

Corporate Policy on the Internal Control System over Financial Reporting (ICFR)

Corporate Accounting and Financial Reporting
Internal Control Department
November, 2024

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1. Introduction

The purpose of this policy is to define the framework and basic criteria on which the Internal Control System over Financial Reporting (hereinafter, ICFR) of Minor Hotels Europe & Americas (hereinafter, the Group) is configured, as well as the existing mechanisms to supervise its proper functioning. It also describes the principles and good practices applicable to the design, implementation, operation and supervision of the same to strengthen the reliability of financial information for all stakeholders.

The implementation of the ICFR is mandatory for those companies listed on the Spanish market following the approval of Law 2/2011, of 4 March, on Sustainable Economy, which amended Law 24/1988, of 28 July, on the Securities Market by introducing a new chapter VI, article 61 bis, which requires that in the Annual Corporate Governance Report (hereinafter, IAGC) includes a description of the main characteristics of the internal control systems, in relation to the process of issuing financial information.

2. Purpose and scope limitation

The need to meet the supervisory and control requirements of the Board of Directors, through the Audit Committee, requires defining the framework on which the company's ICFR is configured, as well as the existing mechanisms to supervise its proper functioning. This policy defines the basic criteria for the reasonable assurance of the reliability of financial information, with the aim of identifying and controlling the critical risks associated with the authorization, restriction, integrity and accuracy of financial information.

In this sense, the ICFR especially covers processes whose controls mitigate the risks that threaten the objectives of financial reporting: existence and occurrence; integrity; assessment/accuracy; cost; presentation, breakdown and comparability; and rights and obligations.

This policy applies to the Group. It is organized into four *business units* (Corporate, BUNE - Northern Europe-, BUSE -Southern Europe- and BUAM -America-) grouping multiple countries and companies, all of them being within the scope of the same.



3. Responsibility for Internal Control of Financial Reporting

The ICFR is configured as a process integrated into the Group's daily activity in which all areas, within their scope of action (*control owner*), are responsible for internal control and must consider among their tasks the assurance elements necessary to achieve operational objectives (effectiveness) with the minimum use of resources (efficiency), the availability of adequate information for decision-making and external reporting (information - truthful) and the observance of laws and regulations (compliance). In the same way, the possible contingencies that may arise in the development of the same (risks) must be considered, incorporating elements of assurance against possible contingencies (Internal Control structures), as well as for the monitoring (supervision) of the activities and their own internal control structures within their scope of responsibility.

The Group has implemented a model based on the three lines of defense with the aim of guaranteeing the reliability of the financial information reported to the markets:

- **First line of defense:** it is made up of all those employees involved in the preparation and reporting of financial information, as well as those users of the Shared Services Center who support the company in those activities related to the *back office*.
- **Second line of defense:** the Internal Control Department, within the Corporate Accounting & Financial Reporting Area of the Corporate Finance Department, is responsible for managing and updating the ICFR risk and control matrix, as a tool for the implementation of controls that mitigate the identified risks. Among other responsibilities, it carries out

the periodic review of the self-assessment of the controls executed and reported by the first line, communicating and reporting on the main areas for improvement.

