

9

RISK MANAGEMENT

9. 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.

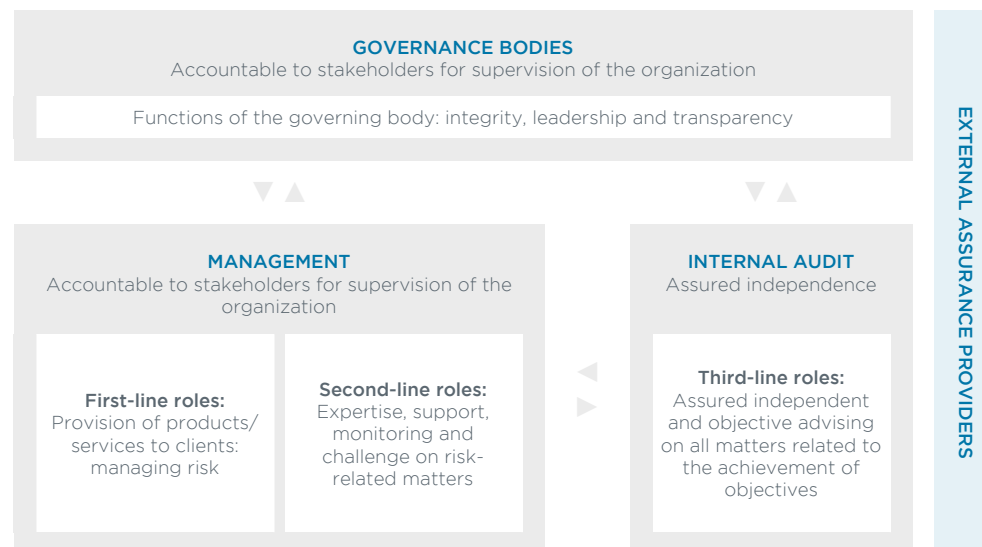
As regulated in article 25 b) paragraph 3 of the Company's Board Regulations, the Audit and Control Committee provides support to the Board of Directors in the supervision of the effectiveness of internal control, internal audit and risk management systems, including tax risk management. In this regard, as in previous years, in 2023, 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, with the prior approval of the Board of Directors.

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 Company's risk management and control system 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 region 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, regions and corporate units) that own the risks and their management (Operations, Sales, Marketing, etc.).
- Second line of defense: provided by the functions in charge of oversight of the risks (Risk Management, Compliance, Data Protection, Internal Control, Sustainable Business, 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 regions, 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:

- Adopt 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 action 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.



**A notable milestone in 2023 is the implementation of a novel and innovative remote monitoring tool. This tool provides information on certain risks, highlighting those related to data protection.*

Risk management catalogue

Identification, prioritization, 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 2023, the Map was approved by the Board of Directors at its meeting held on 18 December 2023.

The Company has updated its Risk Map through a process in which 27 Senior Executives from all Corporate Departments and regions identified, assessed and prioritized the main risks faced by the Company according to the risk catalogue.

As a result, the Company has identified the most relevant risks for the Company. Each of the main risks in the Company's Risk Map is assigned a risk owner, who is a member of the Management Committee.

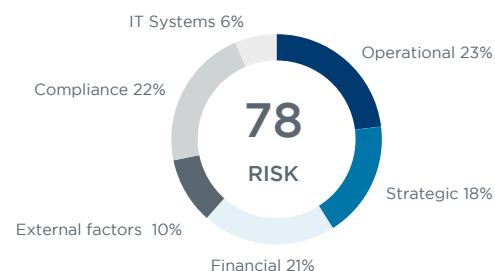
Every year, when the Risk Map is updated, the Risk Management function undertakes a reassessment of the catalogue of risks, both financial and non-financial. The definitive catalogue is validated with the Senior Executives who participate in the process, as well as the bodies involved in its validation (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.

