FINANCIAL REPORT I 2016

MELIÃ HOTELS INTERNATIONAL

MELIÁ 60 YEARS OF HOSPITALITY

INDEX

CONSOLIDATED ANNUAL ACCOUNTS

MANAGEMENT REPORT

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided only for information purposes. In the event of any discrepancy between the text of the original Spanish-language document shall prevail.

A free translation of the report on the annual accounts originally issued in Spanish. In the event of a discrepancy the Spanish language version prevails.

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of Meliá Hotels International S.A.:

Report on the consolidated annual accounts

We have audited the accompanying consolidated annual accounts of Meliá Hotels International, S.A. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated profit and loss statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' responsibility for the consolidated annual accounts

The parent company´s directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Meliá Hotels International, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company´s directors´ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Meliá Hotels International, S.A. and its subsidiaries as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated directors' report for 2016 contains the explanations which the parent company´s directors consider appropriate regarding Meliá Hotels International, S.A. and its subsidiaries´ situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the directors' report is in agreement with that of the consolidated annual accounts for 2016. Our work as auditors is limited to checking the directors' report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Meliá Hotels International, S.A. and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Originally signed by
Mireia Oranias Casajoanes

7 April 2017

CONSOLIDATED BALANCE SHEET - ASSETS

(Thousands of €)	Note	31/12/2016	31/12/2015
NON-CURRENT ASSETS			
Goodwill	9	60,769	61,036
Other intangible assets	9	109,314	97,725
Tangible fixed assets	10	1,693,393	1,578,997
Property investments	11	141,136	139,091
Investments measured by the equity method	12	190,101	179,381
Other non-current financial assets	13.1	209,908	231,270
Deferred tax assets	18.2	135,941	132,186
TOTAL NON-CURRENT ASSETS		2,540,562	2,419,685
CURRENT ASSETS			
Inventory	14.1	63,954	81,460
Trade and other receivables	14.2	275,269	254,488
Income tax assets	18.2	29,614	28,560
Other current financial assets	13.1	47,297	30,218
Cash and cash equivalents	14.3	366,775	348,617
TOTAL CURRENT ASSETS		782,907	743,344
TOTAL ASSETS		3,323,470	3,163,029

CONSOLIDATED BALANCE SHEET - EQUITY AND LIABILITIES

(Thousands of €)	Note	31/12/2016	31/12/2015
EQUITY			
Subscribed capital	15.1	45,940	39,811
Issue premium	15.1	1,121,070	877,318
Reserves	15.2	342,606	296,796
Treasury shares	15.3	(14,256)	(39,863)
Retained earnings	15.4	327,444	301,380
Other equity instruments	15.5	(0)	108,730
Conversion differences	15.6	(400,725)	(353,765)
Other measurement changes	15.6	(2,465)	(2,779)
Year's results imputed to the parent company	8	100,693	35,975
NET EQUITY IMPUTED TO THE PARENT COMPANY		1,520,307	1,263,602
Non-controlling interests	15.7	43,307	50,947
TOTAL NET EQUITY		1,563,613	1,314,549
NON-CURRENT LIABILITIES			
Bonds and other negotiable securities	13.2	47,799	223,129
Bank borrowings	13.2	570,929	494,859
Other non-current financial liabilities	13.2	13,754	16,378
Capital grants and other deferred income	16.1	28,603	29,134
Provisions	16.2	35,577	49,469
Deferred tax liabilities	18.2	184,689	161,715
TOTAL NON-CURRENT LIABILITIES		881,352	974,684
CURRENT LIABILITIES			
Bonds and other negotiable securities	13.2	39,495	115,012
Bank borrowings	13.2	251,007	284,412
Commercial creditors and other accounts payable	17	459,662	397,344
Income tax liabilities	18.2	33,233	26,075
Other current financial liabilities	13.2	95,107	50,953
TOTAL CURRENT LIABILITIES		878,505	873,796
TOTAL LIABILITIES AND NET EQUITY		3,323,470	3,163,029

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Thousands of €)	Note	2016	2015
Operating income	**7.1**	**1,801,962**	**1,738,207**
Expenses	7.2	(222,783)	(214,823)
Staff costs	7.3	(489,707)	(463,321)
Other costs	7.4	(640,167)	(623,253)
EBITDAR		**449,305**	**436,810**
Leases	20.1	(163,727)	(143,733)
EBITDA	**6.1**	**285,578**	**293,078**
Amortisations and impairments	7.5	(111,452)	(129,130)
Negative consolidation difference	7.6	1,621	
EBIT / Operating profit		**175,746**	**163,948**
Exchange results		4,676	10,409
Bank financing		(42,121)	(70,708)
Other financial results		7,701	1,756
Financial result	**7.7**	**(29,743)**	**(58,542)**
Results of entities measured by the equity method	**12**	**1,585**	**(3,787)**
RESULT BEFORE TAXES		**147,588**	**101,619**
Corporate income tax	18.6	(44,640)	(61,103)
CONSOLIDATED RESULT		**102,948**	**40,515**
A) Attributed to the parent company	8	100,693	35,975
B) Attributed to minority interests	15.7	2,255	4,541

BASIC PROFIT PER SHARE IN EUROS	**8**	**0.44**	**0.18**
DILUTED PROFIT PER SHARE IN EUROS	**8**	**0.44**	**0.18**

CONSOLIDATED GLOBAL INCOME STATEMENT

(Thousands of €)	Note	2016	2015
Consolidated net result		102,948	40,515
Other global result:			
Items that were not transferred/reclassified with the results			
Other results imputed to equity	3.15	12,601	14,644
Actuarial profits and losses in pension plans	16.2	(110)	(113)
TOTAL		12,491	14,531
Items that were able to be transferred subsequent to the results			
Conversion differences	15.6	(45,442)	(8,353)
Cash flow hedges	13.3	604	1,601
Entities measured by the equity method	12	(7,556)	587
Tax impact	18.2	(136)	(291)
TOTAL		(52,531)	(6,455)
Total other global result		(40,039)	8,076
RESULTADO GLOBAL TOTAL		62,909	48,591
A) Attributed to the parent company		59,031	42,867
B) Non-controlling interests	15.7	3,878	5,724

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Thousands of €)	Note	Capital	Issue premium	Other reserves	Treasury shares	Retained earnings	Meas-urement changes	Parent company results	Total	Minority interests	TOTAL NET EQUITY
NET EQUITY AT 31/12/2014		39,811	865,213	424,755	(51,968)	259,764	(354,727)	30,406	1,213,255	54,729	1,267,984
TOTAL RECOGNISED INCOME AND EXPENSES		0	0	(100)	0	15,970	(8,978)	35,975	42,867	5,724	48,591
Distribution of dividends				(5,952)					(5,952)	(3,445)	(9,397)
Capital increases	15.1										
Operations with treasury shares	15.3		12,105	(6,001)	12,105				18,209		18,209
Other operations with partners or owners						(1,915)			(1,915)	(6,085)	(8,000)
OPERATIONS WITH PARTNERS OR OWNERS		0	12,105	(11,953)	12,105	(1,915)	0	0	10,342	(9,530)	812
Transfers between net equity items				(7,160)			7,160				
Distribution of 2014 results	15.4					30,406		(30,406)			
Other changes				(16)		(2,846)			(2,862)	24	(2,838)
OTHER CHANGES TO NET EQUITY		0	0	(7,177)	0	27,560	7,160	(30,406)	(2,862)	24	(2,838)
NET EQUITY AT 31/12/2015		39,811	877,318	405,526	(39,863)	301,380	(356,544)	35,975	1,263,602	50,947	1,314,550
TOTAL RECOGNISED INCOME AND EXPENSES		0	0	(82)	0	5,066	(46,646)	100,693	59,031	3,878	62,909
Distribution of dividends	8			(9,126)					(9,126)	(4,507)	(13,633)
Conversion of financial liabilities into net equity				(28,104)					(28,104)		(28,104)
Capital increases	15.1	6,129	218,145						224,274		224,274
Operations with treasury shares	15.3		25,607	(25,607)	25,607				25,607		25,607
Other operations with partners or owners						(14,212)			(14,212)	(7,020)	(21,232)
OPERATIONS WITH PARTNERS OR OWNERS		6,129	243,752	(62,837)	25,607	(14,212)	0	0	198,439	(11,527)	186,912
Transfers between net equity items						(8)			(8)	8	0
Distribution of 2015 results	15.4					35,975		(35,975)	0		0
Other changes						(757)			(757)		(757)
OTHER CHANGES TO NET EQUITY		0	0	0	0	35,210	0	(35,975)	(765)	8	(757)
NET EQUITY AT 31/12/2016		45,940	1,121,070	342,606	(14,256)	327,444	(403,190)	100,693	1,520,307	43,307	1,563,613

CONSOLIDATED CASH FLOW STATEMENT

(Thousands of €)	Note	2016	2015
OPERATING ACTIVITIES			
Receivables from operations		2,153,139	2,099,316
Payments to suppliers and to staff for operating costs		(1,841,456)	(1,791,931)
Collections/(payments) for profit tax		(54,594)	(36,808)
CASH FLOWS FOR OPERATING ACTIVITIES		257,089	270,577
FINANCING ACTIVITIES			
Collections and (payments) for equity instruments:		**(3,914)**	**(2,413)**
Acquisition	15.3	(3,914)	(2,413)
Collections and (payments) for financial liability instruments:	**13.2**	**9,322**	**(236,187)**
Issue		358,202	244,926
Refund and amortisation		(348,880)	(481,113)
Payments for dividends and remuneration of other equity instruments		(12,354)	(6,882)
Other cash flows for financing activities		**(36,550)**	**(63,978)**
Interest payments	7.7	(38,473)	(65,241)
Other collections/ (payment) flows for financing activities		1,924	1,262
CASH FLOWS FOR FINANCING ACTIVITIES		(43,496)	(309,460)
INVESTMENT ACTIVITIES			
Investment payments:		**(260,320)**	**(185,799)**
Group companies, affiliates and business units		(114,261)	(121,155)
Tangible and intangible fixed assets and property investments	9,10,11	(138,331)	(64,206)
Other financial assets		(7,728)	(438)
Divestment receipts:		**69,804**	**223,819**
Group companies, affiliates and business units		36,244	48,777
Tangible and intangible fixed assets and property investments	9,10,11	29,004	174,515
Other financial assets		4,556	528
Other cash flows for investment activities:		**1,539**	**1,288**
Dividend receipts		1,537	1,288
Interest receipts		2	
CASH FLOWS FOR INVESTMENT ACTIVITIES		(188,977)	39,309
Change in exchange rate in cash and cash equivalents		(6,459)	10,914
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		18,157	11,340
CASH AND CASH EQUIVALENTS AT THE START OF THE PERIOD	14.3	348,617	337,277
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	14.3	366,775	348,617

1. INFORMATION ABOUT THE GROUP

The parent company, Meliá Hotels International, S.A., is a Spanish public limited company that was established in Madrid on 24 June 1986 as Investman, S.A. On 1 June 2011 the shareholders' general meeting approved the change of name to Meliá Hotels International, S.A. With entry in the Baleares companies register volume 1335 page nº PM 22603 3rd registration. In 1998, the company moved its registered office to 24 calle Gremio Toneleros, Palma de Mallorca.

Meliá Hotels International, S.A. And its subsidiaries and affiliated companies (hereafter the "Group" or the "Company") comprise an integrated group of companies fundamentally dedicated to tourist activities in general and more specifically the management and operation of its hotels, rentals under a "management" or franchise system, as well as vacation club operations. The group is also dedicated to promoting all kinds of businesses relating to tourist and hotel contexts or leisure, relaxation or recreational activities, as well as participation in the creation, development and operation of new businesses, establishments or entities in tourist and hotel contexts and any other leisure, relaxation or recreational activity. Likewise, some companies in the group carry out property operations, making use of the synergies from the strong expansion in hotel developments.

In any case, activities that special laws reserve to companies that fulfil particular requirements that are not fulfilled by the group are expressly excluded; in particular, all activities that the law reserves to collective investment societies or to securities market dealers shall be excluded.

The different company segments have a footprint in 43 countries around the world and 4 continents, with a significant presence in South America, the Caribbean and Europe and as the number one in the sector in Spain. Its strategic focus on international expansion has led it to become the leading Spanish hotelier with a presence in China, the US or the United Arab Emirates.

2. BASES OF PRESENTATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

The Meliá Hotels International group has presented its consolidated annual accounts in in accordance with the International Financial Reporting Standards (IFRS) and its interpretations (ICIFRS) in force on 31 December 2016, published by the International Accounting Standard Board (IASB) and adopted by the European Union.

These consolidated annual accounts were formulated by the board of directors of the parent company and are pending approval by the shareholders' general meeting, and are expected to be approved without change.

The figures in the balance sheet, profit and loss account, the global statement of income, statement of changes in equity, the cash flow statement, as well as the accompanying notes are expressed in euros, rounded off to the nearest thousand, except if the contrary is indicated.

The group's consolidated annual accounts were elaborated in accordance with a historical cost approach except for the parts shown in the items of property investments, derivatives and financial assets at fair value with changes posted in the results which are valued at fair value (see Note 4.6). It should be mentioned that the balances from the group's Venezuelan companies, were re-expressed at current cost according to IAS 29, since this country is considered as a hyperinflationary economy (see Note 3.15).

This year the group adopted the standards approved by the European Union whose application was not obligatory in 2015. These standards had no significant impact on the group's financial situation:

- Annual improvements to the IFRS (2010-2012 cycle): IFRS 2 "Payments based on shares", IFRS 3 "Business Combinations", IFRS 8 "Operating Segments", IAS 16 "Tangible fixed assets", IAS 38 "Intangible assets" and IAS 24 "Information to be disclosed on related parties.
- IAS 19 amendment: "Defined benefit plans": Employees' contribution".
- IFRS 11 amendment: "Joint agreements: recording of acquisition of holdings in joint operations".
- IAS 16 and IAS 38 amendment: "Clarification of acceptable depreciation methods".
- IAS 16 and IAS 41 amendment: "Agriculture: Producing plants".
- IAS 27 amendment: "Participation method in separate financial statements".
- Annual improvements to the IFRS (2012-2014 cycle): IAS 19 "Employee salaries", IAS 34 "Interim financial information", IFRS 5 "Non-working capital assets held for sale and discontinued operations", IFRS 7 "Financial instruments: Information to be disclosed".
- IAS 1 amendment: "Information revelation initiative".
- IAS 28 and IFRS 10 and 12 amendment: "Investment entities: Applying the consolidation exception".

The accounting policies applied are consistent with those of the previous year, taking into account the adoption of the standards and interpretations commented in the previous paragraph.

The standards issued prior to the date these consolidated annual accounts were formulated and which will take effect on dates subsequent are as follows:

- IFRS 9: "Financial instruments".
- IFRS 15: "Income from contacts with customers".
- IFRS 16: "Leases".
- IAS 28 and IFRA 10 amendment: "Sale or contribution of assets between an investor and its associates or joint ventures".
- IFRS 15 amendment: "Clarifications to IFRS 15".
- IAS 7 amendment: "Initiative on information to be disclosed".
- IAS 12 amendment: "Recognition of deferred tax assets for unrealised losses".
- IFRS 2 amendment: "Classification and valuation of transactions with payments based on shares".
- IFRS 4 amendment: "Application of IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts".
- Annual improvements to the IFRS (2014-2016 cycle): IFRS 1 "Adoption for the first time of the International Financial Reporting Standards", IFRS 12 "Disclosure of participations in other entities" and IAS 28 "Investments in associated entities and joint ventures".
- IAS 40 amendment: "Transfers of property investments".
- ICIFRS 22: "Transactions and advance cash payments"

In January 2016, the IASB issued the new regulations on leases (IFRS 16) which assume the relevant changes in the composition of assets and liabilities of the group and in the structure of the consolidated statement of income. Even without knowing the date this standard is to be adopted by the European Union, the group has not scheduled its adoption in advance so the said changes will affect the consolidated annual accounts of 2019 and later.

To be able to quantify the impact of this standard and monitor it once it takes effect, the company has designated a working group this year to this end, in a project that relies on adequate revision by independent auditors. Currently, the different options offered by the standard on the transition date as well as its possible accounting impacts are being assessed.

On the other hand, the group is in the process of evaluating the impacts that may be involved in the new IFRS 15 "Ordinary income from client contracts", even if its impacts are not expected to be significant.

2.1 FAITHFUL PORTRAIT

The balance sheet and consolidated profit and loss account were prepared from the internal accounting records of the parent company, Meliá Hotels International, S.A. And the accounting records of the rest of the companies in the scope of consolidation detailed in Appendices 1 and 2, duly adjusted according to the accounting principles established by the IFRS and provide a faithful portrait of the assets, financial situation and results of the company.

2.2 ALTERNATIVE RETURN MEASURES

In accordance with the guidelines published by ESMA (European Securities and Markets Authority) on 5 October 2015 (ESMA//2015/1415es), the main alternative earnings measures used by the company are broken down below, as well as their basis of calculation, considering as such past or future financial return measures of the financial situation or cash flows.

- **EBITDAR** (Earnings Before Interest, Tax, Depreciation, Amortization, & Rent): Earnings Before Interest, Tax, Depreciation, Amortization, & Hotel Rent.
- **EBITDA** (Earnings Before Interest, Tax, Depreciation & Amortization): Earnings Before Interest, Tax, Depreciation & Amortization.
- **EBIT** (Earnings Before Interest & Tax): Earnings Before Interest & Tax/operating profit.
- **Net debt**: This is calculated as the difference between bank debt and the issue of short and long-term securities, less cash and other cash equivalents.
- **% Occupation**: This is the ratio resulting from the division of occupied rooms (apart from supplement waivers) between available rooms. Available rooms are considered the number of physical rooms multiplied by the number of days that the room was available for occupation. Likewise, occupied rooms are calculated as the number of days that physical rooms were effectively occupied during the period.
- **RevPar** (Revenue Per available room): Income per available room results from dividing total room income between the number of available rooms.
- **ARR** (Average room rate): The average price per room is calculated by dividing the total room income between occupied rooms (apart from supplement waivers).
- **GOP** (Gross Operating Profit): Gross operating results is calculated as the difference between operating income and expenditure defined in the USALI (Uniform System of Accounts for the Lodging Industry) account structure.

2.3 COMPARISON OF INFORMATION

A balance sheet, profit and loss account, global statement of income, statement of changes in net equity and cash flow statement for 2016 and 2015 is presented.

Comparative amounts for 2016 and 2015 with respect to the quantitative information recorded in the separate notes to the financial statements. In relation to the scope of consolidation, the main changes that occurred in 2016 and 2015 compared to the previous year were commented in Note 5.

2.4 CONSOLIDATION

SUBSIDIARIES

Subsidiaries are all the companies over which the group exercises effective control which is generally accompanied by participation greater than half of the voting rights.

In addition to the percentage of participation, when assessing if there is control over a company, the group considered the following aspects:

- Power over the affiliated company, granting it the capacity to direct its relevant activities.
- Right to variable returns from its involvement in the affiliated company.
- Capacity to use its power over the affiliated company to affect the amount of return obtained.

According to the global integration method, the financial statements of subsidiaries are consolidated from the date on which control is transferred to the group and are excluded from the consolidation on the date on which this ends. Intragroup balances and transactions are totally eliminated.

AFFILIATES AND JOINT VENTURES

Affiliates are all companies over which the group exercises significant influence but not control. Generally, it is accompanied by a percentage of participation that fluctuates between 20% and 50% of the voting rights.

Joint ventures are joint agreements where the parties that possess joint control over the said agreement have rights over its net assets.

Affiliates and joint ventures are consolidated by applying the equity method. According to this method, the amount in investment books is increased or decreased to recognise the group's participation in the results of the affiliate or joint venture after the acquisition date. The group's investment in affiliates and joint ventures includes the goodwill identified in the acquisition.

The group's participation in the profits or losses subsequent to the acquisition of its affiliates and joint ventures is recognised in the income account and its participation in transactions of the other global result is directly recognised in the net assets, with corresponding adjustment of the amount in the investment book.

In cases where, as a result of accumulated losses incurred by an affiliate, its assets are negative, the group adds the amount of any other items likely to be considered as the highest value of the net assets until this investment is reduced to zero. From then, the company takes into account the additional losses by recognising a liability only to the extent that it incurs legal or implicit obligations or makes payments in the name of the company.

Currently, the group does not participate in joint ventures that have to be incorporated by the proportional integration method.

TEMPORAL AND EVALUATIVE HOMOGENISATION

All the companies included in the scope of consolidation close their financial years on 31 December, having used for the purpose of the consolidation process the relevant annual accounts for 2016 and 2015, once the evaluative homogenisation adjustments to the corresponding IFRS have been made.

BUSINESS COMBINATION

The group did not retroactively apply the IFRS 3 on business combinations that occurred before the transition date, accepting the exemption recorded in IFRS 1 "First-time adoption of the International Financial Reporting Standard", hence the existing goodwill under Spanish regulations on 31 December 2003, net of the depreciation accumulated up to that date was imputed to the goodwill within the intangible asset item.

In business combinations subsequent to the transition date, the excess between the cost of the business combination and the participation of the acquiring company at the net fair value of the assets, liabilities and identifiable contingent assets recorded are presented as goodwill within the intangible assets item.

If necessary, the excess between the participation of the acquiring company after reconsidering the identification and valuation of the assets, liabilities and contingent assets and the cost of the business combination is recognised in the year's results.

If the business combination is implemented by stages, the amount in the books on the acquisition date of the participation in the net assets of the acquired company previously maintained by the acquiring company is valued at fair value on the acquisition date; any profit or loss produced by this new valuation is recognised in the year's results.

ACQUISITION OF NON-CONTROLLING INTERESTS

Once control has been obtained, subsequent operations where the controlling company has acquired more non-controlling interests, or sold interests without losing control, are recorded as transactions with equity instruments from which it can be deduced that:

- Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is directly recognised in the net assets and is attributed to the owners of the parent company.
- No adjustment is made to the amount in the goodwill books nor are profits or losses in the income account recorded.

SALE OF CONTROLLING INTERESTS

If the group gives up control of a subsidiary, the participation retained is registered at its fair value on the date when it loses control, recording the variation in the amount in the books of the year's results. To the extent that this is a company that owns hotels, the results is recorded within operating income, as property income (see Note 3.11). The fair value is the initial book amount for the purposes of accounting subsequent to the participation retained as an affiliate, joint venture or financial asset.

LOSS OF SIGNIFICANT INFLUENCE

If significant influence is lost in the affiliate or joint venture, the group values and records the investment maintained at its fair value. Any difference between the book value of the affiliate at the time of the loss of significant influence and fair value of the maintained investment plus sales income is recorded in the income account.

ELIMINATION OF INTERNAL OPERATIONS

Separate reciprocal balances for internal loss operations, leasing, dividends, financial assets and liabilities, sale and purchase of stock and fixed assets and provision of services. In relation to the sale and purchase operations, the profit margin not made with respect to third parties has been withdrawn to show the assets corresponding to its cost value, thus adjusting the depreciations made.

NON-CONTROLLING INTERESTS

This balance sheet item contains the proportional part of the assets corresponding to the group's non-controlling interests calculated in accordance with IAS 27.

RESULT ATTRIBUTED TO NON-CONTROLLING INTERESTS

This is the participation in the consolidated profits or losses for the year corresponding to non-controlling interests.

CONVERSION OF ANNUAL ACCOUNTS OF FOREIGN COMPANIES

All assets, rights and obligations of companies whose functional currency is other than the euro and which is included in the consolidation, is converted into euros using the exchange rate at the end of each year.

The profit and loss account items were converted to the exchange rates on the dates when the corresponding operations were carried out.

The difference between the amount of assets of foreign companies, including the balance of the profit and loss account calculated in accordance with the previous paragraph converted to the historic exchange rate and the net asset situation resulting from the conversion of the assets, rights and obligations in accordance with the first paragraph is inscribed with a positive or negative sign as appropriate in the net assets of the consolidated balance sheet in the item "Conversion differences", having the deducted the part of this difference that corresponds to the non-controlling interests, which appears in the item "Non-controlling interests" of the net assets of the consolidated balance sheet.

The goodwill and adjustments at fair value of the items of the balance sheet that appear at the time participation of a foreign company is acquired, are treated as assets and liabilities of the acquired company and thus are converted to the closing exchange rate.

At the time of sale, wholly or partially, or repayment of contributions by a foreign company, the conversion differences accumulated from 1 January 2013, the transition date to IFRS relating to the said company, recorded in the assets, is imputed to the income account as a component of the profits or losses from the sale.

2.5 VALUATIONS AND ACCOUNTING ESTIMATES

In preparing the group's consolidated annual accounts, the administrators had to use judgements, estimates and assumptions affecting the application of accounting policies and balances of assets, liabilities, income and expenses and a breakdown of contingent assets and liabilities on the date of issue of these consolidated annual accounts.

The related estimates and assumptions are based on historical experience and other factors which are considered reasonable in accordance with the circumstances, whose results constitute the basis for establishing opinions on the book value of the assets and liabilities which are not easily available from other sources. The respective estimates and assumptions are continuously revised; the effects of the revisions of the accounting estimates are recorded in the period when they are made, if they only affect this period or in the period of the revision and future [periods] if the revision affects both. Nevertheless, the inherent uncertainty of the estimates and assumptions could lead to results that could require an adjustment to the book values of the assets and liabilities affected in the future.

Estimates made are detailed if necessary in each of the explanatory notes of the balance sheet items. Below is an explanation of the estimates and judgements that have the greatest impact and which could involve adjustments to future years:

ESTIMATED LOSS BECAUSE OF DETERIORATION OF GOODWILL AND OTHER NON-FINANCIAL ASSETS

The group annually checks if the goodwill and other fixed assets have incurred any loss from value impairment in accordance with the indications in Notes 3.1 and 3.2. The amounts recoverable in the cash-generating units were determined on the basis of calculating the use value. These calculations are based on reasonable hypotheses depending on the previous returns obtained and expectations of production and future market developments. Notes 9 and 10 detail the analyses made by the group.

PROVISION FOR INCOME TAXES

The group is subject to income tax in many jurisdictions. A significant level of judgement is required to determine the provision for income tax at the world level. There are many transactions and calculations for which the final determination of the tax is uncertain. The group records the liabilities for any tax claims depending on the estimate of whether additional taxes will be necessary. If the final tax result of these matters is different from the amounts initially recorded, these differences will affect income tax and provisions for deferred tax in the year in which this determination is made.

Note 18 details the calculation of income tax.

FAIR VALUE OF DERIVATIVES

The fair value of derivatives that are not trades on an active market are determined by using valuation techniques as indicated in Note 3.5. The group uses its judgement to select a series of methods and makes hypotheses based mainly on the existing market condition on the date of each balance sheet. Most of these valuations are normally obtained from studies carried out by independent experts.

FAIR VALUE OF PROPERTY INVESTMENTS

The group has opted to value property investments according to the fair value model. The estimate of this fair value is made, to a great extent, on the basis of assessments made by independents experts using cash flow discount valuation techniques provided from the said shares as indicated in Note 3.3.

POST-EMPLOYMENT BENEFITS

The cost of defined benefit pension plans is determined by actuarial assessments. Actuarial assessment require the use of hypotheses on discount rates, the profitability of assets, salary increases, actuarial and rotation tables as well as on the retirement age of employees with a right to these benefits. These estimates are subject to significant uncertainties because of the long settlement period of these plans.

The valuation of these obligations was made by independent experts of recognised repute, using actuarial valuation techniques. Note 16.2 provides details of the hypotheses used to calculate these commitments.

PROVISION FOR ONEROUS CONTRACTS

The estimate of the amount to provide for onerous contracts requires a significant degree of judgement by the group since it depends on the cash flows provided for associated with the said contracts which mainly refer to lease contracts for hotels.

The estimate of these future cash flows requires the use of hypotheses on occupation, average price and trend of costs associated with this hotel operation as well as the discount rate used to update these flows.

The group takes advantage of its experience in operating and managing hotels to determine these hypotheses and make the corresponding calculations, which are detailed in Note 16.2.

EXCHANGE RATE TO BE APPLIED IN CONSOLIDATING VENEZUELAN SUBSIDIARIES

On 9 March 2016 the Venezuelan government communicated a new change in its exchange system by which it replaces SIMADI with DICOM (Divisa Complementaria - Complementary Currency). This new floating exchange rate system assumed a rate of 206 bolivars to the dollar, but the trend of the current over the year involved a 225% devaluation producing a rate of 673 bolivars to the dollar on 31 December 2016. The accumulated effect of this devaluation is shown in Note 15.6.

The company will continue to assess the political and economic situation of the country to adopt any changes to the exchange rate that are applicable to consolidate its Venezuelan subsidiaries.

3. ACCOUNTING POLICIES

3.1 INTANGIBLE ASSETS

GOODWILL

The goodwill generated in the consolidation represents the difference between the acquisition price of controlled entities, consolidated by the global integration method and the participation of the group in the market value of the elements comprising the identifiable assets and liabilities of the controlled entities.

The goodwill generated in acquisitions prior to the transition date to the IFRS are maintained in the balance sheet by the net value registered on 31 December 2003.

Goodwill is not amortised. Instead, it is annually revised by studies to verify that there is no impairment of the value initially assigned, recorded as losses because of the value impairment if the recoverable value determined on the basis of the current value of the future flows expected from the cash generating units associated with each each of the parts of the goodwill and discounted to a rate which considers the specific risks of each of the assets, is less than the value initially assigned. Once the loss for impairment of goodwill has been recognised, the latter does not revert in future years. These valuations are made internally and Note 9 provides details on their calculations.

OTHER INTANGIBLE ASSETS

The remaining intangible assets correspond to various computer applications as well as rights of assignment and industrial property.

Computer applications are valued at acquisition price and depreciated in a straight line during their useful life estimated within a period of between 5 and 10 years. Expenses relating to the maintenance of computer programmes are recognised as a cost if incurred in them.

This items includes R&D&i where the group has incurred costs for the production of computer programmes that are unique, identifiable and controlled by the group and which also fulfil the following conditions:

- Technically, it is possible to complete production of the intangible assets so that it can be available for their use or sale.
- The company intends to complete the intangible assets to use or sell it.
- The company has the capability of using or selling the intangible asset.
- The form in which the intangible assets will generate probable economic benefits in the future can be demonstrated.
- Adequate technical, financial or other kinds of resources are available to complete development and use or sell the intangible asset.
- The disbursement attributable to the intangible asset during its development can be reliably assessed.

The costs directly attributable which are capitalised as part of the computer programmes, include the social costs of the staff developing the programmes and an adequate percentage of general costs.

The assignment costs mainly correspond to the acquisition costs of the operating and management rights for various hotels and are depreciated in a straight line during the term of the contracts linked to these rights.

Investments made in trademarks are not depreciated since their undefined useful life is subject to the test of value impairment. There is straight-line depreciation of the remaining elements collected in industrial property for a period of five years.

Depreciation of intangible assets is included in the Depreciation of the profit and loss account item.

3.2 TANGIBLE ASSET

The acquisition cost including transaction costs plus financial costs directly attributable to acquisition, construction and reform produced up to the start up of operation of the asset is recorded less the accumulated depreciation and any loss from value impairment.

For lease contracts where on the basis of analysis of the nature of the agreement and their conditions, it is deduced that all the risks and benefits inherent in the ownership of the assets that is the subject of the contract have substantially been transferred to the group, the said agreement is characterised as a financial lease and thus they are recorded by their nature in the tangible fixed assets for an amount equivalent to the lesser of its fair value and the present value of the minimum payments established at the start of the rental agreement less the accumulated agreement and any loss for impairment experienced. In these cases the contingent fee of the lease is imputed as a significant financial cost in the year's income account.

In 1996 a legal update was made in accordance with the provisions of Royal Decree Law 7/1996 of 7 June (see Note 10). The amount of revaluation of the fixed asset was established by applying to the acquisition or production values and corresponding annual depreciation allowance which are considered a tax-deductible expense, coefficients depending on the year of purchase and the figures obtained were reduced by 40% for purposes of considering the financing circumstances of the elements as laid down by the said regulations. The said values are equipped at acquisition cost as allowed by IFRS 1 "First-time adoption of the International Financial Reporting Standard".

Repairs that do not represent an expansion of the useful life and maintenance costs, are directly charged to the profit and loss account. Costs for expansion or improvement that give rise to a longer duration of the asset or if they can only be used with the fixed asset element are capitalised as its biggest value.

The group depreciates its tangible fixed assets in a straight line, distributing the cost of the assets between the estimated useful life as detailed below:

Buildings	40-50 years
Installations	15-18 years
Machinery	10-18 years
Fixtures	10-15 years
Computer equipment	3-8 years
Transportation units	5-10 years
Other fixed assets	4-8 years

The useful life and residual life of tangible assets is revised on each balance sheet date. Land is not systematically depreciated as it is deemed to have an indefinite useful life, although it is tested for impairment.

The heading "Other assets" includes the value as per the stocktaking amount valued at average cost according to the stocktaking carried out in the different centres at year end, breakage and losses are recorded as disposals. The cost of breakage and shrinkage has been included in the consolidated income statement item "Depreciation and impairment".

IMPAIRMENT OF THE VALUE OF THE TANGIBLE ASSET

At the end of the year, the group assesses if there is any indication that assets can be impaired. If there is any indication or if an annual impairment test is required, the group estimates the asset's recoverable value. The recoverable value of an asset is the biggest part between the fair value less the sale costs of the asset or cash generating unit and its use value and is determined for each cash inflow that is independent of those of other assets or group of assets. More details of the calculations made are provided in Note 10.

If the book value of an asset exceeds its recoverable amount, the asset is considered impaired and its book value is reduced up to its recoverable amount. On valuing the use value, future cash flows are discounted at current value using a discount rate that reflects the trend of the money's value over time on the current market and the specific risks of the asset, mainly the risks of the business and country where the asset is based. Impairment losses of ongoing activities are recorded in the income statement as a cost category in accordance with the function of the impaired asset.

At every year end an assessment is made if there are indications that impairment losses previously recorded have disappeared or reduced. If these indications exist, the recoverable value is estimated. An impairment loss recorded previously only reverts if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recorded. If this is the case, the book value increases up to its recoverable value. This increase cannot exceed the book value registered, net of depreciation if the impairment loss has not been recorded for the asset in previous years. This reversion is recorded in the income statement for the period. After this reversion the depreciation cost is adjusted in the subsequent periods to impute the asset's revised book value, less its residual value, systematically over the useful life of the asset.

3.3 PROPERTY INVESTMENTS

This item includes investments made by the group to obtain lease income or capital gains and which generate cash flows independently of those derived from the remaining assets owned by the group.

Following the initial recording made for a total amount of the costs associated with the assets acquisition, the group has chosen to apply the fair value model, so all the property investments are recorded at fair value, including in the income statement of the year any variation on the value produced. The variables used to calculate these estimates are those indicated in Note 11.

3.4 FINANCIAL INFORMATION BY SEGMENTS

Information about the operating segments is presented in accordance with the internal information provided to the highest decision-making authority. The Senior Executive Team (SET) or management committee has been identified as the highest decision-making authority responsible for assigning resources and assessing the returns from the operating segments. The SET is a collegiate body formed by the chief officers of each directorate-general.

3.5 FINANCIAL INSTRUMENTS

There are no differences between the fair values calculated for financial instruments registered in the group's consolidated accounts and its corresponding book values, as explained in the following paragraphs.

FINANCIAL ASSETS

Financial assets within the scope of IAS 39 are classified according to valuation criteria such as loans and shipments to be paid, financial assets available for sale and at fair value with changes in results. These assets are initially recorded at fair value provided that there is an active market and the directly imputable transaction costs are added. The group has no investments maintained until maturity.

Loans and items to be paid

This classification includes amounts considered in the item "Trade debtors and other accounts receivable" and all accounts receivable included in the items "Other non-current financial assets" and "Other current financial assets".

The said assets are recorded subsequent to the amortised cost using the effective interest rate method. Profits and losses are recorded in results if loans and items to be paid are removed from the books or their value is impaired, as well as through the depreciation process. Except for the above, assets with short-term maturities which do not have a contractual interest rate are valued by the nominal amount, provided that the effect of not updating cash flows is not significant.

Financial assets at fair value with changes to results

Financial assets at fair value with changes to results are financial assets maintained for their trading which are acquired for the purchase of being sold, mainly at short term.

Assets in this category are classified in the consolidated balance sheet in the item "Other current assets" if they are expected to be paid in the short term or in "Other non-current assets" if they are long term.

Financial asset transfer operations

The company cancels a financial asset transferred if its transmits the contractual rights to receive cash flow generated or if while keeping these rights, it assumes the contractual obligation to subscribe them to assignees and the risks and benefits associated with ownership of the assets are substantially transferred.

In the case of asset transfers where the risks and benefits associated with ownership of the asset are considered substantial, the transferred financial asset is not removed from the balance sheet, with an associated financial liability for an amount equal to the consideration received being recorded and if it is subsequently valued at its amortised cost. The transferred financial asset continues to be valued with the same criteria used before the transfer. In the income statement both income from the transferred asset and expenses from the financial liability are recorded without compensation.

Deposits and guarantees

Non-current deposits and guarantees are valued at amortised cost using the effective interest rate method.

Deposits and guarantees are not discounted.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets designated as available for sale or which are not classified in other categories of financial assets. As a whole they correspond to investments in asset instruments of entities over which it has no control or significant influence and are included in the item "Other non-current financial assets".

Investments classified in this category do not have a reference price in an active market and there are no alternative methods to reliably determine the fair value, the investment is valued at cost less losses from corresponding impairment.

Cash and cash equivalents

Cash and cash equivalents include not only cash, cash on hand in banks but also deposits in banks and other financial institutions with a maturity less than three months from the subscription date.

For the purposes of consolidated cash flows, cash and cash equivalents include the items described in the previous paragraph.

Impairment of the value of financial assets

The recoverable amount of accounts to be paid and registered at amortised cost is calculated as the present value of future flows of estimated cash discounted using the original effective interest rate. Short-term investments are not recorded at their discounted value.

With respect to investments registered in the category of "Financial assets available for sale, given that they are not listed on an active market and their fair value cannot be reliably determined, they are valued at cost. In valuing the impairment of these assets the net assets of the affiliate is taken into consideration corrected by the tacit capital gains existing on the valuation date, unless there is better evidence of the investment's recoverable amount.

The group's accounting policy is to supply 100% of the accounts to pay for the hotel business for over a year in addition to any balance less than a year old if there are reasonable doubts about recoverability.

FINANCIAL LIABILITIES

Financial liabilities within the scope of IAS 39 are classified according to the valuation criteria as financial assets valued at amortised cost. These liabilities are initially recorded at fair value adjusted by transaction costs directly imputable to them. All financial assets not derived from the group are included within the classification of financial liabilities valued at amortised cost.

Issue of bonds and other securities

Debt issues are initially registered by the fair value of the consideration received, deducting costs directly attributable to the transaction. Subsequently, they are valued using the effective interest rate method. Bonds with a maturity greater than twelve months are classified as non-current liabilities, while those with a lower maturity are reflected in the current liabilities. In the case of issues of convertible bonds, they are registered as hybrid or compound financial instruments according to the terms of the issue.

To determine if an issue of preferential shares is a financial liability or equity instrument, in each case the group assesses the particular rights granted to the share to determine whether or not it has the fundamental characteristics of a financial liability. If it is determined that this is a financial liability, it is deemed to be such and valued at year end at its amortised cost by the effective interest rate method, considering any issue cost.

Loans with financial returns

Loans are initially recorded by the cost which is the fair value of the consideration received, net of the issue cost associated with borrowing.

Subsequent to the initial recognition, loans and credits with interest return are valued at their amortised cost by the effective interest rate method, considering any issue cost and discount or settlement premium.

Loans and credits with credit institutions

Loans are initially registered by the cash received, net of the costs incurred in the transaction. In subsequent periods, they are valued at their amortised cost using the effective interest rate method.

Debts deriving from the acquisition of financial assets through leasing contracts.

Commercial creditors and other accounts payable

Accounts payable deriving from traffic operations are registered at fair value and are subsequently valued at amortised cost using the effective interest rate method.

Other financial liabilities at amortised cost

The remaining financial liabilities that correspond to the payment obligations detailed in Note 13 of the report are valued by the same criteria of the amortised cost by the effective interest rate method. Nevertheless, those with short-term maturities which do not have a contractual interest rate are valued by the nominal amount, provided that the effect of not updating cash flows is not significant.

COMPOUND FINANCIAL INSTRUMENTS

These are non-derivative financial instruments that include components of liabilities and assets at the same time. Both components are presented separately.

At initial recognition the liability component is valued at the fair value of a similar liability that is not tied to the asset component and the asset component by the difference between the initial amount and value assigned to the liabilities component. The costs for the operation are divided between the liabilities and asset components in the same proportion resulting from assignment of the initial value.

After initial recognition, the liabilities component is valued at its amortised cost, using the effective interest rate method.

Hybrid financial instruments

These are financial instruments that include two different components: a non-derivative primary contract and an embedded derivative.

The company recognises, measures and presents the primary contract and embedded derivative contract separately if the following circumstances simultaneously exist:

- The financial characteristics and risks inherent in the embedded derivative are not closely related to those of the primary contract.
- An independent instrument with the same conditions as those of the embedded derivative will fulfil the definition of derivative.
- The hybrid instrument is not measured at fair value with changes in profit or loss.

In these cases the embedded derivative is recognised at fair value with changes in profit or loss and the primary contract is recognised based on its nature, normally at amortised cost in accordance with the effective interest rate method. Calculations of the fair value of these embedded derivatives are made by independent experts outside the group.

FINANCIAL DERIVATIVES

Derivative financial instruments which are within the scope of IAS 39, are classified as financial assets or liabilities at fair value through profit or loss or as accounting hedges. In both cases derivative financial instruments are initially recognised at fair value on the date on which they are arranged and this fair value is regularly adjusted. Derivatives are carried as assets, in line with other financial assets, if the fair value is positive and as liabilities, under the heading "Other financial liabilities" if the fairvalue is negative.

Accounting hedges

The Company accounts for hedging in those operations in which it is expected that it will be highly effective; that is, when the changes in the fair value or in the cash flows of the items covered by the hedge are offset with the changes in the fair value or cash flows of the hedging instruments with an effectiveness in the range of 80% to 125%. In addition, at the moment the hedge commences, the relationship between the item covered and the derived financial instrument allocated to that purpose is formally documented.

The Group has various interest rate swaps classified as cash flow hedges. Variations of the fair value of these derivative financial instruments are reflected in net equity, in the section "Other measurement adjustments"; the part considered an effective hedge being allocated to the profit and loss account insofar as the entry being hedged is also liquidated. The fair value is entered in the accounts according to the date of trade.

The fair value of interest rate swaps is determined through valuation techniques involving cash flow discounting according to the characteristics of each contract, such as the nominal amount and timetable for collections and payments. The discount factors used to obtain said value are calculated on the basis of the curve of the zero coupon rates obtained from the deposits and rates listed in the market on the date of the valuation. The resulting fair value is adjusted for the own credit risk and that of the counterparty, in accordance with IFRS 13. These values are obtained from studies carried out by independent experts, normally the financial institutions with which the Group has contracted these instruments.

Derivatives that do not qualify for hedge accounting

Any profit or loss arising from changes in the fair value of those derivatives which do not fulfil the requirements to be considered as a hedging instrument are directly recognised in the net profit and loss for the year. The fair value of these derivative financial instruments are obtained from studies prepared by independent experts.

3.6 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

If assets exist that are linked to interrupted activities whose book value is expected to be recovered through a sale rather than by their continued use, this is shown under the heading "Non-current Assets held for Sale".

They are recognised at the lower of their carrying amount and fair value less costs to sell. The Company recognises an impairment loss due to initial or subsequent reductions in the asset's value to fair value less costs to sell. The Company recognises a gain in respect of any subsequent increase in an asset's fair value less costs to sell, although this may not exceed the cumulative impairment loss previously recognised.

Income and expenses from discontinued operations are presented in the income statement separately from the income and expenses from continued operations, under profit/(loss) after taxes.

Assets classified as held for sale are not depreciated/ amortised.

Those non-current assets that are for sale, within the asset rotation segment of activity, but which continue to be operated by the Group until the sale, are not reclassified to this balance sheet heading and are maintained on the balance sheet in accordance with their nature.

3.7 INVENTORIES (TRADE, RAW MATERIALS AND OTHER SUPPLIES

Raw and ancillary materials are valued at their average acquisition cost which is generally lower than their realisable value. If their value is less than cost, the necessary adjustments are made in order to reflect the estimated realisable value. The acquisition price includes the amount invoiced plus all additional expenses incurred until the goods are stored in the warehouse.

3.8 TREASURY SHARES

Treasury shares are presented as a decrease in the Group's equity. They are carried at cost without any value adjustments.

Gains and losses on the disposal of these shares are recognised in equity.

3.9 CAPITAL GRANTS

Capital grants are recognised at their fair value if there is reasonable assurance that the grant will be received and all stated conditions will be complied with.

If the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is recognised as deferred income and is released to income over the expected useful life of the relevant asset.

3.10 PROVISIONS AND CONTINGENCY

Provisions are recognised if the Group:

- Has a present obligation (legal or implicit) as a result of a past event.
- It is probable that an outflow of funds including economic benefits will be required to settle the obligation.
- A reliable estimate can be made of the amount of the obligation.

Provisions are carried at the present value of the best possible estimate of the amount needed to settle the liability or transfer it to a third party; adjustments arising from the restatement of provisions as financial expenses are recorded as they arise. If the provision will be applied or reversed in one year or less and the financial effect is not significant, it is not discounted. Provisions are reviewed at each balance sheet close and are adjusted to reflect the current best estimate of the liability.

Contingent liabilities are considered to be those possible obligations arising as a result of past events, the materialisation of which is subject to the condition that future events take place that are not entirely under the Group's control, and those present obligations arising as a result of past events that are not likely to give rise to an outflow of resources at settlement or which cannot be evaluated with sufficiently reliability. These liabilities are not recognized in the accounts but are disclosed in the notes (see Note 20).

ONEROUS CONTRACTS

A contract is onerous if the inevitable costs of fulfilling the contractual obligations exceed the expected economic benefits. In this case, present obligations deriving from the contract are measured and recognized in the financial statements as provisions.

Estimated future results from rental agreements are reviewed annually based on expected flows from the relevant cash-generating units, applying a suitable discount rate. Note 16.2 provides details of the analyses performed by the Group.

POST-EMPLOYMENT BENEFITS

Post-employment plans are classed as defined contribution or defined benefit plans.

Defined contribution pension plans

A defined contribution plan is one under which fixed contributions are made to an independent entity and does not have any legal, contractual or implicit obligation to make additional contributions if the independent entity does not have sufficient assets to satisfy the commitments assumed.

The contributions are recognized as an employee benefit expense as and when they accrue.

Defined benefit pension plans

Pension plans that are not defined contribution plans are deemed to be defined benefit plans. Defined benefit plans generally stipulate the amount of the benefit that will be received by the employee on retirement, usually based on one or more factors such as age, length of service and remuneration.

The Group recognises in the balance sheet a provision for defined benefit awards stipulated in collective bargaining agreements in the amount of the difference between the present value of remuneration commitments and the fair value of any assets that will be used to settle the commitments, less any past service costs not yet recognised.

If an asset results from the above-mentioned difference, its valuation may not exceed the current value of the available economic benefits in the form of reimbursements from the plan or reductions in future contributions to it.

Past service costs are recognised immediately in the income statement unless they involve non-vested rights, in which case they are taken to the income statement on a straight-line basis over the period remaining to the vesting of the past service rights.

The current value of the obligation is determined using actuarial calculation methods and unbiased financial and actuarial assumptions that are mutually compatible. The Company acknowledges, directly in the Consolidated Income Statement, the profits and losses arising from the variation in the current value, and, where applicable, of the assets affected, arising from changes in actuarial assumptions or adjustments made on the basis of experience.

Certain Collective Wage Agreements prevailing and applicable to several Group companies establish that permanent staff who have been employed by the Company for a specified length of time and take voluntary retirement will be entitled to a cash premium equivalent to a number of monthly salary payments proportional to the number of years of service. During the year, an evaluation of these commitments was performed in accordance with the actuarial assumptions contained in the Company's own rotation model, by applying the calculation method known as the "projected unit credit" method and the population assumptions corresponding to the ERM/F2000p tables.

The balance of provisions, as well as the capitalisation of payments for future services, covers these acquired commitments, based on an actuarial analysis prepared by an independent expert. More details are given on this valuation in Note 16.2.

The Group has duly externalised pension commitments and obligations stipulated in collective bargaining agreements subject to the Ministerial Order of 2 November 2006. Assets subject to these externalisation operations are presented net of commitments acquired.

3.11 REVENUE RECOGNITION

Ordinary operating income is measured at the fair value of the compensation received or to be received, and represent the amounts receivable for the assets sold, net of discounts, refunds and value added tax. Ordinary revenues are recognised when the income may be reliably measured, it is likely that the company will receive a future financial benefit and when certain conditions are met for each of the Group's activities described below. The Group bases its refund estimates on past results, taking into account the type of customer, the type of transaction and the specific terms of each agreement.

ROOM REVENUE AND OTHER RELATED SERVICES

Income deriving from the sale of rooms and other related services is recognized daily based on the services rendered by each hotel establishment and including "in-house" customers, i.e. those that are still lodged at the hotel at the time daily production is closed.

The compensation received is divided among the contracted services. Direct services, such as the room, food and beverages, consumption, etc. and other related services such as banquets, events. Rental of spaces, etc. are included.

Within the hotel business segment, the Company manages the customer loyalty programme "Meliá Rewards", consisting of rewarding customers that stay nights at hotels or consume services rendered by associated companies, through a series of points that may be exchanged for rewards such as free stays at hotels managed by the Group, among other things.

The Company estimates the portion of the selling price of hotel rooms that must be assigned as the fair value of those exchangeable points, deferring their recognition in the income statement until the points are exchanged.

RENDERING OF HOTEL MANAGEMENT SERVICES

The Group recognizes revenues from its hotel management contracts at the end of each period, based on the evolution of the variables that determine those revenues, primarily consisting of total income and the Gross Operating Profit or GOP for each of the hotel establishments managed by the Group.

SALE OF VACATION CLUB UNITS

The income from the sale of Vacation Club units is recognized to the extent that the relevant usage rights are enjoyed in each marketing period.

In the long-term non-current contracts assigning these rights, which cover practically all of the useful life of marketing units, the Company considers that significant risks and benefits relating to the ownership of the units sold are transferred and therefore the income deriving from the entire contract is recognized at the time of the sale.

SALE OF ASSETS

Meliá Group actively manages its investment property portfolio which, in accordance with IAS 18, is recognized as operating income.

In general, the net capital gains on sales due to the rotation of assets are recognized as income once carrying value of the relevant assets have been discounted from the selling price These sales transactions may be structured through the direct sale of the asset or through the sale of the company owning the asset. In any of these cases, the Group presents the results obtained on the sale and operating income.

This operating segment at the Company also includes sales transactions and/or the contribution of hotels to joint ventures in order to maximize present and future cash flows in this portfolio. These transactions involve the elimination of the hotels in the consolidated accounts and the recognition of compensation received, whether in cash or the interest retained, or a combination of both.

The Group applies the approach of recognizing the residual interest retained in those hotel businesses at fair value and taking any change in the carrying value to the income statement, as is explained in Note 2.4. The capital gains recognized therefore fully relate to the capital gains obtained.

INCOME FOR LEASE

The income deriving from operating leases under investment properties are recognized on a straight-line basis over the term of the lease and are included as operating income under the asset management segment.

INCOME THROUGH INTEREST

Interest income is recognized using the effective interest rate method for all the financial instruments measured at amortized cost. The effective interest rate is the rate that exactly discounts payments made and received in cash estimated over the expected life of the financial instrument. Interest income is recognized as financial income in the consolidated income statement.

DIVIDENDS

Income from dividends is recognised when the right of the Group to receive the corresponding payment is established.

3.12 LEASES

FINANCE LEASES

Leases that substantially transfer all the risks and rewards of ownership of the leased asset are classed as finance leases.

At lease inception, the lessee recognises in the balance sheet an asset and a liability in the same amount, which is equal to the fair value of the leased asset, or the present value of minimum future lease payments, if lower. Lease instalments are divided into the finance cost and the principal payment. The finance cost is taken directly to the income statement.

Assets being acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

The lessor writes off the asset and recognises a receivable for the present value of minimum future lease payments, discounted at the lease's implicit interest rate. Successive lease payments receivable are treated as principal repayments and financial income.

OPERATING LEASES

Leases where the lesser substantially retains all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

The assets recognised as operating leases are depreciated over the shorter of their useful lives and the lease period.

3.13 CORPORATE INCOME TAX

The corporate income tax expense for the year is calculated as the sum of the current tax in each of the companies included in these consolidated annual accounts, except for the existing three consolidated tax groups whose parent companies are: Meliá Hotels International, S.A., Sol Meliá France SAS, and Meliá Inversiones Americanas N.V., that are taken as one unit each.

This calculation results from the application of the corresponding tax rate to the tax base for the year following the application of existing credits and deductions and the variation in the deferred tax assets and liabilities recorded. The corresponding tax expense is recognised in the income statement, except when it relates to transactions recognised directly in equity, in which case the corresponding tax expense is likewise recognised in equity.

Current tax assets and liabilities are valued at the amount expected to be payable or receivable. The tax rates used are those prevailing at the balance sheet date.

Deferred tax assets and liabilities are recognised, using the liability method, for all the temporary differences existing at the balance sheet date between the carrying amounts of the assets and liabilities and their tax bases.

Deferred tax assets and liabilities are offset if, and only if, there is a legally recognised right to offset the current tax assets with current tax liabilities and when the deferred tax assets and liabilities arise from income tax levied by the same tax authority, which affect the same company or taxpayer, or different companies or taxpayers, who wish to settle current tax assets and liabilities at their net amount.

Deferred tax liabilities are recognised for all taxable temporary differences, except those arising from goodwill whose amortisation is not deductible or taxable temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting result nor the tax profit or loss.

Deferred tax liabilities are also recognised for all taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except to the extent that both of the following conditions are satisfied: the timing of the reversal of the temporary difference can be controlled by the parent company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the carry-forward of unused tax credits and unused tax losses can be utilised, except in the case of deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets for all taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, are only recognised when both the following conditions are satisfied: it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which said differences can be utilised.

The recovery of a deferred tax asset is reviewed at each balance sheet date and adjusted to the extent that it is expected that sufficient taxable profit will be available, calculated according to prudence criteria and excluding the potential profits deriving from the disposal of properties, due to the uncertainty concerning their realisation, which depends on market conditions and possible tax consequences depending on the nature of the transactions carried out.

Deferred income tax assets and liabilities are measured based on their expected materialisation and on the tax legislation and tax rates approved, or on the point of being approved, at the balance sheet date.

3.14 FOREIGN CURRENCY TRANSACTIONS

Debit and credit balances in foreign currency are valued at the exchange rate prevailing on the corresponding transaction date and are translated at the year end at the rate then in effect.

Exchange differences are recorded as income or expenses when they occur, with the exception of those arising from transactions financing foreign subsidiaries which have been considered to be an increase in the value of the net investment in said businesses as a result of not taking into consideration the settlement of the transactions. Bearing in mind the equity and financial situation of the subsidiaries, such a settlement is not probable, as considered in IAS 21 "The Effects of Changes in Foreign Exchange Rates."

3.15 FUNCTIONAL CURRENCY AND HYPERINFLATIONARY ECONOMIES

The euro is the functional currency of the Group, and its parent company Meliá Hotels International, S.A.

The functional currency of each of the Group companies is the currency which corresponds to the economy of the country in which each company is based. At the 2016 and 2015 year end, the Venezuelan economy is classified as hyperinflationary, since it meets the conditions under IAS 29 "Financial Reporting in Hyperinflationary Economies".

As a result, the balances sheets of the Venezuelan companies in the consolidation scope have been restated using the current cost method, reflecting thus the effects of the changes in the price indices on their non-monetary assets and liabilities.

The increase or decline in the purchasing power of these companies resulting from the application of the change in the price index to the net monetary position is similarly taken to profit and loss. The effect of the restatement on the current monetary unit of other items of the Venezuelan companies' income statement is also included in financial profit or loss.

At the close of 2016 there are no official figures for the consumer price index for the Venezuelan economy, nevertheless, in accordance with the studies of independent expert, the hyperinflation is around 450%. In 2015 inflation increased to 180.9%.

The most significant impacts for 2016 and 2015 are detailed in the following table:

(Thousands of €)	2016	2015
Revaluation of fixed assets	25,763	10,766
Increase in reverves	12,601	14,644

There is no other company which exists in the perimeter of consolidation that has the consideration of a hyperinflationary economy at the closing of the fiscal periods 2016 and 2015.

3.16 CASH FLOW STATEMENT

The cash flow statement includes the treasury movements that occurred during the fiscal year, calculated by the direct method. The cash flow statement uses the following expressions with the meanings stated below:

- Cash flows: Inflows and outflows of cash or of other equivalent liquid assets, which are defined as investments for a term of less than 3 months that are highly liquid and have a low risk of alterations in value.
- Operating activities: Activities that constitute the main source of the Group's ordinary revenue, as well as other activities that cannot be classified as investment or financing.
- Investment activities: The acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: Activities that result in changes in the size and composition of the Net Equity and of liabilities of a financial nature.

Not included as cash transactions under the heading "Payments for investments in tangible and intangible assets and real estate investments" are those assets acquired under a financial leasing agreement (see Note 10).

Operating earnings include the part of the capital gains generated by asset rotation activities, while the part related to the net book value of the assets disposed of is recorded under the heading "Earnings from disinvestment".

4. FINANCIAL RISK MANAGEMENT POLICIES

The Group's activities are exposed to diverse financial risks: market risk (foreign exchange risk, interest rate risk), credit risk and liquidity risk.

In 2011 the Board of Directors of Meliá Group approved the General Policy for Control, Analysis and Risk Management, which establishes the risk management model minimising the adverse effects that risks could cause on the consolidated annual accounts.

The policies followed by the Group cover, among others, the following risks:

4.1 INTEREST RATE RISK

The Group's consolidated annual accounts present certain items subject to fixed and variable interest.

