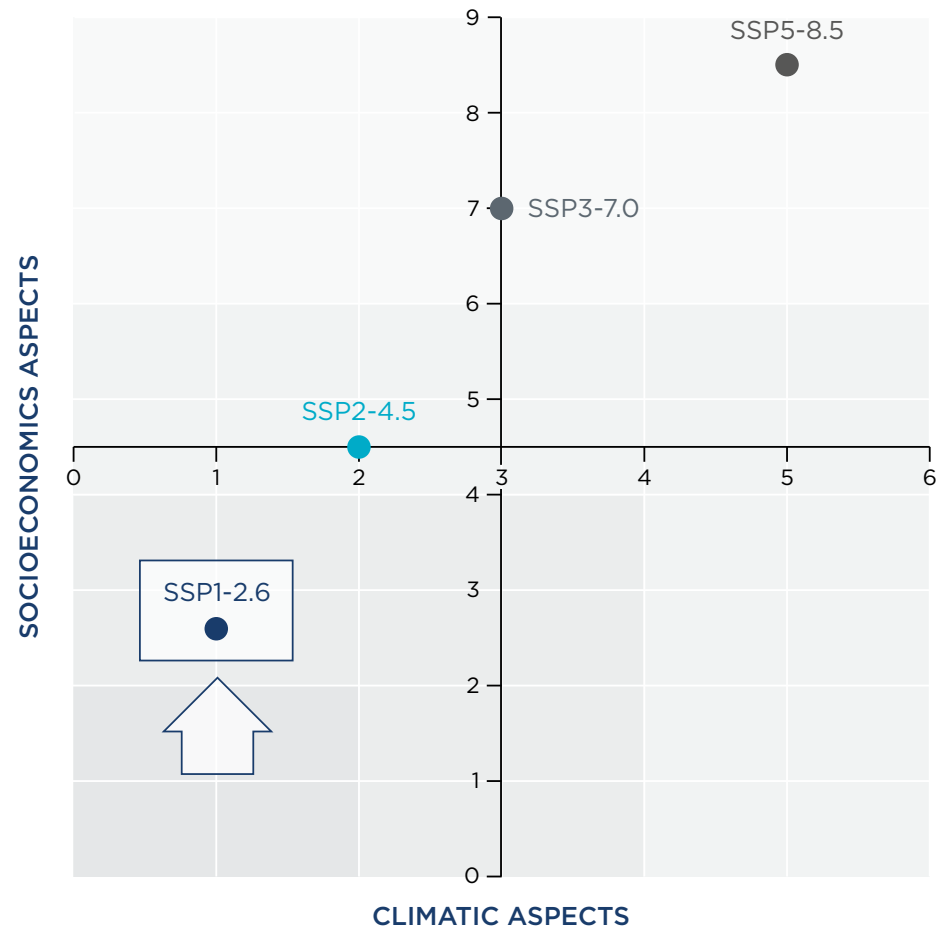


Fig.3 - Scenario selection. The blue arrow is the scenario chosen for the analysis of climate risks and opportunities. Scenarios SSP1 -RCP2.6 has been chosen due to NH Hotel Group's commitments to reduce carbon emissions, Minor International's net zero emissions commitments, the TCFD recommendation to chose at least a scenario of 2° or less and the IPCC recommendations.

The time horizon for the assessment of climate risks and opportunities ends in 2050. NH Hotel Group's climate strategy is based on this scenario and time horizon.



## Risks Management

To identify and assess the climate risks and opportunities that will affect NH Hotel Group, the following processes have been carried out:

- Analysis of climate scenarios: by choosing a climate scenario, to help the Company to assess the relevance of the climate risks and opportunities through heat maps.
- Analysis of the value chain: to identify and understand its operations regarded as a whole (supply chain, infrastructure management and services) where the Company, its strategy and its financial planning could be most affected by climate risks and opportunities.
- Definition of the universe of climate risks and opportunities: Based on the IPCC, the TCFD and the nature of NH Hotel Group, a universe of climate risks and opportunities has been defined, giving a preliminary view of the risks that could affect the Company.
- Assessment of climate risks and opportunities: Evaluation of the universe of risks and opportunities defined through the regulatory and cartographic analysis of the climate variations forecast in the selected scenario in 2050. Values for impact, likelihood of occurrence and time horizons are assigned to this evaluation to estimate whether or not the risk or opportunity will be significant for NH. The evaluation scales are established according to the Company's risk analysis corporate model.