Furthermore, for the main risks in the Risk Map, the Audit and Control Committee periodically supervises the status of these risks. Each of the Risk Owners gives a regular presentation to the Audit and Control Committee on the implementation of the action plans for each of the main risks identified.

It should be noted that the corporate Risk Map sets out the main risks to which the Company is exposed, including those associated to climate change.

Risk Categories

Of the 78 risks identified in the Company's risk catalogue, an analysis was performed to identify the risks related to ESG (Environmental, Social and Governance). The six categories into which the risks NH Hotel Group is exposed to are classified are shown below:



OPERATIONAL

Generated by inadequate management of process and resources, whether human, material or technological.

FINANCIAL

In line with NH's risk profile and aligned with the defined strategy.

COMPLIANCE

Derived from possible regulatory changes, as well as from non-compliance with internal and external regulations

STRATEGIC

Created by difficulties in accessing markets, and difficulties in divestment of assets.

EXTERNAL FACTORS

Consequences of natural disasters health crises, political instability or terrorist attacks.

SYSTEMS

Events that could affect the integrity, availability or reliability of operational and/or financial information.

As a result, it was determined that 37 of the 78 risks are concerned with Environmental, Social and Governance matters, which represents 47% of the total risks. Most of these risks fall under the categories of "Operational" 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.



Management of the main risks identified

		Risk Trend (RT)		Likelihood of the risk		Magnitude
		↑ Increase ↔ Stable ↓ Decrease		Remote; Unlikely, Likely, Very likely		Very significant; Significant; Material
Category	Risk event	Description of the risk	RT	Likelihood	Magnitude	Control and mitigation measures
Business	Labor legislation / collective agreements	New labour 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.	↑	Likely	Significant	<ul style="list-style-type: none"> ■ Presence in associations in the tourist sector. ■ Presence on committees of sector experts. ■ Institutional relations with various bodies. ■ Presence of specialized HR personnel at the negotiation of collective agreements. ■ Collaboration with HR consultants
	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>	↑	Likely	Significant	<ul style="list-style-type: none"> ■ Existence of a Revenue Management Committee. ■ Optimized budgeting process. ■ Periodic analysis of results compared to budget and definition of action plans. ■ Control process over intermediary commissions. ■ Corporate commission policy. ■ Definition of a Strategic Plan aimed at boosting sales through direct channels (Hotel, Website, Central Reservation System). ■ NH DISCOVERY loyalty program. ■ Analysis of price competitiveness (price parity compared to OTAs and distributors). ■ Technological tools to improve pricing and revenue management. ■ Optimized calculation of net ADR using Business Intelligence techniques. ■ OTA diversification strategy and renegotiation of intermediation costs. ■ Periodic analysis of competitors' results by market using external reports.
Strategic	Dependence on city and business segment	Any change in patterns in this segment will affect the Company with a limited possibility of mitigating through other segments.	↑	Unlikely	Significant	<ul style="list-style-type: none"> ■ Existence of an Expansion Committee. ■ Periodic attendance at hotel sector investment conferences. ■ Organization of regular meetings with possible investors to develop hotel projects
	Inability to find additional growth	Inability to find additional ways of growth 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.	↔	Likely	Significant	<ul style="list-style-type: none"> ■ Existence of a documented expansion process (lease and management agreements). ■ Definition of a Strategic Plan aimed at boosting the Company's growth by geographical area, type of contract, brands, segments, etc. ■ Implementation of the Office for Integration with Minor International (principal shareholder). Development of the NH branding the Middle East and the Asia Pacific region and gradual implementation of the Anantara, Tivoli and Avani in Europe and Americas.
Compliance	Data privacy (GDPR)	Possible breaches of the General Data Protection Regulation (GDPR) together with the uncertainty regarding the behaviour 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.	↑	Likely	Material	<ul style="list-style-type: none"> ■ Periodic review and update of the data processing activity matrix for each company in the NH Group. ■ "Privacy by Design" procedures. ■ Existence of the Data Protection Office, supported by specialist advisors. ■ Mandatory online GDPR training for all team members. ■ Existence of a specific channel for reporting possible security breaches related to data protection. ■ Existence of data Recovery Plan.

