

Objective and scope

This procedure describes the tasks and internal control for the management of overrides and other incentives or discounts granted to intermediaries and, more generally, to clients, by the NH company which performed the hotel service. These incentives are usually generated once a year, but sometimes they may be subject to special conditions.

In any case, the payment of overrides and other incentives is conditioned by the fulfilment of certain sales targets. These amounts correspond to discounts granted to the intermediary for the volume of sales (billing) realized in a determined period of time and always in accordance with the established conditions in the contract.

The clauses relating to discounts and other incentives will be reflected in the contract, formalized with the intermediary, as it is described in the procedure *Contract Management - Intermediaries*.

Based on information gathered in the "*Contract Fact Sheet*", sent by the responsible commercial of the account, Account handler, the relevant departments will carry out different tasks in order to foresee all costs, associated to the agreement with the intermediary.

Keep in mind that the negotiation of these incentives is based on the total billing of the year in terms of a scaling per production volume. Further to the billing scaling, in some cases other incentives are included, for example over commissions, fees per booking, etc., so that the provision of this expense is very complicated.

This procedure is applicable to all BU's, including Corporate. This means that the procedure will also apply to the agreements signed by NH Hoteles SA and travel agencies, tour operators and other intermediaries.

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1.1 Accrual of overrides and other incentives

Responsible: *GL administrative / Management Control*

The accrual for overrides and other incentives will be based at the end of the year on actual data of sales that entitles for this concept corresponding to last year per hotel, regardless the detail of the intermediary.

Regarding the signing of new agreements with intermediaries, the administration department should be responsible to register the accrual communicated by Sales Department in Company books according to the Corporate Chart of Accounts.

Commercial Department will be responsible for including a provision in the new agreements where the invoicing procedure described below is applicable. If this were not be possible, then it should at least be avoided that the agreement contains any reference to the client invoicing the incentives or discounts to NH.

The responsible person of the Management Control (or the department responsible for budgeting/forecasting and monitoring, in case different) will include the commitments in the budget for this concept. That information submitted for budget purposes should be the base for the BU to initiate the accrual on the Company books and it is recommended to be revisited on a quarterly basis based on the actuals sales/production and new forecasting projections for the year end.

As a general guideline, both the consideration in the financial information and in the budget will be done at a hotel level.

1.1 Issuing of invoices

Responsible: *Front Office Staff*

Based on bookings realized by intermediaries, the hotel issues the bill for the intermediary at the moment of the check-out, taking into account the aspects described in the procedure "Check Out and Billing" of the Front Office manual.

1.2 Calculation of overrides and incentives

Responsible: *Commercial Responsible*

At the end of the period established by contract, Sales account responsible calculates overrides and/or other incentives based on the production realized by the intermediary and hotel accordingly with agreed terms. For the calculation of this incentive you can find the necessary reports in the system.

The information for each intermediary and each hotel are collected in a file in order to inform properly to Administration Department.

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1.3 Send information to Administration

Responsible: *Commercial Responsible*

The file for overrides and/or incentive calculation per hotel will be sent to the administration department so that they can proceed to make the necessary adjustments in the provision of incentives foreseen at the beginning of the year.

At the time the agency reaches the sales volume that entitles the discount in accordance with the provisions of the contract with the client, NH will have to issue an amended invoice that reduces the tax base and the VAT amount initially charged to the client.

City Taxes are not affected by the discount, thus the amended invoice should not change the tax initially shown in the original invoice and that was paid by the client.

In cases where the VAT rate was modified during the relevant period, the amended invoice should expressly and separately reduce the VAT charged at the former VAT applicable rate and the VAT charged at the new rate.

Local invoicing requirements in every EU jurisdiction should also be considered.

***BU Italy:** the issue of the amended or rectifying invoice to document the discount or the rappel is optional. The issue of a note without VAT is a simpler procedure and is accepted by the Italian Tax Authorities.

Since the discounts do not affect the VAT charged more than one year ago, it should be expressly agreed with the client that the discount should be granted at the end of every calendar year.

1.4 Accrual adjustment

Responsible: *GL administrative*

Once the file with the corresponding amounts per hotel and intermediary is received, the provision, initially realized by the Administration department should be adjusted.

With this operation the actual expenditure will be more closely to the foreseen amount.

1.5 Negotiation with the intermediary

Responsible: *Responsible commercial of the account*

The responsible of the account will send the corresponding amount to each intermediary with the *overrides* and/or incentives detail, obtained by the sales volume.

The intermediary will be informed that per each legal entity s/he will receive an amended invoice for the scaling agreed in the contract, and that, according to the law the amended invoice will serve as support for:

- a) the cash refund that NH would have to make to the agency, if the latter had already paid the bill initially issued by NH.
- b) the compensation in the payment that could be agreed between NH and the agency by the reciprocal credit and debt.

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the reduction of the VAT initially charged through the issued invoice by NH for the rendered services to the agency, which means a lower VAT to pay or a higher VAT refund request in the monthly VAT return to be filed by the relevant NH company

Following table below stands for approval authorization matrix to be used to grant rappels before amended invoice is issued:

Invoice amount	BU Segment Manager	BU Sales Director	Chief Commercial Officer
< 5.000 €	X		
> 5.000 € and < 50.000 €	X	X	
> 50.000 €	X	X	X

For corporate-level agreements follow the approval workflow, defined in the procedure *AP Invoice authorization*.

1.6 File update

Responsible: Commercial Responsible

Once the commercial and the intermediary reached an agreement, the file will be updated with agreed amounts and sent to the Administration department with the amounts per intermediary and legal entity.