The analysis of risks and opportunities carried out is based on the most recent IPCC updates (6<sup>th</sup> Assessment Report (AR6)). Most of the maps showing the evolution of climate variables (causing the physical risks) analyzed for the assessment of physical risks are based on the projections of the CMIP6 (Coupled Model Intercomparison Project).



Furthermore, to assess regulatory transition risks, a regulatory study has been carried out of each of the countries included in the assessment. The methodology followed is aligned with NH Hotel Group's risk management model, based on the Enterprise Risk Management (ERM) Methodology.

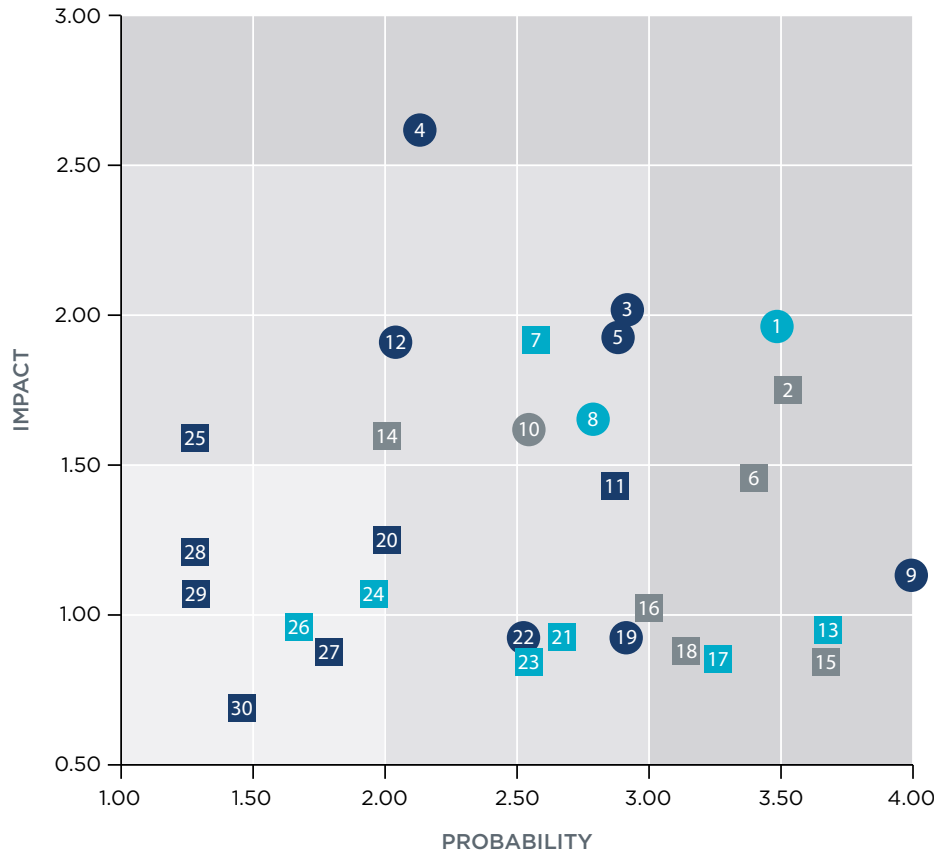
To determine the magnitude of the impact of the risks and opportunities identified, the inherent potential impact and likelihood of occurrence were also evaluated, following the Corporate Risk Scale. This lets the climate risk be integrated into the Corporate Risk Map. Furthermore, to prioritize the climate risks, the control environment has been evaluated to determine whether NH Hotel Group has risk control elements.