Category	Risk event	Description of the risk	RT	Likelihood	Magnitude	Control and mitigation measures
Financial	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.	↔	Unlikely	Material	<ul style="list-style-type: none"> ■ Contract management using a computer tool that covers FRS16 currently in force. ■ Specialist advising on new regulations. ■ Periodic attendance at conferences on changes in accounting standards given by specialized advisors (external audit firms). ■ Internal assessment of possible impacts of new accounting standards. ■ Training courses on new accounting standards for the corresponding internal personnel.
	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.	↔	Likely	Material	<ul style="list-style-type: none"> ■ Periodic monitoring of the impact of the exchange rate of the main local currencies. ■ Specific cash repatriation plans from local currency to strong currency (e.g. USD). ■ 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).
Financial (cont.)	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. 2022 was a year in which 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.	↔	Very likely	Significant	<ul style="list-style-type: none"> ■ Periodic monitoring of collective agreement negotiation. ■ Analysis and review of the main sources of operating costs (housekeeping, food and beverages, energy, water, etc.). ■ Monitoring of the correct application of IAS29 due to hyperinflation in Argentina.
	Interest rate risk	<p>2023 was another 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 in 2022 and 2023 to repay the structured debt at variable rates (and therefore affected by the interest rate hikes), thanks to the good cash situation generated by the business.</p> <p>At the end of 2023, 12% of the Group's financial debt is exposed to interest rate fluctuations (88% 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 0.145 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>	↑	Likely	Material	<ul style="list-style-type: none"> ■ Assessment of interest rate hedging instruments and reasonability of the economic/commercial terms.

Category	Risk event	Description of the risk	RT	Likelihood	Magnitude	Control and mitigation measures
Financial (cont.)	Reduction in available credit facilities due to concentration in the banking system	Difficulties in increasing financial instruments such as bank security and WK (confirming) instruments to match the current size and future growth opportunities.	↔	Unlikely	Material	<ul style="list-style-type: none"> ■ Continuous dialog with banks and financial institutions to identify new partners and find the best financing arrangements 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). ■ Analyse new short-term capital market solutions (i.e. commercial paper). ■ New local financial institutions should be identified at national level, as most current lenders are unwilling to increase their exposure. ■ The Company's positioning in ESG may help to diversify financing products.
	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.	↑	Likely	Very significant	<ul style="list-style-type: none"> ■ Existence of a Commercial Strategic Plan aimed at diversification and strengthening of segments. ■ Operational optimization and efficiency projects. ■ Asset Repositioning Strategy
External factors	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>	↑	Likely	Significant	<ul style="list-style-type: none"> ■ Existence of a communication protocol in the event of a crisis. ■ Existence of a Business Continuity Plan and a Disaster Recovery Plan. ■ Quarterly analysis of the economic and geopolitical situation in regions where NH operates and assessment of the impact on the Company's operation. ■ Existence of an Executive Risk Committee. ■ Documented Risk and Insurance Management process. ■ Adaptation of the commercial strategy to mitigate the impact of certain outbound markets (for example, Russia, China)