The Company maintains a policy of partially hedging against changes in interest rates by obtaining different financial derivatives that allow it to contract a fixed rate for a certain amount of time that it applies to financing transactions that bear variable rates. In some cases and due to the early cancellation of some of these financing transactions, the Company has proceeded to restructure the financial derivatives associated with this financing to apply them to other new financing transactions at a variable rate, adapting the repayment schedules to create an effective interest rate hedge. In some of these restructurings of hedge derivatives and to avoid incurring unnecessary payments, it has not been possible to apply hedge accounting (Note 13.3).

The structure of the debt at 31 December, 2016 is as follows (these amounts do not include interest payable):

(Thousands of €)	FIXED INTEREST	VARIABLE INTEREST	TOTAL
ECP	39,398		39,398
Other negotiable securities		47,799	47,799
Bank loans	200,896	53,521	254,416
Mortgage loans	225,803	186,385	412,187
Borrowing policies		143,764	143,764
Leasing		8,422	8,422
TOTAL DEBT	466,096	439,890	905,986

The floating interest rate debt is basically referenced to the Euribor, USD Libor and GBP Libor rates.

At 31 December, 2016, the Group has various interest rate swaps contracted, considered as cash flow hedging instruments. The variable rate bank loans and mortgages covered by these swaps are shown in the Fixed Interest column for the part of capital hedged. Additional breakdowns are provided in Note 13.3.

The information for 2015 is presented for comparative purposes:

(Thousands of €)	FIXED INTEREST	VARIABLE INTEREST	TOTAL
Straight bonds	77,167		77,167
Convertible bonds	223,160		223,160
ECP	37,814		37,814
Bank loans	21,021	91,339	112,360
Mortgage loans	220,985	200,389	421,374
Borrowing policies		228,403	228,403
Leasing		13,896	13,896
TOTAL DEBT	580,147	534,028	1,114,175

The sensitivity of 2016 and 2015 profits to changes (in base points) in interest rates, in thousand euro, is as follows:

VARIATION	2016	2015
+ 25	(1,331)	(1,421)
- 25	1,331	1,421

This sensitivity analysis has been carried out considering an average increase/decrease throughout the year in the base points indicated in the table. The effect of the interest rate swaps mentioned in Note 13.3 has been taken into account in this calculation.

4.2 FOREIGN EXCHANGE RISK

The Group operates internationally and is therefore exposed to foreign exchange risk arising from currency transactions, primarily with respect to the US dollar and the UK pound sterling.

Foreign exchange risk arises from commercial, financial and investment transactions, as well as from the translation to the Group's presentation currency of the financial statements of subsidiaries denominated in a different functional currency.

Management requires the Group companies to manage foreign exchange risk arising from their functional currency Moreover, despite not having contracted financial instruments (swaps, foreign exchange insurance) to mitigate this possible risk, the Group seeks to maintain a balance between cash collections and payments of assets and liabilities denominated in foreign currency.

The sensitivity analysis undertaken relates to changes in the GBP and USD exchange rates, the latter being considered the reference currency as it is closely linked to the currency of the Latin American countries where the Group has a major volume of business.

The following table shows the effect of foreign exchange fluctuations on the pre-tax result and on equity of the corresponding subsidiaries, assuming that the other variables remain stable:

	Risks and Revenues			
	2016		2015	
(Thousands of €)	+10%	-10%	+10%	-10%
Pound sterling	389	(389)	647	(647)
US dollar	13,413	(13,413)	11,096	(11,096)

	Equity			
	2016		2015	
(Thousands of €)	+10%	-10%	+10%	-10%
Pound sterling	1,116	(1,116)	(731)	731
US dollar	9,421	(9,421)	6,863	(6,863)

A total of 93.2% of the Group's financial debt (93% in 2015) is denominated in euro and, therefore, the effect of exchange rate shifts is not significant.

4.3 LIQUIDITY RISK

Exposure to adverse situations experienced by the debt or capital markets may complicate or impede the coverage of financing needs required for the adequate development of the Meliá Hotels International Group's activities.

It is the Group's liquidity policy to ensure the fulfilment of the payment commitments acquired, avoiding borrowing under onerous conditions. For this reason, the Group uses different management procedures, such as the maintenance of credit facilities committed for sufficient amounts and flexibility, the diversification of the coverage of financing needs through access to different markets and geographical areas, and diversification of the issued debt maturities.

The following table contains a summary of the maturities of the Group's financial liabilities at 31 December 2016, based on nominal amounts by maturity:

(Thousands of €)	LESS THAN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	> 5 YEARS	TOTAL
UBS			50,000		50,000
ECP	12,600	26,950			39,550
Loans	20,984	81,427	268,539	303,958	674,908
Policies	67,830	73,924	2,010	0	143,764
Leasings		5,328	3,321		8,649
TOTAL	101,413	187,629	323,871	303,958	916,872

The Company considers that given the amount of flows generated, the borrowing policies applied, debt maturity dates, cash situation and available credit facilities, the Group is more than able to settle the commitments in force at 31 December 2016.

The average interest rate on these financial liabilities during the current fiscal period was 3.46%. In 2015 the average rate was 4.36%.

With regard to the issue of convertible bonds, it should be noted that the Company announced to bondholders and the Securities and Investments Board on 25 March 2016 its decision to exercise the option of early cancellation of the convertible bond of 250 million issued in 2013. The Company expected requests for conversion of 2,499 bonds representing 249.9 million in nominal value issued by delivering a combination of treasury stock and new issues as contemplated in the terms and conditions of these convertible bonds. The Group also expected the amortisation of bondholders that did not request conversion.

For this it carried out a capital increase of 6.1 million euros by issuing 30,646,952 ordinary shares of 0.20 euros with a nominal value of the same class and series as the shares already in existence (see Note 15).

The Group is also negotiating with different lending institutions agreements to extend the average maturities of its borrowings and renegotiate its credit facilities that mature in the short and medium term, as in 2015.

For the purposes of comparison the maturity dates for 2015 are indicated below:

(Thousands of €)	LESS THAN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	> 5 YEARS	TOTAL
Straight bonds		76,384			76,384
Convertible bonds			250,000		250,000
ECP	19,875	18,200			38,075
Loans	15,516	87,143	333,947	105,935	542,542
Policies	28,430	144,866	57,147		230,443
Leasings		6,927	7,500		14,428
TOTAL	63,821	333,520	648,594	105,935	1,151,872

4.4 CREDIT RISK

The credit risk arising from default of the counterparty (customer, supplier, or financial entity) is mitigated by the Group's policies regarding the diversification of customer portfolios, feeder markets, oversight of concentration and on-going in-depth debt control. In addition, in some cases the Group uses other financial operations which allow the reduction of credit risks, such as credit transfers.

The credit periods established by the Group range between 21 and 90 days. The DSO ratio is approximately 35.11 days in 2015 and 34.84 days in 2014. The debt seniority profile at year-end is disclosed in Note 14.2.

4.5 CAPITAL MANAGEMENT POLICY

The main objective of the capital management policies of the Group is to ensure financial stability in the short and long term, adequate profitability rates, the upward trend of Meliá Hotels International, S.A.'s shares, a satisfactory remuneration to the shareholders through the distribution of dividends, as well as ensuring the correct and adequate financing of the investments and projects to be undertaken and maintaining an optimal capital structure.

In terms of liquidity, the Group has an amount of €366.8 million in cash and short-term deposits, which means it can meet its payment commitments entered into for next year.

The financial position is also underpinned by the solid support given by the relation banks and Company's assets base. Currently, and after the restructuring of the Group's debt, 45.8% (37.82% at the end of 2015) of the total debt is secured by Group assets and there is sufficient margin to obtain new financing, even at average loan-to-value ratios (relation between the amount loaned and the value of the asset) or with discounts on the latest measurement of the assets in July 2015 by an independent expert.

In fiscal year 2016, the Company reached a level of net debt of 542 million Euros, with this ratio developing as follows:

(Thousands of €)	2016	2015	2014
Debt	909,231	1,117,412	1,321,277
Treasury	366,775	348,617	337,277
NET DEBT	542,456	768,795	984,000

The main bases for achieving this financial deleveraging have been the increase in Treasury linked to an improvement in all the company segments, mainly in the hotel division, and the debt
restructuring process carried out by the Company in recent years.

The new model of expansion which will be focused on low capital developments, i.e., management and franchising, and to a lesser extent, rentals should be mentioned.

4.6 ESTIMATION OF FAIR VALUE

Fair value is defined as the amount that may be received on the sale of an asset, or paid to transfer a liability, in an ordered transaction between participants in the market on the measurement date.

The following hierarchy levels have been established for assets and liabilities recognised at fair value in the consolidated balance sheet, in accordance with the variables used in the various measurement techniques:

Level 1: Based on quoted prices in active markets
Level 2: Based on other market observable variables, either directly or indirectly
Level 3: Based on non-observable market variables

The amount of assets and liabilities recognised at fair value at 31 December 2016 in accordance with the hierarchy levels are as follows:

	31/12/2016			
(Thousands of €)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Property investments			141,136	141,136
Financial assets at reasonable value:				
Hedge derivatives	349			349
TOTAL ASSETS	349	0	141,136	141,484
Financial liabilities at reasonable value:				
Hedge derivatives		4,999		4,999
Derivatives held for trading		5,619		5,619
TOTAL LIABILITIES	0	10,617	0	10,617

Financial assets included in Level 1 are measured based on observable prices in active markets. They mainly consist of equity instruments in listed companies.

Financial instruments included in Level 2 are measured by independent experts using measurement techniques consisting mainly of the discounting of cash flows based on observable market data. They consist of interest rate swap financial derivatives.

The property investments included in Level 3 are measured using cash flow discounting techniques. As is indicated in Note 11, this heading includes investments made by the Group to obtain lease income or capital gains, including shares in apartments in three neighbours' associations in Spain, two Shopping Centres in the United States and other properties in Spain.

To estimate future cash flows, expected growth rates in rental prices and hotel operations, as appropriate, are taken into account in addition to other variables that are not directly observable. Note 11 provides more details of the measurements made to estimate the fair values of property investments, as well as information regarding changes during 2016 and 2015.

For comparison, shown below, the balances recorded in the different hierarchies of valuation at year end 2015:

	31/12/2015			
(Thousands of €)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Property investments			139,091	139,091
Financial assets at reasonable value:				
Derivatives held for trading	267			267
TOTAL ASSETS	267	0	139,091	139,357
Financial liabilities at reasonable value:				
Hedge derivatives		5,504		5,504
Derivatives held for trading		6,901		6,901
TOTAL LIABILITIES	0	12,405	0	12,405

5. CONSOLIDATION SCOPE

The companies which comprise the Group present individual annual accounts in accordance with the regulations applicable in the country in which they operate.

The breakdown of companies included in the scope of consolidation at 31 December 2016 is set out in Appendixes 1 and 2, classified as subsidiaries, joint ventures and associates.

Meliá Brasil Administraçao, whose corporate objects consist of hotel management, operates various hotels on a management basis. Since the hotels under management are of joint ownership and are not legally authorised to carry out operating activities, in view of the local requirements, Meliá Brasil Administraçao has assumed the operations of the hotels in Brazil on behalf of the joint owners. Since all risks and revenues will be returned to the joint owners, the consolidated income statement only reflects the remuneration from the management of the hotels received by the Group and does not include income and expenses relating to their operation.

The company, Tryp Mediterranee, of which Meliá Hotels International, S.A. owns 85.4%, is in dissolution and is excluded from the consolidation scope since, at present the Group has no control or significant influence in the above-mentioned company during said process.

The Group holds a 19.94% interest in the Venezuelan companies El Recreo Plaza C.A. and El Recreo Plaza & Cia. C.A. Through the direct 20% stake held by its subsidiary holding company Meliá Inversiones Americanas, N.V. The equity method is therefore applied, since the Group has significant influence.

The company Casino Paradisus, S.A. is 49.85% owned by the Group and through the direct 50% interest held by its subsidiary holding company Meliá Inversiones Americanas, N.V. It is deemed to be a controlled company as the Group holds the majority of its voting rights.

In accordance with the coming into effect in January 2014 of IFRS 10 "Consolidated financial statements", the companies, Ayosa Hoteles S.L., S'Argamassa Hotelera, S.L. and Meliá Hotels Orlando, LLC. are companies that are consolidated by the global integration method, although only 50% of the voting rights, or less, are held. This is because the Group believes that it has the capability to influence the variable yields of the said entities through hotel management contracts that the Group has with them.

5.1 BUSINESS COMBINATIONS

Innwise Management, S.L.

On 30 June 2016, Idiso Hotel Distribution, S.A. A subsidiary of the Group with a 75% stake, acquired a 50% additional stake in Innwise Management, S.L, a technology consulting company for 56 thousand euros, meaning that it now had full ownership of it. As a result of this operation it acquired control of one of the companies forming part of the business line of the company's technology services.

Below we show the estimated fair value in the accounting of the assets and liabilities acquired in the business combination:

(Thousands of €)	FAIR VALUE
ASSETS	
Non-current assets	
Tangible asset	4
Current assets	
Trade debtors	216
Current tax assets	4
Cash and cash equivalents	157
TOTAL ASSETS	380
LIABILITIES	
Non-current liabilities	
Debts L/P	3
Other non-current financial liabilities	105
Current liabilities	
Debts C/P	9
Commercial creditors	163
Other current financial liabilities	89
TOTAL LIABILITIES	370

This operation did not mean significant impacts in the Group's consolidated annual accounts.

Inversiones Hoteleras Los Cabos, S.A.

In December 2016 Group company Melia Inversiones Americanas N.V., acquired the remaining 85% of Inversiones Hoteleras Los Cabos (IHLC) by a capital increase, meaning that the Group acquired full ownership of the company. The cost of the acquisition of these shares rose to 55 million dollars (51.8 million euros), of which 50% was paid at year end. The book value of 15% of the previous stake rose to 3.3 million euros.

IHLC is a holding company whose sole asset is 100% of the shares of Aresol Cabos, S.A. De C.V. Both companies were thus incorporated into the scope of consolidation on the transaction date.

Aresol Cabos, S.A. de C.V. Is a Mexican company, owner and operator of the famous Paradisus Los Cabos hotel, located in the Los Cabos area (Pacific coast) It has been completely renovated after reconstruction of the old Meliá Cabo Real, after the passage of Hurricane Odile in 2015.

The accounting of the business combination was done provisionally at year end 2016, valuing the assets and liabilities acquired with an internal study carried out by the Company itself and based on the business plans of the new hotel and the experience of the Group both in the area as well as the country, as well as in the management of the Paradisus brand.

Derived from this study the hotel's fair value was registered at 108 million euros. Because of the difference between this book value produced in the business combination and the property's tax value, deferred tax of 21 million euros was registered.

As a result of this operation, the Group's consolidated income statement registered a negative consolidation difference of 1.6 million euros of which 5.2 million relates to a revaluation of the previous stake and 3.6 million of losses for the purchase (see Note 7.6).

Below we show the estimated fair value in the provisional accounting of the assets and liabilities acquired in the business combination:

(Thousands of €)	9/12/2016 FAIR VALUE
ASSET	
Tangible asset	108,494
Cash and cash equivalents	1,802
Rest of current assets	27,793
TOTAL ASSET	138,089
LIABILITIES	
Tax deferred liabilities	21,578
Non-current liabilities	27,280
Current liabilities	32,275
TOTAL LIABILITIES	81,133

In 2015 the following business combinations were carried out:

Inmotel Inversiones Italia

During the first half of 2015, the Group's parent company acquired 58.5 % of Inmotel Inversiones Italia S.R.L, meaning that the Group acquired full ownership in the company, which granted it control of it.

This company owns the Meliá Milano, which is operated by the Group company Sol Meliá Italia, S.R.L through a variable lease agreement.

The purchase price set out amounted to 68.5 million euros of which 47.9 million was paid in cash and 20.6 million by delivery of treasury shares (see Note 15.3).

The value of the 96.1 million euros was determined by a transaction carried out by the independent experts Jones Lang LaSalle in June 2015. Because of the difference between this book value produced in the business combination and the property's tax value, deferred tax of 25.7 million euros was registered.

To complete the accounting of this business combination, the Company requested an additional study to support the cost distribution of the combination. In accordance with the said study, 32 million euros was allocated to the land on which the hotel was constructed.

Below we show the estimated fair value in the definitive accounting of the assets and liabilities acquired in the business combination:

(Thousands of €)	28/4/2015 FAIR VALUE
ASSETS	
Non-current assets	
Goodwill	25,711
Tangible asset	96,170
Deferred tax assets	5,005
Current assets	
Current assets	51
TOTAL ASSETS	126,937
LIABILITIES	
Non-current liabilities	
Other non-current financial liabilities	4,676
Deferred tax liabilities	25,711
Current liabilities	
Commercial creditors	2,634
Other current financial liabilities	373
TOTAL LIABILITIES	33,394

5.2 OTHER SCOPE CHANGES

INCLUSIONS

In the second half of the year Sol Melia Jamaica LTD and Almeldik SRLAU whose activity will consist in hotel management of the establishments in Jamaica and Morocco respectively, were set up.

Likewise, the Spanish companies Adrimelco Inversiones SLU, Gonpons Inversiones SLU and Yagoda Inversiones SLU, all fully owned by the parent company, were created.

None of the inclusions previously commented on have a significant impact on the Group's consolidated accounts.

WRITE-OFFS

In the first half of the year Sol Melia Finance Ltd. and Sol Melia Commercial, which were fully owned by the Group, were liquidated without significant impact on the Group's consolidated accounts.

ACQUISITION OF MINORITY INTERESTS

In the first half of the year, the Group's parent company acquired for 0.3 million euros an additional 50% of Colón Verona, S.A., owner and operator of the Gran Meliá Colon hotel. This operation generates a reclassification of 13.6 million euros in the statement of changes in equity in the item "Minority interests" to retained earnings.

The Group increased by 0.06% its stake in Apartotel S.A., without significant impact in the Group's consolidated accounts.

ACQUISITION OF AN ADDITIONAL HOLDING IN ENTITIES INTEGRATED BY THE EQUITY METHOD

The Group has acquired an additional holding by purchasing various apartments in the neighbours' association of the Costa del Sol hotel, thus increasing its stake by 0.8%.

The Group has also increased by 0.28% its stake in the neighbours' association of the Meliá Castilla hotel with the acquisition of three apartments.

None of the acquisitions had a significant impact in the Group's consolidated annual accounts.

For comparison purposes here are the details of the variations in 2015:

INCLUSIONS

Over the first half of 2015 the Meliá Group formalised an agreement with the Starwood Capital Group by which the Meliá Group acquired 20% of Starmel Hotels JV, S.L., while the Starwood Group kept 80% ownership. For its part, this company has full ownership in another seven companies, which acquired 6 hotels from the Meliá Group for a total of 178.2 million euros (including adjustment of net current assets) for which bank loans of 93.4 million euros were arranged, as well as contributions in the form of capital realised by shareholders in proportion to their holding (see Note 10).

In addition, the company Jamaica Devco, S.L. was set up, with 49% ownership by the parent company, without a significant impact on the Group and which has remained dormant until now.

In the second half of the year, it was incorporated into the scope of consolidation of Innside Ventures, Llc., which is fully owned by the Group, without significant impact. The company's corporate purpose is the leasing operation for Innside Nueva York NoMad (USA) which opened its doors in the first half of 2016.

In order to restructure the Group's holdings in British companies, on 21 December Meliá Hotels International UK Limited was set up, acquiring full ownership of the holdings in London XXI Limited (operator of Me London) and Lomondo Limited (operator of Meliá White House). This operation had no serious impact on the Group.

WRITE-OFFS

In March 2015 the Dutch company Melsol Management BV, which was fully owned by Meliá Hotels International, S.A., was liquidated. This write-off did not involve significant changes to the Group's consolidated accounts.

ACQUISITION AND SALE OF MINORITY INTERESTS

The Group acquired another apartment of the property owners community of Meliá Sol y Nieve hotel, increasing its stake by 0.54%.

In December 2015, the fully owned Grupo Prodigios Interactivos, S.A. Acquired an additional 20% stake in Idiso Hotel Distribution, S.A for 8 million euros. This operation incurred a loss of 2 million euros which was directly applied to the Group's equity, as explained in Note 2.4.

ACQUISITION AND SALE OF HOLDINGS IN ENTITIES INTEGRATED BY THE EQUITY METHOD

The Group acquired an additional holding by purchasing various apartments in the neighbours' association of the Meliá Castilla hotel, thus increasing its stake by 0.09%, without significant impact on the consolidated financial statements.

5.3 NAME CHANGES

In the first half of 2016 Kabegico Inversiones, S.L. Changed its name to Hotelpoint, S.L.

The following companies in the Starmel Group, which is 20% owned by Meliá and 80% by Starwood Capital Group, changed their company name:

- Advanced Inversiones 2014, S.L. Became Starmel Hotels JV, S.L.
- Leader Inversiones 2014, S.L. became Starmel Hotels OP, S.L.
- Prompt Inversiones 2014, S.L. became Torremolinos Beach Property, S.L.
- Counsel Inversiones 2014, S.L. became Fuerteventura Beach Property, S.L.
- Abridge Inversiones 2014, S.L. became Santa Eulalia Beach Property, S.L.
- Entity Inversiones 2014, S.L. became Palmanova Beach Property, S.L.
- Additional Inversiones 2014, S.L. became Puerto del Carmen Beach Property, S.L.
- Framework Inversiones 2014, S.L. became San Antonio Beach Property, S.L.

Naolinco Hoteles, S.L. became Naolinco Aviation, S.L.

The following companies changed their address and company name:

- Dominican Investment N.V. Became Dominican Investments, S.L.U.
- Dominican Marketing & Services N.V. became Dominican Marketing & Services S.L.U
- Irton Company, N.V. became Hotel Room Management, S.L.
- Punta Cana Reservations N.V. became Punta Cana Reservations S.L.U.
- Meliá International Hotels, S.A. became Expamihso Spain, S.A.U.
- Neale, S.A. became Neale Expa Spain, S.A.U.
- Sol Meliá Vacation Network became Network Investments Spain, S.L.U.

There were no name changes in 2015.

6. FINANCIAL INFORMATION BY SEGMENTS

The following segments make up the organisational structure of the company and the results are reviewed by the highest decision-making body at the Company:

- **Hotel management**: relates to the fees received for managing hotels under management and franchise agreements. This also includes the intra-group charges to the Group hotels that are owned and rented.
- **Hotel business:** this segment includes the results obtained by the operation of the hotel units that are owned or leased by the Group. The income generated by the restaurant business is also presented as this activity is considered to be fully integrated into the hotel business due to the majority sales of packages whose price includes lodging and meals, which would make an actual segmentation of the associated assets and liabilities impracticable.
- **Other businesses associated with hotel management**: this segment includes income other than from the hotel business, such as casinos or tour-operator activities.
- **Real Estate**: includes the capital gains on asset rotation, as well as real estate development and operations.
- **Club Meliá**: reflects the results deriving from the sale of rights to share specific vacation complex units.
- **Corporate**: these items consist of structural costs and results linked to the intermediation and marketing of room and tourism service reservations, as well as Group corporate costs that cannot be assigned to any of the aforementioned three business divisions.

The segmentation of Meliá Hotels International is explained by the diversification of existing operations at the Company based on the hotel management areas and hotel, real estate and vacation club operations.

Certain items included in the business and geographical segmentation tables are presented aggregately, due to the impossibility of their separation in the different specified segments.

The Company's transfer pricing policies are established using a similar system to that used for operations with third parties.

6.1 INFORMATION BY OPERATING SEGMENTS

The segmentation of the income statement and the balance sheet lines relating to operations for 2016 are shown in the following table:

(Thousands of €)	Hotels division: Hotel Management	Hotels division: Hotel Business	Hotels division: Other bus. rel. to hotel manag.	Real Estate	Club Meliá	Corporative	Eliminations	31/12/2016
PROFIT & LOSS ACCOUNT								
Operating income	283,244	1,508,473	77,304	17,714	98,820	126,882	(310,474)	**1,801,962**
Operating expenses	(202,780)	(1,119,919)	(71,354)	(9,159)	(89,667)	(165,751)	305,973	**(1,352,657)**
EBITDAR	**80,464**	**388,554**	**5,950**	**8,555**	**9,152**	**(38,869)**	**(4,501)**	**449,305**
Leases		(163,779)	(505)			(3,945)	4,501	**(163,727)**
EBITDA	**80,464**	**224,775**	**5,445**	**8,555**	**9,152**	**(42,814)**		**285,578**
Depreciation and impairment	(883)	(91,048)	(958)	(353)	(2,443)	(14,146)		**(109,831)**
EBIT	**79,581**	**133,726**	**4,487**	**8,201**	**6,709**	**(56,959)**		**175,746**
Financial result								**(29,743)**
Associated companies result		4,591				(3,006)		**1,585**
Pre-tax result								**147,588**
Tax								**(44,640)**
CONSOLIDATED RESULTS								**102,948**
Result attributed to minority								**(2,255)**
RESULT ATTRIBUTED TO PARENT COMPANY								**100,693**
ASSETS AND LIABILITIES								
Fixed, tangible and intangible	47,504	1,551,416	10,741	25,015	14,970	213,832		**1,863,477**
Associated companies investments		63,214		1,877		125,010		**190,101**
Other non-current assets								**486,984**
Operating current assets	120,104	166,657	9,819	7,974	80,204	257,105	(302,642)	**339,222**
Other current assets								**443,685**
TOTAL ASSETS								3,323,470
Financial debt								**909,231**
Other non-current liabilities								**262,624**
Operating current liabilities	112,647	419,869	13,985	2,664	151,263	54,885	(295,650)	**459,663**
Other current liabilities								**128,340**
TOTAL LIABILITIES								1,759,857

Management fees totalling €151.6 million were included in the income from the Hotel Management segment, of which €11.1 million related to associated companies. The rest of the income mainly relates to sales commissions.

Other business linked to hotel management mainly includes income and expenses linked to tour operations of Sol Caribe Tours, S.A. for 55 and 51.8 million euros respectively (see Note 7.1).

With respect to operating income of the real estate segment (or asset management), this mainly relates to the sale of laundrettes and the Sol Parque San Antonio hotel, whose contribution to this item was 7.1 million euros.

Income was also generated from the leasing of business premises in shopping malls in America, as well as other services provided amounting to 4.4 million euros. (see Note 11).

The main transactions included in the tangible fixed assets relate to the integration of Inversiones Hoteleras Los Cabos, S.A at 108 million euros (see Note 5).

With respect to the eliminations carried out during the year, the inter-segment invoices for management fees of 188.9 million euros should be pointed out. The services provided to Club Melia amounted to 20.4 million euros.

The segmentation of the income statement and the balance sheet lines relating to operations for 2015 are shown in the following table:

(Thousands of €)	Hotels division: Hotel Management	Hotels division: Hotel Business	Hotels division: Other bus. rel. to hotel manag.	Real Estate	Club Meliá	Corporative	Eliminations	31/12/2015
PROFIT & LOSS ACCOUNT								
Operating income	234,243	1,382,912	69,564	69,874	127,370	125,505	(271,261)	**1,738,207**
Operating expenses	(186,336)	(1,043,389)	(63,844)	(17,634)	(107,293)	(148,680)	265,779	**(1,301,397)**
EBITDAR	**47,907**	**339,523**	**5,720**	**52,240**	**20,077**	**(23,175)**	**(5,482)**	**436,810**
Leases	(3,600)	(139,836)	(319)			(5,461)	5,483	**(143,733)**
EBITDA	**44,307**	**199,688**	**5,401**	**52,240**	**20,077**	**(28,636)**		**293,077**
Depreciation and impairment	(1,021)	(112,261)	(958)	(421)	(1,423)	(13,025)	(22)	**(129,130)**
EBIT	**43,286**	**87,427**	**4,444**	**51,819**	**18,654**	**(41,661)**	**(22)**	**163,948**
Financial result								**(58,542)**
Associated companies result		1,654		1,584		(7,025)		**(3,787)**
Pre-tax result								**101,619**
Tax								**(61,103)**
CONSOLIDATED RESULTS								**40,515**
Result attributed to minority								**(4,541)**
RESULT ATTRIBUTED TO PARENT COMPANY								**35,974**
ASSETS AND LIABILITIES								
Fixed, tangible and intangible	40,143	1,485,879	11,118	22,878	59,997	117,743		**1,737,758**
Associated companies investments		59,401		6,576		113,404		**179,381**
Other non-current assets								**502,546**
Operating current assets	68,202	167,795	9,831	8,240	138,158	317,225	(373,503)	**335,948**
Other current assets								**407,396**
TOTAL ASSETS								3,163,029
Financial debt								**1,117,412**
Other non-current liabilities								**256,696**
Operating current liabilities	74,876	404,476	12,721	1,998	190,868	77,888	(365,483)	**397,344**
Other current liabilities								**77,029**
TOTAL LIABILITIES								1,848,480

Management fees totalling €135.9 million were included in the income from the Hotel Management segment, of which €8.3 million related to associated companies. The rest of the income mainly relates to sales commissions.

Other business linked to hotel management mainly includes income and expenses linked to tour operations of Sol Caribe Tours, S.A. for 47.2 and 44.7 million euros respectively (see Note 7.1).

With respect to operating income of the real estate segment (or asset management), this mainly relates to the sale of six hotels owned by Starwood Capital Group, whose contribution to this item was 48.6 million euros. As indicated in Note 5.2, these hotels were sold to companies in which Grupo Meliá had a 20% stake included in the sub-group of Starmel Hotels JV, S.L.

The gross capital gains from the sale of the Calas de Mallorca complex and the Sol Falcó hotel were included in this segment for 4.4 and 4.7 million euros respectively.

Income of 3.2 million euros relating to the lease of business premises in American shopping malls was generated (see Note 11).

The main transactions included in the tangible fixed assets related to the write-off by the sale to the Starmel Group of six hotels for 122.1 million eurors net book value as indicated in Note 10.

With respect to the eliminations carried out during the year, the inter-segment invoices for management fees of 172.3 million euros should be pointed out. The services provided to Club Melia amounted to 12.6 million euros.

6.2 INFORMATION BY GEOGRAPHIC REGION

The information by operating segment constitutes the format which best represents the Group's financial information, facilitating comprehension of profitability and annual monitoring. Set out below is a breakdown of the geographic areas according to the countries where the cash generating units in which the Group operates are found, showing income and assets (see Note 1):

(Thousands of €)	SPAIN	EMEA *	AMERICA	ASIA	Eliminations	31/12/2016
Operating income	944,122	339,595	669,106	3,737	(154,598)	1,801,962
TOTAL ASSETS	1,786,882	467,338	1,065,852	3,397		3,323,470

(*) **EMEA** (Europe, Middle East, Africa): Africa, Middle East and Europe inclusive, Spain exclusive

Turnover among the various geographical segments amounted to €154.6 million Euros, of which €147.8 million was in Spain, €48.8 million in the EMEA, and a €42 million loss in America.

As regards operating income by country, the most significant were Mexico with € 194.8 million and the Dominican Republic with € 291 million in the America segment. In the EMEA segment, Germany contributed € 144.4 million.

In addition, in the Total Assets line the contribution of Mexico is noteworthy, at 411.8 million Euro, as well as that of the Dominican Republic with 360.6 million Euro, under the item 'America'. With regard to the segment EMEA, the contributions of the United Kingdom and France are significant, at 77 and 66.7 million Euro, respectively.

For comparison purposes, the balances corresponding to the preceding year are shown below:

(Thousands of €)	SPAIN	EMEA *	AMERICA	ASIA	Eliminations	31/12/2015
Operating income	882,109	341,521	656,625	3,463	(145,511)	1,738,207
TOTAL ASSETS	1,715,446	438,867	1,005,604	3,112		3,163,029

(*) **EMEA** (Europe, Middle East, Africa): Africa, Middle East and Europe inclusive, Spain exclusive

Turnover among the various geographical segments amounted to €145.5 million Euros, of which €91.8 million was in Spain, €92.5 million in the EMEA, and €38.8 million negative in America.

As regards operating income by country, the most significant were Mexico with € 186.8 million and the Dominican Republic with € 297.4 million in the America segment. In the EMEA segment, Germany contributed € 131.7 million.

In addition, in Total Assets line the contribution of the Dominican Republic is noteworthy, at 365.2 million Euro, as well as that of Mexico with 338.5 million Euro, under the item 'America'. With regard to the segment EMEA, the contributions of the United Kingdom and France are significant, at 83.4 and 64.1 million Euro, respectively.

7. OTHER INCOME AND EXPENSES

7.1 OPERATING INCOME

The breakdown of the balance of this account in the income statement for 2016 and 2015 is as follows:

(Thousands of €)	2016	2015
Room sales	931,394	846,485
Food and beverage sales	469,543	457,486
Property income	17,946	70,007
Vacation club units sales	78,454	99,648
Other business income	93,830	87,316
Hotel management fees	57,153	48,482
Other income	153,643	128,784
TOTAL	1,801,962	1,738,207

The main item in Other income relates to Sol Caribe Tours, S.A. (€ 55 million) as a result of the development of its tour operations.

7.2 CONSUMABLES

The breakdown of the balance of this item in the income statement for 2016 and 2015 is as follows:

(Thousands of €)	2016	2015
Consumption of food and drink	139,039	135,685
Consumption of auxiliary articles	35,117	34,432
Consumption of vacation club sales	3,985	5,070
Various consumption	44,642	39,636
TOTAL	222,783	214,823

7.3 STAFF COSTS

Staff costs are broken down as follows:

(Thousands of €)	2016	2015
Wages, salaries and equivalent	377,359	357,849
Social security	85,229	80,214
Other social expenses	21,524	19,886
Allowances	5,595	5,371
TOTAL	489,707	463,321

The average number of employees of Meliá Hotels International, S.A. and its subsidiaries during the last two years, distributed by occupational category is as follows:

	2016			2015		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Executives	328	141	469	320	126	446
Department heads	1,381	959	2,341	1,492	962	2,454
Technicians	5,890	4,197	10,087	5,740	3,927	9,667
Assistants	4,329	3,257	7,586	4,185	3,141	7,326
TOTAL	11,928	8,555	20,483	11,737	8,157	19,893

7.4 OTHER EXPENSES

The breakdown of the balance of this item in the income statement for 2016 and 2015 is as follows:

(Thousands of €)	2016	2015
Various leases	16,380	12,498
Maintenance and conservation	61,402	55,484
External services	107,836	106,929
Transportation and insurance	16,961	16,139
Bank management costs	21,539	20,342
Advertising and promotion	62,110	54,756
Supplies	85,491	87,038
Travel and ticketing	13,861	12,285
Tax on economic activities	45,249	53,313
Various external services	168,717	167,131
Other costs	40,622	37,336
TOTAL	640,167	623,253

7.5 DEPRECIATION, AMORTISATION AND IMPAIRMENT

The breakdown of the balance of this item in the income statement for 2016 and 2015 is as follows:

(Thousands of €)	2016	2015
Intangible asset depreciation allowance	16,196	14,515
Tangible asset depreciation allowance	88,081	76,189
Impairment of tangible fixed assets	7,175	38,426
TOTAL	111,452	129,130

This item records the impact of accelerated depreciation of the assets of the hotels operated by operating leases to adapt its useful life to the duration of the said leasing agreements.

In 2015 inclusions for impairment of the tangible fixed assets reflected the losses recorded of 28.6 million euros, as a result of the new valuation commissioned by the company during the first half from an independent expert to revalue the Group's assets and liabilities in Puerto Rico.

7.6 NEGATIVE CONSOLIDATION DIFFERENCE

Below we provide a detailed breakdown of the negative consolidation difference produced by the business combination of Inversiones Hoteleras Los Cabos as explained in Note 5.1:

	2016		
(Thousands of €)	Revaluation previously held equity	Purchase Benefit/(Loss)	Total
Inversiones Hoteleras Los Cabos	5,238	(3,617)	1,621
TOTAL	5,238	(3,617)	1,621

7.7 INCOME AND FINANCING COSTS

The breakdown by type of the amounts included in the financial results of the consolidated income statement for 2016 and 2015 is as follows:

(Thousands of €)	2016	2015
Exchange gains	70,331	137,240
Dividend income	104	84
Income through interest	7,317	7,735
Result sale of financial assets	6,618	228
TOTAL FINANCIAL INCOME	84,369	145,287
Exchange losses	(65,655)	(126,830)
Interest expenses	(42,201)	(66,440)
Other financial costs	(671)	(9,985)
Credit insolvency provisions	(5,475)	238
Change financial instruments fair value	(110)	(812)
TOTAL FINANCIAL EXPENSES	(114,112)	(203,829)
FINANCIAL RESULT	(29,743)	(58,542)

The main change included in the financial result compared to 2015 relates to a reduction in interest expenses largely because of the early cancellation of the convertible bond issued in 2013, whose cancellation meant a reduction of 16 million euros.

The Company has also made a significant effort to reduce the average rate paid for its financial debt, from 4.36% in 2015 to 3.46% this year.

The exchange rate differences recorded in the year are mainly due to the approximately 4% appreciation of the dollar against the euro, although the net effect of this change was less than that recorded the previous year (10%). There has also been a strong appreciation in the euro against the pound sterling which has had a negative impact with respect to the monetary assets maintained by the Group which are denominated in this currency.

The results from the sale of financial assets of 6.6 million euros refer to the sale of the holdings in Inversiones Hoteleras Playa del Duque, S.A. and Inversiones Turísticas Casas Bellas, S.A. (See Note 13.1).

8. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders by the average number of ordinary shares in circulation during the year.

Diluted earnings per share amounts are calculated by dividing net profit attributable to holders of parent company equity instruments by the average number of ordinary shares in circulation during the year. Both variables are adjusted by the inherent effects of potentially dilutive shares.

The Group takes into account the effect of shares potentially arising from the issue of convertible bonds and interest recognised in the income statement due to said operation. As this evaluation shows that potential ordinary shares have anti-dilutive effects, they are not included in the calculation of diluted earnings per share. It should be mentioned at at year end 2016 there were no potential ordinary shares because of cancellation of the convertible bond (see Note 13.2).

The following table shows the calculations made in 2016 and 2015 for both variables:

	BASIC		DILUTED	
(Units of €)	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Results imputed to the parent company	**100,692,992**	**35,974,730**	**100,692,992**	**35,974,730**
Correction of results				
Adjusted result	**100,692,992**	**35,974,730**	**100,692,992**	**35,974,730**
Number of ordinary shares	229,700,000	199,053,048	229,700,000	199,053,048
Weighted average treasury stock	(1,599,735)	(765,551)	(1,599,735)	(765,551)
No. potential ordinary shares				
Number of ordinary shares	**228,100,265**	**198,287,497**	**228,100,265**	**198,287,497**
Earnings per share	0.44	0.18	0.44	0.18

At the General Shareholders' Meeting, the Board of Directors will propose the distribution of a gross dividend, excluding treasury shares, of 0.1315 euro per share, for which a maximum figure will be available for distribution of 30,205,550 million euro charged to the 2016 results of the parent company.

For 2015, the Board of Directors proposed to the Annual General Meeting the pay-out of a gross dividend, excluding treasury shares, of 0.04 Euro per share, for which an amount of €9 million was paid out in the second half of 2016.

9. INTANGIBLE ASSETS

The details of the cost and accumulated amortisation of intangible assets is as follows:

(Thousands of €)

COST	Balance 31/12/15	2016 amortisation	Inclusions	Write-offs	Scope changes	Exchange differences	Balance 31/12/2016
Goodwill	61,035					(265)	60,769
Transfer fees	102,612		19,401	(5,071)		(8,801)	108,141
Computer applications	133,225		14,395	(209)	8	21	147,440
Other intangible fixed assets	7,705		46			(548)	7,203
TOTAL COST	304,578		33,842	(5,280)	8	(9,594)	323,553
ACCUMULATED DEPRECIATION							
Transfer fees	(47,560)	(4,568)	(405)	3,098		5,205	(44,229)
Computer applications	(92,995)	(11,422)		217	(8)	(22)	(104,229)
Other intangible fixed assets	(5,261)	(206)				454	(5,013)
TOTAL ACCUM. DEPRECIATION	(145,817)	(16,196)	(405)	3,315	(8)	5,638	(153,471)
NET BOOK VALUE	158,761	(16,196)	33,438	(1,965)	(0)	(3,956)	170,083

The new items recorded in the current fiscal year in the line of Fees for Transfers relate mostly to the amount paid to acquire the right to operate a hotel by lease in Brazil for 14.6 million euros.

Write-offs have also been recorded for 5 million euros (1.4 million euros of net book value) because of the transfer of operating rights for the hotels managed in Spain.

With respect to the inclusion of computer applications, this mainly refers to the amounts adopted in the Be more Digital technological innovation project for 9.9 million euros, which aims to achieve great technological advances covering a range of needs not currently covered with the aim of improving the services offered by the company to its customers.

In 2016 the useful life of some computer applications that the Company considered as indefinite was revised. As a result of this analysis, a change was made in the estimated useful life because of the technological restructuring taking place within the Group. These assets will be completely amortised at year end 2017.

On the other hand, the impact of the conversion differences are due to the fall in the pound sterling and its impact on the Group's transfer fees in hotels in the United Kingdom.

For comparison purposes, the breakdown of these transactions in 2015 is as follows:

(Thousands of €)

COSTE	Balance 31/12/2014	2015 amortisation	Inclusions	Write-offs	Transfers	Scope changes	Exchange differences	Balance 31/12/2015
Goodwill	35,531			(318)		25,711	111	61,035
Transfer fees	97,169		930				4,513	102,612
Computer applications	122,857		7,995	(1,637)	3,764		245	133,225
Other intangible fixed assets	8,285		25	(555)			(50)	7,705
In progress tangible assets	3,764				(3,764)			0
TOTAL COST	267,606		8,950	(2,510)	0	25,711	4,820	304,578
ACCUMULATED DEPRECIATION								
Transfer fees	(41,415)	(4,092)					(2,054)	(47,560)
Computer applications	(82,932)	(10,196)	(2)	372			(237)	(92,995)
Other intangible fixed assets	(5,610)	(225)		555			18	(5,261)
TOTAL ACCUM. DEPRECIATION	(129,957)	(14,513)	(2)	927	0	0	(2,272)	(145,817)
NET BOOK VALUE	137,649	(14,513)	8,949	(1,583)	0	25,711	2,548	158,761

The amount reflected in the column of scope changes related to the goodwill produced in the business combination of Inmotel Inversiones Italia S.R.L., as detailed in Note 5.1.

The new items of Fees for Transfers relate mostly to the amount paid to acquire the right to operate a hotel by management in Qatar for 0.5 million euros. The Group also funded a provision for the amount of 0.6 million euros reflected in the 2015 amortisation column relating to the transfer of the operating right to manage a hotel in Madrid in January 2016.

With respect to computer applications new items were recorded amounting to 4.3 million euros relating to the Be more Digital technological innovation project.

This item also included 4.6 million euros considered by the company as an indefinite useful life because these computer applications are used to develop its activities, facilitating growth and globalisation processes.

GOODWILL

The goodwill balance recognises differences in the value generated as a result of business combinations. The net book values of the goodwill existing prior to the adoption of the IFRS (Note 2.5).

The amounts for companies are shown below:

(Thousands of €)	31/12/2016	31/12/2015
Apartotel, S.A.	504	504
René Egli, S.L.U.	1,708	1,708
Hotel Metropolitan, S.A.S.	1,181	1,181
Cadstar France, S.A.S.	813	813
Ihla Bela de Gestao e Turismo, Ltd.	927	927
Lomondo, Ltd.	5,299	5,565
Hotel Alexander, S.A.S.	8,496	8,496
Operadora Mesol, S.A. de C.V.	465	465
Sol Melia Hrvatska d.o.o (Sol Melia Croacia)	886	886
Idiso Hotel Distribution, S.A.	14,780	14,780
Inmotel Inversiones Italia S.R.L.	25,711	25,711
TOTAL	60,769	61,036

The main variation registered during the year is motivated by the exchange rate differences recorded at Lomondo Ltd.

The goodwill registered at year end was subject to value impairment tests based on the expected flows of cash-generating units for each of the related companies.

These units are shown in the following table:

COMPANY	CASH-GENERATING UNITS (C.G.E.)
Apartotel, S.A.	Meliá Castilla, Meliá Costa del Sol and Meliá Alicante hotels
Hotel Metropolitan, S.A.S.	Meliá Vendome hotel
Cadstar France, S.A.S.	Meliá Colbert, Tryp François and Meliá Royal Alma hotels
Ihla Bela de Gestao e Turismo, Ltd.	Tryp Península Varadero, Meliá Las Dunas, Sol Cayo Santa María hotels, Meliá Cayo Santa María, Tryp Habana Libre and Tryp Cayo Coco.
Lomondo, Ltd.	Meliá White House hotel
Hotel Alexander, S.A.	Meliá Alexander hotel
Operadora Mesol, S.A. de C.V.	Meliá Cozumel, Meliá Puerto Vallarta, Paradisus Cancún Resort hotels
	Me Cabo, Meliá Cabo Real, Meliá Azul Itxapa
Sol Meliá Hrvatska d.o.o. (Sol Melia Croacia)	Sol Aurora, Sol Garden Istra, Meliá Coral, Sol Polynesia, Sol Stella hotels, Sol Umag, Adriatic Guest, Sipar, Kanegra and Savudrija apartments, Campings Finida and Park Umag.
Idiso Hotel Distribution, S.A.	Hotel distribution platform
René Egli, S.L.U.	Sports centre
Inmotel Inversiones Italia S.R.L.	Meliá Milán hotel

The cash-generating units mainly relate to hotels operated or managed in each case.

Risk factors considered by the Company are the expected exchange rates for the currencies in which cash flows are generated by each unit and the risk-free interest rates in each of the countries in which the cash flows are generated.

The cash flow incorporated in the valuation incorporates the business and competition risks. The method used is the EBITDA multiple, which is applied to the actual average EBITDA for the year and the preceding year, of the various cash generating units, without representing increases in income when taking into consideration future cash flows. The multiples used, aggregated by geographic areas, relate to the following table:

EBITDA MULTIPLES	2016	2015
Spain	11.7	11.7
Rest of Europe	12,2 - 14,3	12,2 - 14,3
Latin America	6,0-7,7	6,0-7,7

10. PROPERTY, PLANT AND EQUIPMENT

The transactions in the separate tangible asset items and their accumulated depreciation during the year were as follows:

(Thousands of €)

COST	Balance 31/12/15	2016 amortisation	Inclusions	Write-offs	Transfers	Scope changes	Exchange differences	Balance 31/12/2016
Land	381,740		3,594	(151)		37,802	(743)	422,242
Buildings	1,385,072		81,224	(17,643)	1,373	76,915	(30,636)	1,496,304
Plant and machinery	419,318		26,150	(10,945)	266	2,199	(860)	436,128
Other tangible fixed assets	496,618		45,733	(18,282)	219	4,576	(11,004)	517,859
Work in progress	8,693		11,398	(569)	(1,858)	3,454	(2,191)	18,927
TOTAL COST	2,691,440		168,099	(47,590)	0	124,946	(45,434)	2,891,460
ACCUMULATED DEPRECIATION								
Buildings	(493,873)	(33,201)	(12,678)	6,511		(16,250)	14,079	(535,410)
Plant and machinery	(284,788)	(29,335)	(627)	8,980		(0)	(2,012)	(307,781)
Other tangible fixed assets	(333,782)	(32,720)	(9,794)	14,992		(198)	6,627	(354,876)
TOTAL ACCUM. DEPRECIATION	(1,112,443)	(95,256)	(23,098)	30,483		(16,448)	18,694	(1,198,067)
NET BOOK VALUE:	1,578,997	(95,256)	145,001	(17,107)		108,498	(26,740)	1,693,393

In the new items for the fiscal year 59.5 million euros were posted for a series of refurbishments carried out on hotels in Spain, principally in the Balearic Islands, Barcelona and Seville.

Investments were also made in Mexico and the Dominican Republic for 8.2 and 15.6 million euros respectively.

Within the investments made during the year it should be mentioned that they encompass 1.5 million assets acquired through financial leasing contracts not included in payments for investments in the cash flow statements.

A release was done of hotel units intended for the vacation club business, with a transfer of 18 million euros in the item "Inventory and returning them to the corresponding tangible fixed asset accounts".

25.8 million net book value (48.9 million cost less 23.1 million amortisation) was also included as revaluation of assets in hyperinflationary economies (Venezuela). This increase was compensated by the exchange rate differences reflected in the column for this, for a 13.4 million euros loss, as a result of the application of the exchange rate named DICOM, meaning another fall in the value of the bolívar, as described in Note 2.5.

With respect to write-offs, the following stands out:

- Sale of the Sol Parque San Antonio hotel in Tenerife for a net book value of 2.5 million euros (13.6 million cost and 11.2 million accumulated depreciation). This sale assumed net capital gains of 4.1 million euros.
- Sale of fixed assets associated with a laundrette. This asset sale, which is not strategic to the Group, meant a reduction of 1.2 million euros in net book value (5.5 million cost and 4.3 million amortisation). The net capital gains obtained in this operation was 2 million euros.

The sales detailed above were made with third parties not linked to the Group at market prices.

The amount reflected in the column of perimeter variations relate to the fair value integration of the assets acquired in the business combination of Inversiones Hoteleras Los Cabos, as detailed in Note 5.1.

For comparison purposes the figures for 2015 are shown:

(Thousands of €)

COSTE	Balance 31/12/2014	2015 amortisation	Inclusions	Write-offs	Scope changes	Exchange differences	Balance 31/12/2015
Land	394,230		2,090	(39,368)	32,000	(7,212)	381,740
Buildings	1,423,818		50,287	(167,689)	80,224	(1,568)	1,385,072
Plant and machinery	453,433		19,272	(61,201)	1,963	5,851	419,319
Other tangible fixed assets	486,850		43,866	(38,232)	6,919	(2,786)	496,618
Work in progress	11,810		5,636	(2,497)		(6,257)	8,692
TOTAL COSTE	2,770,141		121,152	(308,987)	121,106	(11,973)	2,691,440
ACCUMULATED DEPRECIATION							
Buildings	(487,501)	(50,478)	(5,898)	70,284	(17,221)	(3,058)	(493,872)
Plant and machinery	(293,955)	(20,660)	(9,286)	43,416	(1,324)	(2,983)	(284,792)
Other tangible fixed assets	(323,638)	(43,478)	(6,502)	42,228	(6,391)	4,003	(333,779)
TOTAL ACCUM. DEPRECIATION	(1,105,094)	(114,616)	(21,686)	155,927	(24,936)	(2,038)	(1,112,443)
NET BOOK VALUE	1,665,047	(114,616)	99,466	(153,060)	96,170	(14,010)	1,578,997

In the new items for the fiscal year 58.9 million euros were posted for a series of refurbishments carried out on hotels in Spain, principally in the Balearic Islands and Mardrid.

Investments were also made in Mexico and the Dominican Republic for 6.3 and 10.6 million euros respectively.

Within the investments made during the year it should be mentioned that they encompass 9.4 million assets acquired through financial leasing contracts not included in payments for investments in the cash flow statements.

10.8 million net book value (21.6 million cost less 10.8 million amortisation) was also included as revaluation of assets in hyperinflationary economies (Venezuela). This increase was compensated by the exchange rate differences reflected in the column for this, for a 35.9 million euros loss, as a result of the application of the exchange rate named SIMADI, which meant another fall in the value of the bolívar, as described in Note 2.5.

The main write-offs were as follows:

- Sale of six hotels for 122.1 million euros of net book value to affiliated companies in which Grupo Meliá has a 20% stake included in the subgroup of Starmel Hotels JV, S.L. As detailed in Note 5.2. This operation generated net capital gains of 40.1 million euros.
- Sale of the Calas de Mallorca complex for a net book value of 17.7 million euros (28.8 million cost and 11 million accumulated depreciation). This sale meant net capital gains of 3.3 million euros for the Group.
- Sale of the Sol Falcó (Menorca) hotel for a net book value of 12.8 million euros (26.3 million cost and 13.6 million accumulated depreciation). The net capital gains obtained in this operation was 3.9 million euros.

The sales detailed above were made with third parties not linked to the Group at market prices.

The amount reflected in the column of perimeter variations relate to the fair value integration of the assets acquired in the business combination of Inmotel Inversiones Italia S.R.L., as detailed in Note 5.1.

OTHER CONSIDERATIONS

There were 18 properties mortgaged and guaranteed by various loans at year end 2016, and their net book value came to 634.8 million euros while in 2015 there were 19 with a net book value of 657.5 million euros.

On 31 December 2016 and 2015 the directors consider that there was sufficient insurance cover for their assets.

The net book value of the Group's assets that are financed across bank leasing contracts are broken down below:

(Thousands of €)	31/12/2016	31/12/2015
Buildings	8,459	9,931
Installations	4,135	3,971
Furniture	3,720	4,316
Other assets	1,220	1,363
TOTAL	17,534	19,582

At the year-end there were 144 contracts in force with an average maturity date of 3 years, whereas in 2015 there were 165 contracts with an average maturity date of 3 years.

The conditions of said contracts include a purchase option and a contingent component, relating to the variable nature of the interest rate applied to the contracts as explained in Note 4.1.

The net surplus derived from the revaluations of assets carried out prior to 1997, as permitted by various legal regulations and voluntary revaluations in order to correct the effects of inflation are as follows:

(Thousands of €)	
Update of 1979 budget	24,848
Update of 1980 budget	28,852
Update of 1981 budget	1,197
Update of 1982 budget	26,480
Update of 1990 budget	3,146
Royal Decree Law update 7/96	53,213
TOTAL	137,736

VALUATIONS OF ASSETS

In 2015, Meliá Hotels International commissioned a new valuation of its wholly owned assets to the worldwide firm Jones Lange Lasalle Hotels, which specializes in hotel investment and consulting services; the outcome of which was a gross valuation of 3.022 billion Euros; 2.869 billion if we consider solely the hotel assets.

The valuation, dated July 15 2015, covered 61 wholly owned assets, including 1 shopping centre and 2 properties classified as Real Estate Investments (see Note 11).

When determining the value of the assets, the valuation criterion most widely used by Jones Lang LaSalle was the discounted cash flows, given that hotel investments are generally valued according to the potential future revenue. In certain cases, other valuation methods were used such as the comparable multiples method or residual value method. This latter method was used mainly to value sites and plots of land. Regardless of the valuation criterion, the result of the valuation was checked by comparing it with other magnitudes such as stabilized returns, price per room or the leveraged IRR.

Discounted cash flow method: Financial projections have been made for a 5-year period; the flows for year 5 were used to project the next 5 years and the cash flows for fiscal year 11 were discounted at an exit multiple, dependent upon: the historic transactions, expected return and other factors (age, location, condition of maintenance of the property, etc.).

The discount rates used in the valuation, dependent upon the geographical region in which the assets are located, are shown in the following table:

	Discount rates
Spain	8% - 11,3%
Rest of Europe	7% - 8,2%
Latin America	12,5% - 20%*

* 20% applied to hyperinflationary economies (Venezuela)

Comparable multiples method: This valuation criterion takes into account the balance between the supply and demand at the time of the valuation. This means an evaluation of the property based on an analysis of the latest market transactions and a comparison of these with the average price per room.

Residual value method: It is the method in general use to value land zoned for urban development, whether it has been built on or not. This consists in determining the price that could be paid for the property, given the gross value of the development and the total cost of the project, taking into account the margins applied in the market once the characteristics of the property and the risks inherent in the project have been factored in.

With regard to the last valuation made in 2011, on comparable bases, the underlying valuation increased by 12% due, for the most part, to the developments and investments in hotels in Spain, as well as to the improvement in the market situation in our country.

11. PROPERTY INVESTMENTS

The balance of property investments includes the net fair value of investments made by the Group to obtain lease income or capital gains, including shares in apartments in three neighbours' associations in Spain, two Shopping Centres in the United States and other properties in Spain.

Movements recorded during 2016 in accordance with the type of assets included under this heading, are set out in the following table:

(Thousands of €)	31/12/2015	Inclusions	Write-offs	Exchange differences	31/12/2016
Apartments in Spain	76,829	1,007			77,836
Shopping centres in America	52,535			1,038	53,574
Other properties in Spain	9,726				9,726
TOTAL	139,091	1,007	0	1,038	141,136

The new items relate to the acquisition of apartments of neighbours' associations in Spain.

The exchange differences shown in the Shopping Centres in America are mostly related to the appreciation of the Dominican peso against the Euro.

The breakdown of the results generated by investment properties in the Group's income statement is shown in the following table:

(Thousands of €)	Apartments in Spain	Shopping centres in America	Other properties in Spain	TOTAL
Operating income		4,189	506	4,695
Operating expenses		(3,550)		(3,550)
EBITDA	**0**	**639**	**506**	**1,145**
Amortisations		(70)		(70)
Financial results	104	(526)		(422)
Results affiliates	2,399			2,399
Taxes		(98)		(98)
Net result	**2,503**	**(56)**	**506**	**2,953**

The contribution of the apartments in Spain relates to dividends collected from companies in which the Group does not have significant influence and the proportion of results for the year of the companies which are carried under the equity method. Said apartments relate to establishments which are managed by the Group generating revenue amounting to €5 million.

The contribution of the American shopping malls can be seen in the part of the profit and loss account of the relevant companies that conduct these operations in respect of the said real estate investments. They include revenue from rented premises in the amount of 4.4 million Euro, as well as other services rendered.

The contribution of other properties in Spain relates to the rent of said investment properties during the year.

For comparison purposes the transactions for 2015 are shown:

(Thousands of €)	31/12/2014	Inclusions	Write-offs	Exchange differences	31/12/2015
Apartments in Spain	76,498	331			76,829
Shopping centres in America	45,923	3,213		3,400	52,535
Other properties in Spain	10,539		(813)		9,726
TOTAL	132,960	3,544	(813)	3,400	139,091

The additions and disposals relate to adjustments in the fair value, derived from studies of the value of the said assets conducted by independent experts, details of which are given further below.

The exchange differences shown in the Shopping Centres in America are mostly related to the appreciation of the Dominican peso against the Euro.