In this way, for each of the geographies where NH Hotel Group has hotels under ownership or lease the particular impact that climate change has on each of the risks and opportunities identified has been studied, as well as the current and future implications they have on the Company's activities.

This study has made it possible to establish values for the materialization time horizon, likelihood of occurrence and potential impact, for the purpose of obtaining the global climate risk and opportunity matrices. In line with the integration of the risk identification, assessment and management processes, the scales used in the likelihood and impact analysis are the same scales as in the Company's traditional risk matrix, so that all the information can be integrated consistently.

For the analysis, overall values for the likelihood and potential impact of each of the risks and opportunities have been used.

Giving as a result, the following climate risk matrix:



\*Based on severity (likelihood × impact).

- 1 Reduced availability of water resources
  - 2 Transition to low-emission technologies
  - 3 Stormwater and river floods
  - 4 Extreme weather events: Cyclones, hurricanes, typhoons, tornadoes, etc.
  - 5 Extreme precipitation: Torrential rains, hailstorms, snowfalls, etc.
  - 6 New legal requirements for energy efficiency
  - 7 Loss of value of assets
  - 8 Sea-level rise
  - 9 Raising of environmental temperature
  - 10 Extreme coastal events
  - 11 New legal requirements relating to infrastructure security
  - 12 Wildfires
  - 13 Higher exposure to environmental disputes/infringements
  - 14 Failure to meet climate targets
  - 15 Restrictions on vehicle mobility
  - 16 Change in insurance conditions
  - 17 New legal requirements related to GHG emission reduction and climate risk management
  - 18 New requirements for reporting climate information
  - 19 Alteration and imbalance of living organisms in marine ecosystems
  - 20 Change in resource availability
  - 21 Degradation of the image of the sector
  - 22 Emergence of insect plagues
  - 23 Taxes linked to GHG emissions
  - 24 Changes in customer behaviour/preferences(internal/external)
  - 25 Inadequate insurance coverage
  - 26 Difficulties in accessing financing
  - 27 Increased operational difficulties of equipment and facilities
  - 28 Geopolitical and social instability
  - 29 Changes in the customer's perception of the company
  - 30 New legal requirements for environmental protection
- Current  
(2022- 2024)

Short term  
(2025- 2030)

Medium term  
(2030 - 2050)

Long term  
(> 2050)