Category	Risk event	Description of the risk	RT	Likelihood	Magnitude	Control and mitigation measures
External factors (cont)	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. Finally, large market concentrations due to mergers and acquisitions could threaten NH's market share.</p>	↑	Likely	Material	<ul style="list-style-type: none"> ■ Presence in local and/or national associations in the tourist sector, ■ Presence on committees of sector experts. ■ Institutional relations with various bodies. ■ Pilot projects with technological tools to monitor results of collaborative economy service providers in the main city locations where the Company is present. ■ 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).
	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>	↔	Likely	Material	<ul style="list-style-type: none"> ■ Existence of a corporate Security Policy. ■ Periodic intrusion testing to detect vulnerabilities in systems and communications. ■ Perimeter security measures. ■ Periodic analysis of malware, virus, etc. ■ Cybersecurity awareness campaigns (training capsules). ■ Online training in cybersecurity for all team members (mandatory). ■ Information Security Management System based on international standards. ■ Annual audit by an external firm of compliance with PCI-DSS regulations.
Systems	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 the 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>	↔	Unlikely	Material	<ul style="list-style-type: none"> ■ Existence of periodic controls to monitor the performance of NH's technological platforms. ■ Recurring analysis to ensure that versions of the systems are kept up to date. ■ Attendance at events and meetings with suppliers and special consultants to keep abreast of new technological developments. ■ Analysis of business and technological requirements and coordination between departments in projects for the integration of hotels in the portfolio. ■ Performance analysis of the customer booking process on the NH website and using the mobile app. ■ Recurring review of the NH web download time on mobile and desktop devices. ■ FastPass initiative, combination of three innovative services: Online Check-in, Choose Your Room and Online Check-out. ■ Existence of a Digital Evolution Plan (DEP).
	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>	↔	Unlikely	Material	<ul style="list-style-type: none"> ■ 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. ■ The measures detailed above for the risk of cyberattacks (intrusion testing, perimeter security, analysis of malware and viruses, 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)

This analysis includes an assessment of the potential financial impact that these risks and opportunities could have on NH Hotel Group and the impact they could have on its business, strategy and financial planning.

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

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



Anantara New York Palace Budapest Hotel
 Budapest, Hungary

The inventory of opportunities analysed was classified as follows:

Opportunity universe analyzed

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

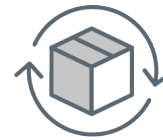
Impact on elements of the value chain (supply chain [SC]; infrastructure management [I]; services [S]).

Once the risks and opportunities for the Company had been identified and defined, a more detailed 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 analysed separately the implications of each risk and opportunity for these three elements in order to assess the effects of the climate change on NH Hotel Group. Thanks to this approach, NH Hotel Group knows in greater detail the impact on the business, on the strategy and on the financial plan.

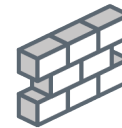


SUPPLY CHAIN

Goods and services necessary for the hotel activity

EXAMPLE

Reduced availability of water resources which entails problems 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 installations 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, reducing their attractiveness to tourists and, therefore, demand.

In order to know how climate impacts affect financial planning, financial variables that would be affected by the most relevant risks and opportunities have been identified.

Financial variables	Example of potential impact for NH Hotel Group
Revenues	Changes in customer behaviour and preferences, such as the decline in tourism in certain areas affected by the physical risks of climate change, would affect 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 and socioeconomic actors, such as Representative Concentration Pathway (RCP), Shared Socioeconomic Pathways (SSP) or International Energy Agency (IEA), principally.

Four specific climate scenarios from this combination have been analysed [SSP1-2.6; SSP2-4.5; SSP3-7.0; SSP5-8.5] 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 all of these, priority has been given to the analysis of risks and opportunities concerning the scenario that 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 where the increase in temperature is successfully limited to less than 2 °C by the end of the century: the scenario SSP1 - RCP 2.6.

This scenario is in line with NH Hotel Group's commitment to become a net zero emissions company by 2050.

As indicated above, 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 analysed by the scientific community for the world climate.