The breakdown of the results generated by investment properties in the Group's income statement is shown in the following table:

(Thousands of €)	Apartments in Spain	Shopping centres in America	Other properties in Spain	TOTAL
Operating income		4,950	503	5,453
Operating expenses		(2,688)		(2,688)
EBITDA	**0**	**2,262**	**503**	**2,765**
Amortisations		(47)		(47)
Financial results	84	(154)		(70)
Results affiliates	2,165			2,165
Taxes		(1,661)		(1,661)
Net result	**2,249**	**399**	**503**	**3,152**

The contribution of the apartments in Spain relates to dividends collected from companies in which the Group does not have significant influence and the proportion of results for the year of the companies which are carried under the equity method. Said apartments relate to establishments which are managed by the Group generating revenue amounting to €4.5 million.

The contribution of the American shopping malls can be seen in the part of the profit and loss account of the relevant companies that conduct these operations in respect of the said real estate investments. included revenue from rented premises in the amount of 3.2 million euro, as well as other services rendered.

The contribution of other properties in Spain relates to the rent of said investment properties during the year.

To estimate the fair value of the property investments as indicated in Note 4.6, the assessor used the discounted cash flow method from each of the properties. In 2016 these valuations were made as detailed below:

SHOPPING CENTRES IN AMERICA

Future cash flows are estimated from lease rents from the premises in the shopping centres. To do this, the operating budget for 2017 is taken as the starting point and is applied to the revenue growth rates in line with those used the previous year. To estimate the cost, approximately the 2017 budget structure is maintained with respect to the percentage over revenue.

To update the estimated flows, the Group has evaluated the discount and outflow rates used by Jones Lang LaSalle in valuing the Group's 2015 assets concluding that their use was still reasonable at year end 2016. The discount rates used were between 9% and 20%.

APARTMENTS IN SPAIN

The fair value of the hotel businesses operated by the neighbours' associations at which these apartments are located is estimated, applying the percentage ownership relating to each one. Cash flows are projected out over 10 years based on the 2017 budget and income is projected by applying the evolution of similar properties at each location as a reference. An average inflation rate of 2.5% has been applied to costs.

The valuation of these hotel assets was conducted by the independent experts Jones Lang LaSalle (JLL) in 2015, using a discounted projected cash flow over the next 10 years method.

Below is shown a sensitivity analysis for these assets based on the study commented on previously:

	MIN	⟵⟶	MARKET VALUE	⟵⟶	MAX
	66,037		76,829		94,849
Discount rate	12% - 9.25%		8.25% - 11%		7% - 9.75%
Capitalisation rate	7% - 9.50%		6% - 8.50%		5% - 7.50%

The Company considers that the changes in the non-observable variables used for the valuations made this year do not produce a valuation of the fair value that is significantly greater or less than the amounts previously indicated.

OTHER PROPERTIES IN SPAIN

For the estimation of the fair value of those real properties which are leased or available for let, the Company based its calculations on the study commissioned to the consultants Lang LaSalle in fiscal year 2015 as described in Note 10. For assets of this type, rates of return of between 5.15 and 6.5% have been considered.

12. INVESTMENTS MEASURED BY THE EQUITY METHOD

The financial investments representing shareholdings in associate companies and joint ventures have been valued according to the equity method. The amounts obtained are given below:

(Thousands of €)	%	Balance 31/12/2015	2015 result	Inclusions	Write-offs	Exchange differences	Balance 31/12/2016
Meliá Zaragoza, S.L.	50.00%		(916)	916			0
Grupo Evertmel (*)	49.00%	24,555	1,762	15	(213)		26,120
Altavista Hotelera, S.A.	49.05%		(709)	28,024	(231)		27,083
Adprotel Strand S.L	50.00%	68,639	(4,473)	3		(13,059)	51,109
Grupo Producciones de Parques (*)	50.00%	29,776	1,263	500	(13)		31,526
Fourth Project 2012, S.L.	50.00%	6,767		3			6,769
Grupo Melia Hotels USA (*)	50.00%	1,498	(449)			42	1,091
TOTAL JOINT VENTURES		131,234	(3,523)	29,460	(456)	(13,016)	143,698
Plaza Puerta del Mar, S.A.	20.01%	4,523	383		(283)		4,622
Grupo Promedro (*)	20.00%	4,471	496	24	(191)		4,800
Turismo de Invierno, S.A.	21.42%	4,868	(40)				4,828
C.P. Meliá Castilla	31.44%	2,792	1,595	27	(1,027)		3,386
C.P.Meliá Costa del Sol	20.19%	2,120	804	57	(503)		2,478
Innwise Management, S.L.	75.00%	50	5		(55)		0
Jamaica DevCo S.L.	49.00%	1	(83)	490			408
Grupo El Recreo (*)	19.94%	7,301		11	(266)	(3,973)	3,073
Inversiones Guiza, S.A.	49.85%	(3)					(4)
Banamex S.A. Fideicomiso El Medano	30.28%	6,478	(304)		(456)	(322)	5,396
Hellenic Hotel Management	40.00%	(76)					(76)
Detur Panamá, S.A.	49.93%		380		(165)	(215)	0
Grupo Starmel (*)	20.00%	15,622	1,871	694	(698)		17,490
TOTAL AFFILIATES		48,148	5,108	1,302	(3,645)	(4,510)	46,403
TOTAL		179,381	1,585	30,762	(4,101)	(17,526)	190,102

(*) Companies belonging to the same line of business are shown together:
Evertmel Group, which comprises: Evertmel,S.L., Mongamenda,S.L. y Kimel,S.L.
Producciones de Parques Group, which comprises the companies Producciones de Parques,S.L. and Tertian XXI,S.L.U.
Starmel Group comprising Starmel Hotels OP, S.L., Starmel Hotels JB, S.L., Torremolinos Beach P.S.L.
Fuerteventura Beach P.S.L., Santa Eulalia Beach P.S.L., Palmanova Beach P.S.L., Puerto del Carmen Beach, P.S.L., San Antonio Beach P, S.L.
Meliá Group Hotels USA LLC, which comprises the company Meliá Hotels USA Llc. and Meliá Hotels Florida Llc.
Promedro Group, which comprises the companies Promedro,S.A. and Nexprom,S.A.
The El Recreo Group, which comprises the companies El Recreo Plaza C.A. and El Recreo Plaza & Cia. C.A.

The additions during the year mainly relate to the capital expansion of Altavista Hotelera, S.A.

On the other hand, write-offs were recorded in the exchange difference items because of the fall in the value of the pound sterling on the net assets of Adprotel Strand, S.L.

The investments according to the equity method in Meliá Zaragoza, S.L. and Detur Panama, S.A. Came to zero as in the previous fiscal year due to the fact that the negative equity in these companies has been compensated for, in part, by long-term loans pending repayment to the Group and for which there are no related guaranties.

Equity movements in affiliates and joint ventures for 2015 were as follows:

(Thousands of €)	%	Balance 31/12/2014	2015 result	Inclusions	Write-offs	Exchange differences	Balance 31/12/2015
Meliá Zaragoza, S.L.	50.00%		(1,039)	1,039			
Grupo Evertmel (*)	49.00%	34,330	(2,067)	4	(7,711)		24,555
Altavista Hotelera, S.A.	48.40%		(1,010)	1,010			0
Adprotel Strand S.L	50.00%	66,999	(3,694)		(38)	5,372	68,639
Grupo Producciones de Parques (*)	50.00%	27,010	87	2,692	(14)		29,776
Fourth Project 2012, S.L.	50.00%	6,921	(174)	20			6,767
Grupo Melia Hotels USA (*)	50.00%	1,818	(519)		21	178	1,498
TOTAL JOINT VENTURES		137,078	(8,417)	4,765	(7,742)	5,549	131,234
Plaza Puerta del Mar, S.A.	20.01%	4,341	432		(249)		4,523
Grupo Promedro (*)	20.00%	4,139	500	24	(191)		4,471
Turismo de Invierno, S.A.	21.42%	4,927	(59)				4,868
C.P. Meliá Castilla	31.07%	2,042	1,560	32	(841)		2,792
C.P.Meliá Costa del Sol	18.86%	1,751	606	50	(286)		2,120
Innwise Management, S.L.	27.50%	37	13				50
Jamaica DevCo S.L.	49.00%			1			1
Grupo El Recreo (*)	19.94%	7,629	1,579	3,391	(78)	(5,220)	7,301
Inversiones Guiza, S.A.	49.85%	(3)					(3)
Banamex S.A. Fideicomiso El Medano	28.00%	6,292	(488)	1,165	(246)	(245)	6,478
Hellenic Hotel Management	40.00%	(76)					(76)
Detur Panamá, S.A.	49.93%		(815)	1,269		(454)	
Inmotel Inversiones Italia, S.R.L.	41.50%	24,581	390		(24,970)		
Grupo Starmel (*)	20.00%		914	14,715	(7)		15,622
TOTAL AFFILIATES		55,659	4,630	20,647	(26,869)	(5,919)	48,148
TOTAL		192,737	(3,787)	25,412	(34,611)	(370)	179,381

(*) Companies belonging to the same line of business are shown together:
Evertmel Group, which comprises: Evertmel,S.L., Mongamenda,S.L. y Kimel,S.L.
Producciones de Parques Group, which comprises the companies Producciones de Parques,S.L. and Tertian XXI,S.L.U.
Starmel Group comprising Starmel Hotels OP, S.L., Starmel Hotels JB, S.L.,Torremolinos Beach P.S.L.
Fuerteventura Beach P.S.L., Santa Eulalia Beach P.S.L., Palmanova Beach P.S.L., Puerto del Carmen Beach, P.S.L., San Antonio Beach P, S.L.
Meliá Group Hotels USA LLC, which comprises the company Meliá Hotels USA Llc. and Meliá Hotels Florida Llc.
Promedro Group, which comprises the companies Promedro,S.A. and Nexprom,S.A.
The El Recreo Group, which comprises the companies El Recreo Plaza C.A. and El Recreo Plaza & Cia. C.A.

The additions and write-offs mainly related to changes produced in the Group's scope of consolidation, highlighting the incorporation of the companies comprising the Starmel Group as well as write-off of Inmotel Inversiones Italia, S.R.L. To be integrated into the company by the global integration method (see Note 5).

Meanwhile, in the El Recreo Group, the impact of hyperinflation on net assets was recorded in the additions column.

The breakdown of the balance sheet and profit and loss account of the most significant associated entities and joint ventures by volume of assets and result is shown below:

(Thousands of €)	Grupo Evertmel*	Adprotel Strand S.L.	Altavista Hotelera, S.L.	Grupo Producciones de Parques*	Grupo Starmel*	TOTAL
EBITDA	8,894	1,578	4,295	8,848	24,593	48,208
Amortisations	(5,037)	(5,042)	(2,075)	(4,240)	(7,629)	(24,023)
Financial income	26			59	22	107
Financial expenses	(4,652)	(5,499)	(3,646)	(2,048)	(5,641)	(21,486)
Other financial results	(6)	16		(4)	(206)	(200)
Financial result	(4,633)	(5,482)	(3,646)	(1,992)	(5,825)	(21,579)
Result before taxes	(776)	(8,947)	(1,426)	2,616	11,139	2,606
Profit tax	4,373		(35)	(89)	(3,033)	1,215
NET RESULT	3,597	(8,947)	(1,461)	2,527	8,106	3,822

(Thousands of €)	Grupo Evertmel*	Adprotel Strand S.L.	Altavista Hotelera, S.L.	Grupo Producciones de Parques*	Grupo Starmel*	TOTAL
NON-CURRENT ASSETS	176,010	237,945	147,886	90,525	196,399	848,764
Cash and cash equivalents	801	21	28	2,662	37,006	40,519
Balance current assets	21,092	904	22,767	6,717	7,904	59,385
CURRENT ASSETS	21,893	925	22,796	9,379	44,910	99,903
Total ASSETS	197,903	238,870	170,681	99,904	241,310	948,668
Non-current financial liabilities	127,046	130,812	89,453	39,283	133,750	520,345
Other non-current liabilities	7,730			2,784	1,534	12,047
NON-CURRENT LIABILITIES	134,776	130,812	89,453	42,067	135,284	532,392
Current financial liabilities	7,448	5,539	24,689	3,880	5,515	47,071
Other current liabilities	2,516	555	1,317	5,761	13,045	23,195
CURRENT LIABILITIES	9,964	6,094	26,007	9,641	18,559	70,266
TOTAL LIABILITIES	144,740	136,907	115,460	51,708	153,843	602,658

(*) Companies belonging to the same line of business are shown together:
Evertmel Group, which comprises: Evertmel,S.L., Mongamenda,S.L. y Kimel,S.L.
Producciones de Parques Group, which comprises the companies Producciones de Parques,S.L. and Tertian XXI,S.L.U.
Starmel Group comprising Starmel Hotels OP, S.L., Starmel Hotels JB, S.L., Torremolinos Beach P.S.L.
Fuerteventura Beach P.S.L., Santa Eulalia Beach P.S.L., Palmanova Beach P.S.L., Puerto del Carmen Beach, P.S.L., San Antonio Beach P, S.L.

Evertmel Group, Altavista Hotelera, S.L. and Adprotel Strand, S.L. are companies that own hotels, whose operation are run by other Group companies through lease agreements.

Producciones de Parques Group and Starmel Group were set up by companies that own and operate hotels. They have also signed contracts with the Group's parent company through which they are billed management fees.

Evertmel Group had a positive impact in the line of tax because of the reduction in deferred tax liabilities of 5.6. Million euros and activation of a pending revaluation of 1 million euros as a result of the inspection of corporation tax for 2009 to 2012 of the parent company's tax group. Initially, the contribution of the Hotel Antillas Barbados as well as the apartments integrated in the Sol Beach House and Sol Wave House hotels by Meliá Hotels International S.A. to this group was included in the special tax regime for mergers, spin-offs, asset contributions and even split. In accordance with this inspection it was determined that only part of the operation could be included in this tax regime.

At year end Altavista Hotelera, S.L. had debt with credit institutions of 52 million euros as well as 15 million in debt with Group entities (see Note 19.1).

On the other hand, the variations produced in the net results of Starmel Group are due to the positive trend in 2016, in accordance with the rebranding and consolidation of the hotels that comprise this Group. Although to a lesser extent, the fact that in 2015 these amounts were reflected in the second half of the year was a factor, since this group of companies together with the operation of their respective hotels were not set up until June 2015.

For comparison purposes the amount relating to 2015 are shown:

(Thousands of €)	Grupo Evertmel*	Adprotel Strand S.L.	Grupo Producciones de Parques*	Grupo Starmel*	TOTAL
EBITDA	7,921	4,078	6,830	14,482	33,312
Amortisations	(4,767)	(5,708)	(4,315)	(4,582)	(19,372)
Financial income	109		15		124
Financial expenses	(6,046)	(5,792)	(2,280)	(2,848)	(16,966)
Other financial results	16	34	3	(538)	(486)
Financial result	(5,921)	(5,759)	(2,262)	(3,386)	(17,328)
Result before taxes	(2,767)	(7,389)	253	6,515	(3,388)
Profit tax	(265)		(79)	(1,944)	(2,287)
NET RESULT	(3,032)	(7,389)	175	4,571	(5,675)

(Thousands of €)	Grupo Evertmel*	Adprotel Strand S.L.	Grupo Producciones de Parques*	Grupo Starmel*	TOTAL
NON-CURRENT ASSETS	169,959	282,100	123,882	192,493	768,434
Cash and cash equivalents	958	42	2,472	16,691	20,162
Balance current assets	13,322	822	8,664	8,778	31,587
CURRENT ASSETS	14,280	864	11,136	25,469	51,749
TOTAL ASSETS	184,239	282,964	135,018	217,962	820,183
Non-current financial liabilities	105,433	138,128	63,609	123,822	430,991
Other non-current liabilities	12,606		2,794	748	16,148
NON-CURRENT LIABILITIES	118,038	138,128	66,403	124,569	447,139
Current financial liabilities	10,132	6,337	2,434	1,444	20,348
Other current liabilities	4,887	1,477	7,924	13,839	28,127
CURRENT LIABILITIES	15,019	7,814	10,358	15,283	48,474
TOTAL LIABILITIES	133,058	145,942	76,761	139,852	495,613

(*) Companies belonging to the same line of business are shown together:
Evertmel Group, which comprises: Evertmel,S.L., Mongamenda,S.L. y Kimel,S.L.
Producciones de Parques Group, which comprises the companies Producciones de Parques,S.L. and Tertian XXI,S.L.U.
Starmel Group comprising Starmel Hotels OP, S.L., Starmel Hotels JB, S.L., Torremolinos Beach P.S.L.
Fuerteventura Beach P.S.L., Santa Eulalia Beach P.S.L., Palmanova Beach P.S.L., Puerto del Carmen Beach, P.S.L., San Antonio Beach P, S.L.

13. OTHER FINANCIAL INSTRUMENTS

13.1 OTHER FINANCIAL ASSETS

The following table shows a breakdown by category of the financial instruments included in Other financial assets under current and non-current assets in the balance sheets for 2016 and 2015:

(Thousands of €)	31/12/2016			31/12/2015		
	Long-term	Short-term	Total	Long-term	Short-term	Total
1. Financial instruments at fair value with changes in profit or loss						
- Trading book		349	349		267	267
2. Loans and receivables						
- Loans to affiliates	126,935	1,431	128,366	112,081	7,108	119,188
- Other loans	18,949	28,597	47,545	21,976	19,513	41,489
- Other	60,102	16,921	77,022	80,783	3,331	84,114
3. Financial assets available for sale:						
- Unlisted equity instruments	3,922		3,922	16,430		16,430
TOTAL DEBT	209,908	47,297	257,205	231,270	30,218	261,488

The table does not include the headings Trade Debtors and Other Receivables nor Cash and Other Equivalent Liquid Assets which are also financial assets, as described in Note 3.5.

For that reason, additional breakdowns are provided in Note 14.

Financial instruments at fair value with changes in profit or loss

The short-term trading portfolio includes equity instruments listed in official markets; their market prices are used to determine the fair value of the investments.

Loans and receivables

Set out below is a breakdown by nature of financial assets included in this item in 2016 and 2015:

(Thousands of €)	31/12/2016			31/12/2015		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Loans to affiliates	126,935	1,431	128,366	112,081	7,108	119,188
Other loans	18,949	28,597	47,545	21,976	19,513	41,489
Deposits	1,401	291	1,692	2,158	356	2,515
Guarantees	8,351	550	8,901	8,068	512	8,581
Club Meliá customers	48,117		48,117	68,730		68,730
Taxes		16,080	16,080		2,463	2,463
Other	2,233		2,233	1,826		1,826
TOTAL	205,986	46,948	252,934	214,839	29,951	244,791

Balances presented as loans to associates are analysed in the information on related parties provided in Note 19.

The item "Other loans" includes loans granted to companies with which the Group has commercial relations in separate operating segments; the main amounts are set out below:

- Loan granted to Resorts Financial Services, Inc, the amount outstanding of which at the end of the fiscal year was 11.7 million euros
- Loans granted to various companies, owners of managed hotels for a total of 5.6 million euros intended to finance its commercial operations.
- Long-term credit facility granted to the company Katmandú Collections, LLLP, dated 10 May, 2014 for the amount of 4.3 million Euro.
- Pending payment for the sale of holdings in Inversiones Turísticas Casas Bellas, S.L. and Inversiones Hoteleras Playa del Duque of 12 million euros, of which 9.6 million is long-term.

The long-term guarantee deposits furnished by the Company relate basically to the rent for hotels leased by the Group, in the form of accepted promissory notes. As these guarantee deposits secure the fulfilment of an obligation related to the contracts, they are not recognised at their current value but at face value.

The balance relating to Clientes Club Meliá refers to long-term amounts financed to clients in this segment in sales-purchase operations of rights of use by rotation. They are registered by the nominal amount because the financing contracts incorporate a market interest rate.

With regard to taxes they reflect fixed-term amounts in banks and maturities greater than 3 months hence they cannot be considered as cash equivalents.

Financial assets available for sale

Set out below are movements in the Group's available-for-sale financial assets:

(Thousands of €)	%	Balance 31/12/2015	Inclusions	Write-offs	Balance 31/12/2016
Hotelera Sancti Petri, S.A.	19.5%	2,634			2,634
Inversiones Hoteleras Los Cabos S.A.	15.0%	3,306		(3,306)	0
Inversiones Hoteleras Playa del Duque, S.A.	5.0%	2,682		(2,682)	0
Inversiones Turísticas Casas Bellas, S.A.	8.42%	6,520		(6,520)	0
Port Cambrils Inversions, S.A.	10.0%	980			980
Valle Yamury, S.A.	8.0%	351			351
Otros		38	4		42
TOTAL INVESTMENT		16,510	4	(12,507)	4,007
IMPAIRMENT LOSSES		(79)	(5)		(85)
TOTAL NET BOOK VALUE		16,431	(1)	(12,507)	3,922

The removal in equity instruments is the sale of shares in the company Inversiones Hoteleras Playa del Duque, S.A. and Inversiones Turísticas Casas Bellas, S.A. for 15.8 million euros, which generated a profit of 6.6 million euros. (See Note 7.7).

The write-off of Hoteleras Los Cabos S.A. Is due to the fact that the Group acquired the remaining 85% of equity, which was registered as a new item in the scope of consolidation (see Note 5).

For comparison purposes, the movements in 2015 were as follows:

(Thousands of €)	%	Balance 31/12/2014	Inclusions	Write-offs	Balance 31/12/2015
Horotel, S.A.	12.4%	301		(301)	0
Hotelera Sancti Petri, S.A.	19.5%	2,634			2,634
Inversiones Hoteleras Los Cabos, S.A.	15.0%	3,306			3,306
Inversiones Hoteleras Playa del Duque, S.A.	5.0%	2,682			2,682
Inversiones Turísticas Casas Bellas, S.A.	8.42%	6,520			6,520
Port Cambrils Inversions, S.A.	10.0%	980			980
Valle Yamury, S.A.	8.0%	351			351
Other		38			38
TOTAL INVESTMENT		16,811	0	(301)	16,510
IMPAIRMENT LOSSES		(322)		243	(79)
TOTAL NET BOOK VALUE		16,489	0	(58)	16,431

The disposals in equity instruments related to the sale of shares in Horotel S.A. For 0.5 million euros, which generated a profit of 0.2 million euros.

The following table shows the registered office, activity and accounting figures (thousand euro) of the investees in which the Group's shareholding is not significant at the end of 2016:

(Thousands of €)	ADDRESS	ACTIVITY	Capital	Reserves	Result	%	VTC	VNC
Hotelera Sancti Petri, S.A.	Gremio Toneleros, 24 Palma de Mallorca (Spain)	Owner & operator Hotel	13,510	(4,108)	1,824	19,50%	2,189	2,634
Port Cambrils Inversions, S.A.	Rambla Regueral, 11 Tarragona (Spain)	Owner & operator Hotel	6,000	662	132	10,00%	679	980
Valle Yamury, S.A. (*)	Velázquez, 106 Madrid (Spain)	Holding company	4,870	(1,095)	104	7,21%	280	351
Otras sociedades (*)								42
		TOTAL	24,380	(4,541)	2,060		3,148	4,007

(*) There are no Financial Statements at December 31, 2016 for these companies.

No measurement adjustments for impairment were applied to those companies that recognize latent capital gains on the realizable value of their net assets.

13.2 OTHER FINANCIAL ASSETS

The following table shows a breakdown by category of the financial instruments included in Bonds and other negotiable securities, Debts with credit institutions and Other financial liabilities of current and non-current liabilities assets in the balance sheets for 2016 and 2015:

(Thousands of €)	31/12/2016			31/12/2015		
	Long-term	Short-term	Total	Long-term	Short-term	Total
1. Financial instruments at fair value with changes in Other comprehensive income						
- Cash flow hedges	3,099	1,900	4,999	3,227	2,277	5,504
2. Financial instruments at fair value with						
- Derivatives in the trading book	4,071	1,548	5,619	5,090	1,810	6,901
3. Other financial liabilities at amortised cost:						
- Bonds and other negotiable securities	47,799	39,495	87,294	223,129	115,012	338,141
- Bank borrowings	570,929	251,007	821,936	494,859	284,412	779,271
- Loans from affiliates	6,584	91,659	98,243	8,061	46,866	54,926
TOTAL DEBT	632,482	385,609	1,018,091	734,366	450,377	1,184,743

The balances under the heading Trade Creditors and other Accounts Payable are not included; these are also considered to be financial liabilities, as described in Note 3.5. For that reason, additional breakdowns are provided in Note 17.

Financial instruments at fair value with changes in Other comprehensive income

Cash flow hedging activities relate to interest-rate swaps. Hedging activities are explained in Note 13.3.

Financial instruments at fair value with changes in profit or loss

The derivatives in the trading portfolio consists of interest rate swaps. Derivative activities are explained in Note 13.3.

Bonds and other negotiable securities

The debt issues included in this item and closing balances for 2016 and 2015 are set out below:

(Thousands of €)	31/12/2016			31/12/2015		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Bonds and debentures			0		77,167	77,167
Convertible bonds			0	223,129	31	223,160
ECP		39,398	39,398		37,814	37,814
Other negotiable securities	47,799	97	47,896			
TOTAL DEBT	47,799	39,495	87,294	223,129	115,012	338,141

Non-convertible bonds

On 31 October 2012 Meliá Hotels International, S.A. issued straight bonds amounting 76.4 million euros intended to exchange the series A preferred shares issued in April 2002 by Sol Meliá Finance Ltd. The said bonds had the following characteristics:

Issue amount	**76,383,890 €**
Nominal value of the bond	**93.50 €**
Maturity	**3 years and 9 months**
Grade of the debt	**Senior Unsecured**
Issue price	**100%**
Issue date	**31 October 2012**
Maturity date	**31 July 2016**
Coupon	**7.80 %**
Redemption price	**100%**

These bonds were redeemed on the maturity date, i.e. 31 July 2016.

Convertible bonds

In April 2013, the Group issued convertible bonds of 200 million euros and in September an expansion of this of 50 million euros with the following characteristics:

Issue amount	**250,00,000 €**
Nominal value of the bond	**100,000 €**
Maturity	**5 years**
Grade of the debt	**Senior Unsecured Convertible Notes**
Issue price	**100%**
Issue date	**04 April 2013**
Maturity date	**04 April 2018**
Coupon	**4.50 %**
Exchange price	**7,318 €**
Conversion premium	**30%**
Conversion ratio	**13,664.94 shares per bond**
Redemption price	**100%**
Yield of the bond to maturity	**4.50%**
Possibility of cancellation for the issuer	**From 19 April 2016 (Subject to barrier of 130% -9.51 €)**
Maximum number of shares to be issued	**34,162,500**

On 25 March 2016, the Company announced to bondholders and the Securities and Investments Board its decision to exercise the option of early cancellation of the convertible bond of 2013 million issued in 2013 (see Note 22 2015 Consolidated annual accounts)..

The Group handled requests for conversion of 2,499 bonds, representing 249.9 million in issued nominal value.

The conversion to shares requested by bondholders was done by issuing new shares and delivering existing shares that the parent company maintained as treasury stock at approximate percentages of 89.75% and 10.25% respectively.

New shares were issued by expanding the share capital as detailed in Note 15.1.

The difference between the exchange price of the bonds (7.3180 euros) and the nominal value of the shares issued constituted the issue premium which rose to 218.1 million euros.

The value of existing shares delivered to handle this exchange as explained above, means a write-off in the item "Treasury shares" of 29.5 million euros corresponding to 3.5 million shares (see Note 15.3).

The advance conversion of this compound financial instrument meant a write-off of the consolidated liability account valued at amortised cost at 225.8 million euros as well its corresponding balance in the consolidated assets of 108.7 million euros as reflected in the item "Other asset instruments of the consolidated balance sheet". The difference between the nominal value and the liability value at amortised costs on the conversion date at 24.2 million euros is reflected in the column "Conversion of financial liabilities in the net assets of the statement of changes in equity.

Meliá Hotels International, S.A. signed a securities loan agreement with BNP, Merrill and UBS of up to 8 million shares of the treasury stock, of which 7.1 million was available at year end 2015. These arrangements were cancelled in 2016.

Euro Commercial Paper Programme (ECP)

The Company has formalized a commercial paper programme ("Euro-Commercial Paper Programme" or ECP), with the same characteristics as the programme issued in 2015 and maturing on 8 May 2016, subject to English law, for a maximum amount of up to 300 million Euros, whereby debt instrument issues can be made in Europe with a redemption period of less than 364 days, up to the said amount:

Maximum programme amount	300,000,000 €
Programme signature date	16 September 2016
Programme duration	12 months
Grade of the debt	Senior Unsecured
Coupon	Zero coupon
Issue price	At a discount
Duration of the issues	from 1 to 364 days
Redemption price	100%

The prospectus was registered, in accordance with the relevant regulations, by the competent Irish authorities, on the Irish Stock Exchange PLC, from which the Company has requested admission for trading of the issues made under the aegis of the programme.

On 31 December 2016 issues totalling 95.6 million euros had been made with issues of 39.4 million euros pending.

Other negotiable securities

In 2016, the subsidiary Sol Meliá Europe, B.V. issued a 50 million euro note, framed in a line with the following characteristics:

Issuer	Sol Meliá Europe, B.V.
Guarantor	Meliá Hotels International S.A.
Calculation Agent	UBS AG, London Branch
Fiscal Agent and paying agent	The Bank of New York Mellon
Maximum nominal amount	150,000,000
Currency	EUR / USD
Maturity date	11/01/2018

The amount of interest accrued and unpaid as well as the schedule of the costs associated with this issue on 31 December 2016 amounted to 2.1 million euros. This amount is included in the balance reflected in this item.

Bank borrowings

The Group's bank borrowings at year-end 2016 and 2015 are analysed below by nature and maturity:

(Thousands of €)	2016			2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Bank loans	50,327	204,089	254,416	47,700	64,660	112,360
Mortgage loans	50,616	361,571	412,187	53,579	367,795	421,374
Credit policies	141,753	2,010	143,764	173,296	55,106	228,403
Leasing	5,164	3,258	8,422	6,599	7,297	13,896
Interest	3,147		3,147	3,237		3,237
TOTAL	251,007	570,929	821,936	284,412	494,859	779,271

The increase in debt in this item is explained by the strong increase in bank lending without a real guarantee, partially compensating for the reduction in mortgage loans by a total advance amortisation and reduction of the amount available in credit policies, reducing in this way the short-term debt burden over the total debt of the Group with credit institutions.

The nominal amount of credit policies available comes to 143.8 million euros leaving an additional balance at year end 2016 of 276.2 million euros. In 2015 the total nominal amount of credit policies was 230.4 million euros leaving an additional balance of 318.5 million euros.

Bank debt increases for new financing for 2016 rose to 358.2 million euros as indicated in the cash flow statement. In 2015 this amount was 244.9 million euros.

Mortgage loans maintained by the Group relate to guarantees on 18 hotels whose total net book value amounted to 634.8 million euros as indicated in Note 10.

The maturity details of the bank debt is as follows:

(Thousands of €)	2017	2018	2019	2020	2021	> 5 years	TOTAL
Bank loans	50,327	18,966	34,269	32,546	73,410	44,899	254,416
Mortgage loans	50,616	50,134	92,426	55,314	32,155	131,543	412,187
Credit policies	141,753	2,010					143,764
Leasing	5,164	2,507	553	198			8,422
Interest	3,147						3,147
TOTAL	251,007	73,617	127,248	88,058	105,565	176,442	821,936

Loans from affiliates

The balances recorded in this item are analysed in the information on related parties provided in Note 19.

Other financial liabilities

The following table shows the breakdown of the items included under this heading at the end of fiscal years 2016 and 2015:

(Thousands of €)	31/12/2016			31/12/2015		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Bills payable	86		86	119		119
Suppliers fixed assets	55	10,026	10,081	55	4,653	4,708
Guarantees received	1,519	1,531	3,050	1,659	565	2,224
Other debts	4,924	76,040	80,964	6,227	38,735	44,962
Dividends to be paid		3,869	3,869		2,618	2,618
Other		192	192		295	295
TOTAL	6,584	91,659	98,243	8,061	46,866	54,926

The increase in the item "Other debts" include 26.3 million euros corresponding to the debt pending at year end for the acquisition of Inversiones Hoteleras Los Cabos S.A. (See Note 5).

13.3 HEDGING ACTIVITIES AND DERIVATIVES

The fair values of the Group's derivative financial instruments are analysed below by maturity at 31 December 2016 and 2015:

(Thousands of €)	31/12/2016			31/12/2015		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Liabilities for hedging derivatives	3,099	1,900	4,999	3,227	2,277	5,504
Derivatives in the trading book	4,071	1,548	5,619	5,090	1,810	6,901
TOTAL	7,170	3,448	10,617	8,317	4,088	12,405

As part of its interest rate risk management policies (Note 4.1), at year end the Company contracted a number of interest-rate swaps that qualify as cash flow hedging instruments, based on the contractual terms; changes in their fair value are therefore taken directly to the Group's equity.

The segments hedged by these operations are detailed under the heading Bank Borrowings. These financial instruments are employed to exchange interest rates, such that the Company receives variable interest from the bank in exchange for a fixed interest payment on the same nominal amount. The variable interest received from the derivative offsets interest payments on the financing hedged. The final result is a fixed interest payment on the borrowings hedged.

In 2016 the positive impact on equity of these derivatives, once the part corresponding to the hedged segment is imputed to the results, and without taking the tax impact into account, came to 0.6 million euros. In 2015 the impact, also positive, was 1.6 million euros.

On 31 December 2016, the notional value of interest rate swaps which qualify as hedges came to 134.7 million euros, while in 2015 this amount was 152.8 million euros.

The liabilities relating to derivatives held for trading at the end of 2016 also concern interest rate swaps obtained on the market to manage the company's interest rate risk (see Note 4.1). These interest rate swaps are not considered to be accounting hedges, as they do not meet the requirements for their application according to IAS 39.

On 31 December 2016, the notional value of interest rate swaps came to 70.5 million euros, while in 2015 this amount was 38.6 million euros.

The breakdown of maturity dates by year is set out below:

(Thousands of €)	2017	2018	2019	2020	2021	> 5 years	TOTAL
Liabilities for hedging derivatives	1,900	1,620	1,180	552	212	(465)	4,999
Derivatives in the trading book	1,548	1,368	973	1,097	311	323	5,619
TOTAL	3,448	2,987	2,153	1,649	522	(142)	10,617

For comparison purposes the maturities for 2015 are shown:

(Thousands of €)	2016	2017	2018	2019	2020	> 5 years	TOTAL
Liabilities for hedging derivatives	2,277	1,594	1,005	422	37	170	5,504
Derivatives in the trading book	1,810	1,396	1,127	808	1,112	648	6,901
TOTAL	4,088	2,989	2,132	1,230	1,149	818	12,405

To determine these fair values cash flow discount measurement techniques have been applied based on the embedded amounts determined by the interest rate curve in accordance with market conditions at the measurement date. These measurements have been carried out by the financial institutions from which these products are obtained, as independent experts in the measurement of financial instruments.

The measurements of these swaps have also been carried out by the financial institutions from which these products are obtained, as independent experts in the measurement of financial instruments.

14. CURRENT ASSETS

14.1 INVENTORIES

(Thousands of €)	31/12/2016	31/12/2015
Commodities	1,895	1,761
Food & drink	11,550	10,726
Fuel	583	699
Replacement stock & maintenance	3,065	2,994
Auxiliary material	6,378	6,103
Office supplies	1,520	1,488
Hotel business	24,991	23,770
Vacation club business	25,581	43,903
Property business	6,521	6,571
Advances to suppliers	6,861	7,216
TOTAL	63,954	81,460

The Group does not have firm purchase or sale commitments and there are no limitations on inventories availability.

The inventories of Vacation Club includes rooms in a number of hotel developments in Spain and the Caribbean which are marketed under a time-sharing arrangement, as part of Club Meliá's business activity.

A reduction in Vacation Club inventories is mainly due to the return of hotel units of Sol Meliá Vacation Club España to Inversiones Hoteleras La Jaquita, which are reclassified in the item "Tangible fixed assets" for 18.4 million euros (see Note 10).

14.2 TRADE DEBTORS AND OTHER RECEIVABLES

The following table contains a breakdown of this heading at year-end 2016 and 2015:

(Thousands of €)	31/12/2016	31/12/2015
Customers	175,065	140,266
Other receivables	100,204	114,222
TOTAL	275,269	254,488

Customers

Trade receivables by business line at year-end are analysed below:

(Thousands of €)	31/12/2016	31/12/2015
Hotel	74,212	85,493
Property	2,575	2,819
Club Meliá	50,951	29,474
Management services & other	47,326	22,480
TOTAL	175,065	140,266

The Group has entered into a factoring contract, non-recourse, of hotel credits of the Group with a financing entity, by which it periodically transfers customer accounts to pay hotel units and collecting part of the amounts concerned early. At 31 December 2016 the total assigned portfolio in this respect was €22.7 million, of which €17.8 million at 31 December 2015.

Since all these credit transfer agreements are considered non-recourse operations the customer balances are written-off once transferred, they are not included in the previous diagram.

The total provisions for insolvencies recorded on 31 December 2016 amounted to 55.2 million euros with the balance at year end 2015 at 55.1 million euros.

The aging at year-end is as follows:

(Thousands of €)	2016	%	2015	%
Less than 90 days	124,869	72%	100,123	73%
More than 90 and less than 180	28,690	17%	18,618	14%
More than 180	18,931	11%	18,707	14%
TOTAL	172,490	100%	137,447	100%

The above table does not include property receivables, which derive from contracts concluded in recent years with stipulated collections/payments. Trade receivables outstanding for more than 360 days are provisioned, as indicated in Note 3.5.

Other receivables

Set out below is a breakdown by nature of balances included in this item in 2016 and 2015:

(Thousands of €)	31/12/2016	31/12/2015
Pre-paid expenses	13,664	10,668
Loans to staff	503	590
Treasury Department debtor	12,851	12,153
Treasury Department VAT supported	22,684	16,029
Treasury Department retention payments on account	8	104
Debt affiliates	26,414	36,087
Debtors	20,817	21,379
Current accounts	3,264	17,212
TOTAL	100,204	114,222

These balances relate to commercial transactions effected by the Group. Payables of associates are analysed in Note 19.

14.3 CASH AND CASH EQUIVALENTS

(Thousands of €)	SPAIN	EMEA *	AMERICA	ASIA	31/12/2016
Cash	85,838	67,442	97,385	1,367	252,033
Cash equivalents	33,509	73,658	7,575		114,742
TOTAL	119,347	141,100	104,960	1,367	366,775

(*) **EMEA (Europe, Middle East, Africa)**: Includes Africa, Middle East and Europe apart from Spain

Cash equivalents relate to short-term deposits, the maturities of which may range from one day to three months depending on the Group's cash requirements.

The main balances making up the Group's treasury, on the basis of the currency in which they are denominated, are in US dollars and the Euro.

The balances in this item in 2015 are set out below:

(Thousands of €)	SPAIN	EMEA *	AMERICA	ASIA	31/12/2015
Cash	52,486	46,742	93,015	1,681	193,924
Cash equivalents	44,678	103,291	6,724		154,693
TOTAL	**97,164**	**150,033**	**99,739**	**1,681**	**348,617**

(*) **EMEA (Europe, Middle East, Africa)**: Includes Africa, Middle East and Europe apart from Spain

15. EQUITY

15.1 SHARE CAPITAL AND SHARE PREMIUM

On 31 December 2015 the share capital of Meliá Hotels International, S.A. was fixed at 39,810,609.60 euros represented by 199,053,048 bearer shares with a nominal par value of 0.2 euros, numbered from 1 to 199,053,048, both inclusive, totally subscribed and fully paid up.

On 25 April 2016, Meliá Hotels International, S.A. carried out a capital increase by a conversion of bonds amounting to 6,129,390.40 euros by issuing 30,646,952 ordinary shares of new issue, with a nominal par value of 0.2 euros each, of the same class and series as the shares of the parent company currently in circulation.

As a result of this increase, the share capital was fixed at 45,940,000 euros represented by 229,700,000 shares with a nominal par value of 0.2 euros each. The shares are fully subscribed and paid-up, and constitute a single class and series (see Note 13.2).

At the Ordinary and Extraordinary General Shareholders' Meeting held on June 4, 2015, the Company's Board of Directors was authorised to agree a share capital increase, without prior consultation of the General Shareholders' Meeting, of up to nineteen million nine hundred and fifty thousand three hundred and four Euros, eighty cents (€19.905,304.80). Consequently, the Board of Directors can exercise this right, on one or various occasions, for the specified amount or less, deciding in each case, not only the timing or appropriateness, but also the amount and conditions which they consider should apply within a maximum period of five years to run from the date of the said Meeting.

All shares carry the same rights and are listed on the stock exchange (Spain), with the exception of treasury shares.

The primary shareholders with a direct and indirect stake in Meliá Hotels International, S.A. at 31 December 2016 and 2015, are as follows:

Shareholders	31/12/2016 % equity	31/12/2015 % equity
Hoteles Mallorquines Consolidados, S.A.	22.58	26.06
Hoteles Mallorquines Asociados, S.L.	13.21	13.56
Hoteles Mallorquines Agrupados, S.L.	11.18	12.91
Majorcan Hotels Luxembourg, S.A.R.L.	5.03	5.80
Norges Bank	3.02	
Remainder (less than 3% individual)	44.98	41.67
TOTAL	100.00	100.00

On the basis of the information set out in the table above, it may be inferred that Mr. Gabriel Escarrer Julià is the controlling shareholder of the Group (see Note 21).

The increase in the share premium during the 2016 fiscal year in the amount of 243.8 million euro was mainly the result of the difference between the issue price per share, which is the conversion price, i.e. 7.318 Euro, and the nominal par value of 0.2 Euro of the newly issued shares, i.e. 7.118 euro, coming to a total payout for this item of 218.1 million euro.

In addition, an increase of 25.6 million euro was recorded because of the release of part of this reserve to the treasury shares reserve allowance. In 2015 this increase was 12.1 million euros.

15.2 RESERVES

The item Other reserves, in the Statement of Changes in Equity, includes reserves (unrestricted, restricted and revaluation reserves of the parent company) and Other equity instruments (see Note 15.5) broken down on the liabilities side of the balance sheet.

With respect to restricted reserves, Meliá Hotels International, S.A. and its subsidiaries incorporated under Spanish law are required to transfer 10% of profits each year to the legal reserve until the balance in the reserve reaches at least 20% of share capital. This reserve may only be used to offset losses should sufficient other reserves not be available.

15.3 TREASURY SHARES

Details and movement of treasury shares are as follows:

(Thousands of €)	Shares	Average price €	Balance
BALANCE AT 31/12/15	**4,785,740**	**8.33**	**39,863**
Acquisitions	377,712	10.36	3,914
Conversion bonds	(3,501,686)	8.43	(29,521)
BALANCE AT 31/12/2016	**1,661,766**	**8.58**	**14,256**

During the first half of the year, the Group's parent company carried out an early amortisation of the convertible bond issued in 2013 (see Note 13.2). The conversion to shares was done by issuing new shares and delivering existing shares that the parent company maintained as treasury stock.

The statement of changes to net equity in the line of conversion of financial liabilities in the net equity reflects the difference between the value of the shares at exchange prices of the conversion stated above and the average price at which the write-off of the treasury stock was recorded of 3.9 million euros.

The value of the existing shares delivered to handle this exchange meant a write-off in the item of treasury shares of 29.5 million euros corresponding to 3.5 million shares.

There are no securities loaned to banks as at 31 December 2016.

The number of shares in the Company's possession as at 31 December 2016 is 1,662 million representing 0.72% of the share capital. The treasury stock does not exceed the 10% limit set by the Spanish Companies Act.

The market value of the shares of Meliá Hotels International, S.A. At year end was 11.08 euros. At year end 2015 the share price was 12.18 euro.

For comparison purposes, the movements in 2015 were as follows:

(Thousands of €)	Shares	Average price €	Balance
BALANCE AT 31/12/2014	**6,363,623**	**8.17**	**51,968**
Acquisitions 2015	199,876	12.07	2,413
Disposals 2015	(1,777,758)	8.17	(14,518)
BALANCE AT 31/12/2015	**4,785,741**	**8.33**	**39,863**

The sales of treasury shares made during 2015 mainly relate to the treasury shares used as a means of payment in the business combination of Inmotel Inversiones Italia stated in Note 5.1.

The balance of treasury shares did not include 3.35 million shares that the parent company took on loan from the controlling shareholder.

The number of securities loaned to various banks on 31 December 2015 amounted to 7 million shares.

In view of the above the number of shares in the possession of the Group was 1,061,312, representing 0.533% of the share capital.

15.4 RETAINED EARNINGS

This heading includes the parent company's prior-year results and the retained earnings of the other Group companies as from the date they were included in the scope of consolidation from the time of their incorporation in it.

Movements during 2016 included in this item relate mainly to the distribution of prior-year results; a profit of €39.8 million from the fully-consolidated companies (including the parent company) and a loss of € 3.8 million from affiliates.

Also included is € 13.6 million due to the restatement of minority interests after the acquisition of 50% of non-controlling interests in Colón Verona, S.A. stated in Note 5.2.

Movements during 2015 included in this item relate mainly to the distribution of prior-year results; a profit of €39.6 million from the fully-consolidated companies (including the parent company) and a loss of € 9.2 million from affiliates.

In addition, an increase of 14.6 million euro was included due to the restated balances of the Venezuelan companies.

15.5 OTHER EQUITY INSTRUMENTS

This item includes a write-off of 108.7 million euros recorded in the net equity relating to the issue of convertible bonds made by the parent company in 2013 (see Note 13.2).

15.6 MEASUREMENT CHANGES

In the Statement of Changes in Equity, the Measurement adjustments item includes a breakdown of conversion differences and Other measurement adjustments recognised on the liabilities side of the balance sheet.

Conversion differences

Foreign currency gains/losses reflected in the balance sheet deriving from the consolidated companies classified by currency are as follows:

(Thousands of €)		31/12/2016	31/12/2015
United Arab Emirates Dirham	AED	(37)	(3)
Venezuelan Bolivar	VEF	(337,144)	(317,500)
Costa Rican Columbus	CRC	249	239
Morrocan Dinar	MAD	53	53
Tunisian Dinar	TND	5,072	3,321
United States Dollar	USD	118,279	98,637
Singapore Dollar	SGD	102	90
Swiss Franc	CHF	2,914	2,750
Croatian Crown	HRK	(352)	(423)
Great Britain Pound	GBP	(11,165)	7,311
Dominican Peso	DOP	(38,763)	(44,192)
Mexican Peso	MXN	(119,323)	(80,212)
Uruguayan Peso	UYU		(3)
Argentinian Peso	ARS	(1,167)	(1,036)
Brazilian Real	BRL	(20,907)	(23,478)
Chinese Renminbi Yuan	CNY	(209)	(193)
Indonesian Rupee	IDR	(155)	(149)
Peruvian Sol	PES	1,828	1,021
	TOTAL	(400,725)	(353,765)

The effect of foreign exchange fluctuations is presented in the amount attributed to the parent company, net of the effect attributed to non-controlling interests. The total effect is presented on the conversion differences line in the Statement of Comprehensive Income.

Of the total conversion differences a loss of 358.3 million euros relates to entities integrated by the full consolidation method and 42,4 negative million to entities integrated by the equity method. In 2015 the figures were a loss of 329.3 million euros and 24.5 million euros respectively.

The main differences compared to the previous year affected the Mexican peso and the pound sterling because of the depreciations of these currencies against the euro.

On the other hand in 2016 the US dollar rose 4% against the euro, so net assets of companies denominated in the dollar increased significantly during this year.

Under IAS 21.15, certain financing transactions relating to foreign subsidiaries have been treated as an increase in the value of the investment. During the year, a total of € 26.6 million euros in positive translation differences was recognised in this item while in 2015 there was a negative translation difference of € 20.6 million.

Other measurement changes

Movements during the year related mainly to the income and expenses attributed to equity, as well as to transfers to the income statement of derivative financial instruments classified as hedges, net of their tax effect, totalling €0.3 million in losses. In 2015 the change in this respect totalled €7.6 million in losses.

15.7 NON-CONTROLLING INTERESTS

This heading reflects the equity interest relating to third parties outside the Group, including the corresponding portion of results.

The consolidated amounts, before carrying out intra-group deletions, of the assets, liabilities, equity stake of rights held by non-Group third parties, and their corresponding stake in the result (profit/loss) for the fiscal year, are listed below:

(Thousands of €)	Percentage minorities	Total ASSETS	Total LIABILITIES	Total NET ASSETS	Non-controlling interests	Result Non-controlling interests
Sierra Parima, S.A.	49.00%	42,355	8,957	33,398	16,365	179
Invers. Explot. Turísticas, S.A.	44.66%	56,906	47,982	8,924	4,020	1,831
Inmobiliaria Distrito Comercial	28.22%	17,608	1,829	15,779	4,276	(119)
Idiso Hotel Distribution, S.A. (*)	25.00%	40,668	23,848	16,820	6,924	(403)
Corporación Hotelera Metor, S.A.	24.12%	25,778	10,547	15,231	3,551	140
Realizaciones Turísticas, S.A. (*)	3.73%	353,622	218,439	135,183	4,960	160
Meliá Inversiones Americanas, N.V. (*)	0.31%	1,246,614	690,656	555,958	1,742	155
Other		213,621	192,145	21,476	1,468	311
TOTAL		1,997,172	1,194,403	802,770	43,307	2,255

(*) Inncludes non controlling interests in its subsidiaries (see appendix I)

In 2016 the amount reflected in non-controlling interests at year end 2015 was transferred to the global integration reserves of Colón Verona, S.A. In accordance with the additional acquisition made by the Group (see Note 5.2).

On the other hand the reduction in the valuation of non-controlling interests of Inversiones y Explotaciones Turísticas, S.A is mainly due to elimination of the direct stake that this company acquired by subscribing a capital increase of Altavista Hotelera, S.L, which is integrated in the Group by the equity method (see Note 12).

For comparison purposes the amount relating to 2015 are shown:

(Thousands of €)	Percentage minorities	Total ASSETS	Total LIABILITIES	Total NET ASSETS	Non-controlling interests	Result Non-controlling interests
Sierra Parima, S.A.	49,00%	40.769	8.697	32.072	15.715	1.753
Invers. Explot. Turísticas, S.A.	45,07%	70.699	9.633	61.066	27.524	2.595
Colón Verona, S.A.	50,00%	42.823	69.997	(27.173)	(13.587)	(391)
Idiso Hotel Distribution, S.A. (*)	25,00%	47.435	28.850	18.585	7.368	142
Inmobiliaria Distrito Comercial	28,22%	17.759	5.797	11.961	3.290	12
Corporación Hotelera Metor, S.A.	24,12%	24.005	10.318	13.687	3.179	396
Realizaciones Turísticas, S.A. (*)	3,73%	342.153	181.283	160.870	4.884	234
Meliá Inversiones Americanas, N.V. (*)	0,31%	1.209.744	787.677	422.067	1.478	28
Other		144.927	93.326	51.601	1.096	(229)
TOTAL		1.940.314	1.195.579	744.735	50.947	4.541

(*) Inncludes non controlling interests in its subsidiaries (see appendix 1)

The movements for the fiscal year 2015 mainly relate to the result and differences in conversion posted by these companies (and their affiliates), as well as the asset non-controlling interests purchased as commented in Note 5.2.

16. NON-CURRENT LIABILITIES

16.1 CAPITAL GRANTS AND OTHER DEFERRED INCOME

The details of these balances are as follows:

(Thousands of €)	31/12/2016	31/12/2015
Capital grants	4,900	5,130
Deferred income loyalty programmes	18,933	17,800
Other deferred income	4,770	6,205
TOTAL	28,603	29,134

Capital grants basically relate to grants used to finance property, plant and equipment purchases recorded in the Income Statement for this item is € 230 thousand. In 2015 income of €135 was recorded for capital grants.

The item "Deferred income" includes the fair value assigned to the points obtained by customers of loyalty programmes of the Company of 18.19 million euros according to IFRIC 13.

The heading "Other Deferred Revenue" includes, basically, incentives received from lessors, according to the agreements reached in several leasehold contracts for hotels, in which the Group acts as lessee.

16.2 PROVISIONS

The Group maintains a balance of 35.6 million euros in the non-current liabilities as provisions for liabilities and charges. As indicated in Note 3.10, this account includes the Group's post-employment commitments with staff, provisions for taxes from prior years which have been appealed against or are pending court resolution together with urban planning disputes, as well as the provisions recorded to cover the various liabilities and contingencies arising from operations, commitments acquired and guarantees given for third parties, risks for legal claims and lawsuits and possible liabilities deriving from the possible different interpretations that may be afforded to prevailing legal regulations.

The breakdown of the balance by nature of obligation is as follows:

(Thousands of €)	31/12/2015	Inclusions	Write-offs	31/12/2016
Provisions for retirement awards, link and obligations with staff	8,895	444	(336)	9,003
Provisions for taxes and official bodies	13,486	98	(10,734)	2,850
Provision for onerous contracts	10,555		(2,902)	7,653
Provisions for liabilities	16,532	4,778	(5,239)	16,071
TOTAL	49,469	5,320	(19,212)	35,577

Each year end, an actuarial study is undertaken to assess the past services corresponding to commitments established in supra-enterprise collective agreements. Said services have been estimated at €11.7 million for 2016, €2.9 million of which has been charged to results for the period 2016. In 2015, the total amount accrued was €12 million, €0.9 million of which was charged to results.

The evaluation of these commitments undertaken by the Company has been conducted in accordance with the actuarial assumptions in the rotation model which pertain to the Group, using the calculation method known as the Projected Unit Credit and the demographic assumptions established by the PER2000P tables, using a capitalization rate of 1.38%, and a salary increase projection of 1.15%. In addition, the probability of remaining until retirement age has been applied, based on the Group's experience of staff departures, giving the following staff turnover coefficients according to the employee's current age:

Age bracket	% Rotation
<45	9.04%
45-55	3.86%
>55	3.03%

In addition, said commitments have been externalised in order to comply with current legislation. At year end 2016, the balance for this item totalled €2.7 million, showing liabilities for its net amount. At the 2015 year end the balance externalised for this item amounted to €3 million.

Meanwhile, the negative figure shown in the overall Income Statement of 0.1 million Euro relates to the change undergone by the percentages and actuarial assumptions for the calculation of the retirement payments and premiums in respect of the commitments to post-employment benefits which the Group has made to its employees. In fiscal year 2015 the negative amount recognized in the Overall Income Statement was 0.1 million Euros.

With regard to the balance of the reserve for taxes, it should be emphasised that the first half of the year the provision was applied and a tax payment of 11.7 million euros was made, a result of the tax inspections initiated towards the end of fiscal year 2014 into the fiscal group of the controlling company (see Note 18.1).

The balance of the provision for onerous contracts at the end of 2016 totalled €7.7 million. This provision was calculated for those hotels that in 2016 presented negative net cash flows, after discounting the relevant lease instalments.

To calculate the provision it was considered that the cost of complying with the agreement consists of the present value of the projected cash flows, including lease commitments, and they were compared with the cost of non-compliance deriving from the various agreements and the provision covered the lower of both amounts.

The estimate of projected cash flows from these hotels was made internally by the Company, using the operating budget for 2017 as a starting point and projecting results up until the end of the agreement (excluding renewals if they are not certain), based on increases in the average price of rooms in accordance with the business plan established for 2017.

The average price increases and discount rates used in this calculation are summarised in the following table:

(Thousands of €)	Revenue increase	Discount rates
Spain	3% - 4%	9% - 11%
Latin America	7% - 10%	15% - 18%

With regard to provisions for liabilities, the main write-off in the financial year in the amount of 3.5 million Euros correspond to the payment made from the tax inspection initiated at the end of fiscal year 2014 of the parent company's fiscal group.

For comparative purposes a breakdown of the balance is presented by type at year end 2015:

(Thousands of €)	31/12/2014	Inclusions	Write-offs	31/12/2015
Provisions for retirement awards, link and obligations with staff	9,706	292	(1,102)	8,895
Provisions for taxes and official bodies	1,190	12,524	(228)	13,486
Provision for onerous contracts	8,791	1,764		10,555
Provisions for liabilities	17,259	5,021	(5,747)	16,532
TOTAL	36,946	19,601	(7,078)	49,469

The 12.5 million euro increase recorded during 2015 in the item Reserves for taxes related to the potential result of tax inspections initiated at the end of 2014 on the parent company's fiscal group and which were applied during 2016.

In terms of provisions for liabilities, additions during the year of 3.5 million euros related to an estimate made by the Company of possible sanctions, the result of the activity commented in the previous paragraph. In the write-off column applications of provisions for various arbitration demands that were resolved at year end were recorded.

The balance of the provision for onerous contracts at the end of 2015 totalled €10.6 million relating fully to leasing agreements for hotels in Spain.

17. TRADE PAYABLES AND OTHER ACCOUNTS PAYABLE

The following table contains a breakdown of this heading at year-end 2016 and 2015:

(Thousands of €)	31/12/2016	31/12/2015
Trade payables	284,765	251,829
Other payables	174,897	145,515
TOTAL	459,662	397,344

17.1 TRADE PAYABLES

The balance in this heading includes the accounts payable to suppliers for goods or services and other services pending payment and/or receipt of the corresponding invoices at year end for an amount of €218.4 million Euro. At the end of the previous year this amount was 190.5 million euros.

Prepayments from customers, which at the 2016 year end amount to €66.4 million, are also included in this account (2015 year end: €61.3 million).

17.2 OTHER PAYABLES

Set out below are the main items included in Other payables:

(Thousands of €)	31/12/2016	31/12/2015
Pre-paid expenses	5,959	4,595
Salaries pending payment	59,162	51,477
Treasury Department creditor	16,131	22,222
Social security creditor	8,598	8,531
Public Administration VAT passed on	25,601	22,048
Debt affiliates	50,756	24,283
Other liabilities	8,691	12,357
TOTAL	174,897	145,515

These balances relate to commercial transactions effected by the Group. Payables of associates are analysed in Note 19.