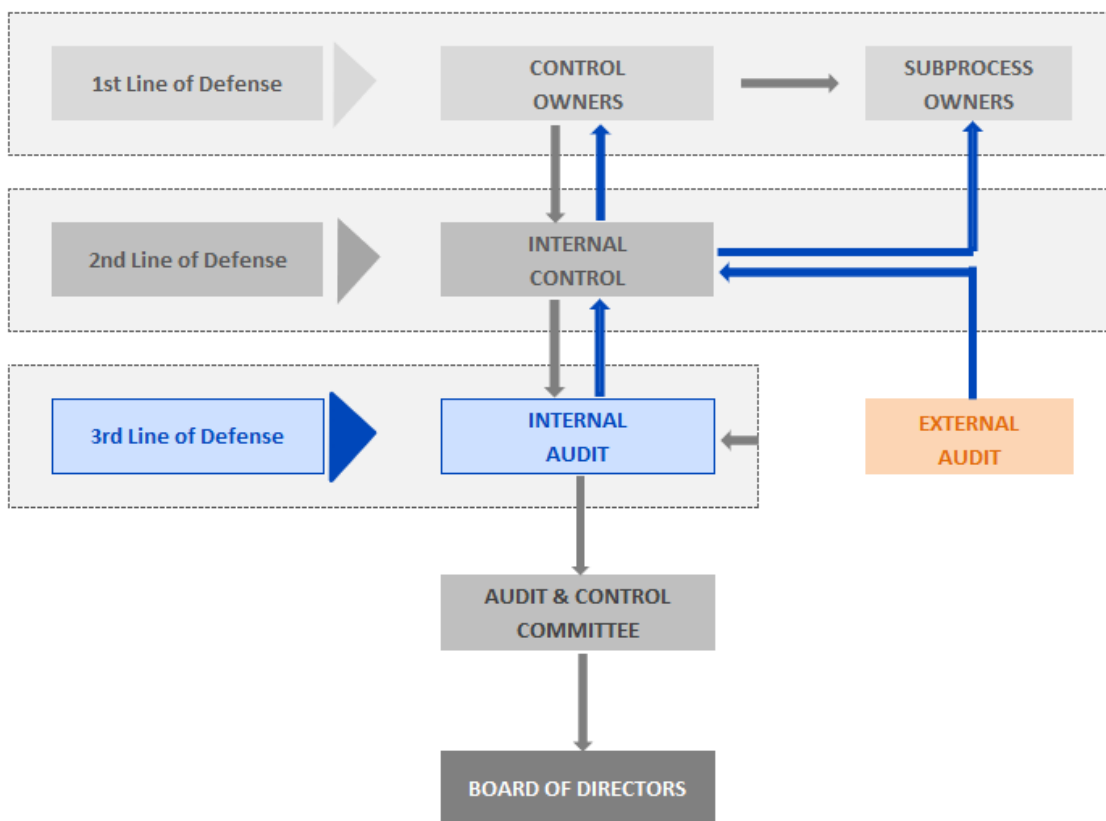
- **Third line of defense:** it is made up of the Corporate Internal Audit Department, after the delegation of the Audit Committee of the SCIIF audit. Throughout the year, an audit of the Group's internal control model of financial information is carried out to provide reasonable assurance to the Audit Committee and the Board of Directors of its effectiveness and, consequently, of the reliability of the financial information formulated.

The main roles and responsibilities that contribute to the Group's control environment are described below.

- **Board of Directors:** the Group's Board of Directors, as established in its Regulations and in accordance with article 529 ter of the Capital Companies Act, has the non-delegable power to determine the risk control and management policy, including tax risks, and the supervision of internal information and control systems. In addition, the existence of an adequate and effective ICFR that provides reasonable assurance on the financial information issued to shareholders, other stakeholders and the market in general is responsible.
- **Audit Committee:** the Group's Audit Committee, in turn, supervises, operating independently of the administration, the effectiveness of the ICFR and evaluates the process of preparation and the integrity of the financial information, reviewing compliance with legal requirements and the correct application of generally accepted accounting principles. as well as the effectiveness of the financial risk control and management systems and/or models relating to the Group. This responsibility is carried out through the corporate Internal Audit department, whose responsibilities include executing, within the Annual Audit Plan, the evaluation of the effectiveness of the ICFR, oriented to the risks on financial information identified and evaluated by the Group. Likewise, the corporate Internal Audit department informs the Group's Audit Committee of the possible significant weaknesses detected during the performance of the audits of the ICFR model, as well as compliance with the established schedule for the measures proposed for their correction.
- **Financial Management:** The Group's Financial Management, as part of the Management Committee, is responsible for the design, implementation and operation of the ICFR, as well as for the identification and assessment of the risks associated with the achievement of the financial reporting objectives and the determination of the scope of the ICFR. Consequently, it prepares and disseminates the policies, guidelines and procedures related

to the generation of financial information and is responsible for ensuring their correct application in the Group. Among its main responsibilities is to define, propose and implement a model for the generation of financial information, to verify, at least annually, the integrity and adequacy of the documentation and the operation of the ICFR and to report on the latest developments in the field of ICFR documentation to the Audit Committee for its knowledge and approval.

