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RELEVANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS PROCEDURE

SUMMARY

1 OBJECTIVE

The objective of this document is to establish the Internal Control Procedure for the main relevant accounting estimates, assumptions and judgements calculations with significant impact on the consolidated financial statements of NH Hotel Group.

2 MAIN ACCOUNTING HEADINGS WITH ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The accounting estimates, assumptions and judgements are calculated in compliance with the International Financial Reporting Standards (IFRS).

The main accounting headings calculated on the basis of estimates, assumptions and judgements in NH Hotel Group are as follows:

- Tangible and intangible fixed assets – Valuation and Impairment Test
- Deferred tax assets – Tax credits recovery
- Provisions for contingencies and charges (including pension plans)
- Non-current assets and associated liabilities held for sale and discontinued operations

2.a TANGIBLE AND INTANGIBLE FIXED ASSETS – VALUATION AND IMPAIRMENT TEST

2.a.1 VALUATION OF TANGIBLE AND INTANGIBLE FIXED ASSETS

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

Due to the transition to IFRS, the Group reappraised the value of some land to its market value on the basis of appraisals made by an independent expert.

In certain cases, NH Hotel Group registers tangible fixed assets according to their fair value. In this regard, the Corporate Purchasing Department selects leading appraisal firms from several budget requests. Generally, for assets already valued in previous years the Corporate Purchasing Department requests an update of the valuation to the same appraisal firms which performed the valuation in previous years.

Additionally, the Corporate Purchasing Department requests a letter of independence to the appraisal firms to ensure the experience and technical capacity to carry out the assessment work and the independence with regard to the NH Hotel Group, S.A. and related companies, not holding management positions, nor existing any financial or patrimonial entailment.

2.a.2 IMPAIRMENT TEST

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

The calculation of the recoverable amount is normally determined as the value in use. Exceptionally, the Group assesses the recoverable amount on the basis of a renowned independent third party report or a market offering.

Calculation scope

In compliance with IAS 36 – Impairment of Assets, impairment test is conducted where there is an indication of impairment of an asset, with the exception of goodwill and certain intangible assets for which an annual impairment test is required.

NH Hotel Group generally performs the impairment test for those CGU which annual EBIT (Earnings Before Interest & Taxes) is negative and its business is stable (hotels open for at least three years) and for those CGU with impairment recognized in previous years.

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

Additionally, the hotels included in the scope of the impairment test analysis are the ones owned or operated with lease contracts.

This impairment test also includes the assessment of the goodwill which is assigned to one or more CGUs as part of their book value.

Calculation method

The value in use is calculated from the estimated future cash flows, discounted at a discount rate after tax that reflects the current market valuation with respect to the value of money and the specific risks associated with the asset, covering a five-year period and a perpetual value, except in the case of leased hotels that correspond to the lease period, a perpetual value therefore not being considered in the latter.

For the estimation of future cash flows, the baseline information is the result of the year approved by the Group's Management and the historical information relating to at least five previous years. The first projected year corresponds to the budget approved by the Board of Directors for the year following the impairment test. The projections for the following years are consistent with the macroeconomic information from external information sources and the knowledge of the business by the Group's Operations Department.

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

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

These factors are reflected in the flows through the following operating assumptions used to obtain the projections:

- Revenue from accommodation is projected as the product of the percentage occupancy, the average room rate (ADR) and the total number of rooms available per year. "Average Daily Rate" (ADR): is the quotient of total room revenue for a specific period divided by the rooms sold in that specific period. This indicator is used to compare with companies in the sector the average prices per room of the hotels. As regards the ADR, the changes are affected by the type of the hotel that shows signs of impairment in each year.
- The other revenues are projected based on the average of the relationship between the revenue from accommodation and those revenues.
- Staff costs are calculated based on the average staff costs with a growth in the inflation index (CPI).
- For its part, tax is calculated from the tax rates applicable in each country.
- Direct expenses are directly associated with each of the revenues and are projected on the basis of an average ratio, while undistributed expenses are projected based on the average ratio between these and direct expenses.