18. TAX SITUATION

The companies included in the Group are subject to the tax legislation applicable in the various countries in which they carry out their activities. Tax legislation in force in some of these countries does not coincide with Spanish legislation Therefore, the information provided in this note should be interpreted according to the peculiarities of applicable legislation on income tax for legal entities regarding the taxable base, tax rates and deductions.

18.1 YEARS OPEN TO INSPECTION

In accordance with legal regulations, tax returns cannot be considered final until they have been inspected by the tax authorities or the inspection period, which may be extended due to tax inspection proceedings, has elapsed.

In this respect, the Group companies located in countries where the Group presence is relevant are open to tax inspection for the following taxes and years:

	Tax On companies	Tax on assets	Income tax	VAT	Indirect Canaries tax	Regional tax	PIS/COFINS
Spain	2012 -2015		2013 -2016	2013 -2016	2013 -2016		
France	2013 -2015		2014 -2016	2014 -2016			
Britain	2010 -2015		2011 -2016	2011 -2016			
Italy	2010 -2015		2011 -2016	2011 -2016		2010 -2015	
Germany	2006 -2015		2007 -2016	2007 -2016			
Croatia	2011 -2015		2012 -2016	2012 -2016			
Netherlands	2012 -2015		2012 -2016	2012 -2016			
USA	2013 -2015						
Mexico	2011 -2015	2006 -2007		2012 -2016			
Dominican Rep.	2013 -2015			2012 -2016			
Venezuela	2011 -2015		2012 -2016	2012 -2016			
Brazil	2011 -2015		2012 -2016				2012 -2016

During 2014 the corporation tax inspections for 2009 to 2012 were initiated and VAT and deductions and income for July 2010 to December 2012 of the fiscal group of Meliá Hotels International, S.A.

During 2016 the corresponding deeds of consent that terminate these review procedures were signed. The Company also presented the corresponding additional declarations relating to 2013 and 2014 using the same criteria established for the 2009 to 2012 inspections.

The Company registered in the 2015 annual accounts all the relevant impacts deriving from the said regularisations (2009 to 2014), made provision for expenses of 16 million euros (see Note 16.2) covering the approximately 13 million euros in fees, 1 million euros in late payment interest and 4 million euros in sanctions resulting.

It should be noted that the Company has conducted an analysis of the possible impacts on the fiscal years under inspection and it does not expect that any possible modifications will have significant additional impacts on the Group's profit and loss accounts.

18.2 DEFERRED TAX ASSETS AND LIABILITIES

The composition of the balance of Group deferred tax assets and liabilities in 2016 and 2015 is as follows:

(Thousands of €)	Balance Sheet	
	31/12/2016	31/12/2015
Non-current deferred tax assets are as follows:		
Activated tax credits	7,822	9,365
Credits for activated tax losses	28,344	36,832
Temporary differences for:		
Tryp goodwill tax value	23,611	27,420
Application of hedge accounting on interest rate SWAPS	1,249	1,376
Retrocession of adjustments for inflation in economies considered non-inflationary	4,097	4,695
Tax-deductible provisions at the time of payment or in which responsibility is generated	34,676	31,952
Difference in criteria for depreciation for tax or accounting purposes	11,213	6,599
Elimination of intergroup results	5,387	10,340
Non-deducted financial expenses	16,318	0
Other	3,223	3,607
TOTAL	135.940	132.186
Non-current deferred tax liabilities are as follows:		
Fair value in business combinations	34,216	33,678
Financial Leasing Operations (Leasings)	25,044	27,177
Revaluation and updating of fixed assets	80,409	55,849
Fair value adjustment of property investments	26,882	30,485
Accounting and tax value asset differences	9,308	160
Accounting revaluation by merger	3,461	3,516
Sales included deferred for reinvestment	4,263	4,399
Other	1,106	6,451
TOTAL	184,689	161,715

Deferred taxes recognized in 2016 and 2015 by the Group reflect the following details:

(Thousands of €)	2016		2015	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
INITIAL BALANCE	132,186	161,715	149,373	147,695
Expenses/revenue for the period	10,551	3,192	(16,295)	(14,318)
Taxes attributed directly to net equity	(136)		(291)	0
Scope changes	0	25,327	0	22,565
Conversion and other differences	(6,661)	(5,545)	(601)	5,773
FINAL BALANCE	135,940	184,689	132,186	161,715

During the year effects were produced for changes in the scope caused by the acquisition of the remaining 85% of the Panamanian company Inversiones Hoteleras Los Cabos S.A. (see Note 5).

Deferred tax assets and liabilities are calculated considering the future amendments to the tax charges already approved in all geographical areas.

18.3 TAX-LOSS CARRYFORWARDS

The tax-loss carry forwards that may be offset by the companies forming part of the Group, by geographic area and maturity date, are detailed as follows:

(Thousands of €)	2017	2018 -2022	2023 -2029	YEARS SUCCESSIVE	TOTAL 31/12/2016
Spain				316,979	316,979
Rest of Europe	3,261	1,296		16,786	21,343
America and rest of the world	3,195	6,100		16,150	25,445
TOTAL	6,456	7,396	0	349,915	363,767

In the Rest of Europe region, Italy stands out with 16.7 million and Holland with 4.5 million, while in America and rest of the world, Brazil stands out with 16.1, the Dominican Republic with 2.2 and Mexico with 6.5 million.

Below are listed the Group's main activated tax losses and the assets for deferred tax generated:

(Thousands of €)	31/12/2016	
	Activated tax credits	Deferred tax assets
Spain	78,103	19,525
Italy	13,068	3,136
Netherlands	4,557	1,119
Dominican Republic	7	2
Mexico	1,729	519
Brazil	11,767	4,001
China	164	42
TOTAL	109,395	28,344

The tax loss carryforwards compensated in the period had not been activated in its entirety in the previous years, which has produced a tax benefit in the amount of 2 million Euro. The said figure relates to Spain with 0.1 million Euros, and to America and the rest of the world with 1.9 million Euros.

With regard to the provisions for financial investments pending to be integrated, it should be observed that the total amount is €14.8 million, which will be reversed through the tax base of Meliá Hotels International, S.A. provided that said investments generate enough profits to allow the discounting of said provisions or at 20% per annum.

For comparative purposes, set out below are tax-loss carry forwards by geographic area and maturity at year-end 2015:

(Thousands of €)	2016	2017 -2021	2022 -2028	YEARS SUCCESSIVE	TOTAL 31/12/2015
Spain				445,867	445,867
Rest of Europe		4,557		19,393	23,950
America and rest of the world	3,112	7,928	68	12,911	24,019
TOTAL	3,112	12,485	68	478,171	493,836

The Group's activated tax losses and the deferred tax asset in respect of the previous fiscal year are shown below:

(Thousands of €)	31/12/2015	
	Activated tax credits	Deferred tax assets
Spain	110,774	27,690
Italy	14,552	4,002
Netherlands	4,557	1,119
Dominican Republic	10	3
Mexico	2,451	735
Brazil	9,533	3,241
China	169	42
TOTAL	142.046	36.832

18.4 TAX CREDITS FOR QUOTA DEDUCTIONS

The Group's available tax credits are detailed, by geographical areas and maturity, below:

(Thousands of €)	2017	2018 -2022	2023 -2029	YEARS SUCCESSIVE	TOTAL 31/12/2016
Spain	308	1,337	5,282	1,568	8,495
America and rest of the world	629	0	0	175	804
TOTAL	937	1,337	5,282	1,743	9,299

Accumulated tax credits at year end in America and rest of the world relate to Mexico and Venezuela and amount to €0.6 million and €0.2 million, respectively.

The Group has recognized deferred tax assets in Spain totalling €7.5 million, in Mexico totalling €0.1 million and in Venezuela totalling €0.2 million.

For comparative purposes, set out below are available tax credits by geographic area and maturity at year-end 2015:

(Thousands of €)	2016	2017 -2021	2022 -2028	YEARS SUCCESSIVE	TOTAL 31/12/2015
Spain	227	18,861	22,961	1,399	43,448
America and rest of the world	581	719	0	565	1,865
TOTAL	808	19,580	22,961	1,964	45,313

The information stipulated in Article 84 of Legislative Royal Decree 4/2004 on Corporate income tax applicable to mergers and the spin-off of lines of business in prior years is included in the first notes to the annual accounts that are approved after each transaction and is summarised as follows:

Inmotel Inversiones, S.A.:	1993, 1996, 1997 and 1998
Meliá Hotels International, S.A.:	1999, 2001 y 2005

18.5 RECONCILIATION OF THE CONSOLIDATED NET RESULT AND THE AGGREGATED TAX BASE

(Thousands of €)	2016	2015
Consolidated net result	102,948	40,515
Profit tax cost	44,640	61,103
Adjustments for impairments and provisions	111,221	10,310
Financial Leasing Operations (Leasings)	3,296	22,364
Non-deductible expenses/revenue	(44,135)	19,842
Exchange differences	16,550	57,649
Adjustments for inflation	(32,158)	(2,006)
Other adjustments	(8,936)	(6,956)
PREVIOUS TAX BASE	193,426	202,821
Compensation of tax loss carryforwards	(3,637)	(9,553)
Non-recognised negative bases	(7,303)	(17,906)
TAX BASE (AGGREGATED TAX RESULT)	182,486	175,362
TAX COSTS ACCORDING TO CURRENT STATUTORY RATE (25%-28%)	45,622	49,101
Effect of the statutory rates of other countries	(7,458)	(10,227)
EXPENSES FOR CURRENT PROFIT TAX FOR THE YEAR	38,164	38,874

18.6 INCOME TAX EXPENSE

The following table reflects the amount recorded as an expense for the year. The balances are detailed by item, differentiating between current and deferred tax:

(Thousands of €)	2016 Expenses/ (revenue)	2015 Expenses/ (revenue)
Current tax		
Profit tax for the year	38,164	38,874
Other taxes for the year	4,855	5,182
Adjustments to income tax from previous years	8,980	15,070
Deferred tax		
Net change in credits for tax losses	9,619	5,728
Net change in tax credits	676	17,511
Other	(17,654)	(21,262)
INCOME TAX EXPENSE	44,640	61,103

The item Other taxes for the year relate to taxes similar to income tax as well as other taxes in developing countries, the calculation of which is based on revenues or assets.

The greater part of the capital gains tax adjustments for the afore-mentioned fiscal years prior to 2016, relates to modifications which emerged between the definitive tax and the provision for the tax made the previous year.

"Other deferred taxes" also include 16.3 million euro gains generated by the allowance of a deferred tax asset caused by the partial recoverability scheduled for financial expenses not deducted in previous years for lack of sufficient operating income in Spain. This is also reflected in the deferred tax linked to the non-tax deductible 9.4 million euros gained partially compensated by a recorded 8 million loss from a legislative amendment in Venezuela which means a valuation change in the said country.

Italian corporation tax legislation has introduced significant changes such as a tax change applicable to 2016 and following years, going from 27.5% to 24% respectively. This change led to a recalculation of the deferred tax asset and liability to adapt them to the new legal framework.

The following chart reflects the effect the said change has had on the Group's consolidated accounts:

(Thousands of €)	31/12/2016	31/12/2015
Effect on the consolidated income statement:		
Credits for activated tax losses	436	(1,749)
Temporary differences for:		
Tax-deductible provisions at the time of payment or in which responsibility is generated		513
Elimination of intergroup results	328	(10)
Financial Leasing Operations	(1,146)	592
Fair value adjustment of property investments		(4)
Fair value in business combinations	(2,023)	
Revaluation and updating of fixed assets		815
TOTAL	**(2,405)**	**157**
Effect on the consolidated net equity		
Interest rate SWAP		(28)
TOTAL	**0**	**(28)**

19. RELATED PARTY INFORMATION

The following are deemed to be related parties:

- Associates consolidated using the equity method, as listed in Appendix II to the notes to these annual accounts.
- Significant shareholders of the parent company.
- Executives and Board of Directors.

All transactions with related parties are realized in conditions of market and mutual independence.

19.1 TRANSACTIONS WITH ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES

Commercial operations

Commercial transactions with associates and jointly-controlled entities relate mainly to hotel management activities and related services. The attached table shows, for 2016 and 2015, the amount recognised in operating results in the consolidated income statement and balances outstanding at the year-end:

(Thousands of €)	31/12/2016			31/12/2015		
	Results 2016	Assets	Liabilities	Results 2015	Assets	Liabilities
Grupo Evertmel (*)	(6,447)	5,180	25,225	(7,130)	5,019	14,436
Meliá Zaragoza, S. L.	760	1,341	11	676	72	16
Adprotel Strand, S. L.	(1,789)	87	325	(2,361)	112	270
Grupo Producciones de Parques (*)	1,895	1,614	3,337	1,670	1,818	4,540
Altavista Hotelera, S. L.	(4,834)	650	15,772	(4,620)	11,666	356
Fourth Project 2012, S.L.	(1,887)	158	2,738	(1,666)	155	3,386
Grupo Melia Hotels USA (*)		1,898	1,024		1,847	920
Jamaica DevCo	21	1,141	2,000			
TOTAL JOINT VENTURES	(12,281)	12,069	50,433	(13,432)	20,688	23,924
Turismo de Invierno, S.A.	491	959		494	978	
C.P. Meliá Castilla	3,343	1,551	73	3,250	1,465	99
C.P.A.M.Costa del Sol	1,927	608	43	1,567	1,002	16
Nexprom, S.A.	1,473	563	7	1,292	548	12
Innwise Management, S.L.				(234)	60	71
Grupo Starmel (*)	6,756	4,441	48	4,147	3,318	83
Inversiones Guiza, S. A.		7	8		3	4
Banamex, S.A. Fideicomiso	1,355	2,149	119	53	3,590	74
Hellenic Hotel Manag. CO. HB. S. A.		54			52	
Detur Panamá, S. A.	193	4,012	24	137	4,381	
Inmotel Inversiones Italia, S. R. L.				(3,479)		
TOTAL AFFILIATES	15,538	14,344	323	7,227	15,399	360
TOTAL	3,257	26,414	50,756	(6,205)	36,087	24,283

(*) Companies belonging to the same line of business are shown together:
Evertmel Group, consisting of Evertmel,S.L., Mongamenda,S.L. and Kimel,S.L.
Producciones de Parques Group, which comprises Producciones de Parques,S.L. and Tertian XXI,S.L.U.
Starmel Group comprising the following companies: Starmel Hotels OP, S.L, Starmel Hotels JV, S.L., Torremolinos Beach P, S.L., Fuerteventura Beach P, S.L., Santa Eulalia Beach P, S.L., Palmanova Beach P, S.L., Puerto del Carmen Beach P, S.L., San Antonio Beach P, S.L.
Meliá Hotels USA Group, which comprises the company Meliá Hotels USA Llc. and Melia Hotels Florida Llc.

With regard to changes on profits and losses, an increase of 2.6 million euros from the Starmel Group is highlighted, mainly generated by sales commissions for rooms and management fees from improved hotel business profits.

There were also changes because of the changed consolidation method in 2015 of Inmotel Inversiones Italia (see Note 5).

The increase in liabilities from the Evertmel Group includes amounts billed as leasing charges for hotels operated by the Group for 4.3 million euros.

Financing operations

There follows a breakdown of financing granted to associates by the Group at year-end 2016 and 2015:

(Thousands of €)	31/12/2016			31/12/2015		
	Results 2016	Assets	Liabilities	Results 2015	Assets	Liabilities
Grupo Evertmel (*)	1.487	31.530		1.359	28.120	
Meliá Zaragoza, S. L.	56			(15)		
Altavista Hotelera, S. L.	798	15.000		1.249	21.091	
Adprotel Strand, S. L.	1.945	57.472		1.495	47.644	
Grupo Producciones de Parques (*)	480	12.076		659	14.508	
Fourth Project 2012, S.L.	(23)			56		
Grupo Melia Hotels USA (*)	212	6.558		459	2.821	
Jamaica DevCo	23					
TOTAL JOINT VENTURES	4.977	122.635	0	5.261	114.184	0
Turismo de Invierno, S.A.	59	1.162		59	1.162	
Grupo Advanced (*)	559	4.421		222	3.773	
Banamex, S.A. Fideicomiso	(21)			(3)		
Detur Panamá, S. A.	(608)	153		1.033	58	
TOTAL AFFILIATES	(11)	5.735	0	1.311	4.992	0
TOTAL	4.966	128.371	0	6.572	119.176	0

(*) Companies belonging to the same line of business are shown together:
Grupo Evertmel, consisting of Evertmel,S.L., Mongamenda,S.L. and Kimel,S.L.
Producciones de Parques Group, which comprises Producciones de Parques,S.L. and Tertian XXI,S.L.U.
Starmel Group comprising the following companies: Starmel Hotels OP, S.L, Starmel Hotels JV, S.L., Torremolinos Beach P, S.L., Fuerteventura Beach P, S.L., Santa Eulalia Beach P, S.L., Palmanova Beach P, S.L., Puerto del Carmen Beach P, S.L., San Antonio Beach P, S.L.
Meliá Group Hotels USA LLC, which comprises the company Meliá Hotels USA Llc. And Melia Hotels Florida Llc.

The principal movements of financial assets relate to the drawdowns in addition to the line of credit of Adprotel Strand, S.L. for 9.8 million Euros, respectively.

Interest is calculated on loans and average current account balances at each year end. The rate applied in 2016 is 2.5%. In 2016 a rate of 3.168% was applied.

Guarantees and security deposits

As indicated in Note 20.2., the Group records bank guarantees for certain liabilities recognised by associates or joint ventures. At year-end 2016 they were as follows:

Meliá International Hotels, S.A. is the guarantor of Detur Panamá, S.A., which owns the Hotel Meliá Panamá Canal, vis-à-vis the bank Caixabank, of a USD 2 million loan. The sum guaranteed at 31 December 2016 is USD 0.8 million.

Meliá Hotels International, S.A. is the guarantor to Banco Popular of 50% of the mortgage loan granted to Meliá Zaragoza, S.L. The amount guaranteed at the end of the period totals 11.8 million Euro.

19.2 TRANSACTIONS WITH SIGNIFICANT SHAREHOLDERS

Balances by type of transaction effected with significant shareholders are as follows:

(Thousands of €)

NAME OR COMPANY NAME SIGNIFICANT SHAREHOLDER	TYPE OF OPERATION	2016	2015
Hoteles Mallorquines Asociados, S.L.	Purchase of goods	6,445	10,692
Hoteles Mallorquines Asociados, S.L.	Service provision	45	50
Hoteles Mallorquines Asociados, S.L.	Leases	436	436

The asset purchases reflected in the above table relate to inventories acquired from the Group supplier Carma Siglo XXI, S.A., a company incorporated in Palma de Mallorca (Balearic Islands, Spain). This company ceased operations at the end of 2016. This company is a related party as it is an investee of Hoteles Mallorquines Asociados, S.L. and Hoteles Mallorquines Agrupados, S. L.

The balance pending payment to Carma Siglo XXI, S.A. by Group companies at year-end 2016 was € 656 thousand (2015: € 249 thousand).

19.3 TRANSACTIONS WITH EXECUTIVES AND MEMBERS OF THE BOARD OF DIRECTORS

Per diems for attending Board and committee meetings in 2016 and 2015 are as follows:

(Thousands of €)	2016	2015
Independent external directors	402	283
D. Juan Arena de la Mora	73	75
Dña. Amparo Moraleda Martínez		41
D. Luis María Díaz de Bustamante y Terminel	102	54
D. Fco Javier Campo García	72	55
D. Fernando D´Ornellas Silva	99	58
Dña. Carina Szpilka Lazaro	58	0
External proprietary directors	189	184
D. Sebastián Escarrer Jaume	54	49
D. Juan Vives Cerdá	64	75
Holeles Mallorquines Consolidados S.A.	72	61
Other external directors	72	75
D. Alfredo Pastor Bodmer	72	75
Executive directors	103	103
D. Gabriel Escarrer Julia	43	49
D. Gabriel Juan Escarrer Jaume	60	54
TOTAL	767	646

Remuneration of executive directors and senior management in 2016 and 2015 is analysed below:

(Thousands of €)	2016		2015	
	Fixed remuneration	Variable remuneration	Fixed remuneration	Variable remuneration
Executive directors	1,082	364	1,081	1,221
D. Gabriel Escarrer Julia	256		265	497
D. Gabriel Juan Escarrer Jaume	826	364	816	724
Senior management	1,630	615	1,832	2,438
TOTAL	2,712	979	2,913	3,659

A reduction in the variable remuneration of senior management in 2016, accumulated remuneration was due for payment in 2015 in accordance with the targets reached in the 2012-2014 Master Plan.

The Company has not assumed any sort of obligation and has not made any sort of advance payment or loans to the directors. The Group has also taken out a civil liability insurance policy (D&O) for directors and executives under the customary conditions for this type of insurance with a premium of 84,920 euros for 2016. No payments were made based on shares.

Set out below is a breakdown of transactions between Group companies and the Company's Board directors or executives during 2016 and 2015:

(Thousands of €)

NAME OR COMPANY NAME OF DIRECTORS OR EXECUTIVES	TYPE OF OPERATION	2016	2015
MR Gabriel Escarrer Julia	Front office		4
MR Juan Vives Cerda	Front office	52	49
MR Juan Vives Cerda	Service provision	552	374
	TOTAL	604	426

20. CONTINGENT ASSETS AND LIABILITIES

The Group has commitments with third parties in respect of assets and liabilities not recognised on the balance sheet due to the limited probability that they will entail an outflow of funds in the future or because the commitments must not be recognised pursuant to prevailing legislation. Such contingent assets and liabilities are detailed below by amount and item.

20.1 LEASES

The Group operated at 31 December a total of 102 hotels under leases of which 12 five-star hotels (2,142 rooms), 72 four-star (15,268 rooms), 14 three-star (3,126 rooms) and 4 three-key establishments (1,243 apartments).

The following table shows minimum lease payments by maturity period:

(Thousands of €)	Less of 1 year	Between 1 and 5 years	More than 5 years	Total
Minimum operating lease payments	164,956	681,194	938,680	1,784,830

The majority of the Group's leases relate to hotels that are then operated by a Group company.

Most of the lease agreements operated by the companies forming part of the Group have a contingent component relating to changes in the relevant price indexes, and 29 other hotels are covered by a contingent clause relating to the evolution of the results obtained by the hotel establishment, which is not taken into consideration as it is directly related to the contribution of that establishment to the Group's income statement. The contingent instalment in 2016 amounted to 19.3 million euros.

The average term of these lease agreements is 8.75 years.

The information for 2015 is presented for comparative purposes:

(Thousands of €)	Less of 1 year	Between 1 and 5 years	More than 5 years	Total
Minimum operating lease payments	136,794	558,121	859,476	1,554,391

The Group operates at year end 2015, a total of 97 hotels under leases of which 11 five-star hotels (1,855 rooms), 67 four-star (13,605 rooms), 15 three-star (3,145 rooms) and 4 three-key establishments (1,158 apartments).

The average term of these lease agreements was 8.8 years.

20.2 COLLATERAL AND BANK GUARANTEES

Meliá Hotels International, S.A. secured payment of lease instalments in favour of the owners of various hotels through bank guarantees amounting to €94.2 million Euros through a corporate guarantee amounting to €7 million.

Meliá Hotels International, S.A. has provided a bank guarantee to secure the possession under a lease agreement of a building dedicated to a parking garage and commercial premises located in Barcelona totalling €0.7 million.

Meliá Hotels International, S.A. secures several operations through bank guarantees and various items, amounting to €46.7 million euros.

Meliá Hotels International, S.A. has furnished collateral and bank guarantees totalling € 12.8 million for operations undertaken by associates (see Note 19.1).

A breakdown for the previous year is presented for comparative purposes:

Meliá Hotels International, S.A. secured payment of lease instalments in favour of the owners of various hotels through bank guarantees amounting to €63.7 million Euros through a corporate guarantee amounting to €7 million.

Meliá Hotels International, S.A. has provided a bank guarantee to secure the possession under a lease agreement of a building intended as a parking garage and commercial premises located in Barcelona totalling €0.7 million.

Meliá Hotels International, S.A. secures several operations through bank guarantees and various items, amounting to €11.4 million euros.

Meliá Hotels International, S.A. has furnished collateral and bank guarantees totalling € 13.5 million for operations undertaken by associates.

20.3 OTHER CONTINGENT LIABILITIES

Corporación Hotelera Metor, S.A., a 76% owned subsidiary, is involved in a dispute with its minority shareholder, claiming that all agreements and transactions performed with it are void. The Company has carried out the necessary actions to ensure that the outcome of such litigation does not have a significant impact on the Group's financial statements.

The European Commission has informed Meliá of the start of an investigation relating to particular vertical agreements concerning hotel reservations made with tour operators and other tourist agents. The investigation of the Commission, as it has itself explained in the notification received, does not assume the existence of any offence, but the formal opening of a process to enlarge its knowledge of the issue which focuses on whether there are price restrictions based on the place of residence or nationality of the potential customer.

Meliá will continue actively and constructively participating with the Commission as it has been doing to date, providing any clarifications that may be necessary with respect to the issue, relying on a rapid resolution of the process which will confirm the absence of behaviour that is contrary to the rights of European consumers.

21. OTHER INFORMATION

Situations of conflicts of interests involving the directors

As of 31 December, 2016, and in relation to the requirements of articles 229 and 230 of the Amended Text of the Spanish Companies Act, the members of the Board of Directors confirmed that neither they, nor any persons with whom they have ties under article 231 of the aforesaid Act, carry out any activities on their own account that involve any effective competition, present or future, with the Company, or that, in any way whatsoever, would place them in a position of permanent conflict with the interests thereof.

Direct or indirect interests controlled by members of the Company's Board of Directors are as follows:

Shareholder/adviser	No. of direct or indirect voting rights	% of the total voting rights	Position on the board
D. Gabriel Escarrer Juliá			Chairman
D. Gabriel Escarrer Jaume	119,437,747	51.997% (*)	Vice-chairman and managing director
D. Sebastián Escarrer Jaume			Member of the board
Hoteles Mallorquines Consolidados, S.A.	51,871,167	22.582% (**)	Member of the board
D. Alfredo Pastor Bodmer	6,000	0.003%	Member of the board
D. Juan Arena de La Mora	1,000	0.000%	Member of the board
D. Luis Mª Díaz de Bustamante y Terminel	300	0.000%	Secretary and member of the board
D. Juan Vives Cerdá	375	0.000%	Member of the board
D. Francisco Javier Campo García	0	0.000%	Member of the board
D. Fernando D'Ornellas Silva	0	0.000%	Member of the board
Dª Carina Szpilka Lázaro	0	0.000%	Member of the board

(*) It should be noted that the shareholding is calculated based on the direct and indirect interests controlled by Mr. Gabriel Escarrer Juliá, his spouse and children (including Mr. Sebastián Escarrer Jaume and Mr. Gabriel Juan Escarrer Jaume) in the share capital of the companies Hoteles Mallorquines Consolidados, S.A., Hoteles Mallorquines Agrupados, S.L., Hoteles Mallorquines Asociados, S.L. and Majorcan Hotels Luxembourg, S.A.R.L.

(**)This percentage is, in turn, included in the aforementioned 51.997% stake

The Directors and persons related to them, except for those already mentioned, or persons acting on their behalf, have undertaken no transactions with the Company or other Group companies, except for those inherent in ordinary business activity or outside market conditions.

Information on the deferral of payments to suppliers

Provided below is the information required under supplementary disposition 3 of the Law 15/2010 dated 5 July. The following table shows this breakdown in respect of Meliá Hotels International, S.A. and their Spanish affiliates for 2016 and 2015:

Days	2016	2015
Average period for payments to suppliers	75.10	88.07
Ratio of paid operations	77.60	79.10
Ratio of operations pending payment	59.77	132.19
(Thousands of €)		
TOTAL PAYMENTS MADE	449,021	368,628
TOTAL PENDING PAYMENTS	73,157	74,865

Audit fees

Fees corresponding to the audit of consolidated annual accounts of the parent and subsidiaries have amounted to €1,526 thousand, of which €905 thousand has been invoiced by PricewaterhouseCoopers España, €339 thousand by PricewaterhouseCoopers at an international level and the remaining €283 thousand by other audit firms. In addition, fees invoiced during the year for other services rendered by other companies pertaining to the network of the auditors of the consolidated annual accounts totalled €952 thousand.

Fees corresponding to the audit of consolidated annual accounts of the parent and subsidiaries have amounted to €1,564 thousand, of which €817 thousand has been invoiced by PricewaterhouseCoopers España, €463 thousand by PricewaterhouseCoopers at an international level and the remaining €285 thousand by other audit firms. In addition, fees invoiced during the year for other services rendered by other companies pertaining to the network of the auditors of the consolidated annual accounts totalled €580 thousand.

The UK subsidiaries of the Meliá Group listed below are exempt from requirements relating to auditing of their individual accounts as per the British Companies Act by virtue of Section 479:

- Melia Hotels International UK Limited (registration number 09925231)
- Lomondo Limited (registration number 02793825)
- Lomondo XXI Limited (registration number 08303817)

Environmental risks

No significant item to be included in the specific document relating to environmental information provided for by Order of the Ministry of Justice dated October 8, 2001, is included in the accompanying consolidated annual accounts.

22. EVENTS AFTER THE REPORTING DATE

There have been no subsequent events between the end of the period reported and the formulation of these consolidated annual accounts involving adjustments to show conditions already existing on the closing date, or facts indicative of conditions that may have appeared since the closing date that could affect the capacity of users of the financial statements to make relevant evaluations and take economic decisions.

ANNEX I. SUBSIDIARIES

		COMPANIES OPERATING HOTELS	ADDRESS	COUNTRY	P.DIR	P.IND	TOTAL
(A)	(F1)	APARTHOTEL BOSQUE, S. A.	Camilo José Cela, 5 (Palma de Mallorca)	Spain	85.00%		85.00%
		ARESOL CABOS S.A. de C.V.	Km 19,5 Ctra. Cabo San Lucas (S.Jose del Cabo)	Mexico		100.00%	100.00%
(A)		AYOSA HOTELES, S.L. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		49.00%	49.00%
(A)		BISOL VALLARTA, S. A. de C.V.	Paseo de la Marina Sur (Puerto Vallarta)	Mexico		99.68%	
						0.01%	99.69%
(A)		CALA FORMENTOR, S. A. de C.V.	Boulevard Kukulkan (Cancún)	Mexico		92.40%	
						7.29%	99.69%
(A)		CARIBOTELS DE MEXICO, S. A. de C.V.	Playa Santa Pilar, Aptdo 9 (Cozumel)	Mexico		16.41%	
						29.63%	
						53.70%	99.74%
(A)		COLÓN VERONA,S.A. (JV)	Canalejas, 1 (Sevilla)	Spain	100.00%		100.00%
		COM.PROP. SOL Y NIEVE (*)	Plaza del Prado Llano (Sierra Nevada)	Spain	92.83%		92.83%
(A)		CORP.HOT.HISP.MEX., S. A. de C.V.	Boulevard Kukulkan km.12,5 (Cancún)	Mexico		9.22%	
						90.47%	99.69%
(A)		CORP.HOTELERA METOR, S. A.	Faustino Sánchez Carrión s/n (Lima)	Peru		75.87%	75.87%
(A)		DESARROLLADORA DEL NORTE, S. en C.	PMB 223, PO Box 43006, (Rio Grande)	Puerto Rico		49.85%	
						49.85%	99.69%
(A)		DESARROLLOS SOL, S.A.S.	Lope de Vega, 4 (Santo Domingo)	Dom Rep.		61.79%	
						20.25%	
						17.65%	99.69%
(A)	(F2)	HOTEL ALEXANDER, S. A. S.	20, Rue du sentier 75002 (Paris)	France		100.00%	100.00%
(A)	(F2)	HOTEL COLBERT S.A.S.	20, Rue du sentier 75002 (Paris)	France		100.00%	100.00%
(A)	(F2)	HOTEL FRANÇOIS S.A.S.	20, Rue du sentier 75002 (Paris)	France		100.00%	100.00%
(A)	(F2)	HOTEL MADELEINE PALACE, S.A.S.	8, Rue Cambon 75001 (Paris)	France		100.00%	100.00%
(A)	(F2)	HOTEL ROYAL ALMA S.A.S.	20, Rue du sentier 75002 (Paris)	France		100.00%	100.00%
		INNSIDE VENTURES, LLC	1029, Orange St. Wilmington (Delaware)	USA		100.00%	100.00%
(A)		INVERS. EXP.TURISTICAS, S. A.	Mauricio Legendre, 16 (Madrid)	Spain	55.31%		
						0.03%	55.34%
(A)		INVERS. INMOB. IAR 1997, C. A.	Avenida Casanova con C/ El Recreo (Caracas)	Venezuela		99.69%	99.69%
(A)		INVERSIONES AGARA, S.A.	Lope de Vega, 4 (Santo Domingo)	Dom. Rep.		99.69%	99.69%
(A)		INVERSIONES AREITO, S.A.	Avda. Barceló, s/n (Bávaro)	Dom. Rep.	64.54%		
						35.46%	100.00%
(A)	(F1)	INV. HOTELERAS LA JAQUITA, S.A.	Avda. de los Océanos, s/n (Tenerife)	Spain		49.07%	
					50.00%		99.07%
(A)		LOMONDO Limited	Albany Street-Regents Park (Londres)	Great Britain		100.00%	100.00%
(A)		LONDON XXI Limited	336-337 The Strand (Londres)	Great Britain		100.00%	100.00%
		MELIÁ BRASIL ADMINISTRAÇAO	Avenida Cidade Jardim, 1030 (Sao Paulo)	Brazil		20.00%	
						80.00%	100.00%
(A)		MELIÁ HOTELS INTERNATIONAL, S.A.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain			100.00%
		MELIA HOTELS ORLANDO, LLC. (JV)	Brickell Avenue Suite 1000, 800	USA		50.00%	50.00%
(A)	(F1)	PRODISOTEL, S.A.	Mauricio Legendre, 16 (Madrid)	Spain		100.00%	100.00%
(A)	(F1)	REALIZACIONES TURÍSTICAS, S.A.	Mauricio Legendre, 16 (Madrid)	Spain	95.97%		
						0.30%	96.27%
(A)		S' ARGAMASSA HOTELERA S.L. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		50.00%	50.00%
(A)		SOL MELIÁ DEUTSCHLAND, gmbh	Am Schimmersfeld 5 (Ratingen)	Germany	100.00%		100.00%
(A)		SOL MELIÁ ITALIA S.R.L.	Via Masaccio 19 (Milán)	Italy	100.00%		100.00%
		SOL MELIÁ LUXEMBOURG, S.A.R.L.	1 Park Dräi Eechelen, L1499	Luxembourg	100.00%		100.00%
(A)	(F1)	TENERIFE SOL, S. A.	Playa de las Américas (Tenerife)	Spain	50.00%		
						48.13%	98.13%

		MANAGEMENT COMPANIES	ADDRESS	COUNTRY	P.DIR	P.IND	TOTAL
	(F1)	APARTOTEL, S. A.	Mauricio Legendre, 16 (Madrid)	Spain	99.79%		99.79%
		GESMESOL, S. A.	Elvira Méndez, 10 - Edif. Bco do Brasil	Panama	100.00%		100.00%
		ILHA BELA GESTAÔ E TURISMO, Ltd.	31 de Janeiro, 81 (Funchal - Madeira)	Portugal	100.00%		100.00%
		MARKSERV, B.V.	Strawinskylaan 915 WTC, Toren A,1077 XX (Amsterdam)	Netherlands	51.00%		
						49.00%	100.00%
(A)		MELIÁ MANAGEMENT, S.A.	Lope de Vega, 4 (Santo Domingo)	Rep. Dom.		100.00%	100.00%
		NEW CONTINENT VENTURES, Inc.	800 Brickell Avenue Suite 1000 (Miami)	USA		100.00%	100.00%
		OPERADORA COSTARISOL	Avenida Central, 8 (San José)	Costa Rica		100.00%	100.00%
(A)		OPERADORA MESOL, S. A. de C.V.	Blvd. Kukulkan Km 16.5 No 1 T.5. Zona Hot (Cancún)	Mexico	75.21%		
						24.79%	100.00%

		MANAGEMENT COMPANIES	ADDRESS	COUNTRY	P.DIR	P.IND	TOTAL
		PT SOL MELIÁ INDONESIA	Ed.Plaza Bapindo-Menara Mandiri Lt.16 Jl.Jend.Sudirman Kav.54-55 (Jakarta)	Indonesia	90.00%		
						10.00%	100.00%
		SOL MANINVEST, B.V.	Strawinskylaan 915 WTC, Toren A, 1077 XX (Amsterdam)	Netherlands	100.00%		100.00%
(A)		SOL MELIÁ BALKANS EAD	Región de Primorski,Golden-Sands-Varna	Bulgaria	100.00%		100.00%
		SOL MELIÁ HRVATSKA d.o.o ROVINJ (SOL MELIA CROA-CIA)	Vladimira Nazora, 6 (Rovijn)	Croatia		100.00%	100.00%
(A)		SOL MELIÁ GREECE, HOTEL & TOURISTIC	14th Chalkokondili Str & 28th October str (Atenas)	Greece	100.00%		100.00%
		SOL MELIÁ PERÚ, S. A.	Av. Salaberri, 2599 (San Isidro - Lima)	Peru		99.90%	
						0.10%	100.00%
(A)		SOL MELIÁ SERVICES, S. A.	Rue de Chantemerle (Friburgo)	Switzerland		100.00%	100.00%
(A)		SOL MELIÁ HOTEL MANAG. SHANGHAI CO, LTD.	Suite 13-1A1,13th Floor,Hang Seng Bank Tower,1000 Lujiazui Ring Road (Shangai)	China	100.00%		100.00%

		COMPANIES VARIOUS ACTIVITIES	ADDRESS	COUNTRY	P.DIR	P.IND	TOTAL
	(F1)	CASINO TAMARINDOS, S. A.	Retama, 3 (Las Palmas)	Spain	100.00%		100.00%
		CREDIT CONTROL CORPORATION	Brickell Avenue, 800 (Miami)	USA	100.00%		100.00%
	(F1)	DORPAN, S. L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
(A)		GRUPO SOL SERVICES	80, Raffles Pplace,(Kuala Lumpur)	Singapore	100.00%		100.00%
		GUARAJUBA EMPREENDIMENTOS, S.A.	Avda. Jorge Amado s/n, Bahía	Brazil	100.00%		100.00%
(A)	(F2)	HOTEL METROPOLITAN, S.A.S.	20, Rue du sentier 75002 (Paris)	France		100.00%	100.00%
(A)	(F1)	IDISO HOTEL DISTRIBUTION,S.A.	Aravaca 22,Bis (Madrid)	Spain		75.00%	75.00%
		INNWISE MANAGEMENT. S.L.	Aravaca 22,Bis (Madrid)	Spain		75.00%	75.00%
(A)		INMOBILIARIA DISTRITO CIAL., C. A.	Avda. venezuela con Casanova (Caracas)	Venezuela		89.26%	89.26%
		INMOTEL INVERS. ITALIA, S.R.L.	Via Pietro Mascagni, 14 (Milán)	Italy	100.00%		100.00%
	(F1)	HOTEL ROOM MANAGEMENT, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		99.69%	99.69%
	(F1)	MELIA EUROPE & MIDDLE EAST, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
	(F1)	NAOLINCO AVIATION,S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
(A)	(F1)	PRODIGIOS INTERACTIVOS, S.A.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	53.98%	46.02%	100.00%
	(F1)	RENÉ EGLI, S.L.U.	Playa La Barca, Pájara (Las Palmas de G.Canaria)	Spain	100.00%		100.00%
	(F1)	SECURISOL, S. A.	Avda.Notario Alemany s/n Hotel Barbados (Calviá)	Spain	100.00%		100.00%
(A)		SEGUNDA FASE CORP.	Carretera 3, Intersecc. 955 (Rio Grande)	Puerto Rico		100.00%	100.00%
(A)		SIERRA PARIMA, S.A.	Avda. Barceló, s/n (Bávaro)	Dom. Rep.	51.00%		51.00%
		SOL CARIBE TOURS, S. A.	Vía Grecia - Edif. Alamanda 6B (Panamá)	Panama		100.00%	100.00%
		SOL GROUP CORPORATION	2100, Coral Way, suite 402 (Miami)	USA		100.00%	100.00%
		SOL MELIÁ EUROPE, B.V.	Strawinskylaan 915 WTC, Toren A, 1077 XX (Amsterdam)	Netherlands	100.00%		100.00%
		SOL MELIÁ FUNDING	Regatta Office Park West Bay Road P.O.Box 31106	Cayman Islands		100.00%	100.00%
(A)		SMVC DOMINICANA, S.A.	Lope de Vega, 4 (Santo Domingo)	Dom. Rep.		100.00%	100.00%
(A)	(F1)	SMVC ESPAÑA S.L.	Mauricio Legendre,16 (Madrid)	Spain		100.00%	100.00%
(A)		SMVC MÉXICO, S.A de C.V.	Boluevard Kukulkan (Cancún)	Mexico		100.00%	100.00%
		SMVC PANAMÁ S.A.	Antigua escuela las Américas, Lago Gatún	Panama		100.00%	100.00%
(A)		SMVC PUERTO RICO	Sector Coco Beach, 200 Carretera 968 (Río Grande)	Puerto Rico	100.00%		100.00%
		VACATION CLUB SERVICES INC.	Bickell Avenue, 800 (Miami)	USA		100.00%	100.00%

		HOLDING COMPANIES	ADDRESS	COUNTRY	P.DIR	P.IND	TOTAL
(A)	(F2)	CADSTAR FRANCE, S.A.S.	12, Rue du Mont Thabor (Paris)	France		100.00%	100.00%
	(F3)	DESARR.HOTEL. SAN JUAN, B.V.	Strawinskylaan, 915 WTC (Amsterdam)	Netherlands		99.69%	99.69%
	(F1)	DOMINICAN INVESTMENTS, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		99.69%	99.69%
	(F1)	DOMINICAN MARKETING SERVICES, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		65.73%	
						33.96%	99.69%
	(F1)	EXPAMIHSO SPAIN. S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
	(F3)	FARANDOLE, B.V.	Strawinskylaan, 915 WTC (Amsterdam)	Netherlands		99.69%	99.69%
	(F1)	HOGARES BATLE, S.A.	Gremio Toneleros, 42 (Palma de Mca.)	Spain	51.49%		
						46.70%	98.19%
	(F1)	HOTELES SOL MELIÁ, S. L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
		IMPULSE HOTEL DEVELOPMENT B.V.	Strawinskylaan 915 WTC, Toren A, 1077 XX (Amsterdam)	Netherlands	100.00%		100.00%
		INVERS.HOTELERAS LOS CABOS	Calle 57, Elvira Mendez 10-Edif Banco Do Brasil	Panama		100.00%	100.00%
		INVERS.TURIST. DEL CARIBE, S. A.	Lope de Vega, 4 (Santo Domingo)	Dom. Rep.	100.00%		100.00%
		MELIÁ HOTELS INTERNAIOTNA. UK LIMITED	Albany Street , Regents Park, London NW1 3UP	Great Britain	100.00%		100.00%
		MELIÁ INV. AMERICANAS, N.V.	Strawinskylaan 915 WTC, Toren A, 1077 XX (Amsterdam)	Netherlands	82.26%		
						17.43%	99.69%
	(F1)	NEALE EXPA SPAIN, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		99.69%	99.69%
	(F1)	PUNTA CANA RESERVATIONS, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
	(F3)	SAN JUAN INVESTMENT, B.V.	Strawinskylaan, 915 WTC (Amsterdam)	Netherlands		99.69%	99.69%
		SOL GROUP, B.V.	Strawinskylaan 915 WTC, Toren A, 1077 XX (Amsterdam)	Netherlands	100.00%		100.00%
(A)	(F2)	SOL MELIÁ FRANCE, S.A.S.	20 Rue du Sentier (Paris)	France	100.00%		100.00%
		SOL MELIÁ INVESTMENT, N.V.	Strawinskylaan 915 WTC, Toren A, 1077 XX (Amsterdam)	Netherlands	100.00%		100.00%
		SOL MELIA VACATION CLUB LLC.	Bickell Avenue, 800 (Miami)	USA		100.00%	100.00%

	INACTIVE COMPANIES	ADDRESS	COUNTRY	P.DIR	P.IND	TOTAL
(F1)	ADRIMELCO INVERSIONES, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
	ALMELDIK, S.A.R.L.A.U.	219,Bd.Zerktouini angle Bd.Roudani N.13 (Maarif- Casablanca)	Morocco	100.00%		100.00%
(A)	CASINO PARADISUS, S. A.	Playas de Bavaro (Higuey)	Dom. Rep.		49.85%	49.85%
	COMP.TUNISIENNE GEST. HOTELIÉRE	18 Boulevard Khézama nº 44, 4051 Sousse (Túnez)	Tunis		100.00%	100.00%
(F1)	GEST.HOT.TURISTICA MESOL	Gremio Toneleros, 42 (Palma de Mallorca)	Spain	100.00%		100.00%
(F1)	GONPONS INVERSIONES, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
(F1)	HOTELES MELIÁ, S. L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
(F1)	HOTELES PARADISUS, S. L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
(F1)	HOTELES SOL, S. L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
	INVERSIONES INVERMONT, S. A.	Av.Venezuela, Edif.T. América (Caracas)	Venezuela		100.00%	100.00%
(F1)	MOTELES ANDALUCES, S. A.	Mauricio Legendre, 16 (Madrid)	Spain	99.38%		99.38%
	SOL MELIA JAMAICA, LTD.	21, East Street (Kingston CSO)	Jamaica	100.00%		100.00%
	SOL MELIÁ MARROC, S.A.R.L.	Rue Idriss Al-Abkar, 4 - 1º Etage	Morocco		100.00%	100.00%
(F1)	THIRD PROJECT 2012, S. L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
(F1)	YAGODA INVERSIONES, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
(A)	BEDBANK TRADING, S.A.	Rue St.Pierre, 6A (Fribourg)	Switzerland	100.00%		100.00%

	MARKETING COMPANIES	ADDRESS	COUNTRY	P.DIR	P.IND	TOTAL
(F1)	HOTELPOINT, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100.00%		100.00%
(F1)	SMV NETWORK ESPAÑA, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		100.00%	100.00%
(F1)	NETWORK INVESTMENTS SPAIN, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		100.00%	100.00%

((A) Audited companies
(F1) Companies that constitute a consolidated tax group with Meliá Hotels International, S.A.
(F2) Companies that constitute a consolidated tax group with Sol Melia France, S.A.S.
(F3) Companies that constitute a consolidated tax group with Meliá Inversiones Americanas, N.V.

(*) Participation in this entity is through the ownership of apartments which represent 92.83% of the total, which are recorded in the heading for the tangible asset.

ANNEX 2. AFFILIATES AND JOINT VENTURES

	COMPANIES OPERATING HOTELS	ADDRESS	COUNTRY	P.DIR	P.IND	TOTAL
	BANAMEX S.A. FIDEICOMISO EL MEDANO	Playa El Medano s/n, (Cabo San Lucas)	Mexico		30.28%	30.28%
(A)	COM. PROP. APARTOTEL MELIÁ CASTILLA (*)	Capitán Haya, 43 (Madrid)	Spain	31.35%		
					0.09%	31.44%
	C.P. APARTOTEL M.COSTA DEL SOL (*)	Paseo Marítimo 11 (Torremolinos)	Spain	1.48%		
					18.71%	20.19%
(A)	DETUR PANAMÁ S.A.	Antigua Escuela Las Américas (Colón)	Panama	32.72%	17.21%	49.93%
(A) (F4)	STARMEL HOTELS OP, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		20.00%	20.00%
(A)	MELIÁ ZARAGOZA S.L.	Avenida César Augusto, 13 (Zaragoza)	Spain	50.00%		50.00%
	NEXPROM, S.A.	Avda. del Lido s/n (Torremolinos)	Spain	17.50%		
					2.50%	20.00%
	PLAZA PUERTA DEL MAR, S.A.	Plaza Puerta del Mar, 3 (Alicante)	Spain	12.23%		
					7.78%	20.01%
(A) (F5)	PRODUCCIONES DE PARQUES, S.L. (JV)	Avda. P.Vaquer Ramis , s/n (Calviá)	Spain	50.00%		50.00%
(A) (F5)	TERTIAN XXI, S.L.U. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		50.00%	50.00%
	TURISMO DE INVIERNO, S.A.	Plaza Pradollano, s/n Sierra Nevada (Granada)	Spain	21.42%		21.42%

	HOTEL OWNER COMPANIES	ADDRESS	COUNTRY	P.DIR	P.IND	TOTAL
(A)	ADPROTEL STRAND, S.L.	Mauricio Legendre, 16 (Madrid)	Spain	50.00%		50.00%
(A) (F4)	SANTA EULALIA BEACH P, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		20.00%	20.00%
(A) (F4)	PUERTO DELCARMEN BEACH P, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		20.00%	20.00%
(A)	ALTAVISTA HOTELERA, S.L. (JV)	Avda. Pere IV, 272 (Barcelona)	Spain	7.55%		
					41.50%	49.05%
(A) (F4)	FUERTEVENTURA BEACH P, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		20.00%	20.00%
(A) (F4)	PALMANOVA BEACH P, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		20.00%	20.00%
(A) (F6)	EVERTMEL, S.L. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	49.00%		49.00%
	EL RECREO PLAZA & CIA., C.A.	Avda.Fco.de Miranda Torre Oeste,15 Of.15(Caracas)	Venezuela		1.00%	
					18.94%	19.94%
(A)	FOURTH PROJECT 2012, S.L. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		50.00%	50.00%
(A) (F4)	SAN ANTONIO BEACH P, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		20.00%	20.00%
	MELIA HOTELS FLORIDA, LLC. (JV)	Brickell Avenue Suite 1000, 800	USA		50.00%	50.00%
(F6)	MONGAMENDA, S.L. (JV)	Alexandre Rosselló, 15 (Palma de Mallorca)	Spain		49.00%	49.00%
(A) (F4)	TORREMOLINOS BEACH P, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		20.00%	20.00%

	COMPANIES VARIOUS ACTIVITIES	ADDRESS	COUNTRY	P.DIR	P.IND	TOTAL
(A)	INVERSIONES GUIZA, S.A.	Avda. Lope de Vega, 4 (Sto. Domingo)	Dom. Rep.		49.84%	49.84%
(F6)	KIMEL MCA, S.L. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		49.00%	49.00%

	INACTIVE COMPANIES	ADDRESS	COUNTRY	P.DIR	P.IND	TOTAL
	HELLENIC HOTEL MANAGEMENT	Panepistimiou, 40 (Atenas)	Greece	40.00%		40.00%
	JAMAICA DEVCO S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	49.00%		49.00%

	HOLDING COMPANIES	ADDRESS	COUNTRY	P.DIR	P.IND	TOTAL
(A) (F4)	STARMEL HOTELES JV, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	20.00%		20.00%
	EL RECREO PLAZA, C.A.	Avda.Fco.de Miranda Torre Oeste,15 Of.15(Caracas)	Venezuela		19.94%	19.94%
	MELIA HOTELS USA, LLC. (JV)	Brickell Avenue Suite 1000, 800	USA		50.00%	50.00%
	PROMEDRO, S.A.	Avda. del Lido s/n (Torremolinos)	Spain	20.00%		20.00%

(A) Audited companies
(JV) Relate to Joint Ventures
(F4) Companies that constitute a consolidated tax group with Starme Hotels JV, S.L.
(F5) Companies that constitute a consolidated tax group with Producciones de Parques, S.L.
(F6) Companies that constitute a consolidated tax group with Evertmel, S.L.

(*) Participation in this entities is through the ownership of apartments which represent 31.44% and 20.19% of the total, which are recorded in the heading for property investments.

1. POSITION OF THE ENTITY

1.1 ORGANISATIONAL STRUCTURE

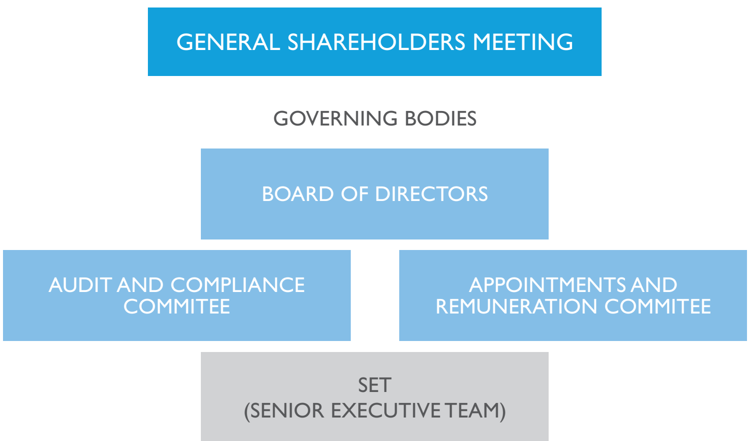
Meliá Hotels International, S.A. and its subsidiaries and affiliates (hereinafter the "Group" or the "Company") form an integrated group of companies that are mainly engaged in tourism activities in general and more specifically in the management and operation of hotels owned by them, leased, under management or franchise agreement, as well as vacation club operations. The Group is also engaged in the promotion of all types of business related to the hotel and tourism sector or with leisure or recreational activities, as well as participation in the creation, development and operation of new businesses, establishments or entities, in the tourism and hotel sectors and of any leisure or recreational activity. In addition, some of the Group's companies carry out real estate activities by taking advantage of the synergies obtained in hotel developments motivated by the strong expansion process.

In any case, those activities that the special laws reserve to companies that meet certain requirements that are not fulfilled by the Company are expressly excluded from the corporate purpose. In particular, all activities that the laws reserve to Collective Investment Institutions or stock market mediating companies are excluded.

The operating segments that constitute the Company's organisational structure are detailed below and the results are reviewed by the entity's highest decision-making authority:

- **Hotel management**: corresponds to the income from fees received for the operation of hotels under management and franchise agreement. In addition, it includes the intergroup charges to the Group's hotels on a lease and rental basis.
- **Hotel business**: this segment includes the results obtained by the operation of the hotel units owned or leased by the Group. The income produced in the catering sector is also presented by the consideration of this activity as a source of revenue which is fully integrated in the hotel operation, due to the majority sale of joint packages whose price includes accommodation and food and which would make an actual segment of assets and associated liabilities unworkable.
- **Other business related to hotel management**: this segment includes additional revenue from the hotel business, such as casinos and tour operating activities.
- **Real Estate**: includes capital gains from asset turnover, as well as real estate promotion and exploitation activities.
- **Club Meliá**: reflects the results derived from the sale of rights to shared use of specific resort units.
- **Corporate**: corresponds to structure costs, results related to mediation and marketing of room bookings and tourist services, as well as corporate costs of the Group not assignable to any of the three business divisions mentioned above.

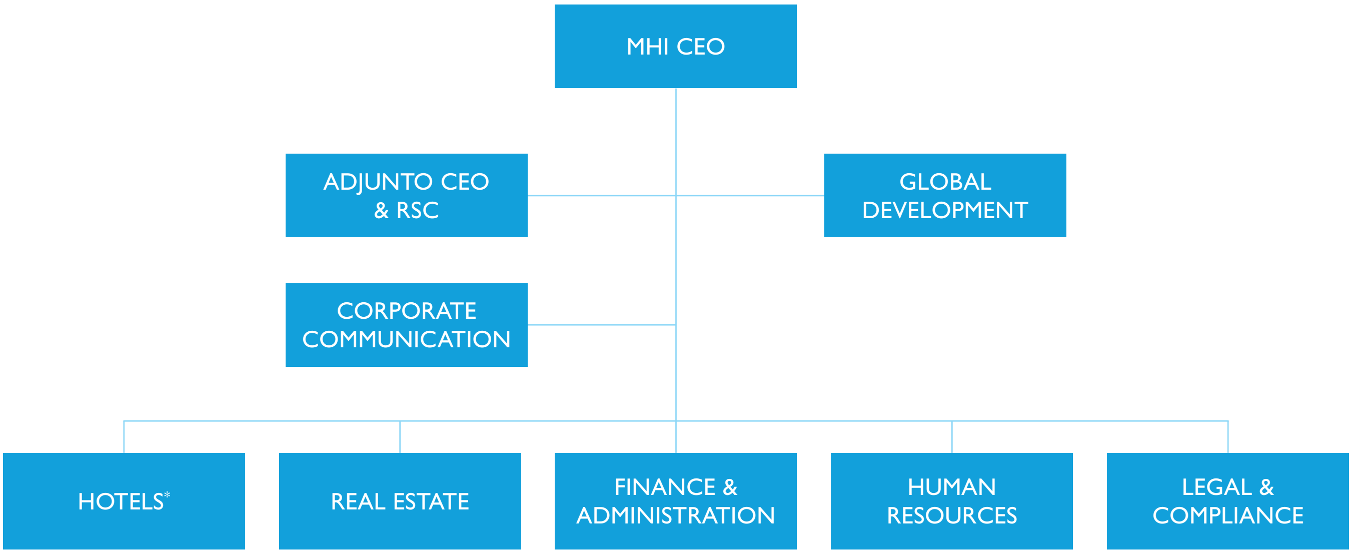
The organisational structure of the Company is detailed below:



1.2 THE COMPANY'S ORGANISATIONAL CHART

The company's current organisational model called "Competing by Design" implemented in 2013, is based on the decentralisation of operational and support functions for the operation, in order to provide greater autonomy and agility to the business in its decision making, in turn boosting customer proximity. On the other hand, the strategic and control functions, which ensure the present and future global vision of the Company, remain centralised.

In accordance with the definition of the "Competing by Design" organisational model, the Company's current organisational structure is as follows:



In 2016 the integration process of Hotels and Club Meliá was finalised, both segments having the same hierarchical dependence.

At the end of 2016, on the occasion of the reorganisation of the executive functions that the Company's Chairman had held so far, the Management of Global Development has been integrated under the Hotels division.