- **Other roles and responsibilities:** within the Group's organizational structure, specific functions have been defined that affect the managers of each process defined in the scope of control, the directors of the business units and the directors of the corporate areas directly related to the processes related to ICFR. In addition, to contribute to the existence of an adequate control environment, there is a mechanism within the Group in charge of designing and reviewing its organizational structure. The Management Committee is responsible for defining this structure, while the Group's Board of Directors is responsible for approving the changes in Senior Management proposed by the Appointments and Remuneration Committee.



In the area of guidance and promotion of values and professional practices, the Group's Board of Directors approved a Code of Conduct in 2006, which is regularly reviewed and updated. The main objective of this Code is to determine the principles, values and rules that must govern the behavior and actions of each of its managers and professionals, members of the governing bodies of the Group's companies, as well as the stakeholders that interact with the Group. The Code of Conduct applies in all countries where the Group operates.

With the application of the Code of Conduct, the Group assumes a principle of behavior of transparency of information, committing itself to the transmission of reliable, truthful, complete and understandable information to the markets, including economic and financial information, which must faithfully reflect the economic, financial and equity situation of the Group.

In this line of action, since 2014 the Group has promoted the compliance function through the Code of Conduct itself, accompanied by an Internal Code of Conduct, the Conflicts of Interest Procedure and the Criminal Offences Prevention Model. In the same year, the Compliance Committee was formed, made up of members of the Management Committee, in charge of supervising and ensuring the implementation of the compliance function. The Compliance Office, which is also responsible for its dissemination, and reports directly to the Group's Chief Legal & Compliance Officer and to the Compliance Committee itself, also contributes to this.

There is also a Whistleblowing Channel with the aim of allowing any of its employees, managers, members of the governing bodies and stakeholders who interact with the Group to report, confidentially, any possible breach of the Code of Conduct or any other type of irregularity.

4. Definition of the Internal Control Framework

The Internal Control Model defined by the Group is inspired by the Integrated Internal Control Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).

The COSO framework defines internal control as "the rules, procedures, practices, and organizational structures designed to provide reasonable assurance that the company's objectives will be achieved and that unintended events will be anticipated, detected, and corrected."

COSO's Integrated Internal Control Framework is, since its inception and following its successive developments, the main global benchmark in terms of risk management and

internal control. Its use as a reference in this area facilitates the recognition and validity of the Group's internal control system before third parties, such as external auditors or supervisory bodies.

Considering various references, including the CNMV regulations, the ICFR is a part of the Group's Internal Control Model and is defined as "the set of processes that the Board of Directors, Senior Management and the rest of the Group's staff carry out to provide a reasonable degree of assurance regarding the reliability of the financial information published in the markets".

This integrated control framework consists of five key interrelated components:

- **Control environment:** set of rules, processes and structures that form the basis of the Internal Control Model, including aspects such as ethical principles and responsible business, operation of governing bodies or the definition of reporting levels in the Group. Senior Management is responsible for design and implementation; the Governing Body has ultimate responsibility for the existence and maintenance of an adequate and effective ICFR; and the Audit Committee of its supervision.
- **Risk assessment:** process of identifying and evaluating the main risks that could affect the achievement of the Group's objectives, determining the management to be carried out on them.
- **Control activities:** actions established to ensure the execution of the Directorate's instructions and mitigate risks that could affect the objectives. It includes activities in the different stages of business processes and at the technological level. Several of the Group's hierarchical levels are involved in the application of the controls, and those whose function is related to the preparation of financial information, its review and approval stand out.
- **Information and communication:** activities to obtain and communicate the information necessary for the Group to exercise its responsibilities and controls in line with the established objectives. Communication is considered effective when it occurs at all levels of the organization and is executed in an agile and dynamic way. To do this, it is necessary for the staff to understand how the individual work relates to the work of others.
- **Supervisory activities:** through continuous and independent evaluation, the proper functioning of the components of the Group's Internal Control Model is determined,

informing the Board of Directors and Senior Management of the most relevant matters.
Deficiencies must be reported to Senior Management and the Audit Committee.

In the following sections of the policy, we develop how each of the five fundamental components of internal control in the Group is instrumentalized.

5. Control environment

COSO defines the control environment as "the set of rules, processes and structures that constitute the basis on which to develop the internal control of the organization". In this plane, the General Controls (CG) or *Entity-Level Controls (ELC)* and the General Computer Controls (CGO) or *IT General Controls (ITGC)* are configured, that is, the controls that operate at the company level with an impact at the process, transaction or application level. Examples of this are the Articles of Association, the Regulations of the Board and the Audit Committee, etc. In this regard, the Code of Ethics sets out the guidelines of conduct to be followed and required of all the Group's personnel, as they reflect the values and principles that govern the entire organization.