Risk and uncertainty matrix

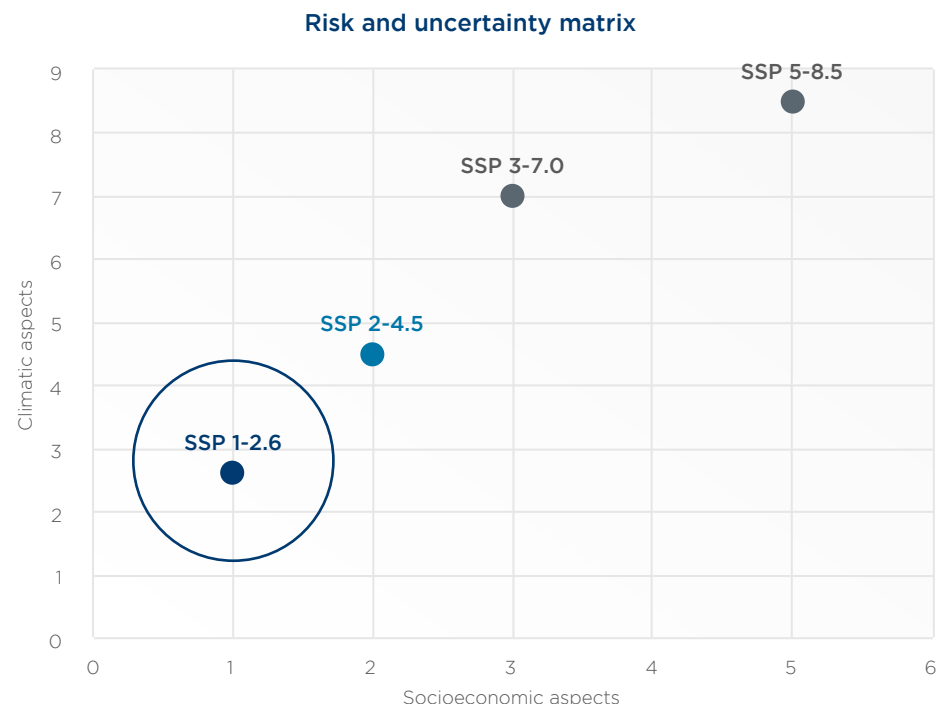


Fig.1 - Scenario selection. The blue arrow is the scenario chosen for the analysis of climate risks and opportunities. Scenario SSP1 -RCP2.6 has been chosen due to NH Hotel Group's commitments to reduce carbon emissions, Minor International's net zero commitments, the TCFD recommendation to choose at 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.

Climate risk 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 (6th Assessment Report (AR6)). Most of the maps showing the evolution of climate variables (causing the physical risks) analysed 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.

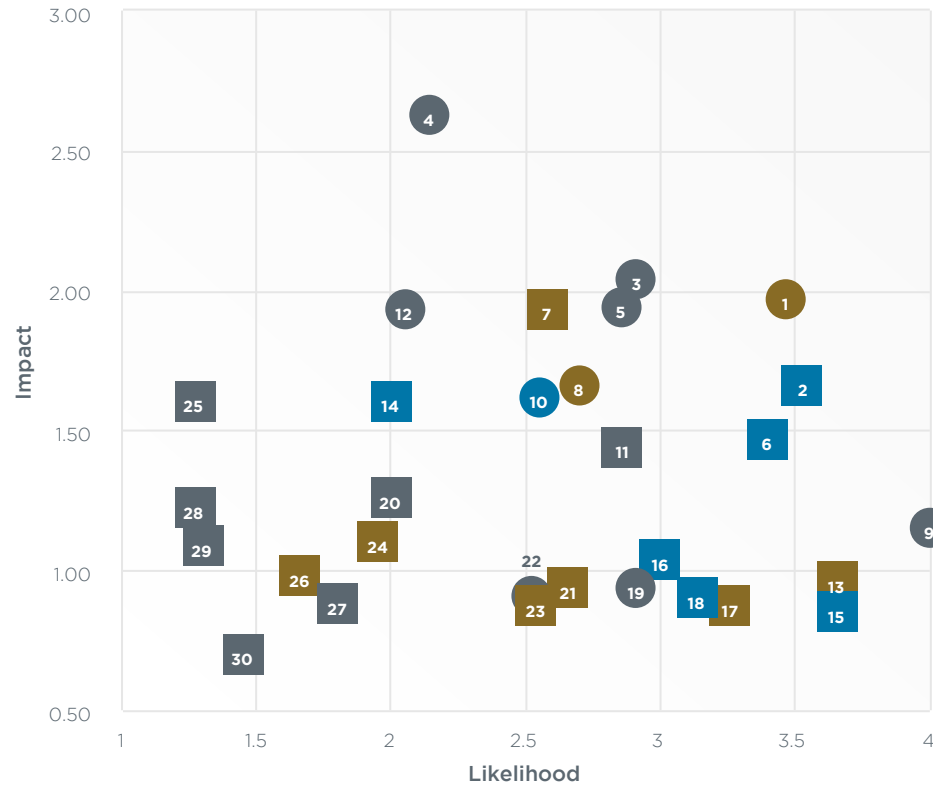
To determine the magnitude of the impact of the risks and opportunities identified, the inherent potential impact and likelihood of occurrence were also evaluated, following the Corporate Risk Scale. This lets the climate risk be integrated into the Corporate Risk Map. Furthermore, to prioritize the 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.