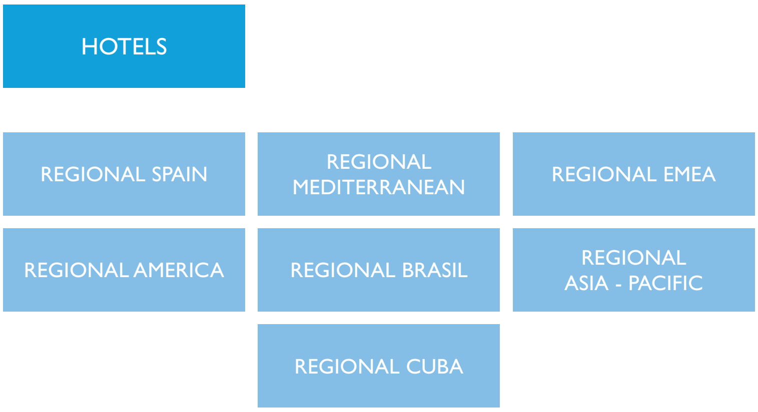
The Company's Executive Committee comprises the following Chief Officers:

- CHIEF FINANCE & ADMINISTRATION OFFICER
- CHIEF HOTELS OFFICER
- CHIEF HUMAN RESOURCES OFFICER
- CHIEF LEGAL & COMPLIANCE OFFICER
- CHIEF REAL ESTATE OFFICER

The fundamental objective of "Competing by Design" is to have an agile and excellent organisational model that constitutes a competitive advantage for the Group, providing know-how and autonomy to geographical areas and maintaining the vision and global control of the business centralised, *"Think Globally, Act Locally"*.

Based on the culture and values of Coherence, Excellence, Proximity, Dedication to Service and Innovation, the principles of Leadership, Globalisation and Efficiency which the model is based on have been established. These principles include, among others, teamwork, consensus and collaboration in the decision-making process, delegation of ultimate responsibility for the results account to the leading regional manager, proximity to the operational and support functions for the business, the internationalisation of the processes, systems and organisational structures and the search for synergies among the functions and the optimisation of both corporate and regional structures.

Based on all this, the current organisational structure of the Hotels sector and on which all decentralised (Regional) functions depend as well as one part of the global functions is as follows:



1.3 OPERATION OF THE ENTITY

STRATEGIC MOMENTUM

Meliá Hotels International promotes its strategy aligned with the Vision 2020, pivoting the processes of transformation on three fundamental dimensions, key ones in its business model and in the current environment:

- People
- Innovation
- Digitalisation

These three dimensions act as ambitious transverse axes of change and are present in the different levers that make up the Strategic Momentum of Meliá Hotels International in 2016.

In the definition and implementation of the strategic momentum, we also integrate the continuous analysis of an increasingly changing environment, as well as the inputs of the different interest groups, resulting from the materiality analysis carried out by the Company. This strategic approach strengthens the Company and gives it the necessary dynamism to consolidate a solid and excellent present that allows it to undertake a promising future, after 60 years of success.

The different thrusts in the framework of the strategic momentum are:

Brand architecture

The Company, aware of the changes demanded by the market, drives its business model focused on positioning its brands as a lever for growth, profitability and reinforces this positioning from both a global and regional perspective.

Today, Meliá Hotels International has a portfolio of 7 hotel brands and a vacation club with its own and well defined identities that contribute to an internationally recognised positioning that allows different segments of customers, nationalities, cultures and generations to be satisfied.

Customer centric

The culture of Meliá Hotels International has maintained throughout its 60 years of experience a constant and invariable premise: a culture of service focused on excellence and the delivery of the brand promise. The Company is completely oriented around the customer and increasing their loyalty, by establishing a fluid conversation to improve their experience and interaction with the brand. To this end, the Company adapts its processes by updating year after year technologically leading initiatives that allow it to remain at the forefront of customer awareness and quality of service.

Meliá goes beyond

The Company, present for the first time in its 60 years of history in 43 countries, maintains its expansion prospects with the objective of strengthening the positioning of Meliá Hotels International, growing in emerging markets of Asia Pacific and Africa, as well as in Latin America, and in the main European cities, with the ambition of being leaders in the resorts segment.

Excellence in management

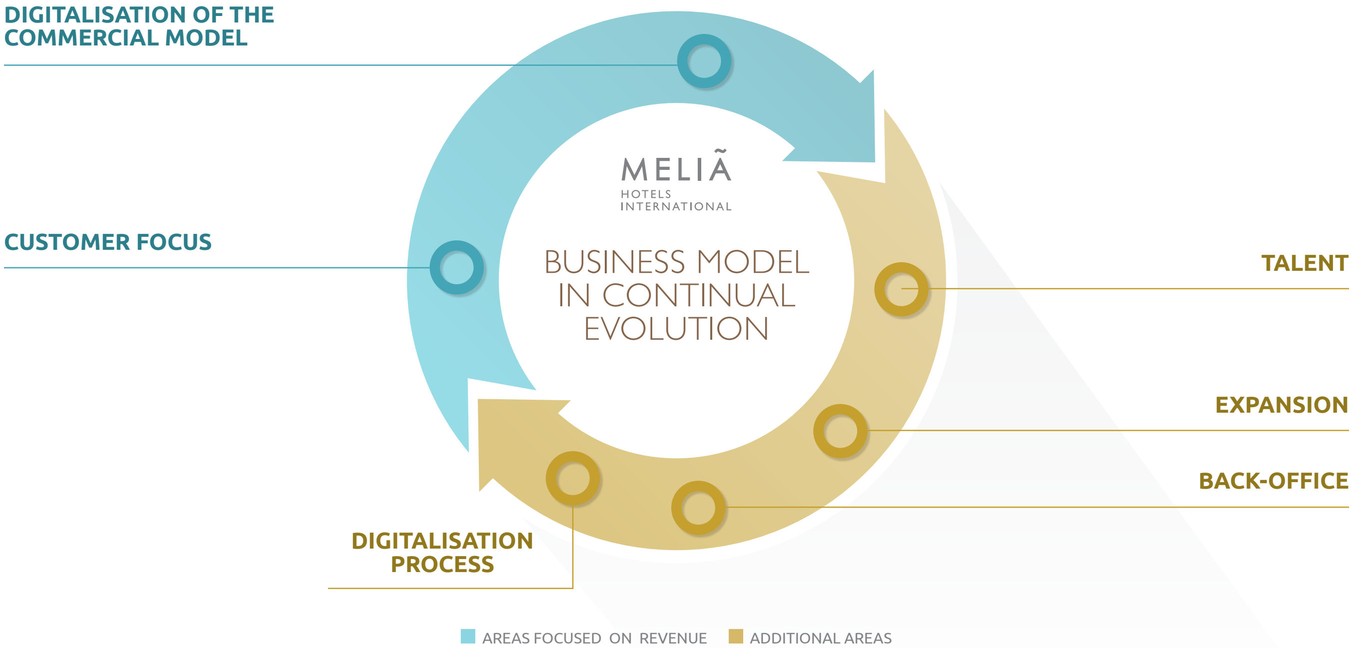
Meliá Hotels International develops and promotes different initiatives by functional areas complementary to the operational ones that give them competitive advantages and whose innovation is transferable as a contribution of value to the business. Under the dimensions of digitalisation, innovation and people, these areas contribute in a fundamental way to the Company's progress toward a model of excellence in management.

BUSINESS MODEL

The Company presents a consolidated and successful business model, which has evolved from a family-owned resorts company, born in Mallorca (Spain), to a listed company, diversified internationally, with recognised and leading brands in the market and focused on growth under formulas which are less capital intensive.

Meliá Hotels International's business model focuses on generating value for its stakeholders. This model is the result of an evolution of the Company over 6 decades in areas such as internationalisation, innovation and the offer of global services under criteria of excellence and proximity to the needs and expectations of its stakeholders.

The evolution and updating of the business model, meeting the requirements mainly of customers, owners and employees, generates a philosophy of continuous reflection and implementation of improvements in the business model in line with changes in the environment, the new technologies available and opportunities which the global dimension of the Company offers. This business model update covers all areas of the Company worldwide, from hotels, regional areas to headquarters.



Meliá Hotels International has strengthened its hotel management model, focused mainly on third-party management, favouring a low-intensity capital growth model, giving the Company greater dynamism to drive innovation, continuous improvement, minimisation of risks, reputation and recognition.

Following the transformation from a proprietary company, with hotels in management, to a management company with hotels in property, Meliá Hotels International today has a portfolio of hotels where low capital intensity models (management and franchise) represent 60% of rooms on the traditional models of owned and leased. Of the 18 openings that occurred in 2016, 63% of them were hotels under a management model mainly, and to a lesser extent, under a franchise system.

2. BUSINESS EVOLUTION AND RESULTS

The following is a breakdown of the operating segments in which the Company is structured:

2.1 HOTEL BUSINESS

The evolution of the hotel business for the total of the Company can be summarised in the following key indicators or KPIs, broken down by management type:

(Millions of €)	2016	2015	Variation (%)
Total aggregate revenue	1,508.5	1,398.0	8%
Owned	788.5	781.5	
Leased	720.0	616.6	
Of which Room Revenue	932.2	848.2	10%
Owned	419.8	424.8	
Leased	512.3	423.4	
EBITDAR	388.6	342.9	13%
Owned	211.6	199.8	
Leased	177.0	143.1	
EBITDA	224.8	203.1	11%
Owned	210.3	199.8	
Leased	14.4	3.3	
EBIT	133.7	88.0	52%
Owned	144.6	108.0	
Leased	(10.9)	(20.1)	

The evolution of the hotel management model by type of income is summarised in the following table:

(Millions of €)	2016	2015	Variation (%)
TOTAL REVENUE FROM THE MANAGEMENT MODEL	283.2	234.2	21%
Third-party fees	57.4	54.6	
Leased and owned Fees	94.2	81.3	
Other revenue	131.6	98.4	
TOTAL EBITDA MANAGEMENT MODEL	80.5	44.3	82%
Total EBIT Management Model	79.6	43.3	

The "Other income" item includes 55.8 million euros in 2016 and 47.2 million in 2015 of corporate income not attributable to a specific region.

Regarding other businesses related to hotel management, the evolution was as follows:

(Millions of €)	2016	2015	Variation (%)
Revenue	77.3	69.6	11%
EBITDAR	5.9	5.7	4%
EBITDA	5.4	5.4	1%
EBIT	4.5	4.4	1%

The revenues include 55 million euros, in 2016, and 51.8 million in 2015, corresponding to the tour operation activity of the company Sol Caribe Tours.

The breakdown of occupancy, ARR and RevPAR by business model is given below, indicating the variation with respect to the previous year:

	OWNED AND LEASED					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
HOTELS TOTAL	71.6%	0.9	112.3	7.5%	80.5	8.8%
SAME COMPARABLE BASES HOTELS TOTALS	71.7%	0.4	112.3	3.7%	80.6	4.2%
AMERICA	69.3%	(2.3)	120.5	6.6%	83.6	3.2%
EMEA (Europe, Middle East & Africa)	71.9%	(0.8)	151.0	4.4%	108.6	3.2%
SPAIN	67.5%	0.5	87.8	9.3%	59.3	10.2%
MEDITERRANEAN	79.1%	6.8	85.3	18.0%	67.5	29.0%
BRAZIL	3.0%		265.0		7.8	

The number of rooms available in 2016 corresponding to hotels owned and leased is 11.6 million (11.5 million in 2015).

	OWNED, LEASED AND MANAGEMENT					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
HOTELS TOTAL	68.4%	1.7	103.0	11.5%	70.5	14.3%
SAME COMPARABLE BASES HOTELS TOTALS	68.7%	0.4	102.7	6.6%	70.6	7.3%
AMERICA	67.2%	(1.2)	119.9	5.6%	80.5	3.8%
EMEA (Europe, Middle East & Africa)	70.2%	2.5	150.4	8.3%	105.6	12.4%
SPAIN	65.7%	0.9	88.6	7.8%	58.2	9.4%
MEDITERRANEAN	77.1%	9.7	83.8	24.7%	64.7	42.8%
CUBA	66.3%	(4.1)	98.1	17.1%	65.0	10.3%
BRAZIL	53.0%	(1.9)	78.7	(9.9%)	41.7	(13.0%)
ASIA	61.8%	0.6	76.6	(0.2%)	47.4	0.8%

The number of rooms available in 2016 corresponding to hotels owned, leased and managed is 22.6 million (23.9 million in 2015).

The breakdown of the number of hotels and rooms by business model at the close of 2016 and 2015 is as follows:

	CURRENT HOTELS PORTFOLIO			
	31/12/2016		31/12/2015	
	Hotels	Rooms	Hotels	Rooms
GLOBAL HOTELS	311	79,764	314	83,252
Management	110	34,253	127	42,496
Franchise	47	9,373	36	5,659
Owned	46	14,032	48	14,713
Leased	108	22,106	103	20,384

	PIPELINE									
	2017		2018		2019		2020 onwards		TOTAL	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
GLOBAL HOTELS	21	4,198	23	7,269	13	3,083	7	2,055	64	16,605
Management	17	3,313	22	7,094	9	2,179	6	1,625	54	14,211
Franchise	2	412							2	412
Leased	2	473	1	175	4	904	1	430	8	1,982

The following is an analysis of the hotel evolution by region:

AMERICA

Complying with the Company's initial forecasts, the evolution of the second half of 2016 has been favourable in the America region, especially the fourth quarter, closing the year with a positive balance despite the gap generated during the first half. In this regard, despite the fact that occupancy levels have remained under pressure in practically all markets, the good evolution of rates has been a positive development.

The main reasons for the evolution of hotels in America are as follows:

- The contribution of the new openings, especially by the Innside New York NoMad hotel. In the case of this hotel, the Company is especially proud of the rate positioning achieved, considering that it has become the hotel in the America region with a higher average rate, even in spite of its recent opening (March 2016). As for the evolution of the ME Miami Hotel, another of the main incorporations, we can inform that the hotel is still in the positioning phase, although considering its excellent location - close to the main points of cultural interest in Miami-, the Company hopes that in the first half of 2017 it will achieve significant improvements in its positioning.
- The good performance of the hotels located in Mexico, especially emphasising the contribution of the Paradisus Cancun and the two Paradisus of Playa del Carmen (Paradisus La Perla and Paradisus La Esmeralda). In the latter case, especially during the last quarter of the year, coinciding with the peak season. On the other hand, a relevant landmark in Mexico has been the re-launch of the new Paradisus Los Cabos (formerly, Meliá Cabo Real) on 23 December 2016.

The evolution of the hotel business in regional America can be summarised in the following KPIs, broken down by management type:

(Millions of €)	2016	2015	Variation (%)
Total Aggregate Revenue	451.6	428.4	5%
Owned	423.3	419.3	
Leased	28.2	9.1	
Of which Room Revenue	196.2	182.2	8%
Owned	171.7	174.0	
Leased	24.5	8.2	
EBITDAR	120.0	112.5	7%
Owned	116.6	111.7	
Leased	3.5	0.7	
EBITDA	113.6	111.6	2%
Owned	116.6	111.7	
Leased	(2.9)	(0.1)	
EBIT	84.1	60.5	39%
Owned	87.7	61.3	
Leased	(3.6)	(0.8)	

NOTE: The comparative data that appear in the report for the year 2015 differ significantly from those reported in 2015 due to the inclusion of the Meliá Puerto Vallarta and Meliá Cozumel Hotels in both periods (considering that in 2015 they were included in the Club Meliá business unit). For comparative purposes, excluding these hotels from the year 2015 (same figures reported in 2015), growth continues to be 3.2%, so its inclusion in the hotel business has not affected the Division's overall growth.

The evolution of the hotel management model by type of income is summarised in the following table:

(Millions of €)	2016	2015	Variation (%)
TOTAL REVENUE FROM THE MANAGEMENT MODEL	60.5	52.0	16%
Third-party Fees	4.2	3.5	
Leased and owned Fees	29.6	26.7	
Other Revenue	26.7	21.8	

The breakdown of occupancy, ARR and RevPAR by business model is given below, indicating the variation with respect to the previous year:

	OWNED AND LEASED					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
HOTELS TOTAL	69.3%	(2.3)	120.5	6.6%	83.6	3.2%
SAME COMPARABLE BASES HOTELS TOTALS	68.2%	(3.3)	120.6	2.5%	82.3	(2.2%)
Leading Countries						
Mexico	78.7%	1.5	116.5	1.0%	91.7	2.9%
Dominican Republic	72.7%	(1.8)	114.8	2.5%	83.5	0.0%
Venezuela	43.5%	(9.4)	99.3	39.4%	43.2	14.5%
USA	75.3%	(1.2)	179.5	43.8%	135.2	41.6%

The number of rooms available in 2016 corresponding to hotels owned and leased is 2.3 million (2.2 million in 2015).

	OWNED, LEASED AND MANAGEMENT					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
HOTELS TOTAL	67.2%	(1.2)	119.9	5.6%	80.5	3.8%
SAME COMPARABLE BASES HOTELS TOTALS	66.9%	(1.2)	120.0	2.6%	80.3	0.7%
Leading Countries						
Mexico	76.1%	4.8	123.0	5.7%	93.5	12.8%
Dominican Republic	72.7%	(1.8)	114.8	2.5%	83.5	0.0%
Venezuela	43.5%	(9.4)	99.3	39.4%	43.2	14.5%
USA	71.3%	(5.2)	179.7	44.0%	128.2	34.2%

The number of rooms available in 2016 corresponding to hotels owned, leased and managed is 3 million (2.9 million in 2015).

The breakdown of the number of hotels and rooms by business model at the close of 2016 and 2015 is as follows:

	CURRENT HOTELS PORTFOLIO			
	31/12/2016		31/12/2015	
	Hotels	Rooms	Hotels	Rooms
AMERICA TOTAL	28	9,199	25	8,477
Management	10	2,523	8	2,144
Franchise	2	214	2	214
Owned	14	5,913	14	5,883
Leased	2	549	1	236

	PIPELINE							
	2017		2018		2019 onwards		TOTAL	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
AMERICA TOTAL	4	744	6	1,475	0	0	10	2,219
Management	4	744	6	1,475			10	2,219

Below are the hotel openings and disaffiliations during the year and corresponding to this area:

HOTELS	CITY/COUNTRY	AGREEMENT	No. of ROOMS
OPENINGS			
Meliá Braco Village	Jamaica	Management	226
Innside New York NoMad	Manhattan (USA)	Leased	312
ME Miami	Miami (USA)	Management	130
DISAFILLIATIONS			

Outlook 2017

In a market analysis, the prospects for the Dominican Republic seem to be a challenge facing 2017 due to the oversupply of hotel rooms in this market with respect to previous years, taking into account that the destination of Punta Cana now has 5,000 rooms hotel more than the previous year. In this sense, after the slight deceleration observed in 2016, the first quarter of 2017 is reporting figures below last year.

In Mexico, the situation is much more favourable. Canadian and Latin American issuing markets show a strong growth since January, due to the best weather conditions which arose in the period, and it seems that the US issuing market could also improve its figures in the short term. In this last market, since January the Company has been developing an on-line campaign focused on the Paradisus product and later also for the Meliá brand, achieving a daily sales growth rate of around 40% through melia.com, compared to the same period last year. This positive performance means that the Company is confident of a better performance of the American market throughout 2017.

In addition, an important factor that will define the best performance of resorts in Mexico, is their better segmentation of the income taking into account that they have a solid base of Business Groups. In addition, it should be remembered that in March 2017, the ME Cancun Hotel has reopened its doors after its renovation/refurbishment, an opening that should be added to the recent relaunch of the Paradisus Los Cabos hotel where the Company has very positive expectations. Therefore, we should point out that the Paradisus Los Cabos hotel is still in an initial phase of positioning, although it already has a segmentation according to the distribution channels which is very favourable for the Group, being 80% on-line channels and 20% in B2B channels. The melia.com channel is registering very good figures positioning itself as the first channel in importance.

Expansion

Throughout the year the division has opened the Meliá Braco Village hotels in Jamaica and Innside New York NoMad and ME Miami in the United States.

Regarding the pipeline, in the fourth quarter of 2016, a new additional opening was initially expected, the Meliá Cartagena (Cartagena de Indias, Colombia), which is strategically located in the Caribbean, in one of the preferred destinations in the country for holidays and business meetings. However, this opening has been delayed until the first quarter of 2017.

In 2017 important openings like the Melia Costa Hollywood (United States) and the Innside Bogota will also be seen. The current year will also witness the transformation and rebranding of the former Meliá Cabo Real in Mexico, now Paradisus Los Cabos, which as of 1 January is considered an owned hotel after the Company acquired the 85% share previously in the hands of a third party. This asset is considered a strategic hotel for the Company, showing an excellent track record of results during the time the Company has managed the hotel through a management contract, to which it should be added that, after its renewal, the Company expects a significant improvement in its profitability and therefore its contribution to the consolidated statements of the Group.

EUROPE, MIDDLE EAST & AFRICA (EMEA)

Overall, the EMEA region performed well, registering a 3.2% growth in RevPAR over the previous year, mainly thanks to the improvement in rates.

This growth was mainly fuelled by the very positive contribution of hotels located in Spain and Germany. Likewise, the slow but steady recovery of the UK and French markets during the fourth quarter of the year also contributed to this growth. Unfortunately, Milan (in Italy) and the Middle East in general have been a challenge for the Company in 2016.

The evolution of the hotel business in the EMEA region can be summarised in the following KPIs, broken down by management type:

(Millions of €)	2016	2015	Variation (%)
Total Aggregate Revenue	533.0	511.5	4%
Owned	210.3	200.7	
Leased	322.6	310.8	
Of which Room Revenue	370.5	355.2	4%
Owned	144.8	147.3	
Leased	225.7	207.9	
EBITDAR	134.1	128.3	5%
Owned	57.7	59.3	
Leased	76.4	69.0	
EBITDA	68.4	66.9	2%
Owned	56.5	59.3	
Leased	11.9	7.6	
EBIT	34.6	37.3	(7%)
Owned	32.9	39.4	
Leased	1.7	(2.1)	

The evolution of the hotel management model by type of income is summarised in the following table:

(Millions of €)	2016	2015	Variation (%)
TOTAL REVENUE FROM THE MANAGEMENT MODEL	56.1	44.9	25%
Third-party Fees	3.2	2.7	
Leased and owned Fees	31.7	28.6	
Other Revenue	21.3	13.6	

The breakdown of occupancy, ARR and RevPAR by business model is given below, indicating the variation with respect to the previous year:

	OWNED AND LEASED					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
HOTELS TOTAL	71.9%	(0.8)	151.0	4.4%	108.6	3.2%
SAME COMPARABLE BASES HOTELS TOTALS	72.8%	(0.7)	150.6	3.3%	109.7	2.3%
Leading Countries						
Spain	72.2%	(0.7)	199.4	12.0%	144.0	10.9%
United Kingdom	75.6%	(1.9)	168.1	(14.1%)	127.0	(16.1%)
Italy	62.8%	(6.3)	210.1	23.1%	131.9	11.9%
Germany	71.7%	(0.5)	108.3	7.9%	77.6	7.2%
France	69.3%	(4.4)	169.2	(6.4%)	117.2	(12.0%)

The number of rooms available in 2016 corresponding to hotels owned and leased is 3.4 million (3.3 million in 2015).

	OWNED, LEASED AND MANAGEMENT					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
HOTELS TOTAL	70.2%	2.5	150.4	8.3%	105.6	12.4%
SAME COMPARABLE BASES HOTELS TOTALS	72.6%	(0.5)	150.8	3.2%	109.5	2.5%
Leading Countries						
Spain	71.4%	(0.4)	200.5	11.7%	143.2	11.1%
United Kingdom	75.6%	(1.9)	168.1	(14.1%)	127.0	(16.1%)
Italy	62.2%	(6.3)	212.0	22.7%	131.8	11.4%
Germany	71.7%	(0.5)	108.3	7.9%	77.6	7.2%
France	69.3%	(4.4)	169.2	(6.4%)	117.2	(12.0%)

The number of rooms available in 2016 corresponding to hotels owned, leased and managed is 3.8 million (4 million in 2015).

The breakdown of the number of hotels and rooms by business model at the close of 2016 and 2015 is as follows:

	CURRENT HOTELS PORTFOLIO			
	31/12/2016		31/12/2015	
	Hotels	Rooms	Hotels	Rooms
EMEA TOTAL	73	12,566	73	13,231
Management	8	1,116	9	2,015
Franchise	12	1,561	12	1,561
Owned	13	3,045	13	3,049
Leased	40	6,844	39	6,606

	PIPELINE									
	2017		2018		2019		2020 onwards		TOTAL	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
EMEA TOTAL	9	1,809	5	1,174	8	1,848	2	560	24	5,391
Management	7	1,252	4	999	4	944	1	130	16	3,325
Franchise	1	352							1	352
Leased	1	205	1	175	4	904	1	430	7	1,714

Below are the hotel openings and disaffiliations during the year and corresponding to this area:

HOTELS	CITY/COUNTRY	AGREEMENT	No. of ROOMS
OPENINGS			
Sol House Taghazout Bay Surf	Morocco	Management	87
Innside Aachen	Germany	Leased	158
Innside Leipzig	Germany	Leased	177
Frankfurt Ostend	Germany	Leased	168
DISAFILLIATIONS			
Melia Sharm	Egypt	Management	468
Sol Taba	Egypt	Management	440
Sol Dahab	Egypt	Management	218
Innside Berlin	Germany	Leased	133

Highlights of hotel developments

The most outstanding aspects of each of the countries that make up this regional unit have been:

Germany and Austria:

As the hotel industry in 2016 was able to benefit from the intense activity of the trade fair segment in Germany, Meliá's efforts focused on maximising revenue generation through its *Yield Management/Revenue Management* strategy. In this respect, hotels in Germany have reported solid growth rates for all quarters of the year, with constancy being the main characteristic that defines the results reported by hotels in the country.

In addition, the Company has been able to benefit from the successful openings carried out during the period being examples of success: Innside Leipzig and Innside Aachen.

Spain:

Throughout the year, the performance of the Spanish Premium hotels included in the EMEA region has been very positive both for resorts and for urban hotels.

Once again, in the rseorts area, the outstanding performance of the Gran Meliá Palacio de Isora hotel, flagship of luxury resorts in Europe, which just in the fourth quarter of the year would have improved its revenues by more than one million euros.

It is also worth mentioning the contribution of the ME Ibiza hotel, which in 2016 has recorded its best season enjoying very good results even in the fourth quarter of the year - after managing to extend its season against the previous year ending the 2016 season on a high.

As far as urban hotels are concerned, we should mention the good results obtained by the Gran Meliá Colón and Meliá Barcelona Sky hotels.

Finally, it is worth remembering the relaunch of the Gran Meliá Palacio de los Duques hotel in Madrid, which, despite its recent inauguration, has already been able to align itself in terms of rates to the level of its competitive set - achieving an ARI (Average Room Index, Price Index) of 96%.

France:

During the fourth quarter, the Company recorded two completely different groups of figures:

a. The first 40 days remained negative without recovering from the fall in business recorded since October 2015.
b. However, as of 11 November, hotels in the city recorded a significant recovery maintained until the end of the year. As a result of this situation, the fourth quarter reached the same level of Revenue per Available Room as the previous year, recovering a significant amount of volume, but recording general price declines, which is why the Company still expects it to take some time to fully recover.

United Kingdom:

The recovery experienced during the fourth quarter of the year in the United Kingdom maintains many similarities with the situation experienced in France, adding here the uncertainties generated on the basis of the evolution of the pound, as well as the possible impact of Brexit.

A relevant milestone in its evolution were the best figures recorded in the last quarter of the year, which would have resulted in an improvement of the Average Income per Available Room of + 0.2%, after recording a year of falls. This improvement in the situation could move into 2017, with a better performance expected compared to the previous year in the first quarter of the year.

Italy:

Italy has been a major challenge for the EMEA region during 2016. The post-Expo factor was very significant throughout the year in the city of Milan. However, this city was the only one that showed a negative trend in Italy, while Rome and Genoa recorded slight growth rates.

Outlook 2017

In Germany, although 2016 was a great year due to the large volume of trade fairs held in the country, prospects for the first quarter of 2017 also look favourable thanks to the good performance of hotels in Düsseldorf.

Throughout 2017, although the Company will notice a certain lack of fair days compared to last year (in 2016 188 trade fair days were held, while in 2017 132 are expected), this situation will not affect the first quarter of the year.

France and the UK also have good prospects for 2017. In the UK, the Company expects double-digit revenue growth in the first quarter of 2017, while in France the forecast is also quite positive, with a RevPar growth of around 5% thanks in part to the good performance expected by the ME London hotel.

On the other hand, in Italy, due to the standardisation of the comparable figures (without post-Expo effect) the situation seems favourable pointing to 2017 being a good year for the hotels in the country.

To conclude this section, the situation in Spain will suffer temporarily in the first quarter of the year from the Easter calendar effect (which in 2016 fell in March and in 2017 in April). However, the gap is expected to recover in the second quarter, with very good prospects for Premium hotels in Spain, both in urban hotels and in resorts.

Expansion

In relation to movements of the portfolio of hotels and rooms, in 2016 the Company has benefited from the opening of the Sol House Taghazout Bay Surf, Innside Aachen, Innside Leipzig and Innside Frankfurt Ostend hotels. This last hotel opened in the fourth quarter of the year under a lease, becoming the Company's fourth hotel in Frankfurt, one of the most interesting destinations in Germany for Meliá, since it is an important business centre that houses important fairs and congresses.

After an intense 2016, in which the EMEA region has signed 12 new hotels, the EMEA pipeline includes at year-end, 24 new hotels to open in the EMEA area until 2020.

Of these 24 hotels, 9 properties will be opened during this year 2017, of which:

- 3 are located in the Middle East (ME Dubai, Innside Doha and Gran Meliá Huravee in the Maldives).
- 3 in Africa (Meliá Serengeti in Tanzania and 2 Meliá Saidia Resorts in Morocco).
- 3 in Europe (the Innside Hamburg Högerdamm in Germany, the Tryp by Wyndham Caparica in Portugal and the ME Sitges Terramar in Spain).

MEDITERRANEAN

Regarding the evolution of business in the Mediterranean area, the general trend in 2016 has been that all the holiday destinations included under this heading, mainly coastal areas of peninsular Spain, Balearic Islands, Canary Islands, as well as Cape Verde, improved their results compared to the previous year, highlighting a significant improvement in their rates.

During the fourth quarter, the most important aspects that explained the business performance were:

- The very positive results of the resorts in October, which in some cases even allowed for an extension of the season.
- The excellent figures reported in the Canary Islands, especially in Tenerife, showing a higher performance than initially expected.

Overall, with regard to the performance of resorts in the Balearic Islands, their evolution was linked to their good performance mainly during the summer season, with particular emphasis on:

a. The successful positioning of the Meliá Antillas Calviá Beach hotel, which has had an excellent performance after its relaunch in 2016, especially with respect to its rate positioning.
b. The good results of the Sol Katmandú Hotels & Resorts, hotel recognised as "Best Innovation in Service in 2016" by the European Hospitality Awards.
c. The great performance of the hotels Sol House Mixed by Ibiza Rocks in Mallorca and especially in Ibiza, both hotels being well received by the market.
d. Lastly, the very good performance of hotels operating under the Sol Beach House brand, a new concept designed specifically for adults in Spain, with the main leading hotels being: Cala Blanca, Ibiza and Menorca.

Outside Spain, Cape Verde's contribution also stands out, where the Company almost doubled its results with an additional contribution of 27 million euros.

The evolution of the hotel business in the Mediterranean region can be summarised in the following KPIs, broken down by management type:

(Millions of €)	2016	2015	Variation (%)
Total Aggregate Revenue	245.7	205.7	19%
Owned	82.3	95.7	
Leased	163.5	110.0	
Of which Room Revenue	165.9	131.1	27%
Owned	53.0	58.0	
Leased	112.8	73.1	
EBITDAR	66.5	43.7	52%
Owned	19.9	14.8	
Leased	46.5	29.0	
EBITDA	29.2	16.5	77%
Owned	19.9	14.8	
Leased	9.3	1.7	
EBIT	17.3	(2.5)	(803%)
Owned	13.8	1.0	
Leased	3.5	(3.5)	

The evolution of the hotel management model by type of income is summarised in the following table:

(Millions of €)	2016	2015	Variation (%)
INGRESOS TOTALES DEL MODELO DE GESTIÓN	39.0	29.4	33%
Third-party Fees	12.6	14.3	
Leased and owned Fees	15.8	11.4	
Other Revenue	10.6	3.7	

The breakdown of occupancy, ARR and RevPAR by business model is given below, indicating the variation with respect to the previous year:

	OWNED AND LEASED					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
HOTELS TOTAL	79.1%	6.8	85.3	18.0%	67.5	29.0%
SAME COMPARABLE BASES HOTELS TOTALS	78.9%	5.8	79.1	10.7%	62.4	19.4%
Leading Countries						
Spain	79.1%	6.8	85.3	18.0%	67.5	29.0%

The number of rooms available in 2016 corresponding to hotels owned and leased is 2.4 million (2.5 million in 2015).

	OWNED, LEASED AND MANAGEMENT					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
HOTELS TOTAL	77.1%	9.7	83.8	24.7%	64.7	42.8%
SAME COMPARABLE BASES HOTELS TOTALS	77.0%	7.7	78.7	14.5%	60.6	27.3%
Leading Countries						
Spain	78.5%	4.3	84.5	17.5%	66.3	24.2%
Cape Verde	66.3%	27.1	77.6	20.6%	51.5	103.8%

The number of rooms available in 2016 corresponding to hotels owned, leased and managed is 4.8 million (6 million in 2015).

The breakdown of the number of hotels and rooms by business model at the close of 2016 and 2015 is as follows:

	CURRENT HOTELS PORTFOLIO			
	31/12/2016		31/12/2015	
	Hotels	Rooms	Hotels	Rooms
MEDITERRANEAN TOTAL	76	23,843	81	27,871
Management	24	8,269	41	16,076
Franchise	19	5,805	7	2,008
Owned	10	2,621	12	3,323
Leased	23	7,148	21	6,464

	PIPELINE							
	2017		2018		2019 onwards		TOTAL	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
MEDITERRANEAN TOTAL	0	0	2	1,097	0	0	2	1,097
Management			2	1,097			2	1,097

Below are the hotel openings and disaffiliations during the year and corresponding to this area:

HOTELS	CITY/COUNTRY	AGREEMENT	No. of ROOMS
OPENINGS			
Sol Costa Atlantis	Canary Islands (Spain)	Leased	289
Sol Dunas	Cape Verde	Management	843
Llana Beach Resort & Spa	Cape Verde	Management	303
Sensimar Cabo Verde Resort & Spa	Cape Verde	Management	302
DISAFILLIATIONS			
Sol Finida	Croatia	Management	290
Sol Park Umag	Croatia	Management	2500
Sol Savudrija Apart.	Croatia	Management	627
Sol Kanegra FKK Umag	Croatia	Management	426
Sol Stella Maris Umag	Croatia	Management	575
Umag & Residence	Croatia	Management	28
Sol Parque San Antonio	Canary Islands (Spain)	Owned	252

Outlook 2017

With regards to 2017, the Company maintains an optimistic position on obtaining better results than the previous year, the main trend being a slight decrease in occupancy, largely compensated by price increases. In this sense, it should be noted that the negotiations of rates with the main tour operators indicate price improvements of half a digit, except for recently updated hotels, where the improvements will even be of double-digit.

The objective of the Company is to continue the successful strategy focused on the repositioning of settled destinations, as in the Balearic Islands, extrapolating their experience and know-how to other tourist destinations such as Torremolinos (Málaga, Spain).

These investments not only aim to improve the physical conditions of the hotels, but they must also be a tool to improve their competitiveness in the market and attract a greater diversity of travellers, promoting in this way a more social and economic profitability of this tourist model.

To face the current hyper-segmentation of tourist demand, the Company will complete the renovation of its brand system and the updating of brands in the holiday sector such as Sol by Meliá with its new sub-brands Sol Hotels, Sol House, Sol Beach House and Sol Kathmandu.

In this sense, before the summer season of 2017 the Company will refurbish, among other hotels: Sol beach House Mallorca, Mirador de Calas of Mallorca and Sol Cala Antena (previously Sol Calas of Mallorca) in the Balearic Islands; Sol MR Pablo, in mainland Spain; and Meliá Gorriones and Meliá Salinas, in the Canary Islands.

Also, a factor that will undoubtedly cause price increases in 2017 will be the Company's sales strategy focused on the negotiation of dynamic rates within the tour operator segment, which will favour management and revenue maximisation.

With regards to Brexit, the Company highlights that it has not seen any slowdown in the sale of holiday packages through tour operators, with a slight slowdown in sales from the UK through melia.com, mainly depending on changes in the exchange rate between the euro and the pound sterling.

Although we do not expect a major impact on the UK issuing market, we expect the Company to compensate the expected slowdown in the peak season, as well as in the more expensive segments, with an larger demand from other alternative markets.

In general terms, it should be noted:

a. A wider window on early sale: In this sense, bookings through tour operators seem to have accelerated, showing figures higher than last year, as a result of wanting to make reservations earlier than usual, probably in order to reduce potential risks of Brexit.
b. A general increase in the demand of "All inclusive" and medium category (3-4 stars) products.
c. Greater demand during the mid and low season, while the high season maintains a more moderate growth rate.

On the other hand, regarding the evolution observed during the first quarter of the year, the Company continues recording a strong growth in the Canary Islands, with figures well above 2016.

Expansion

Throughout 2016, the Mediterranean division has opened the following hotels: Sol Costa Atlantis, Meliá Llana Beach Resort & Spa, and Meliá Sensimar Cabo Verde Resort & Spa.

Regarding the positioning of Meliá Hotels in Cape Verde, it should be noted that, during the fourth quarter of 2016, the Meliá Las Dunas hotel was divided into 843 rooms, creating the new Sol Dunas, with the objective of offering a better segmentation of the product in a country where the Company currently has 4 hotels in operation and 2 more in the pipeline which are expected to open in 2018 under the management system.

Regarding the disaffiliations, throughout 2016 the Company has made great efforts to reorganise the portfolio of rooms in Croatia, which has ended with the disaffiliation of the following hotels: Sol Finida, Sol Park Umag, Sol Savudrija Apart., Sol Kanegra FKK Umag, Sol Stella Maris Umag and the Umag & Residence hotel.

In addition, in the fourth quarter of 2016, Meliá Hotels International sold the Sol Parque San Antonio complex with 246 rooms located in Puerto de la Cruz (Canary Islands, Spain), therefore at the end of the year it is no longer included in the Company's portfolio of hotels.

Finally, it is important to highlight the repositioning that the Company has been carrying out in the Sol Calas de Mallorca complex in the Balearic Islands. The redesign and relaunch consisted of the creation of 3 new products: Sol Cala Antena, Sol Mirador Calas and Sol Calas de Mallorca, which has meant a slight adjustment in the number of rooms included in the hotel complex.

SPAIN (URBAN SPAIN)

The evolution of the hotel business in the Spain division can be summarised in the following KPIs, broken down by management type:

(Millions of €)	2016	2015	Variation (%)
Total Aggregate Revenue	278.1	252.4	10%
Owned	72.6	65.7	
Leased	205.5	186.7	
Of which Room Revenue	199.5	179.7	11%
Owned	50.2	45.6	
Leased	149.3	134.2	
EBITDAR	70.2	58.4	20%
Owned	17.3	14.0	
Leased	52.8	44.4	
EBITDA	15.9	8.0	99%
Owned	17.3	14.0	
Leased	(1.5)	(6.0)	
EBIT	0.1	(7.4)	(101%)
Owned	10.2	6.3	
Leased	(10.1)	(13.7)	

The evolution of the hotel management model by type of income is summarised in the following table:

(Millions of €)	2016	2015	Variation (%)
TOTAL REVENUE FROM THE MANAGEMENT MODEL	34.6	30.8	12%
Third-party Fees	5.8	7.1	
Leased and owned Fees	17.2	14.5	
Other Revenue	11.6	9.2	

The breakdown of occupancy, ARR and RevPAR by business model is given below, indicating the variation with respect to the previous year:

	OWNED AND LEASED					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
SPAIN TOTAL	67.5%	0.5	87.8	9.3%	59.3	10.2%
SAME COMPARABLE BASES SPAIN TOTAL	67.4%	0.5	84.9	7.7%	57.2	8.6%
Leading Countries						
Spain	67.5%	0.5	87.8	9.3%	59.3	10.2%

The number of rooms available in 2016 corresponding to hotels owned and leased is 3.4 million (3.3 million in 2015).

	OWNED, LEASED AND MANAGEMENT					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
SPAIN TOTAL	65.7%	0.9	88.6	7.8%	58.2	9.4%
SAME COMPARABLE BASES SPAIN TOTAL	65.3%	1.1	84.3	8.1%	55.0	10.1%
Leading Countries						
Spain	65.7%	0.9	88.6	7.8%	58.2	9.4%

The number of rooms available in 2016 corresponding to hotels owned, leased and managed is 4.5 million (4.6 million in 2015).

The breakdown of the number of hotels and rooms by business model is as follows:

	CURRENT HOTELS PORTFOLIO			
	31/12/2016		31/12/2015	
	Hotels	Rooms	Hotels	Rooms
SPAIN TOTAL	77	14,532	82	15,069
Management	13	3,326	16	3,657
Franchise	13	1,601	15	1,876
Owned	9	2,453	9	2,458
Leased	42	7,152	42	7,078

	PIPELINE					
	2017		2018 onwards		TOTAL	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
SPAIN TOTAL	2	328	0	0	2	328
Franchise	1	60			1	60
Leased	1	268			1	268

Below are the hotel openings and disaffiliations during the year and corresponding to this area:

HOTELS	CITY/COUNTRY	AGREEMENT	No.of ROOMS
OPENINGS			
DISAFILLIATIONS			
Innside Madrid Suecia	Madrid (Spain)	Management	127
Tryp Salamanca centro	Salamanca (Spain)	Management	63
Tryp Náyade	Segovia (Spain)	Franchise	125
Tryp Ceuta	Ceuta	Management	120
Tryp Segovia Sierra	Segovia (Spain)	Franchise	150

In an in-depth analysis of the evolution of hotels according to their geographical area, the main points are:

Eastern area

Generally, the very positive results of all the hotels in eastern Spain, especially in Catalonia, Valencia and the Balearic Islands, stand out.

The results improved considerably, mainly as a result of the company's leadership in the "Bleisure" sector, where its extensive experience as a resort hotel company made it possible to maximise the income in the urban destinations with a strong leisure component. In particular, the eastern region closed the year with an improvement over last year of 16 million euros in revenue, showing the following breakdown: The east improved by 7 million euros, Palma de Mallorca by 5 million euros and Catalonia by 4 million euros, being particularly good the performance observed during the summer season.

In this area, the greater contribution of the Food and Beverage (F & B) item stood out. In a context of revenue maximisation, the Company implemented a sales policy based on the mandatory inclusion of half-board in specific hotels located in Palma de Mallorca and Alicante, which generated additional revenue from F & B.

Specifically, during the evolution of the fourth quarter, the holding of some important events in Palma de Mallorca and Barcelona throughout October might have contributed to the improvement of the results in the area.

Central area/Madrid

During the fourth quarter, October had very good results. However, in November and December there were no significant events in the city. Also, the traditional long weekends due to the different bank holidays, were not as good as in previous years. However, Madrid's total figures for 2016 showed significant improvements compared to last year, thanks to the positive trend in the Individuals sector and, to a lesser extent, to the MICE activity (Meetings, Incentives, Congresses and Events).

Southern Spain

The southern area of Spain shows much better annual results than those last year for almost all the hotels included in this area except for Meliá Lebreros (Seville), which was renovated in the summer of 2016, and the Meliá Sol y Nieve (Granada), affected by the weak snow season of 2015-2016. In the latter case, it should be noted that the poor results of January, February and March 2016 were partially compensated by a very good snow season that began in December 2016.

By destinations, the following results stood out:

- Granada: this destination has benefited from numerous conferences, along with the recent renovation of the Meliá Granada hotel, which includes 80 rooms and its restaurant "Garbo".
- Seville: excluding the impact of the closure of the Meliá Lebreros hotel for 2 months due to its renovation, the destination closed 2016 with excellent results.
- Malaga: this city stood out in 2016 as one of the main trendy destinations during the summer of 2016.

Northern Spain

The performances of the hotels in Galicia, Bilbao and Zaragoza stood out. In the latter case, the city was affected by the holding of biannual fairs, especially during the first half of the year.

Outlook 2017

Considering the large presence of Meliá Hotels International in the city of Madrid, it should be noted that between January and March 2017, the monthly results reported were higher than last year, especially during January, although the high season of the sector of "Conferences and Events" begins at the end of February.

In the east, during the first quarter of 2017, all hotels are expected to report higher revenue than the previous year. It is worth noting the good performance expected from the hotels located in Palma de Mallorca, especially from the Innside Palma and of the Gran Meliá Palacio de los Duques hotel in Madrid, which underwent a rebranding process in 2016 that will lead to a significant improvement in its profitability throughout 2017.

From the second quarter of 2017, the Company will have the contribution of the Palma de Mallorca Conference Centre, as well as the adjacent hotel, the Meliá Palma Bay hotel.

In the specific case of Barcelona, the MICE sector is expected to be the main driver of good results, taking into account the holding of the Mobile World Congress (February-March).
In the southern region, the first quarter of 2017 indicates significant increases in the indexes.

Although some destinations will be affected by different Easter dates, which took place in March 2016 and in April 2017, the ski resorts' good results stand out, which are expected to contribute to the results a lot more than those in 2016.

Regarding the prospects for hotels in the north of Spain, looking at the first quarter of the year, all cities are showing better results than the previous ones, except maybe Galicia, which will be affected due to the absence of the Basketball World Cup, and Zaragoza, affected due to the absence of the biennial fairs that took place in the first quarter of 2016. Therefore, the Company is working to compensate this natural drop in demand.

Expansion

In an effort to continue optimising the portfolio of hotels in the Spain division, in order to achieve a significant improvement in the profitability of this division, throughout 2016, the Company has disaffiliated the following hotels: Innside Madrid Suecia, Tryp Salamanca centro, Tryp Náyade, Tryp Ceuta and Tryp Segovia.

Regarding the Spain division's pipeline, formed at the end of 2016 by 2 hotels and 328 rooms:

- In October 2016, Meliá Hotels International was chosen to manage the new Palma de Mallorca Conference Centre (Balearic Islands, Spain) as well as its adjacent hotel, recently named Meliá Palma Bay, demonstrating Meliá's leadership and reputation in the international hotel sector.
- In addition, in December 2016, the Company signed the new TRYP Santa Ponsa hotel on the Calviá coast of Mallorca, an area where Meliá Hotels International is the leading hotel chain. The new resort, which will be operated under the TRYP by Wyndham brand under a franchise agreement, will open in 2017 after its complete renovation.

CUBA

The revenue generated by the Company in the Cuba division continued to increase throughout 2016, reaching the amount of 26 million euros, 38% more than the previous year.

The RevPAR (Revenue per available room) growth reached 10.3% thanks to excellent improvement in the rates (+17.1%), particularly in the four urban hotels that the Company manages in Santiago de Cuba and, particularly, in Havana.

The fact that during the last quarter of the year there were 14 daily direct flights between the United States and Havana has been a sign of continuity in the normalisation of the relationship between the United States and Cuba. Also, the direct flight connections were extended to Varadero, Santiago de Cuba, Holguín, Santa Clara and Camagüey.

As a result of this increased connectivity and the strengthening of the bilateral relationship, the number of US arrivals to Cuba in 2016 exceeded 284,000 visitors (+176% growth compared to 2015), while the country reached the expected target of 4 million arrivals, all nationalities included.

All the hotels in the Cuba division are included in the hotel management model, showing the following figures:

(Millions of €)	2016	2015	Variation (%)
TOTAL REVENUE FROM THE MANAGEMENT MODEL	26.2	19.1	38%
Third-party Fees	25.5	19.5	
Other Revenue	0.8	(0.5)	

Below is the breakdown of occupancy, ARR (Average Room Rate) and RevPAR (Revenue per available room) by business model, indicating the variation compared to the previous year:

	OWNED, LEASED AND MANAGEMENT					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
CUBA TOTAL	66.3%	(4.1)	98.1	17.1%	65.0	10.3%
SAME COMPARABLE BASES CUBA TOTAL	66.2%	(4.2)	98.4	17.3%	65.1	10.3%

The number of rooms available in 2016 corresponding to hotels owned, leased and managed is 4.3 million (4.1 million in 2015).

The breakdown of the number of hotels and rooms by business model, at the end of 2016 and 2015 is as follows:

	CURRENT HOTELS PORTFOLIO			
	31/12/2016		31/12/2015	
	Hotels	Rooms	Hotels	Rooms
CUBA HOTELS	28	12,245	29	12,552
Management	28	12,245	29	12,552

	PIPELINE							
	2017		2018		2019 onwards		TOTAL	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
CUBA HOTELS	0	0	3	2,024	0	0	3	2,024
Management			3	2,024			3	2,024

Below are the hotel openings and disaffiliations during the year and corresponding to this area:

HOTELS	CITY/COUNTRY	AGREEMENT	No. of ROOMS
OPENINGS			
DISAFFILIATIONS			
Sol Pelicano	Cuba	Management	307

Outlook 2017

Unless there are drastic changes in the US government policy towards Cuba, the prospects for 2017 appear favourable for the continued expansion of tourism in Cuba.

January's preliminary data shows a 10.1% increase in total revenue for the hotels managed by Meliá in Cuba. Both Havana and Varadero, the main tourist centres in the country, show a constant dynamism in their occupancy and average prices, which is a very good start for the high season in the country.

A preliminary estimate based on these trends makes us think that the Group's total revenue could have a medium-high additional growth rate of one digit in 2017.

Expansion

Last October, the Company disaffiliated the Sol Pelícano hotel in Cayo Largo.

The hotel pipeline in the country includes 3 hotels and the opening is planned of more than 2,000 rooms in 2018, based on the fact that the expansion in Cuba is considered a strategic aspect, now and in the future.

ASIA

The Company is very proud of the results obtained in the Asia Pacific region, achieving:

- Good figures in terms of RevPAR.
- Melia's managing company had an impressive 25% income level increase.

The above figures are considered especially good considering that the 2016 figures have been greatly influenced by the process of opening new hotels, as well as the remodelling of a large number of rooms, which are therefore non-operational.

At this point, the Company believes that another significant milestone is the fact that in 2016 a deadlock was reached in terms of corporate cost in Asia, considering that during the year the structural costs in the region have been practically covered by the generation of management fees.

The Company points out that the presence of a corporate structure in Asia is considered to be extremely necessary to meet the expectations of the Company in terms of:

a. Results obtained by hotels already in operation.
b. In order to comply with the commitment made in terms of expansion.
c. To ensure a good relationship between the Company and the main stakeholders.
d. To position ourselves in one of the most important markets worldwide, both as a issuer and market receiver of tourism.

In this sense, in view of the new projects being developed in 2017, the Company expects that the new openings may help to improve the return on investment as well as the overall profitability of Meliá Hotels International in Asia.

All hotels in the Asia division are included in the hotel management model, showing the following figures:

(Millions of €)	2016	2015	Variation (%)
TOTAL REVENUE FROM THE MANAGEMENT MODEL	6.8	5.4	25%
Third-party Fees	3.8	3.2	
Other Revenue	2.9	2.3	

The breakdown of occupancy, ARR and RevPAR by business model is given below, indicating the variation with respect to the previous year:

	OWNED, LEASED AND MANAGEMENT					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
ASIA TOTAL	61.8%	0.6	76.6	(0.2%)	47.4	0.8%
SAME COMPARABLE BASES ASIA TOTAL	65.9%	2.1	81.7	(2.5%)	53.9	0.7%
Leading Countries						
Indonesia	60.9%	(3.6)	75.5	(2.5%)	46.0	(7.9%)
China	64.1%	3.7	79.0	(4.0%)	50.7	1.8%

The number of rooms available in 2016 corresponding to hotels owned, leased and managed is 1 million (0.9 million in 2015).

The breakdown of the number of hotels and rooms by business model at the close of 2016 and 2015 is as follows:

	CURRENT HOTELS PORTFOLIO			
	31/12/2016		31/12/2015	
	Hotels	Rooms	Hotels	Rooms
ASIA TOTAL	14	3,758	10	2,836
Management	14	3,758	10	2,836

	PIPELINE									
	2017		2018		2019		2020 onwards		TOTAL	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
ASIA TOTAL	6	1,317	6	1,265	4	955	5	1,495	21	5,032
Management	6	1,317	6	1,265	4	955	5	1,495	21	5,032

Below are the hotel openings and disaffiliations during the year and corresponding to this area:

HOTELS	CITY/COUNTRY	AGREEMENT	No. of ROOMS
OPENINGS			
Sol Kuta Bali	Bali (Indonesia)	Management	132
Meliá Makassar	Indonesia	Management	139
Meliá Yangon	Myanmar (Burma)	Management	429
Sol Beach House Phu Quoc	Vietnam	Management	284
DISAFILLIATIONS			

In an analysis by geographical area, we highlight the following aspects of the evolution of the results in 2016:

Indonesia

Indonesia is the most important Asian destination for the Company, due to the number of rooms currently in operation. In general terms, the evolution of the hotel business was affected by the renovation process of several hotels. However, a positive aspect in the country is the excellent performance of the Melia Bali and Sol Beach House Benoa hotel, as well as the positive evolution of the Meliá Makassar hotel, already positioned as one of the best hotels in the area, showing a positive GOP (Gross Operating Profit) only 4 months after its opening.

China

The Company currently manages two hotels in the country, the Gran Meliá Xian and Meliá Jinan, which have had very positive results during the period. The Company points out the importance of China not only as a receiving market, but also as an issuing market. In this sense, according to the travel trends consultant ForwardKeys, Chinese tourists will travel to Europe again in 2017 and have chosen Spain as one of the most popular European destinations to have their holidays on the occasion of the Chinese New Year, which began on 28 January.

Vietnam

In 2016 Meliá hotels in Vietnam showed the highest growth rates of the entire Meliá portfolio in Asia. The progress made at the Meliá Hanoi hotel has been particularly important, while the ramp-up process of Meliá Danang has also been a success, allowing the Company even to negotiate an expansion of the hotel capacity with the property owners.

Outlook 2017 and Expansion

Throughout 2016, the Asia division had the following openings: Sol Kuta Bali, Meliá Makassar, Meliá Yangon and Sol Beach House Phu Quoc.

This last hotel, Sol Beach House Phu Quoc, has joined Meliá's portfolio in the fourth quarter of the year and is the Company's third hotel in Vietnam, a stable country with a significant economic growth where the Company maintains excellent prospects both for hotels currently in operation and for those in the pipeline.

On the other hand, Asia division's pipeline at the end of the year is at 21 hotels, including the contract signed in the last quarter of the year, Meliá Bangkok (Thailand) with 315 rooms under management system that will be incorporated in 2020.

The Meliá Bangkok hotel would be the Group's first hotel in Bangkok and the second in Thailand, and its incorporation could be achieved thanks to an agreement with Asset World (TCCAW), member of TCC Group, one of the largest business conglomerates in Thailand , which will help the Company to give a significant boost to growth and expansion in Asia.

Among the hotels in the pipeline, it is worth pointing out those expected to be opened in 2017:

- Meliá Shanghai Hongqiao (China)
- Innside Zengzhou (China)
- Meliá Pekanbaru (Indonesia)
- Innside Yogyakarta (Indonesia)
- Meliá Bandung (Indonesia)
- Sol House Bali Legian (Indonesia), recently opened in February 2017.

It is also worth mentioning that in February 2017, the Company also announced the incorporation of the hotel Meliá Cam RanhBay Villas & Resort (not included in the reported pipeline), a new ocean front property in Vietnam. This is a new agreement in partnership with Saigon - Cam Ranh Joint Stock Company - that will allow the Company to improve its position in the country by adding five properties after the successful opening of Meliá Hanoi and Meliá Danang, the recently opened Sol Beach House Phu Quoc and the recent contract signed with Meliá Ho Tram.

BRAZIL

2016 was a particularly difficult year for the hotel industry in Brazil due to the country's political and economic situation. The significant fall in demand caused a price war in the industry, which meant a drop of the average price for the Company of around 10% compared to the previous year.

It is important to mention that the Group's hotel portfolio in Brazil is mainly urban, so any reduction in the planned expenses for business trips has a significant impact on the Group's hotels. It is also important to add that the Company's main accounts include state-owned companies, which have suffered a significant reduction in the number of rooms booked due to the political and economic situation.

In addition, the high levels of inflation and the associated increases in salary and energy costs have caused a reduction in the profitability of the hotels.

During the last week of December 2016, the Central Bank of Brazil announced that during 2016 and especially during the last quarter the country's economy evolved at a slower pace than expected, worsening its forecast for 2016 and 2017, which could mean that the economic recovery of the country will be slower and more gradual than initially expected.

The evolution of the hotel business in the Brazil division can be summarised in the following KPIs (Key Performance Indicators), broken down by management type:

(Millions of €)	2016	2015	Variation (%)
Total Aggregate Revenue	0.1	0.0	
Leased	0.1		
Of which Room Revenue	0.1	0.0	
Leased	0.1		
EBITDAR	(2.3)	0.0	
Leased	(2.3)		
EBITDA	(2.3)	0.0	
Leased	(2.3)		
EBIT	(2.3)	0.0	
Leased	(2.3)		

The breakdown of occupancy, ARR and RevPAR by business model is given below, indicating the variation with respect to the previous year:

	OWNED AND LEASED					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
BRAZIL TOTAL	3.0%		265.0		7.8	
SAME COMPARABLE BASES BRAZIL TOTAL						

The number of rooms available in 2016 corresponding to owned and leased hotels is 6,600 (0 in 2015).

	OWNED, LEASED AND MANAGEMENT					
	Occupancy		ARR		RevPAR	
	%	Variation (points)	€	Variation %	€	Variation %
BRAZIL TOTAL	53.0%	(1.9)	78.7	(9.9%)	41.7	(13.0%)
SAME COMPARABLE BASES BRAZIL TOTAL	53.4%	(3.8)	79.6	(9.1%)	42.5	(15.2%)

The number of rooms available in 2016 corresponding to hotels owned, leased and managed is 1.1 million (1.2 million in 2015).