The Group uses different discount rates range for Europe and Latin America, depending on the different risks associated with each specific asset. In this regard, just as the cash flows resulting from the impairment tests were also calculated after tax. On the other hand, the book value with which the value in use is compared does not include any deferred tax liability that could be associated with the assets.

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

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

Where:

Ke: Cost of Equity; Kd: Cost of Debt; E: Own Funds; D: Debt Amount; T: Tax rate

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

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

- Risk-free rate: the average of the last 12 months of the long-term interest rates, 10-year bond, has been used for each country in the local currency.
- Market risk premium: defined as 6%, based on market reports.
- Beta or systemic risk: Using as external information sources, this information is obtained from independent databases and represents the relationship between companies' risk and global market risk. The re-leveraged beta coefficient has been estimated on the basis of 70% unleveraged betas, the debt structure of comparable companies (Debt / (Debt + Equity) of 32%) and the corresponding tax rate in each country.
- Market value of debt, amounting to 5%.
- Premium by size: based on recent expert reports.

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

If the recoverable amount of an asset is estimated to be lower than its carrying amount, the latter is reduced to the recoverable amount by recognising the corresponding reduction through the consolidated comprehensive profit and loss statement. If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the limit of the original value at which such asset was recognised before the loss of value was recognised.

Responsibilities and approval workflows

The responsibilities and approval workflows are described below:

1) The area of Investment Analysis & IR of the Corporate Finance Department is responsible of preparing the impairment test using a standard model. This process implies the following steps:

   - Load of P&L of each CGU: actual P&L for previous years, forecast P&L for current year, budget P&L for next year and forecast P&L for the following coming years.
   - Load of the following hypothesis used for the calculation of future cash flows: WACC, inflation rate, percentage of capex cash flow over total revenues.

2) The Investment Analysis & IR area reports the impairment test model to the departments of Operations and Finance of the business units. These departments perform the following tasks:

   - Operations Department: reviews the key operating indicators used in the calculation of future cash flows such as ADR, occupancy, etc. and make any reasonable correction based on its business expertise.
   - Finance Department: loads the book value of the CGU, including the consolidation adjustments al local level.

3) Once the previous steps are performed the Finance Departments of the business units report the impairment test model to the Investment Analysis & IR area to be reviewed. This Department analyses the impairment provision resulting and the evolution compared with the previous year in order to detect any inconsistency to be corrected.

   Additionally, the Investment Analysis & IR area shares the impairment test models with the Corporate Consolidation area to review the book value of the CGUs and include any consolidation adjustment applying at corporate level.

4) Once performed the previous reviews the Investment Analysis & IR area reports the impairment test model to the Finance Departments of the business units to be reviewed with their local external auditors. In the case there is any necessary amendment it is included in the impairment test model.

5) According with the impairment test after the review of the auditors the business units register the resulting impairment provision in their accountancy.

6) Afterwards, the business units report the final version after auditor´s review to the Investment Analysis & IR area which shares the information with the Corporate Consolidation area. Additionally, the Corporate Finance Department reviews the results of the impairment provision with the CFO of NH Hotel Group.

7) Once approved the impairment provision resulting from the previous process the P&L effect is presented in the Audit and Control Commission.

Impairment sub-process. Risks and controls associated

The ICFR matrix of risks and controls of the Group identifies the impairment sub-process inside the process of fixed assets. In this sub-process there are two risks identified “The impairment is not accurately recorded” and “Assets are not valued at fair value”. For mitigating these risks there are several controls implemented at business unit and corporate level, performed and evaluated periodically in the ICFR reporting and annual ICFR audit processes.