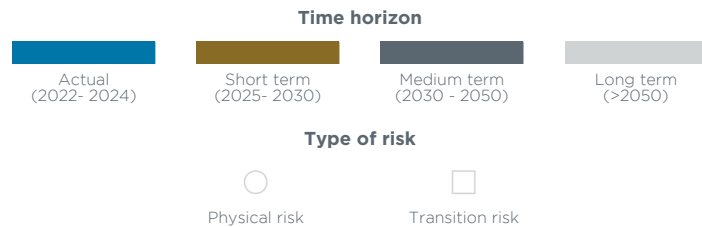
Giving as a result the following climate risk matrix:



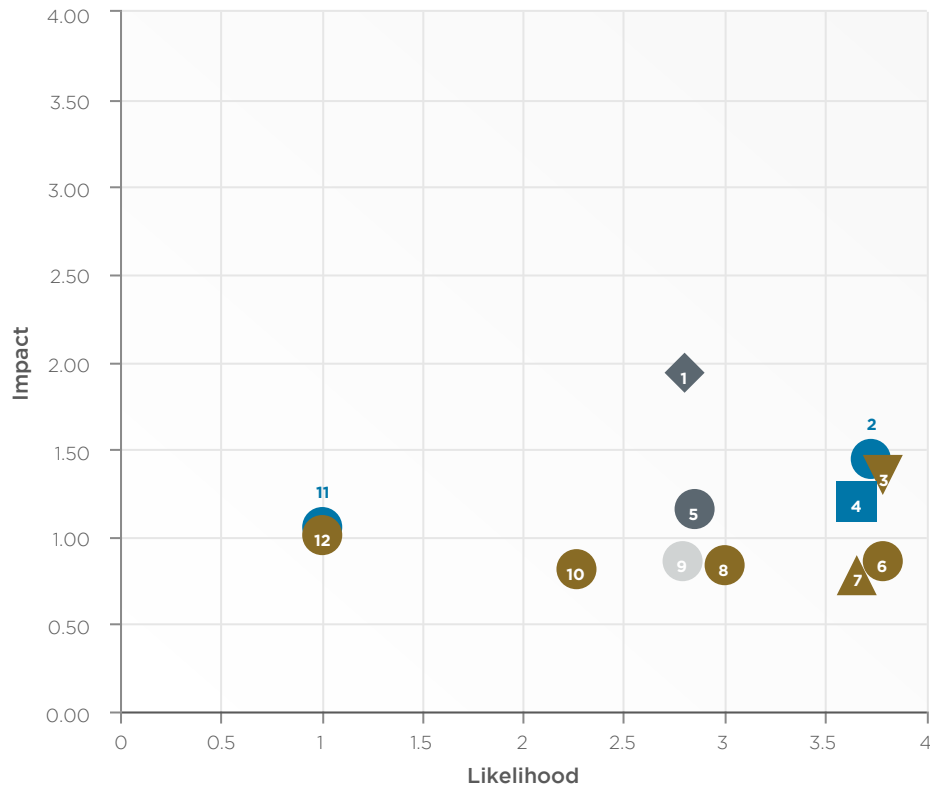
Climate risk ranking*

- 1 Reduced availability of water resources
- 2 Transition to low-emission technologies
- 3 Flash and river floods
- 4 Extreme weather events: Cyclones, hurricanes, typhoons, tornadoes, etc.
- 5 Extreme precipitation: Torrential rain, hailstorms, snowfalls, etc.
- 6 New legal requirements for energy efficiency
- 7 Loss in value of assets
- 8 Sea-level rise
- 9 Rise in air temperature
- 10 Extreme coastal phenomena
- 11 New legal requirements relating to infrastructure security
- 12 Wildfires
- 13 Higher exposure to environmental disputes/violations
- 14 Failure to meet climate targets
- 15 Restrictions on vehicle mobility
- 16 Change in insurance conditions
- 17 New legal requirements related to GHG emissions 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 availability of resources
- 21 Degradation of the image of the sector
- 22 Emergence of insect plagues
- 23 Taxes linked to GHG emissions
- 24 Changes in customer behavior/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

*Ranking based on severity (likelihood × impact).



Giving as a result of the following climate opportunities matrix;



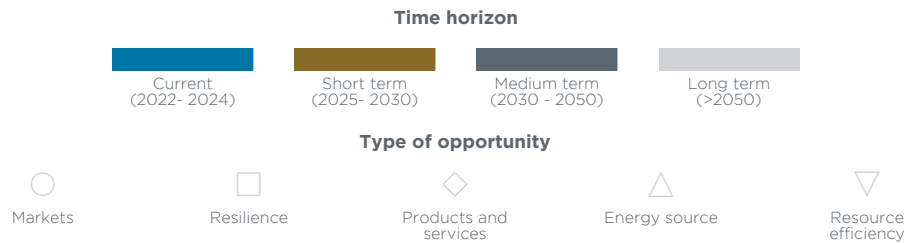
Climate opportunities ranking*

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

*Ranking based on severity (likelihood × impact).

Once the risks have been identified and assessed, adequate responses and controls are being 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 undertaken 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.



Main climate risks and related adaptation measures

Reduction in the availability of water resources

Physical Risk | Short term