The breakdown of the number of hotels and rooms by business model at the close of 2016 and 2015 is as follows:

	CURRENT HOTELS PORTFOLIO			
	31/12/2016		31/12/2015	
	Hotels	Rooms	Hotels	Rooms
BRAZIL TOTAL	15	3,621	14	3,216
Management	13	3,016	14	3,216
Franchise	1	192		
Leased	1	413		

	PIPELINE							
	2017		2018		2019 onwards		TOTAL	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
BRAZIL TOTAL	0	0	1	234	1	280	2	514
Management			1	234	1	280	2	514

Below are the hotel openings and disaffiliations during the year and corresponding to this area:

HOTELS	CITY/COUNTRY	AGREEMENT	No. of ROOMS
OPENINGS			
Tryp by Wyndham Pernambuco	Brazil	Franchise	192
Gran Meliá Nacional Rio	Brazil	Leased	413
DISAFILLIATIONS			
Angra Marina & Convention Resort	Brazil	Management	200

Outlook 2017

For 2017, despite the change in the expected growth of the country's GDP, which will reach a growth rate between 0.5% and 1%, the Central Bank estimates a more favourable evolution of inflation (around 5%). Also, the following key aspects should be considered for the stabilisation of its economy: the normalisation of the monetary conditions in the United States, as well as the uncertainties of some advanced economies.

The Company's budget for 2017 shows a small recovery, mainly due to the expected price improvements, as well as to the contribution of the new hotel in Rio de Janeiro, the Gran Meliá Nacional Rio, which opened (partially) last December, with its complete opening being expected in the short term.

Expansion

In December 2016, the Company opened the hotel Gran Meliá Nacional of Rio. This hotel with 413 rooms is under a variable renting system.

The pipeline in Brazil includes 2 Innside by Meliá hotels and around 500 rooms under management contracts that will open in 2018 and 2019.

2.2 REAL ESTATE

In November 2016, Meliá Hotels International sold the Sol Parque San Antonio resort complex with 246 rooms located in Puerto de la Cruz (Canary Islands, Spain), the only sales transaction of hotel assets carried out in 2016.

The transaction reached a sale price of 8 million euros and generated net capital gains of approximately 4 million euros. Meliá Hotels International is not managing the hotel since the time of the sale.

On the other hand, the laundry was sold for 3.4 million euros during the financial year. The net capital gain obtained with this transaction was 2 million euros.

Compared to 2015, the Company was very active in terms of asset turnover and the following transactions were carried out:

- The sale of 6 resorts to a Joint Venture made up of Starwood Capital Group (80%) and Meliá Hotels International (20%). This transaction generated 178.2 million euros (and net cash of approximately 150 million euros) and EBITDA (Earnings before interest, tax, depreciation and amortisation) net gains of 40.1 million euros.
- The sale of the Calas de Mallorca complex (Mallorca, Spain) with 875 rooms. The transaction achieved a sale price of 23.6 million euros and 3.3 million euros of net capital gains.
- The sale of the Sol Falcó hotel with 450 rooms (Menorca, Spain). The transaction amounted to 20 million euros and generated net capital gains of 3.9 million euros.

Thus, regarding income level, the Real Estate division generated 18 million euros in 2016, compared to 70 million euros recorded in 2015.

For 2017, the Company intends to carry out sales of additional assets after identifying a certain number of assets considered non-strategic still in the Company's hotels portfolio, taking advantage of the pace of real estate cycles and reinforcing the Joint Ventures model as a dynamic and essential part of the Company's strategy for the transformation of assets that require a significant investment for its repositioning.

2.3 CLUB MELIÁ

The year 2016 can be defined as a transition year for the Club Meliá business, which had a 12% drop in revenues.

The Club Meliá's efforts in 2016 have been focused on the implementation of a number of initiatives framed within the company's future strategy.

Among these we highlight:

- Reorganisation and integration of operational and management structures: The most effective use of our human resources will lead us to improve aspects of service and attention the Club Meliá's members and at the same time maximise income generation.
- Optimisation and standardisation of sales processes and acquisition of potential customers where the digitalisation of the commercial process is the central focus.
- Maximisation and ordering of assets for the activity of the club: the strategy related to the inventory and product available for sale has been changed, aligning it with the overall strategy of rotation and maximisation of Meliá's assets, which is why the Club focuses the commercial efforts where greater and better profitability opportunities are found, so that some commercial activities in Spain and Puerto Rico have been discontinued and the commercial activity in Mexico and the Dominican Republic has been reordered.
- Comprehensive management of the inventory: The flexibility with which the Group can manage the inventory availability, as well as the speed in the digital distribution processes, are key elements in improving the occupancy rates of the available inventory, as well as in the increase of the RevPAR.

Also, during 2016, great efforts have been made for the conceptualisation and creation of a new commercial product offer. The new commercial product, called "Circle", will replace the current Club Melia product. The transfer of customers from one product to another has already begun. Circle is a new offer for the Club's customers focused on the area of customer's experience and exclusivity, while providing more flexibility and variety of use and being fully aligned with Meliá Rewards' loyalty programme. Its launch took place in December 2016 (in the Dominican Republic in a first stage) reporting good results and waiting for its complete positioning throughout 2017.

2.4 CORPORATE STRUCTURE

This section includes the Group's general expenses.

The evolution compared to 2015 is related to the following:

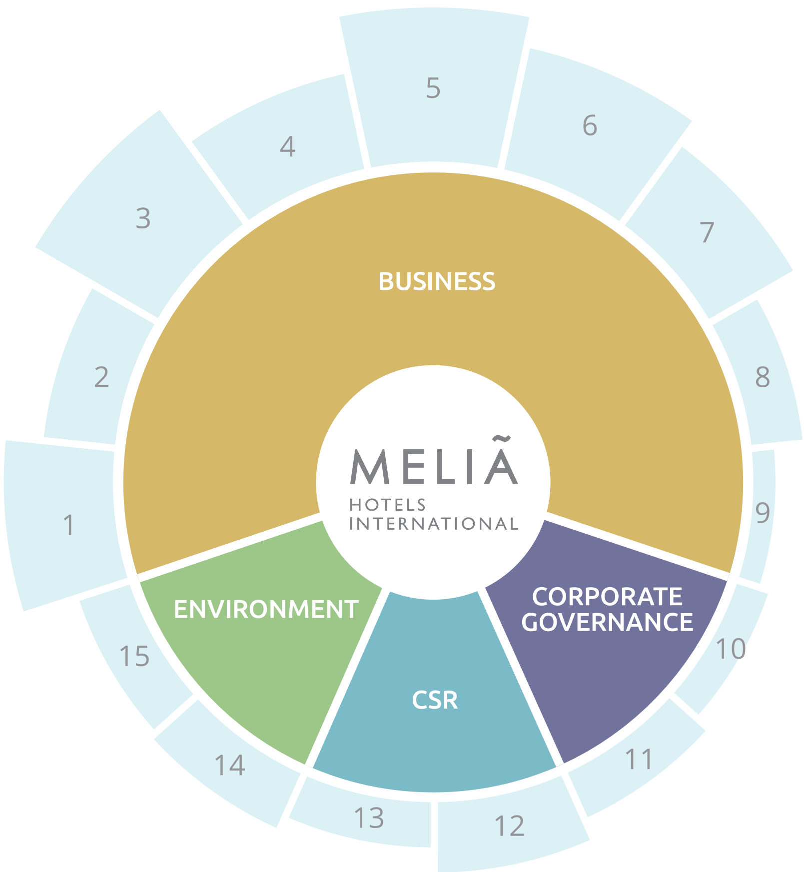
- Additional costs, of around 8 million euros, related to strategic projects, mainly related to information systems.
- The evolution of the provisions linked to onerous contracts had an impact -2016 compared to 2015- of around 4.6 million euros, considering that in 2015 the Company registered provisions of 1.7 million euros, while in 2016 the total amount of provisions reduced by 2.9 million euros.

It should be noted that an onerous contract is one in which the unavoidable costs for complying with the obligations that it involves, exceed the economic benefits expected to be obtained with it. In this case, the current obligations that arise from the contract are assessed and recognised in the financial statements as provisions. The estimate of future results derived from lease agreements is checked annually, based on the expected flows of the related cash generating units, applying an appropriate discount rate.

3. REPUTATION AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Company aspires to be a worldwide leader of excellence, responsibility and sustainability and to carry out a long-term sustainable development model that ensures the creation of value to its stakeholders and contributes to the improvement of the company.

The materiality analysis helps the Company to find out what the expectations, requirements and relevant issues are identified by the stakeholders and the annual contribution of the Group in the different themes identified.



BUSINESS

1 Business performance & results
2 Sales & marketing channels
3 Employer brand & talent
4 Relationship with stakeholders
5 Innovation
6 Brand & product strategy
7 Financial solvency
8 Presence & growth
9 Quality of the commercial offering

CORPORATE GOVERNANCE

10 Transparency
11 Corporate governance

CSR

12 Contribution to society
13 Action against climate change

ENVIRONMENT

14 Technology & digitalization
15 Tourism industry & economic context

Material issues integrated in the strategic boost and in the relationship model with our stakeholders:

1. BUSINESS PERFORMANCE & RESULTS

€1,805.5 million Revenues (+4%)
€279.5 million EBITDA without capital gains (+14%)
27 Consecutive quarters of RevPAR growth (CAGR 10%)

2. SALES & MARKETING CHANNELS

50.7% Centralised sales ratio (+21%)
39.9% Revenues from loyal customers (+31%)
16.4% Mobile sales growth

3. EMPLOYER BRAND & TALENT

44,405 Employees (+5%)
71.4% Management positions filled internally
30% Employees < 30 years
16th position Merco Talent (+4 Pos.)
Top Employer China

4. RELATIONSHIP WITH STAKEHOLDERS

17th position Merco Talent (+1 Pos.)
TOP 100 Merco LATAM
6.9 million Members **Meliá**Rewards (+44%)
6,304 Global suppliers (+45%)
19,699 Impact stakeholder newsletter

5. INNOVATION

€5.1 million Investment (+15%)
Best social media strategy *The E-Show Madrid*
Best business idea *Katmandu Park & Resort*

6. BRAND & PRODUCT STRATEGY

€163 million Investment (+52%)
World's Best Resort Brand *World Travel Awards*
ME London Best Wow Effect by a luxury hotel *World Travel Awards*

7. FINANCIAL SOLVENCY

Debt reduction (-29%)
Evolution of shares (-9%)
€100.7 million Net profit (+149%)
TOP 3 Best European investor relations team

8. PRESENCE & GROWTH

Presence in **43** countries
375 Hotels
96,369 Rooms
16 Openings
21 Signings

9. QUALITY OF THE COMMERCIAL OFFERING

42.6% Net Promoter Score - NPS (+1 pp)
395 Hotel awards and recognitions
Launch of new melia.com
23 language versions available on melia.com

10. TRANSPARENCY

IBEX 35
28 Roadshows
Member of FTSE4GOOD IBEX since 2008
Llotja Prize for best information and transparency *Chamber of Commerce of Barcelona*

11. CORPORATE GOVERNANCE

25th position Merco Responsibility and Corporate Governance (-4 Pos.)
40% Independent Directors
234 Internal audits carried out (+14%)
7.1% Women promoted

12. CONTRIBUTION TO SOCIETY

+€700,000 Earmarked for children
€365.3 million Volume billed by local suppliers (+62%)
Best CSR project *Worldwide Hospitality Awards Improving life in Kairo*

13. ACTION AGAINST CLIMATE CHANGE

Carbon Disclosure Project CDP Top Iberia-A-
Carbon footprint: tonnes of CO_2 per stay (-3%)
54% Portfolio of certified hotels (+8 pp)
Electricity consumption per stay (-12% kWh)
Water consumption per stay (-8% m^3)
Consumption of $kgCO_2$ per stay (-12%)
Fuel consumption per stay (-7% kWh)

14. TECHNOLOGY & DIGITALIZATION

€24.2 million Investment in technology (+37%)
Best company in digital transformation *Digital European Mindset Awards*
Digital Talent Award *Accenture Strategy & El Economista*

15. TOURISM INDUSTRY & ECONOMIC CONTEXT

Presence in main sector forums
28.7 million Stays (-4%)
83% Non-Spanish customers (-1%)

4. MATTERS RELATING TO PERSONNEL

Meliá Group's Social Benefits Plan is included in the Group's Human Resources Policy, complementing the Compensation and Benefits Policy, reinforcing the Company's commitment to its employees.

This plan has two types, the Global Benefits and the Specific Benefits of each country:

a. Global Benefits

Through the "Estrellas" programme, all employees have access to a discount programme for staying in the hotels that are part of the Company's portfolio. They also have an additional discount on food and drink in the hotels' points of sale.

The globalisation of personal insurance has started. All countries where any of their policies expire throughout 2017, will be gradually included in the "Master Policies". Thanks to this, the Company will achieve a coordination and harmonisation of the personal insurance globally, offering to all our employees competitive coverage which strengthen the commitment and retain our talent, also strengthening the international mobility of our people.

The insurance included in this project are Life and Accident, Health and Travel insurance.

b. Specific Benefits

There are also discounts on products and services of the Company's suppliers in each country, both globally and locally, including home and car insurance, medical insurance, gym, home equipment, car rental, travel or financial products, etc.

5. LIQUIDITY AND CAPITAL RESOURCES

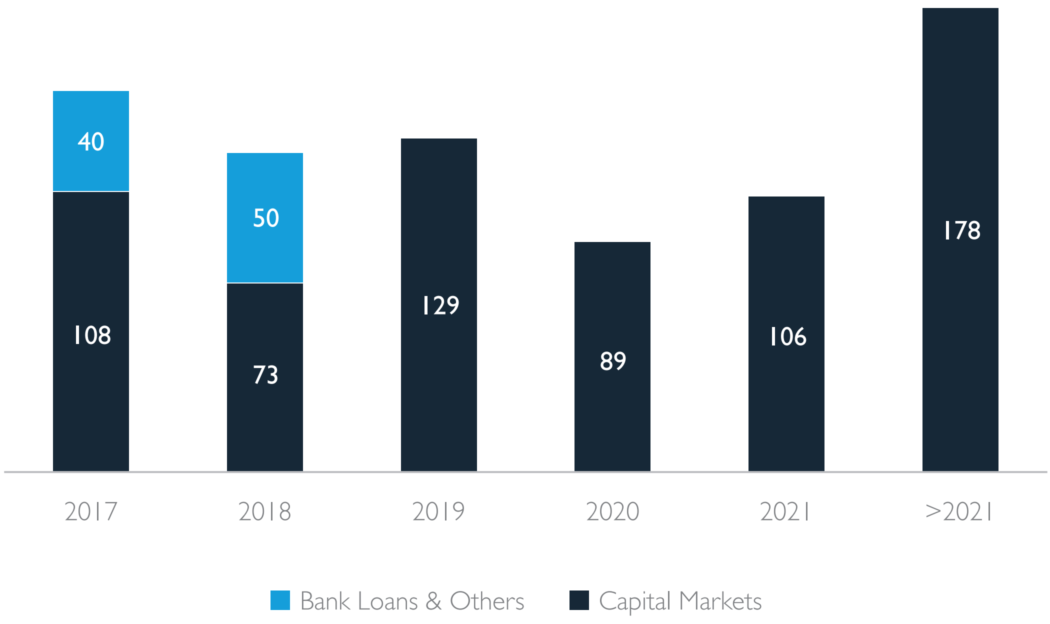
Financially, after several years of intense work restructuring the Company's balance sheet, the net debt reached 542 million euros, which implies a net debt reduction of 226 million euros compared to the end of 2015.

The main grounds for achieving such financial unblocking have been larger cash generation, given the improvements in the hotel business, as well as the early amortisation of a 250 million euros convertible bond.

We think that the financial stagnation at the end of 2016 is related to an atypical and temporary situation for the Company, having reached a Net Debt-to-EBITDA ratio of 1.9 times. However, it should be noted that the Company's target indebtedness level ranges from 2 to 2.5 times Net Debt-to-Ebitda, a level that we consider achievable considering the current situation, the business forecasts, as well as the investment plan planned for the next financial year.

Regarding the debt cost, one of the main milestones has been the reduction of the average interest rate, thanks to debt renegotiations, as well as to the payment of certain debt tranches with a higher interest rate. In this way, the average interest rate has reached 3.46%, compared to 4.36% in 2015.

Looking ahead, the Company has the following maturity schedule. The arranged credit facilities are not included in these figures (million euros):



6. MAIN RISKS AND UNCERTAINTIES

6.1 RISK MANAGEMENT MODEL

The current geopolitical circumstances, the characteristics of such a dynamic and changing industry like tourism and the Company's growing international presence, operating in 43 countries, together with a significant growth, mean the Group is exposed to different kinds of risk factors.

The Integral Risk Management Model, which is used across the Group, allows Meliá Hotels International to identify and assess the main risk factors that the Company is facing. Preventive risk management allows the company to guarantee, among other things, that the evaluation criteria is homogeneous, as well as the implementation of control measures and action plans needed to anticipate, control, reduce or avoid risky circumstances.

Risk management is a differentiating factor in the Company, and a key element in improving the continuous and sustainable generation of value, which provides confidence for the stakeholders, in a way that is consistent with its own corporate values.

Risk management has its own governing model and a specific area with responsibilities in this matter. The model is based on the Integrated Framework Corporate Risk Management COSO II (Committee of Sponsoring Organizations of the Treadway Commission), and its main pillars are as follows:

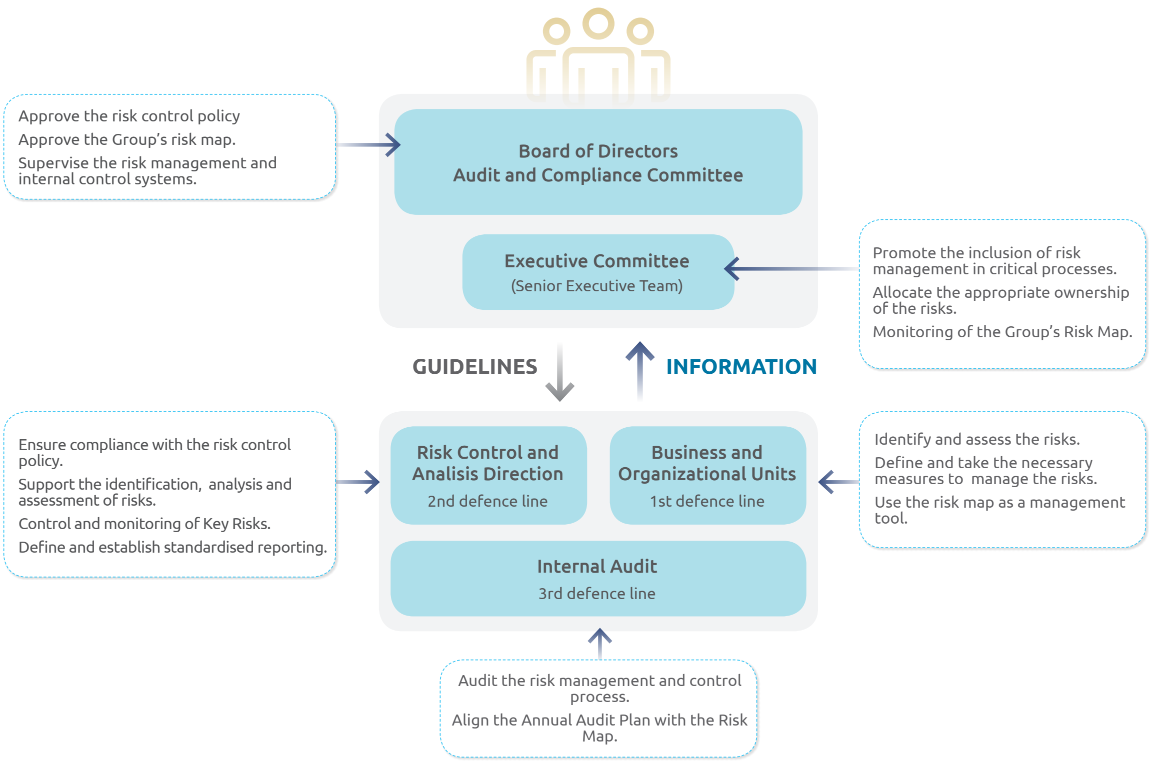
POLICY AND RISKS REGULATIONS

The purpose of the Regulations is to establish the basic principles governing risk management and the regulations, guidelines and criteria to be followed by the model in a way that is aligned with the strategy, culture and values.

GOVERNING BODIES WITH RISK MANAGEMENT RESPONSIBILITIES

- Board of Directors and Audit and Compliance Committee
- Executive committee
- Strategic Planning Committee
- Investment Committee
- Expansion Committee

The following is the organisational chart, as well as the main assigned roles and responsibilities:



SEGREGATION AND INDEPENDENCE OF FUNCTIONS

Following the model of the three lines of defence, the different organisational units are the owners of the risks and therefore those responsible for the identification, evaluation and risk management (1st line).

There is a Risk Control and Analysis area (2nd line), which is responsible for the proper functioning and constant development of the risk management model and for monitoring the main risks periodically.

Finally, the Internal Audit area ensures the correct functioning of the model and aligns the audit plan with the Risk Map (3rd line).

DIGITALISATION

The Company's evolution in integrating digital tools into key processes has led to the implementation of SAP GRC as facilitator of the process of completing and managing the different risk maps:

- Strategic
- Legal
- Reputational
- Fiscal

This tool has enriched the analysis process and considerably increased its scope and the management teams involved. This year, for the first time, all the members of regional Executive Committees participated. Also, the tool has allowed the complete management of the documentation, the evaluation and supervision of the entire risk management model.

INFORMATION TRANSPARENCY

After exploring the ideas and analysing the risks identified and categorised in different types according to their nature, the probability and impact variables are evaluated taking into account different quantitative and qualitative perspectives, including reputational ones. The results are presented to the Board of Directors and to the Audit and Compliance Committee regularly.

The average value of the identified risks has increased 5.45% compared to the previous year. By risk categories, global and compliance risks are the ones that increase their average value the most. These categories include geopolitical risks (terrorism, Brexit, political instability, etc.) and legal or regulatory risks (legislative changes, regulatory complexity, etc.).

6.2 RISKS TYPES

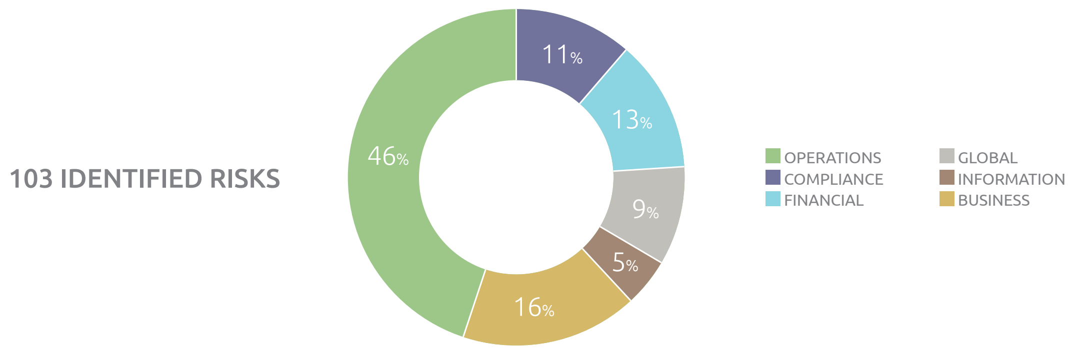
The Risk Management model applies to the entire Organisation. During 2016, a total of 97 Executives were involved in the process of preparing Risk Maps.

A total of 103 risk events were identified among the following risk categories:

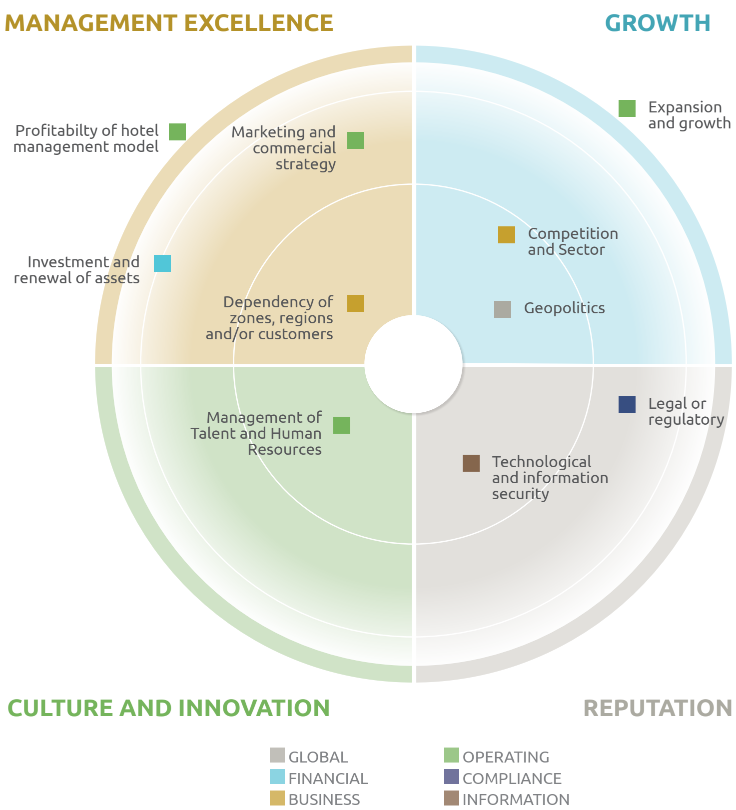
- Global: caused by events beyond the company's control (natural disasters, geopolitical risks, etc.)
- Financial: events that affect financial variables (liquidity, credit, debt, rates, etc.)
- Business: consequence of the variables of the business itself (customers, competition, suppliers, etc.)
- Operational: events caused by failures in the operational management (internal processes, controls, human resources, equipment and systems, etc.)
- Compliance: risks arising from changes or non-compliance (both of internal and external regulations)
- Information: risks related to the use of information (generation, analysis, communication, etc.)
- Reputation: risks that due to their nature could affect the Company's corporate reputation in different ways.

Note 4 of the consolidated annual accounts provides additional information about the management of the financial risks to which the Group's activity is exposed: market risk (exchange rate and interest rate risk), credit and liquidity risk.

In addition, section E of the Annual Corporate Governance Report provides further details about the risk management carried out by the Group.



Risk management model:



6.3 MAIN RISKS

RISK	DESCRIPTION:	TREND	MATERIALITY	MANAGEMENT
MANAGEMENT OF TALENT AND HUMAN RESOURCES	Opening up of the labour market, which could lead to: • Loss or turnover of key personnel • Difficulty in appealing to or attracting talent • Lack of sufficient qualified staff • Some dependence on key personnel in some positions	▶	People management Attraction and retention of talent Employer brand	Continuity of internal development programmes Increase of talent pools in key positions Leadership development programme Training plans Social networking strategy Promoting the relationship with the academic world Positioning in rankings
EXPANSION AND GROWTH	Expansion plan that requires: • Resource needs and ability to keep up the pace • Appropriate choice of zones, countries and partners	▼	Current presence and future expansion	Existence of an Expansion Committee to define, monitor and approve projects Preparation of risk analysis sheets for each project
COST-EFFECTIVENESS OF HOTEL MANAGEMENT MODEL	As a hotel management company, the following are fundamental aspects: • Competitiveness of the management model • Capacity to adapt the model to each country	▼	Sales channels Price improvement Margin improvement New products, markets, segments Brand and product strategy Innovation	Promotion of distribution channels (melia.com, call centre) Optimisation of the loyalty model Revenue Management Digitalization of revenue management processes Enhancement and redefinition of the MICE model Lifting and positioning of the brands Innovation and incorporation of new attributes, services, etc. Strategy and new concepts in F&B
SALES AND MARKETING STRATEGY	In an increasingly competitive and complex environment, more importance is attached to aspects such as: • Pricing/revenue management and policy • Loyalty programmes • Customer knowledge and communication channels	▲	Sales channels Price improvement Product quality Customer satisfaction Relationship with the customer Loyalty programme	
COMPETITION AND SECTOR	Emergence of new competitors, sectoral restructuring, maturing or stagnation of the sector: • Growth of collaborative consumption • More numerous, aggressive and revamped competition with strong customer relationships • Possible loss of leadership in certain areas • Possible mergers, acquisitions	▲	Context of tourism and economic sector Innovation Brand and product strategy Customer experience	
DEPENDENCY ON AREAS, REGIONS AND/OR CUSTOMERS	Balanced distribution of the Meliá portfolio: • Concentration of hotels in certain areas • Dependence on certain markets or segments	▲	Expansion and growth Brand and product strategy New segments and markets	Strategic plan for selective and qualitative expansion focusing on the following areas of action: Main focus on resort and urban-leisure destinations. Growth in major world cities Prioritisation of asset-light formulas and strengthening of alliances with strategic partners Growth of the portfolio as a lever for generating brand recognition and revenue
INVESTMENT AND RENEWAL OF ASSETS	Preparation of an Annual Investment Plan: • Investment process (allocation, execution, control and follow-up) • Cost-effectiveness and feasibility of investments • Wear and tear of facilities and equipment	▼	Financial capability Brand and product strategy Increase in price Product quality Customer satisfaction	Existence of an Investment Committee responsible for the identifying, monitoring and controlling the investment plan Definition of an Annual Investment Plan: Inclusion of risk prevention or minimisation in the Annual Investment Plan
TECHNOLOGICAL AND INFORMATION SECURITY	Referring to: • Protection and security of information • Cybercrime, cloud computing • Management of users, access and profiles • Technological obsolescence • Information management	▲	New technologies Digitalization Processes	Strategic Technology Plan Cyber attack prevention plan Cybersecurity training and awareness Computer equipment renewal plan Information security policy and standard Preparation of an annual internal audit plan Control processes on data and information protection
LEGAL OR REGULATORY	International presence in more than 43 countries means being exposed to risks such as: • Legislative or regulatory changes • Excessive complexity and regulatory dispersion • Contractual risks	▲	Context of tourism and economic sector Human rights and working conditions Transparency of information	Existence of a Code of Ethics and a Complaints Channel Director Behaviour Policy signed annually Identification, communication and monitoring of regulatory changes Relations with prestigious external consultants, as required Development and implementation of a crime prevention and detection model
GEOPOLITICS	Aspects related to geopolitical instability in certain areas: • Terrorist attacks • Political instability • Wars, civil unrest or military revolts, etc. • Crisis or insecurity in countries where present	▲	Context of tourism, economic, political and social sector	Establishment and implementation of emergency plans for crises Crisis management protocol, depending on the nature of the situation

7. R&D&I ACTIVITIES

The Meliá Group continues its technological innovation project "Be More Digital" in 2016, extending it to the next three year period. The main action areas of the project are:

SALE CHANNELS

The digital environment has transformed the way companies interact with their customers. Meliá Hotels International has been leading the online development in the sector for many years, making it easier to strengthen its presence in multiple channels and devices of direct sales, both in the interaction with the final customer (B2C), through melia.com and call centre, and in the interaction with companies (B2B), through MeliaPRO.

Special attention has been given to the mobile platforms, which has evolved and developed new applications with unique functionalities, from restaurant and activities booking to information about menus or check-in.

The excellent results of the different ratios strengthen the execution of this strategy, which also favours greater diversification of customers and markets and complete knowledge of all products, brands and services offered by the Company.

MELIA.COM

The website melia.com has become the Company's most important sales channel. Meliá Hotels International launched the new fully responsive website in FITUR 2016 with characteristics of great added value for the end customer, such as predictive and personalised content in real time and aligned with the Meliá Rewards loyalty programme in order to obtain the best website price.

As a result of the innovation and digitalisation driven by the Company, the options of the website multiply, incorporating the Meliá Hotels International app, with which the customer can have all the information and advantages at their fingertips: online check-in, request services from their mobile phone or exclusive options related to smartphone connectivity. All of this positions melia.com at the forefront of the online websites and consolidates the enormous expectations of growth that the channel presents.

MELIAPRO

The B2B buying process has evolved in recent years, adapting itself to the new commercial environment through MeliaPRO, a B2B digital platform. For the activation of the B2B digital plan, the following tasks are carried out:

- Web dedicated to the business sector and adapted to its needs.
- Relationship model creating a life cycle of the business client to automatically present the best offers and new options, updating them continually.
- Campaigns and strategy of social selling aimed at business clients through profiles in the main social channels
- CRM & analytics, using knowledge and personalisation to offer a better service
- Marketing automation, taking advantage of the Company's new digital marketing abilities
- Mobile & sales apps, adapting content in responsive format and a strategy that covers all the channels to offer the best service to our collaborators

CUSTOMER INTELLIGENCE

Meliá Hotels International continues to build on its customer knowledge, taking advantage of the new digital technologies available and developing talent with better analytical abilities.

The technology and platforms associated with the Company's big data are allowing the integration of new important sources of information related to one of the Company's main stakeholders, in order to increase segmentation ability and create more efficient and effective propensity models, as well as activating actions.

The new advanced analytical abilities allow the brand promise to be adapted to an increasingly informed and demanding consumer, by studying behaviours to anticipate their needs and expectations.

The Group's new big data environments make it easier to use large volumes of information in real time, improving communications and developing a coherent and responsible strategy.

SMART INTERACTION ENGINE

To complement the new big data platforms, the Company has developed the smart interaction engine, a intelligent system for personalised recommendations for customers of melia.com and the call centre. This allows the client to receive increasingly relevant content, improving customer loyalty.

Increasing customer satisfaction, surprising with new experiences and offering a value proposition aligned with each client's profile is the main goal of any company focused on the customer and on the service it would set. This combined strategy that integrates technology and knowledge has allowed Meliá Hotels International to be recognised year after year with numerous awards for excellence and innovation.

PROGRAMMATIC MARKETING

In addition, the Company has strengthened its programmatic marketing plan with an in-house trading desk and a team to purchase advertising spaces to reduce costs and optimise the campaign management speed, positioning Meliá as a leading company in online marketing. A milestone of the financial year has been the carrying out of online campaigns, aligning brand and sales with the transformation of isolated and mainly offline campaigns into 100% aligned campaigns with a very high online percentage.

8. OTHER INFORMATION

8.1 STOCK MARKET INFORMATION

Meliá's stock value fell by 9.0% in 2016. In comparison, the Ibex Medium Cap decreased by 6.6% and the Ibex 35 did so by 2.0%.

The following graph shows the evolution of the share value, as well as the volume of its operations registered during the 2016 financial year:

	1Q.2016	2Q.2016	3Q.2016	4Q.2016	2016
Average daily volume (thousands of shares)	1,382.1	1,013.7	607.8	468.0	862.4
Meliá Evolution	(15%)	(7%)	15%	0%	(9%)
Ibex Medium Cap Evolution	(9%)	(8%)	8%	3%	(7%)
Ibex 35 Evolution	(9%)	(6%)	8%	7%	(2%)

	2016	2015
Number of Shares	229,700,000	199,053,048
Average daily volume (Euros)	862.44	980.10
Meliá maximum share	11.82	13.71
Meliá minimum share	8.42	8.73
Latest market quote	11.08	12.18
Market capitalisation (million euros)	2,545.08	2,424.47
Dividend per share (euros)	0.04	0.03

The following is a breakdown of the main milestones of Meliá Hotels International in the stock market during the period:

- In May 2016, 30.6 million newly issued ordinary shares were admitted to official listing in the Spanish Stock Exchanges, in order to support the conversion of the convertible bond.
- On 19 July 2016, the payment of annual dividends was made.
- On 8 August, the Company was included again in the Ibex35 Index (thus abandoning the Ibex Medium Cap Index). Meliá Hotels International believes that the economic and financial strength of the Group, as well as good business prospects, both for Meliá and the hotel sector, were key aspects for its reincorporation to the index.

8.2 DIVIDEND POLICY

In 2016 the Pay Out of the group reached a level of 25.5% of the Consolidated Result attributed to the Parent Company, which represents an improvement compared to the 20% paid in previous years.

8.3 ENVIRONMENTAL RISKS

The consolidated annual accounts do not include any item that should be considered in the specific environmental information document established in the Order of the Ministry of Justice dated 8 October 2001.

8.4 AVERAGE PAYMENT PERIOD FOR SUPPLIERS

As indicated in Note 21 of the consolidated annual accounts, the average payment period for suppliers of Melia Hotels International, S.A. and its Spanish subsidiaries during the 2016 financial year was 75.1 days.

For the following years, the Company is in the process of reviewing the administrative processes, from the receipt of the invoices to the issuance of payments, in order to reduce the average payment period.

9. EVENTS AFTER THE END OF THE YEAR

There have been no subsequent events between the end of the reporting period and the preparation of these consolidated annual accounts that involve adjustments to show conditions that already existed at the closing date, or facts indicating events that have appeared after the end of the year date which may affect the ability of the users of the Financial Statements to make the relevant assessments and reach economic decisions.

10. ANNUAL CORPORATE GOVERNANCE REPORT

The model of the Annual Report on Corporate Governance for the year 2016 is presented below as an annex.

ANNEX I

ANNUAL CORPORATE GOVERNANCE REPORT OF THE PUBLICLY TRADED COMPANIES

2016

A. OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last change	(€)Share capital	Number of shares	Number of voting rights
25/04/2016	45,940,000.00	229,700,000	229,700,000

State whether there are different classes of shares with different rights associated with them:

Yes		No	X

A.2 List the direct and indirect owners of significant holdings in your company at year-end, excluding directors:

Name or corporate name of shareholder	Number of voting rights directly	Number of voting rights indirectly	% of total voting rights
HOTELES MALLORQUINES AGRUPADOS S.L.	25,690,989	0	11.8%
HOTELES MALLORQUINES ASOCIADOS, S.L.	30,333,066	0	13.21%
MAJORCAN HOTELS LUXEMBOURG, S.A.R.L.	11,542,525	0	5.03%
NORGES BANK	6,937,423	0	3.02%

State the most significant movements in the shareholding structure during the year:

Name or corporate name of shareholder	Transaction date	Description of the transaction
NORGES BANK	07/09/2016	3% of share capital exceeded
NORGES BANK	30/09/2016	Below 3% of share capital
NORGES BANK	03/10/2016	3% of share capital exceeded
NORGES BANK	07/10/2016	Below 3% of share capital
NORGES BANK	11/10/2016	3% of share capital exceeded
NORGES BANK	03/11/2016	Below 3% of share capital
NORGES BANK	04/11/2016	3% of share capital exceeded
NORGES BANK	09/11/2016	Below 3% of share capital
NORGES BANK	22/11/2016	3% of share capital exceeded
NORGES BANK	25/11/2016	Below 3% of share capital
NORGES BANK	16/12/2016	3% of share capital exceeded
NORGES BANK	23/12/2016	Below 3% of share capital
NORGES BANK	27/12/2016	3% of share capital exceeded
NORGES BANK	28/12/2016	Below 3% of share capital
NORGES BANK	30/12/2016	3% of share capital exceeded

A.3 Complete the following tables with the members of the company's Board of Directors with voting rights on company shares:

Name of Director (person or company)	Number of voting rights directly	Number of voting rights indirectly	% of total voting rights
MR FERNANDO D´ORNELLAS SILVA	0	0	0.00%
MR JUAN ARENA DE LA MORA	1,000	0	0.00%
MRALFREDO PASTOR BODMER	0	6,000	0.00%
MR GABRIEL ESCARRER JULIA	0	119,437,747	52,.00%
MR JUAN VIVES CERDA	0	375	0.00%
MR SEBASTIAN ESCARRER JAUME	0	0	0.00%
MR GABRIEL ESCARRER JAUME	0	0	0.00%
MR FRANCISCO JAVIER CAMPO GARCIA	0	0	0.00%
MR LUIS Mª DIAZ DE BUSTAMANTE TERMINEL	300	0	0.00%
HOTELES MALLORQUINES CONSOLIDADOS, S.A.	51,871,167	0	22.58%
MRS CARINA SZPILKA LÁZARO	0	0	0.00%

Name or corporate name of the indirect shareholder	Through: Name or corporate name of the direct shareholder	Number of voting rights
MR ALFREDO PASTOR BODMER	MRS MARÍA DEL CARMEN OLIVES PUIG	6,000
MR GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES CONSOLIDADOS, S.A.	51,871,167
MR GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES AGRUPADOS S.L.	25,690,989
MR GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES ASOCIADOS, S.L.	30,333,066
MR GABRIEL ESCARRER JULIA	MAJORCAN HOTELS LUXEMBOURG, S.A.R.L.	11,542,525
MR JUAN VIVES CERDA	FINCA LOS NARANJOS, S.A	375

% of total voting rights held by the Board of Directors	52.00%

Complete the following tables with the members of the company's Board of Directors with voting rights on company shares.

A.4 If applicable, State any family, commercial, contractual or corporate relationships between holders of significant shareholdings, insofar as the company is aware of them, unless they are of little relevance or due to ordinary trading or exchange activities:

Related name (person or company)	
MR GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES CONSOLIDADOS, S.A.
Type of relationship:	Family
Brief description:	Indirect interests, which are shown in A.3 above, are based on the holdings directly or indirectly controlled by Mr Gabriel Escarrer Juliá, his wife and children.

Related name (person or company)	
MR GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES ASOCIADOS, S.L.
Type of relationship:	Family
Brief description:	Indirect interests, which are shown in A.3 above, are based on the holdings directly or indirectly controlled by Mr Gabriel Escarrer Juliá, his wife and children.

Related name (person or company)	
MR GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES AGRUPADOS S.L.
Type of relationship:	Family
Brief description:	Indirect interests, which are shown in A.3 above, are based on the holdings directly or indirectly controlled by Mr Gabriel Escarrer Juliá, his wife and children.

Related name (person or company)	
MR GABRIEL ESCARRER JULIA	MAJORCAN HOTELS LUXEMBOURG, S.A.R.L.
Type of relationship:	Family
Brief description:	Indirect interests, which are shown in A.3 above, are based on the holdings directly or indirectly controlled by Mr Gabriel Escarrer Juliá, his wife and children.

A.5 If applicable, indicate any commercial, contractual or corporate relationships between holders of significant shareholdings, and the company and/or its group, unless they are of little relevance or due to ordinary trading or exchange activities:

A.6 State whether the company has been informed of any shareholder agreements that may affect it as set out under Articles 530 and 531 of the Corporate Enterprises Act. If applicable, briefly describe them and list the shareholders bound by such agreement:

Yes		No	X

State whether the company is aware of the existence of concerted actions amongst its shareholders. If so, detail them briefly:

Yes		No	X

If, during the year, there has been any amendment or breaking-off of said pacts or agreements or concerted actions, State this expressly:

A.7 State whether any person or organization exercises or may exercise control over the company pursuant to Article 4 of the Securities Exchange Act. If so, identify names:

Yes	X	No	

Related name (person or company)	
MR GABRIEL ESCARRER JULIA	
Comments	However, as previously mentioned, all of the shares controlled by the companies Hoteles Mallorquines Consolidados, S.A., Hoteles Mallorquines Asociados, S.L., Hoteles Mallorquines Agrupados, S.L. and Majorcan Hotels Luxembourg, S.A.R.L. are attributed exclusively to Gabriel Escarrer Juliá, those shares are directly or indirectly owned by Gabriel Escarrer Julia, his wife and children.

A.8 Complete the following tables regarding the company's treasury stock:

At year end:

Number of direct shares	Number of indirect shares (*)	Total % share capital
1,661,768	0	0.72%

(*) Through:

Give any details of any significant changes during the year, pursuant to Royal Decree 1362/2007:

Explain the significant changes
Communication date: 22/04/2016. Number of direct shares acquired: 2,586,194. Percentage total share capital: 1.299% Communication date: 20/05/2016. Number of direct shares acquired: 6,675,218. Percentage total share capital: 2.906%
Capital increase of 25/04/2016: As a consequence of this, the percentage that represents Melia Hotel's treasury stock becomes 1.533%.
On 22/04/16, the company Hoteles Mallorquines Agrupados, S.L., contributed an amount of 1,800,000 securities to Meliá's treasury stock.
On 25/05/16, the cancellation of the loan of securities between the entities Hoteles Mallorquines Asociados S.L. and Hoteles Mallorquines Agrupados S.L. with Meliá Hotels International, S.A of 1,800,000 securities and 3,350,000 securities was reported.

A.9 Detail the conditions and the term of the current mandate from the general meeting to the Board of Directors to issue, buy back and transfer company shares.

The General Shareholders Meeting held on 4 June 2015 passed, among others, the following resolution:
Authorize the Board of Directors, which in turn may delegate and empower as it deems appropriate to the Directors it deems appropriate, to acquire and dispose of shares in the Company, by sale, exchange, adjudication, payment, or any other manner permitted by law, to the extent permitted by law, for a price which shall be not less than 90% or more than 110% of the closing price of the previous day's session, with a term of five years from the date of adoption of this resolution. All this within the limits and requirements of the Corporate Enterprises Act and the Company Internal Code of Conduct on matters relating to Securities Markets.

A.9.bis Estimated floating capital:

	%
Estimated floating capital	44.26

A.10 State whether there is any restriction at all on the transferability of securities and/or any restriction on voting rights. In particular, report of the existence of any restrictions that might hinder the take-over of control of the company by purchasing its shares on the market.

Yes		No	X

A.11 State whether the General Shareholders' Meeting has resolved to adopt anti-takeover measures in accordance with the provisions of Law 6/2007.

Yes		No	X

If so, detail the measures approved and the terms and conditions under which the restrictions would become inefficient:

A.12 State whether the company has issued securities that are not traded on a regulated market in the EU.

Yes		No	X

If applicable, detail the different classes of shares, and what rights and obligations each share class confers.

B. GENERAL MEETING

B.1 Point out, and if applicable give details, if there are any differences at all from the minimum standards to the quorum and constitution of the General established under the Corporate Enterprises Act (CEA) with respect to the General Meeting.

Yes	X	No	

	% quorum different from quorum in Art. 193 of CEA for general circumstances	% quorum different from quorum in Art. 194 of CEA for special circumstances in Art. 194 CEA
Quorum required on first call	0.00%	0.00%
Quorum required on 2nd call	0.00%	0.00%

Description of the differences
Article 24.4 of the Bylaws states that, in order that the General Shareholders Meeting may validly approve the replacement of the corporate objective, a request for delisting of Company shares, or the transformation or winding up of the Company, the first call of the General Shareholders Meeting must be attended by FIFTY PERCENT (50%) of the share capital with voting rights. On a second call, the attendance of TWENTY-FIVE PERCENT (25%) of share capital with voting rights will suffice. The merger, or demerger, either total or partial, segregation and global assignment of assets and liabilities of the Company will also require this mentioned reinforced quorum, except when such operations involve companies that, either directly or indirectly, are majority-owned by the Company, in which case the reinforced quorum requirements stated in the then current legislation for each case shall apply

B.2 Point out, and if applicable give details, if there are any differences from the minimum standards established under the Corporate Enterprises Act (CEA) for the adoption of corporate resolutions:

Yes	X	No	

Describe how this differs from the arrangements in the CEA.

	Different reinforced majority from that laid down in Article 201.2 CEA for Art. 194.1 circumstances.	Other reinforced majority circumstances
% Established by the entity for passing resolutions	0.00%	60.00%

Describe the differences
According to Article 28.2 of the Bylaws, in order that the General Shareholders Meeting may validly approve the replacement of the corporate objective, a request for delisting of Company shares, or the transformation or winding-up of the Company, a favorable vote of SIXTY PERCENT (60%) of the share capital with voting rights present or represented at the General Shareholders Meeting will be required both at the first and second call. Nevertheless, when a second call is attended by Shareholders that represent less than FIFTY PERCENT (50%) of the share capital with voting rights, the resolutions mentioned in this section may only be passed with the favorable vote of TWO THIRDS (2/3) of the share capital present or represented at the General Shareholders Meeting. The merger, or demerger, either total or partial, segregation and global assignment of the assets or liabilities of the Company will also require the favorable vote of this reinforced majority, except when such a merger or demerger involves companies that, either directly or indirectly, are majority owned by the company, in which case the majority vote requirements stated in 28.1 (simple majority vote of the shareholders present or represented at the meeting, except in those cases where the Law or these Bylaws require a higher majority) will be applicable. Article 28.3 states that resolutions to change Articles 3 (Company domicile), 7 (Accounting Register of Shares and Register of Shareholders), 8 (Legitimation of Shareholders), 24.3 (Quorum), 24.4 (Special quorum), 28 (Majorities for the approval of resolutions), 33 (Appointments to the Board of Directors) and 38 (Delegation of powers) of these Company Bylaws will require a favorable vote of at least SIXTY PERCENT (60%) of the share capital with voting rights present or represented at the General Shareholders Meeting both at the first and second call.

B.3 State the rules applicable to the amendments of the company bylaws. Specifically, report the majorities established to amend the bylaws, and the rules, whether there are any, to safeguard shareholders' rights when amending the bylaws.

Article 30.1.h) of the Bylaws establishes that the General Shareholders Meeting has the authority to approve the modification of the Bylaws.

Pursuant to Article 24 of the Bylaws, the Ordinary or Extraordinary General Shareholders Meeting shall be constituted at first or second call whenever the shareholders in attendance or represented meet the legal and statutory minimum quorums regarding percentage of share capital for the different matters on the Agenda according to current legislation.

Notwithstanding the terms of the previous point, in order that the General Shareholders Meeting may validly approve the replacement of the corporate objective, a request for delisting of Company shares, or the transformation or winding up of the Company, the first calling of the General Shareholders Meeting must be by FIFTY PERCENT (50%) of the share capital with voting rights. On second call, the attendance of twenty-five percent (25%) of share capital with voting rights will suffice.

According to Article 28 of the Bylaws, the resolutions of the General Shareholders Meeting will be passed by a simple majority of the votes of shareholders present or represented at the Meeting will be required except in the circumstances where the Law or Bylaws provide for an increased majority. Thus, for the General Shareholders Meeting to validly approve the replacement of the corporate objective, a request for delisting of Company shares, or the transformation or winding-up of the Company, a favorable vote of sixty percent (60%) of the share capital with voting rights present or represented at the General Shareholders Meeting will be required both at the first and second call. Nevertheless, when a second calling is attended by Shareholders that represent less than fifty percent (50%) of the share capital with voting rights, the resolutions mentioned in this section may only be passed with the favorable vote of two thirds (2/3) present or represented at the General Shareholders Meeting.

Nevertheless, resolutions to change Articles 3 (Company domicile), 7 (Accounting Register of Shares and Register of Shareholders), 8 (Legitimation of Shareholders), 24.3 (Quorum), 24.4 (Special quorum), 28 (Majorities for the approval of resolutions), 33 (Appointments to the Board of Directors) and 38 (Delegation of powers) of these Company Bylaws will require a favorable vote of at least sixty percent (60%) of the share capital with voting rights present or represented at the General Shareholders Meeting both at the first and second call.

B.4 Detail the data on attendance at the general meetings held during the year to which this report refers and the previous year also:

	Attendance figures				
General meeting date	% Shareholders present	% Attending by proxy	% Voting remotely		Total
			Electronic vote	Other	
04/06/2015	70.16%	9.45%	0.00%	0.00%	79.61%
23/06/2016	52.37%	14.21%	0.00%	0.00%	66.58%

B.5 State the number of shares, whether there are any, that are required to be able to attend the General Meeting and whether there are any restrictions on such attendance in the bylaws:

Yes	X	No	

Number of shares necessary to attend the General Meetings	**300**

B.6 Section repealed

B.7 State the address and means of access through the company website to the information regarding corporate governance and other information on the general meetings that must be made available to shareholders on the company's website.

The address of the corporate website is: www.meliahotelsinternational.com. Clicking on Shareholders and Investors takes the user to the corporate governance documentation, including the General Meeting:

http://www.meliahotelsinternational.com/es/accionistas-e-inversores/gobierno-corporativo/junta-general-accionistas

C. CORPORATE GOVERNANCE STRUCTURE

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors established in the bylaws:

Maximum number of directors	15
Minimum number of directors	5

C.1.2 Complete the following table on the Board members:

Name of director (person or company)	Representative	Type of directorship	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
MR FERNANDO D´ORNELLAS SILVA		Independent	INDEPENDENT COORDINATING DIRECTOR	13/06/2012	13/06/2012	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
MR JUAN ARENA DE LA MORA		Independent	DIRECTOR	31/03/2009	04/06/2014	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
MR ALFREDO PASTOR BODMER		Other External	DIRECTOR	31/05/1996	04/06/2015	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
MR GABRIEL ESCARRER JULIA		Proprietary	PRESIDENT	07/02/1996	04/06/2015	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
MR JUAN VIVES CERDA		Proprietary	DIRECTOR	07/02/1996	04/06/2015	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
MR SEBASTIAN ESCARRER JAUME		Proprietary	DIRECTOR	07/02/1996	13/06/2012	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
MR GABRIEL ESCARRER JAUME		Executive	VICE PRESIDENT-MANAGING DIRECTOR	07/04/1999	13/06/2012	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
MR FRANCISCO JAVIER CAMPO GARCIA		Independent	DIRECTOR	13/06/2012	13/06/2012	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
MR LUIS Mª DIAZ DE BUSTAMANTE TERMINEL		Independent	SECRETARY DIRECTOR	30/11/2010	13/06/2012	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
HOTELES MALLORQUINES CONSOLIDADOS, S.A.	MRS MARIA ANTONIA ESCARRER JAUME	Proprietary	DIRECTOR	23/10/2000	13/06/2012	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
MRS CARINA SZPILKA LÁZARO		Independent	DIRECTOR	25/02/2016	23/06/2016	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
Total number of directors						11

State the severances that have occurred on the Board of Directors during the reporting period:

C.1.3 Complete the following tables on the Board members and their different kinds of directorship:

EXECUTIVE DIRECTORS	
Name of Director (person or company)	Position in the Company organisation
MR GABRIEL ESCARRER JAUME	VICE PRESIDENT AND MANAGING DIRECTOR

Total number of executive directors	1
% of total directors	9.09%

EXTERNAL PROPRIETARY DIRECTORS	
Name of Director (person or company)	Name (person or company) of the significant shareholder they represent or which proposed their appointment
MR JUAN VIVES CERDA	HOTELES MALLORQUINES ASOCIADOS, S.L.
MR SEBASTIAN ESCARRER JAUME	HOTELES MALLORQUINES AGRUPADOS S.L.
HOTELES MALLORQUINES CONSOLIDADOS, S.A.	HOTELES MALLORQUINES CONSOLIDADOS, S.A.
MR GABRIEL ESCARRER JULIA	SIGNIFICANT SHAREHOLDERS

Total number of proprietary directors	4
% of total directors	36.36%

EXTERNAL INDEPENDENT DIRECTORS	
Name or corporate name of the Director	
MR FERNANDO D´ORNELLAS SILVA	Profile: ACADEMIC TRAINING Degree in Law and Economics from ICADE-E3. MBA from IESE, Barcelona (International Section). PROFESSIONAL ACTIVITIES 1. BERGE GROUP: Bergé Group (2007-2012)Managing Director; Bergé Automoción (2004-2012) President; SKBergé Latinoamérica (2001-2012) Vice President; Mitsubishi Motors Chile (2001-2012) Vice President; Mitsubishi Motors Peru (2010-2012) President; KIA Argentina, Peru and Portugal (2004-2012) President; Chrysler Colombia (2010-2012) President; Chry Portugal (1997-2012) President; Chrysler España (1992-2004)Managing Director; Toyota España (1985-1992) Financial Director 2. Johnson & Johnson España (1983-1985). Assistant Financial Director OTHER POSITIONS - ENDESA, SA: Member of the Board of Directors (2007-2009); President of the Retributions Committee (2007-2009); President of the Audit Committee (2009). - Endesa Chile: Member of the Board of Directors (2007-2009); President of the Audit Committee (2007-2009). Member in charge of supervising the activities of subsidiaries in Peru, Colombia, Argentina and Brazil. - DINAMIA: Member of the Board of Directors (2013-2015). - Vice President of the National Association of Cars, Trucks, Buses and Motorcycles Importers (2004-2012). - Founding member of the Spain-Chile and Spain-Peru Foundations (2011-2012). - Member of the Foundation Council Spain-China and Spain-Japan. - Advisor of Mitsubishi Corporation in the acquisition of the participation of AccionaTermosolar, S.A. (2010-2011). - Vice President of the Real Club of Puerta de Hierro (2006-2010). CURRENT POSITIONS MELIA HOTELS INTERNATIONAL: Member of the Board of Directors (from June 2012). WILLIS IBERIA: Member of the Advisory Board (since March 2103). MITSUBISHI CORPORATION: Senior Advisor for Spain and LATAM (since March 2013). Water, Energy and Infrastructures. LAZARD ASESESORES FINANCIEROS, S.A.: Senior Advisor, Spain and Latam (since June 2013) Water, Energy and Infrastructures. GPIAC (GP Investments Acquisition Corp.) Member of the Board of Directors since June 2015. Member of the International Advisory Board of the Hispanic Society of America; Member of the Advisory Board of the Real Club of Puerta de Hierro (since 2010).
MR JUAN ARENA DE LA MORA	Profile: Born in Mexico City in 1943, Mr Arena holds a PHD in Electrical and Mechanical Engineering from the ICAI in Madrid and a degree in Business Administration from the ICADE. Además, es diplomado en Estudios tributarios por el Instituto de Estudios Fiscales y graduado en Psicología infantil por el Instituto Americano. Moreover, he holds a diploma in Tax Studies from the Institute of Fiscal Studies and a degree in Child Psychology from the American Institute. Mr. Juan Arena has followed his professional career in the Bankinter Group, which he joined in 1970, when he was 26 years old, where held the Presidency from 2002 until 2007. He currently sits on various Boards of Directors, including in particular: Ferrovial, Almirall, Melia Hotels International, Everis, UBS Bank and Pandaforming part of several Committees and he is a member of the Advisory Board of Spencer Stuart and Marsh and he is chair of the Advisory Board of Consulnor. In the academic area, he is Chairman of the Professional Council of ESADE and a member of the Advisory Board of the Harvard Business School and of the Board of Directors of Deusto Business School. He was Senior Lecturer of the Harvard Business School during the year 2009-10 and during the current year. He was awarded the Grand Cross of the Order of Civil Merit for his work on the Special Committee for Investigation into the Development of the Information Society (Soto Committee).