2.b TAX CREDITS RECOVERY

The cost of the year's income tax is calculated in NH Hotel Group, according to the IFRS, through the sum of the current tax resulting from applying the tax rate to the taxable income for the year and then applying the relevant tax adjustments according to the law plus any changes in deferred tax assets and liabilities.
Deferred tax assets include temporary differences, being any amounts expected to be recoverable due to differences between the carrying amounts of the assets and their tax value, as well as tax loss carry-forwards and any credits resulting from unapplied tax deductions. Said amounts are recognised by applying to the relevant temporary difference or credit the tax rate at which they are expected to be recovered or settled.

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

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

<u>Calculation scope</u>

NH Hotel Group analyses the recoverability of the deferred tax assets of the Group.

<u>Calculation method</u>

The assessment method followed consist of calculating the estimated net result before tax of the Spanish companies inside the tax consolidated group.

The steps are as explained below:

- The baseline data is the net result before tax of the companies inside the tax consolidated group approved for the budget of the year following the year for which the estimation is being assessed.
- The resulting amount is corrected by the financial result considered in the aforementioned budget.
- On the basis of the resulting amount the Group make a projection of this amount for the coming years applying a growth percentage based in the recent historic growth percentages and the expected evolution of the results for the coming years. The growth percentage applied for each of the coming years is variable depending on the business evolution expectations.

<u>Responsibilities and approval workflows</u>

The Corporate Tax Department is responsible of assessing the tax credits of the consolidated tax group at each year-end.

Once performed the calculation the Corporate Tax Department reviews it in conjunction with the Controlling and Financial Analysis Departments in order to validate the growth hypotheses.

After this review the Corporate Tax Department shares the consolidated effects resulting from the assessment with the Corporate Consolidation Department and the CFO of NH Hotel Group.

<u>Taxes process. Risks and controls associated</u>

The ICFR matrix of risks and controls of the Group identifies the Tax Declaration & Reporting sub-process inside the process of Taxes. In this sub-process the risk "Tax loss carryforwards are not accurately registered or are not properly monitored" is identified. For mitigating this risk there is a control implemented at corporate level, which is implemented, performed and evaluated in the annual ICFR audit process.

2.c PROVISIONS FOR CONTINGENCIES AND CHARGES

2.c.1 PROVISIONS FOR LITIGATIONS

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

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

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

<u>Calculation scope</u>

The scope are all the companies of NH Hotel Group applying the situation described above.

<u>Calculation method</u>

NH Hotel Group calculates the provisions for contingencies and charges on the basis of the analysis performed by leading external law firms and the NH Legal Department and their own professional knowledge and experience.

Additionally, for certain legal proceedings the Group can contract services of experts to obtain reports as support of the amount registered for certain provisions for contingencies and charges.

For the calculation of the amount of the provision, the Group considers the risk of occurrence of certain events, following the criteria described below:

- Remote risks: probability of occurrence lower than 15%.
- Possible risks: probability of occurrence between 15% and 50%.
- Probable risks: probability of occurrence higher than 50%.

Generally, the Group registers provision for contingencies and charges for those legal proceedings with possible and probable risks.

<u>Responsibilities and approval workflows</u>

On a quarterly basis, the Legal Departments of the business units report an updated version of the identified litigations affecting companies of their business units with the amount of the provisions to be registered to the Corporate Legal Department, prior review with the Finance Departments of the business units. The Legal Department follows up the litigations to evaluate if the accounting provisions are reasonably covering the risks associated.

Generally, the Legal Departments at corporate and business unit level request the letters from leading external law firms where they report the degree of probability that certain risks associated with identified legal proceedings occur and imply a payment obligation for NH Hotel Group.

This process is normally performed once at the year-end for the annual financial external audit to ensure the accuracy and valuation of the provisions for contingencies and charges reported in the Annual Financial Consolidated Statements.

For those legal proceedings managed by the NH Legal Department the Senior Vice President of the Corporate Legal Department signs a letter with the report of the probability of occurrence of the risks associated for the annual financial external audit.

Additionally, the NH Legal Departments, on the basis of the letters from leading external law firms and their own professional knowledge and experience, assess the provision amount to be registered in the financial statements to cover the risk of future payment obligations.