6. Risk Assessment

The Group applies a *risk-oriented top-down* approach using both quantitative factors (materiality scope criteria) and qualitative risk factors to classify the balance sheet and profit and loss accounts of the Group's different business units. This allows the scope of the ICFR to be delimited in terms of the key processes and sub-processes per reporting unit that must be documented, implemented and ensure their correct operation.

In the risk assessment, the following indicators are assessed as qualitative factors: composition and volume of transactions, automation of processes, accounting complexity, accounting judgments and estimates, experience and knowledge of the Company, standardization of processes, fraud, history of accounting adjustments, changes in accounting policies or criteria and importance of breakdowns of information to the market. The results of the financial reporting risk assessment shall be the basis for the design and implementation of the ICFR control activities described below, as well as for the preparation of the annual plan for their assessment.

For each process within the scope of the ICFR, the following information must be available, among other aspects: significant accounting headings, main financial assertions, specific risks on financial information and key sub-processes to mitigate the risks identified.

The objectives of internal control of financial reporting, compliance with which would reasonably ensure the reliability of financial reporting. The risks associated with the achievement of the control objectives, in accordance with the scope of application defined in this procedure, are identified in the financial information preparation processes and evaluated in terms of materiality, which is determined by the probability of the risk of incurring an error with a material impact on the Group's financial statements.

7. Control Activities

Control activities are defined as the policies and procedures that help ensure that the guidelines set by management are being carried out, being more specific than *entity-level controls*. They are classified according to their nature into preventive, detective or corrective control activities depending on whether they prevent, detect or correct errors that could affect the Financial Statements. On the other hand, according to the level of automation, they are classified into manual, semi-automatic or automatic activities, depending on the level of automation.

Adequate documentation of the ICFR is an integral part of the Group's control model because it facilitates the understanding of control processes and activities, as well as the environment in which the controls operate, and helps to inform the personnel involved of their responsibilities and facilitates the supervision and evaluation of the design of the controls. The control activities of the Group's Internal Control model are detailed in the Risk and Controls Matrix.

In the Group, the Operations Department, through the Business Processes area of the website's intranet, will document and update the Organization's processes, including those that are key in defining the scope of the ICFR, as a result of the prior assessment of the identified risks. These processes will be reviewed and updated if necessary whenever there are changes in them and the risks to the financial information are evaluated.

The Group's Financial Management, through its Internal Control area and on an annual basis, will identify the significant processes and key controls within the scope of the ICFR. To this end, the main risks affecting the financial information will be assessed and the significant accounting accounts will be selected based on materiality and risk scope criteria. Control activities shall include, in any case, the processes related to the different types of transactions that may materially affect the financial statements, including the closing of accounts and the specific review of judgments, accounting estimates, relevant valuations and projections, the process of identifying the scope of consolidation, as well as the processes of supervision of the

management of activities relevant to financial reporting subcontracted to third parties, among others.

In turn, the Internal Control model will mitigate the risks identified at the hotel level, mainly cash refunds and reconciliations, reconciliations between rooms sold and rooms cleaned, the monthly review of the P&L and the review of the End of Day.

Finally, once the control activities that mitigate the identified risks have been identified, they will be configured in the Risk and Controls Matrix, defining their attributes: name, code, description, *control owner and subprocess owner*, organization to which it belongs, control output, periodicity, risks, etc.

8. Information and communication

The information and communication systems implemented in the Group allow for the complete, accurate and timely integration of all transactions, facts and events that affect the Group's companies and organizations. These systems must identify, collect, process and distribute information efficiently and effectively to enable the people involved to perform the functions assigned to them, including the execution of the controls for which they are responsible.

It is the responsibility of all the Company's departments to periodically review their defined processes, policies and procedures, which must be updated and correspond to the reality in force at all times and which may be audited by the Corporate Internal Audit Department according to the annual audit plan approved by the Audit Committee.