EXTERNAL INDEPENDENT DIRECTORS	
Name or corporate name of the Director	
MR FRANCISCO JAVIER CAMPO GARCIA	**Profile:** Degree in Industrial Engineering from the Madrid Polytechnic University, he began his career in 1980 with Arthur Andersen. Later on, in 1985, he joined Día and was the international chairman of the Día International Group for 24 years and he was also a member of the International Executive Committee of the Carrefour Group for 15 years. He was the Chairman of the Zena Group until November 2014, a leading company in the multi-brand restaurant Spanish company. It comprises six commercial brands that encompass all segments of the restaurant business: Foster's Hollywood, La Vaca Argentina, Cañas y Tapas, Il Tempietto, Domino's Pizza and Burger King. With 500 restaurants and more than 7,000 employees. Currently, he is the President of the Cortefiel Group (Owner of Cortefiel, Pedro del Hierro, Springfield, Women's Secret), President of AECOC (the Spanish Consumers' Association), which represents more than 20% of Spain's GDP, with more than 26,000 associated companies and more than 2 million employees. He is also a Director of Bankia and President of the bank's Risk Consultation Committee; Director of Melia Hotels International, Member of the Advisory Board of the Alimentación Palacios Group and a member of the Advisory Board of AT Kearney. He is a also a Sponsor of the ITER Foundation, of the F. Campo Foundation for helping children and Sponsor of the Real Forum de Alta Dirección and of the Carlos III Foundation.
MR LUIS Mª DIAZ DE BUSTAMANTE TERMINEL	**Profile:** Born in Torrelavega (Cantabria, Spain) on 25 August 1952. His professional career has been focused primarily on the practice of civil and mercantile law, civil and international procedural law and business consulting. Law Degree from the Complutense University in Madrid. Practicing attorney since 1975 and Partner in the IsidroD. Bustamante firm (1942). His professional career has been focused primarily on the areas and practice of civil and mercantile law, civil and international procedural law and business consulting.
MRS CARINA SZPILKA LÁZARO	**Profile:** TRAINING: Mrs Carina Szpilka Lázaro holds a Degree in Economic and Business Sciences from ICADE E-2 and MBA Executive from Madrid Business Institute. CURRENT POSITIONS: Independent Director of ABANCA; Independent Director of Grifols; Member of the Advisory Board of Reparalia (Homeserve Group) and Oracle España and Vice President of Unicef España. PROFESSIONAL EXPERIENCE: 1998 –November 2013 INGDIRECT; 1996-Argentaria (now BBVA); 1991- Santander Investment. OTHER ACTIVITIES AND AWARDS: ADigital: Member of the Board of Directors; ESADE: Member of the Proessional Council; Create Foundation: Sponsor; Impact Member Advisory Board; Endeavor: Mentor.

Total number of independent directors	**5**
% of total directors	**45.45%**

State whether any director considered an independent director is receiving from the company or from its group any amount or benefit under any item that is not the remuneration for his/her directorship, or maintains or has maintained over the last year a business relationship with the company or any company in its group, whether in his/her own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained such a relationship.

If applicable, give a reasoned statement from the Board with the reasons why it considers that this director can perform his/ her duties as an independent director.

OTHER EXTERNAL DIRECTORS

Name all other external Directors and explain why these cannot be considered proprietary or independent Directors and explain their relationships with the company, its executives or its shareholders:

Name or corporate name of the Director	Company, executive or shareholder to which related
MR ALFREDO PASTOR BODMER	MELIA HOTELS INTERNATIONAL S.A.

Reasons:

Mr.Alfredo Pastor Bodmer has been a director of the company for a continuous period of more than twelve years and, according to Article 529 duodecies, paragraph 4 i) of THE Corporate Enterprises Act (CEA) this period of time is considered as one of the reasons why a Director cannot be regarded as Independent.

Total number of other external directors	**1**
% of total directors	**9.09%**

State any changes that may have occurred during the period in the type of directorship of each director:

Name or corporate name of Director	Date of change	Previous category	Current category
MR GABRIEL ESCARRER JULIA	13/12/2016	Executive	Proprietary

C.1.4 Complete the following table with information regarding the number of female directors over the last 4 years, and the category of their directorships:

	Number of female directors				% of total directors for each category			
	Year 2016	Year 2015	Year 2014	Year 2013	Year 2016	Year 2015	Year 2014	Year 2013
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	1	1	1	1	25.00%	33.33%	33.33%	33.33%
Independent	1	0	1	1	20.00%	0.00%	16.67%	16.67%
Other External	0	0	0	0	0.00%	0.00%	0.00%	0.00%
TOTAL	2	1	2	2	18.18%	10.00%	18.18%	18.18%

C.1.5 Detail the measures, if there are any, that have been adopted to try to include a number of female directors on the Board that would mean a balanced presence of men and women.

Explanation of the measures
The Company, in the process of carrying out all its actions, recognizes equal opportunities without discrimination, a criterion that assumes as its own the Appointments and Remuneration Committee at the time of initiating the process of selecting a new Director, by ensuring that they do not suffer from implicit bias that may hinder the selection of female directors.

C.1.6 Detail the measures, if there are any, agreed by the Appointments Committee to ensure that the selection procedures do not suffer from any implicit biases that may hinder the selection of female directors, and that the company deliberately seeks and includes amongst the potential candidates women who meet the professional profile sought:

Explanation of the measures
In the process of selecting Board members, the Appointments and Remuneration Committee evaluates the skills and experience of the candidates objectively, assessing each candidate's profile individually and considering the need to foster equal opportunities among women and men, ensuring that there is no discrimination of any kind based on gender. In the Board member selection process, the candidate's profile is evaluated, including among the potential candidates women whose profile conforms to the professional profile that is being sought in order to maximize the knowledge and experience that they can contribute in the development of their own roles as Directors, focusing the selection processes in the search for specific skills, assessing candidates based on these and the knowledge, attitudes and skills required, ensuring equal treatment and opportunities and ensuring transparency in all the processes.

When, despite any measures that might have been adopted, the number of female directors is low or none, explain the reasons:

Explanation of the reasons

C.1.6 bis Explain the conclusions of the Appointments Committee regarding the verification of the compliance with the board member selection policy. And, in particular, explain how this policy is fostering the goal for 2020 to have the number of female board members represent at least 30% of the total number of members of the board of directors.

Explain the conclusions
Pursuant to the information contained in paragraph G.14, during the year 2016, the Company did not have a policy of selection of directors formalised in writing, although the Company has formalised the criteria that have been applied in the Director Selection Policy, approved on 27 February 2017. These criteria include, as reported in other sections of this report: "f. A trend towards a gradual increase in women on the Board of Directors, always on the basis of an egalitarian assessment of the skills, profiles, knowledge, experience and professional roles, trying, as far as possible, to ensure that, in 2020, the presence of women on the Board of Directors represents one third of its composition. So, the Company has demonstrated its intention to try to increase the presence of women and the performance and development of this shall be regularly assessed by the Appointments and Remuneration Committee, having regard to the specific processes of appointment, ratification and/or re-election that are carried out.

C.1.7 Explain the form of representation on the Board, of shareholders with significant holdings.

Significant shareholders are represented on the Board by proprietary directors.

C.1.8 Detail, if applicable, the reasons why proprietary directors have been appointed at the behest of shareholders whose holding is less than 3% of the capital:

State whether formal petitions have been ignored for the presence on the Board from shareholders whose holding is equal to or higher than that of others at whose behest proprietary directors were appointed. Where applicable, explain why these petitions have been ignored:

Yes		No	X

C.1.9 State whether any director has stood down before the end of his/her term of office, if the director has explained his/ her reasons to the Board and using which channels, and if reasons were given in writing to the entire Board, explain below, at least the reasons that were given:

C.1.10 Indicate any powers delegated to the managing directors(s):

Name or corporate name of the Director:	
MR GABRIEL ESCARRER JAUME	Brief description: Vested with all of the faculties of the Board that may be delegated under the law and the Bylaws.

C.1.11 Identify any members of the Board holding positions as directors or managers in other companies belonging to the listed company's group:

Name or corporate name of the Director:	Corporate name of the group company	Position	Does the Director hold executive
MR GABRIEL ESCARRER JAUME	FARANDOLE B.V.	Joint Director	No
MR GABRIEL ESCARRER JAUME	INVERSIONES INMOBILIARIAS IAR 1997 C.A.	President	Yes
MR GABRIEL ESCARRER JAUME	SOL MELIA ITALIA. S.R.L.	President	No
MR GABRIEL ESCARRER JAUME	INVERSIONES AREITO. S.A.	President	No
MR GABRIEL ESCARRER JAUME	INMOTEL INVERSIONES ITALIA S.R.L.	President	No
MR GABRIEL ESCARRER JAUME	LONDON XXI. LIMITED	Director	Yes
MR GABRIEL ESCARRER JAUME	SOL MELIA BALKANS EAD	President	No
MR GABRIEL ESCARRER JAUME	LOMONDO LIMITED	Director	Yes
MR GABRIEL ESCARRER JAUME	SOL MELIA HOTEL MANAGEMENT (SHANGHAI) COMPANY LTD.	Director	Yes
MR GABRIEL ESCARRER JAUME	SOL MELIA FRANCE S.A.S.	President	Yes
MR GABRIEL ESCARRER JAUME	MADELEINE PALACE S.A.S.	President	Yes
MR GABRIEL ESCARRER JAUME	CADSTAR FRANCE SAS	President	Yes
MR GABRIEL ESCARRER JAUME	HOTEL ALEXANDER SAS	President	Yes
MR GABRIEL ESCARRER JAUME	HOTEL COLBERT. S.A.S.	President	Yes
MR GABRIEL ESCARRER JAUME	HOTEL FRANCOIS SAS	President	Yes
MR GABRIEL ESCARRER JAUME	ILHA BELA GESTAO E TURISMO LIMITADA	Joint And Several Manager President	Yes
MR GABRIEL ESCARRER JAUME	HOTEL METROPOLITAIN S.A.S.	President	Yes
MR GABRIEL ESCARRER JAUME	INMOBILIARIA DISTRITO COMERCIAL C.A.	President	Yes
MR GABRIEL ESCARRER JAUME	SOL MANINVEST B.V.	Director	No
MR GABRIEL ESCARRER JAUME	HOTEL ROYAL ALMA S.A.S.	President	Yes
MR GABRIEL ESCARRER JAUME	SOL GROUP B.V.	Director	No
MR GABRIEL ESCARRER JAUME	MELIÁ INVERSIONES AMERICANAS N.V,	Joint Managing Director	No
MR GABRIEL ESCARRER JAUME	SOL MELIÁ INVESTMENT N.V.	Director	No

Name or corporate name of the Director:	Corporate name of the group company	Position	Does the Director hold executive
MR GABRIEL ESCARRER JAUME	IMPULSE HOTEL DEVELOPMENT B.V.	Director	No
MR GABRIEL ESCARRER JAUME	SAN JUAN INVESTMENT B.V.	Director	No
MR GABRIEL ESCARRER JAUME	DESARROLLOS HOTELEROS SAN JUAN	Director	No
MR GABRIEL ESCARRER JAUME	SOL MELIA EUROPE. B.V.	Joint Managing Director	No
MR GABRIEL ESCARRER JAUME	CARIBOTELS DE MÉXICO S.A.DE C.V. P	President	Yes
MR GABRIEL ESCARRER JAUME	BISOL VALLARTA S.A.DE C.V. P	President	Yes
MR GABRIEL ESCARRER JAUME	MARKSERV B.V.	Director	No
MR GABRIEL ESCARRER JAUME	OPERADORA MESOL S.A. DE C.V.	President	Yes
MR GABRIEL ESCARRER JAUME	MELIÁ HOTELS INTERNATIONAL UK. LTD.	Director	Yes
MR GABRIEL ESCARRER JAUME	SOL MELIÁ GREECE. S.A.	Director	Yes
MR GABRIEL ESCARRER JAUME	HOGARES BATLE S.A.	President	No
MR GABRIEL ESCARRER JAUME	TENERIFE SOL S.A.	President/Managing Director	Yes
MR GABRIEL ESCARRER JAUME	SECURISOL S.A.	President	No
MR GABRIEL ESCARRER JAUME	PRODIGIOS INTERACTIVOS, S.A.	President And Managing Director	Yes
MR GABRIEL ESCARRER JAUME	MOTELES ANDALUCES S.A.	President/Managing Director	Yes
MR GABRIEL ESCARRER JAUME	INVERSIONES Y EXPLOTACIONES TURÍSTICAS S.A.	President/Managing Director	Yes
MR GABRIEL ESCARRER JAUME	APARTOTEL S.A.	President/Managing Director	Yes
MR GABRIEL ESCARRER JAUME	REALIZACIONES TURÍSTICAS S.A.	President/Managing Director	Yes
MR GABRIEL ESCARRER JAUME	CASINO TAMARINDOS. S.A.	President	No
MR GABRIEL ESCARRER JAUME	INVERSIONES HOTELERAS LA JAQUITA. S.A.	President	No
MR GABRIEL ESCARRER JAUME	GEST.HOT.TURÍSTICA MESOL S.A. (SOC. UNIP)	Joint And Several Director	Yes
MR GABRIEL ESCARRER JAUME	SOL MELIÁ LUXEMBOURG. S.A.R.L.	Director	No
MR GABRIEL ESCARRER JAUME	HOTELES SOL MELIÁ S.L.	President	No
MR GABRIEL ESCARRER JAUME	SOL MELIA VACATION CLUB ESPAÑA S.L.	President/Managing Director	Yes
MR GABRIEL ESCARRER JAUME	AYOSA HOTELES S.L.	Joint Managing Director	No
MR GABRIEL ESCARRER JAUME	SOL MELIA VACATION NETWORK ESPAÑA S.L.	President/ Managing Director	Yes
MR GABRIEL ESCARRER JAUME	DORPAN S.L.	President	No
MR GABRIEL ESCARRER JAUME	PT SOL MELIÁ INDONESIA	Director	Yes
MR GABRIEL ESCARRER JAUME	CALA FORMENTOR S.A. DE C.V.	President	Yes
MR GABRIEL ESCARRER JAUME	CORPORACIÓN HOTELERA HISPANO MEXICANA S.A.	President	Yes
MR GABRIEL ESCARRER JAUME	SOL MELIÁ DEUTSCHLAND GmbH	Joint And Several Director	Yes
MR GABRIEL ESCARRER JAUME	IDISO HOTEL DISTRIBUTION S.A.	Director	No
MR GABRIEL ESCARRER JAUME	COLON VERONA S.A.	President	No
MR GABRIEL ESCARRER JAUME	HOTELPOINT S.L.U.	President	No
MR GABRIEL ESCARRER JAUME	INVERSIONES TURISTICAS DEL CARIBE S.A.	President	No
MR GABRIEL ESCARRER JAUME	SOL MELIA PERU S.A.C.	President	Yes

C.1.12 Point out, if applicable, any directors of the company who sit on the Boards of other companies publicly traded on regulated securities markets outside the company's own group, of which the company has been informed:

Name or corporate name of the Director:	Company name of the group company	Position
MR FERNANDO D´ORNELLAS SILVA	PROSEGUR S.A.	Director
MR JUAN ARENA DE LA MORA	ALMIRALL S.A.	Director
MR JUAN ARENA DE LA MORA	FERROVIAL S.A.	Director
MR FRANCISCO JAVIER CAMPO GARCIA	BANKIA, S.A.	Director
MRS CARINA SZPILKA LÁZARO	GRIFOLS S.A.	Director

C.1.13 State and, where applicable, explain whether the company has established rules on the maximum number of company boards on which its directors may sit:

Yes		No	X

C.1.14 Section repealed

C.1.15 Detail the overall remuneration for the Board of Directors:

Remuneration of the Board of Directors (thousands of euros):	2,212
Cumulative amount of rights of current Directors in pension scheme (thousands of euros)	0
Cumulative amount of rights of former Directors in pension scheme (thousands of euros)	0

C.1.16 Identify members of the senior management who are not in turn executive directors, and indicate the total remuneration accruing to them during the year:

Name (person or company)	Position
MR GABRIEL CÁNAVES PICORNELL	Chief Human Resources Officer
MRS PILAR DOLS COMPANY	Chief Financial Officer
MR JUAN IGNACIO PARDO GARCIA	Chief Legal & Compliance Officer
MR ANDRE PHILIPPE GERONDEAU	Chief Operating Officer
MR MARK MAURICE HODDINOTT	Chief Real State Officer

Total senior management remuneration (€k)	2,245

C.1.17 Point out, if applicable, the identity of the Board members who are in turn members of the Board of Directors in companies of significant shareholders and/or in entities of their group:

Name (person or company)	Corporate name of the significant shareholder	Position
MR GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES CONSOLIDADOS, S.A.	President
MR GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES AGRUPADOS S.L.	President
MR GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES ASOCIADOS, S.L.	President
MR SEBASTIAN ESCARRER JAUME	HOTELES MALLORQUINES CONSOLIDADOS, S.A.	Secretary/Director
MR SEBASTIAN ESCARRER JAUME	HOTELES MALLORQUINES AGRUPADOS S.L.	Director
MR SEBASTIAN ESCARRER JAUME	HOTELES MALLORQUINES ASOCIADOS, S.L.	Director
MR GABRIEL ESCARRER JAUME	HOTELES MALLORQUINES CONSOLIDADOS, S.A.	Director
MR GABRIEL ESCARRER JAUME	HOTELES MALLORQUINES AGRUPADOS S.L.	Secretary/Director
MR GABRIEL ESCARRER JAUME	HOTELES MALLORQUINES ASOCIADOS, S.L.	Secretary/Director
MR GABRIEL ESCARRER JAUME	MAJORCAN HOTELS LUXEMBOURG, S.A.R.L.	Director

Point out, if applicable, the relevant affiliations, other than those considered in the above paragraph, that link Board members to significant shareholders and/or companies in their group:

Name or corporate name of the related Director:	
MR GABRIEL ESCARRER JULIA	
Name or corporate name of the related significant shareholder:	HOTELES MALLORQUINES CONSOLIDADOS, S.A.
Description of relationship:	Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

Name or corporate name of the related Director:	
MR GABRIEL ESCARRER JULIA	
Name or corporate name of the related significant shareholder:	HOTELES MALLORQUINES AGRUPADOS S.L.
Description of relationship:	Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

Name or corporate name of the related Director:	
MR GABRIEL ESCARRER JULIA	
Name or corporate name of the related significant shareholder:	HOTELES MALLORQUINES ASOCIADOS, S.L.
Description of relationship:	Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

Name or corporate name of the related Director:	
MR GABRIEL ESCARRER JULIA	
Name or corporate name of the related significant shareholder:	MAJORCAN HOTELS LUXEMBOURG, S.A.R.L.
Description of relationship:	Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

Name or corporate name of the related Director:	
MR GABRIEL ESCARRER JAUME	
Name or corporate name of the related significant shareholder:	HOTELES MALLORQUINES CONSOLIDADOS, S.A.
Description of relationship:	Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

Name or corporate name of the related Director:	
MR GABRIEL ESCARRER JAUME	
Name or corporate name of the related significant shareholder:	HOTELES MALLORQUINES AGRUPADOS S.L.
Description of relationship:	Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

Name or corporate name of the related Director:	
MR GABRIEL ESCARRER JAUME	
Name or corporate name of the related significant shareholder:	HOTELES MALLORQUINES ASOCIADOS, S.L.
Description of relationship:	Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

Name or corporate name of the related Director:	
MR GABRIEL ESCARRER JAUME	
Name or corporate name of the related significant shareholder:	MAJORCAN HOTELS LUXEMBOURG, S.A.R.L.
Description of relationship:	Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

Name or corporate name of the related Director:	
MR SEBASTIAN ESCARRER JAUME	
Name or corporate name of the related significant shareholder:	HOTELES MALLORQUINES CONSOLIDADOS, S.A.
Description of relationship:	Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

Name or corporate name of the related Director:	
MR SEBASTIAN ESCARRER JAUME	
Name or corporate name of the related significant shareholder:	HOTELES MALLORQUINES AGRUPADOS S.L.
Description of relationship:	Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

Name or corporate name of the related Director:	
MR SEBASTIAN ESCARRER JAUME	
Name or corporate name of the related significant shareholder:	HOTELES MALLORQUINES ASOCIADOS, S.L.
Description of relationship:	Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

Name or corporate name of the related Director:	
MR SEBASTIAN ESCARRER JAUME	
Name or corporate name of the related significant shareholder:	MAJORCAN HOTELS LUXEMBOURG, S.A.R.L.
Description of relationship:	Mr Gabriel Escarrer Juliá, his wife and children (including Mr Sebastián Escarrer Jaume and Mr Gabriel Escarrer Jaume) own shares in the company

C.1.18 State whether there has been any change in the Board regulations during the year:

Yes	X	No	

Description of changes
On 23 June 2016, the Board of Directors approved the amendment of Article 14 of the Regulations of the Board of Directors, concerning regulation of the Audit and Compliance Committee, so that its composition and roles were brought in line with those established in the Corporate Enterprises Act, as worded by the Audit Act (Law 22/2015 on Account Auditing).

C.1.19 Indicate the procedures for the selection, appointment, re-election, assessment and removal of directors. Indicate the competent bodies, the procedures to be followed and the criteria employed in each procedure.

The Appointments and Remuneration Committee is responsible for formulating and revising the guidelines for the composition of the Board of Directors and the selection of candidates, and for making proposals to the Board for the appointment of Independent Directors as well as reporting the proposals for the rest of the members so that it may make the appointment (in the case of co-option) or endorse the proposals for submission to the decision of the General Shareholders Meeting, and also their re-election or removal by the General Meeting.

C.1.20 Explain to what degree the Board's annual assessment has led to significant changes in its internal organization and the procedures applicable to its activities:

Description of the changes
The Board's annual assessment has not led to a need to effect significant changes to the internal organization or internal procedures applicable to its activities.

C.1.20.bis Indicate the assessment process and the assessed areas conducted by the board of directors assisted, as the case may be, by an external consultant, regarding the diversity in its composition and capacities, duties and composition of its committees, the performance of the chair of the board of directors and the first executive of the company, and the performance and contribution of each board member.

Pursuant to paragraph 15.2 i) of the Regulations of the Board of Directors, it is for the Appointments and Remuneration Committee to coordinate the Report for assessing the quality and efficiency of the Board of Directors and the Committees established by the Board in order to be accountable before it.

The evaluation process is done by all directors filling in questionnaires, in which there are included certain aspects of the functioning of the Board and its committees, as well as issues regarding the composition of these bodies.

The Chairman of the Appointments and Remuneration Committee is responsible for submitting to the Board the results of the evaluation for the purposes of its analysis.

In relation to the assessment carried out for the 2016 year activities, there was no external advice.

C.1.20.ter Break down, if pertinent, the business relationship that the consultant or any company of its group maintains with the company or any company of its group.

Not applicable.

C.1.21 State the circumstances under which directors are obliged to resign.

Chapter VIII of the Regulations of the Board regulates the Directors' duties, which include the obligation to work with the diligence of an organized businessman and a loyal proxy, and in accordance with any other legally required standard of diligence. More specifically, Article 29 of the Regulations of the Board states that directors must observe all regulations on behavior established in the applicable Stock market legislation and, particularly, those contained in the Internal Code of Conduct. Therefore, a breach of any of these duties or obligations shall be considered grounds for relieving the Director of his/her duties or for his/her resignation.

C.1.22 Section repealed

C.1.23 Are reinforced majorities required, other than the legal majorities, for any type of resolution?:

Yes		No	X

If aplicable, describe the differences.

C.1.24 Indicate if there are specific requirements, other than those regarding directors, in order to be appointed Chairman of the Board of Directors.

Yes	X	No	

Description of the requirements
Article 33.2 of the Bylaws states that, in order for a Director to be appointed Chairman or Vice-Chairman of the Board of Directors, at least one of the following circumstances must occur: a) To have formed part of the Board of Directors during at least the THREE (3) years prior to said appointment; or b) To have previously occupied the position of Chairman of the Board of Directors, regardless of the period of time spent as a Director. Neither of the above circumstances need apply to the Director to be appointed Chairman or Vice-Chairman when this appointment is made by unanimous resolution of SEVENTY-FIVE PERCENT (75%) of the members of the Board of Directors. Moreover, re-election as a Director of members of the Board who are Chairman and Vice-Chairman and, if appropriate, Coordinating Director if he meets the legal requirements, will imply their automatic continuity in those positions

C.1.25 State whether the Chairman has a casting vote:

Yes	X	No	

C.1.26 State whether the bylaws or the Board Regulations establish an age limit for directors:

Yes		No	X

C.1.27 State whether the Bylaws or the Board Regulations establish a limited term of office for independent directors, other than that established in the regulations:

Yes		No	X

C.1.28 State whether the Bylaws or the Board Regulations establish specific rules for proxy voting in the Board of Directors, the way this is done and, in particular, the maximum number of proxies a director may have, and if it has established any limit regarding the categories that may be delegated beyond the limits stipulated by legislation. If applicable, briefly give details on such rules.

Pursuant to Article 18.3 of the Regulations of the Board, representation must be conferred in writing and specifically for each meeting by means of a letter to the Chairman, including the relevant instructions and necessarily conferring the vote to another Director. External Independent Directors may only be represented by another External Independent Director.

C.1.29 State the number of meetings the Board of Directors has held during the year. If applicable, also state how many times the Board has met without the Chairman in attendance. In calculating this number, proxies with specific instructions will be counted as attendances.

Number of Board meetings	8
Number of Board meetings not attended by the Chairman.	0

If the Chairman is an executive Director, indicate the number of meetings held without an executive director present or represented and chaired by the coordinating Director.

Number of meetings	0

State the number of meetings that the Board's various committees have held during the year:

Committee	No. of Meetings
AUDIT AND COMPLIANCE COMMITTEE	7
APPOINTMENTS AND REMUNERATION COMMITTEE	4

C.1.30 State the number of meetings held by the Board of Directors during the year attended by all its members. In calculating this number, proxies with specific instructions will be counted as attendances:

Number of meetings with all directors in attendance	8
% of attendances to total votes during the year	100.00%

C.1.31 State whether the individual and consolidated financial statements presented for Board approval are certified beforehand:

Yes	X	No	

If applicable, identify the person(s) who has(have) certified the Company's individual and consolidated financial statements to be filed by the Board:

Name	Position
MRS PILAR DOLS COMPANY	Chief Financial Officer
MR GABRIEL ESCARRER JAUME	Vice President and Managing Director

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements that it files from being presented to the General Meeting with a qualified auditors' report.

The functions of the Audit and Compliance Committee include liaising with the external auditors to receive information related to the account auditing process and to have available all the communications laid down in auditing laws and technical auditing standards, conducting direct monitoring with the external auditors. In doing so, the Committee holds several meetings with the auditors throughout the year in order to analyse the performance of their work and to detect and resolve any incidents affecting the annual accounts.

C.1.33 Is the company Secretary a director?

Yes	X	No	

C.1.34 Section repealed

C.1.35 State, if any, the mechanisms established by the company to preserve the independence of the external auditors, the financial analysts, the investment banks and the rating agencies.

One of the functions of the company's Audit and Compliance Committee is to maintain relations with the external auditors so as to receive information with regard to matters which may endanger their independence. In fact, there is a direct relationship between the members of the Committee and the external auditors, with the latter participating with their presence at the meetings held by this Committee.

With regard to the mechanisms in place to ensure the independence of financial analysts, mention must be made that the company provides information requested by any analysts with no discrimination and offering the maximum transparency, which also happens when carrying out road shows.

Similarly, in the information exchange process, the aim is to ensure that the company does not at any stage influence the opinions or points of view of the analysts.

According to Article 34.4 of the Regulations of the Board of Directors, under no circumstances will any information be provided to financial analysts that could put them in a privileged situation or at an advantage over the other shareholders.

C.1.36 State whether the company has changed its external auditor during the year. If so, identify the incoming and outgoing auditors:

Yes		No	X

If there were disagreements with the outgoing auditor, explain their motives.

C.1.37 State whether the audit firm does work for the company and/or its group other than the audit work. If so, detail the amount of the fees received for such work and the percentage of such fees on the total fees charged to the company and/or its group:

Yes	X	No	

	Company	Group	Total
Amount of non-audit work (thousands of euros)	553	399	952
Amount of non-audit work / total amount billed by the audit firm (in %)	51.19%	35.78%	43.37%

C.1.38 State whether the audit report on the annual financial statements for the previous year contained reservations or qualifications. If so, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of such reservations or qualifications.

Yes		No	X

C.1.39 State the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Also, state the percentage of the number of years audited by the current audit firm to the total number of years in which the annual financial statements have been audited:

	Company	Group
Number of consecutive years	8	8
Number of years audited by the current audit firm / Number of years that the company has been audited (in %)	38.10%	38.10%

C.1.40 State whether there is and, if applicable, give details on any procedure for directors to engage external advisory services:

Yes	X	No	

Give details of the procedure

Pursuant to Article 23 of the Regulations of the Board, external directors may request that legal, accounting or financial advisers or other experts be hired at the expense of the Company.

The engagement must necessarily be related to specific problems of certain importance and complexity that arise in the performance of the office.

The Chairman of the Company must be informed of the decision to hire such services and that decision may be rejected by the Board of Directors under the following circumstances:

(a) it is not required for the proper performance of the duties assigned to External Directors;
(b) its cost is not reasonable in relation to the importance of the problem and the assets and revenue of the company; or
(c) the expert help requested from External experts may be provided satisfactorily by experts of the Company.

C.1.41 State whether there is and, if applicable, give details on any procedure for directors to obtain the information they need to prepare the meetings of the governing bodies in sufficient time:

Yes	X	No	

Give details of the procedure

Although Article 17 of the Regulations of the Board states that notice of the meeting will be given at least three days before it is held and the notice of the meeting will include the agenda for the session along with the relevant information properly summarised and prepared, barring exceptional circumstances, the information is made available to the Directors eight days before the meeting is held.

Furthermore, Article 22 of the Regulations of the Board establishes that Directors have the widest powers of access to information on any aspect of the company, to review the company's books, records and documents and other records on the company's activities and to examine all its facilities.

Exercise of the right to information will be channelled through the Chairman or Secretary of the Board of Directors, who will address the Director's requests by providing the information directly to him/her, giving access to the most appropriate person in the organization to provide such information or organizing any measures required so that the Directors may conduct the desired examinations on site.

C.1.42 State and, if applicable, give details, whether the company has established rules requiring directors to report and, if applicable, resign under circumstances that may damage the company's credit and reputation:

Yes	X	No	

Explain the rules

Article 31.2 of the Regulations of the Board states that Directors should report and, if appropriate, resign in cases that may damage the credit and reputation of the Company and shall in any event report any criminal cases in which they are involved as defendant, and their subsequent trial, and the Board of Directors must examine the case as soon as possible and, having regard to the specific circumstances, must decide whether or not the Director shall remain in office.

C.1.43 State whether any member of the Board of Directors has informed the company of any criminal proceedings against him/her or whether a ruling for the commencement of a verbal hearing has been made against him/her, in relation to any of the offences listed in Article 213 of the Corporate Enterprises Act:

Yes		No	X

State whether the Board of Directors has examined the case. If it has, explain the motives for the decision taken as to whether or not the director should retain his/her directorship or, if applicable, detail the actions taken or planned to be taken by the Board of Directors as of the date of this report.

C.1.44 State any significant agreements entered into by the Company that come into force, are amended or concluded in the event of a change in the control of the company from a public takeover bid, and its effects.

None.

C.1.45 Identify in aggregate terms and state in detail any agreements between the company and its directors, managers or employees that give compensation or have guarantee or golden parachute clauses for when such persons resign or are wrongfully dismissed or if the contractual relationship concludes due to a public takeover bid or other kinds of transactions.

Number of beneficiaries:	1

Type of beneficiary :	MANAGING DIRECTOR
Description of the agreement:	In the year 2015, the Executive Directors (Chairman of the Board of Directors and Managing Director) both signed commercial service provision contracts with the Company, pursuant to Article 249 of the Corporate Enterprises Act, which provide, in relation to compensation: Post-contractual one-year non-competition clause and the Company agree to compensate Directors with a payment of one year's total annual remuneration received as Executive Directors at the time that their contract was terminated. If the Directors fail to meet the obligation of post-contractual non-competition, they must pay to the Company any sums received thereby and pay the company compensation equivalent to 150% of the sum received thereby. Termination of contract: Executive Directors will stand down from their positions in the circumstances established by the Corporate Enterprises Act and, in such cases, shall make their position available to the Board of Directors and, if applicable, arrange to leave their office immediately. Compensation: Directors shall be compensated with a sum equivalent to a year's total remuneration should any of the following causes apply: - Unilateral termination by the Executive Director: on the basis of the company's failure (serious and culpable) to comply with the contractual obligations in his/her contract or because of a substantial change in his/her duties or powers or the conditions of the provision of his/her services, for a reason not attributable to the Executive Director. Unilateral termination by the Company: attributable to a serious and culpable failure by the Executive Director to comply with the duties of loyalty, diligence or good faith or any of the duties established by law, subject to which he/she shall perform their office. At the end of the year 2016, as a consequence of Mr Gabriel Escarrer Julia's surrender of the executive powers that he had held, only the contract with the Managing Director remains in force.

State whether these contracts must be disclosed to and/or approved by the company or group governance bodies:

	Board of Directors	General Meeting
Body authorising the clauses:	Yes	No

	Yes	No
Is the General Meeting informed of the clauses?	X	

C.2 Board of Directors Committees

C.2.1 Give details of all the Board Committees, their members and the proportion of executive, proprietary, independent and other external directors sitting on them:

AUDIT AND COMPLIANCE COMMITTEE

Name	Position	Type
MR FERNANDO D´ORNELLAS SILVA	President	Independent
MR JUAN ARENA DE LA MORA	Member	Independent
MR ALFREDO PASTOR BODMER	Member	Other External
MRS CARINA SZPILKA LÁZARO	Member	Independent
MR JUAN VIVES CERDA	Member	Proprietary

% of proprietary directors	**20.00%**
% of independent directors	**60.,00%**
% of other external	**20.00%**

Explain the committee's duties, describe its procedures and organizational and operational rules and summarize the main actions taken during the year:

Article 14 of the Regulations of the Board of Directors states that the Audit and Compliance Committee will meet at least once per quarter, and whenever is deemed appropriate with regard to the needs of the company, as called by the Chairman of the Committee or on request by the majority of its members or on request by the Board of Directors.

The responsibilities of the Audit and Compliance Committee, and without prejudice to any others that the Law, the company Bylaws and these Regulations may determine, or the Board of Directors may specifically assign to the Committee, are as follows:

(a) To report to the General Shareholders Meeting with regard to matters raised by shareholders at the meeting, that are within the competence of the Committee and, in particular, concerning the result of the audit, explaining how this has contributed to the integrity of the financial reporting and the role that the committee has performed in that process; (b) To refer to the Board of Directors proposals for selection, appointment, re-election and replacement of auditors, with responsibility for the selection process, as established in current regulations, and for the conditions of hire and to obtain regularly from it information on the audit plan and its performance and it will also preserve its independence in the performance of its functions; (c) To supervise the efficacy of the internal control system of the company, the internal Audit services and the risk management systems, including tax, and to discuss with the auditors any significant internal control weaknesses found in the performance of the audit, all without breaching their independence and it may present to the Board of Directors recommendations or proposals and the corresponding term for compliance therewith; d) To supervise the process to prepare and present the mandatory financial information and to present to the Board of Directors recommendations or proposals aimed at safeguarding its integrity; (e) To review the appointment or replacement of those responsible for the financial reporting processes, the company's internal control systems and risk management systems; (f)) To maintain a relationship with external auditors so as to receive information on any matters that may endanger their independence and any other matters related to the performance of the Audit of Accounts, and, when appropriate, authorisation for services other than any prohibited services, in accordance with current legislation as well as any other communications envisaged in Account Auditing law and in technical Auditing rules; (g) To review company accounts and oversee compliance with legal requirements and the appropriate application of generally accepted accounting principles, receiving to this end the direct cooperation of internal and external auditors; (h) To ensure that the financial information that is offered to the markets is prepared in accordance with the same principles, criteria and professional practices that are applied to preparation of the Annual Financial Statements; (i) To examine compliance with the Internal Regulations on Conduct on the Securities Markets, the Regulations of the Board of Directors and, in general, the rules on governance of the Company and to make the necessary proposals for the improvement thereof; (j) To receive annually from the external auditors the declaration of their independence in relation to the entity or entities directly or indirectly related to the company as well as detailed and individualised information on the additional services of any kind that are provided and the corresponding fees received from these entities by the external auditor or by the persons or entities related thereto in accordance with the provisions of applicable regulations; (k)

To issue annually, prior to the issuance of the Financial Statements Audit Report, a report expressing an opinion on the Independence of the Auditor, in accordance with the Law; (l) To report, in advance, to the Board of Directors on all matters envisaged by Law, the Bylaws and these Regulations and, in particular, on (i) the financial Information that the Company must publish periodically, and (ii) the creation and acquisition of laws and these Regulations and, in particular, (i) the financial information that the Company must periodically disclose; and (ii) the creation or acquisition of shares in special purpose entities or domiciled in countries or territories considered tax havens and (iii) transactions with related parties.

The most important actions carried out during the year 2016 are the following:
- Relación con los auditores externos. Relationship with external auditors. -
- Revision of the mandatory financial information to be published periodically.
- Supervision of the internal audit, risk map and complaints channel.
- Review of the Annual Report on Corporate Governance for submission to the Board of Directors for approval.
- Preparation of the explanatory report for amendment of Article 14 [of the] Regulations of the Board of Directors.
- External auditor re-election proposal.
- Review of amendment of the Internal Regulations on Conduct in matters relating to the Securities Markets.

Name the Director who is a member of the Audit Committee who has been appointed on the basis of knowledge and experience of accounting or auditing, or both, and state the number of years that the Chairman of this Committee has been in this office.

Name of the director with experience	MR FERNANDO D´ORNELLAS SILVA
No. of the Chairman's years in the office	0

APPOINTMENTS AND REMUNERATION COMMITTEE		
Name	Position	Type
MR FRANCISCO JAVIER CAMPO GARCIA	President	Independent
MR FERNANDO D´ORNELLAS SILVA	Member	Independent
HOTELES MALLORQUINES CONSOLIDADOS, S.A.	Member	Proprietary
MR LUIS Mª DIAZ DE BUSTAMANTE TERMINEL	Member	Independent

% of proprietary directors	25,00%
% of independent directors	75.00%
% of other external directors	0.00%

Explain the committee's duties, describe its procedures and organizational and operational rules and summarize the main actions taken during the year.

Article 15. 2 of the Regulations of the Board of Directors states that the Appointments and Remuneration Committee will meet upon call by its Chairman or at the request of the majority of its members or at the request of the Board of Directors whenever the issuance of a report or the approval of proposals is required and whenever it may be appropriate according to the needs of the company. The responsibilities of the Appointments and Remuneration Committee, and without prejudice to any others that the Law, the Company Bylaws and these Regulations establish, are at least as follows:

(a) To define and review the criteria to be applied with regard to the composition of the Board of Directors and the selection of candidates; b) To submit to the Board any proposals on the appointment of Independent Directors so that the Board may directly appoint such Directors (co-option) or adopt the proposals for their submission to the General Shareholders Meeting for its decision as well as their re-election or removal by the General Shareholders Meeting; (c) To report the proposals for appointment of other Directors so that the Board can directly appoint them (co-option) or adopt such proposals for submission to the decision of the General Shareholders Meeting as well as their re-election or removal by the General Shareholders Meeting; (d) To report on the proposals for appointment and removal of senior managers and the basic terms of their contracts; (e) To propose members of each of the Committees to the Board; (f) To propose to the Board the remuneration policy for Directors and General Directors or those who perform their senior management functions under direct control of the Board, of Executive Committees or Managing Directors, as well as individual remuneration and other contractual conditions of the Executive Directors, ensuring its compliance. To regularly review said remuneration policy, assessing their appropriateness and return; (g) To ensure transparency in remuneration; (h) To report on any transactions that imply or may imply conflict of interest and, in general, on matters related to the duties of Directors, in accordance with the Regulations; (i) The coordination of the report for assessing the quality and efficiency of the Board of Directors and the Committees established by the Board so that it is accountable before it; (j) To examine and organize the succession of the chairman and chief executive of the Company and, where appropriate, to make proposals to the Board of Directors so that such succession occurs in an orderly and planned manner; (k) To report, in advance, to the Board of Directors on all matters envisaged in the Law, the Company Bylaws and these Regulations. The Committee must consider any suggestions made to it by the Chairman, the members of the Board or the executives or shareholders of the company. The Executive Directors may attend, with the right to speak but not to vote, the meetings of the Committee, at the request of its Chairman. Any member of the management team or of the company's personnel required to do so will be obliged to attend the meetings of the Committee and to provide his collaboration and access to any information that he has available. For the best performance of its duties, the Appointments and Remuneration Committee may seek the advice of outside professionals.

The most important actions carried out during the year 2016:

- Analysis self-assessment of the Board and its Committees and evaluation of the chief executive.
- Remuneration system and benefits Board and senior management
- Verification of the nature of the directors.
- Proposal for appointment by co-opting Mrs Carina Szpilka Lázaro and proposal for submission of ratification thereof and her re-election by the General Meeting of Shareholders.
- Proposal for restructuring of the Audit and Compliance Committee,
- Review of the Annual Remuneration Report for submission to the Board.

Preparation of the proposal for acceptance of the vountary surrender of Mr Gabriel Escarrer Juliá of the executive powers that he has held, for submission to the Board.

C.2.2 Complete the following table with information on the number of female directors sitting on Board Committees over the last four years:

	Number of female directors							
	Year 2016		Year 2015		Year 2014		Year 2013	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND COMPLIANCE COMMITTEE	1	20.00%	0	0.00%	1	25.00%	1	25.00%
APPOINTMENTS AND REMUNERATION COMMITTEE	1	25.00%	1	25.00%	2	50.00%	2	50.00%

C.2.3 Section repealed

C.2.4 Section repealed

C.2.5 State, if applicable, the existence of regulations for the Board Committees, where they can be consulted and any amendments made to them during the year. Also state whether an annual report on the activities of each committee has been drawn up voluntarily.

1. APPOINTMENTS AND REMUNERATION COMMITTEE

It is regulated in Article 39 ter of the Bylaws and in Article 15 of the Regulations of the Board. Both documents are available on the website of the company. At each meeting of the Board of Directors, there is a report on the main aspects and most relevant conclusions discussed at the meetings of the Committee. The Committee has drafted a report of the activities of 2016.

2. AUDIT AND COMPLIANCE COMMITTEE

It is regulated in Article 39 bis of the Bylaws (amended under the resolutions passed by the General Meeting held on June 23rd, 2016) and Article 14 of the Regulations of the Board (amended under the resolutions of the Board of Directors dated June 23rd, 2016). Both documents are available on the website of the company. At each meeting of the Board of Directors, there is a report on the main aspects and most relevant conclusions discussed at the meetings of the Committee. The Committee has drafted a report of the activities of 2016.

C.2.6 Section repealed

D. RELATED PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1 State, if applicable, the procedure for approving related party and intragroup transactions.

Procedure for reporting approval of related party transactions.
According to Article 32.1 of the Regulations of the Board of Directors, the Board of Directors must be aware of and authorise any transaction made by the Company with its significant shareholders and directors and executives. According to article 32.2 of the Regulations of the Board, under no circumstances must any transaction be authorized unless a report has been issued by the Audit and Compliance Committee evaluating the transaction from the point of view of equality of treatment of the shareholders and of the market conditions. Article 32.3 of the Regulations of the Board of Directors also states that the Board of Directors must ensure compliance with the law and the duties of information and transparency in the communication of such transactions.

D.2 State any transactions that are significant because of their amount or relevant because of their subject matter carried out between the company or its group companies, and the company's significant shareholders:

Name of significant shareholder (person or company)	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (thousands of euros)
HOTELES MALLORQUINES ASOCIADOS, S.L.	MELIA HOTELS INTERNATIONAL,S.A.	Commercial	Sale of goods, finished or in progress	4,607
HOTELES MALLORQUINES ASOCIADOS, S.L.	INVERSIONES Y EXPLOTACIONES TURISTICAS	Commercial	Sale of goods, finished or in progress	111
HOTELES MALLORQUINES ASOCIADOS, S.L.	REALIZACIONES TURISTICAS, S.A.	Commercial	Sale of goods, finished or in progress	29
HOTELES MALLORQUINES ASOCIADOS, S.L.	COMUNIDAD DE PROPIETARIOS SOL Y NIEVE	Commercial	Sale of goods, finished or in progress	26
HOTELES MALLORQUINES ASOCIADOS, S.L.	APARTHOTEL BOSQUE, S.A.	Commercial	Sale of goods, finished or in progress	28
HOTELES MALLORQUINES ASOCIADOS, S.L.	TENERIFE SOL, S.A.	Commercial	Sale of goods, finished or in progress	246
HOTELES MALLORQUINES ASOCIADOS, S.L.	PRODISOTEL, S.A.	Commercial	Sale of goods, finished or in progress	196
HOTELES MALLORQUINES ASOCIADOS, S.L.	INVERSIONES HOTELERAS LA JAQUITA S.A.	Commercial	Sale of goods, finished or in progress	171
HOTELES MALLORQUINES ASOCIADOS, S.L.	COLON VERONA S.A.	Commercial	Sale of goods, finished or in progress	16
HOTELES MALLORQUINES ASOCIADOS, S.L.	SARGAMASSA HOTELERA S.L.	Commercial	Sale of goods, finished or in progress	16
HOTELES MALLORQUINES ASOCIADOS, S.L.	AYOSA HOTELES S.L.	Commercial	Sale of goods, finished or in progress	513
HOTELES MALLORQUINES ASOCIADOS, S.L.	PRODIGIOS INTERACTIVOS S.A.	Contractual	Sale of goods, finished or in progress	486
HOTELES MALLORQUINES ASOCIADOS, S.L.	MELIA HOTELES INTERNATIONAL S.A.	Contractual	Provision of services	45
HOTELES MALLORQUINES ASOCIADOS, S.L.	PRODIGIOS INTERACTIVOS S.A.	Contractual	Operating lease agreements	436

D.3 State any transactions that are significant because of their amount or relevant because of their subject matter carried out between the company or its group companies, and the company's directors or senior managers:

Name of the directors and/or senior managers (person or company)	Name of the related party (person or company)	Nature of relationship	Nature of transaction	Amount (thousands of euros)
MR JUAN VIVES CERDA	MELIA HOTELS INTERNATIONAL, S.A.	Commercial	Provision of services	229
MR JUAN VIVES CERDA	PRODIGIOS INTERACTIVOS, S.A.	Commercial	Provision of services	323
MR JUAN VIVES CERDA	MELIA HOTELS INTERNATIONAL S.A.	Commercial	Receipt of services	17
MR JUAN VIVES CERDA	PRODIGIOS INTERACTIVOS, S.A.	Commercial	Receipt of services	35

D.4 State the significant transactions in which the company has engaged with other companies belonging to the same group, except those that are eliminated in the process of drawing up the consolidated financial statements and that do not form part of the company's usual trade with respect to its object and conditions.

In any event, provide information on any intragroup transaction with companies established in countries or territories considered as tax havens:

Corporate name of the Company in its group:	
SOL MELIÁ FUNDING	
Amount (thousands of euros):	43,027
Brief description of the transaction:	Transfers of the customer portfolios of the American companies operating in the vacation club segment to be managed by Sol Melia Funding.

Corporate name of the Company in its group:	
SOL MELIÁ FUNDING	
Amount (thousands of euros):	584
Brief description of the transaction:	Update of interests expected from the portfolio transfer transaction.

Corporate name of the Company in its group:	
SOL MELIÁ FUNDING	
Amount (thousands of euros):	5,205
Brief description of the transaction:	Variation of the intergroup loan with parent company, as part of the centralized cash management policy.

Corporate name of the Company in its group:	
SOL MELIÁ FUNDING	
Amount (thousands of euros):	14
Brief description of the transaction:	Settlement of current account with the company Meliá International Hotels S.A. since this company has been removed.

D.5 Detail the amount of the transactions carried out with other related parties.

0 (in thousands of euros).

D.6 State the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/ or its group, and its directors, managers and/or significant shareholders.

Directors must inform the Company whenever a situation of direct or indirect conflict of interest with the interests of the Company arises, pursuant to Article 28 of the Regulations of the Board.

Moreover, pursuant to Article 15.2. of the Regulations of the Board of Directors, the Appointments and Remuneration Committee, must report to the Board of Directors on transactions that involve or may involve direct or indirect conflicts of interest and, if applicable, propose the measures that should be taken.

D.7 Are more than one of the Group's companies listed in Spain as publicly traded companies?

Yes		No	X

Identify the subsidiaries listed in Spain:

Subsidiary listed

State whether the respective areas of business and possible business connections between them and any between the listed subsidiary and the other group companies have been publicly and precisely defined;

Define the possible business connections between the parent company and the listed subsidiary and between this latter and the other group companies

Identify the mechanisms established to resolve any potential conflicts of interest between the listed subsidiary and the other companies of the group:

Mechanisms to resolve potential conflicts of interest

E. SISTEMAS DE CONTROL Y GESTION DE RIESGOS

E.1 Explain the scope of the company's Risk Management System, including risks of a tax-related nature.

The Risk Management system functions as an integral, ongoing system that focuses management on business units or areas or activity, affiliates, geographical areas and support areas at the corporate level.

The General Policy on Risk Control, Analysis and Management of the Meliá Hotels International Group (MHI)) is aimed at establishing a series of basic principles that must guide all Risk Management activities as well as the general framework of action for control, analysis and assessment of potential risks that the Group faces, including tax-related risks.

This Policy applies to the entire Group in the various countries in which it operates and is established under a set of basic principles and commitments that should guide any action aimed at managing risks, which are:

a. To promote an appropriate internal environment and a culture of risk awareness. (b) To align strategy with the risks detected.

c. (c) To

identify and evaluate the different risks faced by the group, ensuring their correct assignment. (e) To guarantee the appropriate management of the most relevant risks.

(f) To improve the processes and decisions as to responses to risk. (g) To provide integrated responses to multiple risks.

(h) To report and communicate openly and consistently on Group risks to all levels of the organization. (i) To promote the Group's action at all times perfectly aligned with current legislation, the internal regulations of the Group, and the Code of Ethics.

Meliá Hotels International has implemented a risk management model based on the Enterprise Risk Management (ERM) COSO II methodology that makes it possible to draw up the Group Risk Map by bringing together the various Individual Risk Maps of the different Departments and Business Areas. The stages of this model are as follows:

1. Identification of relevant risks, including tax-related risks: By collecting and analysing internal and external information.
2. Analysis and assessment of these risks in each of these business Areas and also in the various supporting units, prioritising the most relevant risks and obtaining the various Risk Maps.
3. Treatment of the risks: assignment of responsibilities for the most relevant Risks and definition of any activities that may contribute more effectively to their management.
4. Monitoring and regular control of the risks: updating the defined indicators for the most relevant risks, annually updating the Risk Maps and monitoring the initiatives defined for their mitigation.
5. Regular and transparent communication of the results obtained from the Senior Management and from the Audit and Compliance Committee and Board of Directors, that serves as feedback for the system so that ongoing improvement in the procedure is obtained.

MHI's management team periodically identifies any risks that threaten compliance with the objectives (Stage 1) and assesses them in terms of occurrence and impact probability variables should they arise (Stage 2).

The Internal Risk Control and Analysis Rules implement the relevant existing internal Policy and seek to ensure correct and efficient operation of MHI's Risk Control system, establishing the rules, guidelines and criteria that must be applied in the process to update the Risk Maps within the Group, so that it is completely aligned with the Group's global strategy, the leadership model and MHI's culture and values.

The internal policy and rules establish that all corporate and business areas should identify and assess their risks, including tax-related risks, so that they can thus prioritise them and ensure that the appropriate measures are defined and established in cases where this is relevant.

During 2016, SAP GRC (Governance, Risk & Compliance) was implemented as an integral tool for risk management and internal control.

E.2 Identify the corporate bodies responsible for drawing up and enforcing the Risk Management System, including tax-related risks.

The Risk Control & Analysis Department (part of the Legal & Compliance Office) is in charge of ensuring the operation and ongoing implementation of the risk management model and of organising the process to prioritise investments on the basis of risk criteria. Its duties include, amongst others, risk control and analysis. Responsibility for risk management lies directly with each of the various Business Departments and Areas comprising the Group. This Department reports its activities to the Audit and Compliance Committee on a regular basis and also with an Annual Report established for the purpose.

Similarly, the Board of Directors has a general supervisory duty, in particular, responsibility for identifying the company's principal risks, including tax-related risks, and the implementation and monitoring of proper internal control and information systems (Art. 5 of the Regulations of the Board). Furthermore, the Audit and Compliance Committee is responsible for supervising the internal audit services and awareness of the financial reporting process and internal control systems of the company. (Art. 14.2 d of the Regulations of the Board of Directors)

In addition to the above, MHI has other bodies/departments with responsibilities and/or functions related to risk management:

1. Executive Committee
2. Strategic Planning Committee
3. Expansion Committee
4. Investment Committee
5. Internal Audit
6. Corporate Governance
7. Credit and Insurance Management
8. Occupational Health
9. Works and Maintenance

The bodies/departments responsible for drafting and implementing the Risk Management System have at their disposal the Code of Ethics, the Complaints Channel and the set of MHI Internal Policies and Regulations as a key tool in risk management.

E.3 State the principal risks, including tax-related risks, that could prevent business targets from being met.

MHI's activity is carried out in various socio-economic environments and regulatory frameworks and so it is exposed to a wide variety of events that might prevent its targets from being met.

The structure of the risks that the Group is facing is divided into the following categories:

1. Global Risks. These arise from events beyond the capacity to respond of the economic agents, such as: natural catastrophes or disasters, pandemics, health or food crisis, geopolitical risks.

In destinations where there is more exposure to these risks, the Company has appropriate coverage for such events, as well as the action protocols necessary to protect the health and safety of customers and employees, and to ensure the normal functioning of the operations and, if necessary, their protection and restoration.

2. Financial Risks. Those that may hinder the Company's power to meet its financial commitments or turn its assets into cash.

Included in this category are, by way of example, liquidity, credit or exchange risks. The management of these risks lies primarily and in a centralised manner with the Finance and Administration Department.

3. Business Risks. These arise from the evolution of variables intrinsic to the business, such as the nature of demand, competition and the market, strategic uncertainty and changes in scenarios.

Amongst others, the risk management model includes and analyses risks associated to customers and suppliers, the market, competition, company investments, company expansion, etc. These are related to faults in internal

4. Operating Risks.. Consequence of possible defects in the internal processes, human resources, physical equipment and computer systems or in inadequacy therein.
5. Compliance Risks. These arise from changes in regulations established by the various regulators and / or from non-compliance with the applicable legislation, and the internal policies and regulations.

   The Internal Policies of MHI, the Code of Ethics and the Complaints Channel are some of the tools available to the Group in order to mitigate this type of risk.
6. Information Risks. Mainly caused by inappropriate use, generation and communication of information.

Special attention should be given to the Financial Reporting Internal Control System (FRICS), which is discussed in detail in Part F of this report.

Tax- related risks, depending on the particular risk, are included within the category of Operational Risk or Compliance Risks.

E.4 Identify whether the company has a risk tolerance level, including tax-related risks.

Risks are assessed at the level of residual risk, that is, taking into account, or discounting the effect of the implemented controls and, for this assessment, the probability and impact variables are taken into account.

For each of these variables, ranges or intervals are established according to certain quantitative and/or qualitative criteria (financial, operational, regulatory, reputational, strategic, etc.). These ranges or intervals constitute a standardised assessment scale that serves to locate each risk in a probability/impact matrix and it is the basis for establishing the level of acceptable risk at corporate level.

Furthermore, once the Group's Risk Map has been obtained, the risk profile for each type of risk is analysed at the Group level and at the Area or General Management level.

The Risk Map is completely aligned with the Strategic Plan and with the process to establish targets, so the aim is to ensure that the measures to mitigate the principal Risks are connected to annual targets and/or the Strategic Plan, ensuring both ongoing attention to these Risks and that the management team's objectives include the mitigation of these Risks.

Therefore, monitoring and levels of achievement of objectives and strategic plan also set the levels of risk tolerance.

E.5 Identify what risks, including tax-related risks, have occurred during the year.

Global Risks: Geopolitical Risks.

During 2016, there have regrettably continued to be terrorist attacks that have had a negative impact on the tourist destinations where they have been committed.

The diversification of markets and geographical areas where MHI operates has compensated for the negative effects that this type of risk creates in certain destinations and it has been possible to re-direct tourism to other alternative destinations.

Except for the above risks, no other risk which would have had a significant impact has materialised. Should any risk materialise in connection with possible regulatory changes that may involve the need to update the estimates made, MHI will supply detailed information on this in its annual financial statements.

In any event, the risk detection and assessment systems of the Company have allowed identification and assessment of the risks that threaten the achievement of the business objectives with sufficient time to establish appropriate measures to mitigate or reduce the effect of the risks.

E.6 Explain the response and supervision plans for the principal risks faced by the company, including tax-related risks.

The management of the principal risks of the MHI Group, including tax related risks, lies directly with the affected areas and so this management is fully linked to the daily life of the areas themselves and is fully aligned with the strategy and objectives.

The Executive Committee of MHI examines the results of the Risk Map and assigns responsibilities regarding the main risks identified. Subsequently, the responsible areas define and identify the action plans that will be carried out throughout the year to mitigate risks (Phase 3 of the model).

In order to monitor and control the principal risks (Phase 4 of the model), indicators called KRIs (Key Risk Indicators) are defined and periodically reported to the Executive Committee.

The results obtained from the updated Risk Map are under discussion and are part of the Executive Committee's agenda, as well as other governing bodies of MHI. In addition, the Audit and Compliance Committee and the Board of Directors are both regularly informed of the results of the Risk Map, as well as of the actions derived therefrom (Phase 5 of the model).

The Department of Risk Control, Analysis and Assessment is responsible for coordinating, supporting, monitoring and tracking all the phases of the model.

F INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS FOR THE PROCESS FOR ISSUANCE OF FINANCIAL INFORMATION (SCIIF)

Describe the mechanisms comprising the risk control and management systems for the process for issuance of financial information (SCIIF) in your entity

F.1 The entity's control environment

Provide information, stating their main features, if at least the following exist:

F.1.1 Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective SCIIF; (ii) its implementation; and (iii) its supervision.