The Corporate Legal Department updates the detail of legal proceedings affecting companies of NH Hotel Group with the information reported by the Legal Departments of the business units and the litigations managed at corporate level.

The updated detail of litigations and provision amounts are reviewed by the General Counsel of the Group in conjunction with the Corporate Legal Department.

The P&L effect of the provisions for contingencies and charges is reported to the Audit and Control Committee.

Provision & Contingencies Liabilities Process. Risks and controls associated

The ICFR matrix of risks and controls of the Group identifies the sub-process “Litigation” inside the process “Provision & Contingencies Liabilities”. In this sub-process there is an identified risk “Lack of awareness of current litigations”. For mitigating this risk there are several controls at corporate level implemented, performed and evaluated annually in the ICFR audit processes.

2.c.2 LIABILITIES FOR PENSIONS

Calculation scope

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

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

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

Calculation method

In compliance with Royal Decree-Law 16/2005, NH Hotel Group has outsourced the assessment of its pension obligations for its employees' pension plans.

The main factors that the insurance companies consider in their actuarial calculations are:

- Fixed and variable remuneration both in kind and in cash.
- The prior amount is divided by 13.5.
- The annual cumulative fund is reviewed at a fixed interest rate of 1.5% plus 75% of the increase in the consumer price index (CPI).

Responsibilities and approval workflows

Annually, the insurance companies report an assessment of the employee pension plans to the Finance Departments of the business units.

On the basis of these actual reports the NH Finance Departments adjust the provision for pension plans.

Benefits calculation Sub-Process. Risks and controls associated

The ICFR matrix of risks and controls of the Group identifies the sub-process "Benefits calculation" inside the process "FI closing, Consolidation & FI Reporting". In this sub-process there is an identified risk "Errors/inaccuracy in benefits calculation". For mitigating this risk there is a control at business unit level implemented, performed and evaluated annually in the ICFR Internal Control reporting and audit processes.

2.d NON-CURRENT ASSETS AND ASSOCIATED LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

This caption of the consolidated financial statements comprises those assets and liabilities which carrying amount is recovered through a sale and not from continued use. This condition is considered to be met only when the sale is highly probable and the asset is available for immediate sale in its current state, and it is estimated that the sale will be completed within one year from the date of classification.

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

Calculation scope

The valuation of assets and liabilities included in this caption includes the companies Capredo Investments GmbH, Sotocaribe, S.L. and the hotel NH Collection Barbizon Palace.

Calculation method

Non-current assets and associated liabilities classified as held for sale are valued at their historical cost, which in all cases is less than their fair value less selling expenses. For the measurement of fair value, the investment book value plus the amount of the existing unrealized gains of the assets owned by these companies, supported by valuations carried out by independent experts, have been taken into account.

Responsibilities and approval workflows

The area of Consolidation of the Corporate Finance Department is responsible of reviewing and reporting the valuation of assets and liabilities classified as held for sale.

For the measurement of the fair value of these assets and liabilities, the Corporate Purchasing Department selects leading appraisal firms from several budget requests. Generally, for companies and assets already valued in previous years the Corporate Purchasing Department requests an update of the valuation to the same appraisal firms which performed the valuation in previous years.

Additionally, the Corporate Purchasing Department requests a letter of independence to the appraisal firms to ensure the experience and technical capacity to carry out the assessment work and the independence with regard to the NH Hotel Group, S.A. and related companies, not holding management positions, nor existing any financial or patrimonial entailment.

ICFR processes, risks and controls

The area of Internal Control of the Corporate Finance Department determine the necessity of implementing ICFR controls to cover financial risks considering both qualitative and quantitative factors. This calculation is done in the Scope Calculation. On the basis of this calculation the caption “Non-current assets and associated liabilities held for sale and discontinued operations” is not material. For this reason, there are not any processes, risks and controls identified in the ICFR matrix of the Group.