The Group has an accounting policy manual and a consolidation manual, published on the intranet, in line with International Financial Reporting Standards (IFRS), which govern the Group. The Group's Financial Department, through the Corporate Accounting & Financial Reporting area, is responsible for defining, updating and correctly applying accounting policies, as well as responding to questions and doubts that arise in their interpretation. In this same sense, it is responsible for communicating to the heads of the business and corporate units of any change that occurs in accounting matters and that affects them in terms of the reporting of financial information.

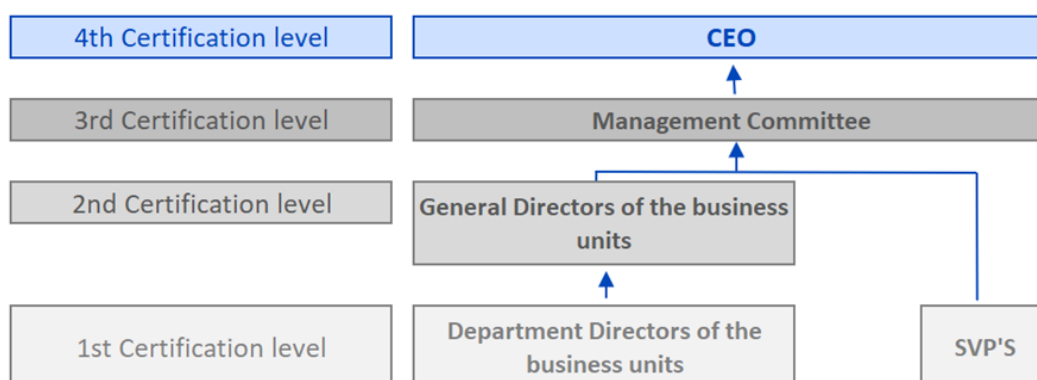
The mechanism for capturing and preparing the information supported by the individual financial statements is the SAP ERP, while the consolidated financial statements are prepared in the HFM-ORACLE tool. The information detailed in the ICFR is compiled and centralized by the Financial Management through the Corporate Accounting & Financial Reporting Area,

which, through the different sub-directorates of its management, holds interviews with the different directors of the areas involved.

9. Monitoring and Self-Assessment

The ICFR oversight model is based on continuous evaluations ("self-evaluation") and independent evaluations to ensure that each of the five components of internal control function properly:

- **Continuous evaluations (self-assessment, certification or *sign off*):** annually at the end of the year and through the SAP GRC application, the Internal Control area launches the corresponding design and effectiveness tests of the controls. SAP GRC includes a Corporate SCIIF Model Certification Activity that is performed by the members of the Management Committee, the General Directors of the business units, the Department Directors of the business units, and the SVPs (VPs when no SVP is available) of Corporate for those departments/areas with ICFR controls that impact the financial information prepared or reported by those departments/areas. The approval flow is as follows:



- **Independent evaluations:** the Audit Committee is responsible for overseeing the Group's internal control system, delegating this task to the corporate Internal Audit department. Based on the results of the risk assessment, the Internal Audit function prepares the Group's ICFR evaluation plan annually. The scope of the evaluation of the ICFR, in each period, will be submitted for approval by the Audit Committee as responsible for the supervision of the ICFR.

The process of supervising the internal control system must be carried out continuously during the year. In this way, reasonable assurance is achieved that the information contained in the interim financial statements and in the annual accounts is reliable.

The results of the reviews carried out are communicated to the Audit Committee and Board of Directors, together with the recommendations for improvement and the deficiencies identified. For the last two cases, action plans are created for their solution.

Finally, the information provided to the market or stakeholders on the ICFR is included in section F of the IAGC, which is annual and refers to the end of the financial year to which the financial report corresponds.

10. Design and review of controls

The Internal Control area is responsible for keeping the ICFR's risk and controls matrix updated to mitigate the main financial risks associated with the processes established in the Group at all times. Updates to the model may involve the creation and implementation of new controls, the modification of existing ones, and/or the elimination of controls that no longer apply, so that they are aligned with the company's policies and procedures.

For this, there are mainly two channels:

- **First-line of defense reporting** in SAP GRC using the "self-assessment" and "control design evaluation" control activities.
- **Periodic review of processes**, whenever there is any new process to be approved or any changes to be made to current processes that may directly or indirectly impact the Group's financial information.

In addition to this procedure, the Internal Control area analyzes that any potential financial risk associated with the new process or with changes in the current processes are mitigated before its implementation.