The bodies within the Meliá Hotels International Group that are responsible for ensuring the existence, maintenance, design, implementation and monitoring of an appropriate and effective SCIIF, and the roles and responsibilities attributed to these bodies are as follows:

Board of Directors

Article 5 of the Regulations of the Board of Directors assigns to this body, amongst other responsibilities, that of "identifying the principal risks to which the company is exposed, especially tax-related risks and those that derive from transactions with derivatives, and the implementation and monitoring of the internal control and adequate information systems".

Audit and Compliance Committee

Article 14 of the Regulations of the Board of Directors assigns to the Audit and Compliance Committee, among others, the role of: "c) Supervising effective control of the internal control of the company, the internal audit services and the risk management systems, including for tax-related risks, and also discussing with the accounts auditor any significant internal control weaknesses detected during performance of the audit, all without breaching his independence, and may present to the Board of Directors recommendations or proposals and the corresponding period for compliance therewith" and "d) Supervising the process to prepare and present the mandatory financial information and presenting to the Board of Directors recommendations or proposals aimed at safeguarding its integrity".

The organization and operation of the Audit and Compliance Committee is regulated by the above-mentioned Article 14 of the Regulations of the Board of Directors. The Committee currently consists of five Directors, three of whom are independent, one external with the category of "other" and the fifth a proprietary director, who have held senior positions in finance and also positions as Directors in various companies.

The meetings of the Committee are also attended by representatives of the internal and external audit teams and representatives of senior management of the Group, depending on the subjects on the agenda.

Senior Management

The functioning of the SCIIF at the Meliá Hotels International Group assigns to senior management the responsibility for the design, implementation and maintenance of the SCIIF, with each Directorate General being responsible for their area of influence. Accordingly, this responsibility affects the entire organization in as far as the financial information is derived from the activity and information generated by the business areas and by the other support areas.

Internal Audit Department

The Audit Committee is the body responsible for overseeing the SCIIF and the Internal Audit department is responsible for verifying its correct operation, keeping the Board of Directors (through the Audit and Compliance Committee)and Senior Management informed about whether the mechanisms authorized by management effectively mitigate the risk of errors, with a material impact, in the financial information.

F.1.2 If, especially in the process of drawing up the financial information, the following elements exist:

- **Departments and/or mechanisms responsible for: (i) the design and review of the organizational structure; (ii) the clear definition of lines of responsibility and authority, with an adequate distribution of tasks and functions; and (iii) ensuring that sufficient procedures exist for their correct propagation within the entity.**

The process of defining and reviewing the organizational structure is governed by the Human Resources Regulations of the Group and applies to all companies within the Group. According to the provisions of these Regulations, approved by the Senior Management of the Group, the Human Resources Department is responsible for ensuring fairness, balance and the optimization of the company's organizational structure and its periodic review. The heads of the different areas of the Group must ensure that the size of the workforce is appropriate and optimal.

Any changes to the organizational structure as well as the appointment and removal of senior management and their remuneration must be approved by the Board of Directors after proposal by the Appointments and Remuneration Committee.

Additionally, the Organisation Department, which reports to the Human Resources Department, is responsible, together with the relevant areas of the Group, for the analysis and definition of processes and the description of Jobs, functions and responsibilities, including positions related to the preparation of financial information. The Human Resources Regulations and the Group's organisational chart, properly updated, are available to all employees on the Group Intranet.

- **Code of conduct, approval body, degree of dissemination and instruction, principles and values included (stating whether specific mention is made of recording transactions and drawing up financial information), body in charge of analysing non-compliance and proposing corrective measures and sanctions.**

The Meliá Hotels International Group has several documents that make reference to employee conduct: Code of Ethics

The Meliá Hotels International Group has a Code of Ethics which was communicated to the entire organization in December 2012. This code and all the information required for understanding it are accessible to all Group employees through the Group Intranet.

In March 2012, the Board of Directors approved the content of this Code. The Appointments and Remuneration Committee approved the channels required for its operation in October 2012.

The Code of Ethics is a collection of operating principles that organize and give meaning to the Company values while also making it easier to understand them and know how to apply and prioritize them. The Code of Ethics is the highest level of the internal regulatory framework. It provides the bases on which internal policies, rules, processes and procedures are created.

The Code of Ethics contains a number of rules that are binding. It has four main parts:

1. 1. Values on which it is based.
2. 2. Company commitments.
3. 3. Principles of employee behaviour.
4. 4. Operating systems.

The Code of Ethics includes a section that regulates the principles applicable to the relationship with shareholders and investors, which specifically mentions the commitment to ensure maximum reliability and accuracy in financial and accounting records and to comply with transparency obligations in securities markets.

Ultimate responsibility is assumed by the Board of Directors, which assumes the obligation to implement the Code through the Appointments and Remuneration Committee. Responsibility for ensuring compliance and assisting in the resolution of dilemmas rests with the Group's Senior Management, also including Regional Directors and Hotel Directors and other business areas. The obligation for ensuring the Code remains operational lies with the Office of the Code of Ethics, which is an independent body established to constantly review and update the Code of Ethics and to resolve any enquiries relating to its content and application that may be raised during ordinary operation.

Internal Regulations on Conduct in Matters related to Stock Market

Applicable to members of the Board of Directors and Recipients defined in its subject area of application. Its content establishes, amongst other things, the "Procedures for Processing Privileged Information."

These Regulations are communicated and delivered in writing to the people to whom they apply when they are hired and/or when, in accordance with the regulations established therein, they become Recipients and it is signed and accepted by them. The head of the Legal and Compliance Department is responsible for monitoring and controlling compliance with these Regulations, reporting matters relevant to the issue to the Audit and Compliance Committee.

Management Conduct Regulations and Human Resources Rules.

Additionally, Meliá Hotels International, S.A. has Management Conduct Regulations and Human Resources Rules, which regulate the conduct of its executives (in the first case) and of all other employees of the Group (in the second) in relation to certain matters.

- **Complaints channel, to allow financial and accounting irregularities to be communicated to the Audit Committee, as well as possible non-compliance with the code of conduct and irregular activities in the organization, reporting, if applicable, whether this is confidential in nature.**

After publication of the Code of Ethics, the Meliá Hotels International Group opened up in 2012 a Complaints Channel system through which all Group employees can file complaints or grievances related to breach or non-observance of any and all aspects of the Code of Ethics

and, in particular, of the Business Principles, current regulations, potential conflicts of interest or any other topic related to detected irregularities or situations that are potentially or actually irregular created by regulatory failures, lack of internal control, irregularities of a financial nature or situations or events that may require the attention of and immediate action by the Senior Group Management.

The procedure provides that complaints should be registered, guaranteeing at all times an independent and confidential analysis, with the Chairman of the Audit and Compliance having direct access to all complaints received.

The complaints channel is managed by an Ethics Committee which acts independently and with the utmost respect for the confidentiality of any complaints or grievances received, reporting, in terms of this channel, directly to the Audit and Compliance Committee and to the Managing Director of the Group at any time it sees fit as well as at regular intervals regarding its activities.

The main function of the Ethics Committee is to receive, manage and coordinate the complaint and investigation through the complaints channel procedure, and is the only body with access to the complaints received, thereby ensuring confidentiality.

The operation of the channel is regulated by corporate procedure and may be accessed by any employee through the Intranet.

The channels available for filing complaints are: Intranet (Employee Portal), Internet and regular post addressed to the Ethics Committee.

During the 2016 period, a programme has been engaged in to disseminate this Complaints Channel to all the business centres and corporate offices worldwide, reporting to the Audit and Compliance Committee on its implementation.

- **Periodical training and updating courses for employees involved in preparing and revising the financial information, and in SCIIF assessment, covering at least accounting standards, audit, internal control and risk management.**

The heads of the departments responsible for the preparation of financial information must ensure the training and update of staff working in these areas.

Corporate staff who are involved in preparing financial information receive specific training each year to keep their knowledge of this subject up to date. During the year 2016, the corporate staff have participated in training sessions related to changes in international accounting regulations, and the new accounting rules on leases (NIIF 16) or financial instruments (NIIF 9) and also in the new provisions.

of the Institute of Accounting and Auditing (ICAC) related to posting of profit tax or information to be itemised on the average payment to suppliers period. Other subjects dealt with at these training sessions have been business combinations (according to NIIF 10 and Rule 19 on Registration and Valuation) or the eleventh revised version of the USALI analytical accounting system (Uniform System of Accounts for Lodging Industry).

In addition to the above actions, the company uses external expertise to support the development of the knowledge of the staff involved, and is subscribed to several publications and participates as corporate partners in IAI (Internal Audit Institute) and AECA (Spanish Association of Accounting and Business Administration).

F.2 Financial reporting risk assessment,

Provide information on at least:

F.2.1 The key features of the risk identification process, including error or fraud risks, regarding:

- **Whether the process exists and is documented.**

The Meliá Hotels International Group has:

- A policy on Risk Control, Analysis and Assessment approved by the Board of Directors.
- A Risk Control Rule approved by the Audit and Compliance Committee which implements the policy.
- A process for preparation of the Risk Map

- **Whether the process covers all the objectives of financial reporting (existence and occurrence; completeness; valuation; presentation, breakdown and comparability; and rights and obligations), whether the information is updated and with what frequency.**

The Risk Control Department leads the process for regularly updating the Group's Risk Map and oversees promotion of the definition of actions and assignment of responsibilities for mitigating the most important risks.

The annual process of Updating the Risk Map involves the heads of all Group departments and areas, identifying and assessing the various risks that affect them, including those relating to financial reporting. In addition to the Group's Consolidated Risk Map, the Group thus also obtains Risk Maps for each of the different departments and areas in the Organization.

On an annual basis and in collaboration with the Internal Audit Department, the Group Risk Map is reviewed in order to identify which of the identified risks affect the financial reporting objectives established by the CNMV: existence and occurrence, integrity, assessment, presentation, breakdown and comparability.

- **The existence of a process for identifying the consolidation perimeter, taking into account, amongst other aspects, the possible existence of complex corporate structures or instrumental or special purpose vehicles.**

In order to identify the scope of consolidation at all times, the Annual Accounts and Consolidation Department maintains an updated corporate registry that contains all of the Group's holdings, whatever their nature.

The procedures for updating the scope of consolidation are contained in a manual, in accordance with the provisions of the Group Companies and Joint Ventures Regulations. The scope of consolidation is updated monthly in accordance with the provisions of International Accounting Standards and other local accounting regulations.

- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they have an impact on the financial statements.**

The Risk Map Updating process takes into account the impact that risks may have on the financial statements, regardless of the type of risk. The Meliá Hotels International Group has categorised identified risks as follows:

- Global Risks.
- Financial Risks.
- Business Risks.
- Operational Risks.
- Compliance Risks.
- Information Risks.

- **Which of the entity's governance bodies supervises the process.**

The results obtained are reported and reviewed by Senior Management and by the Audit and Compliance Committee and the Board of Directors.

F.3 Control activities

Provide information, stating their main features, if at least the following exist:

F.3.1 Procedures for review and authorization of the financial information and the description of the SCIIF, to be published on the securities markets, indicating who is responsible for it, and the documentation describing the activity flows and controls (including those concerning risk of fraud) for the different types of transactions that may have a material impact on the financial statements, among them, the procedure for closing the accounts and the specific review of the relevant opinions, estimates, assessments and projections.

Meliá Hotels International, S.A. and its consolidated group provides financial information to the stock market on a quarterly basis. This financial information is prepared by the General Administration and Finance Department.

The senior executive of the Finance and Administration Departments (Executive Vice President Finance & Administration) analyses the reports received, provisionally approving said financial information for submission to the Audit and Compliance Committee, which will be responsible for the supervision of the financial information that is presented.

It should be noted that, since 2012, the Company has submitted the financial statements for the first six months of the year for review by the external auditors. Thus, in the six-monthly closures, the Audit and Compliance Committee also has information prepared by the external auditors of the Group.

In the six-monthly closures, the Audit and Compliance Committee informs the Board of Directors of its conclusions concerning the financial information presented so that, once approved by the Board of Directors, it can be published on the securities market.

Note that, from the year 2013, two ad hoc meetings of the Audit and Compliance Committee have been organized to approve the Interim Management Declaration for the 1st and 3rd quarter. Once approved, for information purposes, this information is delivered to the Board of Directors for its information and approval.

The Meliá Hotels Group has a procedures manual which is aimed at defining the internal process for the preparation and issuance of consolidated financial information, covering the entire process of preparation, approval and publication of financial information to be sent regularly to the CNMV.

All areas identified as possibly significantly affecting the financial statements of the Group have critical process controls to ensure the reliability of the financial information. These controls are included in internal procedures or in the form of running information systems that serve as basis for the preparation of financial information.

The methodology uses the analysis of the consolidated financial statements to select the most relevant items and notes to financial statements according to quantitative (materiality) and qualitative (automation, susceptibility to fraud or error, accounting complexity, degree of estimation and risk of loss or contingent liabilities.) criteria.

The selected items and notes are grouped into processes. Most of the processes considered critical and the control activities associated with them were systematically documented. This descriptive documentation comprises process flowcharts and control and risk matrices. Additionally, and throughout this process, we have identified potential fraud risks and formalized controls to mitigate those risks.

The activities which required formal documentation are included in processes pertaining to the areas of Administration, Tax, Treasury and Finance, Personnel Management, Hotel Business and Vacation Club.

The different General Offices are responsible for documenting and updating each of these processes, identifying potential control weaknesses, and establishing any corrective measures required.

The opinions, estimates and projections relevant to quantification of certain assets, liabilities, income, expenses and commitments recorded or disclosed in financial statements, are provided by the Administration and Finance Department with the support of the other General Offices.

The Meliá Hotels International Group reports in its financial statements on the most relevant areas where there are opinion and estimate parameters and on key assumptions behind those opinions and estimates. The main estimates relate to the valuation of goodwill, provision for income taxes, fair value of derivatives, fair value of real estate investments, pension provision and the useful life of tangible and intangible assets.

As part of the processes documented, a procedure has been established for the closure of accounts, which encompasses the procedure for closure, review and authorisation of financial information generated by the various units of the group up to the process for consolidation of all of the information.

F.3.2 Internal control procedures and policies for information systems (among others, access security, change control, their operation, operational continuity and segregation of functions) that support the relevant processes in the entity with respect to the drawing up and publication of the financial information.

The Meliá Hotels International Group's information systems department has a set of security regulations and procedures to ensure control of access to applications and business systems in order to ensure the confidentiality, availability and integrity of information.

The Meliá Hotels International Group has standard procedures for changes in the financial management platform, and a process for developing and maintaining transactions. These procedures define the controls that ensure the proper development and maintenance of applications, assessing the impact of changes and associated risks, In addition to procedures for testing changes before they are implemented in production systems

There is a model for managing accesses and authorizations which is based on segregating the system functions that support financial management processes, with defined control procedures to prevent the existence of users who could act as both judge and jury in handling such information.

Additionally, there are controls in place for correct management and monitoring of the assignment of special privileges in relation to the systems that support the financial reporting.

Likewise, the Company is evaluating a solution of identity and access management in order to optimize the model for management and government of users throughout their life cycle.

F.3.3 Internal control procedures and policies designed to supervise the management of activities subcontracted to third parties, and those aspects of the evaluation, calculation or assessment outsourced to independent experts, which may have a material impact on the financial statements.

When the Group uses the services of an independent expert, it makes sure of the technical competence and training of that expert through outsourcing only to third parties with proven experience and prestige.

'To validate the independent expert's reports, the Group employs internal staff trained to validate the reasonableness of the conclusions, establishing and managing the proper service levels for each case.

'Additionally, there is an internal regulation on Contracting Services which governs the approval by the senior executive in the area contracting the service and verification that the supplier possesses sufficient professional qualifications to provide the service and are also registered with the relevant professional bodies.

F.4 Information and communication

Provide information, stating their main features, if at least the following exist:

F.4.1 A specific function in charge of defining and keeping the accounting policies up to date (accounting policy department or area) and dealing with queries or conflicts arising from their interpretation, ensuring fluent communication with those in charge of operations in the organization, and an updated manual of accounting policies, communicated to the units through which the entity operates.

The function of defining and updating accounting policies and the interpretation of those policies and other accounting regulations affecting the Meliá Hotels International Group's financial statements is managed centrally by the Annual Accounts and Consolidation Department. The functions of this department, among others, are:

- To define the Group's accounting policies.
- To analyse individual operations and transactions carried out or that the Group plans to carry out to determine their appropriate accounting treatment.
- To monitor new regulation projects and new rules approved by the IASB and adopted by the European Union, and the impact their implementation will have on the consolidated accounts of the Group.
- To resolve any doubts Group companies may have concerning the application of Group accounting policies.

There is a formal communication channel to handle any doubts about the interpretation of accounting policies, through which the different business areas can seek advice for specific cases that, because of their specific or complex

Nature, may raise doubts about the appropriate method for recording them in the Group's accounts books.

The channel was launched through a message on the Group intranet announcing its creation. There is an e-mail account to which any queries may be addressed. The account is managed by the Annual Accounts and Consolidation Department which is also responsible for the response.

Meliá Hotels International Group presents its consolidated financial statements in accordance with the International Financial Reporting Standards. There is an updated manual of accounting policies which is reviewed whenever accounting regulations applicable to the Group's financial statements are amended in any significant respect.

All the people responsible for preparing the financial statements for Group companies have access to this document through the Intranet.

F.4.2 Mechanisms to capture and prepare the financial reporting in standardized formats, for application and use by all the units of the entity or group, that support the main financial statements and the notes, and the information given on SCIIF.

The Meliá Hotels International Group has implemented a software tool to meet the reporting needs for its individual financial statements and to facilitate the consolidation and subsequent analysis process based on an integrated financial management tool.

This tool centralizes in a single system all the information on accounting for the individual financial statements of all the Group subsidiaries for the preparation of the annual accounts and allows all of the Group's consolidated accounting to be obtained as well. The system is managed centrally from Group corporate headquarters.

Information is loaded into this consolidation system automatically from the financial management tool in each of the subsidiaries.

F.5 Supervision of the system's operations.

Provide information, stating their main features, if at least the following exist:

F.5.1 The SCIIF supervision activities carried out by the Audit Committee and whether the entity has an internal audit function whose powers include providing support to the Audit Committee in its task of supervising the internal control system, including the SCIIF. Likewise, provide information on the scope of the SCIIF assessment carried out during the year and of the procedure by which the person in charge of performing the assessment communicates its results, whether the entity has an action plan listing the possible corrective measures and whether its impact on the financial reporting has been taken into account.

The SCIIF supervisory activities undertaken by the Audit Committee mainly include: (i) regular meetings with external auditors, internal auditors and senior management to review, analyse and comment on financial information, the accounting principles applied and, where appropriate, any significant internal control weaknesses identified, and (ii) with the support of the internal Audit Department, review the effectiveness of and compliance with the processes established as part of the internal control system.

The meetings of the Audit and Compliance Committee have included an agenda item for information on SCIIF assessment activities carried out by the Internal Audit Department.

As stated in the Bylaws and the Group Internal Audit Rule, verifying the correct operation of the Internal Control Systems is a fundamental responsibility of this department, including the reliability of financial reporting (SCIIF), keeping the Board of Directors (through the Audit and

Compliance Committee) and senior management informed of the existence, adequacy and effectiveness of methods, procedures, standards, policies and existing instructions, which are available to Group employees.

The Internal Audit Department reports functionally to the Audit and Compliance Committee, and hierarchically to EVP Legal & Compliance, which in turn reports to the Vice Chairman and Managing Director of the Group. The head of the Internal Audit Department has direct access to both the Vice Chairman and the Managing Director and to the Audit and Compliance Committee and, if necessary, to the Board of Directors.

The powers of the Audit and Compliance Committee that relate to the Internal Audit Department are: ensuring the independence and effectiveness of the internal audit function, approving the budget and annual audit plan, receiving regular reports on their activities and verifying that senior management takes into account the conclusions and recommendations of its reports.

In order to ensure the independence of the Internal Audit team with regard to the operations or areas which they audit and over which they have no authority or responsibility, internal auditors are not assigned any duties and functions other than those inherent to an internal auditor.

The internal audit plan for 2016 included various activities designed to assess the degree of compliance with internal control systems through different types of audits, mainly business or operational audits (hotels and resort clubs and other businesses), information systems audits, financial audits and the evaluation of control activities associated to processes in Corporate Administration and Finance areas.

The main business of the Group is hotel operations. In relation to the control of the financial information in this area, in 2016, 8 processes were audited, divided into 25 sub-processes and 2,570 control activities were carried out. These reviews were carried out in 102 hotels, located in Europe (93), America (7) and Asia (2).

As indicated in the Auditing Rule, if the evaluations made by the Audit Department detect control weaknesses in the audited centre and/or area, these must be brought to the attention of the audited area or centre management team and reported to the Senior Management and the Audit and Compliance Committee, if this is considered appropriate. The managers of the mentioned areas and/or centres are required to respond to the weaknesses identified through corrective measures and/ or by implementing prevention plans

F.5.2 Whether there is a discussion procedure by which the auditor (in line with the provisions of the NTAs), the internal audit function and other experts can inform the senior management and the audit committee or the directors of the entity of significant weaknesses in the internal control identified during the review processes for the annual accounts or any others that may have been assigned. Likewise, provide information on whether there is an action plan to try to correct or mitigate the weaknesses observed.

The Group's executive management body (the Senior Executive Team), meets regularly. These meetings are also regularly attended by the Vice Chairman and the Managing Director. This attendance ensures the flow of information between the Board of Directors and the Group's main management body.

Pursuant to its regulations, the Board of Directors must meet at least six times a year. Coinciding with this meeting of the Board, the Audit and Compliance Committee also holds meetings which are regularly attended, as guests, by the representatives of internal and external audit teams and the Senior Management of the Group, as appropriate.

The auditor attends at least at the Board meeting in which the Annual Accounts are approved and additionally at any other Board meeting in which his/ her presence is requested.

The Internal Audit Team regularly reports to Senior Management and to the Audit and Compliance Committee on any internal control weaknesses detected in internal audits. Every year the auditor also presents to the Audit and Compliance Committee a report detailing the internal control weaknesses detected in the performance of his/her work. The people affected by the weaknesses detected should respond to them.

F.6 Other relevant information

Not applicable.

F.7 Report of the external auditor

Report of:

F.7.1 Whether the SCIIF information disclosed to the markets has been submitted for review by the external auditor, in which case, the entity must attach the corresponding report as an annex. Otherwise, explain the reasons why it was not.

The information on the system of internal control of financial reporting included in the Annual Corporate Governance Report has been reviewed by an external auditor, whose report is attached to the Group's Management Report.

G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the extent to which the company follows the recommendations of the Code for Good Governance of listed companies.

Should any recommendation not be followed or only partially, a detailed explanation should be given of the reasons so that the shareholders, investors and the market in general have enough information to assess the way the company works. General explanations will not be acceptable.

1. **The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.**

Complies	X	Explain	

2. **When a dominant and a subsidiary company are both listed, they should both provide detailed disclosure on:**
a. The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies.
b. The mechanisms provided to resolve possible conflicts of interest that may arise.

Complies		Partially compliant		Explain		Not applicable	X

3. **During the ordinary general meeting, the chairman of the Board of Directors should verbally inform shareholders in enough detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**
a. Changes taking place since the previous ordinary general meeting.
b. The specific reasons for the company not to follow a given Corporate Governance Code recommendation and any alternative rules applied, if any.

Complies		Partially compliant		Explain	X

Relevant changes in Corporate Governance matters are explained by the Company in the Annual Corporate Governance Report, available to all shareholders, which includes information on the degree of compliance with the recommendations and, if applicable, the reasons for the company not to follow any of the recommendations or to follow them in alternative manner.

The above shall be understood to be without prejudice to the possibility of shareholders requesting any clarification or additional information, in accordance with the systems established in the applicable regulations.

At the session of the General Meeting of Shareholders held on 23 June 2016, the Chairman of the Audit and Compliance Committee spoke in order to state the most relevant activities undertaken by the Committee in this respect.

4. **The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and provides equitable treatment to shareholders in the same position.**
And this policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies		Partially compliant	X	Explain	

Although, at the end of the year 2016, the Company did not have a specific policy of communication and contacts with shareholders, Article 34 of the Regulations of the Board regulated the criteria that should govern the relations of the Board of Directors with shareholders, institutional investors and financial analysts. This policy was approved by the Board of Directors at its meeting held on 27 February, 2017.

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of the capital at the time of such delegation.
And, when the Board of Directors approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as stated in the mercantile legislation.

Complies		Partially compliant		Explain	X

The Company submitted to the General Meeting of Shareholders held on June 4th, 2015, a proposal for the delegation of powers to increase capital and to issue bonds. Although the amounts subject to submission for approval exceed the percentage stated in the recommendation, as explained in the relevant reports made available to shareholders, it was necessary to have this power in order to be able to capture on the securities markets the funds that are necessary for proper management of the company interests, and the Board may have the widest possible capacity to respond. The possible suppression of the pre-emptive subscription right is an option that should be analysed and applied, in each specific case, taking into account the specific conditions for the development of the issue.

It should also be noted that the approved authorization complies with the maximum provided by law.

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the ordinary general meeting, even if their distribution is not mandatory:
a. Report on auditor independence.
b. Reports on the operation of the audit committee and the appointments and remuneration committee.
c. Audit committee report on third-party transactions.
d. Report on corporate social responsibility policy

Complies		Partially compliant	X	Explain	

Although the Company prepares most of these reports, none of them are subject to publication on the website. Without prejudice to the above, the relevant details of the activities carried out during the year by the Audit and Compliance Committee and the Appointments and Remuneration Committee is included in the relevant section of the Annual Corporate Governance Report and also information relating to the type and aggregate amount of the related transactions which is also incorporated in the Annual Accounts Report). In addition, the Company should include in the Annual Report complete and detailed information about the activities carried out in relation to corporate responsibility, which is available to all shareholders on the website.

7. The company should broadcast its general meetings live on the corporate website.

Complies	X	Explain	

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting of shareholders without limitations or qualifications in the auditor's report. In the exceptional case that qualifications do exist, both the chairman of the audit committee and the auditors should give a clear account to the shareholders of the scope and content of such limitations or qualifications.

Complies	X	Partially compliant		Explain	

9. The company should display permanently on its website, the requisites and procedures that it will accept for proving share ownership, the right to attend general meetings of shareholders and the exercise or delegation of voting rights. Such requisites and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies	X	Partially compliant		Explain	

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting of shareholders, the company should:
    a. Immediately circulate these supplementary items and new resolution proposals.
    b. Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative resolution proposals can be voted on in the same terms as those submitted by the Board of Directors.
    c. Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, including, in particular, presumptions or deductions about the direction of votes.
    d. After the general meeting of shareholders, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies		Partially compliant		Explain		Not applicable	X

11. In the event that the company plans the payment of premiums for attendance at the general meeting of shareholders, it should first establish a general policy on these premiums and that this policy should be a stable one.

Complies		Partially compliant		Explain		Not applicable	X

12. The Board of Directors should perform its duties with unity of purpose and independent judgment, giving the same treatment to all shareholders in the same position, being guided by the company's best interest, understood as the creation of a profitable business that is sustainable in the long term, while promoting its continuity and maximizing the economic value of the company.
    In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but should also strive to reconcile its own corporate interests with, as appropriate, the legitimate interests of its employees, suppliers, clients and other stakeholders that may be involved, as well as with the impact of its activities on the broader community and the environment.

Complies	X	Partially compliant		Explain	

13. The Board of Directors should be of the right size to achieve efficient and participatory functioning, recommending between five and fifteen members.

Complies	X	Explain	

14. The Board of Directors should approve a director selection policy that:
    a. Is concrete and verifiable.
    b. Ensures that the appointment or re-election proposals are based on a prior analysis of the Board's needs.
    c. Favours a diversity of knowledge, experience and gender.
    The results of the prior analysis of the Board's needs should be written in the appointments committee's explanatory report, to be published when the general meeting of shareholders is convened that will be asked to ratify the appointment or re-election of each director.
    The director selection policy should seek the goal of having at least 30% of total board seats occupied by female directors by the year 2020.
    The appointments committee should verify annually compliance with the director selection policy and state its findings in the annual corporate governance report.

Complies		Partially compliant		Explain	X

Although, as of 31 December 2016, the company did not have such a written policy in place, this was approved by the Board of Directors at its meeting of 27 February 2017, in accordance with the practices that the company had already been applying.

This text includes, amongst other things, a prior analysis of the needs of the Board itself and also of the abilities of candidates to the position of director and their diversity of knowledge and experience is valued.

It also includes the trend to gradual increase of women on the Board, based on an egalitarian assessment of the candidates, trying to ensure, to the extent possible, that, by 2020, the presence of women represents the percentage established in the recommendation.

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum required, taking into account the complexity of the corporate group and the percentage holding of executive directors in the company's capital.

Complies	X	Partially compliant		Explain	

16. The percentage of proprietary directors out of the total of non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.
This criterion may be relaxed:
a. In companies with large capital where only a few equity stakes can be considered legally significant shareholdings.
b. In companies with a plurality of shareholders represented on the Board of Directors but not related to each other.

Complies	X	Explain	

17. Independent directors should be at least half of the total board members.
However, when the company does not have large capital, or when a company with large capital has a shareholder or several shareholders acting together, who control over 30 percent of the share capital, the number of independent directors should be at least one third of the total board members.

Complies		Explain	X

The percentage of independent directors on the Board amounts to 45.45%. Although this does not reach the 50% provided for in the recommendation, the company considers that representation of this type of director is high and so all interests are properly represented on the Board of Directors.

18. Companies should disclose on their websites and keep them regularly updated with the following information concerning its directors:
a. Professional and biographical profile.
b. Directorships held in other companies, listed or otherwise, and other paid activities that they carry out, whatever their nature.
c. Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
d. Dates of their first appointment as a board member of the company and of subsequent re-elections.
e. Shares held in the company, and any options on them.

Complies	X	Partially compliant		Explain	

19. The annual corporate governance report, first checked by the Appointments Committee, will explain the reasons why proprietary directors have been appointed at the request of shareholders whose shareholding is less than 30% of the capital and shall state the reasons why, if applicable, formal requests to be present on the Board from shareholders whose shareholding is equal to or more than that of others who were appointed proprietary directors when they so requested were refused.

Complies		Partially compliant		Explain		Not applicable	X

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. Also, if such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter shall resign in the relevant numbers.

Complies	X	Partially compliant		Explain		Not applicable	

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as established by the Bylaws, except where there is just cause, assessed by the Board of Directors on the basis of a report from the Appointments Committee. In particular, just cause will be presumed when the directors take up new posts or responsibilities that prevent them from allocating enough time to the work as a board member, or are in breach of their duties as members or come under one of the disqualifying grounds for classification as independent director enumerated in the applicable legislation.
The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, when these changes in the structure of the Board of Directors arise from the proportionality criterion established in recommendation 16.

Complies	X	Explain	

22. Companies should establish rules obliging directors to disclose and, if applicable, tender their resignation in any circumstances that might harm the company's name or reputation and, in particular, to inform the Board of Directors of any criminal charges brought against them and the progress of the trial.
When a director is indicted or tried for any of the offences stated in company legislation, the Board of Directors should open an investigation as soon as possible and, in the light of the particular circumstances, decide if he/ she should continue in his/her office. The board of directors should give a reasoned account of all such determinations in the annual corporate governance report.

Complies	X	Partially compliant		Explain	

23. Directors should express their clear opposition when they feel a proposal submitted for the Board's approval might damage the corporate interest. In particular, independent directors and other directors not subject to potential conflicts of interest should oppose any decision that could harm the interests of shareholders without Board representation.
When the Board of Directors makes significant or reiterated decisions about which a director has expressed serious reservations, then he/she must draw the pertinent conclusions. If the director resigns for such causes, he/she should explain his/her reasons in the letter referred to in the next recommendation.
This recommendation also applies to the secretary of the Board, even if he or she is not a director.

Complies	X	Partially compliant		Explain		Not applicable	

24. Directors who step down from their office before their tenure expires, through resignation or otherwise, should explain their reasons in a letter sent to all members of the Board of Directors. And, whether or not such resignation is disclosed as a material event, the reason should be explained in the annual corporate governance report.

Complies	X	Partially compliant		Explain		Not applicable	

25. The Appointments Committee should ensure that non-executive directors have enough time available to perform their functions properly.
The regulations of the Board of Directors should establish the maximum number of company boards on which directors can serve

Complies		Partially compliant	X	Explain	

The company does not consider it necessary to establish in its regulations the maximum number of boards on which its directors may sit because, among the points reviewed prior to proposing the appointment/re-election of Directors, one of them is precisely the availability the candidates have, as laid down in the Director Selection Criteria. The Company considers that, by analysing this aspect, it achieves the same objective as that stated by Recommendation 25, that is, to ensure that the directors will dedicate enough time to gaining information, ascertaining the reality of the company and the development of its business and to participating in Board meetings and any committees that they may sit on.

26. The Board of Directors should meet with the necessary frequency to perform its functions efficiently, eight times a year at least, in accordance with a calendar and agendas set out at the start of the year, to which each director individually may propose the addition of initially unscheduled items on the agenda.

Complies	X	Partially compliant		Explain	

27. Director absences should be reduced to essential cases and quantified in the annual corporate governance report. And, when an absence must occur, directors should grand a power of representation with the proper instructions.

Complies	X	Partially compliant		Explain	

28. When directors or the secretary express concern over some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved by the Board of Directors, they should be recorded in the Minutes, if the person expressing them so requests.

Complies	X	Partially compliant		Explain		Not applicable	

29. The company should provide suitable channels for directors to obtain the advice they need to perform their functions properly, including if circumstances so require, external assistance at the company's expense.

Complies	X	Partially compliant		Explain	

30. Regardless of the knowledge that directors must possess to perform their functions, the companies should also offer directors knowledge refresher programs when circumstances so advise.

Complies	X	Partially compliant		Explain	

31. The agenda of the board meetings should clearly indicate on which points the Board of Directors must arrive at a decision or resolution, so that they can study or gather together beforehand the information they need for them to arrive at such a decision or resolution.
When, on an exceptional basis, for reasons of urgency, the chairman wishes to present decisions or resolutions for Board approval that were not on the meeting agenda, their inclusion will require the express prior consent of the majority of directors present, duly stated in the Minutes.

Complies	X	Partially compliant		Explain	

32. Directors should be regularly informed of movements in share ownership and of the opinions that significant shareholders, investors and rating agencies have on the company and its group.

Complies	X	Partially compliant		Explain	

33. The chairman, as the person in charge of the efficient functioning of the Board of Directors, in addition to exercising the functions assigned to him by the law and bylaws, should prepare and submit to the Board of Directors a schedule of meeting dates and agendas; organize and coordinate regular evaluations of the Board and, if appropriate, of the company's chief executive officer; be responsible for management of the Board and the effectiveness of its functioning; ensure that enough time is given to the discussion of strategic issues, and agree and review knowledge refresher courses for each director, when circumstances so advise.

Complies	X	Partially compliant		Explain	

34. When a coordinating director has been appointed, the Bylaws or the regulations of the Board of Directors should grant him or her the following powers in addition to those conferred by law: to chair the Board of Directors in the absence of the chairman and vice chairmen, if there are any, to give voice to the concerns of non-executive directors; to maintain contacts with investors and shareholders to hear their views in order to form an opinion on their concerns, especially those that have to do with the company's corporate governance; and to coordinate the plan for succession to the position of chairman.

Complies		Partially compliant	X	Explain		Not applicable	

Pursuant to the regulation in Articles 33.7 of the Bylaws and 16.bis.3 of the Regulations of the Board of Directors, the Coordinating Director will be specially authorized to: (i) request a call by the Board of Directors or the inclusion of new items on the agenda of an already convened Board, (ii) coordinate and bring together the external directors, and (iii) direct, where appropriate, the periodic evaluation of the Chairman of the Board of Directors, powers that do not correspond fully with those established in the recommendation in question.

Without prejudice to the above, in view of the surrender by Mr Gabriel Escarrer Julia of the executive functions, it would not be obligatory to maintain the figure of the Coordinating Director, although the Company has considered it advisable to maintain it, having regard to best Corporate Governance practices.

35. The secretary of the Board of Directors should particularly ensure that the Board's actions and decisions are informed by the good governance recommendations of this Code that are of relevance to the company.

Complies	X	Explain	

36. The Board of Directors in full session should conduct an annual evaluation, adopting, if necessary, an action plan to correct weaknesses detected in:

a. The quality and efficiency of the performance of the Board of Directors.
b. The performance and membership of its committees.
c. The diversity of Board membership and abilities.
d. The performance of the chairman of the Board of Directors and of the company's chief executive.
e. The performance and contribution of each individual director, with particular attention to the chairmen of various Board committees.

The evaluation of Board committees will be based on the report that they send to the Board of Directors, while that of the Board itself should be based on the report made on it by the Appointments Committee.

Every three years, the Board of Directors will be assisted in the evaluation process by an external consultant, whose independence should be verified by the Appointments Committee.

Any business dealings that the consultant or any company in its corporate group maintain with the company or any company in its corporate group should be detailed in the annual corporate governance report.

The process and areas evaluated should be described in the annual corporate governance report.

Complies		Partially compliant	X	Explain	

The company complies with the recommendation concerning the annual evaluation of the Board, its Committees and the chief executive although, in the year 2016, it has not used external advice to conduct it. The Appointments and Remuneration Committee is responsible for overseeing its performance and the President of the Appointments and Remuneration Committee submits to the Board of Directors the report of the results of the evaluation.

37. When an executive committee exists, its membership mix by director class should resemble that of the Board of Directors and its secretary should be the secretary of the Board of Directors.

Complies		Partially compliant		Explain		Not applicable	X

38. The Board of Directors should be always informed of the matters discussed and decisions made by the executive committee and all Board members should receive a copy of the Minutes of the Executive Committee's meetings.

Complies		Partially compliant		Explain		Not applicable	X

39. The members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing or risk management matters, and the majority of its members should be independent directors.

Complies	X	Partially compliant		Explain	

40. Under the supervision of the Audit Committee, the company should have a unit in charge of the internal audit function to monitor the proper functioning of the reporting and internal control systems. This unit should report functionally to the Board's non-executive chairman or to the chairman of the Audit Committee.

Complies	X	Partially compliant		Explain	

41. The head of the unit handling the internal audit function should present an annual work programme to the Audit Committee, inform it directly of any incidents emanating from its performance and submit an activities report at the end of each year.

Complies	X	Partially compliant		Explain		Not applicable	

42. The Audit Committee should have the following functions in addition to those assigned by law:

1. With respect to internal control and reporting systems:
   a. To monitor the preparation process and the integrity of the financial information prepared on the company and, if appropriate, the group, checking for compliance with regulatory requirements, the accurate demarcation of the consolidation perimeter and the correct application of accounting principles.
   b. To ensure the independence of the unit handling the internal audit function; to propose the selection, appointment, re-election and removal of the head of the internal audit service; to propose the service's budget; to approve its preferences and work programmes, ensuring that it focuses primarily on the main risks of the company; to receive regular reports on its activities, and to verify that the Senior Management takes into account the findings and recommendations of its reports.
   c. To establish and supervise a mechanism that enables staff to report, confidentially and, if appropriate and possible, anonymously, any potentially significant irregularities, in particular, financial or accounting irregularities, that they detect in the company.
2. In relation to the external audit:
   a. Investigate the issues giving rise to the resignation of the external auditor, should this occur.
   b. Ensure that the remuneration of the external auditor for its work does not compromise its quality or its independence.
   c. Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements with the outgoing auditor and the content thereof.
   d. Ensure that the external auditor has an annual meeting with the full session of the Board of Directors to inform it of the work undertaken and the developments in the company's risk and accounting situation.
   e. Ensure that the company and the external auditor follow the current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and, in general, other rules concerning auditor independence.

Complies	X	Partially compliant		Explain	

43. The Audit Committee should be able to meet with any employee or manager of the company, even ordering their appearance without the presence of another manager.

Complies	X	Partially compliant		Explain	

44. The Audit Committee should be informed of any structural or corporate change operations that the company is planning, so that the Committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, in particular, if applicable, the exchange ratio proposed.

Complies	X	Partially compliant		Explain		Not applicable	

45. Risk control and management policy should identify at least:

a. The different types of financial and non-financial risks the company faces (including, amongst others, operational, technological, legal, social, environmental, political and reputational), including among the financial or economic risks the contingent liabilities and other off balance-sheet risks.

b The determination of the risk level the company considers acceptable.

c The measures in place to mitigate the impact of identified risks in case they occur.

d The internal control and reporting systems to be used to control and manage the abovementioned risks, including contingent liabilities or off-balance sheet risks.

Complies	X	Partially compliant		Explain	

46. Under the direct supervision of the Audit Committee or other specialized Board committee, the company should establish an internal risk control and management function attributed to one of the company's internal department or units with the following responsibilities expressly given to it:

a. To ensure that risk control and management systems are functioning correctly and, specifically, that the major risks that may affect the company are correctly identified, managed and quantified.

b. To participate actively in the preparation of risk strategies and in key decisions about their management.

c. To ensure that risk control and management systems mitigate risks effectively within the framework of the policy defined by the Board of Directors.

Complies	X	Partially compliant		Explain	

47. Appointees to the Appointments and Remuneration Committee – or of the Appointments Committee and Remuneration Committee, if separately constituted – should have the right knowledge, skills and experience for the functions they are called upon to perform and the majority of their members should be independent directors.

Complies	X	Partially compliant		Explain	

48. Companies with large capital should have separately constituted Appointments and Remuneration Committees.

Complies		Explain	X	Explain	

At the end of the year 2016, the company considers that the existence of a single Appointments and Remuneration Committee is appropriate to the functions attributed to it, especially bearing in mind the composition of its Board (11 members) and of the Committee itself (4 members, External Directors, of whom 3 are Independent Directors). It is considered that the creation of two different Committees as of the date issue of this report would not give any added value and could mean that the synergies of the matters to be addressed would not be used to full advantage.

49. The Appointments Committee should consult with the company's Chairman and chief executive, especially on matters relating to Executive Directors.

And any Director may approach the Appointments Committee to propose potential candidates that it might consider suitable to cover vacancies on the Board.

Complies	X	Partially compliant		Explain	

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by law:
    a. To propose to the Board of Directors the standard conditions for the contracts of the senior officers.
    b. To monitor compliance with the remuneration policy established by the company.
    c. To review periodically the remuneration policy established for directors and senior officers, including share-based remuneration systems and their application, and to ensure that their individual remuneration is proportionate to the amounts paid to other directors and senior officers in the company.
    d. To ensure that possible conflicts of interest do not undermine the independence of any external advice provided to the Committee.
    e. To verify the information on remuneration of directors and senior officers contained in the various corporate documents, including the annual directors' remuneration report.

Complies	X	Partially compliant		Explain	

51. The Remuneration Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies	X	Partially compliant		Explain	

52. The rules on the composition and functioning of the supervision and control committees should be established in the regulations of the Board of Directors and should be consistent with those applicable to the legally mandatory committees, as specified in the preceding recommendations, including:
    a. Committees should be formed exclusively of non-executive directors, with a majority of independent directors.
    b. Their chairmen must be independent directors.
    c. The Board of Directors should appoint the members of such committees with regard to the knowledge, skills and experience of the directors and each committee's terms of reference; discuss their proposals and reports; and provide accounts of their activities at the first full session of the Board of Directors after each committee meeting, and be responsible for the work carried out.
    d. The committees may seek external advice, when they consider it necessary for the performance of their functions.
    e. Minutes of their meetings should be drawn up and made available to all the directors.

Complies		Partially compliant		Explain		Not applicable	X

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and the corporate social responsibility policy should be assigned to one Board committee or split between several, which may be the Audit Committee, the Appointments Committee, the corporate social responsibility committee, if there is one, or a specialized committee that the Board of Directors decides to create for the purpose under its powers of self-organisation, with at the least the following functions specifically assigned to them:
    a. To monitor compliance with the company's internal codes of conduct and corporate governance rules.
    b. Supervision of the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.
    c. Periodic evaluation of the effectiveness of the company's corporate governance system, to confirm that it is accomplishing its mission to promote the corporate interest and taking into account, as appropriate, the legitimate interests of the remaining stakeholders.
    d. To review the company's corporate social responsibility policy, ensuring that it is aimed to the creation of value.
    e. To monitor corporate social responsibility strategy and practices and to assess their degree of compliance.
    f. Supervision and evaluation of the company's processes for interaction with its various stakeholder groups.
    g. The evaluation of all aspects of the non-financial risks of the company, including operational, technological, legal, social, environmental, political and reputational risks.
    h. Coordination of the non-financial and diversity information reporting process, in accordance with applicable legislation and international benchmarks

Complies		Partially compliant	X	Explain	

The Regulations of the Board of Directors of the Company do not explicitly include the details of some of the recommendations incorporated, although, in particular, the Audit and Compliance Committee effectively assumes supervision of the rules of Corporate Governance of the Company, having expressly been assigned among its functions, in accordance with the provisions of the Article 14.2 paragraph i) of the Regulations of the Board of Directors, the function of examining compliance with the Internal Regulations on Good Conduct in Stock Markets, the Regulations of the Board of Directors and, in general, with the Company's Corporate Governance Regulations, and formulation of appropriate proposals for their improvement.

All of the functions listed are assumed by the Committees or directly by the Board of Directors.

54. The corporate social responsibility policy should include the principles or commitments that the company will voluntarily adhere to in its dealings with the various stakeholder groups, specifying at least:

a. The objectives of the corporate social responsibility policy and the deployment of supporting instruments.
b. The corporate strategy regarding sustainability, the environment and social issues.
c. Specific practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.
d. The methods or systems for monitoring the results of application of the specific practices referred to in the above letter, the associated risks and their management.
e. The mechanisms for the supervision of non-financial risk, ethics and business conduct.
f. The channels for communication, participation and dialogue with the stakeholder groups.
g. Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity

Complies		Partially compliant	X	Explain	

At the end of the year 2016, the Company had, as well as a Code of Ethics that defines its values, principles of conduct and commitments, a Global Sustainability Policy, the Board of Directors having approved a Corporate Responsibility Policy on 27 February 2017. In addition, note that the Company's Annual Report includes specific information relating to the Corporate Social Responsibility activities carried out.

55. The company should report, in a separate document or in the management report, matters relating to corporate social responsibility, using any of the internationally accepted methods for this.

Complies	X	Partially compliant		Explain	

56. Directors' remuneration should be enough to attract and retain directors with the desired profile and to compensate the dedication, qualifications and responsibility that the post demands, but not so high as to compromise the independent judgment of nonexecutive directors.

Complies	X	Explain	

57. Variable remuneration linked to the performance of the company and to personal performance and remuneration by the award of shares, options or rights over shares or instruments on the basis of share value, and membership of long-term savings schemes such as pension plans, retirement systems or other social welfare systems should be confined to executive directors.

The company may consider the award of shares as remuneration for non-executive directors provided they retain such shares until the end of their mandate as directors. This condition will not apply to any shares that the director must dispose of in order to pay the costs related to their acquisition.

Complies	X	Partially compliant		Explain	

58. In the case of variable remuneration, remuneration policies should include limits and specific technical safeguards to ensure that such remuneration reflects the professional performance of the beneficiaries and does not simply derive from the general development of the markets or of the company's activity sector, or from other circumstances of that kind.
And, in particular, variable remuneration items:
a. Should be linked to predetermined and measurable performance criteria and that these criteria should take into consideration the risk assumed in order to obtain a result.
b. Promote the sustainability of the company and include non-financial criteria that are appropriate to the creation of long-term value, such as compliance with the company's internal rules and procedures and its risk control and management policies
c. Be focused on accomplishing a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over enough time to appreciate its contribution to the sustainable creation of value, so that performance measurement is not based exclusively on specific, occasional or extraordinary events

Complies	X	Partially compliant		Explain		Not applicable	

59. Payment of a relevant part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have been met.

Complies	X	Partially compliant		Explain		Not applicable	

60. Remuneration linked to company results should bear in mind any qualifications stated in the external auditor's report that reduce these results.

Complies	X	Partially compliant		Explain		Not applicable	

61. A relevant part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share or instrument price.

Complies		Partially compliant		Explain		Not applicable	X

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer ownership of a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.
The condition mentioned above will not apply to any shares that the director must dispose of in order to meet the costs related to their acquisition.

Complies		Partially compliant		Explain		Not applicable	X

63. Contractual agreements should include a clause that allows the company to reclaim variable components of remuneration when payment was out of step with the performance conditions or based on data afterwards found to be misrepresented.

Complies		Partially compliant	X	Explain		Not applicable	

This type of clause is not provided for although, in line with the criteria of Good Governance, payment of the variable remuneration in the short-term only becomes due and is paid after a reasonable time after the end of the year, taking place within the first 60 calendar days after the annual accounts are drawn up, with the approval of the Board on a proposal from the Appointments and Remuneration Committee.

64. Contract termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company has been able to confirm that the director has met the predetermined performance criteria.

Complies	X	Partially compliant		Explain		Not applicable	

H. OTHER INFORMATION OF INTEREST

1. If there is any other aspect relevant to the corporate government in the company or in the group entities that has not been set out in the rest of the sections of this report, but that it is necessary to include in order to provide more comprehensive and well-grounded information on the structure and practices in the entity or its group, detail them briefly

2. This section may also include any other relevant information, clarification or detail related to previous sections of the report insofar as they are relevant and not repetitive.

   Specifically, state whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the information that it is mandatory to provide when different from that required by this report.

3. The company may also state whether it has voluntarily signed other international, industry-wide or any other codes of ethical principles or best practices. If applicable, the code in question shall be identified along with the date of signing.

The company has signed:

- ECPAT – Code of Conduct for the Protection of Children (2006)
- The Code (2007)
- Pacto Mundial – Global Compact (2008)
- FTSE4Good Ibex (2008)
- UNWTO Private Sector Commitment to the Global Code of Ethics for Tourism (2011)
- Agreement with the International Union of Workers IUF-UITA (2013)

In 2012, the Code of Ethics of Meliá Hotels International was approved.

The company has not signed the Code of Good Tax Practices of 20 July, 2010.

Note to Section A.1:

The capital increase formalised in a deed dated 25/04/2016 was registered in the Commercial Registry on 27/04/2016.

Note to Section A.2:

On 29/04/2016, the loan was reported of 1,800,000 securities dated 22/04/2016, made by Hoteles Mallorquines Agrupados S.L. to the Meliá Hotels International S.A. portfolio.

On 27/05/2016, the cancellation on 25/05/2016 of the loan of securities of the entities Hoteles Mallorquines Asociados S.L. (3.350.000 securities) and Hoteles Mallorquines Agrupados S.L. (1.800.000 securities) to the Meliá Hotels International S.A. portfolio was reported.

The most significant share structure movements during the year, relating to Norges Bank, were reported included both the percentage voting rights attributed To the shares and the percentage voting rights attached to financial instruments.

Note to Section C.1.3:

In accordance with the resolutions passed on 13/12/2016, the entity's Board of Directors accepted the surrender presented by Mr Gabriel Escarrer Juliá of the executive powers that he had held until that time and he thereafter held the position of Proprietary Director in view of the shareholding that the members of the Escarrer family have in the entities Hoteles Mallorquines Consolidados S.A., Hoteles Mallorquines Agrupados S.L., Hoteles Mallorquines Asociados S.L. and Majorcan Hotels Luxembourg SARL.

Note to Section C.1.5:

On 27 February 2017, the Company formalised in the Director Selection Policy the practices that the Appointments and Remuneration Committee had been applying, which regulations establish, amongst others,

"A trend towards a gradual increase in women on the Board of Directors, always on the basis of an egalitarian assessment of the skills, profiles, knowledge, experience and professional roles, trying, as far as possible, to ensure that, in 2020, the presence of women on the Board of Directors represents one third of its composition."

Note to Section C.1.6:

As reported in relation to Section C.1.5, the Company's Board of Directors has approved the Director Selection Policy, which sets out the application procedures, which expressly include: "c. Assessment of all the potential candidates according to criteria of equality and objectivity, avoiding any type of implicit bias that may involve any type of discrimination", together with an intention to aim at increasing the number of women and the specific needs of the Board must be assessed at each stage.

Note to Section C.1.19:

In addition, in accordance with the formalisation of the Director Selection Policy, these processes shall be implemented according to the criteria and procedures established therein.

And the conclusions and results from the assessment of the Principles established in the afore-mentioned Policy will be included in the relevant Report or Proposal of the Appointments and Remuneration Committee and shall serve as the basis of the relevant proposal by the Board of Directors (or decision, in the case of appointment by co-option) and also shall be made available to the shareholders when the relevant General Meeting that has to decide on the proposed appointment, ratification or re-election is convened.

Note to Section C.2.1:

Mr Fernando d´Ornellas Silva has held the office of President of the Audit and Compliance Committee since 23/06/2016.

This annual corporate governance report was approved by the company's Board of Directors at its meeting of 30/03/2017.

State whether any directors have voted against or have abstained in relation to the approval of this Report.

Yes		No	X

PREPARATION OF THE ANNUAL ACCOUNTS AND CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2016

These Consolidated Annual Accounts and Directors' Report were approved by the Board of Directors at its meeting held on 30 March 2017 and submitted to the auditors for verification and subsequent approval by the General Shareholders Meeting.

The consolidated Annual Accounts and Directors' report are contained on 206 pages, all signed by the Secretary and the last page signed by all of the Directors.

Signed. Mr. GABRIEL ESCARRER JULIA
Chairman

Signed. Mr. JUAN VIVES CERDA
Honorary Vice Chairman

Signed. Mr. GABRIEL ESCARRER JAUME
Vice Chairman and CEO

Signed. Mr. SEBASTIÁN ESCARRER JAUME
Director

Signed. Mr. ALFREDO PASTOR BODMER
Director

Signed. Hoteles Mallorquines Consolidados, S.A.
(Represented by Ms. María Antonia Escarrer Jaume)
Director

Signed. Mr. JUAN ARENA DE LA MORA

Director

Signed. Mr. FRANCISCO JAVIER CAMPO GARCIA
Director

Signed. Fernando d'Ornellas Silva
Director

Signed. Ms. Carina Szpilka Lázaro
Director

Signed. Mr. Luis Mª Díaz de Bustamante y Terminel
Secretary and Independent Director

A free translation of the report on the "Internal Control over Financial Reporting" originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails

Auditor´s report on "information regarding the internal control system over financial reporting (ICSFR)" of Meliá Hotels International, S.A. for the 2016 financial year

To the Directors:

In accordance with the request of the Board of Directors of Meliá Hotels International, S.A. (the Entity) and our engagement letter dated February 8, 2017, we have applied certain procedures in respect of the attached "Information regarding the Internal Control System over Financial Reporting" (ICSFR)" included in section F of the Annual Corporate Governance Report for listed companies of Meliá Hotels International, S.A. for the 2016 financial year, which includes a summary of the Entity's internal control procedures relating to its annual financial information.

The Board of Directors is responsible for adopting the necessary measures to reasonably ensure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to that system and preparing and establishing the content of the accompanying Information relating to the ICSFR.

In this regard, it should be borne in mind that, regardless of the quality of the design and operating efficiency of the internal control system used by the Entity in relation to its annual financial information, only a reasonable, but not absolute, degree of assurance may be obtained in relation to the objectives it seeks to achieve, due to the limitations inherent in any internal control system.

In the course of our audit work on the annual accounts and in accordance with Technical Audit Standards, the sole purpose of our evaluation of the Entity's internal control system is to enable us to establish the scope, nature and timing of our audit procedures in respect of the Entity's annual accounts. Accordingly, our internal control evaluation, performed for the purpose of our audit, is not sufficient in scope to enable us to issue a specific opinion on the effectiveness of such internal control over the regulated annual financial information.

For the purposes of the present report, we have exclusively applied the specific procedures described below and indicated in the "*Guidelines concerning the auditor's Report on the Information regarding the Internal Control System over Financial Reporting for listed entities*" published by the National Securities Market Commission on its web site, which sets out the work to be performed, the scope of such work and the content of this report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or review of the internal control system, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Entity's annual financial information for 2016 financial year described in the accompanying Information regarding the ICSFR. Had we applied additional procedures to those determined by the aforementioned Guidelines, or had we performed an audit or review of the internal control system in relation to the regulated annual financial information, other matters could have come to light in respect of which would you have been informed.

In addition, as this special engagement is not an audit of financial statements and is not subject to the Auditing Act, we do not express an audit opinion under the terms of the aforementioned.

The procedures applied are as follows:

1. Reading and understanding the information prepared by the Entity in relation to the ICSFR – as disclosed in the Directors' Report – and the evaluation of whether such information includes all the information required as per the minimum content set out in Section F regarding the description of the ICSFR, in the model of the Annual Corporate Governance Report, as established in Circular nº7/2015 of the National Securities Market Commission dated December 22, 2015.

2. Making enquiries of personnel responsible for preparing the information mentioned in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described have been implemented and are functioning in the Entity.

3. Review of supporting documentation explaining the information described in point 1 above and which mainly comprises the information made directly available to the persons responsible for preparing the information on the ICSFR. Such documentation includes reports prepared by the internal audit function, senior management and other internal and external specialists in support of the functions of the audit committee.

4. Comparison of the information described in point 1 above with our knowledge of the Entity's ICSFR, obtained by means of the application of the procedures performed within the framework of the audit engagement on the annual accounts.

5. Reading the minutes of meetings of-the board of directors, audit committee and other committees of the Entity, for the purposes of evaluating the consistency between the matters dealt with therein in relation to the ICSFR and the information described in point 1 above.

6. Obtaining a representation letter concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in point 1 above.

As a result of the procedures applied in relation to the Information regarding the ICSFR, no inconsistencies or incidents have been identified which could affect such information.

This report has been prepared exclusively within the framework of the requirements of article 540 of the revised Spanish Companies Act and Circular nº 5/2013 of the National Securities Market Commission, dated June 12, 2013, as modified by Circular nº7/2015 of the National Securities Market Commission, dated December 22, 2015, for the purposes of describing the ICSFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Mireia Oranias Casajoanes

7 April 2017