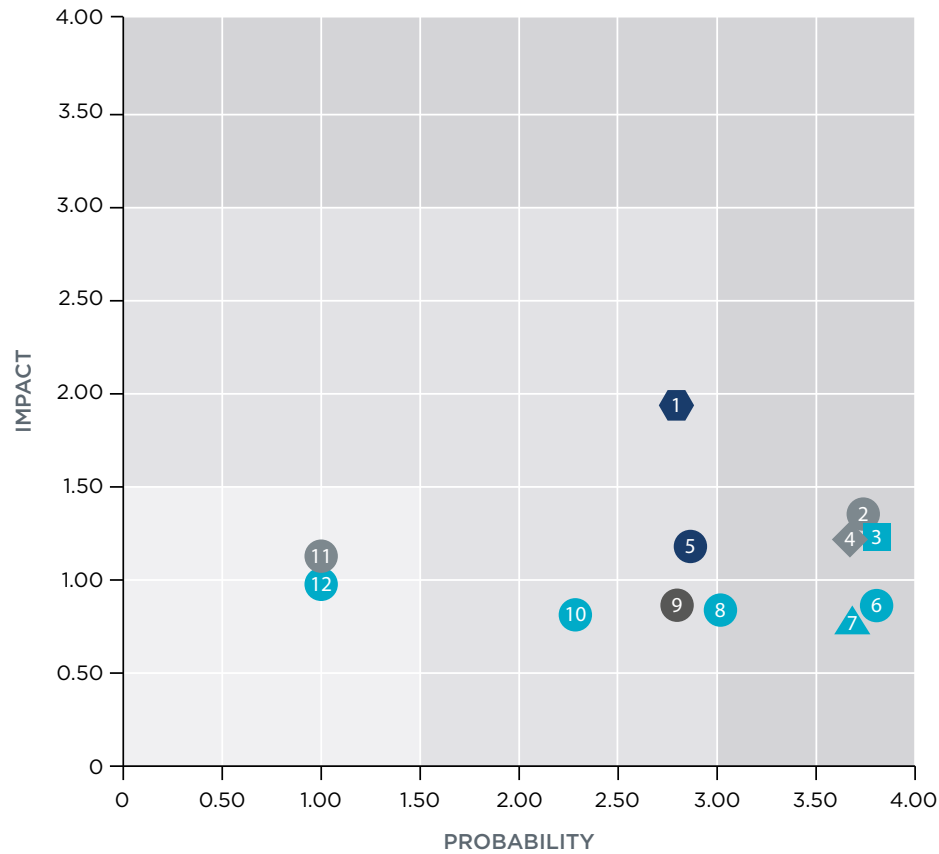
Physical risk

Transition risk





Giving as a result, the following climate opportunities matrix:



\*Based on severity (likelihood × impact).

- 1 Changes in customer behavior/preferences.
- 2 Obtaining financing.
- 3 Direct government incentives related to energy and resource efficiency.
- 4 Direct government incentives related to combating climate change.
- 5 Indirect government incentives
- 6 Changes in customer perception.
- 7 Direct government incentives related to decarbonisation of transport.
- 8 Change in insurance conditions.
- 9 Improvement of the sector's image.
- 10 Differentiation from the competition.
- 11 Opening of new markets.
- 12 Capitalisation of assets.

Current (2022- 2024)
  Short term (2025- 2030)
  Medium term (2030 - 2050)
  Long term (>2050)

Markets
  Resilience
  Products and services
  Energy source
  Resource efficiency



Once the risks have been identified and assessed, adequate responses and controls will be designed with the aim of reaching an acceptable risk level for the Company.

If the risk level, after taking into account the controls and actions undertake to mitigate it, is not within comfort limits (the Organization’s willingness to accept it), additional actions will be required through an Action Plan to reduce the risk level even further to an acceptable level. This Action Plan will be submitted to the Risk department and to the Executive Risk Committee for review and validation.

**CONCLUSIONS ON THE MAIN PHYSICAL RISKS AND THEIR ADAPTATION MEASURES**

Response measures / Adaptation plan

RISKS	DESCRIPTION	SHORT TERM (2025-2030)	MEDIUM TERM (2031-2050)
Reduction in the availability of water resources	<ul style="list-style-type: none"> <li>Adopt water-saving technologies to reduce consumption.</li> </ul>	●	
	<ul style="list-style-type: none"> <li>Train employees to identify water saving measures</li> </ul>	●	
Stormwater and river floods	<ul style="list-style-type: none"> <li>Develop a response mechanism for planning operations and taking preventive measures.</li> </ul>	●	
	<ul style="list-style-type: none"> <li>Design and implement appropriate mitigation measures.</li> </ul>		●
Extreme weather events: Cyclones, hurricanes, typhoons, tornadoes, etc.	<ul style="list-style-type: none"> <li>Evaluate prevention plans and incorporate mitigation measures for possible flooding.</li> </ul>		●
	<ul style="list-style-type: none"> <li>Consider extreme weather events in the emergency plan</li> </ul>	●	
Extreme precipitation: Torrential rains, hailstorms, snowfalls, etc.	<ul style="list-style-type: none"> <li>Develop a response mechanism for planning operations and taking preventive measures.</li> </ul>	●	
	<ul style="list-style-type: none"> <li>Design and implement appropriate mitigation measures.</li> </ul>		●
Raising of environmental temperature	<ul style="list-style-type: none"> <li>Environmental temperature control measures.</li> </ul>	●	
	<ul style="list-style-type: none"> <li>Consider extreme weather events in the emergency plan.</li> </ul>		●

**Metrics and targets**

All issues related to metrics and targets are listed in the Chapter “UP FOR PLANET > Sustainable Products and Assets > SBT Plan 2030”.