1.7 Amended invoice

Responsible: AR Administrative

The responsible of the GL administration will issue the amended invoices for each of the intermediaries or clients and from the legal entity which performed the hotel service.

In this regard, for corporate level agreements, NH Hoteles SA should not issue or receive invoices related to incentives or discounts, since the hotel services to which such incentives or discounts refer have not been performed by it, but by the relevant NH hotel company.

Afterwards, *Intercompany* procedure is applied in order to reallocate the amounts by hotels based on each production.

The person in charge of the VAT compliance should be provided with the amended invoices issued on a monthly basis so that he/she is in a position to bring them correctly into the VAT returns.

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1.8 Clearing or Debs outstanding

Responsible: *GL/AR Administrative*

By default, the overrides and/or incentives settlement are balanced with the oldest debts. Otherwise the settlement of overrides will be paid through bank transfer from each center but before that, it will be key first to comply with:

- terms and conditions considered in the contract in relation with payment of that override
- premises considered in 1.6 section above, letters a) through c)

2 Related documents

Contract Management – Intermediaries
Contract Fact Sheet
Check Out and Billing
AP invoice approval

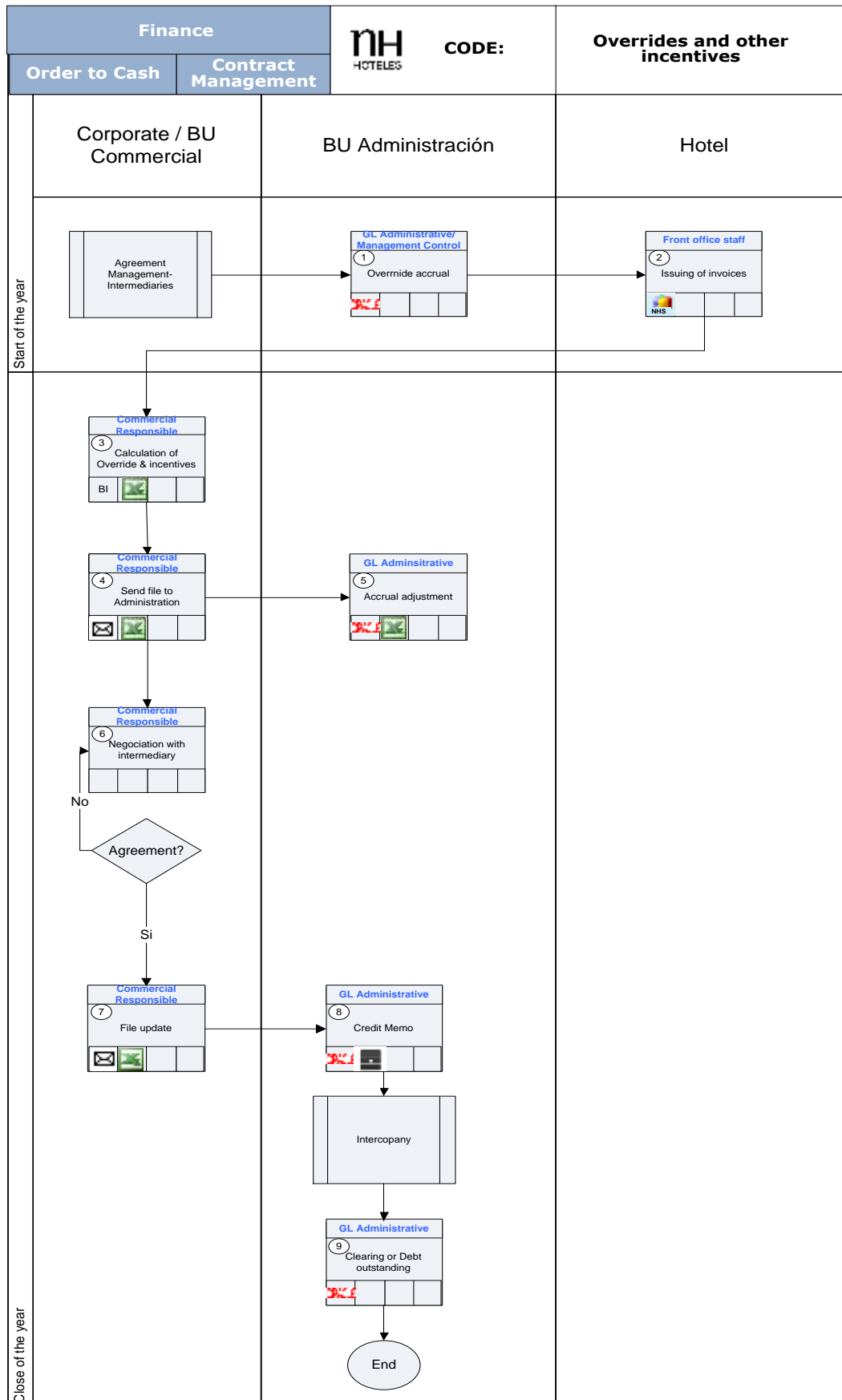
3 Templates and File

Template or Document	Responsible	File period
N/A	N/A	N/A

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4 Flowchart



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Procedure Validation

Version	Corporate area	Approved by:		Approval date
1	Finance (Process Owner)	SVP Administration VP	Francisco Morillo	August 2013
	Commercial (Process Owner)	Chief Commercial Officer	Rufino Pérez	
	Finance	VP Tax		
	Operations	VP Management Control		
	Internal Audit	SVP Internal Audit		
	Resources	SVP Human Resources		
	Management Committee			

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