The increase in the frequency, duration and intensity of droughts, as well as the exhaustion and contamination of underground water resources by saline intrusion to the increase in the sea level and the infiltration of saltwater in the subsoil may lead to a reduction in the availability of water resources.

The overexploitation of water sources and the alteration of climate patterns contribute to the risk concerning the availability of water resources.

When the demand for water exceeds the available supply, various problems may be generated, such as the scarcity of water for human consumption, irrigation in farming and industrial activities.

Adaptation measures

- Sustainable water management, conservation of aquatic ecosystems and the implementation of efficient practice in water use are fundamental in order to mitigate this risk and guarantee long-term water availability.
- Incorporation of the results of water stress analysis in the decision-making process.
- Raising awareness on the importance of responsible water use and promoting practices that reduce demand.
- Investment in technologies that improve efficiency in water management and use.

Risks of flash and river floods and extreme precipitation

Physical Risks | Medium term

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 the flash flood risk and the extreme precipitation risk 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 the 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 team members, but also on the Group's business and assets, affecting its activity negatively and compromising its financial situation. Protecting guests and team members is a priority for NH Hotel Group, so the Company is responding to these changes, analysing 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.

Adaptation 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 channelling 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 increase in temperature

Physical Risk | Medium term

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.

Adaptation 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.

Risks of extreme weather phenomena

(Cyclones, hurricanes, typhoons, tornadoes)

Physical Risk | Medium term

By 2050, both the average temperature of the earth's surface and the sea temperature will experience significant increases, especially in the basins 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.

Adaptation measures

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

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.

Emerging risks and new challenges

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 (2031-2050). In the risk management process, the Company's environment is analysed in order to identify emerging risks that might not be affecting the business at present but have the potential to do so in the future.

Risk managers may at any time report emerging or newly identified risks for analysis and consideration by the Risk Office. These risks form part of the risk map, but the company analyses them in depth to identify potential long-term impacts and anticipate appropriate mitigation measures. In addition, the early identification and assessment of emerging risks enables the company to make more informed decisions and turn potentially negative events into opportunities.

Internally, the Executive Risk Committee regularly oversees the monitoring of the corporate risk map, which is approved annually by the Board of Directors.



Emerging risks identified in 2023

Adaptation of processes to Artificial Intelligence

Technological Category

Artificial Intelligence (AI) presents some significant dangers, such as the displacement of jobs or security, protection and privacy issues, among others; and raising awareness of these issues helps spark conversations around the legal, ethical, and societal implications of AI. Additionally, it should be noted that there is a great technological sustainability risk. If the entire planet starts using artificial intelligence, there is not enough energy in the world to support it, and there is not enough material to create all the graphics cards needed to make it work.

The applicable regulation in this area in the European Union is not yet defined and AI technologies often collect and analyse large amounts of personal data, which raises issues related to data privacy and security. It is therefore an aspect that requires regulation to assure better conditions for the development and use of this innovative technology.

It is crucial to develop new legal and regulatory frameworks to address the specific issues raised by AI technologies, such as liability and intellectual property rights. Legal systems must evolve to keep pace with technological advances and protect the rights of all. Adequate management of this risk is crucial in order to balance the long-term benefits with the short-term complications.

Mitigation measures

- To mitigate these security risks, best practices for the safe rollout of AI will be developed. In addition, to foster international co-operation to establish global standards and regulations that protect against threats to AI security.
- As AI technologies continue to develop and become more efficient, team members must be provided with training to acquire new skills to remain relevant in the changing landscape.
- Advocating for strict data protection regulations and secure data processing practices. Working to govern adequately the inclusion of such new technologies in everyday life with good change management, to ensure furthermore that the impact is not on replacing people but on increasing capacities.

Transition to new low-emission technologies

Technological-Environmental Category

Changes are taking place in human behaviour towards low-carbon products and activities. Climate-friendly consumption is leading to more sustainable transport, low-carbon manufacturing, and more efficient energy use. In addition, consumers are gradually valuing certification standards (e.g., BREEM or LEED), which is also setting a precedent for consumer behaviour that puts pressure on industries to accelerate the transition. This increased demand for low-emission goods and services will lead to adjustments in value chains.

Shifting from traditional systems and processes towards more sustainable alternatives and keeping up to date with the best available technology to contribute to a low-carbon economy is a challenge. In addition, the costs associated with low-emission technologies due to the purchase of new equipment or replacement of technology. This risk involves aspects such as initial investment in new technologies, the adaptation of existing infrastructure and/or team member training.

As decarbonization processes make further progress, certain technologies or systems used will begin to suffer unforeseen or premature depreciation or devaluation. This would lead to changes in the value of assets and investments.

Other challenges will also arise on replacing existing products and services with innovative low-emission options. This includes the development and use of renewable energy and energy efficiency. It is also likely that some activities will be replaced or become financially unfeasible as more affordable options become available, with direct social implications.

Mitigation measures

- Implementing technologies and practices that improve energy efficiency in facilities. Completing sustainable certification procedures that highlight the commitment to sustainability.
- Evaluating and investing in clean technologies such as more efficiency heating and cooling systems.
- Investments associated to improving the efficiency and useful life of equipment.
- Proactively planning an orderly transition to face the challenges posed by new technologies.